

# **COST DISCLOSURE IN THE SIMPLIFIED PROSPECTUS**

## *The investor's view*

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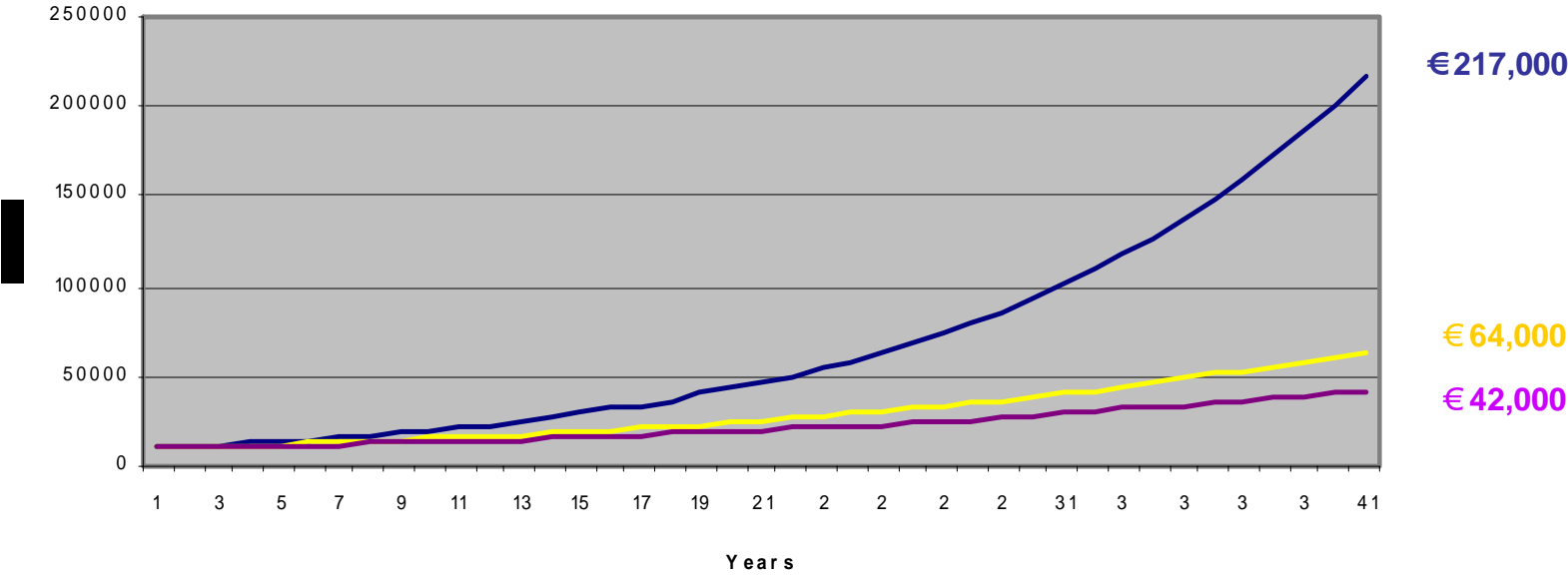
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# COST DISCLOSURE



Real case: 2 CAC 40 (French large cap) Index Funds  
 Performance before fees = 8% per year

## UCITS COST IMPACT on a €10,000 investment



# COST DISCLOSURE

## Why is it important: Cost matters

- “Minimizing cost is vital for long-term investment success” (Vanguard’s Investment Philosophy)
- It is the only sure thing the investor is going to get out of a UCITS
- It has a big impact on the net performance of financial investments. Studies (S&P, etc.) clearly demonstrate a long term reverse correlation between costs and performance.

Therefore, investors need a cost disclosure in the SP that is:

- 1. **As comprehensive as possible**
- 2. **Understandable and comparable**
- 3. **Relevant**

# COST DISCLOSURE



## 1. As comprehensive as possible

- This is a challenge, given the diversity of costs borne directly or indirectly by the investor:

Charges based on subscriptions

Charges based on redemptions

Operational charges based on assets ("TER")

Performance-based fees

Indirect costs (expenses charged to underlying investments:

funds investing in other funds, fund wrappers like unit-linked insurance contracts)

Taxes

Dividends sometimes

Transaction costs (broker fees, some custody fees, bid / offer spreads, market impact)

Soft commissions

# COST DISCLOSURE



## Practical solutions:

- **Asset- and subs-based charges:**

The TER should consolidate / add both direct and indirect asset-based charges (see US, French requirements), taxes: “synthetic” TER  
A requirement for unit-linked insurance contracts in France

Combine asset-based and subscriptions/redemptions based fees (absolute amounts instead of %): see item 2. below

- **Transaction costs:**

Turnover rate: too little or too much ?  
Change EU turnover definition

# COST DISCLOSURE

## 2. Understandable and Comparable

“KISS”

### Practical solutions

- **Costs in absolute numbers in addition to %** (USA, The Netherlands)  
Advantages:
  - simple & understandable by most
  - comprehensive (includes TER + entry and exit fees)
  - directly and quickly comparable between funds and possibly other investment products
- **Warnings from the regulator**  
Some investments are charged way above 3% per annum, not counting purchase fees.  
Some regulators issue a warning to individual investors (AMF)

# COST DISCLOSURE



## Example of US cost disclosure in \$ (Vanguard European Stock Index Fund prospectus)

The following examples are intended to help you compare the cost of investing in the Fund's Investor Shares or Admiral Shares with the cost of investing in other mutual funds.

They illustrate the hypothetical expenses that you would incur over various periods if you invest \$10,000 in the Fund's shares. These examples assume that the Fund provides a return of 5% a year and that operating expenses remain the same. The results apply whether or not you redeem your investment at the end of the given period.

	1 Year	3 Years	5 Years	10 Years
Investor Shares	\$28	\$87	\$152	\$343
Admiral Shares	18	58	101	230

**These examples should not be considered to represent actual expenses or performance from the past or for the future. Actual future expenses may be higher or lower than those shown.**

# COST DISCLOSURE



## 3. Relevant: distribution cost disclosure ?

How to address potential conflicts of interest of distributors:

Selling funds with nice trailer fees or funds that best serve the investors ?

Real Case:

2 CAC 40 Index funds: same investment objective

Fund A: TER of about 300 bps with trailer fees

Fund B: TER of 25 bps without trailer fees

Which one the distributor is going to recommend ?

### Practical solutions

- Product-based: USA, Switzerland (distributions costs disclosed in the product prospectus as one of the TER items)
- Distributor-based : UK (each distributor must disclosed his fees to the investor: “menu document”)