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SURVEY ON DISCLOSURE AND CORRECTNESS OF BEHAVIOUR IN MARKETING CLASSES OF UNITS AND SHARES OF HARMONISED UCITS IN ITALY

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SURVEY ON DISCLOSURE AND CORRECTNESS OF BEHAVIOUR IN MARKETING CLASSES OF UNITS AND SHARES OF HARMONISED UCITS IN ITALY*

EXECUTIVE SUMMARY

This paper examines the marketing of harmonised UCITS in Italy through the use of classes of shares (or units).

Operators may use classes to structure funds and SICAVs in order to differentiate the ways in which investors participate in the same fund or SICAV.

More specifically, through the use of shares classes, operators diversify the offering conditions, such as, for example, the method for paying fees, the minimum required investment, and the investor categories.

The components of total costs of a UCITS combine to determine the (net) yield of the investment, and, in consequence, are of fundamental importance in selecting both the fund and its classes.

A negative return on investment, or, more simply, a return that does not meet the investor's expectations, may be the result of the risks taken into account when the investment was made, or may also be the result of an improper assessment of the fund's cost components due to the level of difficulty in comparing the conditions offered by the various available classes.

An analysis was conducted involving a sample of the leading UCITS authorised by supervisory authorities in other European Union member states and selected by virtue of the number of funds marketed in Italy. The results of this analysis point to significant shortcomings in disclosure concerning both the "completeness" of the information about classes and the "comprehensibility" of this information.

As concerns the first parameter, the analysis indicated significant information deficits regarding the features of the classes. These deficits were so great as to cast doubt on the very existence of the supposedly objective criteria that ought to justify the creation of the classes themselves (along with the associated fee schedules) and, consequently, on the different treatment of the holders of units/shares of the same fund (but belonging to different classes).

* CONSOB, Financial Intermediaries Division - Asset Management Department.

As regards the degree of "comprehensibility" of the information about the classes - which may only be assessed where the requirement to provide complete information has been met - the analysis indicated an equal amount of shortcomings mainly due to the difficulties encountered by investors in assessing the economic expedience of the various available classes.

This latter aspect confirms the modest degree of sensibility shown by the various management firms/SICAVs towards ensuring the full disclosure and comparability of the characteristics associated with the classes of a single fund.

Moreover, shortcomings in operating practice were also observed in terms of the existence of fee structures associated with the same UCITS that were not consistent with the characteristics of the classes.

Lastly, further deficiencies came to light in the area of the conduct of distribution networks in connection with the existence of incentive systems, primarily fee remittance agreements under which the distributors would not seem to be "impartial" in distributing certain classes of the same fund instead of others.

Clearly, classes with more expensive fee structures serve to increase the distributor's total remuneration, and therefore result in circumstances in which distributors are not "impartial".

Given the considerable extent of the shortcomings, whether related to disclosure or other issues, associated with the use of shares classes, the hope that regulatory action may be taken seems wholly justified, especially at the Europe-wide level, in order to harmonise the objective criteria applied to the use of shares classes and ensure greater disclosure of information.

CONTENTS

1. INTRODUCTION AND PURPOSE OF THE SURVEY

Classes of shares (or units) associated with sub-funds of SICAVs (or mutual investment funds) are a recent trend affecting the way in which collective asset management products are marketed in Italy and other countries.

It ought to be emphasised that at present classes are used infrequently as a method of marketing collective asset management products by intermediaries subject to Italian law when compared to the asset management industry as a whole. For this reason, the analysis has focused on UCITS offered in Italy by foreign and/or foreign-registered[1] intermediaries.

These classes are varieties of collective asset management products, which differentiate the ways in which investors participate in the same fund or SICAV.

"Share classes" were created in common law countries as institutions underlying differing policy for the distribution of the proceeds from management activity. These instruments originally satisfied the need of intermediaries in the asset management sector to provide differing administrative systems for investors opting for the distribution (distribution class) or reinvestment (accumulation class) of the income generated by their investments. It is important to note that these systems did not entail any difference in terms of fee expenses.

This same instrument was later also used for what were in fact different purposes, with the result that the distinction between accumulation and distribution classes no longer represents the exclusive function of the institution, especially with reference to the UCITS offered in Italy by foreign and/or foreign-registered (hereinafter “foreign”) intermediaries.

Alongside what we may refer to as the “traditional” classes, further types of classes were created, primarily associated with a differentiated fee structure.

More specifically, the differing fees paid by the investors in the classes (but in the same fund) would seem to be justified by:

- the various categories of investors (institutional/retail);
- the different conditions of fee payment;
- different minimum investment thresholds (fees linked with the amount invested);
- the various distribution channels used;
- the existence or lack of supplementary investor services (primarily hedging against exchange-rate risk).

In a supervisory framework founded on the principles of disclosure and correct behaviour set out in article 5 of Italy's consolidated law on finance (TUF), the institute has a strong interest in controlling the degree of disclosure of class

[1] The term “foreign-registered” refers to intermediaries subject to foreign law that are part of Italian financial firms.

characteristics in the offering documentation in order to check for the presence of "objective" criteria that justify the existence of classes (and the associated fee systems), and, consequently, the differing treatment applied to the holders of shares/units of the same sub-fund (but of different classes). This is all the more true given that the issue in question has not been treated in sufficient depth by the authorities.

Considering the above-mentioned purpose of the survey, the analysis was conducted on the offering documentation[2] of the various UCITS in order to check for:

1) the existence of distinguishing features of the various classes created by operating practice;

2) the degree of disclosure of information about the classes.

The primary results of the analysis, which was conducted on a sample of the leading harmonised UCITS marketed in Italy, showed significant disclosure shortcomings both in terms of the "completeness" and the "comprehensibility" of information. As concerns this latter issue:

- none of the various UCITS involved in the analysis made any reference to criteria that might "guide" the investor in interpreting and choosing among the various available classes;
- a considerable number of UCITS contained a description of the characteristics of the classes that was spread throughout various paragraphs of the offering documentation and presented in such a way as not to permit a ready reconstruction of the characteristics of the classes.

Significant *operating* shortcomings also came to light in connection with the analysis of the fee structures associated with the same UCITS.

In this connection, various classes were identified that are characterised by the existence of fee structures not consistent with the characteristics of the classes themselves. The analysis also brought to light significant *shortcomings in behaviour* in connection with the existence of implicit incentive systems, primarily in terms of "remittance agreements"[3], under which it is to the individual distributor's advantage to place the most expensive classes by exploiting the asymmetry of information with investors.

The paper is structured as follows. The second paragraph provides a summary of the current legal context both in terms of community legislation and Italian law. Paragraphs 3 and 4 contain a description of the subject matter of the analysis and the methods of sample selection. Paragraph 5 offers a summary of the types of classes that emerged from the examination of the sample and the criteria used to distinguish them. Paragraph 6 examines the degree of disclosure of the characteristics of classes

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[2] The analysis concerned the information contained in prospectuses approved by the supervisory authorities in other member states of the European Union (primarily Luxembourg and Ireland) as at July 2006.

[3] Remittance agreements mean agreements entered into by the manager and the distributor under which the distributor receives a percent share of the fees borne by the investor.

in offering documentation. Paragraph 7 deals with the change over time in costs borne by the investor associated with investment in each of the classes established for the same category of UCITS. Paragraph 8 describes some behavioural shortcomings associated with distribution networks in connection with the use of classes. Lastly, paragraph 9 provides a summary and commentary on the main problems associated with offering classes.

Before delving into the body of the analysis, it is well to emphasise that the analysis itself was conducted solely for classes contained in offering documentation and marketed in Italy, thereby excluding the many further types of classes that are contained in the offering documentation but are not offered in Italy.

2. THE LEGISLATIVE CONTEXT

Directive 85/611/EEC (in the version amended by Directives 2001/107/EEC and 2001/108/EEC) governing the conditions of access to the market and the exercise of activity, the investment limits on harmonised UCITS, and the contents of public offering documents, does not contain any reference to division into classes.

As a matter of fact, the phenomenon originated in the operating practice of the asset management industry involving the various ways in which investors participate in the same UCITS are defined.

More specifically, through the use of share classes, operators diversify the offering conditions, such as, for example, the method for paying fees or the minimum investment required.

Since they are internal divisions, the classes are not associated with a specific investment policy sufficient to qualify them as independent products (cf. Section V of the above mentioned Directive, "*Obligations concerning the investment policies of UCITS*", articles 19-26).

That said, offering classes seem to comply with the "*methods of marketing of units*" that the Directive reserves for the competence of the authority of the EU member state (other than the state of origin) in which the UCITS is marketed[4].

In Italy Consob (and Banca d'Italia for competence profiles) is responsible for verifying compliance with "*laws, regulations, and administrative provisions in force in that State which do not fall within the field governed by UCITS Directive*" provided that said provisions are applied "*without discrimination*" [5].

In this context, the class phenomenon calls for thorough verification of compliance with the principles of correctness, disclosure, and parity of treatment

[4] Under article 46 of Directive 285/611/EEC, a UCITS that markets its units in a Member State other than the State in which it is located must disclose to the competent authorities in the host country information concerning the marketing methods of its units. After two months from the disclosure of this information, the investment firm or management firm may begin to market its units in the other Member State, unless the competent authorities rule that the methods proposed for marketing of the units are not compliant with national legislation.

[5] Art. 44 Directive 85/611/EEC.

between the intended recipients of the promotion set forth on a general basis by article 95, subsection 1, paragraph c) of Italy's consolidated law on finance and specified by article 14 of Consob Regulation no. 11971 of 14 May 1999 .

If two share classes of the same fund permanently bear differing fee expenses, while not showing any other distinguishing feature, this may constitute a violation of the above-mentioned obligations to provide parity of treatment of the intended recipients of the offer. It should nonetheless be emphasised that any action taken by the host Member State Authority is limited by the obligation to mutual recognition of offering documents authorised by the home Member State .

In Italian law, the combined provisions of article 36, paragraph 8, and article 50, paragraph 1, of the consolidated law on finance (legislative decree no. 58/1998) state that shares of mutual funds (and shares of sub-funds of SICAVs) must be represented by registered or bearer certificates, at the investor's discretion, and that Banca d'Italia may, after consulting with Consob, set the general features of the certificates and the unitary face value of the shares.

This provision was, however, expunged from the text following the amendments introduced by law 274/2003, which states that the shares are "*all equal in value and bearing equal rights*", in other words, indirectly confirming that intermediaries are free to create different categories of units/shares of the same UCITS.

Banca d'Italia analysed this issue in its notice "Mutual funds: Management fees" published in issue no. 8 of the Supervisory Bulletin dated August 2000.

Banca d'Italia did clarify that, as it applied to classes of shares in mutual investment funds and the level of management fees, the previous formulation of article 36, subsection 8, of the consolidated law on finance contained a "*general provision to ensure that all investors have an equal share of the results of the management of common assets*".

For this reason, the Supervisory Authority ruled on compatibility of the legal obligation for parity with shares representing the same UCITS , both in terms of value and the rights incorporated in the shares, the provisions of the levels and/or methods of calculation of diversified management fees provided that "*the conditions required to access the various share classes are objectively defined*".

It is important to clarify that these parameters may pertain both to the objective investment profiles (e.g., the minimum amount of investment) and the characteristics and nature of the investors (e.g., institutional investors).

This notice then lists the conditions under which Banca d'Italia deemed it acceptable to provide differing fee structures for the various classes marketed. These conditions essentially concerned:

a) the presence of specific provisions in the fund management regulations;

b) the method of calculation of the value of the share;

c) the consequent administrative obligations relating to investment certificates, periodic accounting statements, and the publication of the value of the share.

Under sub-point a) in particular, the notice specified that the proper formulation of the contractual clauses that establish the diversification in question requires that the fund regulations clearly identify the classes and the criteria used to apply the various fees, as well as an objective definition of the conditions required to access the various share classes.

Under sub-point b), it was specified that the method of calculation of share value must ensure the same performance (in terms of the percent increase/decrease compared to the previous benchmark) gross of management fees. It was also stated that these management fees were consequently to be attributed to each class, according to its total, only after the overall net value of the fund as it resulted on each day of calculation had been divided proportionally among the various classes.

Under sub-point c), the notice emphasised the fact that the administrative obligations associated with the adoption of differentiated fees by class were obliged firstly to ensure that fund investment certificates indicated the share class, that the periodic accounting statements intended for the public sufficiently illustrated the value and the performance of the share classes, and that the value of each share class was separately indicated according to ordinary established publication methods.

The requirement that the use of share classes not violate the principle of parity of treatment has been expressed in important international contexts: the document prepared by the Standing Committee on Investment Management (SC5)[6] of the IOSCO, the purpose of which was to determine best practice in the area o fees and charges applied to funds, states that "*The existence of different share classes should not result in a breach of equality of investors who invest or have invested in the same share class*" and, further, that *"No advantage should be provided to a share class that would result in a prejudice to another share class or to the fund"*.

This document also emphasises the importance of determining objective criteria as a requirement for division into classes, stating that "*Differences in fee and expenses shall be based on objective criteria disclosed in the fund prospectus (e.g. the amount of subscription)"*.

Furthermore, in the Recommendation dated 27 April 2004 issued by the European Commission concerning certain elements that must be included in the simplified prospectus (in compliance with scheme C in appendix I to Directive 85/611/EEC), it is stated that *"In keeping with the principle of equality among investors, where there are differences in fees and expenses across classes, these different fees/expenses should be disclosed separately in the simplified prospectus"* and, in addition, that *"An additional statement should indicate that the objective criteria (e.g. the amount of subscription), on which these differences are based, are available in the full prospectus"* [7].

More recently, and also consistent with this formulation, there was the paper by the Expert Group on Investment Management of the CESR (the Committee of

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[6] Iosco SC5, Paper on "Elements of international regulatory standards on fees and expenses of investment funds", November 2004, paragraph 44, "Multiclass funds".

[7] Commission Recommendation no. 2004/384/EC, Annex I, point 6.

European Securities Regulators) from June 2006 entitled, *"CESR's Guidelines to simply the notification procedures of UCITS"*, which under *guideline* n. 9 illustrates the importance of objective criteria underlying the division into share classes.

In particular, "*if new share classes are added to the sub-fund of an umbrella, the UCITS shall notify the host State authority the new share classes added to the sub-funds of an umbrella disclosing the objective criteria (e.g. the amount of subscription, fees/expenses) on which they are based and the two-month period shall not apply, i.e. the UCITS may begin marketing the share classes immediately provided that other reasons which prohibit marketing do not apply*".

Lastly, it may be helpful to cite the European Commission's opinions concerning the system of remuneration of distribution networks, which is dealt with under paragraph 8 of this paper.

Concerning the disclosure of costs borne by the subscriber, the Commission, in its "*Green paper on the enhancement of the EU framework for investment fund"* of July 2005, argued that *"improved transparency - in particular, as regards of costs and fees - is a key issue which must be addressed to maintain investors' confidence"* [8].

In its "*White Paper on Enhancing the Single Market Framework for Investment Funds*" dated November 2006, the Commission states that "*Considerations, such as the level of commissions paid by fund promoters to distributors, should not bias the selection of funds. At present, fund managers will pay on average 50% of their management fee to a third party distributor. It needs to be examined whether such commissions constitute payment for services rendered such as pre/after-sales service to clients. Conflicts of interest and inducements must be properly managed or disclosed: intermediaries must diligently undertake duties of care to the retail client"*[9].

3. SUBJECT MATTER OF THE ANALYSIS

The survey that represents the subject matter of this paper is divided into two levels of analysis:

1. a first level which identifies the class types defined by industry practice and possible differentiation criteria;

2. a second level which analyses:

    - firstly, the degree of disclosure of the features of the classes in the offering prospectus both in terms of the presence of the differentiation criteria and the comprehensibility thereof;

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8 Paragraph 2.3.2."Disclosure of fees and commissions".

9 Paragraph 2.2 "Distribution system: putting investor interests first".

- secondly, the consistency and reasonableness between the class types marketed for the same sub-fund and the associated fee structures.

Lastly, comments are provided on implicit “incentives” contained in fee remittance agreements[10], and the possible impact on the distribution network’s behaviour, with evidence of potential distortions to services rendered to investors.

The analysis in question was conducted on the basis of information disclosed to subscribers in the offering documents required by UCITS Directive and Italian law in force, namely:

- the full and simplified prospectus (articles 42 and 50 of the legislative decree no. 58/1998 ; article 20 of Consob Regulation no. 11971/99);
- the subscription form (articles 42 and 50 of the legislative decree no. 58/1998 ; article 25, subsection 1, paragraph c) of Consob Regulation no. 11971/99);

4. SELECTION OF THE SAMPLE

This analysis was conducted on offering documentation of a sample of UCITS (SICAVs and mutual funds) authorised in EU Member States , selected by virtue of the number of sub-funds marketed in Italy, to define a sample sufficiently representative of foreign asset management products distributed in Italy.

In particular, the analysis was based on the offering documentation (full and simplified prospectus, subscription form, and appendix to the subscription form) of 29 UCITS, divided into 23 “pure” foreign UCITS and 6 “foreign-registered” UCITS, i.e. managed by intermediaries governed by foreign law but part of Italian financial groups.

This selection identified a sample representing 1,054 sub-funds[11] (of which 194 foreign-registered sub-funds) marketed in Italy. The sample under analysis is broken down below:

[10] Cf. note 3 above.

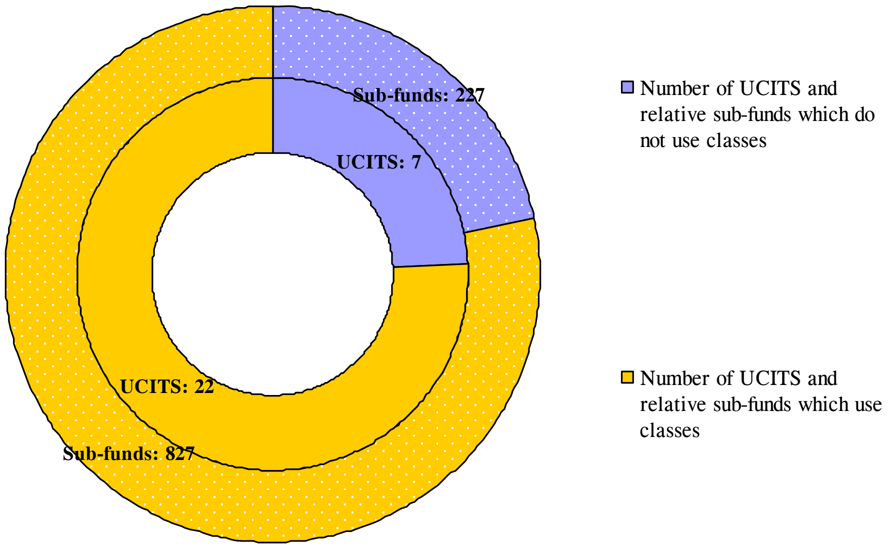
[11] It should be noted that the analysis does not consider sub-funds that are offered by UCITS using classes but are not divided into classes.

Tab. 1 – Breakdown of sample

Category	UCITS	EU member State	Sub-funds marketed in Italy	Use of classes
Foreign	**Citi Sicav**	LUX	…	**YES**
	DWS Invest Sicav	LUX	…	**YES**
	Schroder International Selection Fund Sicav	LUX	…	**YES**
	UBS (Lux) Equity Fund	LUX	…	NO
	Russell Investment Company Plc Sicav	IRL	…	**YES**
	Russell Investment Company Plc II Sicav	IRL	…	NO
	Multi-Style Multi-Manager Funds Plc Sicav	IRL	…	NO
	Dexia Equities Fund L Sicav	LUX	…	**YES**
	Fidelity Funds Sicav	LUX	…	**YES**
	Morgan Stanley Sicav	LUX	…	**YES**
	Parvest Sicav	LUX	…	**YES**
	JP Morgan Funds Sicav	LUX	…	**YES**
	Franklin Templeton Investment Funds Sicav	LUX	…	**YES**
	Merrill Lynch International Investment Funds Sicav	LUX	…	**YES**
	ABN Amro Funds Sicav	LUX	…	**YES**
	Aviva Morley Sicav	LUX	…	**YES**
	Fortis L Fund Sicav	LUX	…	NO
	HSBC Global Investment Funds Sicav	LUX	…	**YES**
	ING (L) Invest Sicav	LUX	…	NO
	Invesco Funds Sicav	LUX	…	**YES**
	Ixis International Funds Lux I Sicav	LUX	…	**YES**
	SGAM Fund Sicav	LUX	…	**YES**
Foreign-registered	**BNL Global Funds plc Sicav**	IRL	…	**YES**
	Interfund Sicav	LUX	…	NO
	Capitalia Investment Management Fund	LUX	…	**YES**
	Challenge Funds	IRL	…	**YES**
	Pioneer Funds	LUX	…	**YES**
	Nextra International Sicav	LUX	…	NO
	San Paolo International Fund	LUX	…	**YES**
Total	***29***		***1.054***	

Of the 29 UCITS forming the sample, approximately 24% (7 UCITS) does not use classes. Those UCITS represent approximately 22% of sub-funds (227 sub-funds) out of the total sub-funds analysed. The following chart depicts the sample:

Chart 1 – Breakdown of sample



However, for the purposes of this analysis, the following paragraphs will focus exclusively on UCITS and their sub-funds divided into classes (for a total of 22 UCITS and 827 sub-funds).

5. Industry practice: Class types and differentiation criteria

This paragraph summarises the class "types" brought to light by the analysis of the sample that theoretically justify the different economic treatment of the subscribers of the classes.

The following class types were identified during the analysis:

- *Classes differentiated by fee payment "conditions".*
- *Classes differentiated by distribution channel.*
- *Classes differentiated by investor category.*
- *Classes differentiated by investment thresholds.*
- *Combination of classes: Classes differentiated by fee payment "conditions" and investment thresholds.*

- *Classes differentiated by income distribution policy.*

- *Classes differentiated by exchange-rate risk hedging.*

This classification was made possible by identifying the features common to the classes under analysis in the offering documentation of the selected UCITS.

Before conducting a detailed analysis of these class types, it should be noted that the class types, in addition to presenting distinctive features, may be grouped into two macro-categories depending on their effect on the "cost" of the UCITS. More specifically, they may be grouped into:

1. ***Class types that affect the UCITS' "fee structure"***: this includes classes with differentiated fee structures[12].

   The following classes belong to this macro-category:

   - *Classes differentiated by fee payment "conditions".*

   - *Classes differentiated by distribution channel.*

   - *Classes differentiated by investor category.*

   - *Classes differentiated by investment thresholds.*

   - *Combination of classes: classes differentiated by fee payment "conditions" and investment thresholds.*

2. ***Class types that have a direct impact on the return of the UCITS as*** they directly influence the NAV of the UCITS without differing at the level of fee structure.

   The following classes belong to this macro-category:

   - *Classes differentiated by income distribution policy.*

   - *Classes differentiated by exchange rate risk hedging.*

The following paragraphs will discuss the main characteristics, differentiation criteria, and the individual UCITS (and the sub-funds thereof) that belong to the above class types.

[12] The fee structure of a UCITS is influenced substantially by the following fees: the subscription fee, management fee, distribution fee, deferred sales fee, and exit fee.

5.1 Class types that affect the UCITS' "fee structure"

This paragraph analyses class types with differentiated fee systems, which ought to be accompanied by a "ready" analysis in terms of their "economic expediency" for the investor.

5.1.1 Classes differentiated by investor category

This class type includes classes differentiated by investor category (generally retail vs. institutional). The key feature of this class is a more favourable fee structure for institutional investors[13] than for retail investors. The following table summarises the UCITS classes and the percentage of sub-funds out of the total that use this class type:

Tab. 2 - Classes differentiated by investor category

UCITS	Total Sub-funds	Categories	Number of Sub-funds per categories	Number of classes per categories	Denomination classes	% Sub-funds/sample
UCITS 1	21	Equity	13	4	A Acc. - A Distr.- B Acc. - B Distr.	2,5%
		Bonds	5			
		Balanced and flexible	1			
		Liquidity	2			

5.1.2 Classes differentiated by fee payment "conditions"

This class type includes classes with generally inverse proportion relationships between types of fees and the holding period, in order to provide subscribers with different conditions of fee payment.

The following is a typical example of classes differentiated by fee payment "conditions":

UCITS	Sub-funds	Classes	Category of investor	Minimum amount of subscription (€)	Subscription fee	Management fee
Y Sicav	β	A	retail	2.000	5%	1,50%
		C	retail	2.000	0%	2,50%

[13] It will be useful to list the main factors (economic and otherwise) that justify a lower fee level for institutional investors: i) greater investment volumes with consequent economies of scale in managing the UCITS; ii) greater contractual power combined with a decreased need for legal and contractual protection; iii) greater investment stability (especially in terms of portfolio turnover) combined with a decreased need for liquidity by the UCITS.

As may be inferred from the above table, class A and class C have different fee structure. In particular, class A is distinguished from class C by the presence of a subscription fee (5% instead of 0%) and decreased management fees (1,50% instead of 2,50%).

The investor's decision to subscribe for class A or class C should be based on the intended holding period, in order to choose the class that reduces the costs associated with the UCITS to a minimum.

This aspect, which requires that the subscriber conduct a proper assessment, represents the greatest shortcoming of this class type, as explained under paragraph 6.1 below.

The following table summarises UCITS classes and the percentage of sub-funds out of the total that use this class type:

Tab. 3 - Classes differentiated by fee payment "conditions"						
UCITS	*Total Sub-funds*	*Categories*	*Number of Sub-funds per categories*	*Number of classes per categories*	*Denomination classes*	*% Sub-funds/sample*
UCITS 2	**17**	Equity	1	2	A - C	**24,3%**
		Balanced and flexible	16			
UCITS 3	**69**	Equity	34	2	Classic - L	
		Bonds	23			
		Balanced and flexible	4			
		Liquidity	8			
UCITS 4	**52**	Equity	35	2	A - N	
		Bonds	12			
		Balanced and flexible	3			
		Liquidity	2			
UCITS 5	**29**	Equity	19	2	A - E	
		Bonds	6			
		Balanced and flexible	2			
		Liquidity	2			
UCITS 6	**34**	Equity	21	2	L - S	
		Bonds	9			
		Balanced and flexible	2			
		Liquidity	2			

5.1.3 CLASSES DIFFERENTIATED BY INVESTMENT THRESHOLDS

This type includes classes having investment thresholds with a relationship of inverse proportion between the size of the thresholds and the level of fee expenses.

The primary characteristic of this class is that it involves a more expedient fee structure if a larger amount is subscribed by the investor, regardless of the holding period.

The following is an example of classes differentiated by investment thresholds:

UCITS	*Sub-funds*	*Classes*	*Category of investor*	*Minimum amount of subscription (€)*	*Subscription fee*	*Management fee*
Y Sicav	β	**B**	*retail*	*2.000*	*5%*	*2,50%*
		D	*retail*	*25.000*	*5%*	*1,50%*

As may be deduced from the above table, class D is distinguished from class B by the presence of a more expedient fee structure, regardless of the holding period of the investment, depending on the minimum amount of subscription (€ 25.000 for class D and € 2.000 for class B).

The following table contains the number of UCITS and the percentage of sub-funds out of the total that use this class type:

Tab. 4 - Classes differentiated by investment thresholds						
UCITS	*Total Sub-funds*	*Categories*	*Number of Sub-funds per categories*	*Number of classes per categories*	*Denomination classes*	*% Sub-funds/sample*
UCITS 7	**23**	Equity	17	2	A - B	**10,0%**
		Bonds	6			
UCITS 8	**3**	Balanced and flexible	3	2	A - C	
UCITS 9	**57**	Equity	47	6	A Acc. - A Distr. - B Acc. - C Acc. - D Acc. - X Acc	
		Bonds	8			
		Balanced and flexible	2			

5.1.4 CLASSES DIFFERENTIATED BY DISTRIBUTION CHANNEL

This class type includes classes purportedly differentiated by a fee structure that varies according to the distribution channel used (for example, placement through bank branches, financial advisors, the internet, etc.). As a general rule, this class type is supposed to ensure remuneration differentiated according to the costs "actually" incurred to distribute the product.

This class type ought therefore to feature:

- an "objective" description in the offering documentation of the various distribution channels used justifying the differing costs associated with each;
- the sole method for the distributors to distribute the classes being through the specific channels arranged for them[14].

These represent the greatest shortcoming of this class type, as explained under paragraph 6.2 below.

The following table summarises the UCITS and the percentage of sub-funds out of the total that use this class type:

Tab. 5 - Classes differentiated by distribution channel

UCITS	Total Sub-funds	Categories	Number of Sub-funds per categories	Number of classes per categories	Denomination classes	% Sub-funds/sample
UCITS 10	27	Equity	27	2	C - N	36,3%
UCITS 11	58	Equity	35	3	A - B - E	
		Bonds	15			
		Balanced and flexible	5			
		Liquidity	3			
UCITS 12	53	Equity	34	2	A - D	
		Bonds	17			
		Liquidity	2			
UCITS 13	60	Equity	52	2	A Distr. - E Acc.	
		Bonds	8			
UCITS 14	46	Equity	34	2	A - E	
		Bonds	12			
UCITS 15	56	Equity	27	2	E - F	
		Bonds	25			
		Balanced and flexible	4			

5.1.5 COMBINATION OF CLASSES: CLASSES DIFFERENTIATED BY FEE PAYMENT "CONDITIONS" AND INVESTMENT THRESHOLDS

Lastly, the analysis indicated certain UCITS that market their sub-funds through "combinations" of the above class types. Certain UCITS were identified that market all of their sub-funds using the following "combinations" of classes: classes differentiated by fee payment "conditions" and classes differentiated by investment thresholds.

[14] More specifically, when using this class type, investors should not be able to subscribe classes intended for distribution over the internet through bank branches, and vice versa.

See paragraphs 5.1.2 and 5.1.3 above for an analysis of the main characteristics of this class type.

The following table summarises the UCITS and the percentage of sub-funds out of the total that use this class type:

Tab. 6 - Combination of classes: Classes differentiated by fee payment "conditions" and investment thresholds

UCITS	Total Sub-funds	Categories	Number of Sub-funds per categories	Number of classes per categories	Denomination classes	% Sub-funds/sample
UCITS 16	**38**	Equity	19	3	FC - LC - NC	**22,0%**
		Bonds	15			
		Balanced and flexible	2			
		Liquidity	2	2	FC - NC	
UCITS 17	**57**	Equity	39	4	A - A1 - B - C	
		Bonds	15			
		Balanced and flexible	1			
		Liquidity	2			
UCITS 18	**38**	Equity	26	3	A - B - I	
		Bonds	10			
		Balanced and flexible	2			
UCITS 19	**49**	Equity	30	3	A - F - P	
		Bonds	17			
		Liquidity	2	2	A - F	

5.2 CLASS TYPES THAT AFFECT THE "RETURN" OF THE UCITS

This paragraph analyses those class types that generally do not differentiate their fee systems, but which have a direct impact on NAV *by reflecting different charges*.

5.2.1 CLASSES DIFFERENTIATED BY EXCHANGE RATE RISK HEDGING

This class type includes those UCITS that are differentiated by the presence or absence of exchange-rate risk hedging service provided by the manager.

In this regard, the cost borne by the subscribers of classes hedged against exchange-rate risk is directly included in NAV, which is calculated separately from that of "unhedged" classes, and may be higher or lower than the latter, depending on the "sign" of the fluctuation between the currencies in question.

This class type exists only for sub-funds that invest in financial instruments denominated in a currency other than the benchmark currency, and that use exchange-rate risk heading methods associated with such currencies.

In the light of the foregoing, on the one hand, the exchange-rate hedging service represents an additional service for the investor, and on the other, it seems to bear a resemblance to management methods capable of further defining the investment policy of the UCITS and therefore of being considered an independent product, that is to say, a sub-fund with a specific "management style".

This aspect represents the greatest shortcoming of this class type, as explained under paragraph 6.7 below.

The following table summarises the UCITS and the percentage of sub-funds out of the total that use this class type:

Tab. 7 - Classes differentiated by exchange rate risk hedging

UCITS	*Number sub-funds offered with option of choice between Exchange risk hedging or otherwise*	*% value of total sub-funds offered*
UCITS 20	*21*	*100%*
UCITS 3 (*)	*9*	*13%*
UCITS 15 (**)	*2*	*4%*
UCITS 11 (**)	*4*	*7%*
UCITS 14 (**)	*3*	*7%*
UCITS 19 (***)	*17*	*35%*
UCITS 9 (****)	*4*	*7%*
UCITS 8 (****)	*1*	*33%*
UCITS 21 (*****)	*3*	*100%*
Total	**64**	

(*) UCITS also falling within classes classes differentiated by fee payment "conditions"

(**) UCITS also falling within classes differentiated by distribution channel

(***) UCITS also falling within combination of classes: classes differentiated by fee payment "conditions" and investment thresholds

(****) UCITS also falling within classes differentiated by investment thresholds

(*****) UCITS also falling within classes differentiated by income distribution policy

As emerges from the above table, this class type includes not only the 20 UCITS that belong solely to this group, but also some UCITS that, despite also belonging to other class types, have a "non-residual" presence of exchange-rate risk hedging in the various sub-funds marketed.

The group *classes not hedged against exchange-rate risk* also includes those sub-funds that allow investors to subscribe for shares/units in the SICAV/fund in currencies other than the benchmark currency.

In short, it may be stated that there is a certain “resemblance” between classes not hedged against exchange-rate risk and classes with the choice between various subscription currencies, and that resemblance consists precisely of the exposure to exchange-rate risk.

The following table summarises the UCITS and the percentage of sub-funds out of the total that allow investors to choose between various subscription currencies:

Tab. 8 - Classes with option of choice of different subscription currencies

UCITS	*Number of sub-funds offered with option of choice of currencies*	*% value of total sub-funds offered*
UCITS 22	*16*	*100%*
UCITS 4 (*)	*13*	*25%*
UCITS 13 (**)	*9*	*15%*
UCITS 17 (***)	*15*	*26%*
Total	**53**	

(*) UCITS also falling within classes classes differentiated by fee payment “conditions”

(**) UCITS also falling within classes differentiated by distribution channel

(***) UCITS also falling within combination of classes: classes differentiated by fee payment “conditions” and investment thresholds

As emerges from the above table, this class type includes not only the 22 UCITS that belong solely to this group, but also some UCITS that, despite also belonging to other class types, are characterised by a “non-residual” presence of the choice between various subscription currencies in the various sub-funds marketed.

5.2.2 CLASSES DIFFERENTIATED BY INCOME DISTRIBUTION POLICY

This class type includes classes purportedly differentiated by a different income distribution policy. They are supposed to satisfy the need of asset management intermediaries to provide differing administrative systems for investors opting for the distribution (distribution class) or reinvestment (accumulation class) of the income generated by their investments.

One peculiarity of distribution classes ought to be that of "limiting" the "discretionary" power of the managers concerning the income distribution policy, and, consequently, these classes ought to be distinguished from accumulation classes by an "objective[15]" distribution policy.

This aspect represents the greatest shortcoming of this class type, as explained under paragraph 6.6 below. The following table summarises the UCITS and the percentage of sub-funds out of the total that use this class type:

Tab. 9 - Classes differentiated by income distribution policy		
UCITS	*Number sub-funds offered with option of choice of accumulation and distribution classes*	*% value of total sub-funds offered*
UCITS 21 (*)	*3*	*100%*
UCITS 4 (**)	*24*	*46%*
UCITS 6 (**)	*8*	*24%*
UCITS 9 (***)	*57*	*100%*
UCITS 1 (****)	*21*	*100%*
UCITS 13 (*****)	*3*	*5%*
Total	**116**	

(*) UCITS also falling within classes differentiated by exchange rate risk hedging

(**) UCITS also falling within classes classes differentiated by fee payment "conditions"

(***) UCITS also falling within classes differentiated by investment thresholds

(****) UCITS also falling within classes differentiated by investor category

(*****) UCITS also falling within classes differentiated by distribution channel

As emerges from the above table, this class type includes some UCITS that, despite also belonging to other class types, have "non-residual" presence of the choice between accumulation and distribution in the various sub-funds marketed.

5.3 OVERALL SUMMARY: CLASS TYPES

As discussed in the foregoing paragraphs on the analysis of industry practice, various class types have emerged that are differentiated both by the way in which they affect the "cost" of the UCITS and the differing features thereof.

In terms of the method of survey, the analysis indicated that certain sub-funds are characterised by the simultaneous presence of classes belonging to different types.

The following page contains a table breaking down the number of sub-funds offered by each UCITS by class type.

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[15] The following is an example of a class with an "objective" distribution policy: *" ...class B is characterised by distributing 70% of the income it earns each year…"*.

Tab. 10 – Number of sub-funds offered by each UCITS broken down by class type

UCITS	*Classes differentiated by fee payment "conditions"*	*Classes differentiated by distribution channel*	*Combination of classes: Classes differentiated by fee payment "conditions" and investment thresholds*	*Classes differentiated by investment thresholds*	*Classes differentiated by investor category*	*Classes differentiated by income distribution policy*	*Classes differentiated by exchange rate risk hedging*	*Total Sub-fund per UCITS*
UCITS 2	17							17
UCITS 16			38					38
UCITS 17			57				(15)	57
UCITS 21						3	(3)	3
UCITS 10		27						27
UCITS 13		60				(3)	(9)	60
UCITS 18			38					38
UCITS 3	69						(9)	69
UCITS 9				57		(57)	(4)	57
UCITS 4	52					(24)	(13)	52
UCITS 11		58					(4)	58
UCITS 12		53						53
UCITS 1					21	(21)		21
UCITS 14		46					(3)	46
UCITS 5	29							29
UCITS 22							16	16
UCITS 19			49				(17)	49
UCITS 7				23				23
UCITS 8				3			(1)	3
UCITS 6	34					(8)		34
UCITS 15		56					(2)	56
UCITS 20							21	21
Total sub-funds by type of class	201	300	182	83	21	116	117	

(...) number of sub-funds of the same UCITS which also use other types of classes

The above table shows that a significant portion (approximately 38%) of the UCITS under analysis marketed all of their sub-funds using at least two class types. This category includes the UCITS falling under the type *"combination of classes[16]", i.e. UCITS 21, UCITS 9 and UCITS 1.*

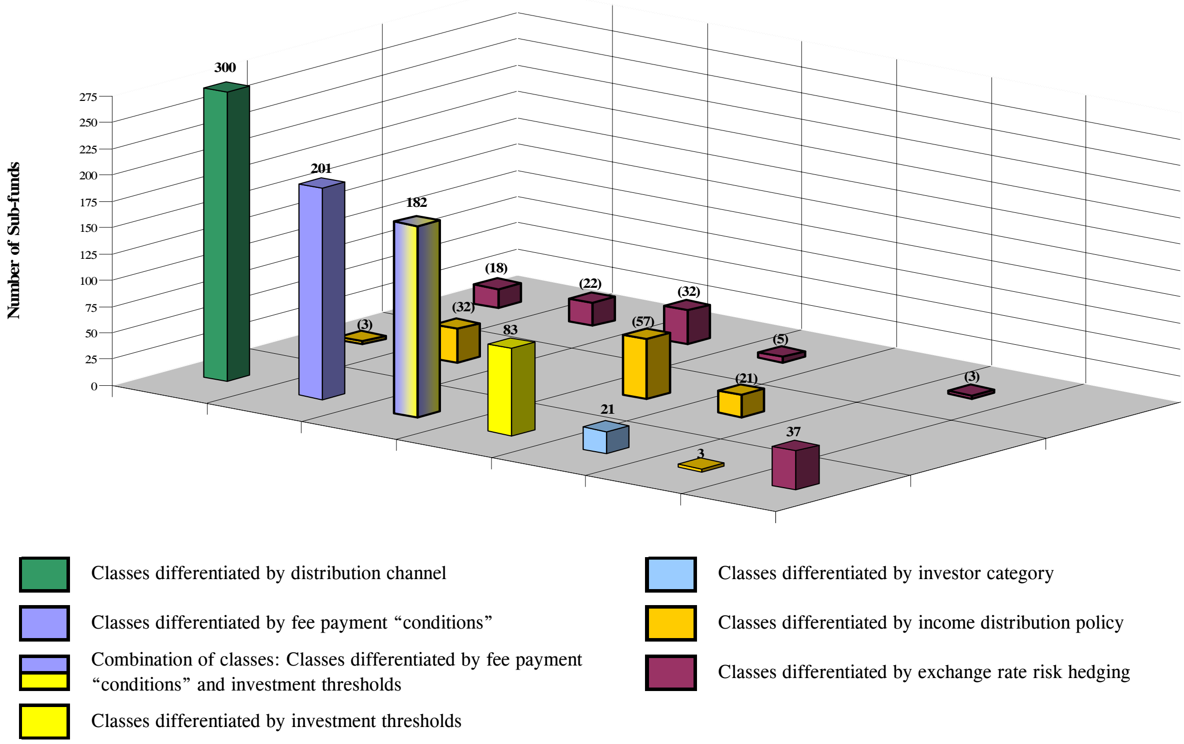
The remaining UCITS (approximately 62%), on the other hand, show a general "reciprocal" relationship between individual sub-fund and individual class type.

This aspect emerges more clearly from an examination of the following chart, which breaks down the number of sub-funds by the various class types. The first

[16] In particular: UCITS 16; UCITS 17; UCITS 18 and UCITS 19.

series of columns contains the total number of sub-funds (827) broken down by the various class types (including the type "*combination of classes*"). The second and third series, on the other hand, represent the portion of the sub-funds that, despite being included among the other class types, use (including alternatively) either *Classes differentiated by income distribution policy* *or* *Classes differentiated by the hedging of exchange-rate risk*[17].

Chart 2 - Number of Sub-funds by type of classes



6. CLASS TYPE: DISCLOSURE OF CLASS CHARACTERISTICS IN OFFERING DOCUMENTATION

This paragraph contains an analysis of the information about the classes in the offering documentation of the 22 UCITS forming the sample, with reference to the regulations set forth in Directive 85/611/EEC (in the version of the text amended by Directives 2001/107/EEC and 2001/108/EEC), and, in particular, the obligations concerning information to be supplied to unit-holders (articles 27-35) and the criteria indicated in Schedule A, Table A, to the Directive, concerning the compulsory information that must be contained in the (full) prospectus of harmonised UCITS.

[17] The sole exceptions are UCITS 9 and UCITS 13, the sub-funds of which use both *Classes differentiated by income distribution policy* and *Classes differentiated by the hedging of exchange-rate risk* at the same time.

The assessment was consequently conducted in accordance with the general principle of disclosure confirmed in article 28, paragraph 1, of the Directive, which states that "*a prospectus must include the information necessary for investors to be able to make an informed judgment of the investment proposed to them*".

The general principle of disclosure entails not only the obligation to include in the prospectus all required information (***completeness requirement***) in order for the prospectus to be mutually recognised, but also that this information be adequate to permit an informed investment decision, in other words consist of all factors suitable to forming a full and correct assessment of the risk and return associated with an investment (***comprehensibility requirement***). It is therefore clear that these data may also be separately attributed to one of the two aforementioned parameters, but must be interpreted jointly in order to make a decision consistent with one's investment objectives and appetite for risk.

In particular, the various cost components of a given UCITS contribute to determining the (net) yield on the product, and, in consequence, are of fundamental importance for the selection of both the investment fund and the classes associated with a specific fee system.

In short, a negative return on investment, or, more simply, a return that does not meet the investor's expectations, may be the consequence of the risks taken into account when the investment was made, or may also be the result of an improper assessment of the fund's cost components due to the difficulty involved in comparing the conditions offered by the various available classes.

This paragraph consequently proposes to examine the offering documentation[18] of the 22 UCITS, broken down into the various class types, in order to analyse:

1) the completeness of the information[19] about the classes provided in the offering documentation;
2) the comprehensibility[20] of the information to the retail investor[21].

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[18] The analysis concerned the information contained in prospectuses approved by the supervisory authorities in other member states of the European Union (primarily Luxembourg and Ireland) as at July 2006.

[19] In particular, the paper aims to examine the degree of disclosure of the features of the classes and the associated fee structure.

[20] This portion of the analysis also includes verifying whether the offering documentation provides any guidelines for the selection of the various classes.

[21] Directive 85/611/EEC, in the version amended by Directives 2001/107/EEC and 2001/108/EEC, emphasises the separate importance of the criterion of comprehensibility inasmuch as, in addition to article 28, paragraph 1, as cited above, it also cites (article 28, paragraph 3) the figure of the "average investor" to clarify the degree of comprehensibility of the information that must be provided in the simplified prospectus to be distributed to investors. In this regard, it must be remembered that the obligation of foreign asset management companies that intend to market harmonised UCITS in Italy to publish and distribute a simplified prospectus to investors, free-of-charge and prior to the conclusion of the contract, is established by the combined provisions of article 27, paragraph 1, and article 33, paragraph 1, of Directive 85/611/EEC.

Before delving into a detailed analysis of the results of the above examinations, it should be noted that short opinions were formed based on these examinations, as set forth below:

1) ***completeness opinion***:

- positive: the offering documentation provides a full description of the class features justifying the different treatment of the investors in the same fund/sub-fund;
- negative: the offering documentation does not provide a description, or provides an incomplete description, of the class features, and does not justify the different treatment of the investors in the same fund/sub-fund;

2) ***comprehensibility opinion***:

- positive[22]: the information about the classes contained in the offering documentation can be easily understood and interpreted by retail investors;
- negative: the information about the classes contained in the offering documentation cannot be easily understood or interpreted by retail investors.

6.1 CLASSES DIFFERENTIATED BY FEE PAYMENT "CONDITIONS"

The analysis revealed a positive degree of disclosure, in terms of completeness of information, for both class characteristics and the associated fee structure.

On the other hand, the analysis revealed a negative opinion of comprehensibility of information, primarily due to the difficulty readers encountered in assessing the economic expedience of the various available classes.

When the investor chooses between the classes, he ought to properly calculate the expedience based not only, and not most importantly, on an analysis of the fee structure, so as to choose the most expedient class at the time of subscription, but also on an analysis of the fee structure in relation to the intended holding period of

[22] With respect to the analysis of the "comprehensibility" of information, it should be emphasised that it was only positive to express a positive opinion when the analysis of "completeness" had resulted in a positive opinion as well. This does not exclude the possibility that despite having expressed a positive opinion of the "completeness" of information the paper may express a negative opinion of the "comprehensibility" of said information.

the investment, so as to opt for the class that reduces to a minimum the costs associated with the investment over the intended holding period.

This difficulty is further increased for UCITS 4 and UCITS 6 (see Tab. 11), in which the description of the class characteristics is spread throughout various paragraphs of the offering documentation.

It is worth noting the indication of fees - especially subscription fees - of various UCITS in terms of a maximum charge, for example: "*subscription fee up to a maximum of 6%*". This circumstance, inasmuch as no objective criterion is offered for its application, translates into "leverage" for the distribution network, which has the possibility of setting different fee levels for the same class type, thereby creating further divisions within the classes on the basis of the various charges applied to customers.

These fees could consequently result in significant behavioural shortcomings if, during distribution, intermediaries should fail to establish "objective" sales policies so as to ensure compliance with obligations of correctness, disclosure, and parity of treatment among the intended recipients of solicitations established on a general level by article 95 of the consolidated law on finance, and specified by article 14 of the Issuer Regulations (Consob resolution no. 11971/99).

The following example is a phrase taken from the offering documentation of UCITS 2: *"...in Class C a supplementary fee of a maximum of 1% on the subscription fee may be applied."*.

In this regard, the description of fee expenses in terms of "maximum amounts" is a characteristic common to the various class types identified during the analysis.

Lastly, none of the various UCITS made any reference to criteria that might "guide" the investor in interpreting and choosing among the various available classes.

The following table summarises the results of the various examinations, broken down by individual UCITS:

Tav. 11 - Classes differentiated by fee payment "conditions"					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 2	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) class C may be subject to an additional fee of a maximum of 1%;	**NO**
UCITS 3	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available;	**NO**
UCITS 4	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) information on the fee structure distributed in several tables in the prospectus;	**NO**
UCITS 5	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available;	**NO**
UCITS 6	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) information on the fee structure distributed in several tables in the prospectus;	**NO**

6.2 CLASSES DIFFERENTIATED BY DISTRIBUTION CHANNEL

The analysis revealed a negative degree of disclosure, of the class characteristics for all of the UCITS falling into this class.

The analysis indicated that the classes differentiated by distribution channel did not disclose the "objective" features that may be deduced from the offering documentation (for example, placement through bank branches, financial advisors, the internet, etc.) in such a way as to justify the differing treatment of subscribers of the same sub-fund.

This aspect is further borne out by the presence in the offering documentation of phrases such as the following: "*…class B is available through specific distributors…indicated by the Company…*", in which the criteria that ought to justify the differing treatment of subscribers of the same sub-fund are wholly "undefined".

A further shortcoming results from the fact that a significant portion of these classes has fee structures that are less expedient than others, regardless of the holding period of the investment.

This *modus operandi* transforms <u>a typical problem concerning the allocation of profits between manager and distributor into a problem of efficiency</u>. In other words, a situation that ought to consist solely of a problem of allocating fee income between the management firm and the intermediaries/distributors (which is irrelevant to the overall cost of investment borne by the investor) is avoided precisely **by systematically increasing the fees applied to the UCITS**. **The variable consists of**

the costs applied to the various subscribers and not the "allocation" of income between the distributing entity and the managing entity.

This results in the risk of differing treatment of investors in the same sub-fund depending on whether they used intermediary A or intermediary B during the subscription phase through the "bank branch" channel due to the different distribution agreements between these intermediaries and the fund manager.

Another important point pertaining to the completeness of information is that a clause contained in the subscription form for UCITS 13 states "*…in the absence of instructions, the purchase order is executed for class A shares…*", in other words the class with the highest level of subscription fees.

In conclusion, although this class type should in theory ensure remuneration differentiated according to the costs actually incurred in distribution, the analysis of industry practice would seem to indicate that the class provides "leverage" for the distribution network in distributing the less expedient classes. This not only represents an obstacle for the reduction of costs in the asset management industry, but also ensures that distributors, due to the fee remittance mechanism, reap "potential" savings that by rights should accrue to the investor.

In the light of the foregoing, the analysis of the comprehensibility of information also resulted in a negative opinion and therefore did not permit a "reconstruction" of the features of the various classes.

Furthermore, none of the various UCITS under analysis made any reference to criteria that might "guide" the investor in interpreting and choosing among the various available classes.

The following table summarises the results of the various examinations, broken down by individual UCITS:

Tab. 12 - Classes differentiated by distribution channel					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 10	**negative**	YES	**negative**	i) class N reserved for distributors appointed especially by the management company;	**NO**
UCITS 11	**negative**	YES	**negative**	i) class B available to customers of ……… and other Investors at manager's discretion; ii) class E available in some countries through specific distributors identified by the manager;	**NO**
UCITS 12	**negative**	YES	**negative**	i) the administrators may limit the available of class D to determined distributors/countries; ii) the administrators reserve the right to change the characteristics of the classes of shares;	**NO**
UCITS 13	**negative**	YES	**negative**	i) in absence of indications, subscription is considered as class A (most expensive class); ii) class E shares are admitted for placement in Luxemburg, Italy, Portugal and Spain; iii) Italy: additional costs may be added by the Intermediaries for services supplied according to local distribution models.	**NO**
UCITS 14	**negative**	YES	**negative**	i)) class E available in some countries through specific distributors identified by the manager; ii) information on the fee structure distributed in several tables in the prospectus;	**NO**
UCITS 15	positive	YES	positive (class F mainly through Internet)	-	YES (class F mainly through Internet)

6.3 CLASSES DIFFERENTIATED BY INVESTOR CATEGORY

In terms of completeness of information, the analysis resulted in a positive degree of disclosure for both class features and the associated fee structure.

More specifically, in the case of UCITS 1, class B (intended for retail investors) is differentiated from the fee structure established for class A (intended for institutional investors) by a distribution fee of 0.25%.

However, in terms of the comprehensibility of information, the analysis resulted in a negative opinion since the restriction on investor category, in other words the impossibility for retail investors to invest in the institutional class, is not indicated in the offering documentation, but rather a specific letter addressed to Consob in which the Company undertakes to differentiate between the distribution of the classes by investor type.

Lastly, it is important to note certain behavioural shortcomings that may emerge from the activity of institutional investors belonging to banking groups that, especially in individual asset management, may have an incentive to subscribe for the retail classes instead of the institutional classes in order to earn greater profits for their groups through the "remittance" mechanism. For this reason, institutional investors that engage in asset management by individual investment portfolio on behalf of third parties should not subscribe for classes intended for retail investors.

The following table summarises the results of the various examinations:

Tab. 13 - Classes differentiated by investor category					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 1	positive	YES	**negative**	i) the manager's commitment to differentiate classes by type of investor is not noted in the Documentation in relation to the offering but in a letter of intent addressed to CONSOB	YES

6.4 CLASSES DIFFERENTIATED BY INVESTMENT THRESHOLD

In terms of the completeness of information, the analysis resulted in a positive degree of disclosure for both class features and the associated fee structure.

For all of the UCITS under analysis, the various investment thresholds seem "reasonable" both in terms of the amount of subscription and in terms of the economic expedience of the associated fee expenses.

In the light of the above remarks, the analysis of the comprehensibility of information also resulted in a positive opinion and therefore permitted a "reconstruction" of the characteristics of the various classes offered and the differing costs associated with them.

For this class type, the analysis of the class characteristics indicates the guidelines according to which the investor is to select classes.

Special attention should be drawn to the offering documentation for UCITS 7, which states: *"…No limit on the initial minimum amount or subsequent subscriptions shall be applicable to shareholders of Class B who are either (i) institutional investors or (ii) employees of the … group or financial advisors…"*. This circumstance would seem to contradict the primary characteristic of this class type, namely the presence of fee rates that decrease as the amount of subscription increases.

As a further observation concerning the offering documentation for UCITS 7, the description of the characteristics of the classes is divided among various paragraphs of the offering documentation and does not permit a ready reconstruction of the characteristics of the classes.

The following table summarises the results of the various examinations, broken down by individual UCITS:

Tab. 14 - Classes differentiated by investment thresholds					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 7	positive	YES	**negative**	i) in exceptional circumstances, the initial amounts can be reduced by Administrators at their exclusive discretion, as assessed case by case. No limit shall be set to the initial amount of class B for: a) institutional investors; b) …. group employees or financial advisors; ii) information of the fee structure distributed in several tables in the prospectus	YES
UCITS 8	positive	YES	positive	-	YES
UCITS 9	positive	YES	positive	-	YES

6.5 COMBINATIONS OF CLASSES: CLASSES DIFFERENTIATED BY FEE PAYMENT "CONDITIONS" AND INVESTMENT THRESHOLDS

The same considerations set forth in the foregoing paragraphs (see paragraphs 6.1 and 6.4) also apply to this class type. In short, the disclosure shortcomings are primarily related to *classes differentiated by conditions of fee payment*.

Special attention should be drawn to the offering documentation for UCITS 16, which states: "*… class NC is not intended for distribution to the public in Germany…*", which does not make any reference to the reasons underlying this choice of distribution.

Another shortcoming is the fact that for a number of UCITS, the description of the class features is spread throughout various paragraphs of the offering documentation and presented in such a way as not to permit a ready reconstruction of the characteristics of the classes.

The following table summarises the results of the various examinations, broken down by individual UCITS:

Tab. 15 - Combination of classes: classes differentiated by fee payment "conditions" and investment thresholds					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 16	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) class NC is not destined for public placement in Germany; iii) information of the fee structure distributed in several tables in the prospectus;	**NO**
UCITS 17	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) the administrators may waive application of the minimum amount for C shares;	**NO**
UCITS 18	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available;	**NO**
UCITS 19	positive	YES	**negative**	i) difficulty for the reader to assess the economic convenience of the different classes available; ii) information of the fee structure distributed in several tables in the prospectus;	**NO**

6.6 CLASSES DIFFERENTIATED BY INCOME DISTRIBUTION POLICY

In terms of the completeness of information in the offering documentation, the analysis resulted in a generally negative degree of disclosure for both class characteristics and the associated fee structure.

More specifically, for income distribution classes, the primary feature that ought to justify the existence of such classes, namely the "automatic" distribution of income earned during the year in question, was lacking.

This shortcoming is specifically mentioned in the offering documentation, specifically in the following phrases: "*…the management firm may distribute income earned by management activity…*", which grants the board of directors of the firm in question full discretion concerning whether to distribute the income earned by management activity.

The sole exception is represented by the offering documentation for UCITS 9, which states: *"…it is understood that all share classes with the suffix 'dist.' shall distribute at least 85% of the net income on investment"*. This aspect, which may be objectively located in the offering documentation, is sufficient to justify the differing treatment of distribution shares and accumulation shares.

Special attention must be drawn to a clause contained in the offering documentation for UCITS 9, UCITS 21, and UCITS 4, which states that should the investor fail to express the desire to receive dividends in payment (for example, by bank transfer) when distribution shares are subscribed, said dividends shall be automatically reinvested in additional distribution shares.

Lastly, the offering documentation of all the UCITS considered provides no indication of the costs associated with the income distribution service.

The following table summarises the results of the various examinations, broken down by individual UCITS:

UCITS	*Completeness opinion*	*Indication of fees*	*Comprehensibility opinion*	*Disclosure criticalities*	*Presence of guide criteria in choosing classes*
UCITS 21 (*)	**negative**	**NO**	**negative**	i) distribution class shares are shares which distribute the net proceeds at the discretion of the administrators; ii) any distribution may reflect any costs and expenses; iii) the investor shall inform the manager in writing at the time of subscription of the desire to re-invest the proceeds in other distribution shares or to receive them in payment by bank draft;	**NO**
UCITS 4 (**)	**negative**	**NO**	**negative**	i) the administrators "intend" to distribute substantially all the profits attributable to the distribution shares; ii) dividends related to the distribution shares of the proceeds will usually be re-invested in other distribution shares unless otherwise requested by the subscriber (on the subscription form);	**NO**
UCITS 6 (**)	**negative**	**NO**	**negative**	i) the management company may distribute the profits attributable to the class B;	**NO**
UCITS 9 (***)	positive	YES	positive	i) the dividends are usually re-invested. The Shareholders may communicate, in writing, their desire to receive the payment of the dividends by bank draft;	YES
UCITS 1 (****)	**negative**	**NO**	**negative**	i) the administrators "intend" to distribute substantially all the net profits attributable to these shares;	**NO**
UCITS 13 (*****)	**negative**	**NO**	**negative**	i) the administrators "intend" to distribute all the net profits of the the investments (annual) of the sub-fund;	**NO**

(*) UCITS also falling within classes differentiated by exchange rate risk hedging

(**) UCITS also falling within classes classes differentiated by fee payment "conditions"

(***) UCITS also falling within classes differentiated by investment thresholds

(****) UCITS also falling within classes differentiated by investor category

(*****) UCITS also falling within classes differentiated by distribution channel

6.7 CLASSES DIFFERENTIATED BY EXCHANGE-RATE RISK HEDGING[23]

In terms of the completeness of information in the offering documentation, the analysis resulted in a generally negative degree of disclosure for both the class characteristics and the associated fee structure.

[23] This class type also includes classes that grant the investor the option of subscribing shares/units of the SICAV/fund in currencies other than the benchmark currency, i.e. "*classes with the choice of various subscription currencies*" (cf. paragraph 5.2.1 above).

The following is a list of the various shortcomings that came to light during the analysis, broken down by:

1. *classes differentiated by exchange-rate risk hedging:*

   - for two UCITS (*UCITS 3 and UCITS 8*) there was no indication as to the costs borne by the subscriber for the exchange-rate risk hedging service;
   - for two UCITS (*UCITS 11 and UCITS 11*), particular doubts arose from the following phrases: "*... the details of the classes with hedging of exchange-rate risk may be obtained from the firm's registered officer and the investor assistance centre...*", which induce the reader to believe that the service in question may be "amended" over time;
   - lastly, for two UCITS (*UCITS 21 and UCITS 20*) it was not possible to locate or readily reconstruct the class features.

2. *classes with the choice of various subscription currencies*:

   - for three UCITS (*UCITS 22, UCITS 13 and UCITS 4*) it was not possible to locate a complete description of the characteristics of the classes.
   - for one UCITS (*UCITS 17*), particular doubts were aroused by the following phrase: "*...the firm has the option of undertaking hedging transactions for this class...*". This clause consequently seems "inconsistent" with the fact that the investor, by subscribing for the class of shares in a currency other than the benchmark, has expressed a desire to be exposed to exchange-rate risk.

In the light of the foregoing, the analysis also resulted in a generally negative opinion of the comprehensibility of information.

This aspect is borne out by the fact that no reference whatsoever is made to the cost (not even in terms of a maximum limit) to be paid to the manager for the service provided.

The following table summarises the results of the various examinations:

Tab. 17 - Classes differentiated by exchange rate risk hedging					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 20	positive	**NO**	**negative**	i) information on the fee structure distributed In several tables in the prospectus;	**NO**
UCITS 3 (*)	**negative**	**NO**	**negative**	i) no information on hedging costs payable by the sub-fund	**NO**
UCITS 15 (**)	positive	**NO**	positive	-	**NO**
UCITS 11 (**)	**negative**	**NO**	**negative**	i) details of classes with exchange risk hedging can be obtained from the registered office of the company and the investors' assistance centre;	**NO**
UCITS 14 (**)	**negative**	**NO**	**negative**	i) details of classes with exchange risk hedging can be obtained from the registered office of the company and the investors' assistance centre	**NO**
UCITS 19 (***)	positive	**NO**	positive	-	**NO**
UCITS 9 (****)	positive	**NO**	positive	-	**NO**
UCITS 8 (****)	**negative**	**NO**	**negative**	i) no information on hedging costs payable by the sub-fund	**NO**
UCITS 21 (*****)	**negative**	**NO**	**negative**	i) the paragraph "share classes" makes no reference to the classes hedged or with different subscription currencies	**NO**

(*) UCITS also falling within classes classes differentiated by fee payment "conditions"

(**) UCITS also falling within classes differentiated by distribution channel

(***) UCITS also falling within combination of classes: classes differentiated by fee payment "conditions" and investment thresholds

(****) UCITS also falling within classes differentiated by investment thresholds

(*****) UCITS also falling within classes differentiated by income distribution policy

Tab. 18 - Classes with option of choice of different subscription currencies					
UCITS	***Completeness opinion***	***Indication of fees***	***Comprehensibility opinion***	***Disclosure criticalities***	***Presence of guide criteria in choosing classes***
UCITS 22	**negative**	**NO**	**negative**	i) the share classes can be listed in different currencies;	**NO**
UCITS 13 (*)	**negative**	**NO**	**negative**	i) the paragraph "share classes" makes no reference to classes hedged/ in different currencies;	**NO**
UCITS 4 (**)	**negative**	**NO**	**negative**	i) information on classes hedged against the exchange risk and/or in different currencies are distributed in several tables in the prospectus;	**NO**
UCITS 17 (***)	**negative**	**NO**	**negative**	i) in the case of an offering of shares in a currency other than that of reference, a special class will be set up. In relation to these classes, the Management Company is "entitled" to carry out hedges;	**NO**

(*) UCITS also falling within classes differentiated by distribution channel

(**) UCITS also falling within classes classes differentiated by fee payment "conditions"

(***) UCITS also falling within combination of classes: classes differentiated by fee payment "conditions" and investment thresholds

In conclusion, it may be stated that the difference between the classes in question is not a different objective method of investor participation in the same fund/SICAV, which is the peculiar features of classes, but rather in two different products managed differently by the manager (presence of absence of exchange-rate risk hedging service).

In the light of the foregoing, it would seem that division into classes on the basis of the hedging of exchange-rate risk is not acceptable, provided that this is a factor that differentiates individual UCITS and not portions of a single product.

6.8 THE DISCLOSURE OF CLASS CHARACTERISTICS: GENERAL ASSESSMENT

The following conclusions may be drawn from the analysis of disclosure in offering documentation discussed in the foregoing paragraphs:

- *classes differentiated by investor category and investment threshold* did not show significant shortcomings in terms of either the completeness or the comprehensibility of information on classes;
- *combined classes, classes differentiated by "conditions" of fee payment, distribution channel, income distribution policy, and the hedging of exchange-rate risk*, on the other hand, showed significant information deficits that cast doubt on the very existence of the supposedly objective criteria that ought in theory to justify the creation of the classes themselves (along with the associated fee schedules) and, consequently, on the different ways in which the holders of units/shares of the same fund (but belonging to different classes) are treated.

A further shortcoming springs from the fact that the offering documentation for certain of the UCITS contains an illustration of the historical rate of return calculated with reference to a single class, frequently the class with the lowest fees and often not even marketed in Italy, thereby preventing all investors, for example, subscribers of the last classes, from forming a sound opinion of the profitability of the investment.

This latter circumstance confirms the lack of sensibility shown by the various management firms/SICAVs towards ensuring the full transparency and comparability of the characteristics associated with the classes of a single fund.

Lastly, attention should be drawn to the following statements contained in the offering documentation of the various UCITS: *"…The managers may decide to create different share classes within each sub-fund (…) distinguished by a specific fee structure, a currency of denomination, and other specific characteristics…"*.

This circumstance leads to particularly acute shortcomings in relation to the fact that, on the one hand, the creation of different class types translates into the creation of different methods of investor participation in the same fund/SICAV, and on the other, division into classes may result in changes to the fund's yield profile, and, even more importantly, in some cases, to the fund's risk profile.

The following statement also raises a number of questions: *" ...class C is characterised by a subscription fee of a maximum of 6%...".* The above clause, inasmuch as it does not set any objective criteria for changes to the amount of subscription, translates into "leverage" for the distribution network, which has full discretion to engage in disparate treatment of subscribers of the same class, for example by further subdividing the same class according to the "bargaining power" of the counterparty or the established practice for that particular geographic area (for example, waiving the subscription fee).

Considering the significance and widespread nature of the class phenomenon in the Member States of the European Union, it seems entirely legitimate to hope that regulatory action will put an end to both the considerable information deficits discussed in the foregoing paragraphs and to the discrepancy between the methods used by the various UCITS to describe their characteristics.

7. CLASS TYPES THAT AFFECT THE "FEE STRUCTURE" OF THE UCITS: COST ANALYSIS AND SHORTCOMINGS

With regard to class types that affect the fee structure of the UCITS[24], it was deemed important to assess the performance over time of the costs borne by the investor in relation to the subscription for said classes.

The purpose of this analysis was to evaluate whether industry practice, in defining the various class types, had created fee structures that are "consistent" with their characteristics and, consequently, sufficient to justify the differing treatment (in terms of fee expenses) of the subscribers of the same fund/SICAV.

Before delving into a detailed analysis of the above assessments, it should be emphasised that the definition of "fee structure" includes only those fees that are associated with the investment, that is to say, fees that must be paid, directly or indirectly, by subscribers solely by virtue of the their participation in the investment.

For this reason, fixed expenses (e.g., for correspondent bank services) and expenses related to the occurrence of events (e.g. performance or incentive fees) were excluded.

[24] The reader is reminded that this category includes:

- classes differentiated by "conditions" of fee payment;

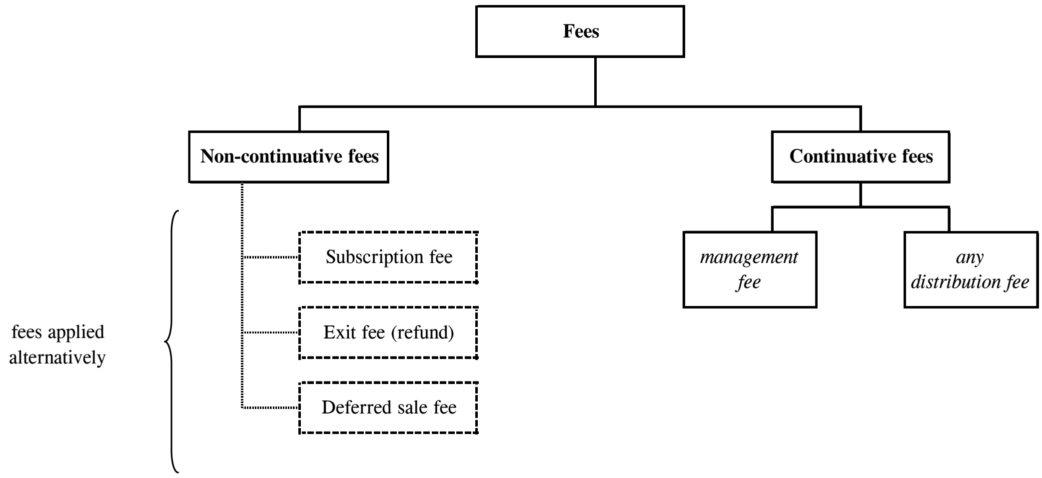
- classes differentiated by distribution channel;

- classes differentiated by investor category;

- classes differentiated by investment threshold;

- combinations of classes: classes differentiated by "conditions" of fee payment and investment thresholds.

The following chart depicts the fees that were considered in the present analysis:



This chart permitted the representation of the development of the cost structures of the individual classes of each UCITS over time in order to assess the existence of "dominance" phenomena.

Out of consideration for the foregoing, it should be clarified that in the charts produced in the following paragraphs:

- the intercept of the lines represents the point at which non-ongoing fees equal the subscription fee, exit fee, or deferred sales fee[25].

  It should be clarified that the deferred sales fees are represented in the graphs by a broken line depicting the various hypotheses associated with the subscriber's disinvestment options.

  In this connection, it should be emphasised that the indication of subscription fees in terms of a "maximum" charge (*subscription fee of a maximum of 6%*) may lead to different intercepts of the various lines according to the actual determination of said fees by the distributor. That said, it should be stressed that subscription fees were considered at their maximum value in the following graphs.

- The angular coefficient of the lines, on the other hand, is determined by the ongoing fees and is equal to the sum of management fees and any applicable distribution fees.

[25] Deferred sales fees are offered in lieu of subscription or redemption fees and are characterised by decreasing in amount in proportion to the number of years of investment in the fund until reaching zero(typically around the fifth year). Said fees are consequently applied only if the investor should decide to disinvest prior to said period.

In the interest of simplicity of presentation, it should be clarified that when there are differing management fees for the same category, said fees have been depicted either by two lines representing the minimum value (e.g., *class A min*) and maximum value (e.g., *class A max*) for said charges, or by a single line representing the average charges (e.g., *class A avg.*).

- The returns achieved over time by the various sub-funds were assumed to be equal to zero.

Lastly, it should be clarified that, in the interest of increasing the value of the results of the analysis, the various sub-funds were sub-divided by investment policy into the following categories:

- equities;
- bonds;
- balanced and flexible;
- liquidity[26].

7.1 Analysis of classes differentiated by "conditions" of fee payment

It is of fundamental importance to this class type that the holding period of the sub-fund, i.e. the length of time for which the investment is recommended, be consistent with the fee structure of the classes.

In other words, the comparative expedience of two classes ought to "reverse" (what is known as the "break-even point") at around half-way along the sub-fund's holding period. Otherwise, the company would be offering a class that is more expensive during the holding period recommended to the investor, which would contradict the assumptions underlying the definition of said class.

Consequently, the aforementioned analysis was conducted using the following holding periods for the various sub-fund categories:

[26] In this connection, it should be emphasised that a considerable portion of the UCITS under analysis only market some of the above sub-fund categories.

Category	Holding period	Expected Break- even
EQUITY	4 - 8 years	2 - 4 years
BOND	3 - 7 years	1,5 - 3,5 years
BALANCED and FLEXIBLE	4 - 8 years	2 - 4 years
LIQUIDITY	0,5 - 1,5 years	0,25 - 0,75 years

Taking the equities category as an example (holding period between 4 and 8 years), it emerges from the table that, in order for the investment holding period and the fee structure of the various classes to be consistent, that the expedience of investing in one class or another be reversed over a range spanning approximately from the 2nd to the 4th year.

Moving on to review the overall results of the analysis, two separate types of shortcoming come to light:

- some sub-fund categories have no break-even points between the available classes. This fact demonstrates that some classes are always more onerous than others, regardless of the holding period;
- some sub-fund categories have break-even points that are not consistent with the holding period recommended for the individual sub-fund.

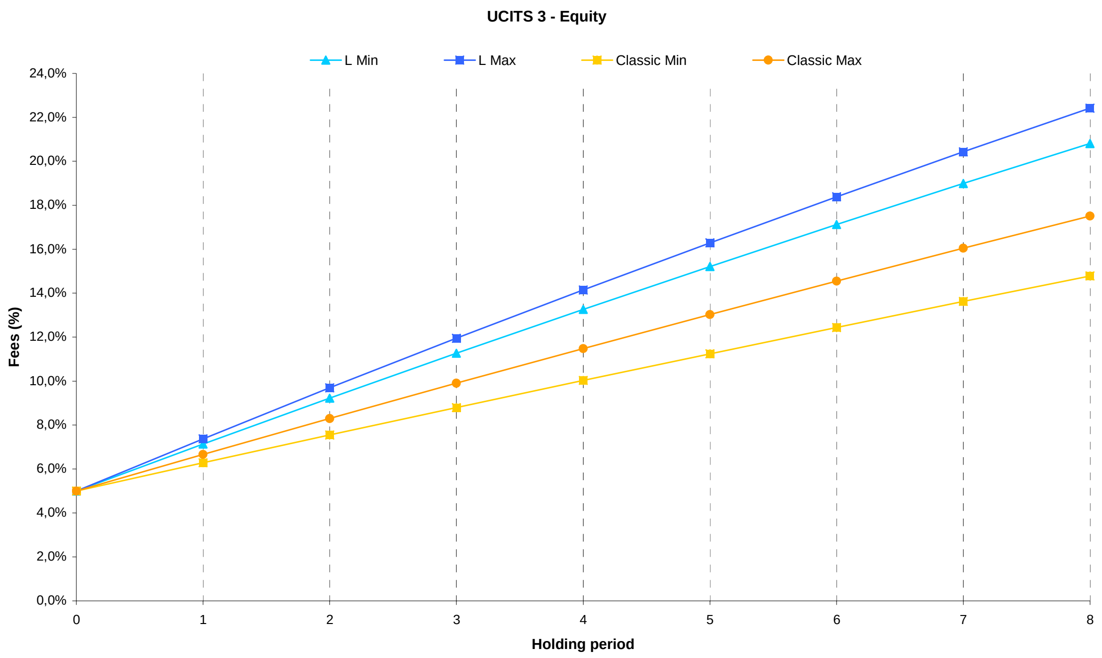
The following table contains a summary of the above shortcomings, which came to light through the graphical analysis as discussed above, for each UCITS:

Tab. 19 - Classes differentiated by fee payment "conditions"					
UCITS	*Category*	*Number Sub-funds per category*	*Number classes per category*	*Denomination class*	*Level of criticality*
UCITS 2	Equity	1	2	A - C	***NONE (break-even = 2,5 anni)***
	Balanced and flexible	16			***NONE (break-even = 4 anni)***
UCITS 3	Equity	34	2	Classic - L	***HIGH (no break-even: dominance of class L over class Classic)***
	Bonds	23			***HIGH (break-even ≥ 10 years)***
	Balanced and flexible	4			***HIGH (no break-even: dominance of class L over class Classic)***
	Liquidity	8			***HIGH (no break-even: dominance of class L over class Classic)***
UCITS 4	Equity	35	2	A - N	***MEDIUM (break-even = 5 years)***
	Bonds	12			***MEDIUM (break-even = 5 years)***
	Balanced and flexible	3			***MEDIUM - HIGH (break-even = 6 years)***
	Liquidity	2			***HIGH (break-even = 5 years)***
UCITS 5	Equity	19	2	A - E	***NONE (break-even = 3 years)***
	Bonds	6			***MEDIUM (break-even = 5 years)***
	Balanced and flexible	2			***NONE (break-even = 2 years)***
	Liquidity	2			***HIGH (no break-even: dominance of class E over class A)***
UCITS 6	Equity	21	2	L - S	***MEDIUM - HIGH (break-even = 6 years)***
	Bonds	9			***HIGH (break-even ≥ 10 years)***
	Balanced and flexible	2			***HIGH (break-even ≥ 10 years)***
	Liquidity	2			***HIGH (no break-even: dominance of class L over class S)***

By way of example, the graphical analysis of the costs associated with the subscription of shares of UCITS 3 and UCITS 6 is produced below.

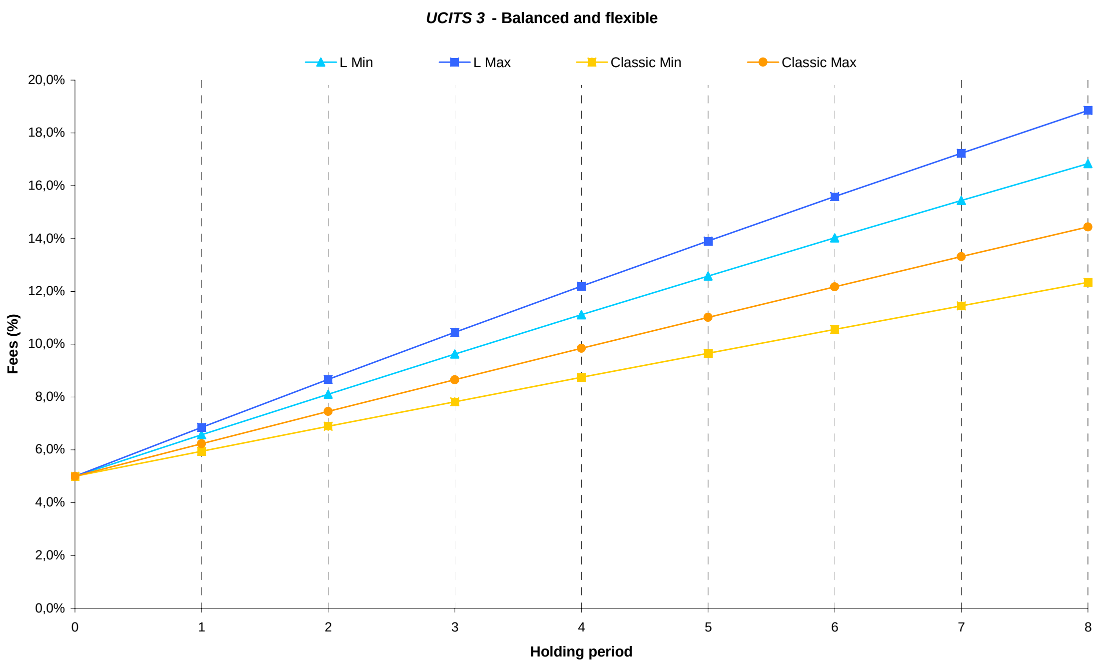
UCITS 3

Category	**Class**	**Max subscription fee**	**Max management fee**	**Min management fee**	**Max exit fee**	**Max distribution fee**
EQUITY	Classic	5,00%	1,75%	1,35%	-	-
	L	-	1,75%	1,50%	5,00%	0,75%



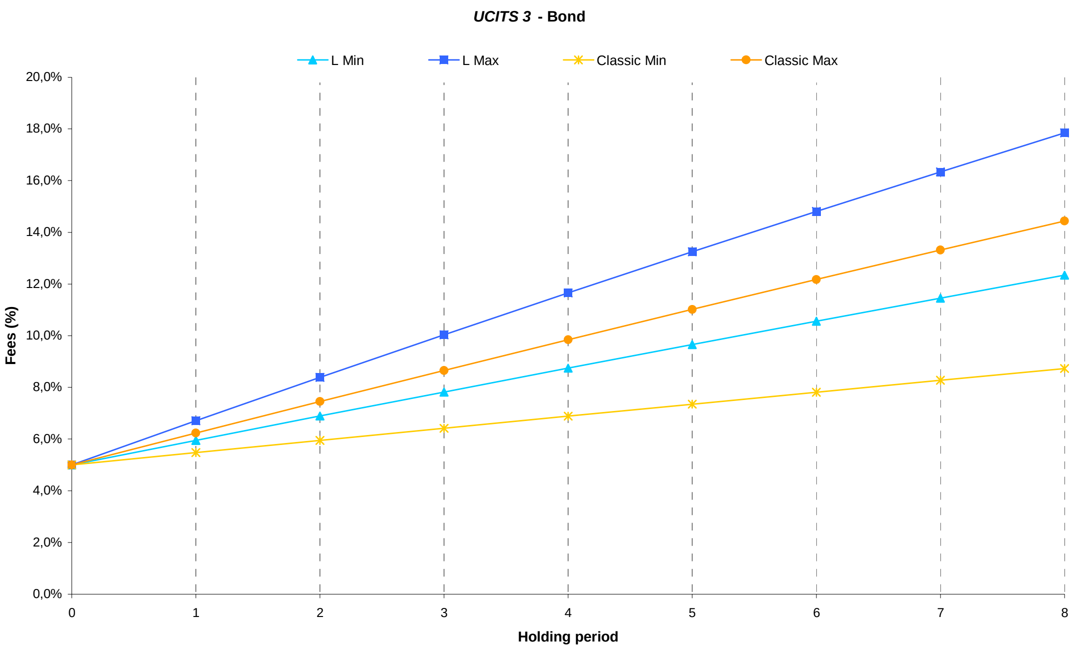
No break-even point (dominance of class L over class Classic)

Category	Class	Max subscription fee	Max management fee	Min management fee	Max exit fee	Max distribution fee
BALANCED AND FLEXIBLE	Classic	5,00%	1,30%	1,00%	-	-
	L	-	1,30%	1,00%	5,00%	0,65%



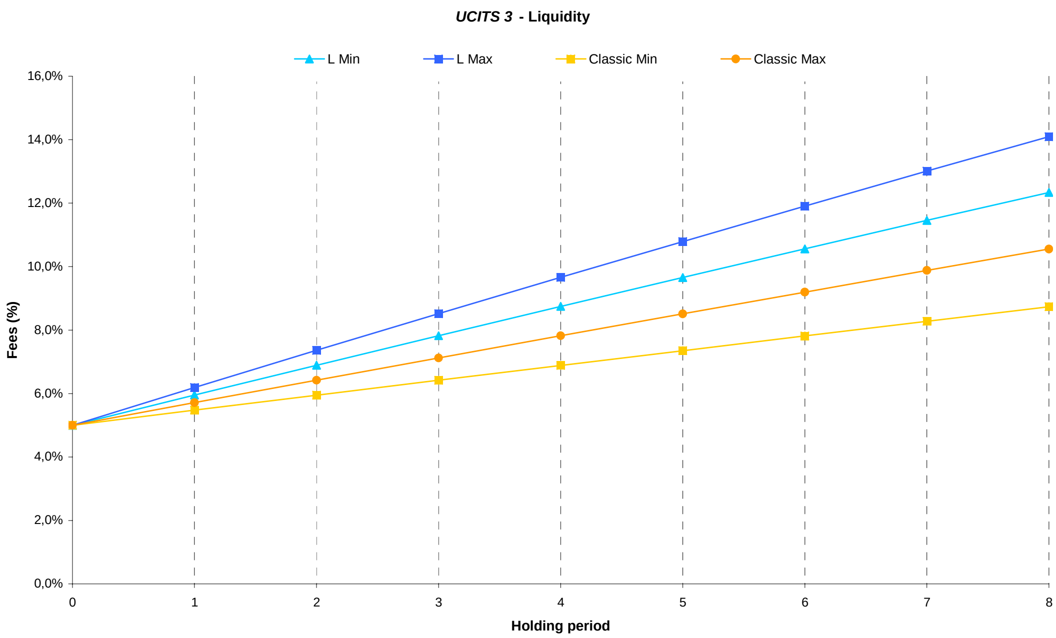
No break-even point (dominance of class L over class Classic)

Category	Class	Max subscription fee	Max management fee	Min management fee	Max exit fee	Max distribution fee
BOND	Classic	5,00%	1,30%	0,50%	-	-
	L	-	1,30%	0,50%	5,00%	0,50%



Break-even point ≥ 10 years

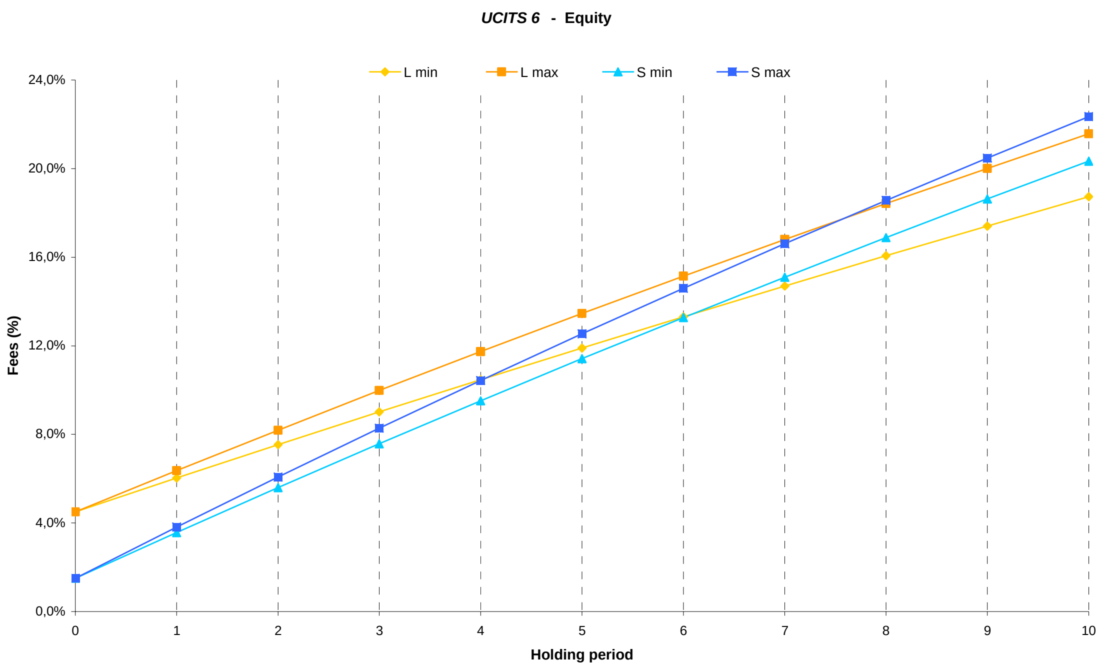
Category	Class	Max subscription fee	Max management fee	Min management fee	Max exit fee	Max distribution fee
LIQUIDITY	Classic	5,00%	0,75%	0,50%	-	-
	L	-	0,75%	0,50%	5,00%	0,50%



No break-even point (dominance of class L over class Classic)

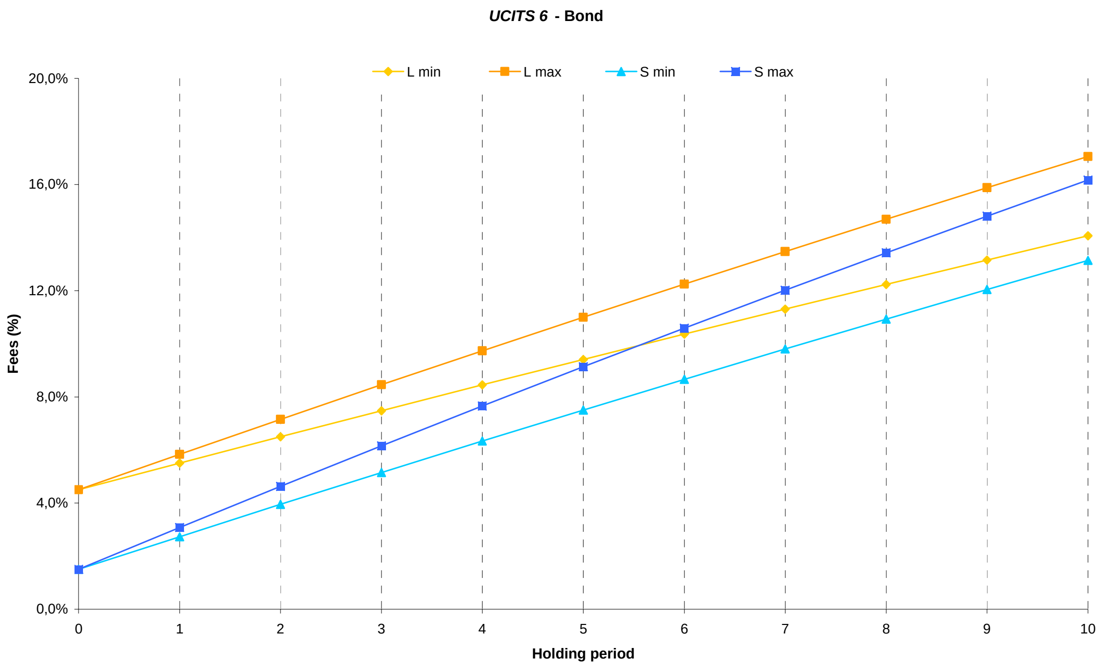
UCITS 6

Category	Class	Max subscription fee	Max management fee	Min management fee
EQUITY	L	4,50%	1,95%	1,60%
	S	1,50%	2,35%	2,10%



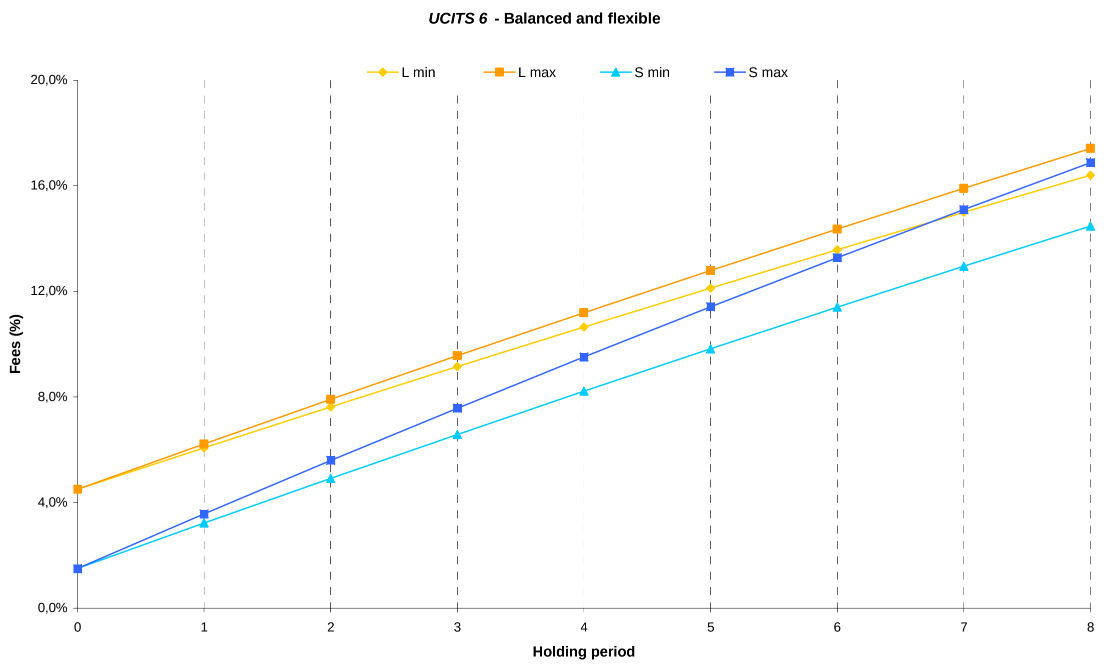
Break-even point = 6 years

Category	Class	Max subscription fee	Max management fee	Min management fee
BOND	L	4,50%	1,40%	1,05%
	S	1,50%	1,60%	1,25%



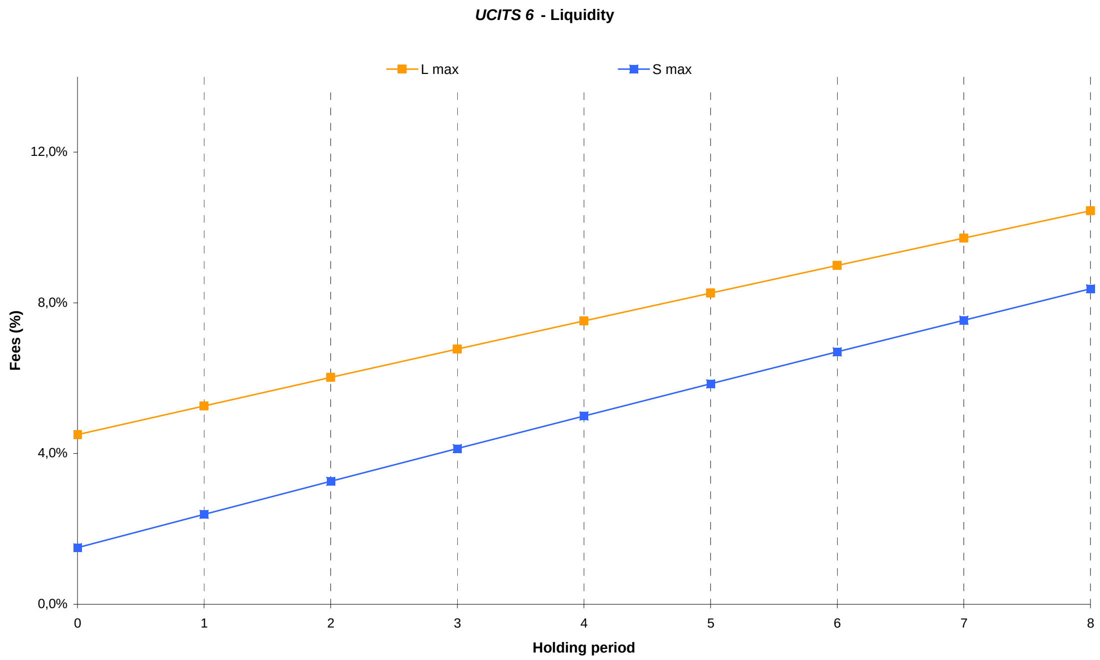
Break-even point ≥ 10 years

Category	Class	Max subscription fee	Max management fee	Min management fee
BALANCED AND FLEXIBLE	L	4,50%	1,80%	1,65%
	S	1,50%	2,10%	1,75%



Break-even point ≥ 10 years

Category	Class	Max subscription fee	Max management fee
LIQUIDITY	L	4,50%	0,80%
	S	1,50%	0,90%



No break-even point (dominance of class L over class S)

7.2 ANALYSIS OF CLASSES DIFFERENTIATED BY INVESTMENT THRESHOLD

It is of fundamental importance for this class type there is an inverse correlation between the fee schedule established for the various classes and the amount subscribed by the investor.

That is to say, the difference between the fees associated with the classes ought in theory to “fall” as the amount subscribed by the investor rises, regardless of the holding period of the investment.

The purpose of this analysis was consequently to emphasise the “higher” fee level and thus the “dominance” of classes with lower subscription amounts over any investment holding period.

A review of the overall results points to the following deficiency:

- some sub-fund categories have break-even points even though the classes are associated with different subscription amounts.

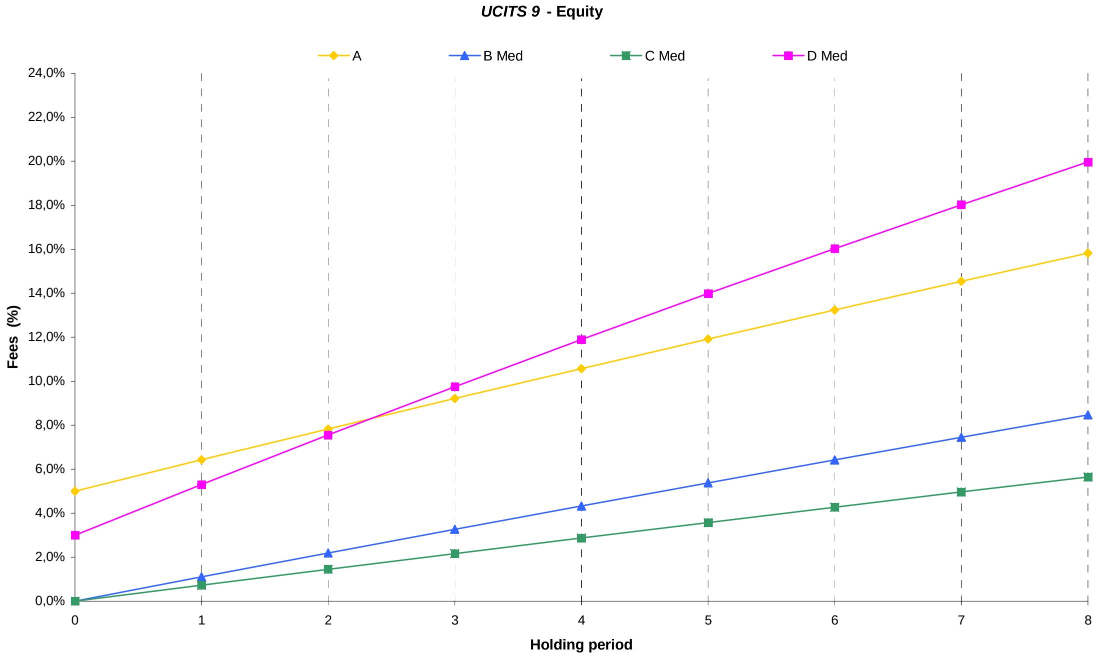
The following table contains a summary of the above deficiencies, which came to light through the graphical analysis as discussed above, for each UCITS:

Tab. 20 - Classes differentiated by investment thresholds					
UCITS	***Category***	***Number Sub-funds per category***	***Number classes per category***	***Denomination class***	***Level of criticality***
UCITS 7	Equity	17	2	A - B	***NONE***
	Bonds	6			***NONE***
UCITS 8	Balanced and flexible	3	2	A - C	***HIGH (break-even ≥ 10 years)***
UCITS 9	Equity	47	6	A Acc. - A Distr. - B Acc. - C Acc. - D Acc. X Acc	***HIGH [break-even (class A - class B) = 2,5 years]; other classes: OK***
	Bonds	8			***HIGH [break-even (class A - class B) = 1 year]; other classes: OK***
	Balanced and flexible	2			***HIGH [break-even (class A - class B) = 4,5 years]; other classes: OK***

By way of example, the graphical analysis of the costs associated with the subscription of shares of *UCITS 9* is produced below.

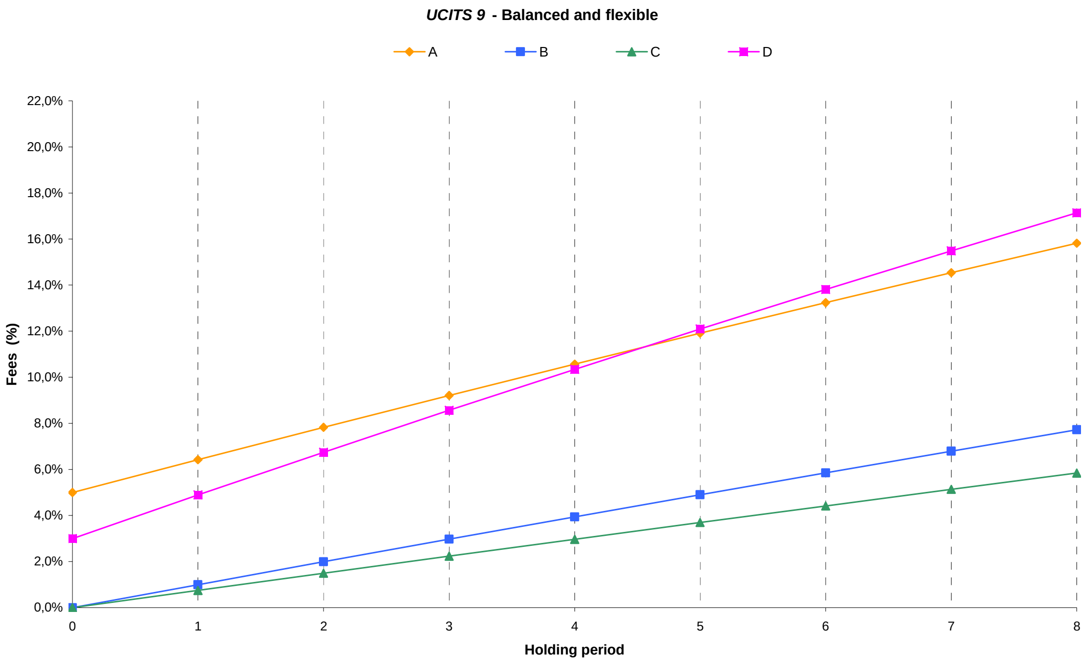
UCITS 9

Category	**Class**	**Minimum subscription amount (€)**	**Max subscription fee**	**Max management fee**	**Min management fee**
EQUITY	A	25.000	5,00%	1,50%	1,50%
	B	5.000.000	-	1,25%	0,95%
	C	10.000.000	-	0,85%	0,60%
	D	5.000	3,00%	2,50%	2,25%



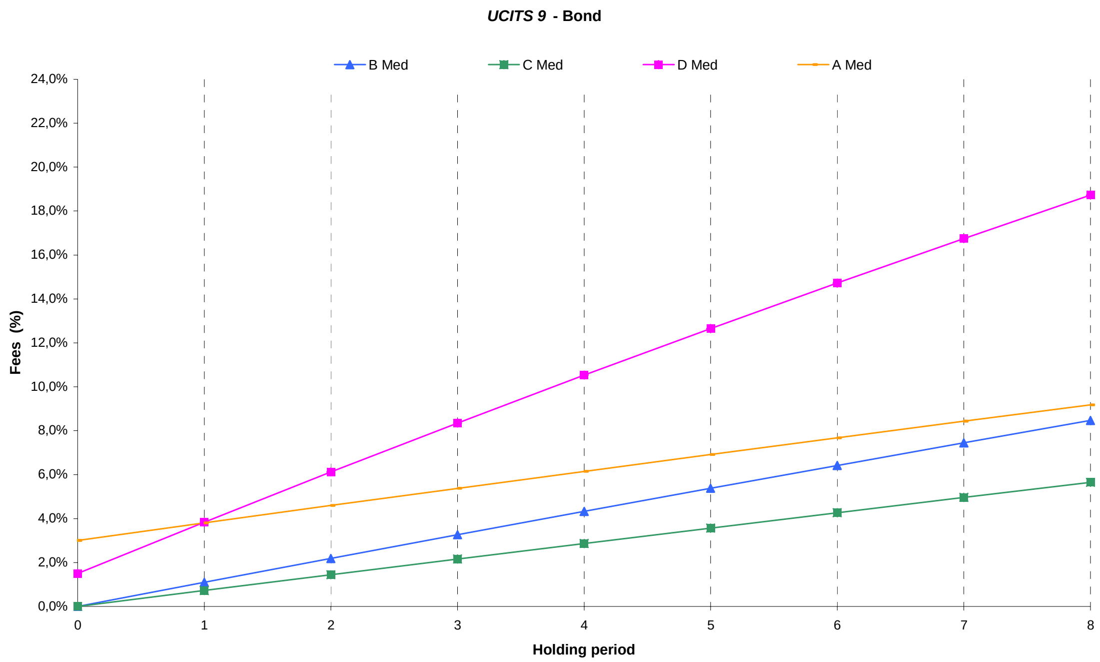
Break-even point (class A – class D) = 2.5 years; other classes: OK

Category	Class	Minimum subscription amount (€)	Max subscription fee	Max management fee	Min management fee
BALANCED AND FLEXIBLE	A	25.000	5,00%	1,50%	1,45%
	B	5.000.000	-	1,00%	0,90%
	C	10.000.000	-	0,75%	0,75%
	D	5.000	3,00%	1,95%	1,95%



Break-even point (class A – class D) = 4,5 years; other classes: OK

Category	Class	Minimum subscription amount (€)	Max subscription fee	Max management fee	Min management fee
BOND	A	25.000	3,00%	1,25%	0,40%
	B	5.000.000	-	1,00%	0,60%
	C	10.000.000	-	0,75%	0,15%
	D	5.000	1,50%	1,85%	0,50%



Break-even point (class A – class D) = 1 year; other classes: OK

7.3 ANALYSIS OF CLASSES DIFFERENTIATED BY DISTRIBUTION CHANNEL

In the light of the significant shortcomings that emerged from the assessment of disclosure for this class type, it will be useful to examine the performance of the costs associated with the various classes over time as part of a discussion of the "utility" of said classes.

Moving on to review the overall results of the analysis, two separate types of peculiarities come to light:

- *the classes reserved for certain distributors* (hereinafter "reserved classes"), with the exception of *UCITS 2* and the liquidity sub-fund of *UCITS 11*, are generally characterised by a less-onerous fee structures for holding periods of less than 6 years. In other words, it is more expedient for the investor to subscribe for said classes for a holding period of less than six years.
- in the cases of *UCITS 12* and the liquidity sub-fund of *UCITS 11*, on the other hand, the "reserved" classes are "dominant" over the others. In other words, it is never expedient for the investor to subscribe for said classes.

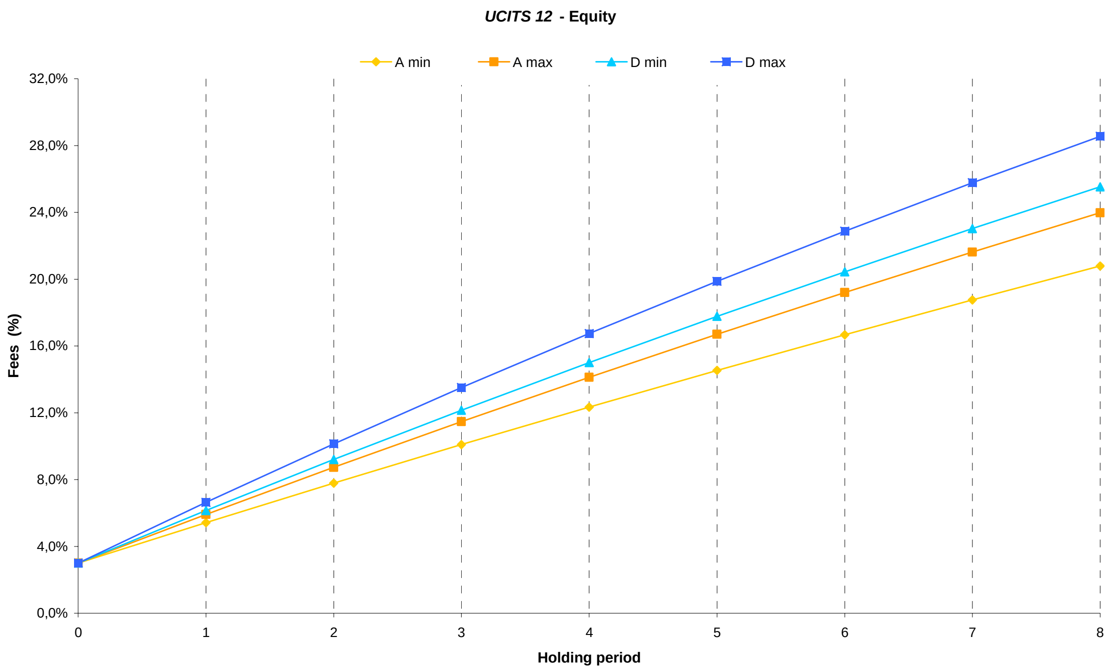
The following table contains a summary of the above peculiarities, which came to light through the graphical analysis as discussed above, for each UCITS:

Tab. 21 - Classes differentiated by distribution channel					
UCITS	***Category***	***Number Sub-funds per category***	***Number classes per category***	***Denomination class***	***Level of criticality***
UCITS 10	Equity	27	2	C - N	***HIGH (break-even = 6 years)***
UCITS 11	Equity	35	3	A - B - E	***MEDIUM [break-even (class B - class E) = 6 years; break-even (class B - class A) = 5 years; break-even (class A - class E) = 4 years]***
	Bonds	15			***HIGH [break-even (class B - class E) = 6 years; break-even (class B - class A) = 5 years; break-even (class A - class E) = 4 years]***
	Balanced and flexible	5			***MEDIUM [break-even (class B - class E) = 6 years; break-even (class B - class A) = 5 years; break-even (class A - class E) = 4 years]***
	Liquidity	3			***HIGH (no break-even: dominance of class E over class A and B)***
UCITS 12	Equity	34	2	A - D	***HIGH (no break-even: dominance of class D over class A)***
	Bonds	17			***HIGH (no break-even: dominance of class D over class A)***
	Liquidity	2			***HIGH (no break-even: dominance of class D over class A)***
UCITS 13	Equity	52	2	A Distr. - E Acc.	***HIGH (break-even = 7 years)***
	Bonds	8			***HIGH (break-even ≥ 10 years)***
UCITS 14	Equity	34	2	A - E	***MEDIUM (break-even = 5 years)***
	Bonds	12			***HIGH (break-even = 8,5 years)***
UCITS 15	Equity	27	2	E - F	***HIGH (break-even = 6,5 years)***
	Bonds	25			***HIGH (break-even ≥ 9 years)***
	Balanced and flexible	4			***NONE (break-even = 3,5 years)***

By way of example, the graphical analysis of the costs associated with the subscription of shares of *UCITS 12*, *UCITS 13* and *UCITS 14* is produced below.

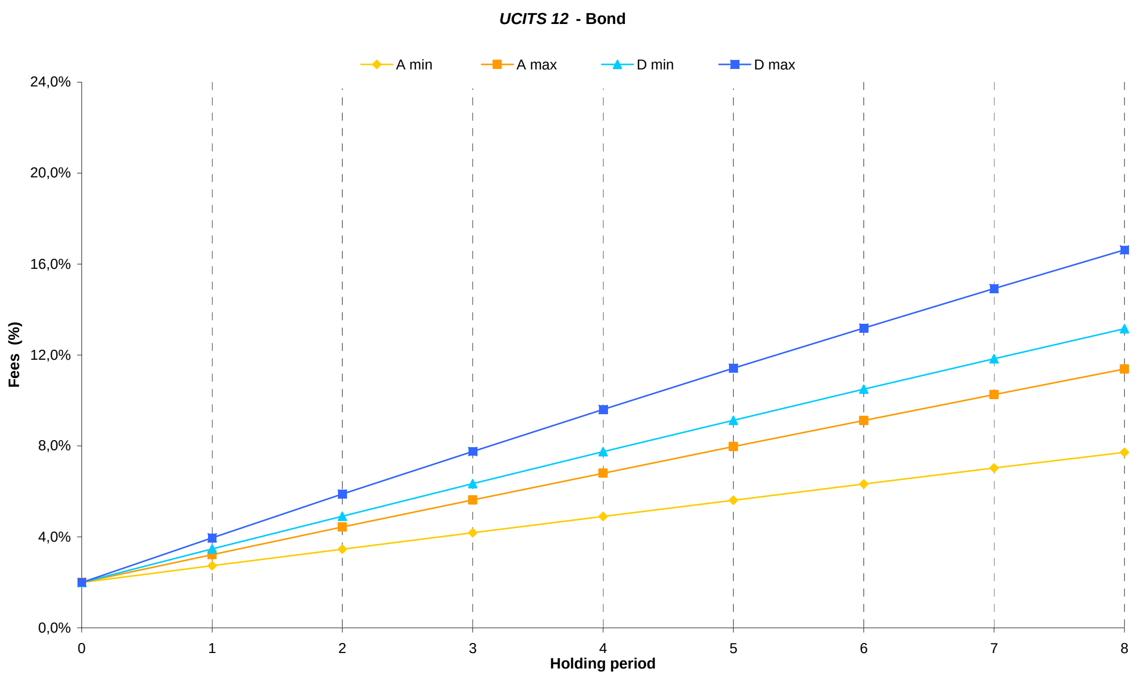
UCITS 12

Category	**Class**	**Max subscription fee**	**Max management fee**	**Min management fee**	**Max distribution fee**
EQUITY	A	3,00%	2,00%	1,50%	-
	D	3,00%	2,00%	1,50%	0,75%



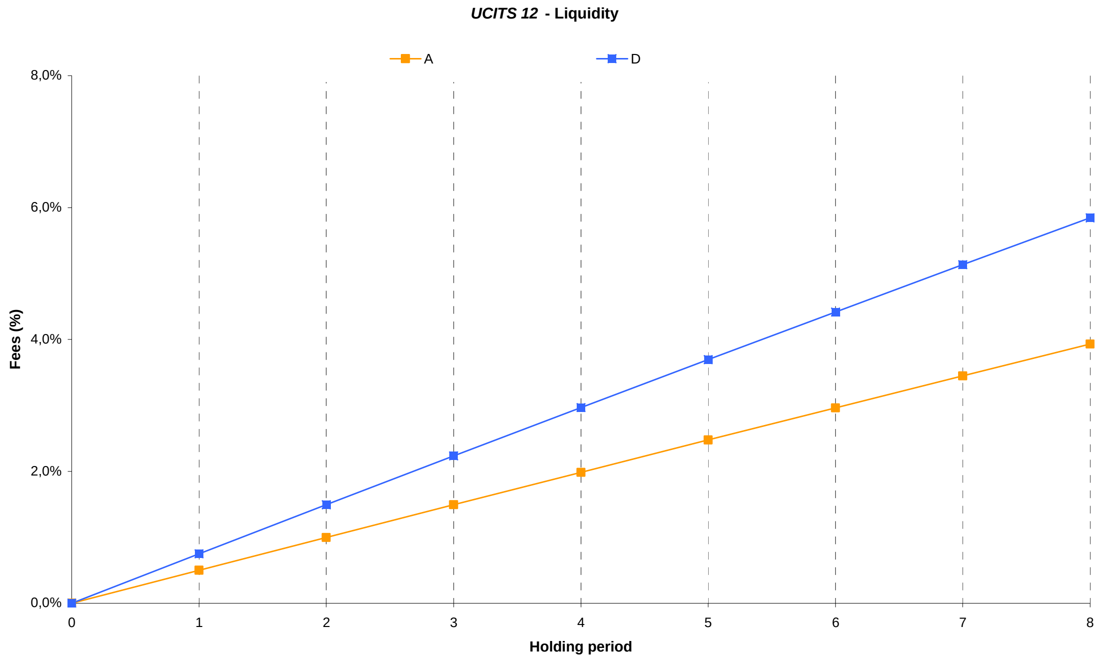
No break-even point (dominance of class D over class A)

Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
BOND	A	2,00%	1,25%	0,75%	-
	D	2,00%	1,25%	0,75%	0,75%



No break-even point (dominance of class D over class A)

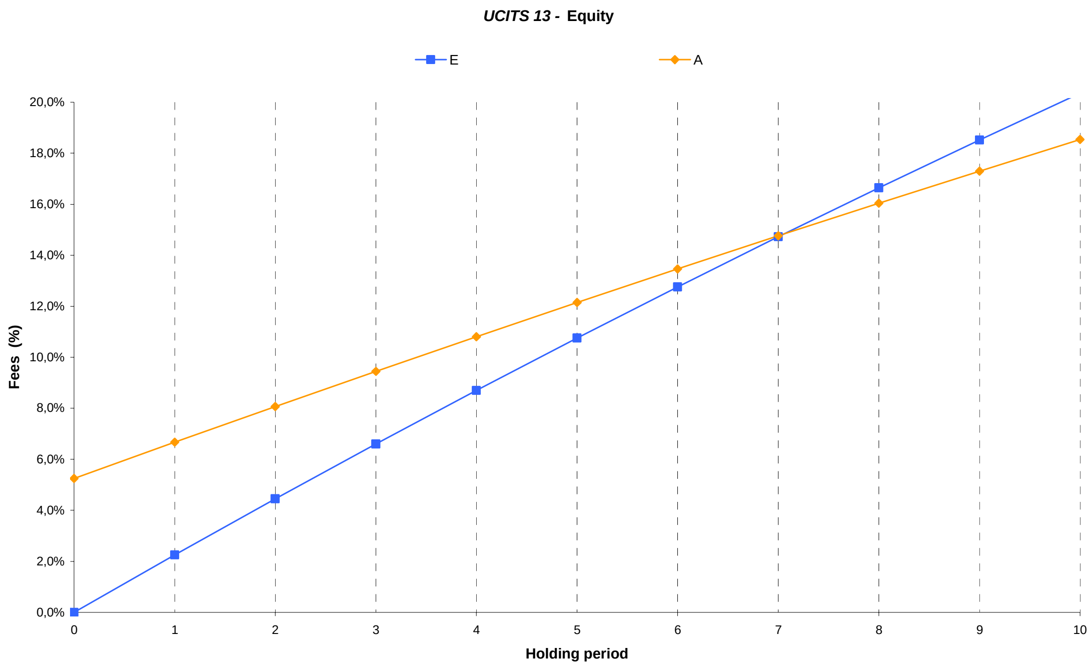
Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
LIQUIDITY	A	-	0,50%	0,50%	-
	D	-	0,50%	0,50%	0,25%



No break-even point (dominance of class D over class A)

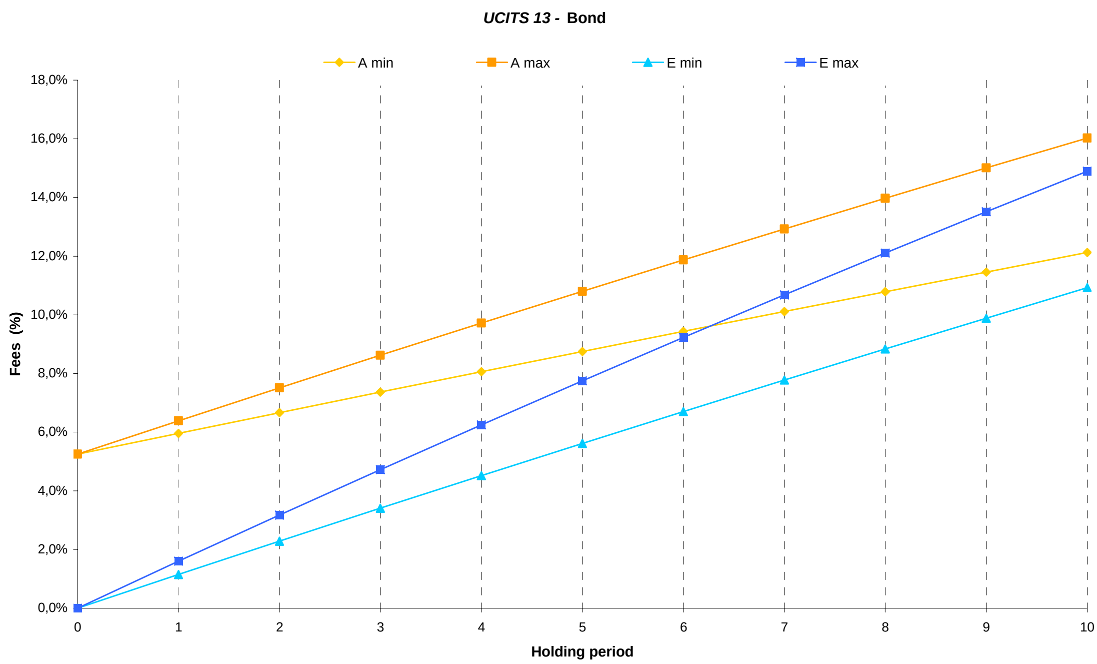
UCITS 13

Category	Class	Max subscription fee	Max management fee	Max distribution fee
EQUITY	A	5,25%	1,50%	-
	E	-	1,50%	0,75%



Break-even point = 7 years

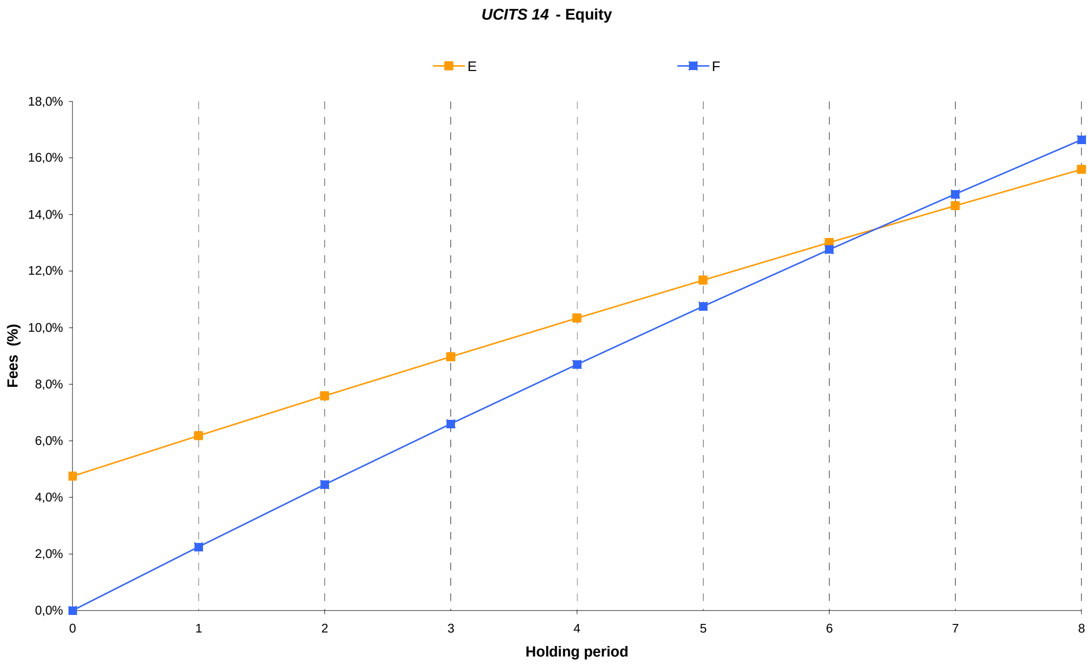
Category	Class	Max subscription fee	Max management fee	Max management fee	Max distribution fee
BOND	A	5,25%	1,20%	0,75%	-
	E	-	1,20%	0,75%	0,40%



Break-even point ≥ 10 years

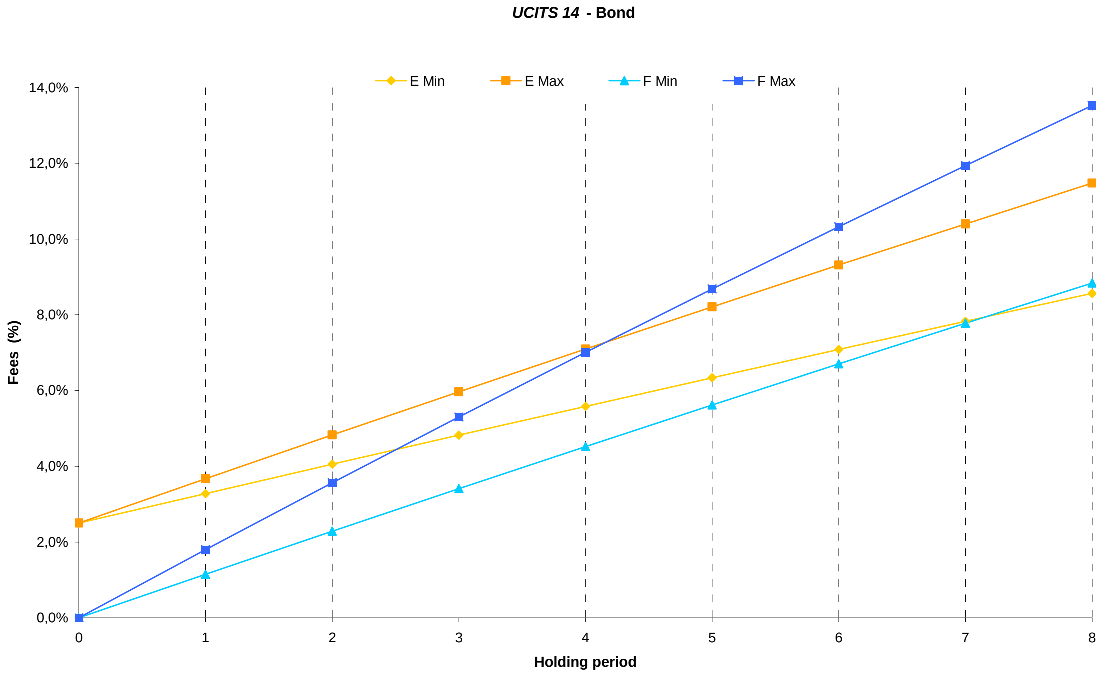
UCITS 14

Category	Class	Max subscription fee	Max management fee	Min management fee
EQUITY	E	4,75%	1,50%	1,50%
	F	-	2,25%	2,25%



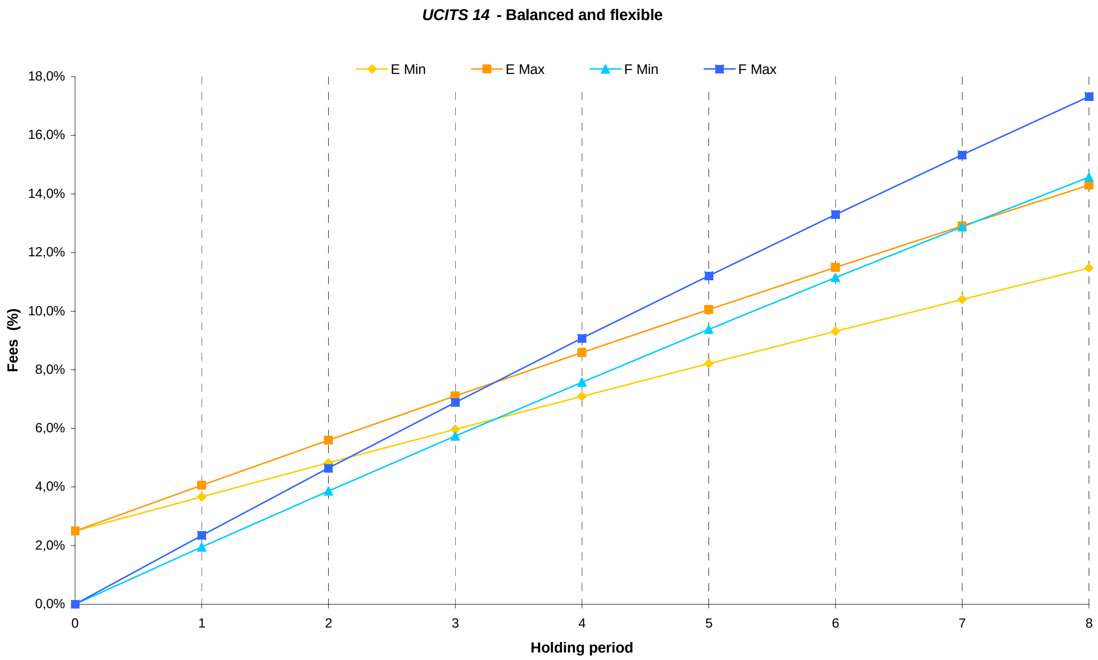
Break-even point = 6,5 years

Category	Class	Max subscription fee	Max management fee	Min management fee
BOND	E	2,50%	1,20%	0,80%
	F	-	1,80%	1,15%



Break-even point ≥ 9,5 years

Category	Class	Max subscription fee	Max management fee	Min management fee
BALANCED AND FLEXIBLE	E	2,50%	1,60%	1,20%
	F	-	2,35%	1,95%



Break-even point = 3,5 years

7.4 *ANALYSIS OF CLASSES DIFFERENTIATED BY INVESTMENT CATEGORY*

It is important to establish that this class type is associated with a "less onerous" fee level for institutional investors than for retail investors.

The analysis was therefore conducted in order to measure the performance of the fee structures defined for the various class types over a given time period.

The analysis confirmed the aforementioned association and consequently did not point to any shortcomings, as summarised in the following table.

Tab. 22 - Classes differentiated by investor category					
UCITS	*Category*	*Number Sub-funds per category*	*Number classes per category*	*Denomination class*	*Level of criticality*
UCITS 1	Equity	13	4	A Acc. - A Distr.- B Acc. - B Distr.	*NONE*
	Bonds	5			
	Balanced and flexible	1			
	Liquidity	2			

7.5 *ANALYSIS OF COMBINATIONS OF CLASSES: CLASSES DIFFERENTIATED BY "CONDITIONS" OF FEE PAYMENT AND INVESTMENT THRESHOLDS.*

The same considerations set forth in the foregoing paragraphs (see paragraphs 7.1 and 7.2) also apply to this class type.

Moving on to review the overall results of the analysis, two separate types of shortcomings come to light:

1. in relation to classes differentiated by "conditions" of fee payment:
   - some sub-fund categories have no break-even points between the available classes. This fact demonstrates that some classes are always more expensive than others, regardless of the holding period;
   - some sub-fund categories have break-even points that are not consistent with the holding period recommended for the individual sub-fund.
2. in relation to classes differentiated by investment threshold:
   - some sub-fund categories have break-even points with classes differentiated by "conditions" of fee payment. This fact, which came to light in the cases of *UCITS 19* and *UCITS 17* does not demonstrate that said classes have higher fees than the other class type, regardless of the investment holding period.

The following table contains a summary of the above shortcomings for each UCITS:

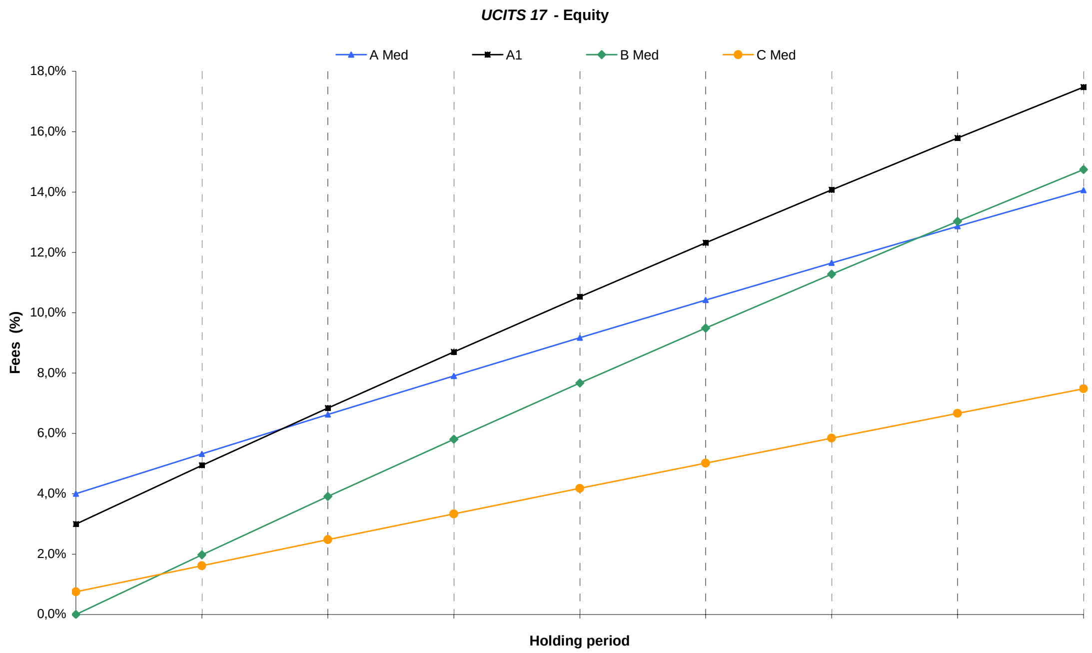
Tab. 23 - Combination of classes: Classes differentiated by fee payment "conditions" and investment thresholds					
UCITS	***Category***	***Number Sub-funds per category***	***Number classes per category***	***Denomination class***	***Level of criticality***
UCITS 16	Equity	19	3	FC - LC - NC	***HIGH [break-even (class LC - class NC) = 7 years]; other class: OK***
	Bonds	15			***HIGH [break-even (class LC - class NC) ≥ 10 years]; other class:OK***
	Balanced and flexible	2			***HIGH [break-even (class LC - class NC) = 8 years]; other class:OK***
	Liquidity	2	2	FC - NC	***NONE***
UCITS 17	Equity	39	4	A - A1 - B - C	***HIGH [break-even (class A - class A1) = 1,5 years; break-even (class A - class B) = 6,5 years; class A1 - class B: no break-even]; class C: OK***
	Bonds	15			***HIGH [break-even (class A - class A1) = 2 years; break-even (class A - class B) = 7,5 years; class A1 - class B: no break-even]; class C: OK***
	Balanced and flexible	1			***HIGH [break-even (class A - class A1) = 1,5 years; break-even (class A - class B) = 6,5 years; class A1 - class B: no break-even]; class C: OK***
	Liquidity	2			***HIGH [break-even (class A - class A1) = 2 years; class A - class B: no break-even; class A1 - class B: no break-even]; class C: OK***
UCITS 18	Equity	26	3	A - B - I	***LOW [break-even (class A - class B) = 4 years]; other class: OK***
	Bonds	10			***HIGH [no break-even: dominance of class B over class A]; class I: OK***
	Balanced and flexible	2			***MEDIUM [break-even (class A - class B) = 4,5 years]; class I: OK***
UCITS 19	Equity	30	3	A - F - P	***HIGH [break-even (class A - class F) = 3,5 years; break-even (class P - class F) = 2,5 years]***
	Bonds	17			***HIGH [break-even (class A - class F) = 4,5 years; break-even (class P - class F) = 3 years]***
	Liquidity	2	2	A - F	***HIGH (no break-even: dominance of class F over class A)***

By way of example, the graphical analysis of the costs associated with the subscription of shares of *UCITS 17* is produced below.

UCITS 17

Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
EQUITY	A	4,00%	1,50%	1,25%	-
	A1	3,00%	1,50%	1,50%	0,50%
	B	-	1,50%	1,25%	0,60%
	C*	0,75%	1,00%	0,75%	-

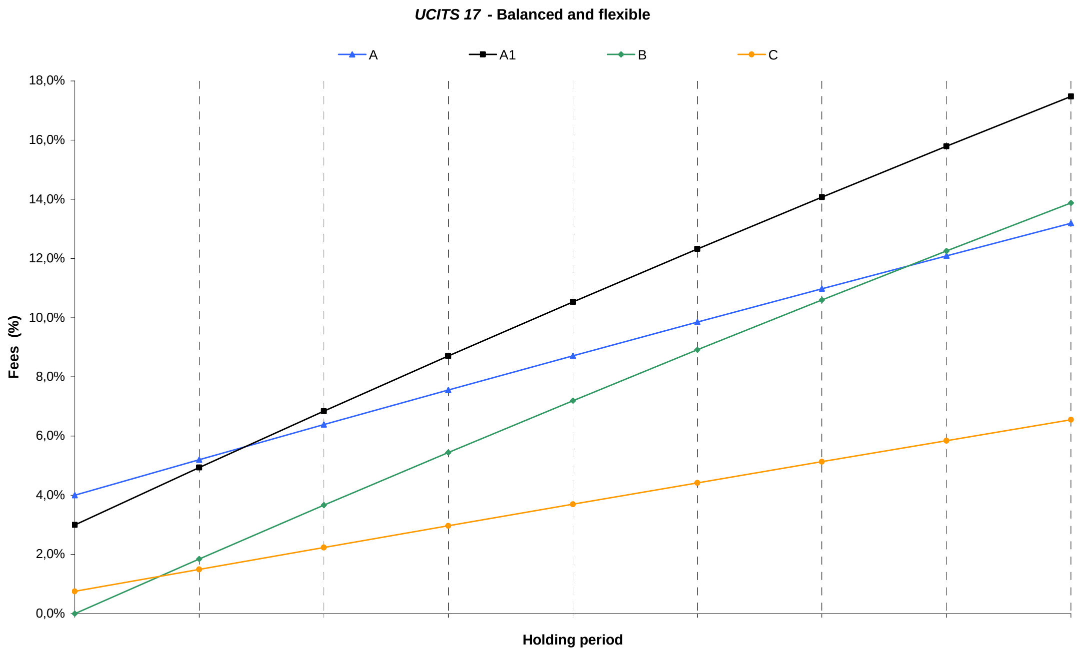
** Class with minimum subscription threshold*



Break-even point (class A – class A1) = 1.5 years; break-even point (class A – class B) = 6.5 years; class A1 - class B: no break-even point; break-even point (class C – class B) = 1 year

Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
BALANCED AND FLEXIBLE	A	4,00%	1,25%	1,25%	-
	A1	3,00%	1,50%	1,50%	0,50%
	B	-	1,25%	1,25%	0,60%
	C*	0,75%	0,75%	0,75%	-

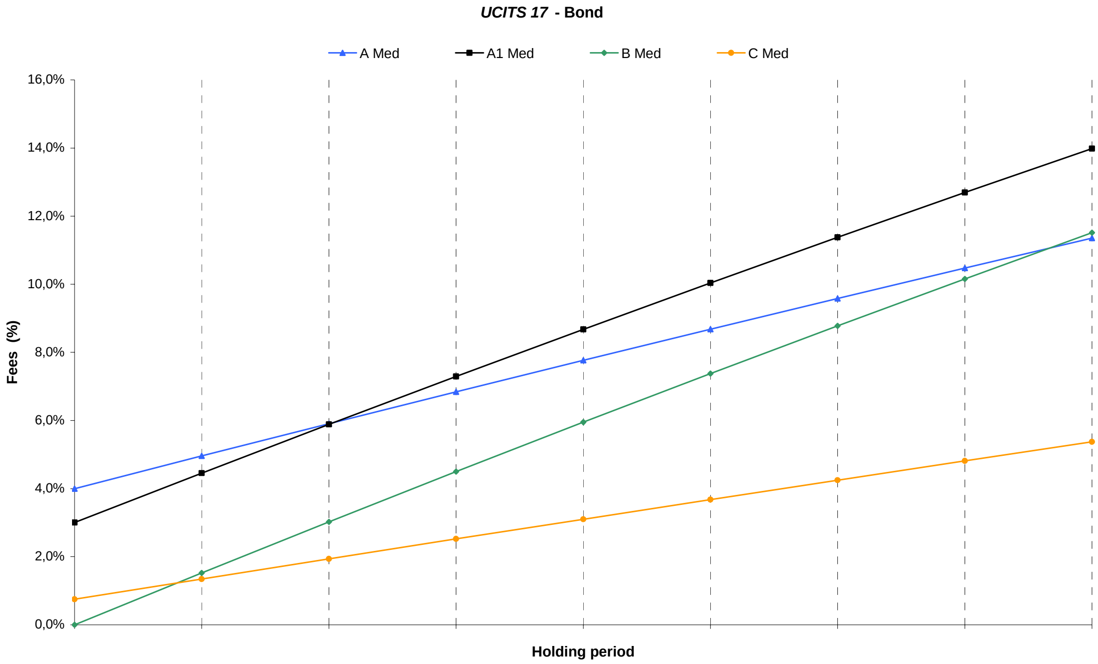
** Class with minimum subscription threshold*



Break-even point (class A – class A1) = 1.5 years; break-even point (class A – class B) = 6.5 years; class A1 - class B: no break-even point; break-even point (class C – class B) = 1 year

Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
BOND	A	4,00%	1,50%	0,50%	-
	A1	3,00%	1,50%	0,50%	0,50%
	B	-	1,50%	0,50%	0,55%
	C*	0,75%	1,00%	0,20%	-

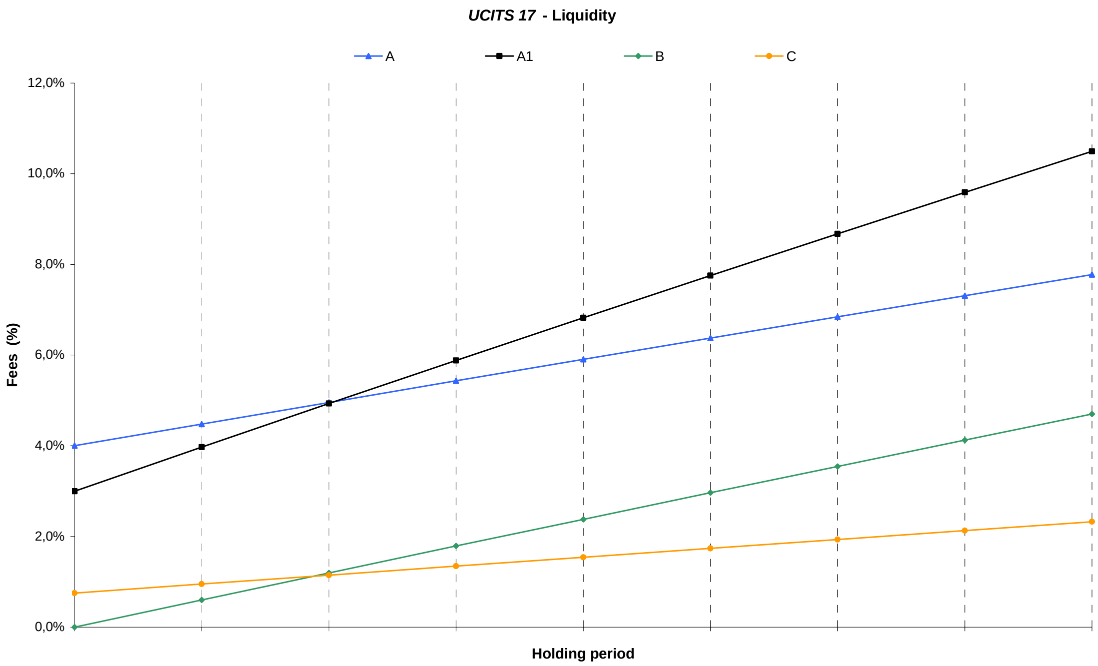
** Class with minimum subscription threshold*



Break-even point (class A – class A1) = 2 years; break-even point (class A – class B) = 7.5 years; class A1 - class B: no break-even point; break-even point (class C – class B) = 1 year

Category	Class	Max subscription fee	Max management fee	Min management fee	Max distribution fee
LIQUIDITY	A	4,00%	0,50%	0,50%	-
	A1	3,00%	0,50%	0,50%	0,50%
	B	-	0,50%	0,50%	0,10%
	C*	0,75%	0,20%	0,20%	-

** Class with minimum subscription threshold*



Break-even point (class A – class A1) = 2 years; class A - class B: no break-even point; class A1 – class B: no break-even point; break-even point (class C – class B) = 2 years

8. DISTRIBUTION NETWORKS: POSSIBLE SHORTCOMINGS

This paragraph contains a discussion of the results of the examination of the incentive systems presented in the offering documentation. Judging from these results, it does not seem that distributors are "impartial" in choosing to distribute certain classes of the same sub-fund instead of others, with the resulting negative consequences for correctness of behaviour.

A comparative examination of the fee structures associated with the various classes and the average percentage of fees remitted to the distributors (indicated in an appendix to the subscription form) resulted in the identification of various cases in which it is to the advantage of individual distributors to place the most "onerous" classes.

This effect is caused primarily by the fee remittance mechanism[27] and it is clear that classes with higher fees contribute to increasing the overall remuneration of the distributor, who is consequently not "impartial".

By way of example, the following tables show the average percent remitted to distributors who distribute shares/units of the following UCITS:

[27] Remittance agreements are understood to mean agreements entered into by the manager and the distributor under which the latter receives a percent share of the fees borne by the investor.

UCITS 12 (Equity):

Class	Subscription fee	% average subscription fee rebated to distributor	Management fee	% average management fee rebated to distributor	Distribution fee	% average distribution fee rebated to distributor
A	3,00%	**100%**	2,00%	**45%**	-	-
D	3,00%	**100%**	2,00%	**45%**	0,75%	**100%**

The above table clearly shows that the distributor, in absolute terms, has an interest in distributing class D, which has higher fees than class A over any holding period.

UCITS 4 (Balanced and flexible:

Class	Subscription fee	% average subscription fee rebated to distributor	Management fee	% average management fee rebated to distributor	Distribution fee	% average distribution fee rebated to distributor
A	6,50%	**100%**	0,85%	**25%**	-	
N	-	**-**	0,85%	**25%**	1,25%	**100%**

In the case represented above, the distributor has an interest in distributing class A (which has higher fees than class N for holding periods of less than six years[28]). The distributor's interest may not coincide with that of investors for holding periods of less than six years.

UCITS 6 (Equity)

Class	Subscription fee	% average subscription fee rebated to distributor	Management fee	% average management fee rebated to distributor
L	4,50%	**100%**	1,80%	**50%**
S	1,50%	**100%**	2,20%	**50%**

In the case represented above, the distributor has an interest in distributing class L (which has higher fees than class N for holding periods of less than seven years[29]).

[28] This period represents the break-even point, i.e. the point at which the economic expedience for the investor to subscribe for one class over another "switches".

[29] Cf. the previous note.

The distributor's interest may not coincide with that of investors for holding periods of less than seven years.

The cases discussed above clearly demonstrate that this sort of remuneration system is not "neutral" with respect to distributor's behaviour, who ought in theory to operate solely in the interest of investors and the market's integrity.

9. CONCLUSIONS

The analysis carried out on the classes of harmonised UCITS marketed in Italy highlighted relevant shortcomings in terms of transparency and correctness of behaviour of the UCITS. For that the use of classes should be anchored to objective criteria set up in the European regulation on UCITS.

Most of the shortcomings that emerged from the survey may be classified into three macro-areas:

1. ***disclosure shortcomings*** as to both the "completeness" and "comprehensibility" of information about classes;
2. ***operational shortcomings*** associated with the existence of various fee structures for the same UCITS not consistent with the characteristics of the classes;
3. ***behavioural shortcomings*** associated with the existence of "remittance agreements" under which distribution networks are offered incentives to distribute the classes with the highest fees.

Disclosure shortcomings

Two types of problems came to light in relation to the disclosure of information about class characteristics in the offering documentation:

- the ***completeness of information*** about classes, i.e. the degree of disclosure of class characteristics in the offering documentation;
- the ***comprehensibility*** of said information to the retail investor.

As concerns the first parameter, the analysis indicated significant information deficits regarding class characteristics. These deficits were of such an extent as to cast doubt on the very existence of the supposedly objective[30] criteria that ought to justify the creation of the classes themselves (along with the associated fee schedules)

[30] The lack of objective, transparent criteria underlying the division into classes is a specific circumstance that may result in a situation of non-compliance with the principle of parity of treatment of the intended recipients of offers set forth under article 95, subsection 1, paragraph c) of the consolidated law on finance and article 14, subsection 1, of Consob resolution no. 11971/99.

and, consequently, on the different ways in which the holders of units/shares of the same fund (but belonging to different classes) are treated.

Said shortcomings, as discussed in the foregoing paragraphs, are of particular significance for the following class types: *i) classes differentiated by distribution channel; ii) classes differentiated by income distribution policy, and iii) classes differentiated by the hedging of exchange-rate risk*[31].

As regards the degree of "comprehensibility" of the information about the classes—which may only be assessed where the requirement to provide complete information has been met—the analysis likewise indicated shortcomings due primarily to the difficulties encountered by investors in assessing the economic expedience of the various available classes.

As concerns this latter issue, it should be emphasised that:

- none of the various UCITS involved in the analysis made any reference to criteria that might "guide" the investor in interpreting and choosing among the various available classes;
- a considerable number of UCITS contained a description of the characteristics of the classes that was split up between various paragraphs[32] of the offering documentation and presented in such a way as not to permit a ready reconstruction of the characteristics of said classes.

Said shortcomings, as discussed in the foregoing paragraphs, are of particular significance for the following class types: *i) classes differentiated by "conditions" of fee payment and ii) combinations of classes: classes differentiated by "conditions" of fee payment and investment thresholds.*

In conclusion, it may be stated that, with the exception of *classes differentiated by investor category* and *classes differentiated by investment threshold*, asset management firms/SICAVs have shown limited sensitivity to the issue of presenting class characteristics in a fully transparent and comparable manner.

Operational shortcomings

The analysis of the performance over time of costs borne by the investor in relation to the subscription of the various classes showed that there are fee structures established for the same UCITS that are not "consistent" with the class characteristics.

The following is a summary of the most important shortcomings identified:

[31] It should be emphasised that this class type also includes those classes that grant the investor the option of subscribing shares/units of the SICAV/fund in currencies other than the benchmark currency, i.e. "*classes with the choice of various subscription currencies*" (cf. paragraph 5.2.1 above).

[32] Significant information shortcomings arise from the "discrepancy" between the methods used by the various UCITS to describe class characteristics.

- *Classes differentiated by conditions of fee payment*[33]: classes were observed characterised by: i) more onerous fee structures than others, regardless of the holding period of the investment; ii) break-even points that not "consistent" with the "holding period" recommended for the individual sub-fund.
- *Classes differentiated by investment threshold*[34]: classes were observed to have break-even points even though said classes are associated with different subscription amounts.
- *Combinations of classes:* classes were observed with the same shortcomings as mentioned above for *Classes differentiated by "conditions" of fee payment* and *Classes differentiated by investment thresholds*.
- *Classes differentiated by distribution channel*[35]*:* classes were observed characterised by: i) more onerous fee structures than others, regardless of the holding period of the investment[36]; ii) break-even points not "consistent" with the "holding period" recommended for the individual sub-fund.

As a consequence of the shortcomings discussed above, it may be stated that industry practice, in setting the fee structures for classes, has in fact invalidated the supposedly objective criteria that, were they to be set forth in the offering documentation, would justify the creation of classes with differentiated fee structures, and, consequently, the different ways in which the holders of units/shares of the same fund (but belonging to different classes) are treated.

Behavioural shortcomings

The analysis of the offering documentation for the UCITS forming the sample pointed to the existence of incentive systems due to which distributors are not

[33] The characteristic of this class type ought in theory to be the existence of classes with fee structures characterised by relationships, generally of inverse proportion, between various types of fees and the period of time for which the subscriber remains invested in the fund (known as the holding period). It therefore remains of fundamental importance that the holding period of the sub-fund, i.e. the length of time for which the investment is recommended, be consistent with the fee structure of the classes. In other words, the comparative expedience of two classes ought to "reverse" (what is known as the "break-even point") at around half-way along the sub-fund's holding period. Otherwise, the company would be offering a class that is more expensive during the holding period recommended to the investor, which would contradict the primary characteristic of said class.

[34] The primary characteristic of this class type ought to be that it consists of classes that involve a more expedient fee structure if a larger amount is subscribed by the investor, regardless of the period of time for which the investment is held. In the light of the above discussion, classes with lower subscription amounts ought to be "more" onerous and therefore "dominate" the others.

[35] The characteristic of this class type ought to be that it calls for a fee structure that varies according to the distribution channel used (for example, placement through bank branches, financial advisors, the internet, etc.). As a general rule, this class type is supposed to ensure remuneration differentiated according to the costs "actually" incurred to distribute the product.

[36] In this connection, it should be emphasised that the analysis of the offering documentation indicated that it did not disclose the "objective" characteristics (for example, placement through bank branches, financial advisors, the internet, etc.) that would justify the differing treatment of subscribers of the same sub-fund.

“impartial” in choosing to distribute certain classes of the same sub-fund instead of others, with the resulting negative consequences for correctness of behaviour.

A comparative examination of the fee structures associated with the various classes and the average percentage of said fees remitted to the distributors (indicated in an appendix to the subscription form) resulted in the identification of various cases in which it is to the advantage of individual distributors to place the most “onerous” classes.

This effect is caused primarily by the fee remittance mechanism; clearly, classes with higher fees contribute to increasing the overall remuneration of the distributor, who is consequently not "impartial" in this regard.