



USER MANUAL
for the
FEFSI Model Simplified

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USER MANUAL

for the

FEFSI Model Simplified Prospectus

INTRODUCTION

With the publication of the Directive 2001/107 of 13 February 2002 the European lawmakers have given a clear signal for easier and better information to be given to the investor on the essential components of an investment fund, especially when it is sold across borders into other EU Member States with frequently different business and regulatory traditions.

The revised UCITS Directive calls for a simplified prospectus that is designed to put in plain and easily understood language the otherwise inaccessible and complex mandatory investment information that regulations dictate into an investment fund's full prospectus. Some European countries already have concise and shorter information tools (such as, *the key features document, prospectus abrégé, notice d'information, nota informativa, ...*), but the simplified prospectus will constitute a single fully harmonised pan-European document that can be used by all for the cross-border marketing of UCITS. National competent authorities will no longer be allowed to demand other or additional information when registering a UCITS in another Member State. In order to persuade the regulatory and supervisory authorities of all EEA Member States to agree on a single format, FEFSI has very early on highlighted the importance of presenting a uniform model. In 1999 FEFSI agreed on a general form, lay-out and content of an industry Model Prospectus and in April 2002 it approved the final version for three types of investment funds, a stock fund, a bond fund and a money market fund (copies of which can be found on the FEFSI web-site).

The following guidelines have been compiled to help fund managers across Europe to design their fund's simplified prospectuses in their own company style and format without, however, straying from the model put forward by industry bodies at national and the European level. Widespread adherence by fund managers will certainly add to the model's acceptance and endorsement by the regulators, and ultimately provide European investors with an information tool that allows easy comparison of investment funds, especially in cross border situations.

The FEFSI Model presents the new structure of the Simplified Prospectus as required under the UCITS Directive, once implemented into national law of all Member States.

For reasons of succinctness and practicality, FEFSI recommends that the simplified prospectus consists of no more than two A4 pages. This would permit investors to receive it as a separate document from other promotional material, all of which taken together considerably enhances the likelihood of the investor reading it.

The following recommendations have been drawn up from the viewpoint of the investment fund itself, and thus can be used without further adaptation where the fund manager distributes his own product(s). Where the traditional means of distribution (third party operators) are used as well as in cases of marketing at a distance or via the Internet additional elements may have to be added to the basic fund information in the simplified prospectus. FEFSI believes this additional information can best be given in a “wrapper” statement separate but closely related to the simplified prospectus. [More detailed information further on.]

FEFSI recommends that a fund’s simplified prospectus should be up-dated at least once a year. Should a fund manager wish to up-date more frequently than that he is free to do so. As a general rule, it is important to remember that the simplified prospectus will come in addition to the existing disclosure requirements of the fund’s full prospectus and the (semi-)annual reports.

On individual sections of the simplified prospectus, FEFSI urges all fund managers to follow these guidelines as closely as possible with the aim of achieving the highest degree of uniformity, consistency and comparability of information between domestic and foreign funds. It would be welcomed if fund managers could copy as closely as possible the lay-out and order of building blocks contained in the FEFSI Model Simplified Prospectus (attached in annex).

Where a same Fund offers different classes of shares certain elements such as performance, expenses, etc... may need to be detailed per share class.

Header

The header should clearly state that it is the simplified prospectus of a particular investment fund that was authorised under the jurisdiction of a particular European Economic Area Member State, and possibly also in what legal form (FCP, unit trust, OEIC or Sicav).

The date of the publication of the simplified prospectus should also clearly be stated.

The header should carry the product name and corporate logo under which it is marketed to retail investors. The name of the Fund should not be misleading nor give rise to confusion.

Block 1 – Investment objective

This section should contain a brief description of the fund’s objective; i.e. the goal that an investment fund pursues, e.g. current income, long-term capital growth, etc...

The description may include an identification of the type of fund (e.g. money market fund, balanced fund,...).

Where it proves appropriate or expedient to formulate the investment objective in a same paragraph with the investment policy this is possible provided the two notions are clearly mentioned and described distinctly from each other.

Block 2 – Investment policy

This section should describe the manner and method by which a fund manager plans to achieve the aforementioned investment objective. The fund's investment policy may include a short description of the types of securities and other asset classes (e.g. other UCITS or Non-UCITS, index funds, ...) in which the fund invests or will invest principally and any special investment practices or techniques (including the use of derivatives). In particular cases the UCITS Directive requires specific information on how the investment policy is achieved, such as in the case of a fund-of-funds or of a mixed fund a prominent statement highlighting the means of meeting the investment goal must be inserted.

Where a UCITS is authorised to conduct transactions in financial derivatives instruments the simplified prospectus must carry a prominent statement indicating if these operations may be carried out for the purpose of hedging or with the aim of meeting investment goals [Article 24a(1) of FEFSI's consolidated UCITS Directive].

If the Fund has a policy of concentrating investments in an industry or group of industries, or a country or a region, this fact must be disclosed.

Where a UCITS has as investment policy to hold more than 35% of its assets in transferable securities and money market instruments issued or guaranteed by a Member State, local authorities and/or public international bodies (such as the European Central Bank, European Investment Bank, ...) it must make this clear in the simplified prospectus and identify the bodies in question [Article 23(3) of FEFSI's consolidated UCITS Directive].

In the case of an index fund, the Fund's simplified prospectus and where necessary any other promotional literature must include a prominent statement drawing attention to the investment policy [Article 24a(2) of FEFSI's consolidated UCITS Directive].

The Fund's marketing materials must be and remain consistent with the corresponding simplified prospectus, in particular where any of the marketing materials give a more specific implementation of the investment policy than set out in the Fund's full prospectus.

The Fund is to indicate clearly its reference currency. This is the currency in which the Fund calculates its net-asset-value (NAV)

Where it proves appropriate or expedient to formulate the investment policy in a same paragraph with the investment objective this is possible provided the two notions are clearly mentioned and described distinctly from each other.

Block 3 – Fund's risk profile

Briefly describe, in narrative form, the principal risk factors associated with an investment in the fund. These should be specific to the type of fund (for example, disclosure that the principal value of the shares may fluctuate is not sufficient). In addition to this narrative risk description, funds may introduce, or keep using, their own risk indicators (such as different colours related to different risk categories or classes).

The use of formulas (such as the Sharpe Ratio) is not considered helpful to the average retail investor and its use in the simplified prospectus is therefore not recommended.

When a Fund's net asset value is likely to have a high volatility due to its portfolio composition or the portfolio management techniques that may be used, the (simplified) prospectus must carry a prominent statement drawing attention to this characteristic [Article 24a(3) of FEFSI's consolidated UCITS Directive].

Alternative (suggested) formulations for varying fund types:

Equity emerging markets fund

The value of the portfolio of the Fund is calculated daily on the basis of the market value of the individual equities held by the Fund, which are issued by companies domiciled in rapidly growing, but not yet fully developed national markets. The market value is influenced by the capital market players' expectations concerning the economic development of the issuing companies, which are also affected by political risks of the countries of issue and these countries' currency exchange rates. Due to the market concentration ratio, the possibilities of diversification in the Fund's portfolio can be reduced. The market liquidity of the stocks may be low, high volatility can appear.

Equity specialised industries (biotech) fund

The value of the portfolio of the Fund is calculated daily on the basis of the market value of the individual equities held by the Fund, which are issued by companies working in the highly specialised market segment of <biotechnology>. This market value is influenced by the very specific economic conditions of this industry. Due to the concentration ratio of the industry, the possibilities of diversification in the Fund's portfolio can be reduced. The market capitalisation may be low, high volatility can appear.

Blue chip Euro stock fund

The value of the portfolio of the Fund is calculated daily on the basis of the market value of the individual equities held by the Fund, which are of high market liquidity.

As these equities are issued by major companies in the most important industries the market value of the Fund depends on the capital market players' expectations of the general economic development.

Euro Money Market Fund

The value of the portfolio of the Fund is calculated daily on the basis of the market value of the commercial papers held by the Fund. This market value is moderately influenced by changes in interest rates on the markets for short-term instruments.

Euro Bond fund

The value of the portfolio of the Fund is calculated daily on the basis of the market prices/value of the individual Euro denominated bonds held by the Fund, which are issued by prime private and public institutions as characterised above. This market value is influenced by changes in interest rates.

The annual distributions made by the Fund cannot be regarded as constant and the Fund has no specific maturity. This means that investors cannot count on a return on the investment at a certain value by a specific date in the future.

A practical example from a FEFSI member country reads as follows:

EVALUATION AND CATEGORISATION OF THE RISK OF THE UNDERLYING : Category 5 on a scale of 0 (low risk) to 6 (high risk)()**

*(**) 7 risk categories are defined, whereby the category 0 represents the lowest risk and category 6 the highest. Where the initially allocated risk category must be revised the adapted category will be disclosed in the annual and semi-annual reports of the investment fund. Additional information can be found in a general information folder that can be obtained from the institutions that provides the financial service.*

Block 4 – Performance of the Fund

With respect to past performance a bar graph should be included showing the annual total returns of the Fund for each of the last 10 full calendar years. In case the fund has existed for less than 10 years, the annual return for each available calendar year should be disclosed. The graph must include disclosure of the yearly returns in numerical form.

Compute total returns without regard to any front-end or deferred sales charges; however, if the Fund assesses any such charges the fact that these charges are not reflected must be disclosed. Only include returns for full years (i.e. no stub periods). Performance for periods of less than one year must not be annualised. Similarly, performance must not be extrapolated.

Once a sufficient historical performance record since launching date is available on a given investment fund, the average performance presented must be calculated on a period which is 3, 5 and 10 years on a calendar year basis. Optionally and additionally, figures based on business years may be used for the same periods. In the case of use of business year figures this must be highlighted.

Where fund performance figures – be it calculated on a calendar or business year basis - are used the Fund must ensure that such information is at all times coherent with information contained in its Annual Report, Semi-Annual Reports, advertising and other marketing materials.

In computing its past performance, the Fund should follow the principles laid down in the FEFSI standard method for comparing UCITS performance in EU countries: The simplest way to calculate UCITS' performance consists of comparing net asset value to net asset value (NAV-to-NAV) taking into account (gross) reinvested dividends.

A prominent statement should be added indicating that international comparisons must always be examined with [great] caution given the impact of different national fiscal regimes on NAV performances.

Where the Fund does not calculate the performance figures itself, it should disclose the identity of the third-party source which has provided the data.

As an option, a Fund may include in the bar graph a graphical comparison to an appropriate (broad-based) securities market index or the relevant benchmark. Where a Fund chooses to publish a benchmark it should be selected on an *ex ante* basis. Moreover, the benchmark should be publicly available and be relevant to and consistent with the Fund's investment objective.

For newly launched funds the performance of the Fund may optionally be shown as compared to a publicly distributed mirror fund with the same management and the same investment objective if the separation between the newly launched fund and its mirror is expressly highlighted.

Block 5 – Notice

Funds must disclose the fact that past performance is no guarantee of future results. In this context, FEFSI recommends the following wording: “*past performance is not necessarily a guide to the future performance results of the investment fund or of the manager. The value of an investment and the income from it can go down as well as up and you may not get back the amount invested*”.

Block 6 – Profile of the typical investor

It is understood that UCITS are targeted primarily, but not exclusively, at an audience of retail investors. Thus fund managers are encouraged under this heading to set forth briefly the characteristics of a retail investor for whom the Fund might be expected to be an appropriate or, as the case may be, an inappropriate investment based on a time horizon, a willingness to tolerate fluctuations in the principal investment, and material tax consequences).

Alternative (suggested) formulations for varying fund types:

Equity emerging markets fund

The Fund is suitable for investors who are highly interested in specialised capital markets, and who are aware of their chances and risks. The investor must have experience with volatile products. The investor must be able to accept high temporary losses, thus the Fund is suitable for investors who can afford to set aside the invested capital for at least 7 years. It is designed for the investment objective of seizing market chances. In a widely diversified investor's portfolio, it is suitable as an investment intermixture.

Equity specialised industries (biotech) fund

The Fund is suitable for investors who are highly interested in specialised capital markets, and who are aware of their chances and risks. The investor must have experiences with volatile products. The investor must be able to accept high temporary losses, thus the Fund is suitable for investors who can afford to set aside the capital for at least 7 years. It is designed for the investment objective of seizing market chances. In a widely diversified investor's portfolio, it is suitable as an investment intermixture.

Blue chip Euro stock fund

The Fund is suitable for investors who see funds as a convenient way of participating in capital market developments. It is also suitable for more experienced investors wishing to attain defined investment objectives. The investor must have experience with volatile products. The investor must be able to accept significant temporary losses, thus the Fund is suitable for investors who can afford to set aside the capital for at least 5 years. It is designed for the investment objective of building up capital. For investors holding a portfolio of securities, it can play the role of a core position.

Euro Money Market Fund

The Fund is suitable for investors who are not interested in or informed about capital market topics, but who see investment funds as a convenient "savings" product.

It is also suitable for more experienced investors wishing to obtain defined investment objectives. Experience with capital market products is not required. The Fund is suitable even for investors with a very short investment time horizon; it is designed for the investment objective of short-term "parking" of money and suits any risk attitude, even very risk-averse investors.

In an investor's portfolio, it is a low-risk investment instrument or for more experienced investors a temporary investment intermixture in times of low market opportunities.

Euro Bond fund

The Fund is suitable for any investor type including those who are not interested in or informed about capital market topics, but who see investment funds as a convenient "savings" product. It is also suitable for more experienced investors wishing to attain defined investment objectives. Experience with capital market products is not required. The investor must be able to accept moderate temporary losses, thus the Fund is suitable for investors who can afford to set aside the capital for at least 2-3 years.

The Fund is designed for the investment objective of building up capital. For an investor's portfolio, it can play the role of a core position.

Should the above suggested formulations not prove appropriate FEFSI has assembled some characteristics in function of the investor's desired investment objective, the investor's as well as the Fund's risk profile and the investment horizon that may provide some general guidance. It is emphasised that this guidance has no binding nature and fund managers remain entirely free to stray away from this median ground. Some fund managers may not wish to give greater specificity as the description is not thought, nor must it be given, advisory content. Similarly to the tax assessment, an investor is always well-advised to get professional advice that can assess the entire investment experience and exposure of individual investors.

❖ *An investor's holding periods*

FEFSI offers some examples with the aim of providing guidance towards a common understanding on (minimum) periods over which investors may be recommended to hold investments in:

- Money market funds: for short-term placement of investments (e.g. 1-3 months, 3-6 months or 6-12 months, but can also be held for longer);
- Bond funds: may require investors to ride out adverse market trends and thus put aside their assets for 2 - 3 years, or longer;
- Stock funds: may require investors to ride out adverse market trends and thus put aside their assets for 5 years, or longer.

❖ *An investor's experience*

FEFSI offers the following examples to describe investors' levels of experience:

- (i) *The sophisticated investor* For cases where the fund is subject to strong market fluctuations and is therefore suitable for investors, who have an in-depth experience of financial markets.

(ii) *The occasional investor* For cases where the Fund is subject to market fluctuations and is therefore suitable for investors, who have a certain experience of financial markets.

(iii) *The first-time investor* For cases where the Fund is subject to very few market fluctuations and is therefore suitable for investors, who do not have any particular experience of financial markets.

❖ *An investor's risk tolerance*

FEFSI offers the following examples to describe investors' tolerance of risk levels:

(i) *Conservative* It is recommended that your overall portfolio is not made up of more than –x– % of this Fund.

(ii) *Confident* You may keep a relevant portion of your portfolio in this Fund.

Block 7 – Treatment of income

Indicate that a Fund can either distribute or capitalise the income achieved.

In case of a distributing fund policy disclose when and how distributions are made.

Block 8 – Fund expenses

The simplified prospectus should disclose two categories of expenses that are relevant to the investor:

- (i) Any expenses that are charged directly to the investor when buying of selling units/shares of the Fund (unitholders' transaction expenses), and
- (ii) Any expenses that are paid out of the Fund's assets and which must be fully reflected in the unit price or distributions and are not charged directly to unit-/shareholder accounts (annual operating expenses).

Unitholders transaction expenses will typically include entry fees levied upon purchase of units or shares in a fund and exit fees levied upon the sale of units or shares in a fund. This type of fee may be expressed as a maximum or effective charge calculated as a percentage of the offering price. The basis for their calculation should always be disclosed; where this is not the net asset value (NAV) the appropriate basis should be given.

Annual operating expenses consist of fees charged with a fixed rate in relations to the Fund's assets under management (incl. the management, distribution, administration and custody charges) and expenses effectively charged

Separately, the simplified prospectus should also provide a Fund's **Total Expense Ratio (TER)**, which shall include **all costs** actually charged to the Fund **except** for brokerage and like charges. The TER should be presented *ex post* and updated at least once a year. The TER should be disclosed in the annual and semi-annual reports as well as the simplified prospectus.

Cost elements should not be netted when calculating the TER.

The Fund's TER should be calculated in function of an average of assets under management on a daily, weekly or at least monthly basis, or alternatively it can be done based on a Fund's profit & loss account by means of a mathematical formula such as -:

$$\frac{\text{Total costs charged to the Fund (excl. brokerage) [in nominal figures]}}{\text{Management fee paid by the Fund [in nominal figures]}} \times \text{Management fees [in \%]}$$

When calculating the TER the following figures must be taken:

- (i) The last fiscal year, or
- (ii) The first half of actual fiscal year + second half of previous fiscal year.

For calculation purposes the 12-months period that is closest to the publication date of the simplified prospectus should be used.

Investors should be informed of a change in the effective management fee since the last TER calculation. Where the Fund additionally publishes a maximum management fee the aforementioned disclosure of a change will not be necessary provided the Fund has not transgressed the disclosed maximum threshold.

Individual cost components do not have to be identified or specified. However, fund managers are encouraged to provide the greatest possible degree of transparency over and above the standard norm.

In the case of a UCITS having different investment compartments the fund manager must reveal how to pass from one investment compartment into another and the charges involved, if any.

Where a UCITS holds investment in other investment funds (partially or as a fund-of-funds) the former's TER must include the TER of each underlying investment fund having taken into account any retrocessions received. Where retrocessions are not attributed to the Fund's assets this must be clearly stated. Furthermore, the maximum level of management fee that may be charged to both the UCITS itself and to the other investment funds must be disclosed. [Article 24(3) of FEFSI's consolidated UCITS Directive].

In the event of distance marketing of the Fund, the investor must be made aware, if charged, of any specific additional costs to him as a result of the means of distance communication used [Article 3 sub2(g) Distance Marketing of Financial Services Directive].

NB: As the presentation of a uniformly calculated TER is a complex issue, in particular with respect to the investment in other investment funds, FEFSI will continue to work on this question and correspondingly up-date this User Manual.

Block 9 – Taxation

As far as taxation of the Fund level is concerned the simplified prospectus should give the applicable regime and levies in accordance with the domestic law of the Member State of incorporation.

Regarding the taxation of individual investors, the regime will depend on local circumstances for the Fund and personal circumstances for the investor only the briefest and most general information should be given in the simplified prospectus.

It is advisable to insert the neutral and general wording as proposed in the FEFSI model and to point out that the consultation of a tax adviser might be useful, particularly in cross-border marketing situations. The FEFSI Model uses the following formulation: *“The repercussion of an investment in the Fund on the individual tax bill of an investor depends on the fiscal regulations applicable in his particular case. Consulting a local tax adviser is therefore recommended”*.

Block 10 – Daily price accessibility

Briefly describe the periodicity of price calculations and identify where this information has been made available to unit- or shareholders. If the Fund publishes this information, the simplified prospectus should identify at least a few of the major newspapers of the countries in which the Fund is distributed. Where relevant a reference to the local website may also be appropriate.

Block 11 – How to buy / sell units

Describe briefly how and where to buy or sell (“redeem”) units or shares in the Fund.

The investor’s attention may be drawn to a facility, where applicable and available, of investing in a chosen Fund as part of a regular savings plan.

Should a minimum investment amount and/or a number of units/shares apply this should be highlighted. In case the respective minimum investment amounts for single investments and savings plans are different, this should be mentioned and the relevant amounts disclosed.

Block 12 – Additional important information

In this section a Fund should disclose miscellaneous information regarding the Fund which does not find a logical place under other headings, such as:

- The Fund’s legal structure (insofar as it was not already revealed in the simplified prospectus’ header);
- The identity and contact details of the management company (where applicable);
- The identity and contact details of an investment advisor (where applicable);
- The identity and contact details of the supervisory authority;
- The identity and contact details of the depositary (bank, if applicable);
- The identity and contact details of the auditor;
- The launch date of the Fund, whereby the launch date should be understood to be the date at which the first net asset value (NAV) was calculated;
- The amount of total assets under management (accompanied by a reference date);
- The international and national security codes (where applicable).

Where a Fund has been authorised to delegate certain tasks investors must be made aware of this [Article 5g(1)(i) of FEFSI’s consolidated UCITS Directive].

The Distance Marketing of Financial Services Directive may require a Fund’s simplified prospectus to also contain other information, where relevant, such as, for example, when distributing into the UK mention must be made of the existence of a compensation scheme.

Similarly, a Fund should reveal information regarding the existence of an easy and accessible complaints and redress mechanism. Given the cross border application of the simplified prospectus mention should be made of a Community driven scheme (FIN-NET) to have national ombudsmen and complaints boards to assist the process for an investor in his domestic sphere to be heard and obtain satisfaction from the Fund which may be situated in another jurisdiction and usually by definition therefore in another cultural and linguistic environment.

Block 13 – Local agents

A Fund should identify and provide contact details for the financial institutions that act as local agents in those jurisdictions where the Fund is, or is intended to be, marketed.

The nature of such local agents usually comprise those of a paying agent, and where applicable may also comprise information and/or tax representatives.

Block 14 – Further information

Briefly describe other services available to investors (e.g. exchange privileges, telephone transactions).

Investment fund companies are encouraged to have websites in the local languages of the countries in which they market their funds.

Distance marketing issues

If the Fund is to be marketed by means of distance communication including the Internet a series of additional prior information requirements have to be taken into account. The way in which this can be done will depend to a certain degree on the distribution channels chosen by the fund manager. Nonetheless, these additional information requirements may best be presented in a separate leaflet (a “wrapper”) that accompanies the Fund’s simplified prospectus for all instances where distance marketing techniques are applied. By keeping them separate from the Fund’s simplified prospectus the latter can be used in a multitude of circumstances without having the additional costs of reproducing simplified prospectuses for the various distribution mediums.

The following additional information must be provided in the case of distance marketing as defined in the forthcoming Distance Marketing of Financial Services Directive:

- ❖ Identity of intermediary (relevant) address and capacity in which intermediary is acting
- ❖ Existence of an out-of-court complaint or redress mechanism, and how to access it
- ❖ Existence of a guarantee fund or other compensation arrangements (not covered by EC directives)
- ❖ Languages in which supplier will provide info. and communicate with consumer
- ❖ Any limitations of the period for which info is valid
- ❖ Mention of the absence of a right of withdrawal
- ❖ Information on (early or unilateral) cancellation rights (incl. poss. penalties involved)
- ❖ Min. duration of contract where fin. services are to be conducted permanently or recurrently
- ❖ Supplier’s choice of Member State or States law to govern pre-contractual relations
- ❖ Applicable law to contract, and/or competent court

e-Commerce issues

The following additional information must be provided in the case of marketing via the Internet as defined in the e-Commerce Directive 2001/31/EC of December 2000:

- ❖ Clear identification of the natural or legal person on whose behalf a commercial communication is made
- ❖ The communication shall be clearly identified as commercial in nature
 - Details of the service provider (incl. e-mail address) which will allow him to be contacted rapidly and communicated with in a direct and effective manner
 - Indication of the languages offered for the conclusion of the contract
- ❖ Promotional offers, where permitted by home state, shall be clearly identifiable
- ❖ Indication of relevant codes of conduct, and how to access these electronically
- ❖ Customer must be able to store and reproduce contract terms and general conditions