

## Summary of discussion

### FUND OBJECTIVES WORKING GROUP 25 September 2017

#### **1. Draft Terms of Reference**

1.1. The terms of reference were discussed and agreed subject to minor amendments.

#### **2. Discussion of meaning and usefulness of fund objectives**

2.1. The group discussed the meaning and usefulness of fund objectives by considering a number of questions.

#### **What are fund objectives and investment policies for?**

2.2. Discussion focused on the purpose of objectives and investment policies (OIPs) within different types of document. Fund OIPs appear in long-form and short-form disclosures as well as in marketing material. They serve different purposes, including disclosing information to consumers, meeting regulatory requirements as well as providing information for commercial purposes. Some members argued that OIPs should be there to explain what a fund is trying to achieve and how it will achieve that. They argued that clearer communication would enable investors to understand whether the product will meet their goals, and assess the costs in that light, potentially as a guide to enable an investor to assess whether a fund offers them value for money.

2.3. The group noted the constraints of the UCITS KIID, and felt that a series of questions and answers may be more helpful than the current KIID headings. They also noted that the relative prominence of risks (some of which may be very remote for certain products) over objectives in the KIID might skew the perception of an investor as to what was most important. There was also discussion around the regulatory requirements of the KIID, which some felt tied fund managers down to specific regulatory terms.

2.4. The group discussed the challenges posed by legal review of the KIID, meaning that clear language would sometimes be removed by lawyers for being inconsistent with regulatory obligations or for creating legal commitments. There was also discussion around the use of certain technical industry terms such as 'fixed income' or 'yield' which are not always accurately understood by investors, which can lead to them making poor investment decisions.

### **3. How can fund investment objectives and policies be made clearer?**

- 3.1. Discussion focused on the potential to standardise the way information is provided. This might, for example, take the form of specific numerical information rather than general terms such as 'predominantly' which might be interpreted in different ways. There was discussion around the use of graphics to illustrate objectives.
- 3.2. Further discussion focused on the difference between "how" and "what." Members argued that "how" was normally more important than "what" but that the OIP tend to concentrate only on the "what." Where "how" is considered there is normally a very high level of flexibility given to the manager, which makes it hard to assess what the manager is actually doing and whether the stated objectives have been met.
- 3.3. There was discussion around the disclosure of performance alongside objectives, with some seeing it as too much of a focus, while others noted that consumers want to see it. This led to a discussion of ordering of information, and whether certain information could be reduced in prominence.
- 3.4. There was discussion around outcome-focused funds, and the extent to which they provided lessons which could be used elsewhere. Comments were made about the risk of using terms like "absolute return" when there is no guarantee, and the difficulty of explaining to investors when something is a target and the appropriate time period to evaluate whether that target is being met. There was debate around the difficulty of consumers understanding point targets versus ranges, and whether a target described as a range (i.e. inflation plus 3-5%) was more honest than a point target (i.e. inflation plus 4%). This also has a bearing on the risk that the manager might be taking to achieve a return. Some felt managers might be bolder about being more specific, while others argued that point targets implied a misleading level of confidence.
- 3.5. Further discussion concentrated on whether managers should disclose their strategy and style to enable an investor to compare different fund managers better and to identify when a manager has drifted from the strategy or style they have disclosed.
- 3.6. A further point related to the challenges around the different audiences with different needs. Some felt that communications could be more tailored to different audiences, while others were concerned that the diversity of audiences was too complex to compartmentalise, and that a single description of OIP needed to cater for the needs of different groups.
- 3.7. Members concluded in broad agreement that objectives should cover what fund managers are seeking to achieve and how they intend to achieve it. They should

also demonstrate what success looks like and over what time period it is sought to be achieved. This in turn will allow an investor to make a judgment on a fund manager's worth.

#### **4. Other issues**

4.1. A member noted that the IA Sector Classification has an influence on how fund objectives are drafted and what language is used.

#### **5. Thanks and close from the Chair**