

THE

INVESTMENT

ASSOCIATION

THE INVESTMENT ASSOCIATION SECTOR SCHEME CONSULTATION ON INCLUSION OF EXCHANGE TRADED FUNDS IN THE SECTORS

November 2018



EXECUTIVE SUMMARY

THE INVESTMENT ASSOCIATION WOULD LIKE TO GATHER VIEWS ON WHETHER IT SHOULD ALLOW CLASSIFICATION OF EXCHANGE TRADED FUNDS (ETFs) TO ITS SECTORS. THE SECTORS CURRENTLY ONLY CLASSIFY UNIT TRUSTS AND OEICS (INCL SICAVS).

The IA is minded to allow ETFs to be so classified, but it recognises that there are differences between unit trusts and OEICs (“Funds”) and ETFs. For that reason this paper also identifies and describes the more technical issues that could arise were any particular sector comprised of both Funds and ETFs; this may be most notable in performance comparisons. Respondents to this paper are particularly invited to comment upon this section.

The questions raised by the IA are likely to be of interest far more widely than within its membership. Responses from any person are encouraged, not least from wealth managers, advisers, platforms and media commentators. Whilst the IA may not be able to engage in direct discussion with every respondent, it is our intention to provide some public feedback when any final decision is reached.

The consultation will remain open for comment until **1 February 2019**. Should this timetable cause difficulties to a potential respondent, please let us know.

BACKGROUND

IA SECTORS

IA fund sectors help investors to find certain types of open ended funds and, in many cases, to narrow the universe of available funds so as to make like-for-like comparisons. The IA's historic focus has been on funds which can be marketed to retail investors in the UK. Fund managers are expected to note that the user group for sectors should be assumed to be consumers and their advisers.

Unit trusts and OEICS (as are ETFs) are a type of fund structure which under UK regulation, enforced by the Financial Conduct Authority (FCA), can only be promoted to retail investors in the UK if the FCA has either authorised them – if established in the UK – or recognised them – if established overseas, many of the recognised funds will be UCITS established in another EEA country by the FCA.

The variety of funds on the sale in the UK is large. As at 1 October 2018, the FCA's website shows the funds which are authorised and regulated – it should be noted that site does not give an as at date for its statistics but was last updated on 9 February 2018. Given that umbrella funds will be sold in their constituent sub-funds, the FCA's statistics suggest that some 3,567 different UK funds are authorised to be marketed to retail consumers, and 7,328 overseas funds are recognised (99.5% of which are UCITS passporting in from the rest of Europe). This does not mean that all such funds are actively marketed presently.

The IA sectors offer a way of dividing up the authorised funds universe into groups of funds so as to facilitate the meaningful comparison of a more manageable number of funds. As at 1 October 2018, 2,568 UK funds were classified to the sectors and 972 overseas funds – the latter are all non UK UCITS, registered (recognised) for sale, with reporting fund status. Although this appears to be 72% of the UK authorised funds, and around 13% of overseas funds, it is likely (given the widespread usage of the IA sectors) that this is a very high percentage of funds being sold by fund providers.

Funds within a sector may still offer considerable variety, whether of investment approach (for example active vs. passive) or of choice of underlying instruments (for example large cap vs. mid cap stocks).

At the outset, fund providers choose which sector their fund should appear in and submit their request to the IA. Funds should meet the sector parameters set out in their chosen sector from the outset. Once classified, funds should aim to stay in line with the sector definition on a continuous basis. Sector inclusion is, therefore, a voluntary election but providers must ensure their funds adhere to the sector criteria once admitted.

If the mandate of the fund and the criteria for an IA sector diverge, the manager of the fund must still comply with the parameters set out in the relevant IA sector definition if they wish to be classified to that sector. Compliance with sector definitions is a matter for the manager.

The IA provides a list of funds classified to its sectors on its website: <https://www.theinvestmentassociation.org/fund-sectors/funds.html>. Funds can be filtered by sector or by flag.

By providing the universe of funds in a sector to data providers, performance data can be collected and sector averages and ranking tables can be created to help investors to compare past performance and conduct their own due diligence on funds. Understanding the IA's relationship to data providers is one factor in the question of extending the sectors to ETFs. It is considered below.

Investors may also compare fund data that is not performance-related such as charges or minimum investment levels.

The existing sectors categorise both active and passive funds. The IA data carries flags, particularly for tracker and for ethical funds. These flags are not always used by the commercial data vendors who may instead choose to use their own basis for filtering or analysis. It is expected, at least in the first few years, that most of the ETFs will be passive funds, including smart beta and factor funds.

EXCHANGE TRADED FUNDS

The Investment Association represents UK investment managers that offer both active and passive portfolio management through a range of products to both institutional and retail end clients.

Active managers seek to make investment decisions with the goal of outperforming other investments, an investment benchmark or peer group. Passive managers manage tracker or index funds that track a broad market index or section of the market. These funds seek to replicate the holdings or performance of a designated benchmark, typically at a low cost.

Over the last decade investors have begun to invest in exchange traded funds as an alternative to tracker funds when looking for passive/indexed investment strategies. ETFs share similar characteristics to open ended funds but there are some key operational and structural differences between the two types of product.

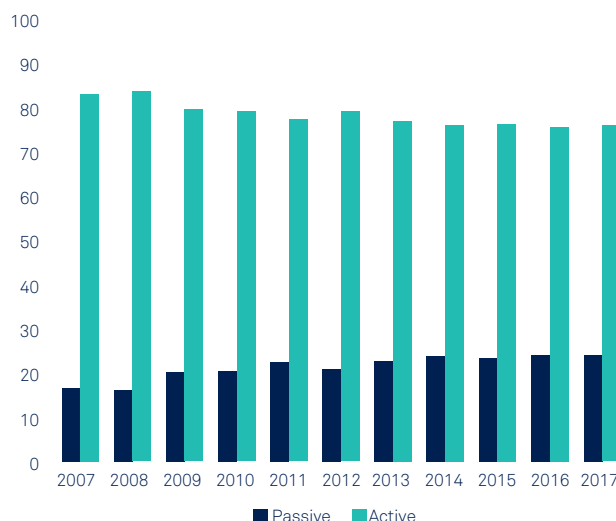
An exchange traded fund (ETF) is a pooled investment vehicle with shares that investors can buy and sell on a stock exchange at a price that fluctuates with the market. Unlike with Funds, investors can trade the shares in ETFs at any time that the market is open. The price of an ETF will reflect immediate demands to buy or sell, with the price fluctuating more or less around the net asset value of the ETF; should the market price move too far away from the value of the underlying fund then market arbitrage activity will correct it.

ETFs are typically index tracking funds and are constructed to provide investors exposure to broad market indices, sectors, geographic regions, or specific rules based strategies. Although ETFs are operated in a different way, they are structured as open ended investment companies, and are governed by the same regulations.

The IA has published a basic guide to ETFs and respondents to this consultation may find it helpful to refer to this for additional information on ETFs before providing feedback. The guide is provided in the Annex.

The IA's Asset Management Survey also provides some context on the relative size of passive assets in the context of overall UK managed assets over the last 10 years in the chart below.

FIGURE 1:



THE PROPOSAL TO INTRODUCE ETFs TO IA SECTORS

One of the many committees run by the IA is the Sectors Committee. It has a special role in the governance of the sectors and will consider both the effectiveness of existing sectors and the need for any new or amended sectors. Earlier this year, the IA's ETF Committee, working with the IA staff, proposed that ETFs should now be admitted to the IA sectors. It is recognised that fund buyers and distributors are influenced by whether or not a fund has been admitted to IA sectors; not least as funds are often compared on their performance relative to their competitors and commonly the performance tables prepared by data vendors and buyers will either be based upon or benchmarked to the IA sectors and sector average performance.

WHICH ETFs?

Consistently with our approach in other sectors, we shall only consider ETFs that are either UK domiciled, or are EU UCITS with reporting status¹. Our discussions with representatives of the ETF industry on the IA's ETF committee, lead us to believe this is an appropriate and acceptable condition. Most, if not all, will also have their shares admitted to trading on the London Stock Exchange, as well as other EU exchanges.

UCITS ETFs are required to carry this nomenclature in their name which would allow for differentiation of these from other open ended funds.

There are some products such as exchange traded notes (ETNs) or exchange traded commodities & currencies (ETCs) that have different structures and are subject to different regulations. These will not be considered for entry to IA sectors.

We are not consulting on the decisions about which types of ETFs could in principle be admitted, but respondents to this paper are welcome to comment.

THE BASIS OF ALLOCATION TO SECTORS

Again, consistently with our approach in other sectors, we propose that ETF fund providers will choose which sector their fund should appear in and submit their request to the IA.

Consistent with the process for Funds, ETFs will be asked to provide portfolio holdings at each month end and these will be used to determine whether an ETF meets the criteria of a particular sector, both upon application and on an ongoing basis thereafter. Generally, funds that use derivatives extensively to deliver on their investment objectives can create challenges for classification and monitoring in IA sectors. The equity sectors currently do not allow for funds using synthetic strategies to be included. In light of this and as the majority of ETF nominations are equity strategies, we have decided that only ETFs that use physical replication will be considered for inclusion² at the outset, and synthetic replication strategies will be excluded. We envisage that where this policy impacts on sectors, it will be reconsidered across all funds, and not merely ETFs.

We are not consulting on our applying our existing approach to classifying funds to any applicant ETFs, but respondents to this paper are welcome to comment on this policy.

¹ Where an investor holds shares in a fund (whether an ETF or other open-ended fund) with reporting fund status, then in broad terms and subject to some conditions, the investor may claim capital gains tax treatment on any gain in their tax return rather than risk having it taxed at a higher rate as income. This is only a broad summary and any individuals should seek specific advice on tax and investment.

² See the ETF Guide page 3 for a further explanation of this

WHICH SECTORS?

Over the summer, we have obtained lists of ETFs that might prospectively be admitted to sectors. We did this to see what level of interest there might be, but also to ascertain whether the existing sector classifications were capable of accommodating those particular funds.

Whilst we cannot formally pre-empt the decisions that will be made, we consider that the large majority of the funds will fit within existing sectors. For most, the existing approach to classification will allow us to accept the first choice of sector made by the ETF provider. In others, any policies and approaches that are required will be developed with the Sectors Committee.

THE IMPACT ON EXISTING SECTORS

Our consideration of the cohort of prospective ETFs also included the impact on the funds already in sectors. Issues could include impacts on past-performance, and sector average and ranking data. Of course, any new fund alters the existing set of funds, and it is not our intention to be swayed by individual impacts to particular funds, but in this case we have considered impacts on sectors as a class as at least three issues could be different here than would arise in day-to-day business of maintaining the sectors:

- a. The relatively large number of newly admitted funds on one day in some sectors
- b. The possibility that the ETFs will be more tightly clustered in performance if many focussed on the same index
- c. Distinctions in the mechanisms for pricing the shares held by investors.

In order to obtain a more quantitative understanding of these issues, we asked three commercial data vendors (Financial Express, Lipper Refinitiv and Morningstar) to carry out some analysis. The sectors are run on a day to day basis by IA staff but are overseen by the Sectors Committee which is made up of IA member firms, those three data vendors and the monitoring company (Morningstar, UK).

THE IA'S RELATIONSHIP WITH THE DATA PROVIDERS

The IA does not collect or produce performance data, nor calculate or publish any indices, benchmarks or ranking tables based on the sectors. Others do, notably the data providers such as Morningstar, Financial Express and Lipper Refinitiv. So given the next part of this paper asks about impacts on performance data, it is important to note that the IA does not tell the data vendors to calculate IA sector-based datasets and performance data. Our interest is in seeking to ensure that the introduction of ETFs to the IA sectors will bring benefits for consumers and those who advise and assist them, and not cause issues. As the data vendors play an important role in the wide dissemination of analytical tools and the datasets that underpin them, we have explained our relationship with them.

The work carried out by the IA to create and maintain the sectors forms the basis for the construction of sector averages and indices by a number of commercial data providers who use the IA name to label this output. The performance data created for IA sectors is therefore distinct from the data provided for the data providers' own commercial sectors.

The IA supplies data on funds classified to the IA sectors to a number of third parties including the data providers, at the point when funds are classified to a sector and at each month end. The IA also provides a list of funds in its sectors on the IA website.

The IA classifies a fund and passes to those data vendors, details of the "primary share class" nominated by the member firm, identified by an ISIN. The IA believes that, as far as possible, there should be a common basis for comparison and, post the regulator's Retail Distribution Review (RDR)³, sought to facilitate this by providing a definition to help the data providers identify a 'primary' share class. The primary is the nominated share class chosen by the fund group based on the following definition:

The highest charging unbundled – free of any rebates or intermediary commission – share class freely available through third party distributors in the retail market.

Separately, the data providers collect information for the funds directly and publish some of this, performance data in particular. From this data they calculate sector averages and rankings, both for IA sectors and for their own sectors.

The data providers seek to ensure that any adjustments are made to performance data to enable an informed comparison of UK authorised funds with non UK UCITS.

The data providers construct the IA sector averages and ranking data on commercial terms. Thus the details of the methodology and ownership of the products reside with each data provider; given variations in methodology the IA sector averages and rankings can differ slightly between different providers.

Accordingly, at IA staff level we classified the prospective ETFs to existing sectors based upon the provider's request and existing policies. In some cases the Sectors Committee was asked to consider policies that we are minded to adopt, as mentioned above. We provided that set of funds to the three data vendors on our committee and asked them to provide sector average data for all IA sectors in which the ETFs would be classified. All three followed a common set of specifications:

- They reported 1/3/5/10Y average returns both pre and post ETFs in £sterling
- The data used was at 31 July 2018
- Averages were reported as both mean and median – but we did not require them to create or replicate an index or portfolio weighted average
- The calculation of returns was to be made on a NAV to NAV basis (and so ignore the impact of fluctuating market prices on real world performance from an investor's experience)
- The data vendors were however free to choose to report returns on a gross or net of tax basis, but they were asked to be consistent
- They were encouraged to provide such narrative comments or other analysis as they chose.

³ The financial regulator's Retail Distribution Review (RDR) introduced on 31 December 2013 fundamentally changed the way in which financial advice operated in the UK. One of its goals was to ensure investors understood the cost of advice, as well as others costs when buying authorised funds. Historically, most funds showed a "bundled" fee that included the investment manager's fee, plus other costs such as advice and distribution. An unbundled fee is one that typically only shows the investment manager's fees.

The analyses are presented in Annexes 1 to 3. We are grateful to each for this data.

We think that the analyses in those Tables supports a view that the impact on sector averages is relatively small for the time periods considered; varies across sectors in direction and size time periods; and overall, does not indicate that the introduction of ETFs will cause significant disruption to the distribution of funds across the sectors and the usage of reporting of quartile positions amongst firms.

There will, of course, be some existing sector members that might be demoted or promoted across quartile rankings by reasons of the boundaries changing between, say, 2nd and 3rd quartile performance. This is a consequence of the introduction of new sector constituents. Nevertheless we have analysed the impact on 1 year and 5 year performance rankings for some of the sectors. We chose five of the larger sectors which are also likely to receive a number of ETFs. Each of the charts below plots the percentage change in ranking likely to be seen by existing funds in that sector, against the number of funds that will experience that change. Taking UK All companies 5 year, 122 show no change in rank, 30 will be 1% lower in ranking and 82 will be 1% higher.

FIGURE 2: ASIA PAC EX JAPAN 1 YEAR

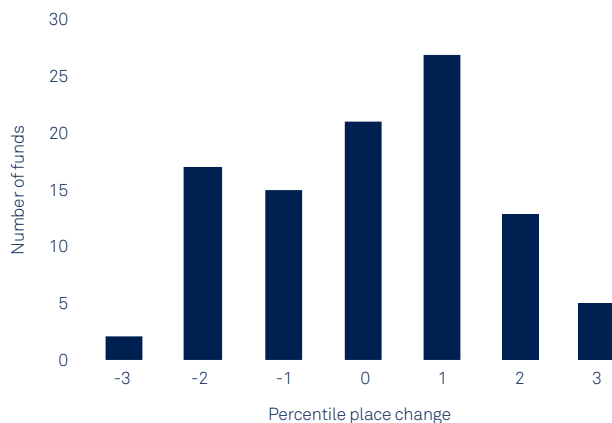


FIGURE 3: ASIA PAC EX JAPAN 5 YEAR

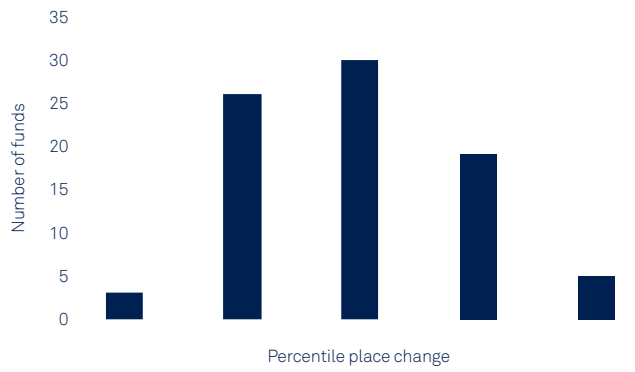


FIGURE 4: GLOBAL BONDS 1 YEAR

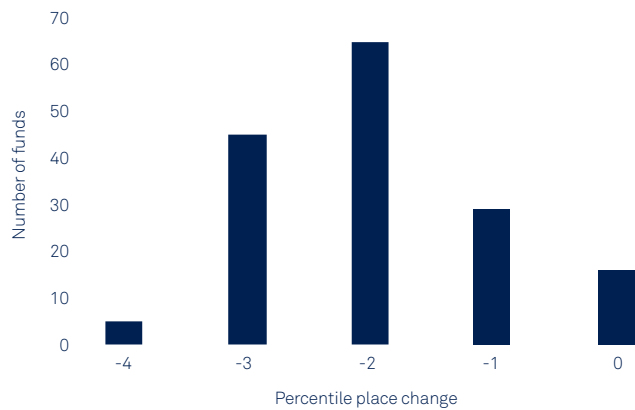


FIGURE 5: GLOBAL BONDS 5 YEAR

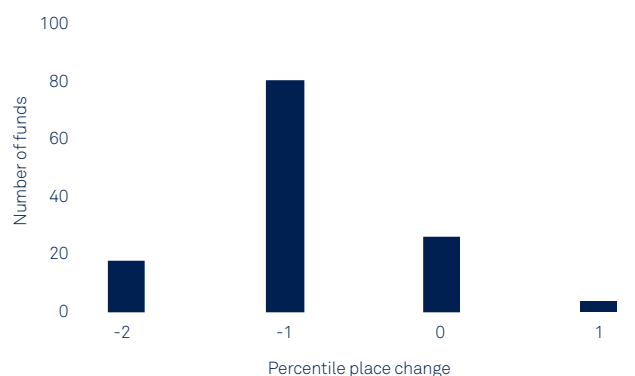


FIGURE 6: UK ALL COMPANIES 1 YEAR

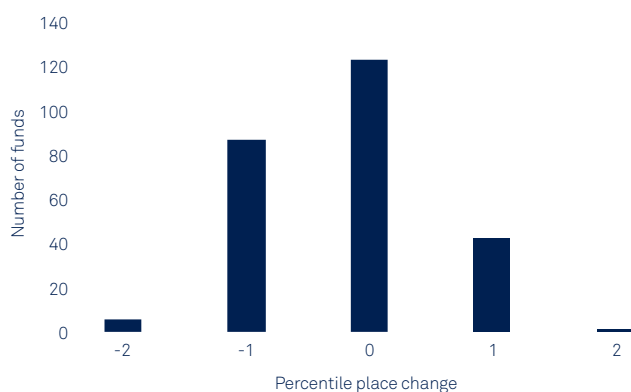


FIGURE 9: EUROPE INC UK 5 YEAR

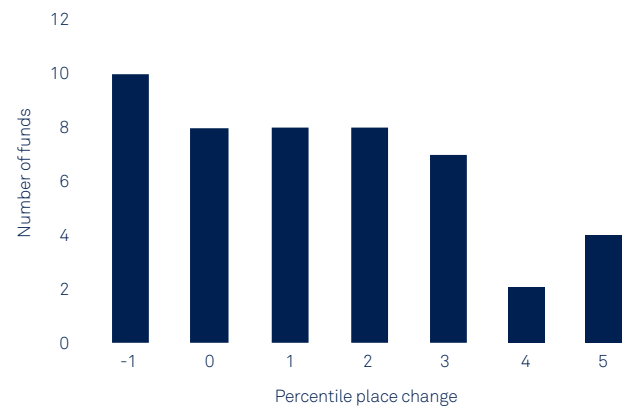


FIGURE 7: UK ALL COMPANIES 5 YEAR

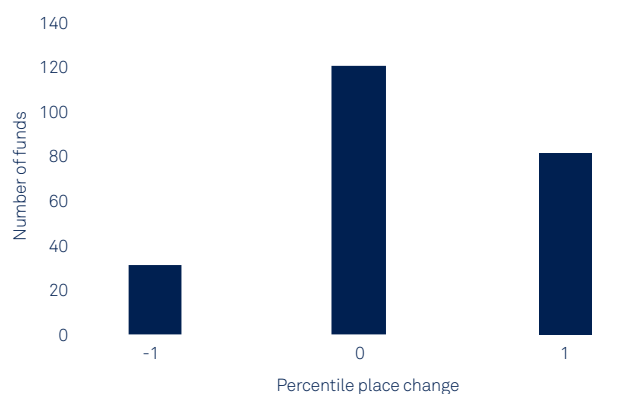


FIGURE 10: NORTH AMERICA 1 YEAR

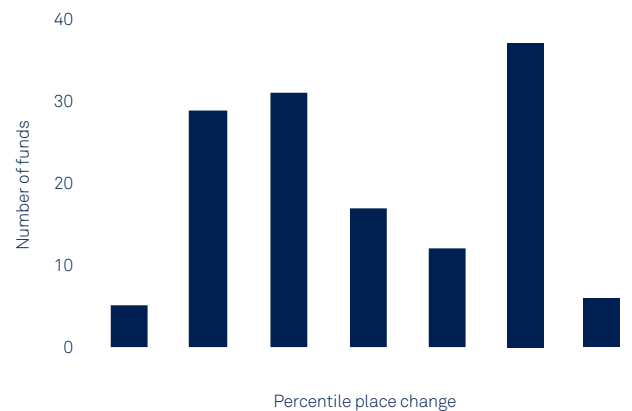


FIGURE 8: EUROPE INC UK 1 YEAR

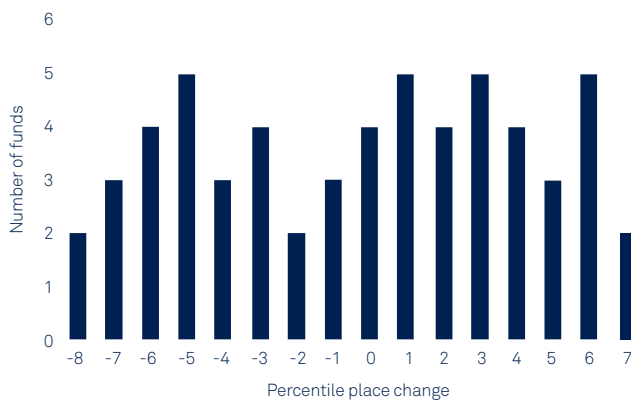
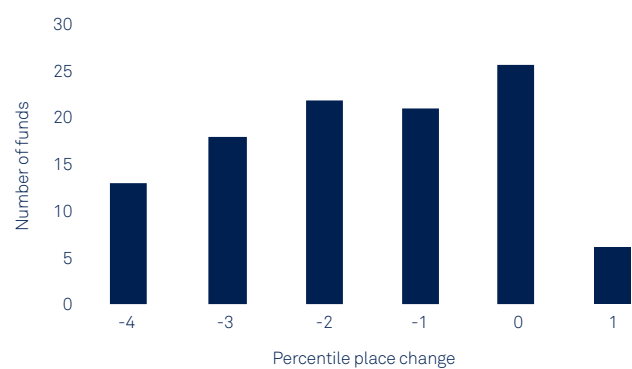


FIGURE 11: NORTH AMERICA 5 YEAR



The greatest change of the sectors considered here is seen in the Europe Inc UK sector with some funds moving up 7% and others down 8%; in several sectors the ranking moves are within a few percent.

Based on this analysis, we do not envisage disruption to the utility of the sectors themselves.

In one sense, the conclusion should not be a surprise. Each of the data vendors runs its own variation of sector classification and provides different tools for filtering and analysing fund universes. ETFs have been included in many of these datasets for around a decade and anecdotally we are told their inclusion, and the ability to filter ETFs or other funds in or out, has not been reported as a cause of complaint.

PERFORMANCE COMPARISON CONSIDERATIONS

We note that the data calculated by the data vendors cannot provide the total picture of an individual's performance experience as this will be influenced by additional factors such as the route they have followed in order to invest.

For Funds, an investor may have used an adviser or platform to make their decision and therefore their total cost of ownership may include the additional payment of an adviser or platform fee. For an ETF, an investor may need to consider brokerage costs and spread, more akin to investment in an investment trust.

Whilst the consultation notes these particular issues, we do not think that these issues lead to the exclusion of ETFs from IA sectors. We welcome your comments.

IA STATISTICAL REPORTING

The IA uses the IA sectors as a means of reporting assets and flows data in its monthly statistics for UK authorised funds. Currently IA data is presented on a UK investor basis rather than on fund domicile. Providing this data is a condition of membership of the IA.

ETFs seeking classification to IA sectors will also be expected to provide monthly data; it is a condition for entry for all funds in the Sectors.

We believe that separating UK retail investor data from secondary market trading information is not possible. Therefore, it is proposed that the IA statistical data for Funds and ETFs will be reported separately. It is probable that only primary market data will be reported for ETFs.

We welcome feedback on any of the above.

GENERAL CONSULTATION

Alongside the more detailed or technical questions we raise above, we would welcome your views on the following questions. When answering please explain your role or interest in the issues.

1. Do you want to be able to compare ETFs with open ended funds?
2. How easy is it currently to compare ETFs with other open ended funds?
3. What would be your preferred outcome from this consultation?
 - a. No change to the status quo
 - b. Inclusion of ETFs in existing sectors
 - c. Creation of separate ETF sectors
 - d. Ability to filter data for inclusion/exclusion of ETFs
 - e. Something else – please provide details
4. What do you see as the pros and cons of including ETFs in IA sectors?
5. Please provide any other comments that you would like to make in relation to this consultation.

As a reminder, the consultation will remain open for comment until 1 February 2019. Should this timetable cause difficulties to a potential respondent, please let us know.

Please reply to Sectors@theia.org

APPENDIX 1

MORNINGSTAR

Group/ Investment	Fund Size Open End Only	Fund Size Open End and ETF	Fund Size ETF Effect	Open End Only 1 year Return (Cumulative)	Open End and ETF 1 year Return (Cumulative)	ETF Effect 1 year Return (Cumulative)
Global Bonds						
Peer Group: Display Group						
Number of investments ranked				160	176	16
Display Group Average	965,626,686.54	944,375,838.28	-21,250,848	-0.22	-0.11	0.11
Display Group Median	356,485,478.00	358,198,877.49	1,713,399	-0.29	-0.14	0.15
Asia Pacific Excluding Japan						
Peer Group: Display Group						
Number of investments ranked				100	108	8
Display Group Average	507,283,408.86	510,665,428.45	3,382,020	5.04	5.08	0.04
Display Group Median	185,222,335.00	193,084,431.00	7,862,096	5.07	5.08	0.01
Europe Including UK						
Peer Group: Display Group						
Number of investments ranked				58	75	17
Display Group Average	760,761,186.65	753,685,949.91	-7,075,237	7.19	7.11	-0.08
Display Group Median	223,125,258.67	252,393,399.43	29,268,141	6.82	6.75	-0.07
UK Smaller Companies						
Peer Group: Display Group						
Number of investments ranked				48	49	1
Display Group Average	352,096,543.26	348,044,779.27	-4,051,764	13.50	13.46	-0.05
Display Group Median	196,975,277.50	194,740,891.00	-2,234,387	12.93	12.92	-0.00
Global						
Peer Group: Display Group						
Number of investments ranked				290	314	24
Display Group Average	667,941,216.74	707,733,664.82	39,792,448	10.48	10.58	0.10
Display Group Median	189,492,873.08	196,941,150.00	7,448,277	10.05	10.21	0.16
UK All Companies						
Peer Group: Display Group						
Number of investments ranked				261	271	10
Display Group Average	686,154,071.78	702,292,055.24	16,137,983	8.50	8.51	0.01
Display Group Median	230,203,029.00	230,203,029.00	0	8.45	8.45	0.00
North America						
Peer Group: Display Group						
Number of investments ranked				137	158	21
Display Group Average	685,222,145.67	939,077,419.98	253,855,274	14.99	15.20	0.21
Display Group Median	218,194,670.00	218,194,670.00	0	14.63	14.88	0.25
Europe Excluding UK						
Peer Group: Display Group						
Number of investments ranked				110	128	18
Display Group Average	571,440,961.49	640,507,649.43	69,066,688	5.44	5.56	0.12
Display Group Median	195,095,605.00	193,186,488.00	-1,909,117	4.76	4.99	0.23
Japan						
Peer Group: Display Group						
Number of investments ranked				75	84	9
Display Group Average	532,231,640.13	579,754,198.43	47,522,558	10.71	10.64	-0.07
Display Group Median	265,934,886.00	265,934,886.00	0	9.13	9.13	-0.00
Global Emerging Markets Bond						
Peer Group: Display Group						
Number of investments ranked				52	58	6
Display Group Average	1,101,846,046.57	1,223,205,132.73	121,359,086	-2.20	-2.07	0.13
Display Group Median	336,582,384.63	334,607,344.81	-1,975,040	-2.15	-1.95	0.20
£ Corporate Bond						
Peer Group: Display Group						
Number of investments ranked				88	95	7
Display Group Average	824,419,736.66	804,923,988.31	-19,495,748	0.01	-0.04	-0.05
Display Group Median	349,244,792.00	338,323,601.00	-10,921,191	-0.02	-0.04	-0.02
European Smaller Companies						
Peer Group: Display Group						
Number of investments ranked				26	29	3
Display Group Average	512,483,865.58	536,698,782.75	24,214,917	9.04	8.90	-0.14
Display Group Median	185,186,508.00	218,689,124.00	33,502,616	8.72	8.51	-0.20



Open End Only 3 year Return (Annualized)	Open End and ETF 3 year Return (Annualized)	ETF Effect 3 year Return (Cumulative)	Open End Only 5 year Return (Annualized)	Open End and ETF 5 year Return (Annualized)	ETF Effect 5 year Return (Cumulative)	Open End Only 10 year Return (Annualized)	Open End and ETF 10 year Return (Annualized)	ETF Effect 10 year Return (Cumulative)
147	156	9	128	136	8	72	72	0
6.67	6.72	0.05	3.69	3.74	0.05	6.55	6.55	0.00
7.50	7.77	0.27	3.48	3.50	0.02	6.40	6.40	0.00
93	101	8	83	90	7	58	60	2
15.33	15.30	-0.03	10.20	10.12	-0.08	10.21	10.20	-0.00
15.69	15.70	0.01	9.53	9.52	-0.01	9.78	9.90	0.12
53	66	13	47	55	8	37	41	4
10.86	10.89	0.03	9.37	9.27	-0.10	8.49	8.35	-0.13
10.88	10.85	-0.03	9.01	8.83	-0.17	8.34	8.33	-0.01
47	48	1	46	47	1	41	41	0
14.27	14.17	-0.09	14.76	14.68	-0.09	14.05	14.05	0.00
13.25	13.02	-0.23	14.82	14.56	-0.26	14.13	14.13	0.00
262	280	18	232	241	9	151	155	4
13.94	14.02	0.08	11.30	11.31	0.01	10.22	10.21	-0.01
13.99	14.25	0.26	11.33	11.36	0.03	9.96	9.96	0.00
247	257	10	234	243	9	195	199	4
8.59	8.59	0.00	8.44	8.42	-0.02	9.02	9.03	0.01
8.51	8.56	0.05	7.70	7.70	-0.00	8.58	8.58	0.00
123	135	12	106	116	10	78	81	3
16.81	17.00	0.19	14.71	14.82	0.11	13.69	13.68	-0.00
16.77	17.03	0.26	14.80	15.03	0.23	13.50	13.55	0.05
101	117	16	90	103	13	71	79	8
12.13	12.17	0.04	10.23	10.18	-0.05	8.63	8.40	-0.23
11.99	11.99	0.00	9.90	9.88	-0.03	8.33	8.07	-0.26
68	76	8	59	66	7	48	49	1
13.74	13.67	-0.07	11.34	11.29	-0.05	9.62	9.58	-0.04
13.11	13.06	-0.04	10.84	10.84	-0.00	9.13	9.04	-0.08
46	50	4	39	43	4	17	19	2
7.16	7.38	0.22	2.97	3.23	0.26	6.98	7.32	0.34
7.70	7.76	0.06	2.81	3.08	0.28	5.62	8.22	2.60
82	86	4	76	79	3	56	57	1
4.06	4.02	-0.04	4.60	4.59	-0.00	5.96	5.96	0.00
4.18	4.18	0.00	4.59	4.59	0.00	5.83	5.84	0.01
22	25	3	19	22	3	17	19	2
16.69	16.57	-0.12	14.48	14.30	-0.18	12.47	12.23	-0.24
17.72	17.47	-0.25	14.71	14.66	-0.05	12.87	12.46	-0.40

APPENDIX 1

MORNINGSTAR CONTINUED

Group/ Investment continued	Fund Size Open End Only	Fund Size Open End and ETF	Fund Size ETF Effect	Open End Only 1 year Return (Cumulative)	Open End and ETF 1 year Return (Cumulative)	ETF Effect 1 year Return (Cumulative)
Global Emerging Markets						
Peer Group: Display Group						
Number of investments ranked				98	108	10
Display Group Average	677,922,212.62	682,154,120.90	4,231,908	2.79	2.96	0.17
Display Group Median	265,756,574.00	250,343,871.00	-15,412,703	2.97	3.22	0.25
China/Greater China						
Peer Group: Display Group						
Number of investments ranked				38	46	8
Display Group Average	366,965,216.88	341,517,378.55	-25,447,838	9.65	8.54	-1.11
Display Group Median	141,118,737.00	141,118,737.00	0	9.55	8.48	-1.07
North American Smaller Companies						
Peer Group: Display Group						
Number of investments ranked				16	19	3
Display Group Average	398,397,103.70	439,894,656.04	41,497,552	17.27	17.69	0.42
Display Group Median	254,968,855.00	279,585,747.29	24,616,892	16.67	17.92	1.25
£ High Yield						
Peer Group: Display Group						
Number of investments ranked				37	38	1
Display Group Average	696,032,106.50	680,444,586.26	-15,587,520	0.98	0.97	-0.01
Display Group Median	434,171,720.00	334,872,009.00	-99,299,711	1.12	1.02	-0.10
UK Equity Income						
Peer Group: Display Group						
Number of investments ranked				88	91	3
Display Group Average	656,197,081.84	642,625,420.50	-13,571,661	6.50	6.49	-0.01
Display Group Median	205,260,010.50	201,116,657.00	-4,143,354	6.96	7.10	0.14
UK Gilts						
Peer Group: Display Group						
Number of investments ranked				27	30	3
Display Group Average	561,283,073.50	602,678,551.10	41,395,478	1.00	0.96	-0.04
Display Group Median	269,826,400.00	288,397,671.00	18,571,271	0.73	0.74	0.01
Technology and Telecommunications						
Peer Group: Display Group						
Number of investments ranked				16	21	5
Display Group Average	1,022,353,853.25	915,933,199.40	-106,420,654	18.73	18.63	-0.10
Display Group Median	248,666,057.00	257,418,731.40	8,752,674	18.64	19.11	0.47
Japanese Smaller Companies						
Peer Group: Display Group						
Number of investments ranked				7	8	1
Display Group Average	523,980,441.62	538,032,803.60	14,052,362	16.81	16.02	-0.79
Display Group Median	423,563,537.84	529,981,437.80	106,417,900	17.69	15.94	-1.75
Global Equity Income						
Peer Group: Display Group						
Number of investments ranked				54	55	1
Display Group Average	401,812,370.80	397,203,146.90	-4,609,224	6.88	6.86	-0.02
Display Group Median	123,466,274.00	123,466,274.00	0	7.18	6.87	-0.31
UK Index Linked Gilts						
Peer Group: Display Group						
Number of investments ranked				14	15	1
Display Group Average	415,039,956.33	439,997,091.60	24,957,135	2.93	2.97	0.04
Display Group Median	128,844,968.00	153,535,304.00	24,690,336	2.81	2.88	0.07
Asia Pacific Including Japan						
Peer Group: Display Group						
Number of investments ranked				7	8	1
Display Group Average	242,040,229.73	256,372,410.80	14,332,181	8.41	7.19	-1.22
Display Group Median	151,351,403.00	243,596,404.50	92,245,002	8.01	7.53	-0.47



Open End Only 3 year Return (Annualized)	Open End and ETF 3 year Return (Annualized)	ETF Effect 3 year Return (Cumulative)	Open End Only 5 year Return (Annualized)	Open End and ETF 5 year Return (Annualized)	ETF Effect 5 year Return (Cumulative)	Open End Only 10 year Return (Annualized)	Open End and ETF 10 year Return (Annualized)	ETF Effect 10 year Return (Cumulative)
91	98	7	80	86	6	36	38	2
14.65	14.64	-0.01	8.10	8.01	-0.09	7.00	6.92	-0.08
14.73	14.76	0.03	8.02	7.93	-0.09	7.05	6.86	-0.20
36	43	7	34	39	5	20	22	2
16.73	15.75	-0.98	13.61	13.40	-0.21	10.23	9.86	-0.37
16.96	16.82	-0.14	13.41	13.25	-0.17	9.52	9.20	-0.32
15	18	3	13	15	2	10	11	1
17.28	17.60	0.32	13.88	14.10	0.22	15.22	15.33	0.12
16.80	17.61	0.81	14.46	14.51	0.05	15.54	15.57	0.03
34	34	0	30	30	0	18	18	0
4.28	4.28	0.00	4.15	4.15	0.00	6.32	6.32	0.00
4.25	4.25	0.00	4.29	4.29	0.00	6.25	6.25	0.00
81	82.00	1	78	79.00	1	55	56.00	1
7.26	7.21	-0.05	7.75	7.72	-0.03	8.75	8.72	-0.03
7.20	7.20	-0.01	7.70	7.69	-0.01	8.86	8.84	-0.02
25	28.00	3	24	27.00	3	18	19.00	1
3.98	3.86	-0.11	4.66	4.53	-0.13	5.23	5.24	0.02
3.71	3.74	0.03	4.13	4.14	0.00	4.89	4.91	0.02
12	14.00	2	12	14.00	2	10	10.00	0
21.20	20.56	-0.64	17.73	17.32	-0.41	15.57	15.57	0.00
23.69	23.69	0.00	18.91	18.91	0.00	16.66	16.66	0.00
7	8.00	1	6	7.00	1	6	7.00	1
22.87	22.28	-0.59	17.17	16.79	-0.37	15.98	15.43	-0.55
20.74	20.67	-0.07	16.64	16.37	-0.26	16.04	15.65	-0.38
43	44.00	1	33	34.00	1	15	15.00	0
11.85	11.88	0.03	9.56	9.56	-0.00	9.16	9.16	0.00
12.58	12.59	0.01	9.71	9.64	-0.07	9.60	9.60	0.00
13	14.00	1	13	14.00	1	9	10.00	1
7.13	7.12	-0.02	8.14	8.13	-0.01	7.46	7.46	-0.01
7.03	7.02	-0.01	8.09	8.06	-0.02	7.56	7.47	-0.09
7	8.00	1	7	8.00	1	6	7.00	1
16.19	15.70	-0.49	11.47	10.68	-0.80	10.48	10.25	-0.23
17.84	16.37	-1.47	12.54	11.57	-0.97	10.61	10.52	-0.09

APPENDIX 2

FINANCIAL EXPRESS

SECTOR REVIEW ON ADDING ETFs

Group/ Investment	Excluding ETFs 1 year Return (Cumulative)	Including ETFs 1 year Return (Cumulative)	ETF Effect 1 year Return (Cumulative)	Excluding ETFs 3 year Return (Cumulative)	Including ETFs 3 year Return (Cumulative)	ETF Effect 3 year Return (Cumulative)
Global Bonds						
Number of investments ranked	171	187	16	155	164	9
Display Group Average	0.00	0.09	0.08	22.74	22.85	0.11
Display Group Median	-0.07	-0.03	0.04	26.89	26.84	-0.05
Asia Pacific Excluding Japan						
Number of investments ranked	102	110	8	93	101	8
Display Group Average	5.39	5.39	0.01	54.00	53.83	-0.18
Display Group Median	5.49	5.42	-0.07	54.83	54.88	0.05
Europe Including UK						
Number of investments ranked	57	73	16	55	67	12
Display Group Average	6.75	6.69	-0.05	36.64	36.68	0.04
Display Group Median	5.92	6.14	0.21	36.08	36.02	-0.06
UK Smaller Companies						
Number of investments ranked	47	48	1	46	47	1
Display Group Average	13.20	13.15	-0.05	49.76	49.39	-0.37
Display Group Median	12.08	12.04	-0.05	44.36	43.47	-0.89
Global						
Number of investments ranked	286	310	24	254	272	18
Display Group Average	10.84	10.90	0.06	48.30	48.61	0.31
Display Group Median	10.40	10.55	0.14	48.25	49.07	0.83
UK All Companies						
Number of investments ranked	262	272	10	248	258	10
Display Group Average	8.12	8.11	-0.00	28.33	28.33	0.00
Display Group Median	8.07	8.07	0.00	27.86	27.95	0.09
North America						
Number of investments ranked	144	165	21	130	142	12
Display Group Average	15.29	15.48	0.19	59.22	59.99	0.77
Display Group Median	15.37	15.49	0.12	59.12	60.05	0.94
Europe Excluding UK						
Number of investments ranked	114	133	19	104	121	17
Display Group Average	5.57	5.57	0.01	41.57	41.63	0.06
Display Group Median	4.97	4.95	-0.02	40.57	40.51	-0.06
Japan						
Number of investments ranked	73	82	9	70	78	8
Display Group Average	10.28	10.19	-0.09	47.92	47.56	-0.36
Display Group Median	8.99	8.83	-0.16	45.03	44.57	-0.47
Global Emerging Markets Bond						
Number of investments ranked	56	61	5	52	55	3
Display Group Average	-1.55	-1.48	0.07	27.68	27.98	0.30
Display Group Median	-2.31	-1.64	0.67	29.68	29.72	0.03
£ Corporate Bond						
Number of investments ranked	92	99	7	85	89	4
Display Group Average	0.05	-0.01	-0.06	13.01	12.87	-0.14
Display Group Median	0.05	0.00	-0.05	13.14	13.14	0.00
European Smaller Companies						
Number of investments ranked	26	29	3	23	26	3
Display Group Average	8.25	8.15	-0.09	59.37	58.85	-0.51
Display Group Median	8.18	7.98	-0.19	63.18	62.48	-0.70
Global Emerging Markets						
Number of investments ranked	98	108	10	90	97	7
Display Group Average	3.22	3.37	0.15	50.67	50.62	-0.05
Display Group Median	3.60	3.81	0.20	51.04	51.07	0.03



Excluding ETFs 5 year Return (Cumulative)	Including ETFs 5 year Return (Cumulative)	ETF Effect 5 year Return (Cumulative)	Excluding ETFs 10 year Return (Cumulative)	Including ETFs 10 year Return (Cumulative)	ETF Effect 10 year Return (Cumulative)
132	140	8	74	75	1
22.13	22.34	0.21	95.63	95.51	-0.12
20.45	20.45	0.00	86.15	86.69	0.54
85	91	6	60	62	2
62.81	62.16	-0.65	168.19	168.04	-0.15
57.37	57.00	-0.37	157.16	158.85	1.70
47	55	8	35	39	4
53.59	53.21	-0.38	127.73	125.17	-2.56
51.80	51.18	-0.62	124.74	124.58	-0.16
45	46	1	41	41	0
99.45	98.67	-0.77	287.45	287.45	0.00
96.02	93.83	-2.19	279.14	279.14	0.00
226	234	8	150	154	4
71.40	71.40	-0.00	170.40	170.14	-0.25
70.50	70.62	0.12	157.65	157.89	0.24
235	244	9	197	201	4
49.87	49.66	-0.21	145.20	145.40	0.20
44.26	43.93	-0.33	129.44	129.44	0.00
108	117	9	80	83	3
96.65	97.61	0.96	263.12	263.03	-0.09
98.44	99.16	0.72	257.46	257.62	0.16
94	106	12	73	81	8
62.28	61.86	-0.42	134.27	129.92	-4.35
59.36	58.99	-0.37	121.90	117.41	-4.49
58	63	5	49	49	0
70.00	69.79	-0.21	162.81	162.81	0.00
64.24	64.23	-0.01	139.29	139.29	0.00
45	48	3	20	21	1
21.77	22.37	0.60	111.94	115.17	3.23
21.97	22.35	0.38	115.25	117.62	2.37
76	79	3	56	57	1
25.83	25.79	-0.04	80.68	80.67	-0.01
25.68	25.77	0.09	76.44	76.52	0.08
19	22	3	18	20	2
96.43	94.77	-1.65	220.72	215.69	-5.02
100.36	98.62	-1.74	213.94	209.95	-3.99
77	83	6	37	39	2
48.15	47.42	-0.73	99.36	98.09	-1.27
46.86	46.64	-0.22	92.72	92.65	-0.07

APPENDIX 2

FINANCIAL EXPRESS CONTINUED

Group/ Investment continued	Excluding ETFs 1 year Return (Cumulative)	Including ETFs 1 year Return (Cumulative)	ETF Effect 1 year Return (Cumulative)	Excluding ETFs 3 year Return (Cumulative)	Including ETFs 3 year Return (Cumulative)	ETF Effect 3 year Return (Cumulative)
China/Greater China						
Number of investments ranked	37	45	8	34	41	7
Display Group Average	10.10	8.82	-1.28	59.02	55.31	-3.72
Display Group Median	10.44	8.51	-1.94	60.27	59.43	-0.84
North American Smaller Companies						
Number of investments ranked	15	18	3	14	17	3
Display Group Average	17.60	18.01	0.42	61.81	63.17	1.36
Display Group Median	17.26	17.75	0.49	60.27	64.19	3.92
£ High Yield						
Number of investments ranked	34	35	1	32	32	0
Display Group Average	1.02	1.01	-0.01	13.62	13.62	0.00
Display Group Median	1.10	1.08	-0.02	13.79	13.79	0.00
UK Equity Income						
Number of investments ranked	87	90	3	80	81	1
Display Group Average	6.18	6.16	-0.02	23.36	23.19	-0.17
Display Group Median	6.69	6.64	-0.04	23.18	23.16	-0.02
UK Gilts						
Number of investments ranked	26	29	3	24	27	3
Display Group Average	1.10	1.03	-0.07	12.59	12.21	-0.38
Display Group Median	0.86	0.86	-0.01	11.65	11.75	0.10
Technology and Telecommunications						
Number of investments ranked	15	20	5	11	11	0
Display Group Average	19.27	19.02	-0.25	80.74	80.74	0.00
Display Group Median	18.05	20.46	2.41	91.25	91.25	0.00
Japanese Smaller Companies						
Number of investments ranked	7	8	1	7	8	1
Display Group Average	17.87	16.92	-0.95	86.32	83.67	-2.65
Display Group Median	18.09	18.09	0.00	76.03	76.03	0.00
Global Equity Income						
Number of investments ranked	53	54	1	43	44	1
Display Group Average	7.09	7.07	-0.02	40.24	40.34	0.10
Display Group Median	7.39	7.34	-0.05	42.69	42.74	0.05
UK Index Linked Gilts						
Number of investments ranked	14	15	1	13	14	1
Display Group Average	3.13	3.12	-0.01	23.20	23.12	-0.08
Display Group Median	3.18	3.15	-0.03	22.65	22.59	-0.06
Asia Pacific Including Japan						
Number of investments ranked	7	8	1	7	8	1
Display Group Average	8.64	7.33	-1.31	57.08	55.12	-1.96
Display Group Median	8.69	7.79	-0.90	63.63	57.68	-5.95

Performance Figures used are Net Total Return in GBP, to the end of July 2018

ETFs are calculated on a NAV to NAV basis



Excluding ETFs 5 year Return (Cumulative)	Including ETFs 5 year Return (Cumulative)	ETF Effect 5 year Return (Cumulative)	Excluding ETFs 10 year Return (Cumulative)	Including ETFs 10 year Return (Cumulative)	ETF Effect 10 year Return (Cumulative)
32	37	5	18	20	2
86.51	85.00	-1.51	175.02	165.50	-9.52
87.07	86.24	-0.83	167.75	148.66	-19.09
12	13	1	8	9	1
88.36	90.15	1.80	312.55	317.65	5.10
91.67	95.02	3.36	323.24	323.37	0.13
28	28	0	19	19	0
24.07	24.07	0.00	89.09	89.09	0.00
25.56	25.56	0.00	88.27	88.27	0.00
76	77	1	56	57	1
45.11	44.92	-0.19	138.54	137.83	-0.71
44.62	44.40	-0.22	134.72	134.71	-0.01
23	26	3	18	19	1
26.01	25.26	-0.75	69.74	69.88	0.14
22.13	22.15	0.02	61.71	62.05	0.34
11	11	0	10	10	0
129.79	129.79	0.00	368.29	368.29	0.00
147.21	147.21	0.00	406.10	406.10	0.00
6	7	1	6	7	1
120.76	117.07	-3.68	353.60	334.21	-19.39
115.73	115.73	0.00	348.22	348.22	0.00
34	35	1	14	14	0
57.52	57.48	-0.04	141.42	141.42	0.00
57.90	57.53	-0.37	147.65	147.65	0.00
13	14	1	10	11	1
48.07	48.01	-0.05	110.79	110.22	-0.57
47.00	47.08	0.08	107.30	106.14	-1.16
7	8	1	6	7	1
71.37	66.04	-5.33	177.47	172.59	-4.88
79.23	72.08	-7.15	178.42	175.73	-2.70

APPENDIX 3

LIPPER DATA FROM REFINITIV

Name	1 year		3 year		5 year		10 year	
	Return (Cum)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments
Asia Pac Ex Japan		98		88		75		48
Mean	5.16		15.41		10.21		10.37	
Median	5.2		15.74		9.53		10.05	
Asia Pac Ex Jap including ETFs		106		96		82		50
Mean	5.18		15.37		10.11		10.36	
Median	5.2		15.74		9.49		10.05	
China		35		33		28		13
Mean	9.94		16.85		14.06		11.19	
Median	9.8		17.59		13.93		11.75	
China Inc ETFs		43		40		33		15
Mean	8.69		15.77		13.74		10.52	
Median	8.73		16.89		13.47		10.92	
£ Corporate Bond		83		76		70		45
Mean	0.01		4.45		5.16		6.83	
Median	-0.04		4.49		5.1		6.74	
£ Corporate Bond Inc ETFs		90		80		73		46
Mean	-0.04		4.38		5.13		6.81	
Median	-0.05		4.49		5.11		6.72	
£ High Yield		35		31		27		12
Mean	1.00		4.49		4.75		7.43	
Median	1.12		4.81		4.70		7.42	
£ High Yield Inc ETFs		36		31		27		12
Mean	0.99		4.49		4.75		7.43	
Median	1.02		4.81		4.70		7.42	
Europe Ex UK		113		103		91		68
Mean	5.54		12.23		10.32		8.72	
Median	4.89		12.08		10.01		8.23	
Europe Ex UK Inc ETFs		132		120		103		76
Mean	5.65		12.26		10.26		8.46	
Median	5.20		12.06		9.94		8.07	
Europe Inc UK		55		49		38		25
Mean	6.95		10.86		9.00		8.29	
Median	6.75		10.80		8.87		8.17	
Eur Inc UK Inc ETF		71		61		46		29
Mean	6.94		10.88		8.95		8.13	
Median	6.75		10.79		8.84		8.07	
European Smaller Companies		25		21		15		14
Mean	8.85		16.65		14.74		12.63	
Median	8.51		17.63		15.13		13.11	
European Smaller Companies Inc ETFs		28		24		18		16
Mean	8.73		16.53		14.48		12.33	
Median	8.43		17.32		14.85		12.75	
Global Equity Income		52		40		30		10
Mean	6.94		12.1		9.96		9.96	
Median	7.53		12.63		10.21		9.91	
Global Equity Income Inc ETFs		53		41		31		10
Mean	6.92		12.12		9.94		9.96	
Median	7.49		12.63		10.08		9.91	

APPENDIX 3

LIPPER DATA CONTINUED

Name continued...	1 year		3 year		5 year		10 year	
	Return (Cum)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments
Global Emerging Markets		99		90		76		26
Mean	2.89		14.85		8.16		6.81	
Median	3.12		14.85		8.07		6.56	
Global Emerging Markets Inc ETFs		109		97		82		28
Mean	3.05		14.82		8.05		6.72	
Median	3.3		14.83		7.93		6.53	
Global Emerging Markets Bond		54		48		39		13
Mean	-2.11		7.55		3.65		7.85	
Median	-2.10		8.05		3.66		9.08	
Global Emerging Markets Bond Inc ETFs		59		51		42		14
Mean	-2.01		7.69		3.78		8.06	
Median	-1.95		8.24		3.87		9.26	
Global		287		251		206		117
Mean	10.55		13.98		11.25		10.14	
Median	10.10		14.11		11.27		9.92	
Global Inc ETFs		311		269		215		121
Mean	10.65		14.06		11.27		10.13	
Median	10.32		14.29		11.29		9.92	
Global Bonds		168		149		117		54
Mean	-0.07		6.74		3.92		6.9	
Median	-0.15		7.56		3.69		6.71	
Global Bonds Inc ETFs		184		158		125		54
Mean	0.02		6.79		3.96		6.9	
Median	-0.11		7.77		3.7		6.71	
Japan		73		66		53		37
Mean	10.74		13.74		11.35		9.61	
Median	9.13		13.08		10.91		8.76	
Japan Inc ETF		82		74		60		38
Mean	10.66		13.66		11.29		9.56	
Median	9.13		13.03		10.87		8.72	
Japanese Smaller Cos		7		7		6		5
Mean	16.81		22.85		17.17		16.03	
Median	17.69		20.72		16.66		16.41	
Japanese Smaller Cos Inc ETFs		8		8		7		6
Mean	16.02		22.27		16.8		15.37	
Median	15.94		20.65		16.43		14.91	
North America		143		125		99		65
Mean	14.82		16.66		14.61		13.78	
Median	14.51		16.74		14.76		13.69	
North America Inc ETFs		164		137		109		68
Mean	15.05		16.86		14.74		13.77	
Median	14.83		16.95		14.87		13.76	
North American Smaller Cos		16		14		13		8
Mean	18.38		17.42		13.89		14.99	
Median	17.38		17.04		14.45		15.5	
North American Smaller Cos Inc ETFs		19		17		15		9
Mean	18.63		17.74		14.11		15.15	
Median	18		17.95		14.5		15.56	

APPENDIX 3

LIPPER DATA CONTINUED

Name continued...	1 year		3 year		5 year		10 year	
	Return (Cum)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments	Return (Ann)	Number of Investments
Tech & Telecom		14		10		8		5
Mean	19.37		21.96		19.39		17.36	
Median	20.23		25.2		20.61		17.85	
Tech & Telecom Inc ETFs		19		10		8		5
Mean	19.09		21.96		19.39		17.36	
Median	21.49		25.2		20.61		17.85	
UK All Cos		256		241		226		175
Mean	8.53		8.67		8.55		9.32	
Median	8.44		8.55		7.9		8.87	
UK All Cos Inc ETFs		266		251		235		179
Mean	8.53		8.67		8.52		9.33	
Median	8.44		8.57		7.88		8.87	
UK Gilts		26		24		23		16
Mean	1.03		4.18		4.97		5.89	
Median	0.73		3.88		4.41		5.53	
UK Gilts Inc ETFs		29		27		26		17
Mean	0.99		4.04		4.8		5.87	
Median	0.73		3.88		4.42		5.54	
UK Index Linked Gilts		12		11		11		8
Mean	3		7.12		8.13		7.57	
Median	2.94		7		8.09		7.61	
UK Index Linked Gilts Inc ETFs		13		12		12		9
Mean	3.04		7.1		8.13		7.55	
Median	3.01		7		8.06		7.57	
UK Smaller Cos		46		45		44		36
Mean	13.4		14.45		14.90		14.40	
Median	12.93		14.07		14.89		14.44	
UK Smaller Cos Inc ETFs		47		46		45		36
Mean	13.35		14.35		14.81		14.4	
Median	12.92		13.65		14.59		14.44	
UK Equity Income		85		78		75		47
Mean	6.51		7.26		7.98		9.37	
Median	6.82		7.27		8.02		9.10	
UK Equity Income Inc ETF		88		79		76		48
Mean	6.50		7.21		7.95		9.33	
Median	6.96		7.26		8.01		9.08	

The data summarises all Lipper active, primary funds in each sector to a simple average (mean) and median value.

The performance is displayed Total Return, Gross of UK basic tax, in GBP and the end date is 31st July 2018.

Periods greater than one year have been annualised.



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