

MEMORANDUM

To: File No. S7-08-15

From: Jennifer R. Porter
Senior Advisor to Chair White
U.S. Securities and Exchange Commission

Date: March 30, 2016

Re: Investment Company Reporting Modernization: Release Number IC-31610

On August 14, 2015, Chair White, Andrew (Buddy) Donohue, Jennifer Porter and David Grim met with Richard Daly, CEO, Robert Schifellite, President, Investor Communications, Charles Callan, Senior Vice President, Regulatory Affairs, and Adam Amsterdam, General Counsel from Broadridge Financial Solutions, Inc. and Annette Nazareth from Davis Polk & Wardwell LLP.

The purpose of the meeting was to discuss the investment company reporting modernization release, particularly proposed rule 30e-3 under the Investment Company Act of 1940.

Attachment

Briefing for SEC Chair White
SEC Proposal: Investment Company Reporting Modernization
File Number S7-08-15

August 14, 2015

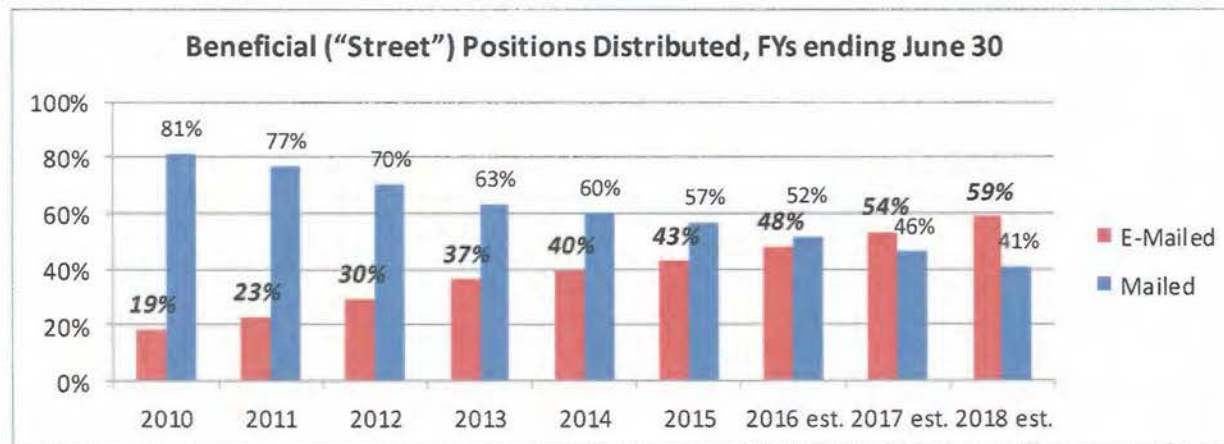


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Discussion Outline

- Broadridge met twice with the SEC Division of Investment Management and submitted detailed comments. We provided empirical data and new, primary research on the preferences and behavior of individual mutual fund investors, as filed:
 - Information on the Growth of Electronic Delivery under SEC Guidance
 - Evidence of the Proposal's Negative Impact on Individual Investors
 - References to Valid Data and Studies Contained in the Proposal
 - Comparative Cost Savings Analysis: Alternatives to Fund Notice & Access
 - Critical Role of Broker Dealers
- Highlights are provided below.

The technological advances the proposal seeks to accomplish are already occurring due to the SEC's existing guidance on electronic communications.



- The proposal would not change the process by which millions of investors who have consented to e-delivery receive their fund reports.
- Several technological advances will continue to drive growth in e-delivery without a change in SEC rules.
- In its simplest form, the rule proposal substitutes a mailed notice for a mailed fund report.
- "EBIPs" and digital delivery platforms provide opportunities to drive further growth in e-delivery, at the consent of the individual investor.

A large body of data shows that the majority of individuals receiving reports by mail will not take the extra steps and, therefore, will not look at or read fund reports.

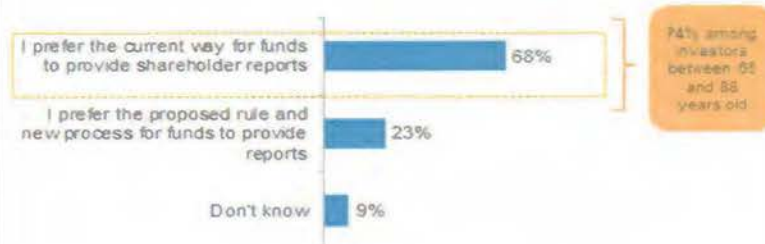
Based on the evidence, street holders of 115 million fund positions are impacted, and it will have a disparate impact on investors ages 65 and older. Based on the data the proposal would reduce by over 80% the number of these investors who look at fund reports. *There is no evidence indicating that the proposal will lead to higher levels of fund information awareness or viewing.*

The data we provided include:

- Baseline viewing levels, SEC testing
- Results of two new surveys and studies
- Seven years of viewing and voting statistics
- Disappointing statistics for funds using notice & access
- Research on the predictable negative impact on individuals of a change in “defaults”

Seven out of 10 investors prefer the current way they receive reports (by mail) to the proposed approach

“Do you prefer the current way or the proposed way for funds to provide shareholder reports?”



Base: 751 Receive by Mail
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q1 & Q2)

Déjà vu all over again?

The proposal suggests that because people generally use the Internet for all sorts of things today, they will logically use it to access shareholder reports when they are told by mail where to find them, even if they do not access or look at fund reports online today. This hypothesis was advanced by the SEC in 2005 when notice & access rules were first proposed for proxies. Regarding the belief that a mailed notice would increase proxy participation, SEC Chair Christopher Cox said:

"We want to help shareholders get all the information they need in order to make their decisions. Several of the SEC's proposed rules over the past few months are aimed at doing just that.

Take our electronic proxy proposal...By giving investors more, and importantly, more usable information we can enable increased participation by better informed shareholders.

A postcard-sized notice would apprise shareholders of the availability of their proxy materials on the Web. By going online, they could search the proxy statement for the items they want, and follow links to other, more detailed information. They could do everything they do now with paper proxies, just more of it, and faster and more efficiently. Investors who want paper in addition, or instead, would simply call a toll free number.

With more than 75% of Americans having access to the Internet — and spending an average of 25% of their waking hours online — it's high time to bring this revolutionary technology to the world of shareholder democracy."

(Remarks Before the Committee for Economic Development, March 21, 2006)

Despite the documented reduction in viewing and voting of over 80%, an analogous hypothesis is being advanced again for fund reports. These hypotheses miss the larger point.

A substantial body of behavioral research on defaults, "switches," and "nudges" in a variety of applications is clear and irrefutable: when there is a change in the default, individuals typically take no action. They neither opt-in nor opt-out, even when it is in their best interest.

Individuals who receive reports by mail will become totally disengaged.

Findings: The notice & access option is estimated to save funds \$18 million (or \$0.02 per report) in fiscal year 2018. By comparison, the cost savings from the alternatives are estimated to be \$203 million for the e-delivery option and \$130 million for the summary report option (or \$0.28 and \$0.18, respectively, per report).

	Industry Spending (Printing, Postage and Fees)		FY18 Savings Opportunity (vs. FY18 baseline)	Net Savings Per Report (vs. FY18 baseline)
	FY15 (\$m)	FY18 est. (\$m)	FY18 est. (\$m)	FY18 est. (\$)
Baseline	354	382	-	-
Notice & Access Option	318	364	18	0.02
Comparison of the Alternatives				
E-Delivery Option	144	179	203	0.28
Summary Report Option	221	252	130	0.18

A total of 0.2 bps over five years on an initial investment of \$10,000

Even under current SEC guidance for e-delivery, without a change in rules, the incremental annual savings of sending 59% of all deliveries by email amounts to over \$100 million.

Operational considerations for fund deliveries (examples)

Broker dealers



The proposal would require capital investment, ongoing systems development, and additional processing costs for brokers. Examples of the additional work effort include the following, among others:

- New control number system to identify shareholders and capture and process new consent types:
 - New consent options for shareholders include, e.g., “implied” consent resulting from no response to a mailing of an Initial Statement and opt-in consents to complete reports.
 - New systems and processing for consent options, e.g., for applying consents to a series and/or to all positions within an account. “Series” consent processing would require mapping of 6- and 9-digit cusips.
- Notification of new accounts
- New fulfillment obligations (3-day turnaround on requests)
- Multiple distribution alternatives and, therefore, multiple production streams within each job
- Potential support of stratification of shareholders (e.g., mailing reports to a segment of shareholders)
- A variety of mail consolidation opportunities and their associated processing
- Capacity availability to all funds that choose to use the new method
- Capacity availability to all shareholders that opt-in for hard copy reports



In 2012, the SEC prepared a study of financial literacy, pursuant to Dodd-Frank. Key findings on the timing, content, and format of disclosures are as follows (refer to page iv of the Executive Summary)

- *“Investor preferences are mixed with respect to the method of delivery. Some investors prefer to receive certain documents in hard-copy, while others favor online disclosure.*
- *With respect to the format of disclosure documents, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs.*
- *Investors favor “layered” disclosure and, wherever possible, the use of a summary document containing key information about an investment product or service.”*

Annual and Semi-Annual Report Notification Study

Understanding the impact of providing investors
with mutual fund and ETF report notifications

RESEARCH REPORT

June 2015



Broadridge®

Study Overview

Background

Broadridge wishes to understand the impact of providing investors with notifications about mutual fund and ETF annual and semi-annual reports instead of automatically sending them through the mail or providing them online.

Methodology

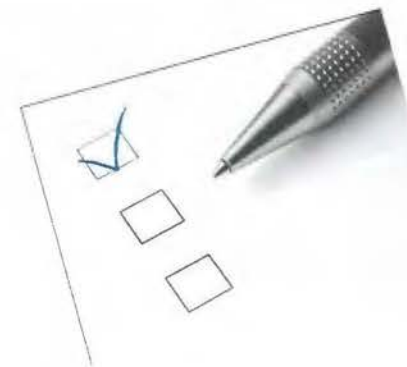
1002 investors completed an 8-minute survey June 11 through June 16, 2015.

- Surveys were conducted online through a national panel
- Broadridge was not identified as the sponsor of the study

Respondent Criteria

All respondents were screened and qualified as...

- Males and females, 18+ years of age
- Primary or shared responsibilities for investment decisions in household
- Currently have mutual funds or ETFs outside of 401(k) and 403(b) retirement plans
- A mix of non-retirement asset amounts
- *Final incidence 24%*



Executive Summary

The current method of providing mutual fund and ETF annual or semi-annual reports is through the mail or, if requested, via email. Broadridge is interested in learning how investors would react to two different annual or semi-annual report delivery methods:

- 1) A notice in the mail with instructions on how to obtain the report, either a hard copy or electronic access.
- 2) A Summary Report where key data is sent instead of the full report, but investors are told how they can obtain the report, either a hard copy or electronic access.

Notification Explanation:

Currently companies providing mutual funds and ETFs are required to send you annual and semi-annual reports. Under a proposed rule, if you receive these reports by mail, mutual funds and ETFs could instead choose to mail you only a notice. The notice would explain where you can access the report online and how you can request a copy by mail. (If you currently receive the reports by email, there would be no change in how those reports are provided.)

Summary Report Explanation:

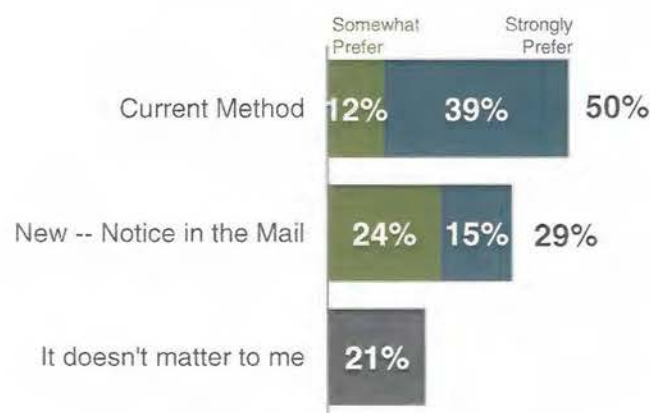
Currently companies providing mutual funds and ETFs are required to send you annual and semi-annual reports. If you currently receive the reports by mail, under a new process you would instead receive a Summary Report by mail. The Summary Report would be 4-6 pages in length and would include key information about the fund. It would indicate where to get detailed information on the internet.

Executive Summary

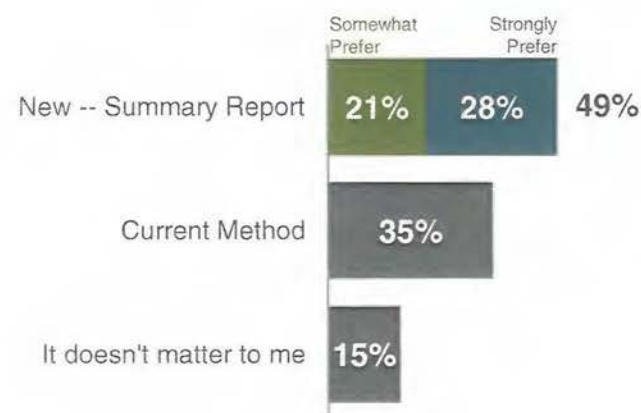
When evaluated separately, the current method of mailing the report is preferred over the notice in the mail.

- Compared to the Summary Report, the current method is less popular.
- Roughly two in ten have no preference. This is true regardless of the options presented.

Current Method vs. Notice



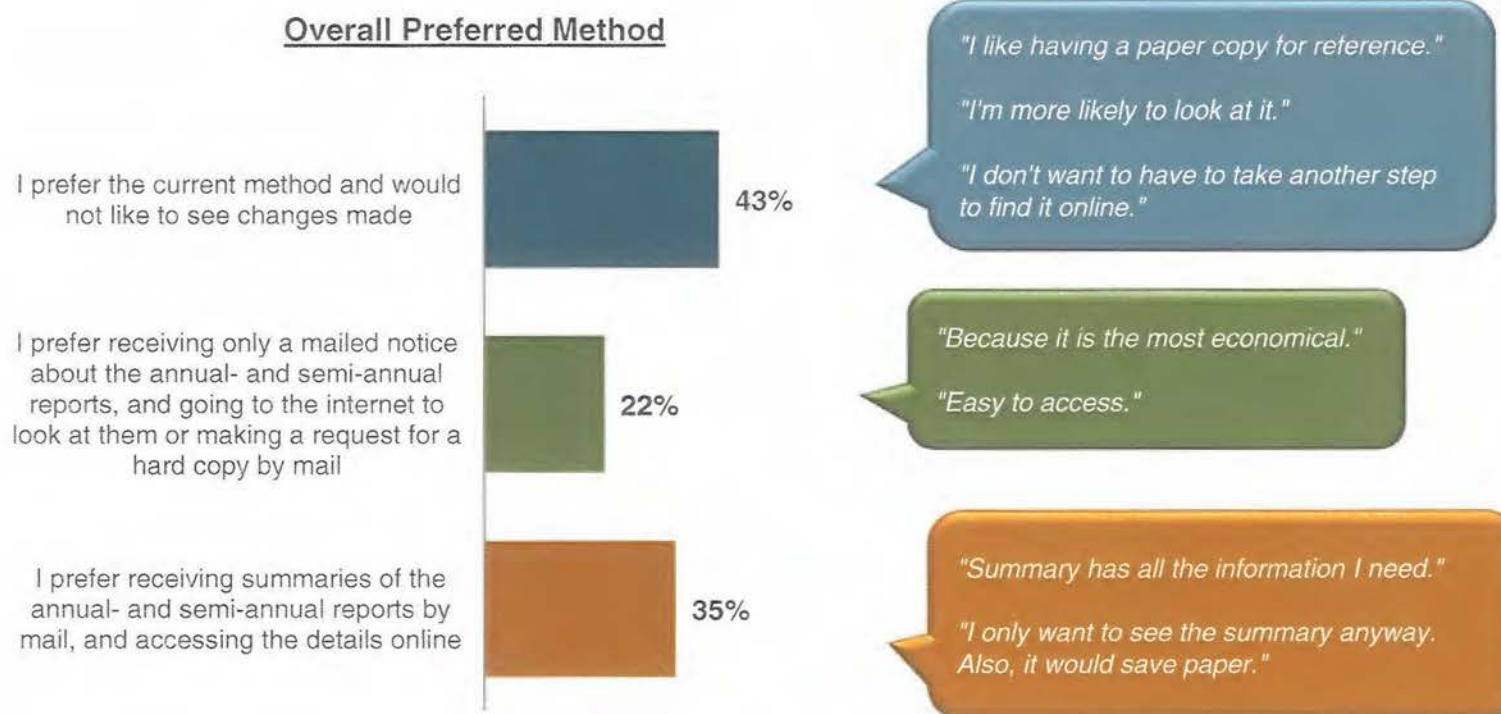
Current Method vs. Summary Report



Executive Summary

When given the option to choose any of the three methods discussed, the current method of mailing the report is preferred.

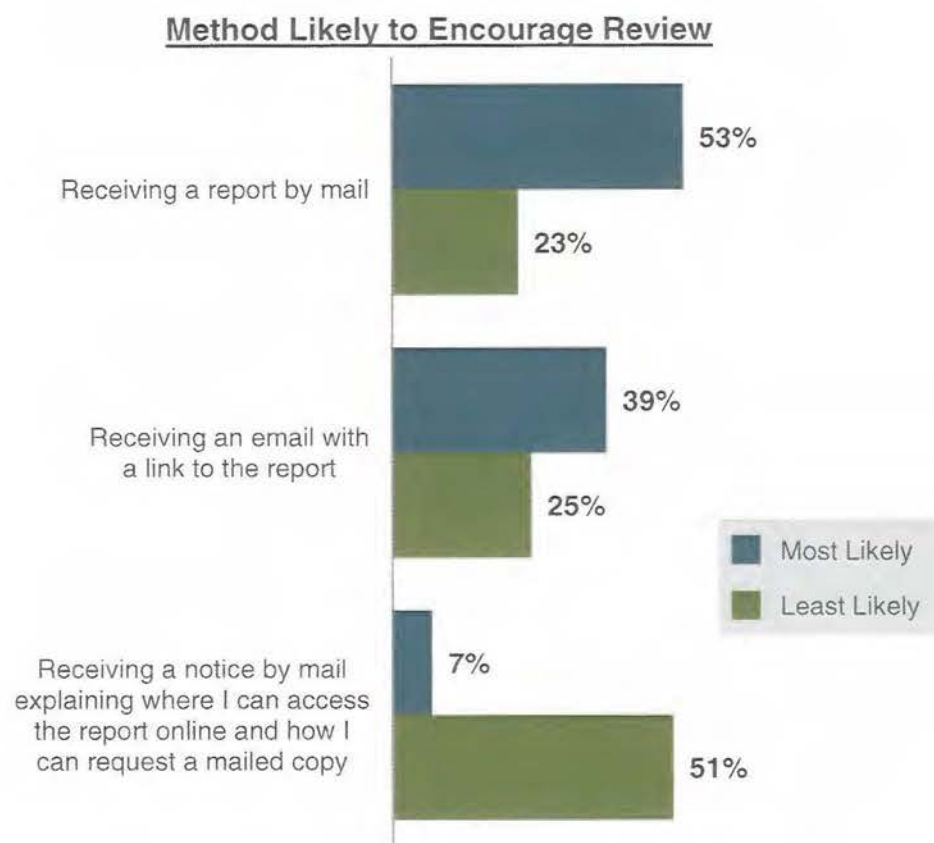
The current method is appreciated by investors for many reasons. Many like having a hard copy to read, to make notes on, and retain for their files. Others say they are more likely to read the report when they receive a hard copy.



Executive Summary

Reviewing the report is most likely to happen if it is received in the mail.

Over half indicate that they are less likely to look at the annual or semi-annual report if they simply receive the notice on how to obtain the report.



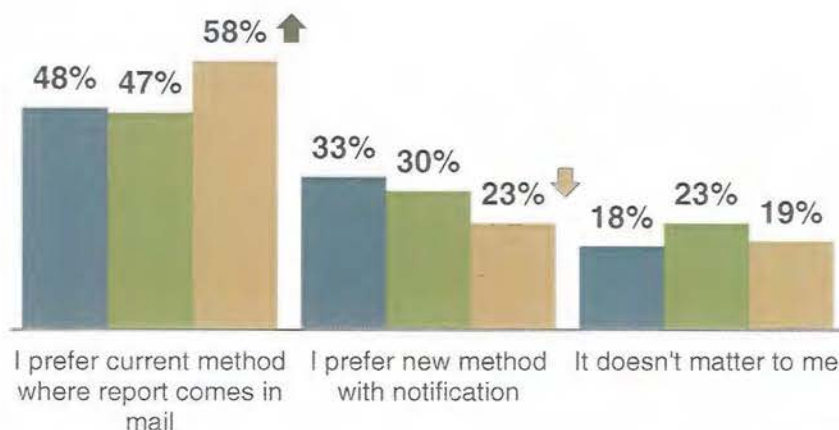
Executive Summary

Sub-Group Analysis – Age

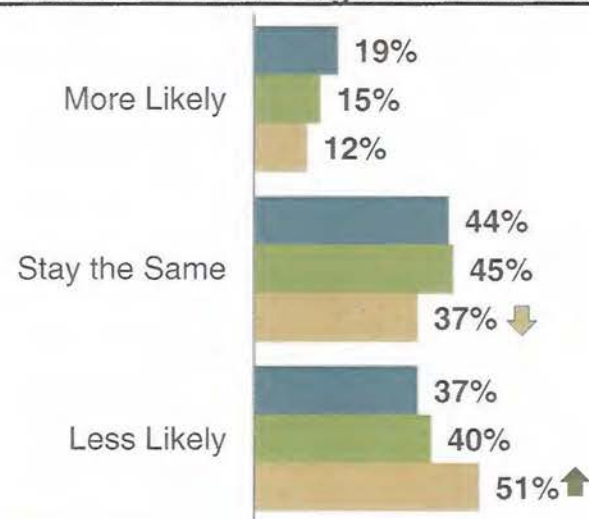
The proposed notification system is met with less enthusiasm than the current method. About half prefer the current mail delivery system compared to a third or less who prefer the new notice system. Two in ten don't have a strong preference.

Likelihood to read the report drops if notification is given. Over a third of younger investors are less likely to review the information, and half of those 65+ are less likely to do so.

Preferred Method of Delivery



Likelihood of Reviewing if Received Notice



18-34 35-64 65+

Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)

Q12. Which method do you prefer?

Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?

↑ / ↓ Statistically higher / lower than the other age groups at the 90% confidence level.

Executive Summary

Changing from the current delivery method will result in fewer investors reading the materials.

- From an investor's standpoint, there is little support to change the current delivery method for mutual fund and ETF annual or semi-annual reports.
- Readership will decline if a report is not mailed to the investor.
- These findings are consistent among all age categories.

If a change is made, the Summary Report is a more viable option than the Notice option.

- The Notification process is the least preferred method. Many voice that they may not take the time to access the report if they have to take that step.
- With the Summary, the investors get critical information and can seek out more if they wish.

Detailed Findings

Understanding the impact of providing investors
with mutual fund and ETF report notifications



Awareness of Reports

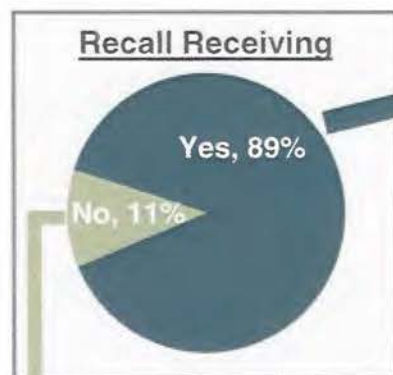


Awareness of Receiving Reports

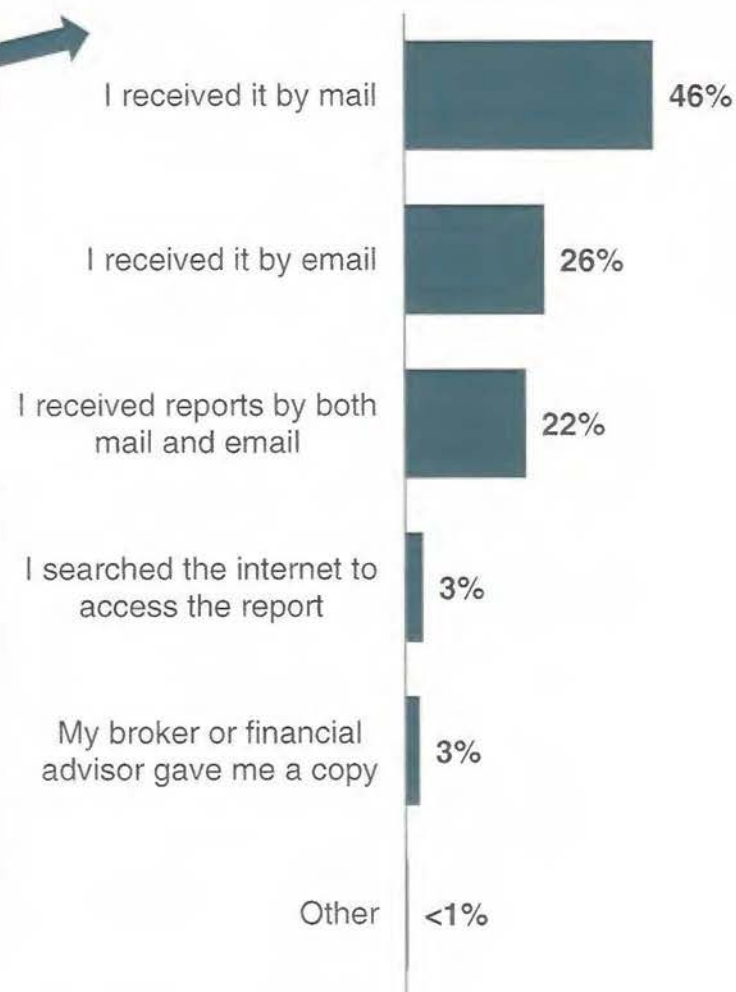
An overwhelming majority (89%) recall receiving an annual or semi-annual report in the past year.

About half got their report via the mail, while a quarter received it through an email. Another quarter indicate that they get reports by both mail and email.

Of those who don't recall receiving a report, most do not want to receive it.



How Report Received (Among Those Recalling)



Base: Total Respondents (n=1002)

Q1. Do you recall receiving a mutual fund or ETF annual or a semi-annual report in the past 12 months?

Base: Respondents who recall receiving a report (n=889)

Q2. How did you receive that report?

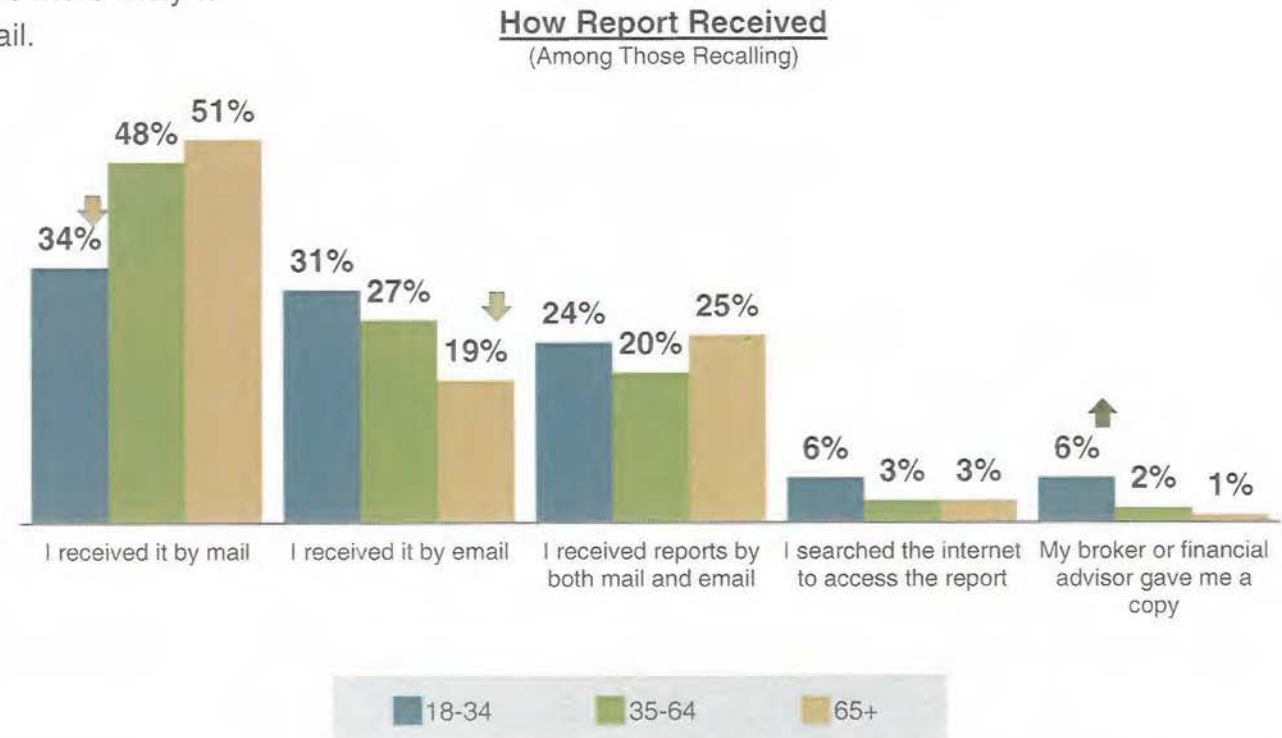
Base: Respondents who do not receive reports (n=113)

Q8. You mentioned that you did not receive an annual or semi-annual report. Do you want to receive them in the future?

How Reports are Received – By Age

Older investors (i.e., those more likely to own more funds), are more likely to recall receiving these reports through the mail.

Conversely, younger investors are more likely to recall receiving the report by email.



↑ / ↓ Statistically higher / lower than the other age groups at the 90% confidence level.

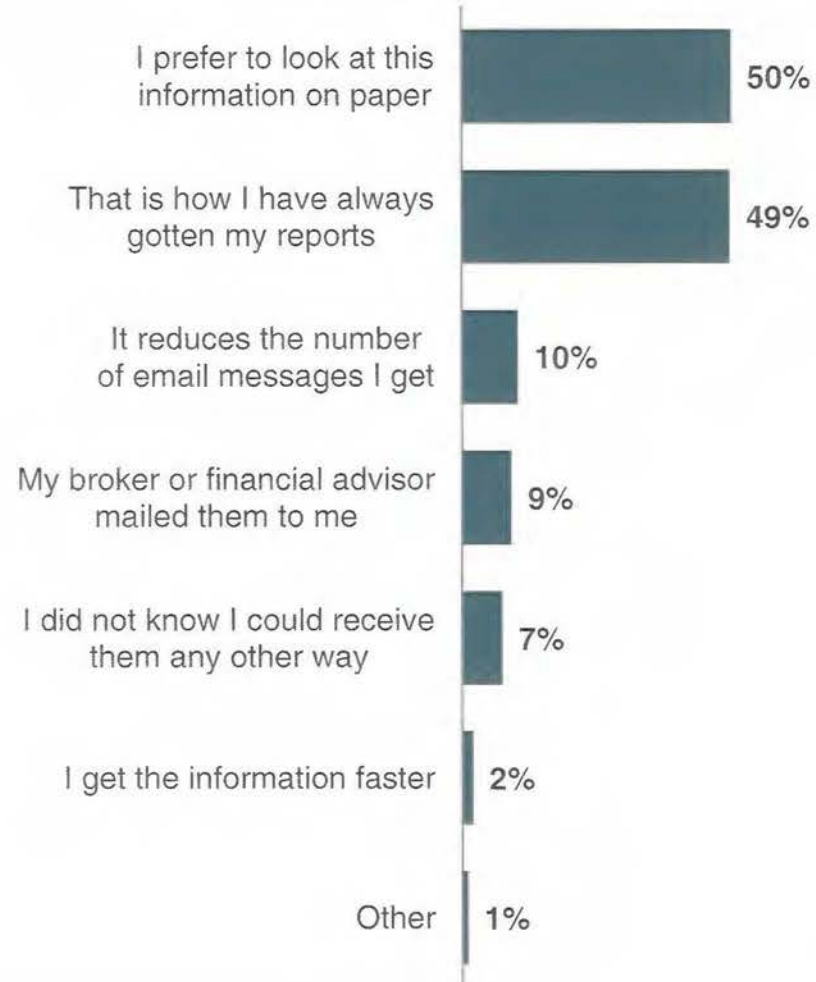
Reasons for Receiving via Mail

Half prefer a mailed copy because they like looking at this type of information on paper.

Another 50% indicate they the mail is simply how they have always gotten their reports.

Reasons for Receiving via Mail

(Among Those Receiving by Mail)



Awareness of Receiving Reports via Email

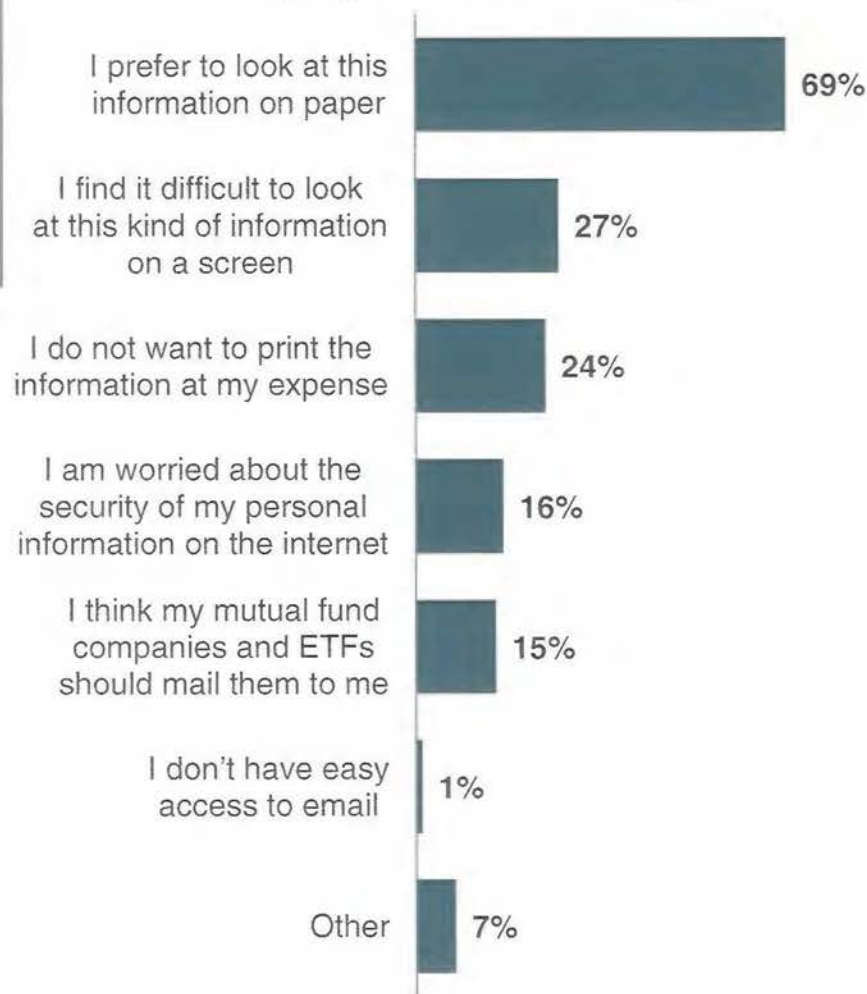
Over three-quarters (83%) are aware that they could get their annual or semi-annual reports electronically via email.

However, they don't choose to do this because they like to look at this type of information on paper.

A quarter find it difficult to look at this type of data on a screen, and another quarter don't want the expense of printing the information.



Reasons NOT Choosing Email (Among Those Aware of Email Delivery)



Base: Respondents who receive report via mail through broker (n=430)

Q3. Are you aware that you can receive annual and semi-annual reports electronically by email?

Base: Respondents who are aware of email delivery (n=357)

Q2. What are the reasons you do not choose to receive annual or semi-annual reports electronically by email? / Multiple responses accepted.

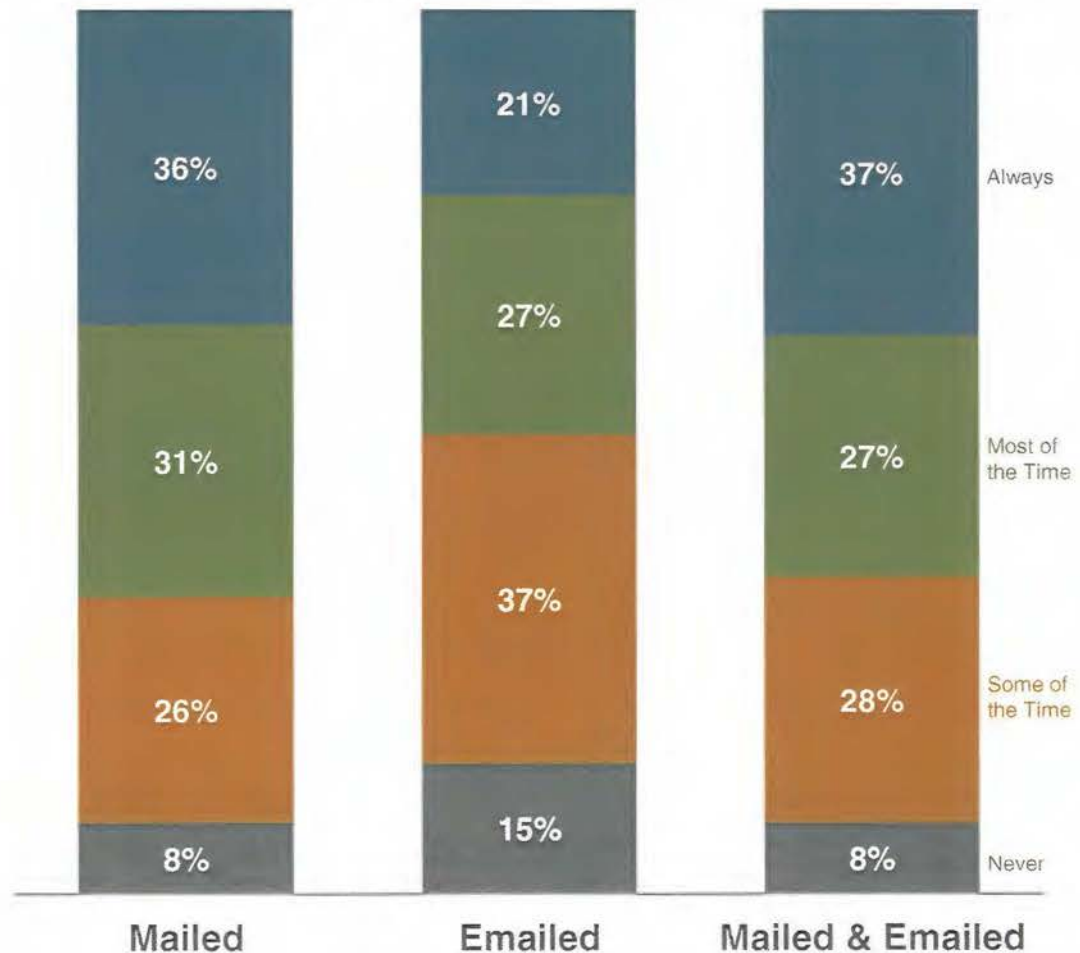
Frequency of Reviewing Report by Delivery Method

Reports are more likely to be reviewed if they are sent through the mail as opposed to email only.

Over a third (36%) say they *always* review the report that is mailed to them. The same is true for those who get their report from both email and mail.

Those who received it only through email are less likely to always review it.

Frequency of Reviewing Report by Delivery Method
(Among Those Who Receive Reports)



Areas of the Report Reviewed

The most reviewed part of the annual or semi-annual report is the performance summary. About three-quarters look at this information.

About half also peruse the financial statements, the portfolio holdings, and the expenses.

The Chairman's letter is the least likely to be read.

Areas of the Report Reviewed
(Among Those Who Review At Least Some of the Time)



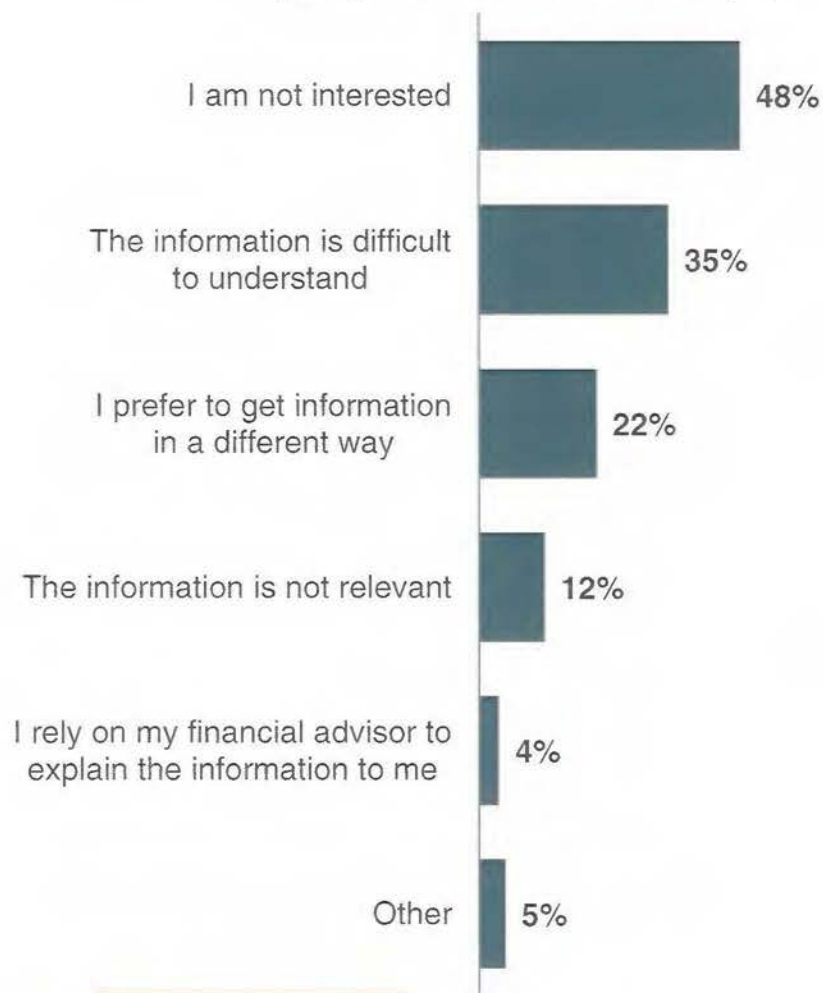
Reasons Why the Report is Never Reviewed

Those who don't review the annual or semi-annual report are largely just not interested.

A third also indicate that they find the information difficult to understand.

Reasons Why Report Never Reviewed

(Among Those Who Never Review the Report)



*Small base size

Preferences in Receiving Reports

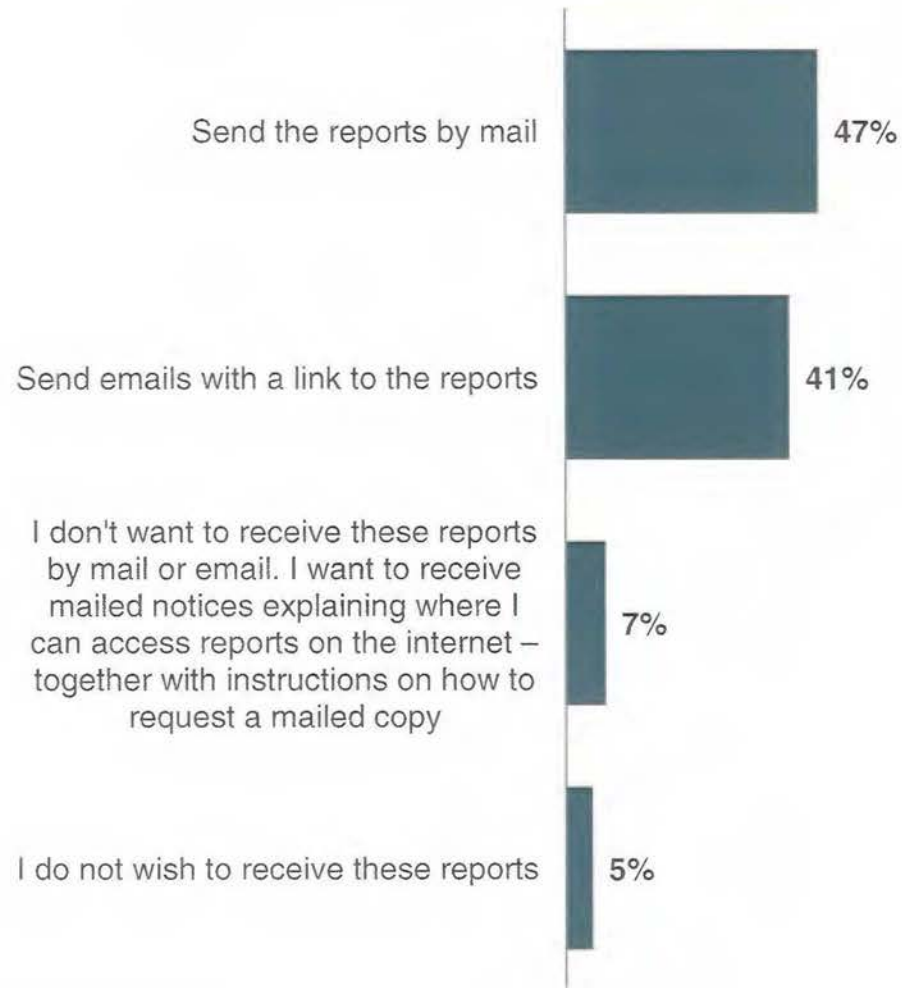


Preferred Method of Receiving Reports Before Concept Exposure

If given a choice of how to receive reports, investors are fairly evenly divided between receiving them by mail or receiving an email link to the reports.

Very few want to receive a notice instead of the report.

Preferred Method of Receiving Reports



Method Likely to Encourage Review Prior to Concept Exposure

Readership of the annual or semi-annual report is more likely to occur if the report is sent via mail.

Readership is least likely if only a notice is sent.

Method Likely to Encourage Review



Method Likely to Encourage Review – By Age

Older investors absolutely prefer to receive the report by mail with their least preferred method being the receipt of the notice.

Younger investors are somewhat split in their preference between receiving the paper version or receiving an email with a link to the report. They are in agreement with the older segment in that their least preferred option is the notice.

Method Most Likely to Encourage Review



Method Least Likely to Encourage Review



18-34 35-64 65+

↑ / ↓ Statistically higher / lower than the other age groups at the 90% confidence level.

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Frequency of Looking At Mailed Reports

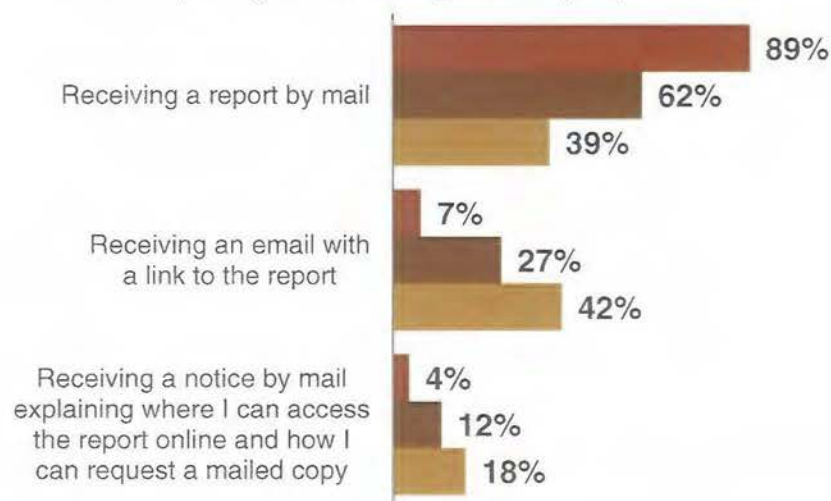
Fewer investors will likely read the reports if they only receive a notice.

Those who currently review more frequently believe receiving the full report in the mail encourages them to review the report; just receiving the notice is least likely to encourage this review.

Receiving an email with a link appears to be the next best option to encourage readership.

Method Most Likely to Encourage Review

(Among Those Receiving Mailed Reports)



Method Least Likely to Encourage Review

(Among Those Receiving Mailed Reports)



Always/Most Some of Time Never

*Small base size

Proposed Notification Method of Report Delivery

Annual and semi-annual reports provide information on investment goals and strategies, performance, expenses, financial statements, and portfolio holdings. Mutual funds and ETF companies are required to mail these reports to investors. When you provide consent to electronic delivery, they are emailed to you instead.

A proposed rule could change how these reports are provided to you if you currently receive them by mail. (If you currently receive them by email, the process would not change.)

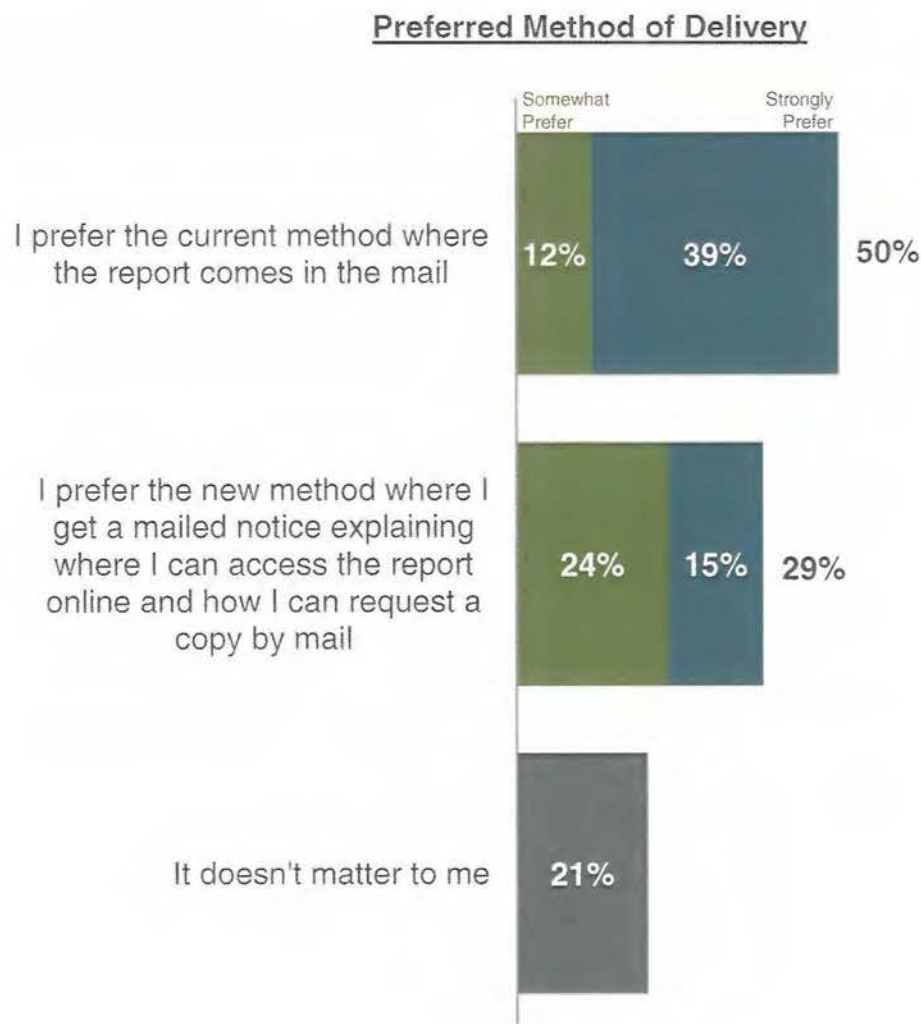
Instead of automatically mailing these reports to investors, mutual fund companies and ETFs would mail you only a simple notice. The notice would not include the report itself; rather it would explain where you can access the report online and how you can request a mailed copy.

Preferred Method of Delivery after Notification Concept Exposure

Most investors (50%) prefer the current method of report delivery where they receive their report through the mail.

Fewer, three in ten, prefer the new proposed method where they receive a mailed notice explaining how they can access the report online.

Two in ten have no preference.



Base: Total Respondents (n=1002)

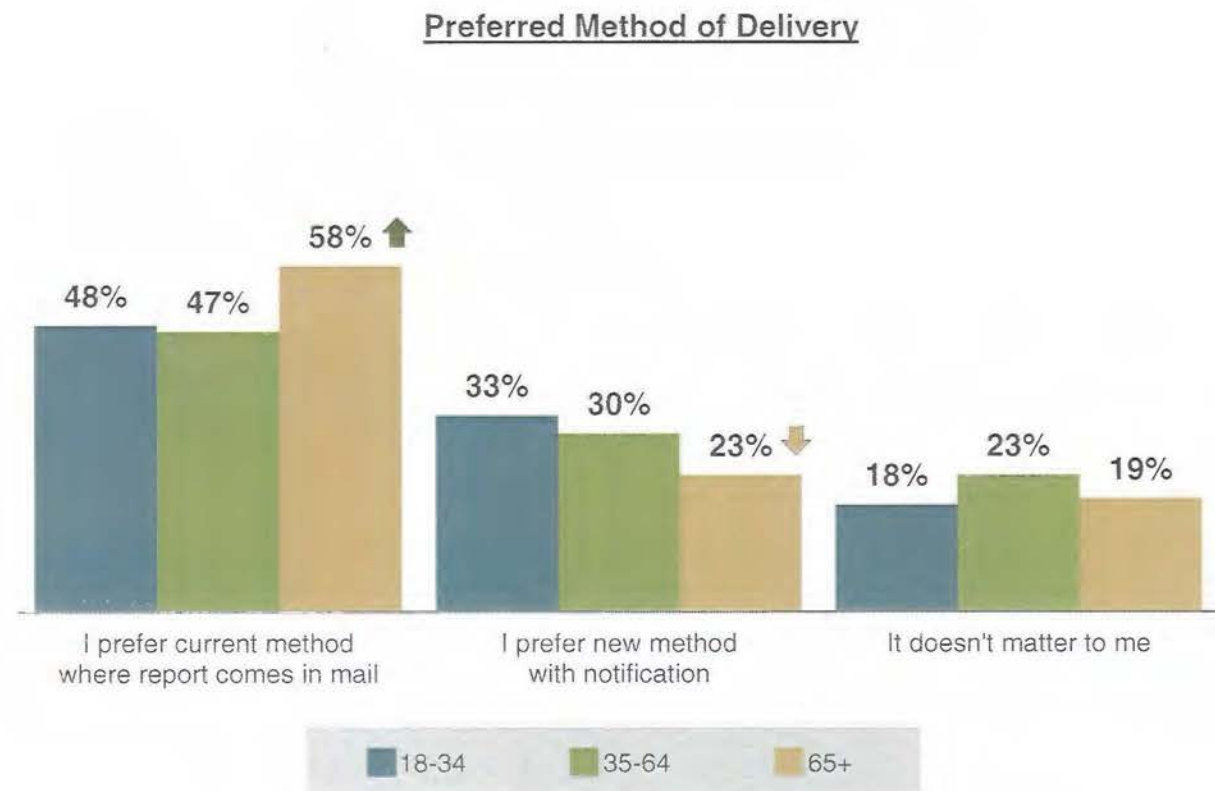
Q12. Which method do you prefer?

Q13. You say that you prefer the current method. Would you say you strongly prefer that method or somewhat prefer that method?

Q14. You say that you prefer the new method. Would you say you strongly prefer that method or somewhat prefer that method?

Preferred Method of Delivery – By Age

All age groups prefer the current method of report delivery.



↑/↓ Statistically higher / lower than the other age groups at the 90% confidence level.

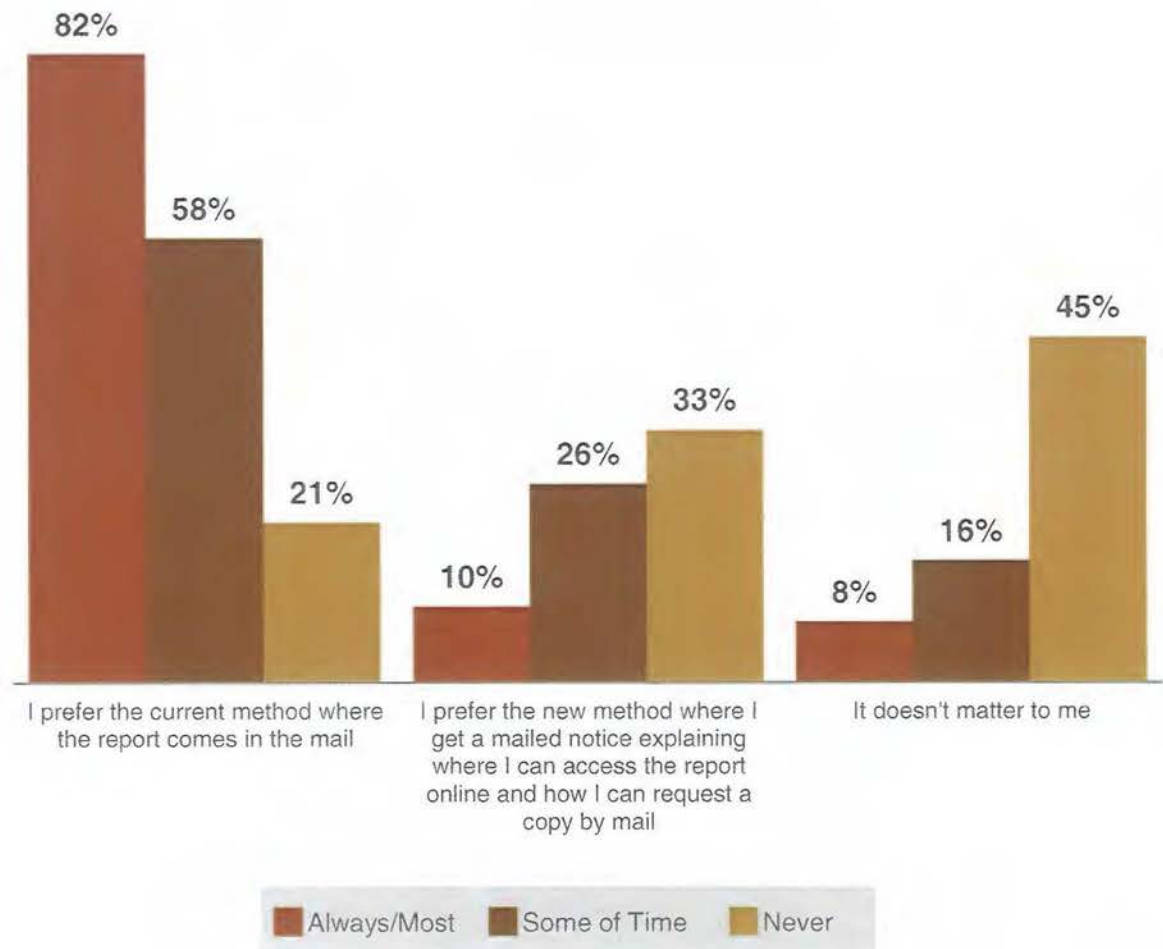
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Preferred Method of Delivery – By Frequency of Looking at Mailed Reports

Those who currently review their annual or semi-annual reports at least some of the time prefer the current delivery method.

Those who never review their reports really don't have a preference. This seems to indicate that the new method wouldn't necessarily prompt them to change their review behavior.

Preferred Method of Delivery
(Among Those Receiving Mailed Reports)



Reasons the Selected Method is Preferred

Prefer Current Mail Method	<i>"Is easy to read, make notes, and refer back and forth within the report."</i>
	<i>"Easier to read on paper. Would get lost among all the other email we get. Easier to flip back & forth to different sections. Also in our 60's, declining eyesight is starting to come into play."</i>
	<i>"If I get it in the mail I know I will sit down and read it. If I have to go to another website to access it or request a paper copy I may not do it."</i>
	<i>"You can read it at your leisure in any location."</i>
	<i>"It is more simple to look at parts of it if it is in paper form."</i>
	<i>"Because I can read it anywhere at any time."</i>
	<i>"Both my husband and I look at them. If (it) came to one of us or the other, we would probably miss some of them. We also discuss what is in them."</i>
	<i>"Don't want to have to take another step to find it online."</i>
	<i>"I want the paper in my hand instead of a small mailing or post card that can easily be lost in the mail."</i>
	<i>"I don't want to have to print the report at my expense to read it properly."</i>
Prefer Proposed Method of Notice in Mail	<i>"If I have the report in hand I will at least scan it. If I have to chase linkages I probably will not bother."</i>
	<i>"I do not have time to look at snail mail. Online format allows me to glance quickly when I have time without creating clutter in my house."</i>
	<i>"Convenient."</i>
	<i>"I rarely look at the reports and would like to conserve paper."</i>
	<i>"Printed reports are a waste of paper."</i>
	<i>"I just do everything online."</i>
	<i>"Less paperwork."</i>
	<i>"It's easier."</i>
	<i>"I can choose if I would like to see them."</i>
	<i>"It is easier to receive and quicker."</i>

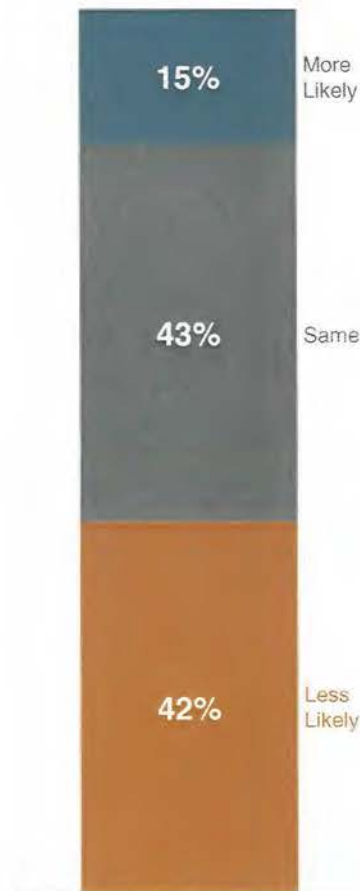
Impact of Receiving Notice of Report's Availability

It is likely that readership of the annual or semi-annual report will decline if the new method is adopted.

Specifically, four in ten say they will be less likely to look at the report if they receive a notice.

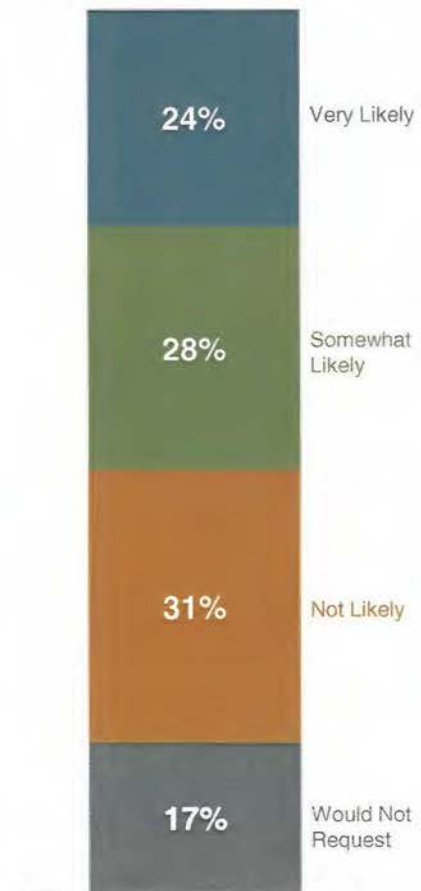
Additionally, half indicate that they probably would not request a hard copy.

Likelihood of Reviewing



If Received Notice

Likelihood of Requesting Hard Copy



If Received Notice

Base: Total Respondents (n=1002)

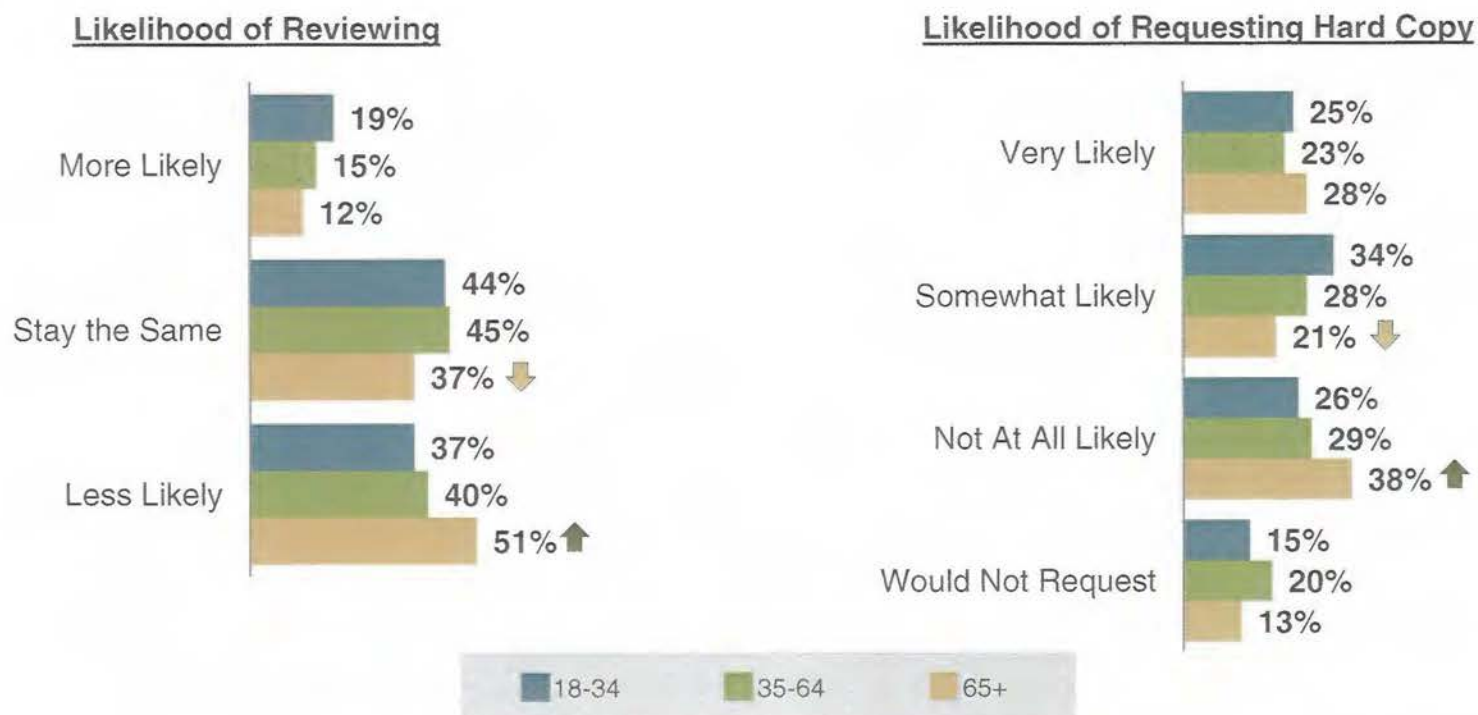
Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?

Q17. If annual and semi-annual reports were no longer automatically mailed to you, how likely would you be to request hard copies by mail?

Impact of Receiving Notice of Report's Availability – By Age

The mailed notification of the report's availability may result in investors being less likely to review the annual or semi-annual report. This is true regardless of age.

Along these same lines, half or more say they would not be likely or would not request a hard copy of the report.



Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)

Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?

Q17. If annual and semi-annual reports were no longer automatically mailed to you, how likely would you be to request hard copies by mail?

↑ / ↓ Statistically higher / lower than the other age groups at the 90% confidence level.

Proposed Summary of Fund Information

Mutual fund companies and brokers would mail investors summaries of the annual or semi-annual report.

The summary would be 4-6 pages in length and would include key information about the fund. It would indicate where to get detailed information on the internet.

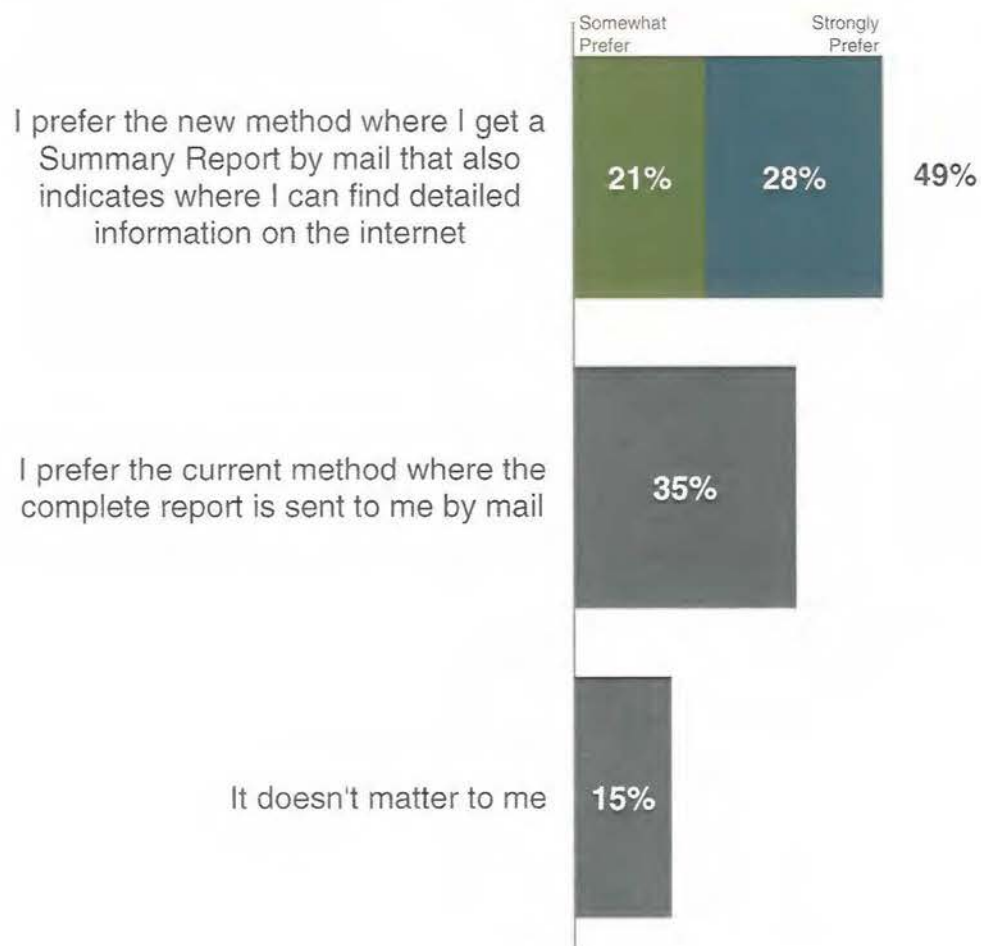
Preferred Method of Delivery

The proposed Summary Report is received positively.

About half (49%) prefer this delivery method.

A third still prefer the current mail method.

Preferred Method of Delivery

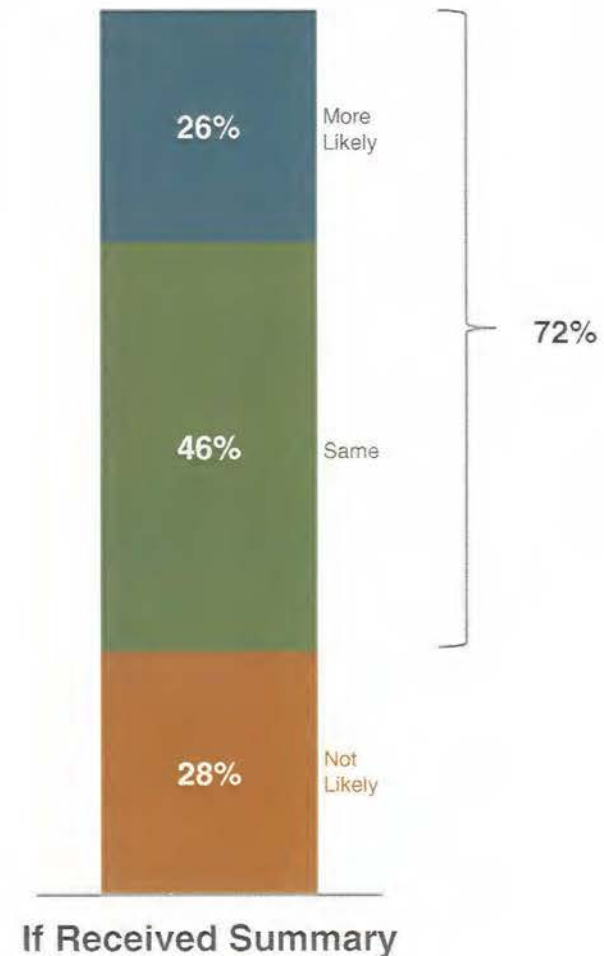


Summary Report Likelihood of Accessing Information

Readership will be the same or higher with a Summary Report.

About three-quarters (72%) of investors indicate that they would be just as likely or more likely to access the detailed report information online if they received a Summary Report.

Likelihood of Accessing



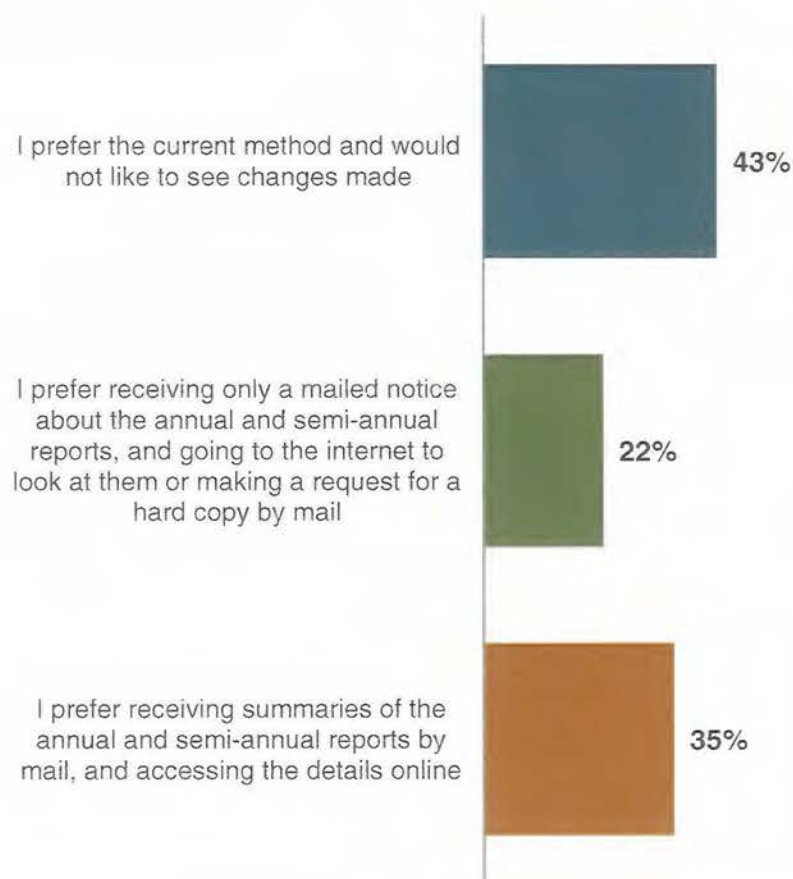
Overall Preferred Method

Investors prefer the current method of annual and semi-annual report delivery.

When given the option of the current method, the Summary Report, or the Mailed Notice, the current method won out, followed by the Summary Report.

The mailed notification was the least popular delivery method.

Overall Preferred Method



Reasons Why Preferred Method Selected

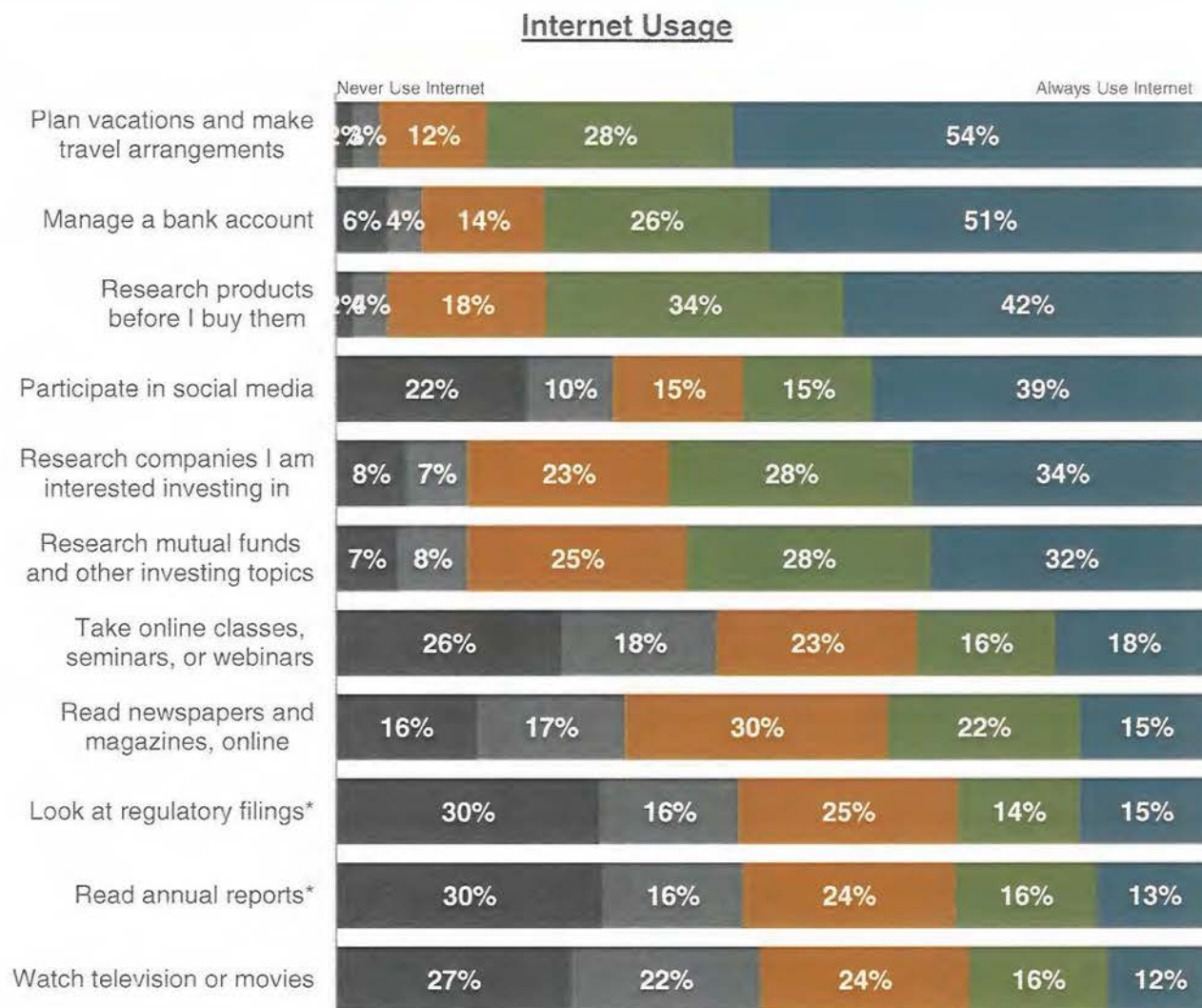
Current Method	<i>"I'd rather get the paper version."</i>
	<i>"I'd prefer to read a hard copy."</i>
	<i>"Much easier to access the information."</i>
	<i>"That way I feel more safe."</i>
	<i>"I like having a paper copy for reference."</i>
	<i>"Don't want to do more work on my part to find out about my mutual funds."</i>
	<i>"It's more convenient."</i>
	<i>"I like to have it where I can easily access several pages at the same time."</i>
	<i>"Without having the full document before me, I am unlikely to read or seek the information."</i>
	<i>"Don't trust financial information on the internet."</i>
Notice	<i>"I'm more likely to look at it."</i>
	<i>"Because I prefer not to get any of this through the mail at all."</i>
	<i>"I would like to save the paper--save the trees!"</i>
	<i>"I don't always check my email."</i>
	<i>"Because it is the most economical."</i>
	<i>"Easy to access."</i>
	<i>"Don't need a hard copy."</i>
Summaries	<i>"It allows me to get the information in different ways."</i>
	<i>"I only want to see the summary anyway. It would save paper."</i>
	<i>"As I am more inclined to go online for everything and prefer less paper."</i>
	<i>"I would like just a summary of the report. I rarely look at the detailed report."</i>
	<i>"Summary has all the info I need."</i>
	<i>"Minimizes waste of paper but still gives thorough access to info."</i>
	<i>"More likely to read a summary than a long report."</i>
	<i>"Because it would be easier and more convenient."</i>
	<i>"More time efficient to read the summary information."</i>
	<i>"I could tolerate a 2-3 page summary arriving in the mail. I would look at it then put it in my recycling."</i>
	<i>"I do not need all the details...only the return on investment, additional shares purchased (assuming reinvestment), and total value of each quarterly dividend/reinvestment."</i>

Internet Usage

The internet is used frequently for activities such as making travel arrangements and managing a bank account.

Many also use the internet to research companies in which they are interested in investing. Similarly, research is done on mutual funds and other investing topics.

Few, however, choose to use the internet to look at regulatory filings or read annual reports.



Base: Total Respondents (n=1002)

Q24. People use the Internet for many things. With a 5 being you "Always" use the internet to a 1 being you "Never" use the internet, please rate how frequently you accomplish the following activities using the internet.

*Attribute added after soft launch (n=900)

Respondent Profile



Investor Profile

Investor Profile	Total
	n=1002
Number of Funds Owned	
1	18%
2 to 5	53%
6 to 10	19%
More than 10	10%
Length of Fund Ownership	
Less than a year	6%
Between one year and five years	26%
Between five years and ten years	21%
More than 10 years	47%

Investor Profile	Total
	n=1002
Household Financial Assets	
Under \$50,000	14%
\$50,000 to less than \$100,000	19%
\$100,000 to less than \$200,000	19%
\$200,000 to less than \$500,000	18%
\$500,000 or more	30%
Type of Investor (Forrester-Defined)	
Soloist	49%
Validator	44%
Delegator	8%
Involvement with Investing	
Engaged	67%
Too busy	22%
Help me	9%
Tell me what to do	1%

Respondent Profile

Respondent Profile	Total
	n=1002
Gender	
Male	50%
Female	50%
Age	
18 - 24 years	3%
25 - 34 years	19%
35 - 49 years	19%
50 - 64 years	34%
65 - 74 years	21%
75+ years	4%

Respondent Profile	Total
	n=1002
Annual Household Income	
Under \$50,000	15%
\$50,000 - \$99,999	39%
\$100,000 or more	46%
Education Level	
No college	4%
Some college - no degree	18%
4-year college degree	43%
Post-graduate degree	34%

FORRESTER®

CHALLENGE THINKING. LEAD CHANGE.

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How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior?

**Forrester Consulting Report for Broadridge Financial
Solutions**

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August 7, 2015

Agenda

- › *Project overview*
- › *What the research reveals*
- › *Current behaviors and preferences*
- › *Impact of proposed changes on behaviors and preferences*
- › *Recommended response positioning*

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Project overview

Project background

- › In response to proposed SEC changes in how investors access annual and semiannual mutual fund reports, Broadridge Financial Solutions commissioned Forrester Research to assess the impact of the proposed SEC changes on future behaviors and preferences.
- › The research addressed the following key question: How might the proposed rule on accessing annual and semiannual mutual fund reports affect investor behavior?

Study methodology

- › A custom online survey was designed and administered to US individuals who hold mutual funds and/or exchange-traded funds (ETFs) in at least one of the following accounts:
 - Discount direct brokerage accounts
 - Advisor-based brokerage accounts
 - IRAs
 - Mutual fund accounts
- › Only those respondents who recalled receiving shareholder reports in the past 12 months were surveyed. All survey respondents are involved in decisions on mutual funds and ETFs that they buy or sell.

Project overview (cont'd)

- › The survey was fielded from June 19 through July 6 and yielded 1,037 completes.
- › Survey respondents answered a series of questions about their current behavior and preferences. The proposed rule was then described to respondents in detail, and respondents answered questions regarding potential future behavior and preferences if the proposed change were to be implemented.
- › The respondent sample is representative of mutual fund and ETF holders in the US. In order to have a representative population, quotas were applied on gender, age, education, and annual household income based on data obtained from Forrester's 2014 North American Consumer Technographics® Financial Services Survey.

Key definitions for subgroup analysis

- **Lookers:** Individuals who always, most of the time, or some of the time look at annual and semiannual mutual fund reports when they receive them.
- **Mail Receipt Lookers:** Individuals who receive fund reports by mail and are Lookers.
- **Non-Lookers:** Individuals who never look at shareholder reports when they receive them.

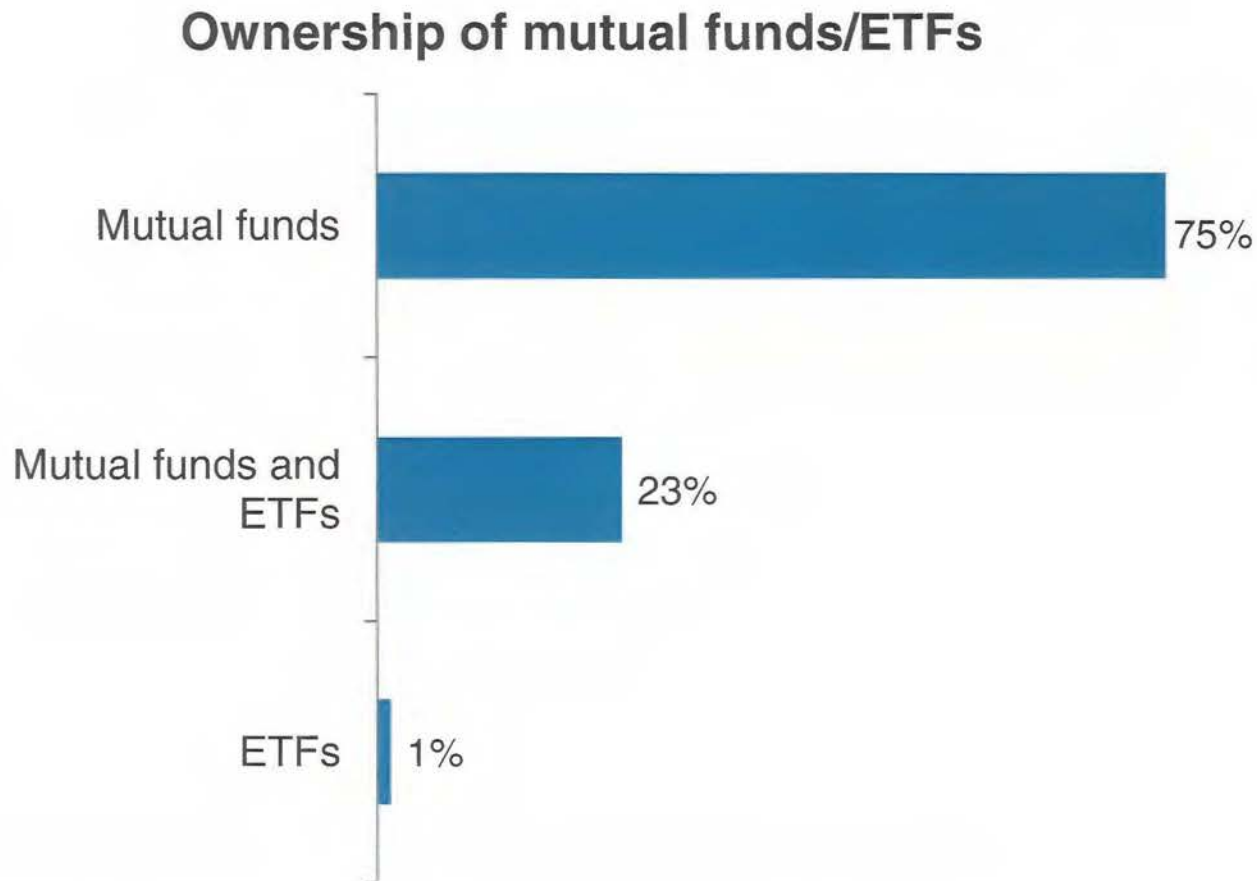
Agenda

- › *Project overview*
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What the research reveals

- › A strong majority of respondents prefer to receive annual and semiannual fund reports by traditional mail; older investors in particular prefer the mail channel.
- › A majority of respondents prefer the way they currently receive reports — by mail — to the approach proposed by the SEC. They not only value receiving the reports by mail as a means of making them aware of the reports, but many also save these mailed copies of the reports for future use.
- › Among all the groups most affected by the proposed SEC change, those who look through reports they receive by mail (Mail-Receipt Lookers) are less likely to continue looking and reading these reports if the proposed SEC change is implemented.
- › Respondents who do not favor the proposed rule believe that it will take additional effort and expense to obtain reports via mail, and they believe this change will add inconvenience.
- › When presented with three alternative options, the majority of respondents say they would prefer to receive a summary report by mail. All investors across age groups and demographics agree that the most important piece of information is the performance summary.
- › Forrester Consumer Technographics data supports the survey findings, as investors are already less likely to read annual reports online than to conduct many other online activities.

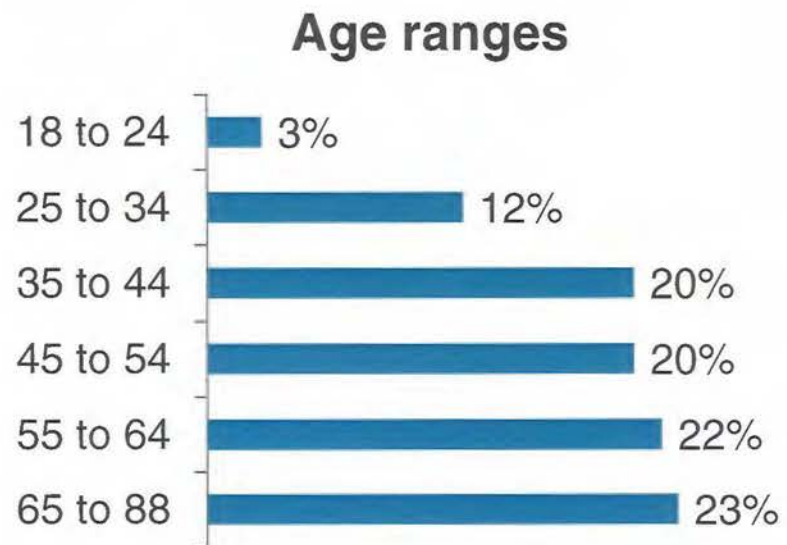
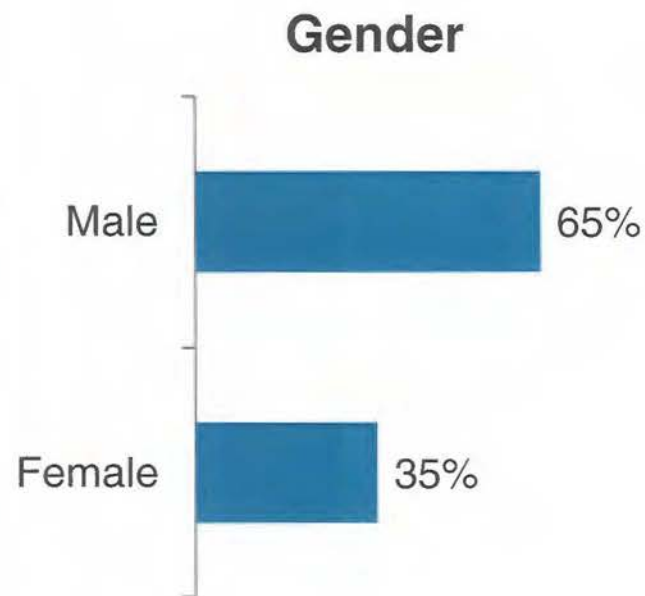
Nearly all respondents own mutual fund accounts



Base: 1,037 total respondents. Percentages do not add up to 100% due to rounding

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.06.R)

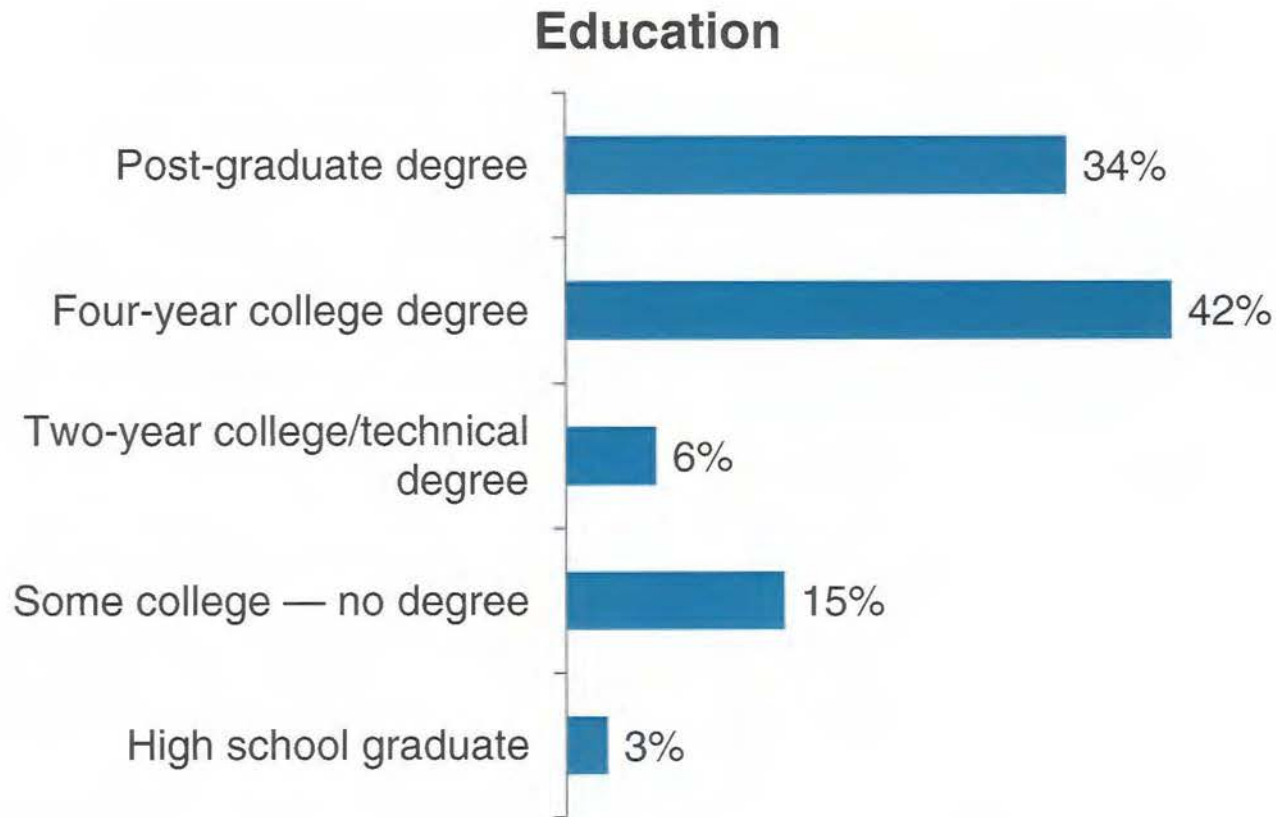
Most respondents are male; 85% of respondents are 35-years-old or older



Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey 2015, (Q.02.S)

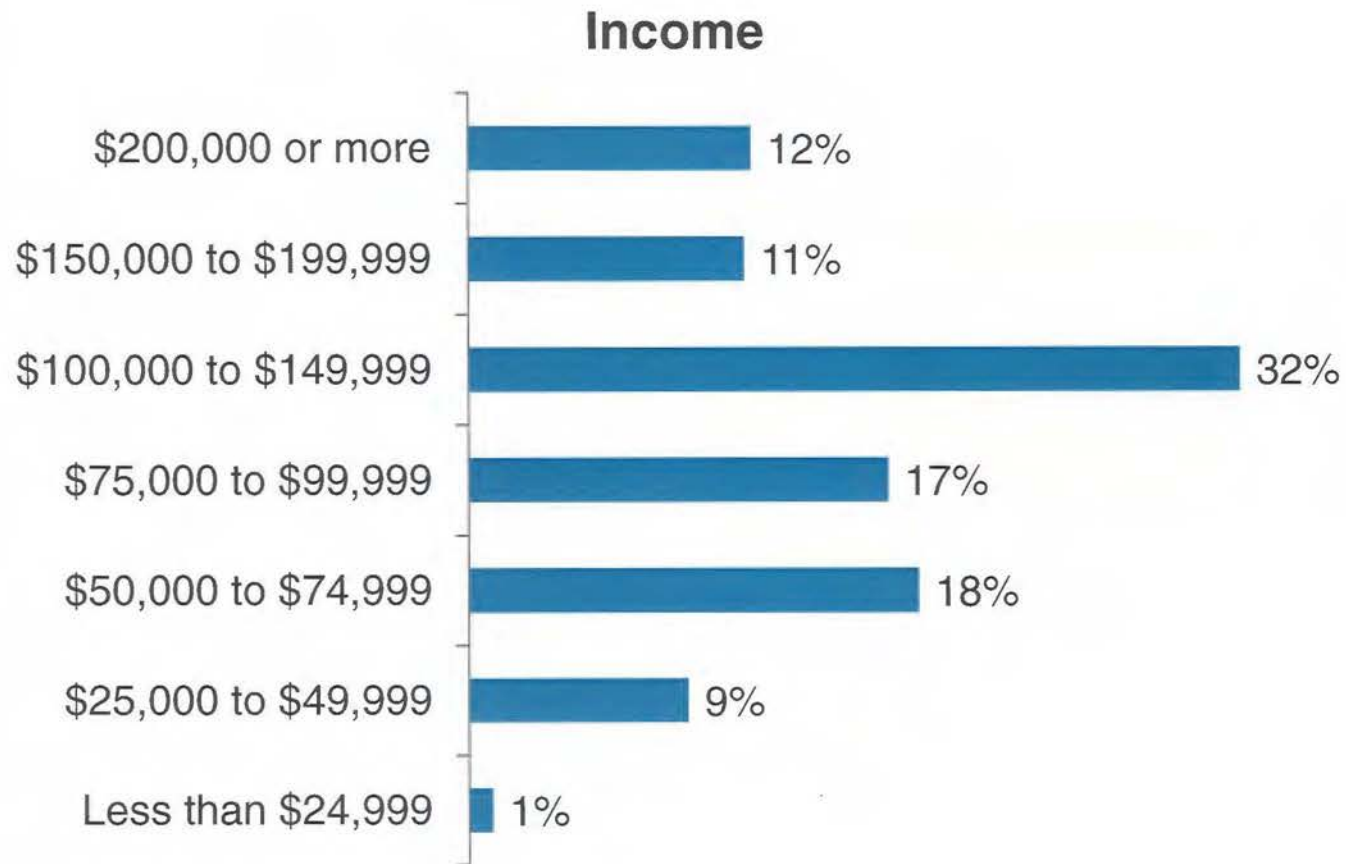
Over 80% of respondents have a college degree



Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.04.S)

Over half of respondents have an annual income of \$100K+



Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.05.S)

Agenda

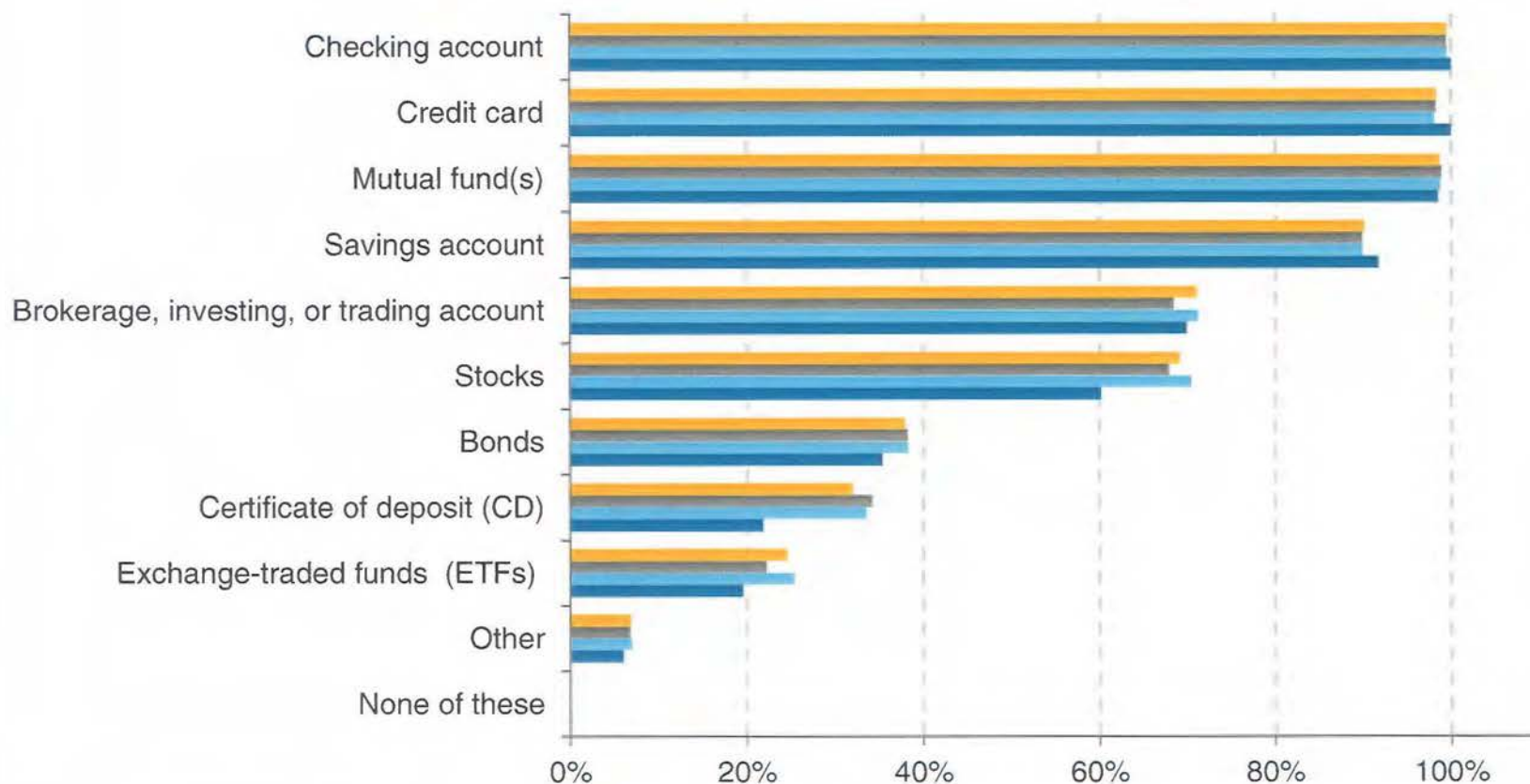
- › *Project overview*
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Ownership of financial products is even across main subgroups of mutual fund owners

“Which of the following financial products/accounts do you currently have?”

(Select all that apply)

■ Total ■ Receive by Mail ■ Lookers ■ Non-Lookers



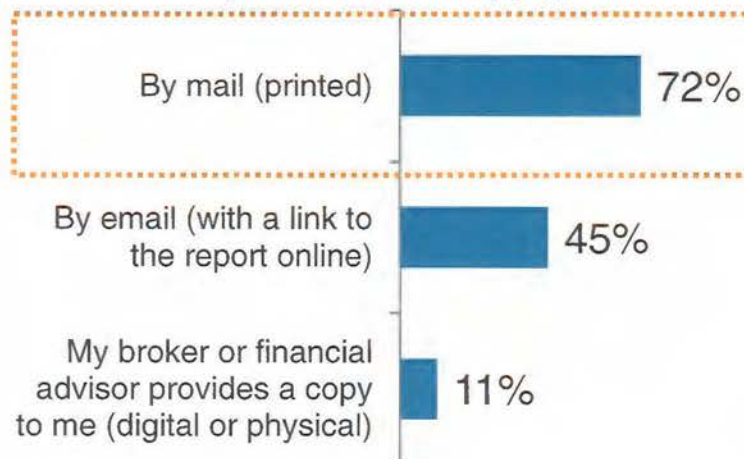
Base: Total: 1,037; Receive by Mail: 751; Lookers: 904; Non-Lookers: 133

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.06.S)

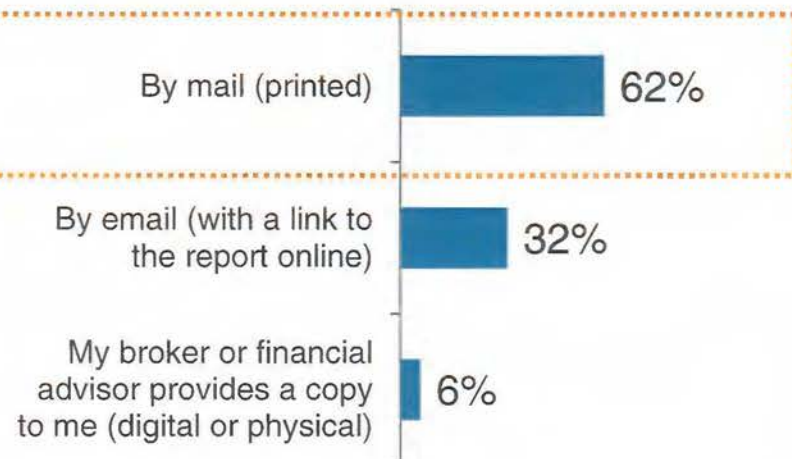
Mail is the primary method for receiving annual and semiannual reports

“How do you currently receive or get shareholder reports (annual reports and/or semiannual reports) from your mutual fund and/or ETF companies?”

(Select all that apply)



“Which of the following is *your primary method* for receiving or getting shareholder reports (annual and/or semiannual fund reports) from your mutual fund and/or ETF companies?”



Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.1.M and Q.2.M)

Investors are less likely to read annual reports online than to conduct many other activities

“Which of the following activities have you performed on the Internet in the past six months?”

(Select all that apply)

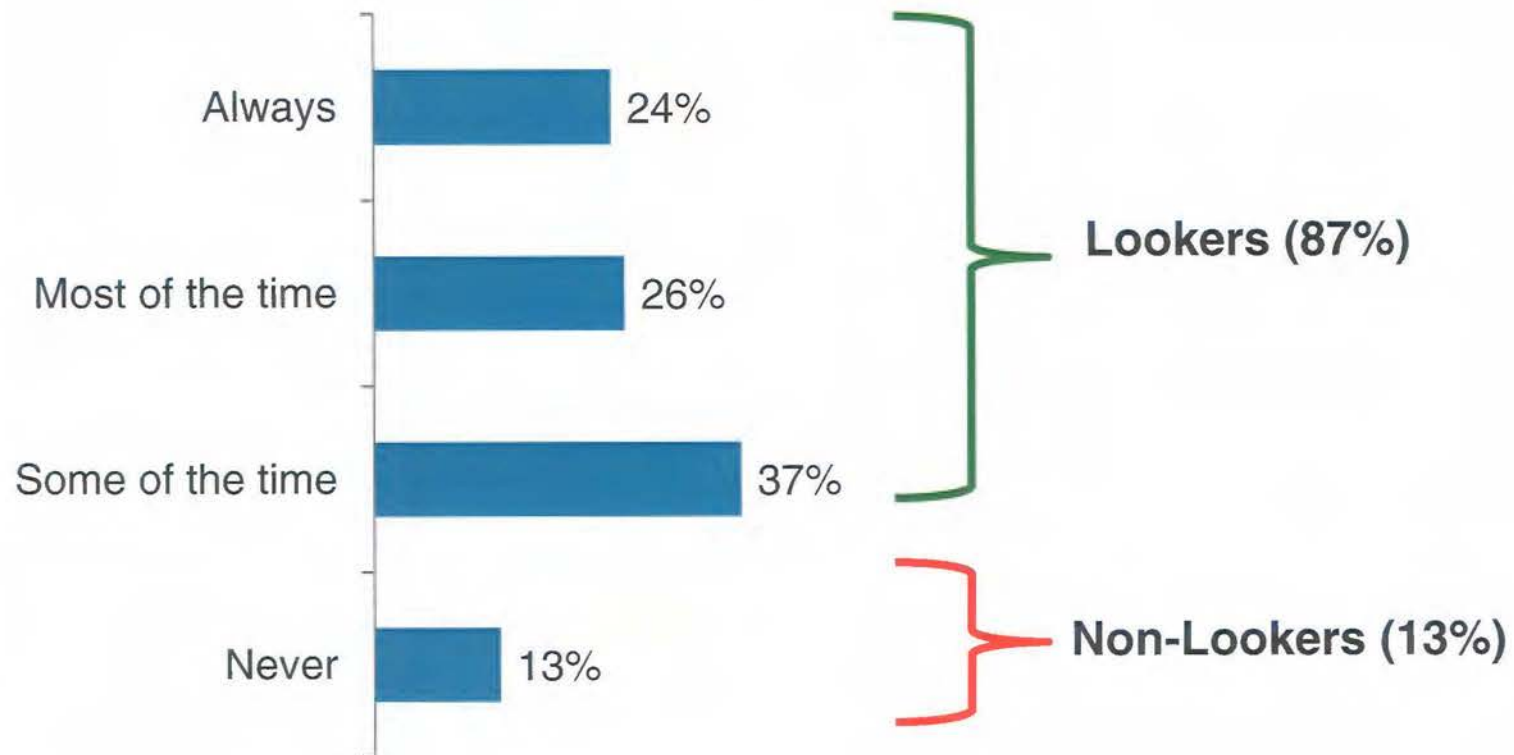


Base: 751 Receive by Mail

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.02.DM)

The majority of those receiving reports do take the time to “look”

“When you receive or get shareholder reports (annual and/or semiannual fund reports), how often do you look at them?”



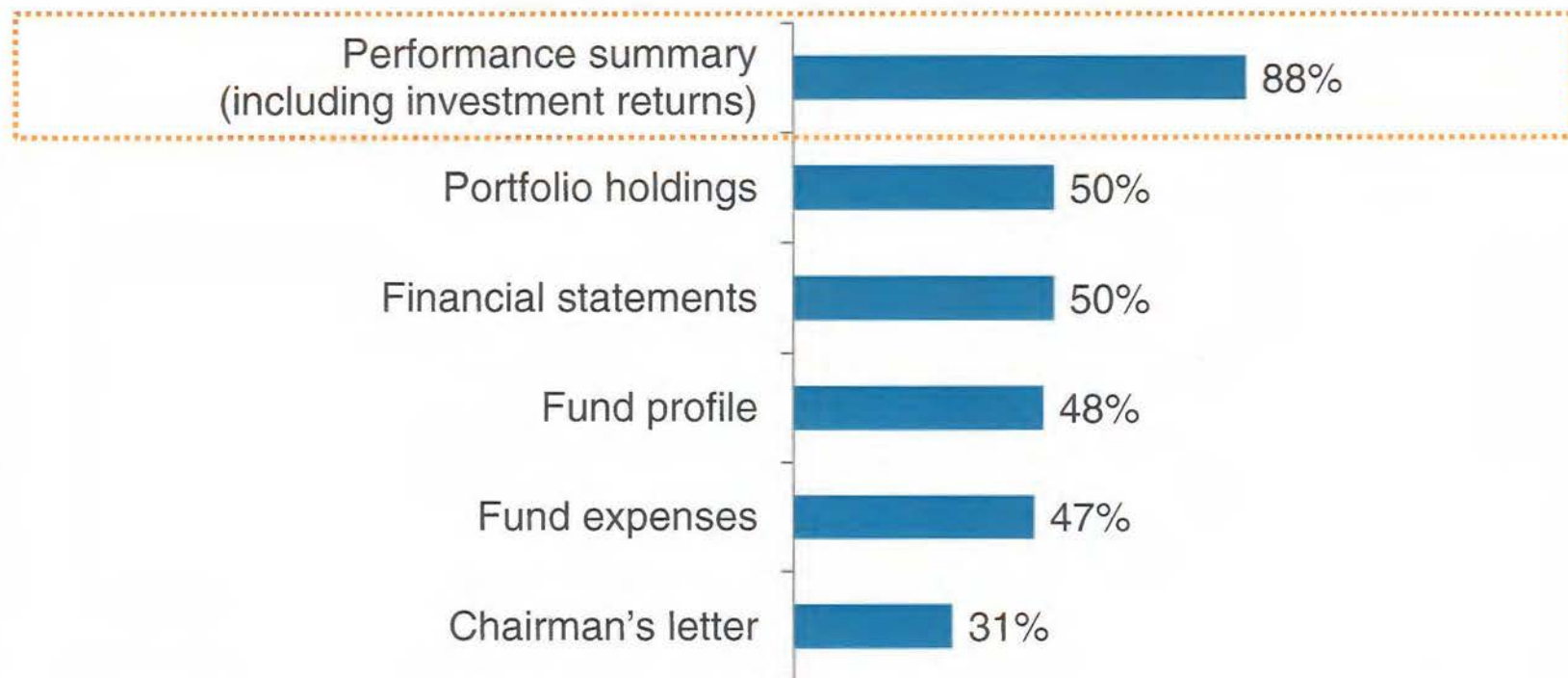
Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.3.M)

“Lookers” care most about the performance summary

“What information do you look at in your annual reports and/or semiannual reports from mutual fund or ETF companies?”

(Select all that apply)

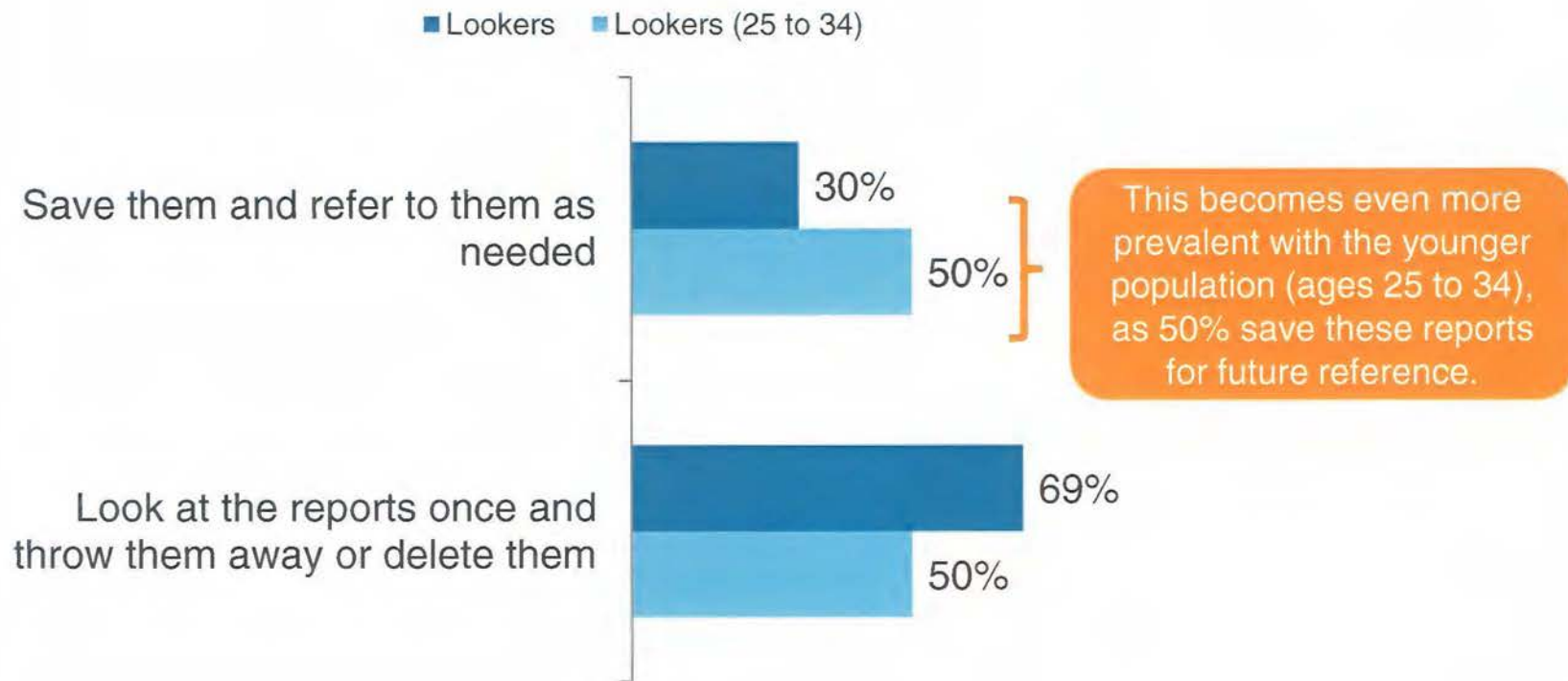


Base: 904 Lookers

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.6.M)

About a third of “Lookers” save these reports for future reference — especially younger investors

“Which of the following represents what you do with annual reports and/or the semiannual reports after you have reviewed them?”

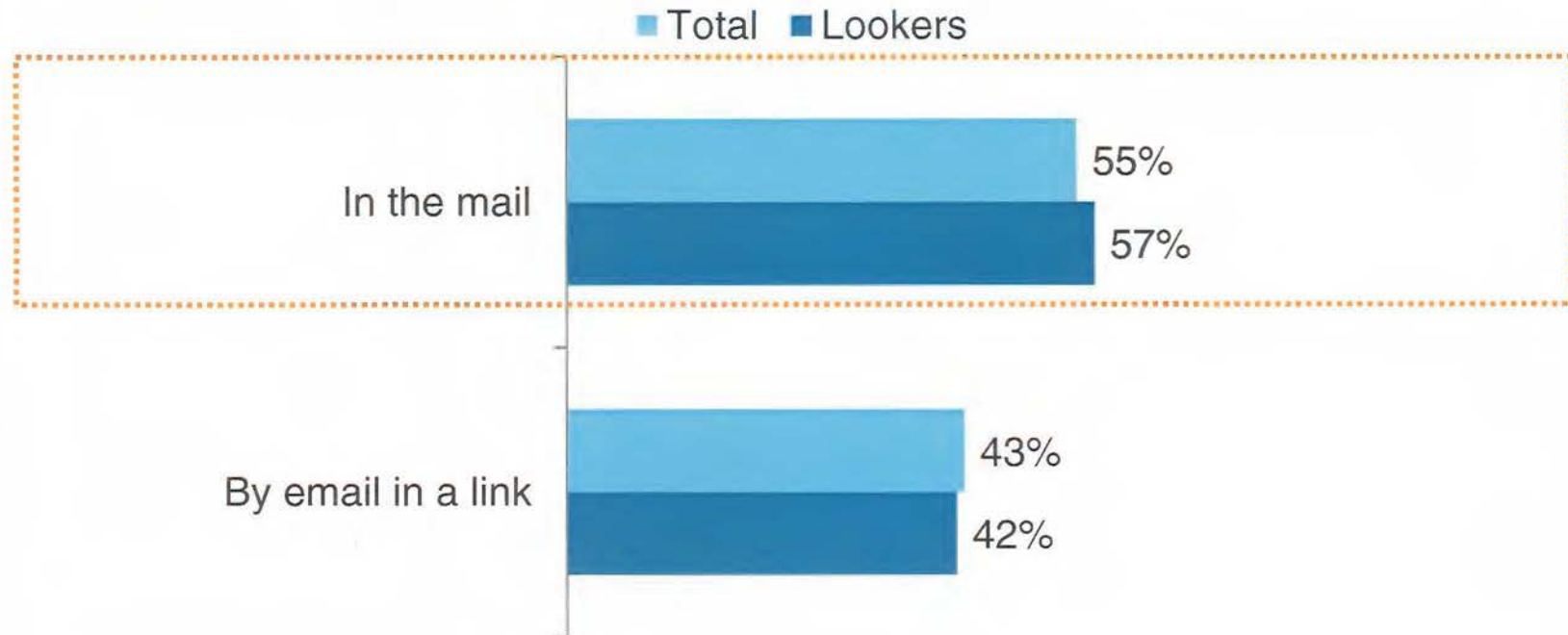


Base: 904 Lookers; Lookers Ages 25 to 34: 113

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.11.M)

Over half of all respondents and “Lookers” *prefer* to receive reports via mail . . .

“How do you currently prefer to receive your annual and semiannual fund reports?”

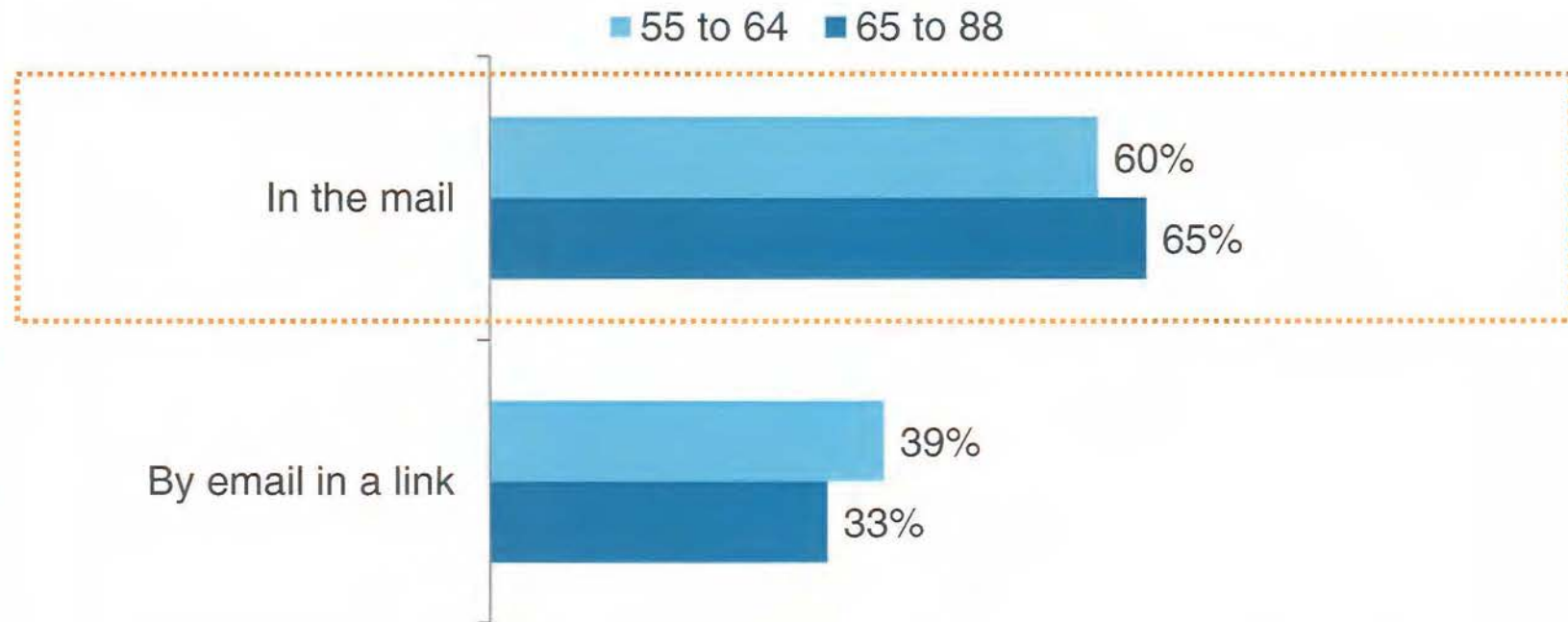


Base: Total: 1,037; 904 Lookers

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.12.M)

... and mail is even more preferred by investors who are 55 years and older

“How do you currently prefer to receive your annual and semiannual fund reports?”



Base: 55 to 64: 226; 65 to 88: 234

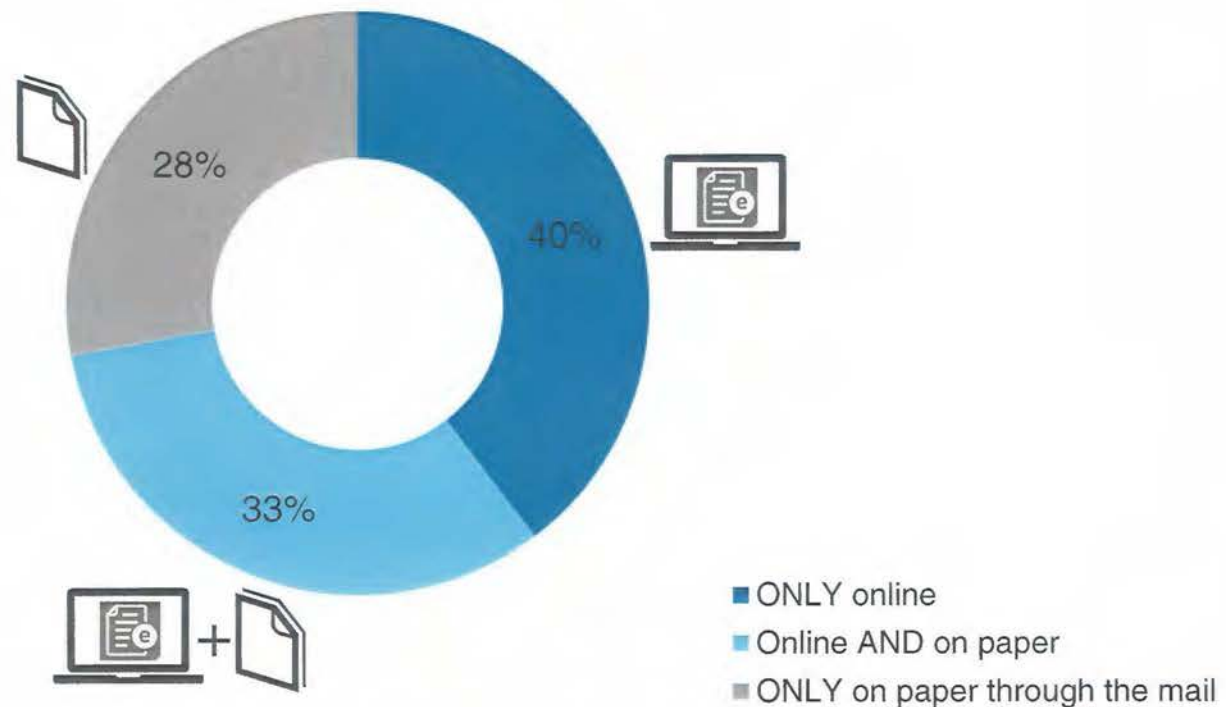
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.12.M)

Most fund investors still prefer to receive account statements on paper through the mail, according to Forrester's Consumer Technographics research

“How do you receive statements for the following financial products/accounts from your financial services providers?”

Mutual fund/ETFs

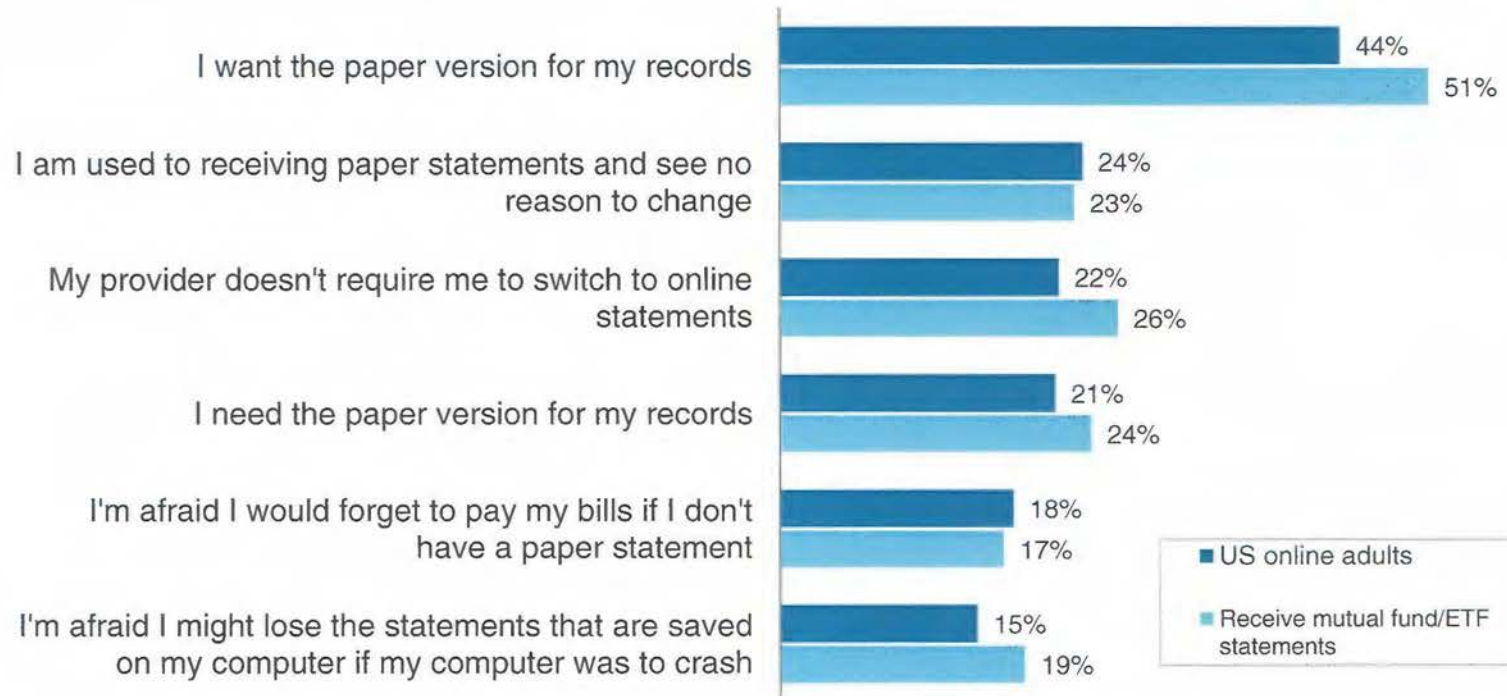
Type of statements among those who receive for mutual fund/ETFs



Base: 1,142 US online adults who receive mutual fund/ETFs statements. Percentages do not add up to 100% due to rounding
Source: North American Consumer Technographics Financial Services Online Benchmark Recontact Survey, 2014

The research also shows that across all financial products, consumers cite strong reasons for continuing to receive paper statements

**“Why have you chosen to continue receiving paper statements for your financial products/accounts?”
(Any financial product)**



Base: Respondents who receive statements for *any* financial products/accounts by “only on paper through the mail” or “online and on paper”: 7,064 US online adults; 976 US online adults who receive mutual fund/ETF statements

Source: North American Consumer Technographics Financial Services Online Benchmark Recontact Survey, 2014

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The proposed SEC rule was described to survey respondents . . .

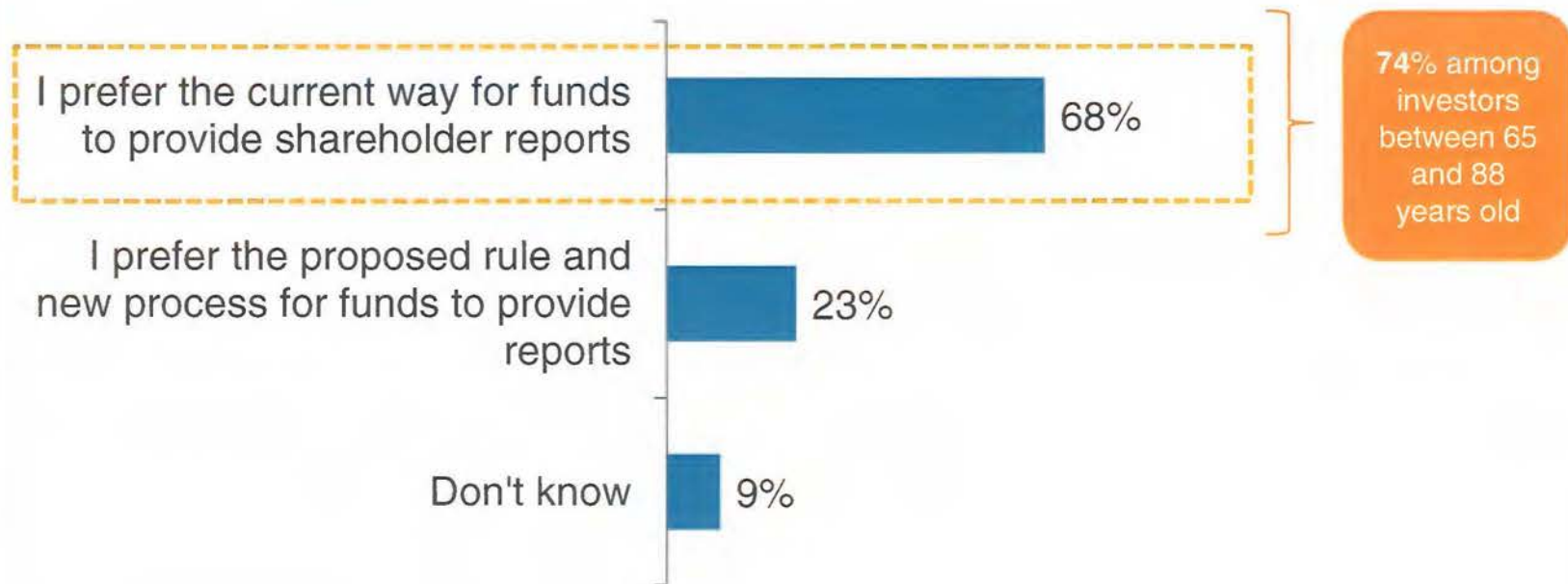
“Currently, mutual funds and ETFs are required to mail or email reports to investors. A proposed rule would change the way in which reports are provided.

That is, if you currently receive a report in the mail, you would instead receive only a notice in the mail.

The notice would explain the steps you can take to access the report online and to request a mailed copy.”

Seven out of 10 investors prefer the current way they receive reports (by mail) to the proposed approach

“Do you prefer the current way or the proposed way for funds to provide shareholder reports?”



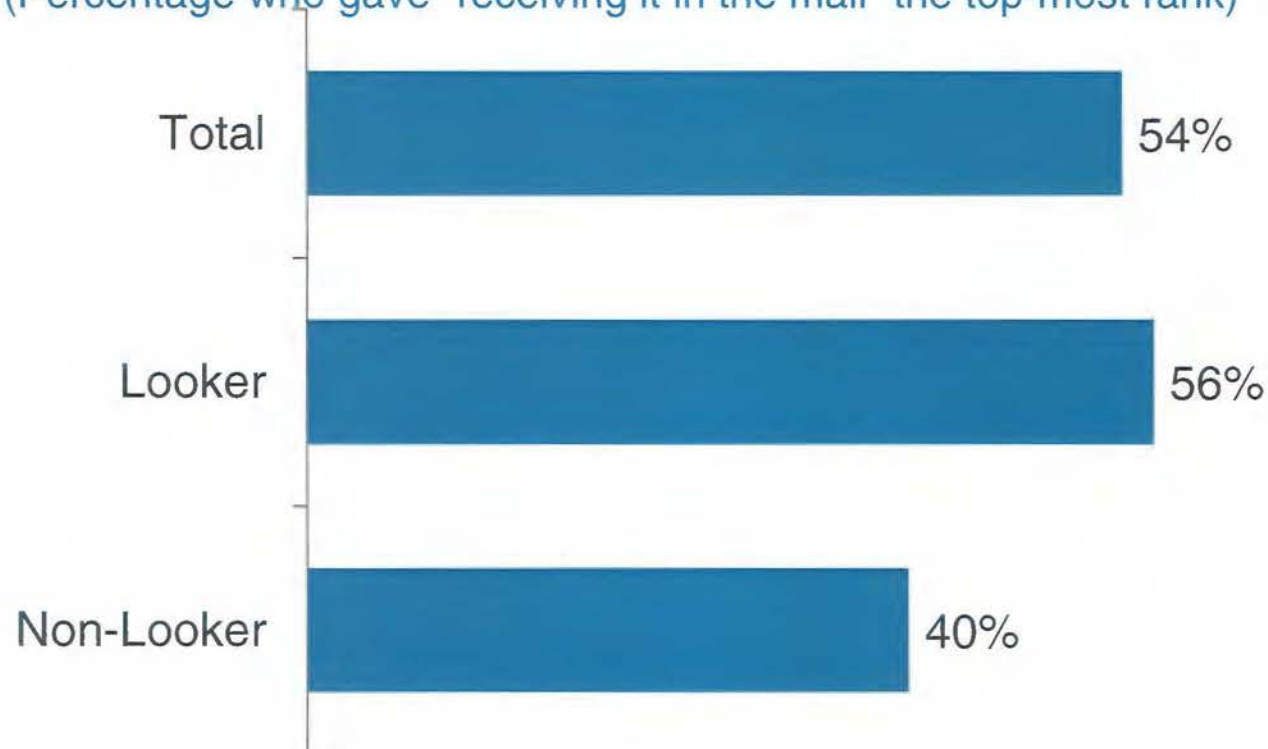
Base: 751 Receive by Mail

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.16.M)

For more than half of investors, receiving printed fund reports via mail is most likely to make them aware these reports exist

“Which of the following ways of receiving your annual and semiannual fund report will most likely make you aware of its existence?”

(Percentage who gave “receiving it in the mail” the top-most rank)

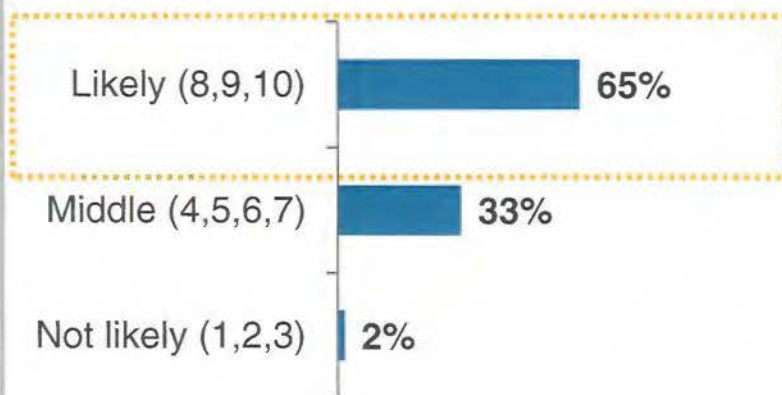


Base: Total: 1037, Lookers: 904, Non-Lookers: 133

Source: Forrester Research and Broadridge Custom Survey , 2015 (Q.17_01.M)

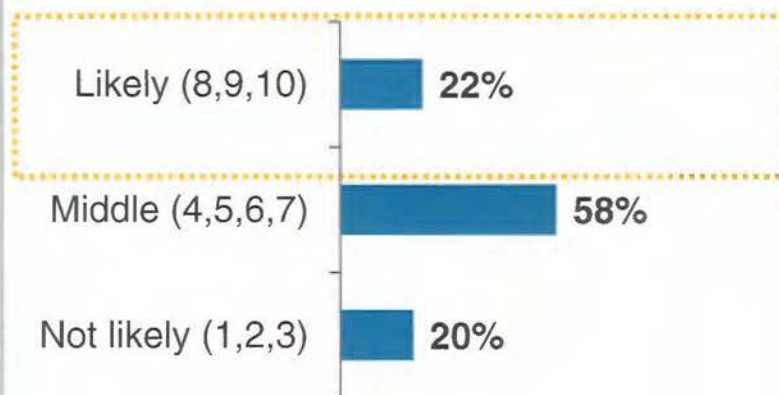
Changing the way investors receive reports by mail will reduce the likelihood that investors will look at reports in the future

“How likely are you to look at or review annual and/or semiannual fund reports in the future?”
(With the current process)



Currently, 65% of investors are *likely* to look at or review annual fund reports in the future.

“Would the proposed rule make you more likely or less likely to look at your annual and semiannual fund reports in the future?”



Considering the proposed change, *only 22%* of investors will be *likely* to look at these reports.

Base: 659 Mail-Recipient Lookers

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.10.M.R3 and Q.14.M.R3)

Investors believe the proposed change will result in greater difficulty and inconvenience for them

“What represents the main reasons why you think the proposed rule would make it more difficult for you to get and look at this report?”

(Select all that apply)

■ Total ■ Receive by Mail ■ Looker

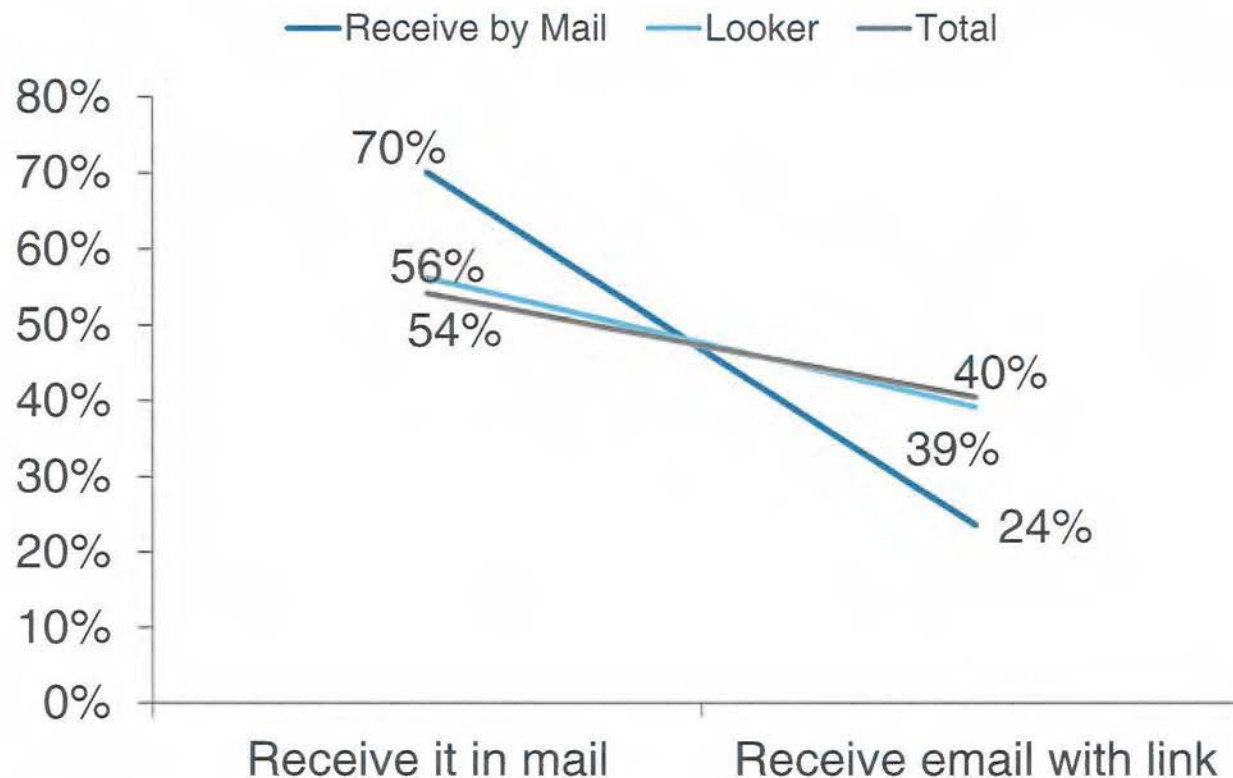


Base: Total: 320; Receive by Mail: 311; Lookers: 274

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.15.M)

Among investors who currently receive reports by mail, likely awareness of reports would decline significantly (70% to 24%) if they instead receive an email with a link

“Which of the following ways of receiving your annual and semiannual fund report will most likely make you aware of its existence?”



Base: Total: 1,037, Receive by Mail: 751; Lookers: 904

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.17_01.M and Q.17_02.M)

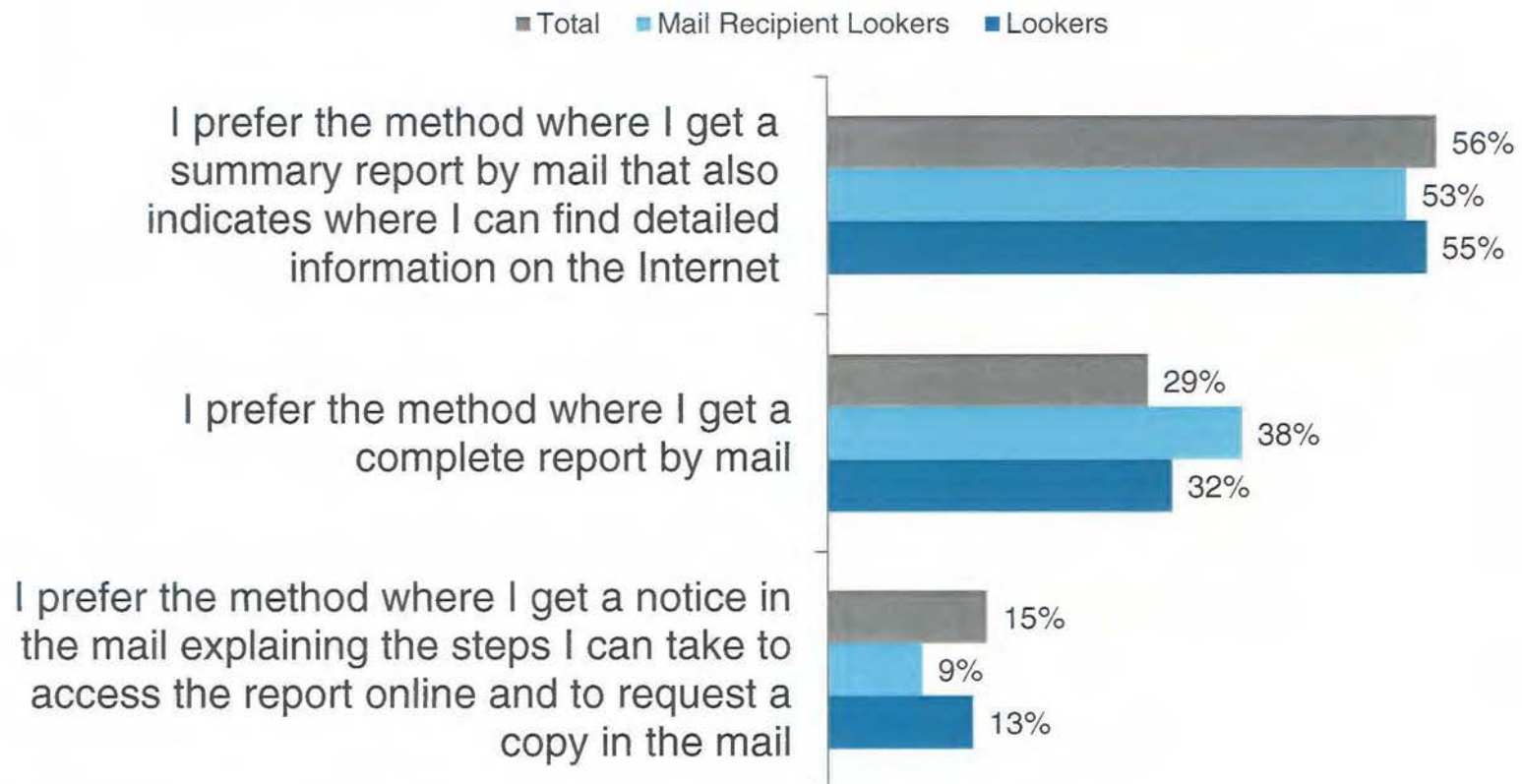
In thinking about the proposed SEC rule, Forrester presented respondents with three different options for how they prefer to obtain annual and semiannual reports:

- › *I prefer the method where I get a summary report by mail that also indicates where I can find detailed information on the Internet.*
- › *I prefer the method where I get a complete report by mail.*
- › *I prefer the method where I get a notice in the mail explaining the steps I can take to access the report online and to request a copy in the mail.*

When we presented respondents with the three options, receiving the summary report by mail was most preferred

■ ■ ■

“Thinking about all the options presented here, which method of obtaining annual and semiannual fund reports do you prefer?”

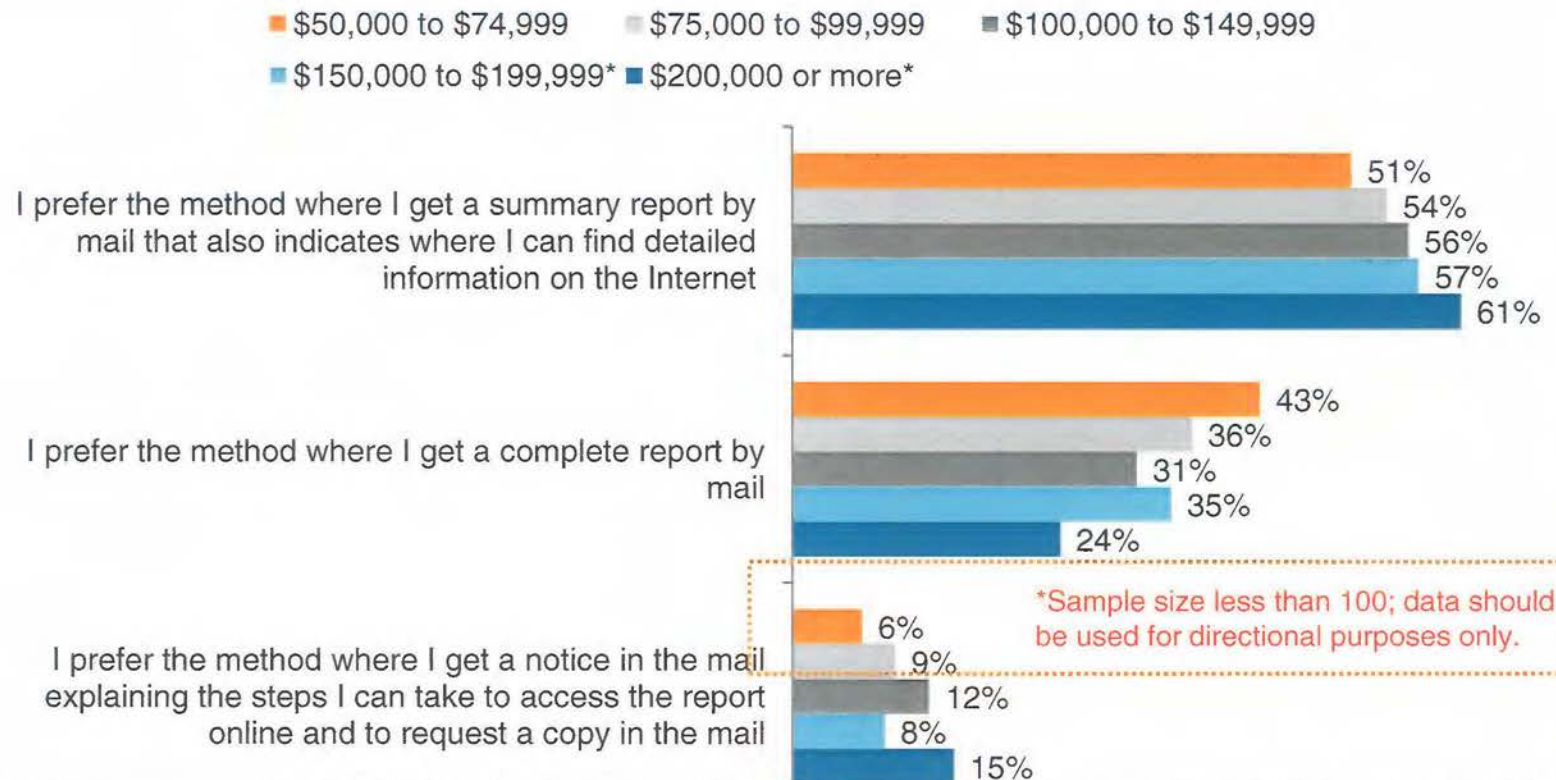


Base: Total: 1,037; Mail Recipient Lookers: 659; Lookers: 904

Source: Forrester Research and Broadridge Custom Survey 2015 (Q.20.M)

... and became more popular as income level increased

“Thinking about all the options presented here, which method of obtaining annual and semiannual fund reports do you prefer?”



Base: \$200,000 or more: 82; \$150,000 to \$199,999: 84; \$100,000 to \$149,999: 242; \$75,000 to \$99,999: 129; \$50,000 to \$74,999: 143 respondents who receive by mail

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.20.M)

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Recommended response positioning

Our survey of a representative sample of mutual fund and ETF shareholders in the US reveals that:

- › Changing the way fund shareholders receive reports will reduce the likelihood that shareholders will be aware of or look at fund reports in the future.
 - Among shareholders who currently receive reports by mail, likely awareness of reports would decline significantly (70% to 24%) under the approach proposed by the SEC.
 - Shareholders who look through reports they receive by mail (“Mail-Receipt Lookers”) say they are less likely to continue looking and reading these reports if the proposed SEC change is implemented.
- › A clear majority prefer the way they currently receive reports — on paper in the mail — to the approach proposed by the SEC. This is particularly true of older shareholders.
 - Most fund shareholders value receiving reports by mail as a means of making them aware of the reports.
 - Many fund shareholders save the paper reports for future reference — particularly younger shareholders.
 - Respondents who do not favor the proposed rule believe the change will require additional effort and expense and will add inconvenience.
 - When presented with three alternative options, most shareholders say they would prefer to receive a summary report by mail.

Thank you

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