Lipper Fund *Industry* Insight Reports

Analysis of Distribution Fees in Europe

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Summary

- For European cross-border funds that disclose annual distribution fees, the average actively managed equity fund charges 0.56% and the average bond fund charges 0.41%.
- When these fees are weighted by fund assets, the averages fall to 0.49% and 0.39% respectively.
- Share classes with no front-end load but a compensating higher annual charge have simple average distribution fees of 1.04% (equity funds) and 0.88% (bond funds).
- Separate analysis suggests that disclosed fees are lower than the amounts effectively paid out to distributors – 0.65% to 0.70% for equity funds.
- Disclosed distribution fees account for around one third of the average Total Expense Ratio (TER).
- Comparing European and US fee and expense levels suggests that a key factor in the difference between average TERs for these jurisdictions is the different distribution fee levels.
- Disclosure of distribution fees in financial statements remains limited, but is rising, now covering around 17% of Luxembourg-domiciled funds but 27% of fund assets.
- Wider industry factors, such as MiFID, mean that pressure on annual distribution fees, and the disclosure of these, can only intensify.

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Introduction

Context

The true scope and impact of annual distribution fees for European investors is hard to gauge because these are generally not disclosed in funds' reports and accounts. Instead they are rebated directly from the annual management fee, enabling annual fees for distributors to be negotiated on a case-by-case basis from the same fund or share class.

As distribution fee data is not in the public domain, the industry's knowledge of this issue is limited and far more reliant on anecdotal evidence – such as trying to limit distribution fees to 50% of the quoted management fee. It must be legitimate to suggest that more perfect information can only help competition.

As a result, this report will analyse distribution fees for the minority of funds/share classes that are more transparent in this area, as well as looking at management fees and Total Expense Ratios (TERs) across a broader range of Luxembourg and Dublin-domiciled funds.

Relevance

Despite the limited available data, this issue remains important. For example, the increasing cost of distribution is often given as a justification by European fund companies for pushing up management fees.

At the same time, a recent Lipper survey among forty Chief Financial and Operating Officers of major asset management companies revealed that 77% considered there was not adequate transparency in annual distribution fees. In addition, the same survey revealed that 51% believed that initial charges would disappear in Europe. (European Institute CFO/COO Roundtable / Lipper, Paris, June 2006).

These findings were also borne out by experience in the UK, where Richard Royds of BlackRock Merrill Lynch has highlighted that his firm paid out under £1 million of commission for every £100 million sold to the IFA market, whereas 10 years ago this figure was three times the size. He concluded, "The initial charge feels as though it is something of the past rather than part of the present" (*ifaonline*, April 2006).

Similarly, a recent JP Morgan Asset Management survey highlighted the pressure on financial advisers to move towards fee-based remuneration to secure recurring commissions (*Surviving the Storm*, August 2007). Both BlackRock and JPMorgan identified the move among distributors/intermediaries to a longer-term revenue strategy: a shift from initial to annual fees.

Part of the reason for this shift must be the growing importance of fund platforms and supermarkets and their reduction of initial charges for end-investors. Interestingly, when fund supermarkets first took off in the US in the late 1990s, the phenomenon of declining initial charges (or front-end loads) and some rises in annual fees to compensate for this was identified.

Regulations

In Switzerland, between July 2005 and July 2006, the Swiss Funds Association (SFA) required fund companies to disclose the maximum annual distribution fees in a fund prospectus. Such an approach aimed to improve disclosure while preserving the flexibility of paying different fees to different distributors. This has now been abandoned in light of requirements laid down in MiFID.

The Markets in Financial Instruments Directive (MiFID), due to be implemented across EU member states in November 2007, will require intermediaries/distributors to disclose the fees, or other benefits, that they receive when acting for an investor (Article 26, “Inducements”). In other words, it would seem that the onus of disclosing annual commissions would fall on the distributor, rather than on the fund itself. However, importantly, many fund companies are acting to improve disclosure in anticipation of MiFID (for example with the launch of share classes without annual distribution fees), either to help their distributors or interpreting the directive as relating to fund companies directly.

It should be noted that current discussions between the European Commission and the funds industry in relation to MiFID are focussing on fees/inducements across investment products, as MiFID does not cover insurance products, structured notes and certificates, so there does not seem to be a ‘level playing field’.

In addition, the European Commission is paying increased attention to the issue of distribution and its related fees, for example, the White Paper on Enhancing the Single Market Framework (November 2006) and its Request for Assistance to CESR (April 2007).

Elsewhere, CONSOB (the Italian financial regulator) now requires funds to disclose the average rebate paid to distributors in their prospectus, and the German Federal Supreme Court Ruling on payments for selling third party funds (March 2007) may also have wider ramifications.

Increased scrutiny is coming in different guises and for different reasons, but coming it surely is.

Disclosure

Lipper continues to advocate that clear and consistent disclosure of the principal components of the TER within fund reports and accounts is in the interests of both investors and the wider industry. This relates not only to annual distribution fees, but also other expenses, such as administration fees. To this end, we continue to believe that the practice - most common among some Swiss fund management companies - of disclosing only a consolidated “all-in fee” is less transparent and we would urge practitioners to end this.

What of the argument that there might be too much information for investors? Increased disclosure of TERs may help here (simplifying annual fee disclosure), but greater disclosure can only help competition, even if not from direct investor pressure. At the very least, at a time when initial charges are predicted to disappear, now cannot be the time to reduce the disclosure of distribution fees.

Looking at funds domiciled in the eleven largest markets in Europe, the cross-border centres of Luxembourg and Dublin exhibit the highest proportion of funds/share classes disclosing distribution fees in their reports and accounts (see Table 1). These two domiciles are primarily used to market pan-European funds.

Table 1. Proportion of funds/share classes showing transparent distribution fees in their accounts

Domicile	Proportion of funds	Proportion of assets	Total number of funds/classes
Luxembourg	17%	12%	2,078
Dublin	10%	10%	393
Germany	1%	0%	19
France	0%	0%	16

Other European jurisdictions studied have less than 10 funds disclosing distribution fees.

Interestingly, when the Luxembourg and Dublin funds universe is filtered to look solely at those funds promoted by US-origin fund companies, the proportions indicated are almost doubled - at least partly reflecting these companies' experience of "12b-1" (i.e. distribution) fee disclosure in the US (required by the Securities and Exchange Commission, SEC).

Our approach

For the purpose of this study we have analysed annual distribution fee levels for Luxembourg and Dublin domiciled funds where the reports and accounts detail these fees. To make like-with-like comparisons, we divided this universe between share classes corresponding to different types of investor:

- **'Retail'.** Main retail share class. Funds open to all investors. Usually bearing a front-end sale charge.
- **'CDSC'.** Contingent Deferred Sales Charge (CDSC) share classes are offered to investors not wanting to pay an initial charge, instead paying a higher annual management fee than the main retail class, and also agreeing on a declining back-end load.

Unless specifically stated, only share classes with distribution fees disclosed in their financial statements have been analysed.

Structure of report

Having established the context for our analysis and our approach to this research, in the first main section of this report we focus on average distribution fee levels. In section two we study the dispersion of the fees within our fund universe.

Examining the difference in management fee levels, in the third section, we try to establish whether this sheds light on distribution fee levels. We then examine the relationship between distribution fees and Total Expense Ratios (TERs). Taking each of distribution fees, management fees and TERs, we compare the US and Europe in the fifth section, testing the hypothesis that the difference in TER levels in these jurisdictions is principally driven by distribution fees.

In section six we provide trends on distribution fee disclosure. Finally, we offer some conclusions as well as details of the methodology used for this report.

1 Averages

1.1 Simple averages

In this section, we have calculated simple averages (straight mean), giving each fund/share class the same weight in the calculation, across all funds/share classes that disclose an annual distribution fee in their latest financial statements.

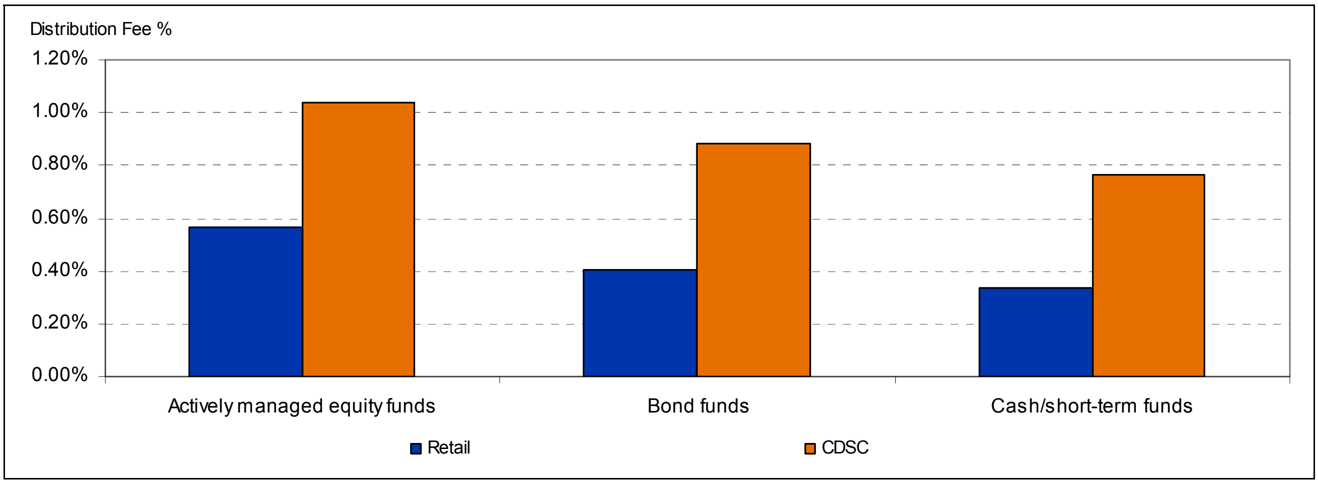
Looking solely at asset class level results, actively managed equity funds present higher simple average distribution fees (0.56%) than the other asset classes studied. Simple average distribution fees are lowest for cash/short term funds (0.33%).

Inherently, CDSC share classes have higher average distribution fees than the main retail class, and our research reveals the extent of this difference. Across the three asset classes studied, these back-end load share classes' simple average distribution fees are 43 to 48 basis points above the averages for retail share classes (see Table 2).

Table 2. Simple averages: Distribution fees by asset class and fund share class type

Fund/class type	Equity funds	Bond funds	Cash/short-term funds
Retail	0.56%	0.41%	0.33%
CDSC	1.04%	0.88%	0.76%

Graph 1. Simple averages: Distribution fees by asset class and fund share class type



1.2 Asset-weighted averages

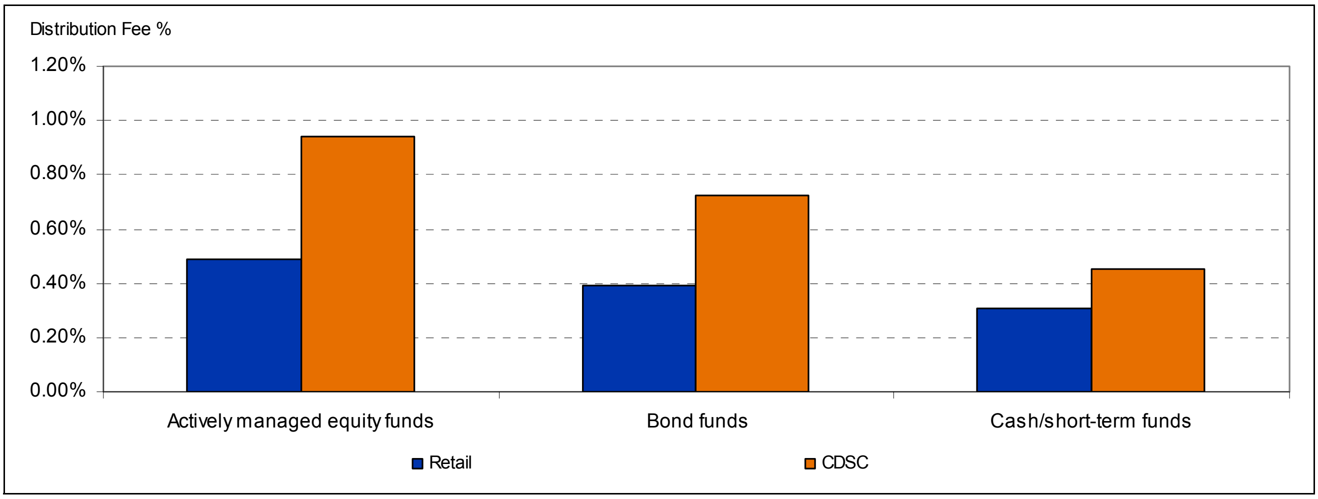
Going beyond simple averages to provide a more complete picture, we weighted the results by fund assets – thus funds with greater assets are given more weight in the calculation. Asset-weighted averages represent a closer estimate of the distribution fees actually borne by investors, i.e. the level of fees actually charged by the industry as a whole.

When looking at asset-weighted average figures, CDSC share classes continue to have significantly higher average distribution fees than main retail share classes across the three asset classes studied: CDSC share classes' asset-weighted average distribution fees are 14 to 45 basis points above the same averages for retail share classes.

Table 3. Asset-weighted averages: Distribution fees by asset class and fund share class type

Fund/class type	Equity funds	Bond funds	Cash/short-term funds
Retail	0.49%	0.39%	0.31%
CDSC	0.94%	0.72%	0.45%

Graph 2. Asset-weighted averages: Distribution fees by asset class and fund share class type



Asset-weighted average distribution fees are lower than simple averages for all asset classes and share class types analysed. This indicates that larger funds tend to charge proportionally lower distribution fees. One possible explanation for this could be larger fund companies' greater bargaining power when negotiating fees with distributors.

Comparing results for retail funds from Tables 2 and 3, the difference between asset weighted and simple averages ranges from 2 basis points (for bond and cash/short term funds) to 7 basis points (equity funds). For CDSC share classes, asset-weighted averages are 10 to 31 basis points (for equity and cash/short term funds respectively) lower than simple averages.

2 Dispersion

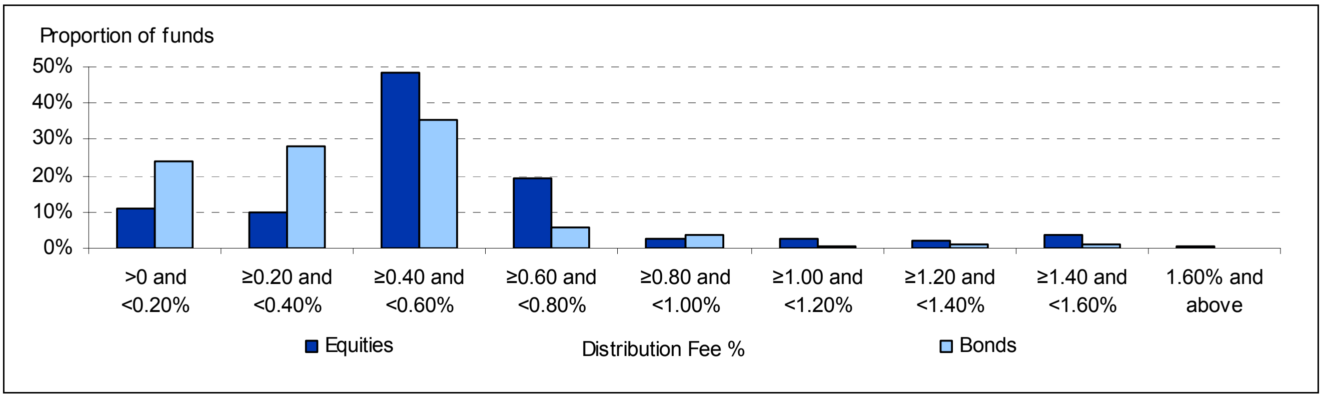
This section looks at the dispersion of fees for actively managed equity and bond funds in our sample. Graphs 3 and 4, at a glance, compare the dispersion of distribution fees for different share class types.

78% of the equity fund retail share classes analysed have fees concentrated between 0.20% and 0.80%. A comparable proportion of equity funds/share classes with a CDSC (75%) have distribution fees spread between 0.40% and 1.20%.

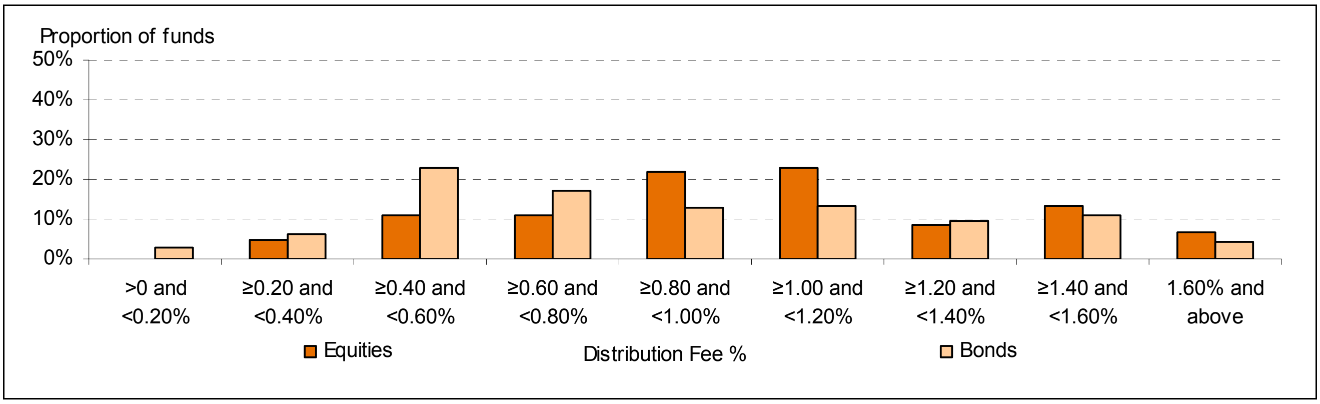
Similarly, bond funds with a CDSC exhibit a relatively even dispersion of fees while retail share classes reaches a peak around 0.40 and 0.60%. We also ran the same analysis for cash/short term funds and found a similar pattern.

This confirms the results found in previous sections while also highlighting the wide range of CDSC distribution fee arrangements.

Graph 3. Distribution fees dispersion: Retail share classes



Graph 4. Distribution fees dispersion: CDSC share classes



Please note that the majority of funds disclosing distribution fees in their reports and accounts for their CDSC share classes do not disclose such a fee for their main retail share class. These retail share classes have been excluded from our calculations.

3 Retail - Institutional Comparison

So far we have analysed the available data on transparent distribution fees in order to provide the most robust figures on which to base this report. While there is no question that such analysis is valid and useful of itself, we are conscious of anecdotal evidence suggesting that annual distribution fees around Europe can vary more widely than our findings would suggest. Depending on the market and interviewee, this might range from 35%, through 50%, and even up to 90% of a fund's quoted management fee.

More importantly, and more constructively for our current research, anecdotal evidence garnered by Lipper suggests that fees paid to distributors can exceed those distribution fees that are disclosed transparently in accounts, i.e. part of the management fee is still paid to some distributors.

In order to shed more light on this area, we suggest that assessing the fee levels for institutional share classes would be helpful, working on the assumption that such classes do not bear distribution fees. Comparing the management fee for institutional classes with main retail classes (which do bear distribution fees, but rebate these from the management fee), should give an indication of the distribution fee component within retail funds' management fees.

As a result, we have looked again at Luxembourg and Dublin funds, only this time examining those funds that have multiple share classes but that do not disclose distribution fees in their financial statements.

Comparisons of management fees for this universe of funds are set out in tables 4, 5 and 6 below. For example, retail classes of actively managed equity funds have a median management fee of 1.50%, an asset-weighted average of 1.52% and a simple average of 1.54%. When compared to the same averages for institutional share classes, we can estimate a distribution fee of between 0.65% (using simple averages) and 0.70% (using medians).

Table 4. Retail - Institutional fee difference: Equity funds

Class type	Median	Asset-weighted average	Simple average
Retail	1.50%	1.52%	1.54%
Institutional	0.80%	0.84%	0.90%
Estimated Dist. Fee	0.70%	0.69%	0.65%

Table 5. Retail - Institutional fee difference: Bond funds

Class type	Median	Asset-weighted average	Simple average
Retail	0.90%	0.90%	0.96%
Institutional	0.50%	0.51%	0.55%
Estimated Dist. Fee	0.40%	0.39%	0.40%

Table 6. Retail - Institutional fee difference: Cash/short-term funds

Class type	Median	Asset-weighted average	Simple average
Retail	0.50%	0.59%	0.55%
Institutional	0.20%	0.22%	0.30%
Estimated Dist. Fee	0.30%	0.37%	0.26%

Summarising the findings above, and using our original assumptions, we are able to estimate the average proportion of the quoted management fee that is accounted for by annual fees to distributors. We have presented these results as ranges (see table 7 below), depending on the type of average used. These findings generally show considerable consistency, apart from two outliers for cash funds. Across all asset classes, a proportion of 45% would appear to be typical.

Table 7. Distribution fees as proportion of management fees

Asset class	Estimated proportion
Equity funds	42 - 47%
Bond funds	42 - 44%
Cash/short-term funds	46 - 60%

Of course, these findings are based on an assumption, unlike the data presented in the rest of this report.

However, when we compare the findings above with our analysis of funds that do disclose distribution fees in their accounts (see next section), we can see that for the main retail fund classes, distribution fees account for 36% of combined distribution and management fees for equity funds, 38% for bond funds and 53% for cash/short-term funds; in other words, slightly lower than in the analysis above.

Using the distribution fees disclosed in fund reports and accounts in some cases may well understate the level of distribution fees, however, as the findings in this section indicate, it remains a reasonable means to evaluate distribution fee levels in the industry.

4 Proportion of TERs

Combining our analysis of distribution fees with our wider calculation of TERs allows us to compare the proportion of transparent distribution fees included in total fund expenses.

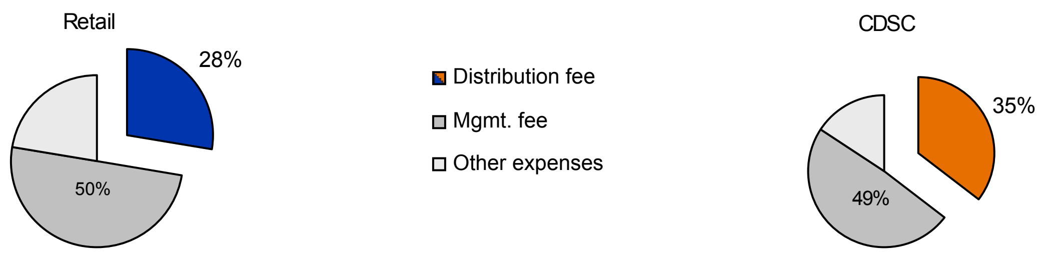
The TER is a measure of the total annual operating expenses of a fund, expressed as a proportion of its average net assets over one year. In addition to quoted management fees, funds bear additional expenses (administration, custody, audit or marketing expenses, for example) related to the fund's ongoing running costs. These indirectly impact on investors through reduced returns. Distribution fees are included in the TER, regardless of whether they are transparent in financial statements.

The proportion of total expenses shown in graphs 5 to 7 are calculated by using the simple average of individual fees and expenses for each fund in the sample.

Again, only share classes that disclose a distribution fee in their latest financial statements have been analysed. This time, funds with subsidies have been excluded to avoid distortions, as it is rarely clear to which expense item the subsidy relates. (In cases where part of the fund expenses has been rebated by the promoter or service provider, i.e. the TER has been reduced, the proportion accounted for by distribution fees would be artificially inflated.)

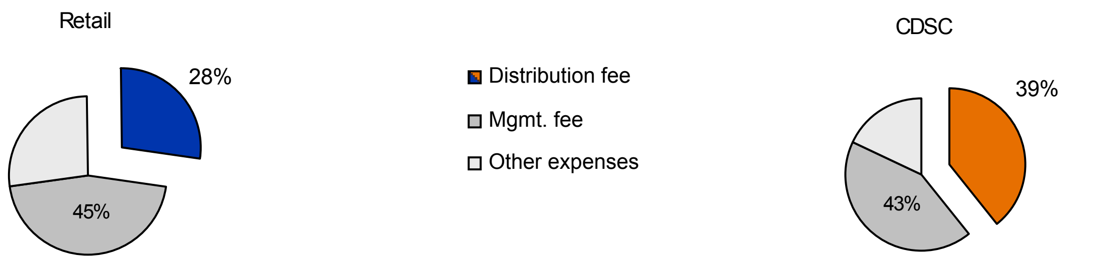
Please note that because the distribution fee proportions in the graphs below are derived from separate calculations at fund level, the ratios are not a direct reflection of the simple averages quoted underneath each pie chart.

Graph 5. Distribution fee proportion of TER: Equity funds



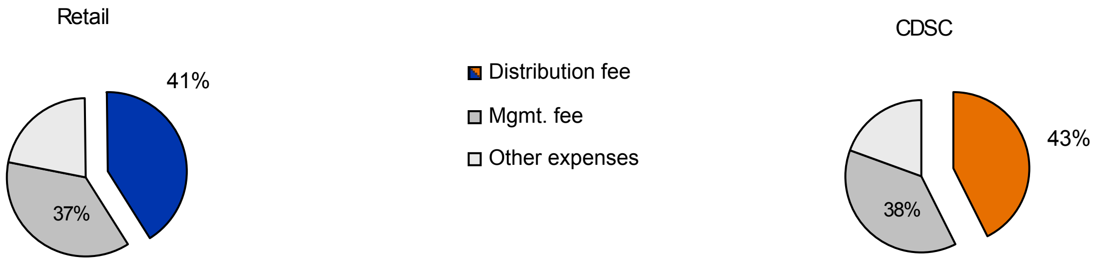
Average TER =	2.09%	Average TER =	2.85%
Average Mgmt fee =	1.04%	Average Mgmt fee =	1.40%
Average Dist. fee =	0.57%	Average Dist. fee =	1.01%

Graph 6. Distribution fee proportion of TER: Bond funds



Average TER =	1.58%	Average TER =	2.03%
Average Mgmt fee =	0.71%	Average Mgmt fee =	0.87%
Average Dist. fee =	0.41%	Average Dist. fee =	0.82%

Graph 7. Distribution fee proportion of TER: Cash/short term funds



Average TER =	0.92%	Average TER =	1.55%
Average Mgmt fee =	0.34%	Average Mgmt fee =	0.59%
Average Dist. fee =	0.34%	Average Dist. fee =	0.70%

The average proportion of the TER made up by distribution fees varies from one asset class to another. Generally, the smaller the average TER for an asset class, the larger the distribution fee proportion becomes. For example, while transparent distribution fees represent on average 28% of total expenses for actively managed equity retail funds, the same ratio for cash/short term retail funds reaches 41%.

In the same way, the fund company would seem to retain 50% of the TER for equity funds, but less for bond funds (45%) and less again for cash funds (37%).

This analysis highlights that because transparent distribution fees are generally set at a fixed percentage, even as this percentage is reduced for lower cost asset classes, the distribution fee proportion of total annual expenses increases at the same time. This pattern is seen for both retail and CDSC share classes.

It is worth noting that generally the main retail share classes have an initial charge in place and do not disclose annual distribution fees in their reports and accounts. The retail fund/share classes analysed here are the minority disclosing transparent distribution fees.

Correlation

We also looked for a possible correlation between distribution/management fees and TERs (at individual fund/share class level). This is particularly relevant for investors as it touches on whether the annual fees they pay to distributors really impacts on the total level of fees that impact on their returns.

In general, management fees, and thus a fund promoter's policy on pricing, are likely to form the "lion's share" of the TER. However, we found that the correlation between distribution fees and TERs is stronger than the relationship between management fees and TERs for CDSC share classes (as well as for actively managed equity funds). This suggests that for certain categories of funds/share classes distribution fees can be a key factor determining total expense levels faced by investors.

5 Europe - US comparison

Building on previous Lipper research comparing expense levels between US and European funds, this current report provides the opportunity to test the hypothesis that a key factor in the lower average TERs for US funds is their lower annual distribution fees.

In the US, it is a legal requirement for promoters to disclose the fees paid to distributors (known as "12b-1" fees) separate from management fees in funds' reports and accounts. When 12b-1 fees were introduced in 1980 the SEC permitted funds to deduct as much as 1.25% of average net assets to be used to cover distribution and similar marketing-type costs. The official cap became 1.00% in 1994/1995.

Interestingly, 12b-1 fees are currently under review by the SEC. Several options are being considered (extended disclosure, change in cap, etc.) including scrapping the 12b-1 fee altogether. In January 2004, at an earlier stage of this debate, Lipper published "Rule 12b-1: A Vital Concept That Requires Reshaping", which provides useful insights for the US.

Table 8 compares levels of distribution fees, management fees and TERs between Europe and the US for different equity fund sectors. Of course, the European funds analysed are the minority that charge transparent fees. US 'B' share classes have no front-end load, a CDSC and declining rear-end load. US front-end load share class are broadly comparable to European retail share classes.

Table 8. Europe - US simple average fees

Origin & Class type	Equity Europe			Equity Global			Equity US		
	Dist.	Mgmt	TER	Dist.	Mgmt	TER	Dist.	Mgmt	TER
European Retail	0.64%	0.92%	2.00%	0.60%	1.07%	2.17%	0.53%	1.07%	2.05%
US Front-end load	0.30%	0.80%	1.51%	0.28%	0.83%	1.51%	0.28%	0.68%	1.30%
European CDSC	1.02%	1.32%	2.77%	1.03%	1.25%	2.87%	1.15%	1.26%	2.83%
US 'B' class	0.91%	0.81%	2.17%	0.94%	0.83%	2.23%	0.94%	0.68%	2.00%

Average transparent distribution fees for European-domiciled main retail share classes are almost consistently double the level for the equivalent US-domiciled funds. For example, for global equity funds the average distribution fee is 0.60% for European-domiciled funds and 0.28% for US-domiciled funds. The difference between distribution fee levels between European-domiciled CDSC share classes and US 'B' classes is less significant - in the region of 10 basis points.

Looking at management fees, the difference between European and US averages is significant, varying between 12 and 39 basis points for retail classes - and up to 58 basis points for CSDC classes. As distribution fees disclosed by European funds may not necessarily cover all such fees paid, these management fee differences could be an indication of the level of distribution fees not disclosed.

We are unable to prove or disprove our hypothesis, but the importance of distribution fees is clear.

6 Disclosure trends

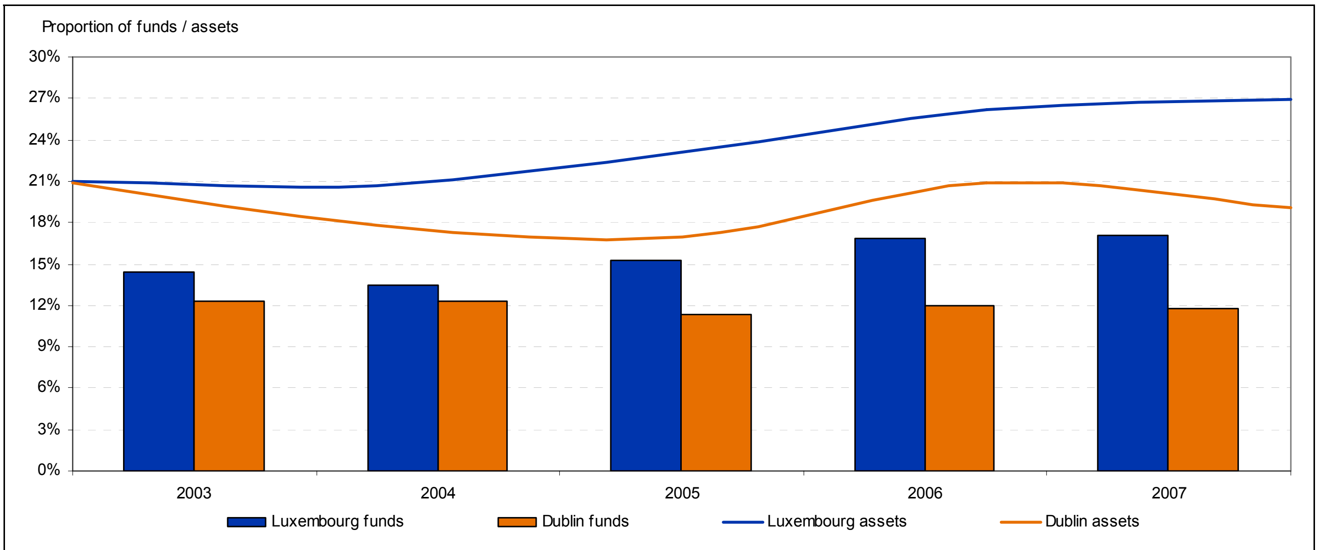
The aim of this section is to estimate changes in distribution fees' disclosure in Dublin and Luxembourg over the last five years. Putting this into context, in the Lipper survey referred to in the introduction to this report, only 23% of CFOs and COOs believed there was adequate transparency in annual distribution fees.

We used fund data analysed in April each year. As a result, the figures shown for each year mainly refer to June and December accounts from the previous year. This avoids potential distortions of survivorship bias as funds no longer active or merged are included in the historic data used for this analysis.

We first looked at share class level. The proportion of share classes showing transparent distribution fees in their accounts in Luxembourg has remained at around 17% of the number of share classes between 2003 and 2007. At the same time, the share of Dublin-domiciled funds disclosing distribution fees has also remained stable, between 10% and 13% for each period studied.

We ran the same trend analysis at fund level, looking at the number of funds disclosing a distribution fee in their accounts - regardless of which share class actually disclosed it. Graph 8 illustrates the proportion of funds showing distribution fees separately in their reports and accounts as a percentage of the total number of funds (standing bars) and of the total net assets (lines).

Graph 8. Historic use of transparent distribution fees



In Luxembourg disclosure of distribution fees in financial statements remains limited, but is slowly rising. Similar trends are observed by fund assets, albeit that the actual proportions are higher throughout (in Luxembourg this percentage is around 27% in 2007). Meanwhile, Dublin funds disclosing distribution fees do not show a uniform pattern.

Covering around 17% of Luxembourg-domiciled funds but 27% of fund assets, funds disclosing distribution fees tend to be larger than average. On the basis that these funds are likely to be managed by the larger promoters, one might suggest that greater disclosure is the direction in which the industry is being led - albeit at a slow pace so far.

Filtering our universe to look solely at the funds promoted by US-origin fund companies highlights the high proportion of US promoters disclosing distribution fees in their reports and accounts (see Table 1 and Table 9). For example, in Luxembourg, 39% of fund/share classes promoted by fund companies originally from the US have a transparent distribution fee in their reports and accounts compared to 17% for the entire universe.

In the US, promoters are required by the Securities and Exchange Commission (SEC) to disclose the amount of fees paid to distributors (“12b-1” fees). When US fund managers enter the European market using cross-border centres such as Dublin or Luxembourg, many retain this more transparent distribution fee disclosure.

Table 9. US-origin fund companies: Proportion of funds showing transparent distribution fees

Domicile	Proportion of funds	Proportion of assets	Total number of funds/classes
Luxembourg	39%	19%	1,065
Dublin	17%	19%	286

7 Conclusions

Transparency

For a majority of funds in Europe, fees paid to distributors are either not in the public domain, or they are not disclosed in a way that enables comparisons. In Luxembourg, the degree of disclosure is increasing, but remains limited. Increased disclosure appears to be led by some larger US fund groups.

In spite of the general lack of transparency in this area, this research is able to highlight the relatively high distribution fees as a proportion of funds' total annual expenses. In addition, we are able to indicate the different proportion in relation to US-domiciled funds' fees and expenses.

This research provides robust data on the proportion of management fees that are paid to distributors - either by analysing disclosed distribution fees or by comparing retail and institutional fees.

Even if the majority of fund companies continue to limit fee disclosure in order to enable greater differentiation of fee arrangements with different distributors, promoters are increasingly under pressure to provide clear and consistent disclosure of fees for both retail and distributor clients.

Competition

Judging by the recent provisions of MiFID and UCITS directives, the European Commission envisages a more open approach to fee disclosure. This underpins the idea that the practicality of an integrated Europe-wide financial market also depends on the industry's ability to deliver transparency of costs for investors.

Of course, collective funds are generally far more transparent than other financial instruments in Europe – as discussions over MiFID's requirements on inducements have highlighted. But this does not mean that fund companies will not look for ways to be more transparent or to assist their distributors in disclosing fees – and here we would anticipate greater use of multiple share classes.

At the very least, this would certainly be a factor helping investors to choose funds and, crucially, should lead to more competition in the industry.

Fund governance

This report reveals wide variations in distribution fee levels, highlighting the need for increased emphasis on fund governance: funds' directors and trustees have a responsibility to investors to demonstrate that fee and expense levels are reasonable.

The forthcoming implementation of MiFID might shed new light on such issues. As Charlie McCreevy, European Commissioner for the Internal Market and Services, has put it: "The approach is not to flood consumers with reams of information that may not be relevant to them and which they may have difficulty understanding. Instead, the emphasis will be on the fiduciary duties of firms towards their clients." (quoted in *International Investment*, March 2006).

Fund companies will have to be increasingly clear on how they are responding to such issues.

8 Methodology

Source. This report is primarily based on Lipper's *Offshore Fund Charges* database.

Markets. We have exclusively analysed funds domiciled in Luxembourg and Dublin, the largest cross-border jurisdictions in Europe.

Asset classes. Only actively managed equity funds, bond funds and cash/short term funds have been included, for comparison purposes. These represent the three largest single asset classes in Luxembourg and Dublin.

Fund/ClassType. For the purpose of this report only the main retail and CDSC funds/share classes have been analysed.

Latest fee data. The latest data included in the current report includes a predominance of June and December 2006 financial statements. The findings of this study are based on the fees and expenses stated in funds' latest annual and semi-annual reports and accounts. Only funds that have already published financial statements with a minimum accounting period of ninety days can be included.

Fund universe. Based on the above restrictions, the total universe of funds for our study, i.e. disclosing transparent distribution fees, was established at over 1,300 funds. This represents an estimated 11% of the total number of funds in the jurisdictions studied. Funds/share classes with a CDSC in place account for 38% of our sample.

Distribution fees. This is an annual sales charge paid out of fund assets to cover sales-related expenses, i.e. fees for distributors, advertising, general marketing expenses etc. Typically in Europe the promoter will rebate part of the management fee to distributors. This type of fee is equivalent to a 12b-1 type fee on US-domiciled funds. Throughout this report these fees are expressed as a proportion of each fund's average net assets over a one year period.

Total Expense Ratio. The Total Expense Ratio (TER) is a measure of the total annual operating expenses of a fund, expressed as a proportion of its average net assets. In addition to quoted management fees, funds will bear additional expenses related to the ongoing costs (administration, custody, audit and distribution expenses, for example) that will indirectly impact on investors through reduced returns. Because the TER includes distribution and management fees as well as these additional expenses, it is a more comprehensive indicator of the level of annual charges paid by funds' investors than the management fee alone. The TER offers a fair comparison of annual fund expenses across different markets.

Wherever 'transparent' distribution fees are paid, Lipper includes them in the TER to make like-with-like comparisons with funds that charge a non-transparent distribution fee out of the management fee.

Lipper (including Fitzrovia International) has been calculating TERs over the last 13 years, using the same, consistent methodology.

Management fees. Fees paid by a fund for its asset management. Please note this may also include other fees, such as those for distribution. These fees are paid out of fund assets as an annual percentage of the average net assets.

Retail share class. This is the share class that we have identified as the main class typically reserved for private individuals. Minimum initial investment is usually low. We have selected only one such a class per subfund.

CDSC share class. Contingent Deferred Sales Charge (CDSC) share classes are equivalent to US-style B share classes with no front-end load but with a declining rear-end load. Due to the lack of consistency in labelling in Europe, it cannot be assumed that share classes labelled B in the fund name have a CDSC. Lipper labels these correctly depending on whether they have a CDSC structure in place.

Lipper
Offshore Fund Charges

Unique source of consistent Total Expense Ratios (TERs) for comparisons with competitors

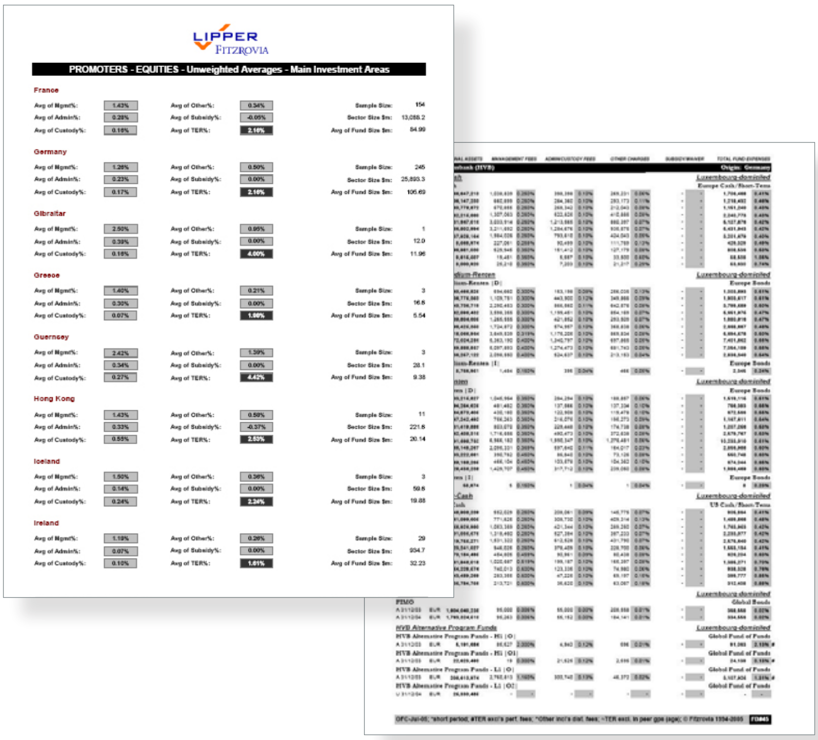
Detailed analysis of fee and expense breakdowns at promoter, investement policy and individual fund or share class levels.

Analysis of annual fees and expenses, which enables:

- Competitive positioning of TERs
- Disclosure of TERs
- Management of TERs

Over 90,000 current and historic TER calculations and their breakdowns, including:

- Total Expense Ratio
- Management fee
- Performance fee
- Administration fee
- Custody fee
- Audit fee
- Distribution fee
- Average net assets



Note: Data shown is historic and included only as an example.

Fund Charges

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Over 20,000 funds/share classes domiciled in Luxembourg, Dublin and other international fund centres

This work is essential for:

1. Competitive positioning of TERs

- Establish fund pricing strategies, including differentiated share classes
- Benchmark TERs and fee structures with comprehensive data on competitors
- Contribute to future strategic planning
- Understand fee variations by investment policy, fund size, institutional/retail
- Improve market intelligence, for example through trend analysis

2. Disclosure of TERs

- Quote independent and consistent TERs
- Generate trust through greater transparency
- Provide better information for Sales Teams and IFAs
- Respond to growing interest from regulators and the global media

3. Management of TERs

- Form part of regular due diligence procedures
- Compare current and projected fee revenues
- Justify the levels of fees borne by funds
- Decide whether to re-negotiate service providers' fees

Example of fund level data

Fund Name	Scheme Domicile	Promoter Name	Investment Area	Asset Class	Report Date	Closing Net Assets (US$)	Average Net Assets (US$)	Net Flows (US$)	Mgmt Fee (US$)	Effective Total (US$)
Fidelity Funds - European Growth [A]	Luxembourg	Fidelity Investments	Europe	Equities	30-Apr-06	29,781,219,183	25,489,710,712	1,104,260,565	382,345,661	494,925,321
Fidelity Funds - European Growth [B]	Luxembourg	Fidelity Investments	Europe	Equities	30-Apr-06	62,956,008	42,120,337	22,729,442	631,805	1,238,231
INVESCO Funds Series 2 - Bond Fund |A|	Dublin	INVESCO	Global	Bonds	30-Jun-06	128,370,266	137,409,663	-1,075,424	511,051	718,905
INVESCO Funds Series 2 - Bond Fund |C|	Dublin	INVESCO	Global	Bonds	30-Jun-06	138,162,065	165,664,750	-34,685,353	410,758	661,352
Griffin International Umbrella Fund - European Hedge	Cayman	Griffin Capital Management	Europe	Alternative Investment	30-Jun-06	250,946,639	222,865,467	67,150,815	1,934,045	2,267,991
Nextra - International Equities |A|	Luxembourg	Crédit Agricole	Global	Equities	30-Jun-06	8,444,184	4,598,145	8,591,303	9,121	55,641

Features

Offshore Fund Charges is presented in both loose-leaf binder and CD-ROM versions, updated and reprinted every January, April, July and October.

The CD-ROM provides:

- Microsoft Excel spreadsheets
- Microsoft Access database
- Entire contents of hard copy in PDF format
- Guidance notes on pre-formatted queries and each data field

The hard copy volume groups fund level data separately, firstly by fund promoter and secondly by asset class and investment area.

Each fund has over 60 data points, each with historic data going back up to ten years

Fund level data

Each fund has over 60 data points, each with historic data going back up to ten years. These include:

- Lipper Total Expense Ratio (TER)
- Performance Fee (in % and absolute terms) - both inside and outside TER
- Management Fee (in % and absolute terms)
- Administration Fee (in % and absolute terms)
- Custody Fee (in % and absolute terms)
- Other Fees (in % and absolute terms)
- Subsidies/Waivers (in % and absolute terms)
- Closing Net Assets (in US$ and base currency)
- Average Net Assets (in US$ and base currency)
- Asset Class (e.g. Equities, Bonds, Index Tracking Equities etc.)
- Investment Area (e.g. US, Europe, Biotechnology),
- Lipper Global Classification
- Audit Fee (in % and absolute terms)
- Distribution Fee (in % and absolute terms)
- Fund Promoter/Management Company
- Fund Domicile
- Date of Source Report and Accounts
- Net Flow (from financial statements)
- Flag to show if fund has a potential performance fee
- Flag to show if fund is overtly institutional, CDSC, no load, etc.

Please note that the components of the TER are provided when disclosed in funds' financial statements.

Mgmt Fee %	Distribution Fee %	Admin Fee%	Custody Fee %	Audit Fee %	Other Fees %	Subsidy %	TER %	Pefomance Fee %	Potential Perf. Fee	TER Incl. Perf. Fee	Lipper Global Classification	Fund/Class Type
1.50%	0.00%	0.32%	0.05%	0.00%	0.08%	0.00%	1.94%	0.00%	No	1.94%	Equity Europe	retail
1.50%	1.00%	0.32%	0.05%	0.00%	0.08%	0.00%	2.94%	0.00%	No	2.94%	Equity Europe	CDSC
075%	0.00%	0.10%	0.03%	0.01%	0.18%	0.00%	1.06%	0.00%	No	1.06%	Bond Global	retail
0.50%	0.00%	0.10%	0.03%	0.01%	0.18%	0.00%	0.81%	0.00%	No	0.81%	Bond Global	institutional
1.75%	0.00%	0.15%	0.05%	0.01%	0.10%	0.00%	2.05%	2.69%	Yes	4.74%	Hedge/Long/ Short Equity	institutional
0.40%	1.63%	0.08%	0.08%	0.01%	0.25%	0.00%	2.44%	0.02%	Yes	2.46	Equity Global	retail

Fee analysis

70 pre-formatted queries are presented on the CD-ROM, and include:

- Historic Trends by Asset Class
- Averages by Asset Class
- Averages by Asset Class and Investment Area
- Averages by Fund Promoter
- Averages by Geographic Origin of Fund Promoter
- Averages by Fund Domicile

Each group of queries provides both straight mean and asset-weighted averages, as well as filters by fund size and by investment area.

Each query can be amended according to a subscriber's own criteria, e.g. institutional funds, selected competitors etc. and printed as pre-formatted MS Access report.

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Offshore Fund Charges

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