

## 3 QUESTIONS TO

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Chair of EFAMA's European Fund Classification Taskforce



### On the purpose of a European Fund Classification

#### **Q #1** *What is the European Fund Classification (EFC) and why is it different from other classifications?*

The mission at the heart of our work on the European Fund Classification scheme is to help investors, and the wider European funds industry, to find and compare similar fund peer groups in a meaningful way. This mission is particularly relevant in an era of rising cross-border fund sales because the EFC enables investors and their advisers to compare funds across different European jurisdictions consistently.

From the outset, the EFC was set up by fund management firms in recognition that our industry has become increasingly international but also that the investment landscape is growing more complex. There was a clear need to develop a scheme that would help investors to navigate this more complex universe and to make considered investment decisions. We have always been mindful that fund managers have to be cost-conscious to help deliver value to their investors and for this reason, the EFC is free both for fund groups to classify funds and for investors to use.

The EFC's main categories are split into six: equity, bond, multi-asset, money market, 'Absolute Return Innovation Strategies' and Other. Further segmentation according to other characteristics including country/region, industry sector, market cap, currency exposure and credit quality enables investors to drill down into groups of similar funds.

Today, more than 500 fund management companies have opted to have funds classified to the EFC scheme and the total universe has grown to **19,168** funds made up of **85,647** share classes.

The classification is owned and developed by the fund industry and is not purely quantitative. This means that we can balance the science of a holdings-based classification scheme with the art of using the Taskforce's judgment to make changes

that are meaningful for investors. One recent example of this is the introduction of thematic flags that help investors identify specific investment themes, such as Clean Energy and Digitalisation, for funds classified to the EFC categories. This is not a quantitative process: fund management firms choose the appropriate themes, which allows them control over the flagging process.

Investor confidence in the scheme is critical and for this reason, FundConnect, the EFC's appointed administrator, conducts a quarterly holdings analysis to ensure that funds in the different categories are meeting the parameters of the category definition. This sets the EFC approach apart from other classification schemes and gives an additional level of comfort to investors.

**Q #2** *What has been the recent progress made in establishing the EFC as a reference classification system?*

In recent years, the EFC has introduced an indicative classification system to support the growth of the EFC classification scheme so that investors can compare a wider range of funds and share classes. Under this system, funds can be brought into the scheme without going through a more involved verification process. Once an indicative classification has been awarded, it is then easy for a firm to ask for funds to be upgraded to verified status. To facilitate the roll-out and usage of indicative classifications, the EFC has partnered with FE Fundinfo, a major pan-European data vendor, alongside its longstanding fund administrator, FundConnect.

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One recent example of the indicative classification process in action is the agreement between the Investment Association's Sectors Committee in the UK and the EFC to apply the indicative classification to funds in the national IA Sectors scheme. The UK scheme's monitoring company checks and monitors fund holdings to ensure that funds align with the IA sector definitions and this has helped FundConnect to map the IA fund sectors to the EFC categories to facilitate the work on the indicative classification. Funds in the IA Sectors will be awarded an indicative classification under the EFC.

The Taskforce sees the indicative classification as a growth area and is currently exploring the option of a partnership with Euronext Funds360 to classify funds domiciled in France. Significant progress has also been made on driving up verified funds and, since the beginning of 2021, five new fund groups have had their funds classified.

Raising the awareness and understanding of how the EFC operates has always been central to the work of the Taskforce. There are two key elements to this objective. The first is to help improve investor understanding through clear and concise user guides. The second is to promote operational efficiency by helping firms' better grasp the process behind having funds verified. This has led to the recent launch of two significant documents: the EFC categories brochure and a procedural document for our member firms. The brochure is available on the

[EFAMA](#) and [FundConnect](#) websites and reflects some of the recent changes adopted by the EFC, including the launch of thematic flags.

**Q #3** *What are your objectives for the EFC, as the new Chair of the EFC Taskforce?*

On one level, my objectives are simple: to continue to provide a classification scheme that helps European and international investors to better find and compare funds, and to increase the coverage and usage of the EFC.

I am very aware that whilst these objectives sound simple enough, there will be a lot of hard work involved to keep on building on the success of the EFC to date. Cementing strong partnerships with fund managers is critical because their input drives the scheme categories and their support is integral to increasing the number of verified funds. This is an important area of focus.

We must also look to build partnerships with more of the major European distributors and investment platforms to make certain that when investors are selecting funds, they can use the EFC categories to find and filter funds easily and in a meaningful way. This will help to ensure that more investors have access to our categories and can use them to build their portfolios.

We are also operating in a fast-moving investment landscape. One clear example of this is the accelerating growth of ESG funds. Europe leads the world in managing assets according to ESG principles and it's a fantastic opportunity for our industry to deliver good outcomes for investors and society as a whole. As we adopt more consistent and standardised ways of disclosing information on ESG funds, including embedding SFDR, the EFC must move with the industry and indeed with our Regulators. There has never been a greater need to help improve investor confidence in finding funds that have ESG characteristics. The thematic flags are a good start and an important innovation but we know that there is more work to do. I am looking forward to meeting this challenge alongside the members of the EFC Taskforce.

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**EFAMA, the voice of the European investment management industry**

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