Communicating the Value of Your Funds: A New Model for Transparency in Funds Reporting

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FOREWORD

This white paper presents a new framework for funds reporting, one that proposes a fundamental change in thinking about the content and format of information provided to fund investors and other stakeholders. The paper is global in perspective and presents a model for both public and private funds to provide information in a way that will help investors make more informed investment decisions.

The original outline for this paper was proposed during June 2003 long before the recent revelations about market timing issues in the United States. The paper's position draws on the insights of numerous and ongoing discussions with clients, fund industry leaders, regulators and PricewaterhouseCoopers Investment Management Industry Group partners and staff around the world.

To gain additional insights, PricewaterhouseCoopers commissioned a survey of global fund leaders to determine their perceptions about transparency in fund reporting. Conducted independently by Harris Interactive in September-October, 2003, the survey includes responses from senior executives (including chief executives, chief operating officers and chief marketing officers) at 40 fund families in Asia, Australia, Europe and North America. Their opinions provide further support for our framework for improving transparency.

This paper is one approach to fund reporting. We encourage the industry to pursue this approach and others. The development of this paper is intended to serve as a starting point for further dialogue among fund management and other industry leaders, regulators and investors. If nothing else, we hope this paper will serve as a catalyst for starting a broad and necessary discussion on the merits of transparency in the global funds industry.

Hugh Armstrong, Allen Goldstein, James Harman, Gary Meltzer, and Rajendra Singh deserve special recognition for their continuous efforts during the period June through November 2003 to complete research and produce the working drafts of this paper.

We also acknowledge the encouragement, advice and mentoring received from Dr. Robert G. Eccles, President of Advisory Capital Partners and coauthor with a number of PricewaterhouseCoopers partners of The ValueReporting Revolution: Moving Beyond the Earnings Game and Building Public Trust: The Future of Corporate Reporting, the latter which was coauthored with Samuel A. DiPiazza, Jr., CEO of PricewaterhouseCoopers.

This project builds on PricewaterhouseCoopers' vision of the future for corporate reporting discussed in the above two books. We have borrowed extensively from the principles of these books to build the arguments for a new Funds Reporting Transparency Framework.

We welcome your comments and invite you to contribute to the discussion of better funds reporting transparency.

Chip Voneiff
North America & US Leader
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5 December 2003

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EXECUTIVE SUMMARY

Investor confidence in the global capital markets has been affected by corporate misconduct, selective and dishonest reporting and the perception that existing regulatory oversight is failing to protect the interests of the public.

This crisis of confidence has hit the global funds industry, an industry that has enjoyed a long record of growth and an unblemished reputation. It now faces a crucial test of its relationship with investors amid pressures to create greater value, increase profitability, contain costs and meet regulatory and investor demands.

In the United States, the world's single largest fund market, allegations of wrongdoing by some and perceived failure of oversight and governance threaten to erode investor trust. Globally, there have been several high profile cases of hedge fund failures that have required government intervention.

In the wake of these and other controversies, regulators are promising stricter governance and disclosure requirements for both public and private funds, similar to those aimed at public corporations, and the implications will likely have worldwide reach. The real or potential loss of investor confidence underscores an urgent need for the entire funds industry to examine its existing practices and to consider the adequacy of current disclosure. Disclosure alone is not the complete answer to the problems currently facing the funds industry, but it is a critical element that cannot be ignored.

We do not believe that piecemeal increases in disclosures, addressing individual issues separately, is the solution to providing investors with the information they need from those that are managing their money. Instead, we believe the focus must now be on the objective of "transparency."

The notion of full disclosure will grow in the future, and funds that adopt full disclosure will be seen as more customer-friendly.
– Global fund leader, survey respondent

"Disclosure," while being a necessary condition for investors to get the information they need, does not, in itself, constitute "transparency." Effective transparency requires a fund to provide much of the information that management finds useful for internal decisions and to present that information in a form that can be easily accessed and understood by external stakeholders, including investors and analysts.

The attributes of relevance, timeliness and user-friendliness are essential to transparency. To be relevant, information and results should be presented in a way that demonstrates the impact of events and activities on a fund's rate of return.[1] This information paints a picture of what the fund manager seeks to achieve for investors and the progress being made towards those goals (i.e. pursuing a holistic report). To be timely, information should be updated by fund management regularly to reflect its assessments of changes in its market outlook, its ability to create value and to provide investor protections covering operating and compliance risks. To be user-friendly, all of this information should be provided by fund management in a single location, such as the Internet, where it can be easily accessed by investors.

Nearly 90 percent of fund executives agreed that the industry should do more to provide transparency to investors.

In a recent survey of global fund managers, nearly 90 percent of fund executives agreed that the industry should do more to provide transparency to investors. Two-thirds of them agreed that to achieve transparency, information should be presented in a holistic fashion.

[1] Hereinafter, rate of return refers to total return for public funds and for private funds, their internal rate of return or total return, whichever is applicable. For example, private funds such as bank collective funds, would continue to use total return.

In this paper, PricewaterhouseCoopers proposes a framework for reporting transparency, which can serve as a starting point for the global funds industry to reexamine its reporting practices and emerge with a new approach that will benefit both management and investors.

The framework for transparent reporting can be applied across all fund types, both public and private. It provides a logical flow for presenting information, including the assessment, monitoring and communication of all aspects of a fund's strategy, as well as its capabilities and performance, using four categories of information that build on one another as shown in the following framework:

Market Outlook	**Value Creating Activities**	**Investor Protections**	**Financial Results**
♦ Market/Sector Outlook ♦ Drivers of Outlook	♦ People & Expertise ♦ Technology ♦ Outside Resources ♦ Invetment Focus/Objectives ♦ Analysis of Performance	♦ Fund Governance ♦ Regulatory Oversight ♦ Internal Controls ♦ Conflicts of Interest/Related Parties ♦ Privacy	♦ Analysis of Rates of Return ♦ Drivers of Rates of Return ♦ GAAP Financial Statements

The discussion points listed above under each category are representative of the type of information that should be presented. However they are not all-inclusive and regulators, fund management and investors are encouraged to expand the list of these discussion points.

Implementing this framework does not mean the funds industry needs to create new information. In many cases the information already exists and is in use internally by fund managers and fund directors or trustees. We are simply advocating that this same information be shared with investors in a timely and logical way that educates and facilitates investors' decision-making to buy, sell and retain their fund investments.

PricewaterhouseCoopers does not believe that transparency can be legislated. The global funds industry must get in front of the inevitable calls by regulators and legislators for more disclosure by taking the road to the highest level of transparency that is practical. In doing so, there is the opportunity to lead, not compromise.

THE CURRENT STATE OF REPORTING IN THE FUNDS

The global funds industry—composed of public and private funds — has historically placed its fiduciary responsibilities to investors first and foremost in its operations and conduct. This has been a bedrock principle of the industry since its inception.

Attracting and growing assets under management and the expanded distribution and marketing of funds became increasingly important to the success of fund managers and their parent companies in the 1990s. At the same time, institutional investors and retirement plan investments demanded disciplined asset allocation and strict adherence to investment mandates.

Some observers believe the changing business model for the industry has resulted in the rise of a marketing and sales culture. This has increased pressures on fund managers to balance their fiduciary responsibilities to investors against the business goals set by themselves and their parent companies.

These pressures, combined with ongoing market uncertainty and less than stellar investment performance, are causing legislators, regulators and the media to bombard the funds industry with calls for greater disclosure.

One of the most significant financial industries in the world, the funds industry has grown exponentially, with worldwide assets in public funds alone reaching $11 trillion in 2002, up from $3 trillion a decade ago. At the same time, the number of these funds has increased from approximately 21,000 to more than 53,000.
- Mutual Fund Fact Book, Investment Company Institute

Adding assets in private funds brings total worldwide fund assets to $12 trillion in over 60,000 funds.
- The World Wealth Report 2003, Merrill Lynch/Cap Gemini Ernst & Young

When regulators around the globe responded to corporate scandals through rule making, they did not provide special treatment for reporting by funds.[2] However, they are now focused on the funds industry[3], because of the perceptions, true or false, that funds investors do not properly understand the risks associated with fund investments; that the interests of investors and fund managers are not properly aligned; that fund expenses are higher than they need to be; that portfolio transaction costs, distribution, outside research and related party transactions are linked and can be abused; and that institutions have had an advantage over individual investors.

Much of what is currently disclosed is guided, however, by decades-old laws, regulations and reporting practices.

92 percent of fund executives surveyed believed that greater transparency would not place their fund at a competitive disadvantage. Nearly one-half said it would give their funds a competitive advantage.

When it comes to reporting, the best that fund investors can typically count on is a quarterly report and recent offering documents. Many funds release complete information only once a year. In the meantime, investors turn to outside sources, such as the media and analysts, for current information. Likewise, they must turn to third-party ranking services for comparisons among funds. Yet the most valuable information is management's views on the market outlook, its value creating activities and investor protections; all this should be reported by the fund.

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[2] The U.S. has not been alone in legislating corporate reporting reform. Australia and the United Kingdom have reporting reform proposals now under discussion. A new regulatory project is also underway in France, including a review of the information contained in prospectuses and financial statements. We understand that Canadian public companies will follow the example set by The Sarbanes-Oxley Act. Foreign companies that are listed on U.S. exchanges already are exposed to Sarbanes-Oxley compliance.

[3] There are a number of proposals in the United States from both houses of Congress and the Securities and Exchange Commission (SEC) to require funds to provide more disclosures addressing specific issues. In the UK, Sir Richard Sykes is chairing a committee to examine how well the whole investment system provides for the long-term creation of shareholder value, to identify the weaknesses of the current system and to suggest a practical way forward. FEFSI, Europe's main fund management association, is also to launch a project to introduce a code of conduct and ethics for Europe's fund management industry.

Investor advocates say more frequent disclosure would give investors a better idea of what their funds own. Some fund managers have argued that more frequent disclosure would tip off other investors and make it more difficult to get the best prices for their trades. Yet few executives of global fund companies expressed this concern when surveyed. Ninety-two percent of fund executives surveyed believed that greater transparency would not place their fund at a competitive disadvantage. Nearly one-half said it would give their funds a competitive advantage over others. A concern of these executives was not competitive disadvantage but rather that investors would not use this information.

There is merit in this argument, given current disclosure practices of additional layers of information while achieving little improvement in understanding. The current banquet of information is not enough. That much is obvious from a multitude of surveys demonstrating that a majority of investors do not understand the costs and risks associated with fund investing. In a 2002 Vanguard/MONEY Investor Literacy Test, nearly 64 percent of respondents did not understand the impact of expenses on fund returns.

"We have within our grasp a chance to help them [investors] — a chance to change the way they buy funds and to ensure their expectations are realistic — a chance to make it easier for them to make comparisons and easier to get right to the key issues they need to know before investing. "
- Arthur Levitt, former chairman of the United States Securities and Exchange Commission, 1997

The information that funds already provide takes many forms, including internally generated reports such as annual reports and newsletters, offering documents, promotional materials, Web sites, e-mail communications and press releases. Information that may be pertinent to an investor is currently scattered among these multiple sources. For example, annual reports may include only financial information and not include any information relating to market outlook, value creation and investor protections.

Investors must bear the ultimate responsibility for understanding the risks associated with fund investing and making their own predictions about how well a fund will perform in the future. Funds can facilitate the process by providing a more holistic message and providing information in a more relevant, timely and user-friendly way such as by using the Funds Reporting Transparency Framework.

TRANSPARENCY: A DEFINITION

Transparency is variously defined as “free from pretense or deceit,” “easily detected or seen through,” or “readily understood.” We define “transparency” to mean a holistic message that paints a full picture of what a fund manager seeks to achieve for investors and the progress being made toward those goals. The logic of transparency is quite simple: much of the information that management finds useful for internal decision-making is also useful to those investors making decisions about whether to invest in the fund and, therefore, can and should be shared.

This definition draws a clear distinction between” transparency” and “disclosure.”

“Disclosure,” while being a necessary condition for investors to get the information they need, does not, in itself, constitute “transparency.”

A major difference between transparency and disclosure is relevance. In the case of fund reporting, what investors care most about is return and this establishes the relevance within which all other information should be reported and understood. Similarly, disclosure of data, without explanation and guidance, does not constitute transparency.

Transparency needs to be a market driven initiative that will result in a competitive advantage to those funds that are viewed as more transparent.

ATTRIBUTES OF TRANSPARENCY IN FUNDS REPORTING

A framework for transparent fund reporting recognises that a gap exists between the information investors need to evaluate fund opportunities and performance and the information currently provided to them. If information is provided, it is often not made available in a timely manner and in a user-friendly format. Thus, what funds report (the content) and how they report it (the format) are integrally linked. This framework calls for a holistic message that presents a full picture of the fund presently and for the future and possesses the following attributes:

- *Relevance* – An investor is primarily focused on generating asset growth and income consistent with an acceptable risk level. For investors, information becomes most relevant when it is provided in the context of how it affects the fund's rate of return. As reported in a newspaper account of investor reactions in the United States to recent industry developments, an investor stated "To some degree, I would guess this is an industrywide problem, but I don't worry about it frightfully. If you want good returns over the long run, you have to be in the stock market, and mutual funds are the best way for an individual to do that. Even if I'm losing a quarter point on my return because of what's going on, mutual funds still provide better returns than anything else that's out there."[4]

[4] The Trenton Times, November 16, 2003 "Investors: What Scandal? Unfazed by Indictments in the Mutual Fund Industry" by Andrew D. Smith

For example, providing a qualitative and quantitative analysis of how portfolio transaction costs (e.g. brokerage commissions) affect a fund's rate of return is more useful to an investor than a separate disclosure of the gross amount of transaction costs paid by a fund. Another example is fund expenses. Investors are willing to incur more expenses if they are rewarded with higher returns. Therefore fund expenses discussed in the context of the funds' returns is likely to be more relevant to investors than only a discussion of fund expenses.

We are not recommending providing information on an individual investor's return. This must be performed by investors or their advisors considering an investor's tax status and circumstances.

- *Timely* – When there are events and conditions that affect the market outlook, the fund's risk protections and/or the drivers of financial performance, information should be updated for investors in a timely fashion. Timeliness does not have to mean revealing information that is sensitive or proprietary, but it does mean providing investors with current insight rather than hindsight that is more than six months old.
- *User Friendly* – To enable an investor to evaluate an investment opportunity, a holistic message also requires providing information in a single location that is easy to access. Electronic media and the Internet offer the advantages of wider distribution, more timely dissemination of information and cost-effectiveness compared to any other means of information distribution. Although not every investor has access to the Internet, the level of access is growing. We recognise the importance of the Internet to the funds industry and believe that it can be used to implement the following Funds Reporting Transparency Framework.

THE FRAMEWORK

A framework that contains all of the relevant areas of content that investors and their advisors are interested in can be described in terms of four essential categories. These categories build on one another and provide a logical information flow for transparency, and they should be presented in a single location.

Market Outlook	**Value Creating Activities**	**Investor Protections**	**Financial Results**
♦ Market/Sector Outlook ♦ Drivers of Outlook	♦ People & Expertise ♦ Technology ♦ Outside Resources ♦ Investment Focus/Objectives ♦ Analysis of Performance	♦ Fund Governance ♦ Regulatory Oversight ♦ Internal Controls ♦ Conflicts of Interest/Related parties ♦ Privacy	♦ Analysis of Rates of Return ♦ Drivers of Rates of Return ♦ GAAP Financial Statements

This framework is a tool for fund management to use to determine what content to provide within these "overarching" categories of information for investors. Each fund management needs to assess specific information about their funds that addresses the discussion points under the categories listed above (e.g. Market/Sector Outlook, People & Expertise, Fund Governance and Analysis of Rates of Return). Management needs to determine what to share. This sharing would likely go beyond regulatory requirements and focus on what is relevant to investors' decision-making. The information needs to include well-researched explanations, rather than generic boilerplate discussion. It is important for management and regulators to promote the sharing of information with a minimum of encumbrances and let investors decide the information they want. Drivers that affect management's views on market outlook, its value creating activities, its investor protections and its financial results would be emphasised and should be used to support management's views. This will require more quantitative and qualitative information sharing by fund management.

The discussion points listed above under each category are representative of the type of information that should be presented. However they are not all-inclusive and regulators, fund management and investors are encouraged to expand the list of these discussion points.

"This is exactly the information that we seek from money managers when we evaluate them for our institutional clients."
- Fund Director at a forum sponsored by PricewaterhouseCoopers at which this framework was discussed.

Regulators and others are encouraged to identify industry issues (e.g. market timing in the United States) and allow fund management to present the impact of these issues as a discussion of a fund's strength or weakness.

This framework focuses attention on the present and future rather than historical performance. The implementation of the framework across the industry will be a dynamic process. The framework itself will continue to evolve as the industry changes and in response to investors' selection of funds that provide both returns and transparency.

Examples of the information and issues that could be addressed in each of these categories, and the benefits of using each of these categories, follows.

1. MARKET OUTLOOK

What is management's outlook for the markets in which the fund expects to invest? How does this affect the fund's investment strategy?

WHAT INFORMATION SHOULD BE SHARED WITH INVESTORS?

Our research and professional experience tell us that fund managers generally do not communicate their views on market outlook well to public investors, despite the fact that they do have an outlook and use it to guide their investment strategy.

"Providing investors with management's market outlook would give insight as to what management's expectations are and how they intend to achieve those expectations. This would help investors make decisions."
– Global Survey Respondent

There is widespread resistance to sharing market outlook information. The reason for not wanting to provide this information, according to global executives surveyed, is the belief that a market outlook would mislead investors and create false expectations. We agree that fund management cannot be expected to accurately predict future performance. However, there should be a level of dialogue between fund management and investors — one that includes a far more candid, frank and robust discussion about the outlook for the market than currently is taking place. For example, certain organisations deliver their opinions on industrial production, business inventories, retail sales, capital spending, employment, trade policies, monetary policies, foreign exchange and world events and relate them to investment opportunities and market performance.

Too much emphasis has been placed on reporting historical information and not enough sharing management's perspective for the future. We believe investors have a healthy appetite for knowing their fund managers' outlook for the market, world events and various socioeconomic and political factors that influence the market and, therefore, the funds' returns.

It is fund management's responsibility to provide information on how they view the markets and what drives them, rather than leave this information to be provided by outside analysts and economic forecasters. If we expect investors to have realistic expectations, fund managers must provide and take ownership of market outlook information. This provides fund management the opportunity to speak to the present and future and lays the foundation for investors' realistic expectations about the market.

There is, of course, a risk that if management's stated perspective is that the chosen market will underperform, investors may seek to move their money elsewhere.

However, the alternative of saying little and allowing investors to develop overblown expectations carries its own risk of more permanently damaging management's credibility. On the other hand, taking a point of view that actually costs management revenues in the short run but ultimately is proven the best course for investors can only serve to enhance management's reputation for putting fiduciary interests first, with the potential for long-term revenue gains.

WHAT ARE THE BENEFITS TO INVESTORS?

While no one can predict the future, if investors and the professionals who advise them know fund management's outlook for the market and what management believe drives the market, they will be more likely to have realistic expectations and thus better appreciate a fund's financial results later on. They will also have a better appreciation of the market their fund invests in and the factors that impact them. Equally as important, by having a written summary of management's outlook, investors will be able to assess, by comparing later results to the outlook, how well management has been able to forecast trends and thereby better evaluate its investment acumen.

2. VALUE CREATING ACTIVITIES

What resources and strategies are used to create value? How are the interests of fund management aligned with those of investors?

WHAT INFORMATION SHOULD BE SHARED WITH INVESTORS?

Value-creating activities involve a top-down discussion by fund management about resources available and how they are used to create value for the fund and its investors. Resources include people and their expertise, technology, outside research, subadvisers, brokerage relationships and the investment focus/objectives of the organisation and the fund. Fund management needs to better explain how they create value using the available resources.

For example, if fund management uses portfolio transaction costs to gain outside research or fund distribution it should discuss how this adds value for investors, what the potential conflicts of interest are and how the conflicts are mitigated.

An example of an issue that should be addressed under the value-creating activities category is actively managed funds. This is an opportunity for actively managed funds to discuss how they use expertise and research to outperform index funds in a good or bad market. Active portfolio management has come under criticism for not matching or exceeding the performance of market indexes and should demonstrate to investors how, in fact, active management adds value.

In addition to differentiating the fund, this category fosters a discussion of how resources are aligned with shareholder interests. For example this would facilitate a discussion on how management compensation provides incentives for value creation for the benefit of investors and management without taking on inappropriate market and credit risks.

Fund management needs to better explain fund performance. In this category, fund management is given the opportunity to explain investment performance compared to peers and benchmarks, as well as the drivers of the fund's investment performance.

WHAT ARE THE BENEFITS TO INVESTORS?

Value-creating activities will help investors distinguish among funds by better understanding the resources and strategies used, and hence understand the performance compared to peers and benchmarks. Investors may also have a better understanding of how a fund's investment objectives, tax consequences and investment risk tolerance are aligned with their own interests.

3. INVESTOR PROTECTIONS

What are the risks for investors? What are the safeguards that are employed to protect investors' assets?

WHAT INFORMATION SHOULD BE SHARED WITH INVESTORS?

Investors require information regarding the operational risks (eg. counter-party and settlement risks) and compliance risks (eg. investment style drift) of the fund, the safeguards in place to mitigate these risks and how investors are protected. Today's environment in the United States invites a discussion of market timing and how investors are protected against such potential abuses. Another example of an issue that should be addressed under investor protections is fund governance and its independence from fund management. In addition, conflicts of interests are a key concern, and information should be provided about how the fund monitors and manages conflicts of interest and its related party relationships.

The goal of fund management should be to explain and differentiate their fund by the protections that are provided, and to provide well-reasoned explanation rather than a generic, boilerplate discussion of risks. Information about the internal and compliance controls, and policies and procedures in place to protect investors' assets is important to investors and their advisors when comparing funds and asset classes. For example, a private fund may have greater returns than a public fund, which on the surface may make it more attractive. Yet the operational risks associated with a private fund might be greater when compared to a public fund operating under more compliance controls and regulatory oversight.

Internal controls are also used to safeguard fund assets, and fund management should take this opportunity to inform investors about them.

WHAT ARE THE BENEFITS TO INVESTORS?

A frank discussion — not boilerplate — about the principal risk factors and various protections in place to mitigate them should be used by investors to differentiate among funds and across asset classes. Armed with this information, an investor can decide the place to invest his or her money given his or her own level of operating and compliance risk tolerance.

4. FINANCIAL RESULTS

What was the fund's performance? How did it achieve its results?

WHAT INFORMATION SHOULD BE SHARED WITH INVESTORS?

Investors need to know how well management has used the capital with which it has been entrusted. The goal is to use quantitative and qualitative measures to enable fund management to explain how changes in security values, dividend and interest income and related transaction, operating and distribution costs determine the fund's rate of return. It is important to note that the financial result is the end result of the market performance, value-creating activities and how well investor protections were implemented.

As outlined in this paper, the focus of the financial results should be on the fund's rate of return. Therefore the sources and drivers of the rate of return and its components should be presented, including the impact of transaction costs and nonrecurring elements of return. For example, many funds provide the gross amount of transaction costs, such as brokerage commissions, but this data is not as relevant unless its impact on the rate of return is understood. To achieve a higher rate of return, a fund may very well be able to justify higher transactions costs, and this trade-off should be considered when evaluating financial results.

An example of such a quantitative presentation of a public fund's total return is set forth below. In addition to the percentage that each component contributes to the total return (Column A below), the fund should consider providing each component's contribution to the fund's return presented as one hundred percent (as demonstrated in Column B below). This type of information should be given for multiple years to aid comparisons between years and among funds.

COMPONETS OF FUND'S NET RETURNS ATTRIBUTED TO:	A ACTUAL RETURN (%)	B PERCENTAGES OF ACTUAL RETURN (%)*
Income	5.3	23.6
Investment operations (realised and unrealised)	30.9	137.4
Transactions costs	(8.5)	(37.8)
Shareholder activities	0.5	2.2
Total return before expenses	**28.2**	**125.4**
Manager and related party expenses	(4.5)	(20.0)
Distribution fees	(1.5)	(6.7)
Other expenses	(2.0)	(8.9)
Reimbursements from Managers	2.3	10.2
Total Expenses	**(5.7)**	**(25.4)**
Total Net Return	**22.5**	**100.0**

*Component's percentage of the Total Net Return which is presented as 100%.

For private funds, to which the internal rate of return (IRR) is applicable, an analysis of the IRR since inception and comparison to the change in the return from the prior period and the reasons for the change should be provided. This could include an analysis of the change in security values, realised gains/losses, expenses and profit allocations among the limited partners, general partners and managers. Disclosure of how the IRR was calculated and applicable assumptions should also be provided.

In our global survey, 78 percent of executives surveyed agreed that funds should use the rate of return to provide relevance for reported information. This quantitative analysis may stimulate questions that require further qualitative analysis such as the decision to realize or not realise security gains or losses during given periods, an explanation of the turnover rate and an attribution analysis.

The industry also needs to consider the merits of experimenting with risk-adjusted and after-tax rates of return, measures which some regulators and key industry influencers advocate.

There are costs that cannot be readily discussed in the context of the rate of return because these costs may not be incurred by the fund or its investors (e.g. distribution costs paid directly by the fund’s manager or distributor out of its profits). In such instances it may be appropriate to explain how the distribution strategy affects subscriptions and redemptions for the year and to compare the monetary volume of subscriptions and redemptions to total net assets for the year and over several years.

WHAT ARE THE BENEFITS TO INVESTORS?

When investors have an appreciation for the major components of the fund’s rate of return and understand the factors that influenced the return, they and their advisors can better analyse the fund’s actual performance year after year and from one fund to another.

CONCLUSION

This paper is intended to serve both as a call to action and a starting point for future discussions. PricewaterhouseCoopers is committed to driving the discourse forward.

As the fund industry embarks on a journey to retain trust and, with regulators, seek greater investor protections, it is time for the fund industry to lead, not compromise. If the industry does not examine its practices and proactively propose a new reporting framework, then legislators and regulators probably will. This could be in the form of increased disclosure requirements, a compromise that may not be in the best interest of investors, regulators or fund management.

PricewaterhouseCoopers is committed to facilitating transparency in the global fund industry. In the coming months we will continue our discussions with industry executives, relevant industry bodies, regulators and legislators to help them advance transparency in funds reporting.

- We encourage the fund industry to strive for transparency as a solution to better funds reporting and to promote its interests and those of investors.

- We encourage legislators and regulators to define the issues that are in the public interest, legislate and regulate as required, and provide the global funds industry with the opportunity to apply greater transparency in funds reporting.
- Finally, we encourage investors to actively use this information to educate themselves about the risks and rewards of prudent investing.

EXHIBIT: SURVEY RESULTS

PricewaterhouseCoopers commissioned the independent research firm Harris Interactive to conduct a study among global fund executives with respect to their opinions and attitudes toward transparency in fund reporting. In September and October 2003, Harris Interactive conducted in-depth telephone interviews with senior executives (including chief executives, chief operating officers and chief marketing offers) at 40 fund families in Asia, Australia, Europe and North America. Of those executives surveyed, 65 percent were located in the United States and 35 percent were located elsewhere. Twenty-five percent had assets under management greater than $50 billion, thirteen percent had assets under management between $25 and $50 billion, thirty-two percent had assets under management between $5 and $25 billion and thirty percent had assets under management less than $5 billion.

Key findings of the survey include:

- Ninety-five percent of global executives surveyed believe that full and comprehensive disclosure of information plays an important or extremely important role in helping investors make better investment decisions.
- Executives gave their industry mixed marks about the comprehensiveness of the information they currently provide, with most believing the industry should be doing more in this regard.

- On a scale of 1 to 10, with ten being “a great job” and one being “a poor job”, executives ranked the fund industry’s disclosure only slightly better than middle of the road, with a ranking of six.
- Nine out of ten executives agreed, with half of those strongly agreeing, that the industry should be doing more to provide full and comprehensive information to investors.
- When given a definition of transparency as providing information that is timely, concise, relevant and thus more helpful to investors in making decisions about whether to buy, sell or retain a fund, eighty-eight percent of industry executives agreed that the industry should be doing more to provide transparency.
- Seventy-eight percent of executives agreed that funds should use the rate of return (total return for public funds and internal rate of return or total return for private funds) as context for providing information about their funds, with more than half (58 percent) strongly agreeing with this concept.
- When asked to identify their concerns, if any, about providing investors with additional information about their funds, there was little concern that doing so would provide competitors with too much insight. Only 15 percent of executives were troubled in that regard. The greatest concern, cited by nearly half of executives surveyed, was that consumers would not actually use the additional information.
- To be more transparent, two in three executives agreed that the many sources of information through which they currently report — including prospectuses or offering documents, regulatory filings and annual reports — should be combined and presented in a holistic message.
- Ninety-two percent of executives did not believe that greater transparency would put their funds at a competitive disadvantage. In fact, nearly half of executives felt that transparency could actually give them a competitive advantage over other funds. When asked to explain how transparency would give their fund a competitive advantage, the unaided response given most often was that it would strengthen trust, investor confidence and the firm’s reputation.
- Among the few executives (15 percent) concerned that greater transparency would put their funds at a competitive disadvantage, the unaided response given most often was related to the being first at doing so. As one industry executive put it, “becoming more transparent would put my funds at a competitive disadvantage if we are the only ones to do it initially, but in the long run, it will be beneficial for all if everyone reports the same information and in the same way.”

ABOUT PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers www.pwc.com is the world's largest professional services organisation. Drawing on the knowledge and skills of more than 124,000 people in 142 countries, we build relationships by providing services based on quality and integrity.

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