

Executive Summary

- This report draws on research into European mutual funds' annual fees and expenses over the past 15 years, analysing the historical trends and identifying key issues that are likely to impact on developments in the future.
- Annual management fees have generally risen each year around Europe — up from around 1.30% in 1994 to 1.60% to date for European cross-border equity funds.
- Average Total Expense Ratios (TERs) have been more volatile over the years, partly reflecting changes in industry asset levels. While simple average TERs for cross-border funds have fallen between 2003 and 2007, they have risen over this period on an asset-weighted basis — although the latter is still lower than the former.
- Average TERs for institutional mutual funds and share classes marketed cross-border have fallen between 1995 and 2007 across equity, bond and money market funds.
- Spanish funds have bucked the general European trend with annual fees either staying at similar levels or falling — notably for bond funds.
- German domiciled equity funds' average TERs have risen from 0.76% to 1.42% since 1998, largely as a result of the market opening up to foreign-domiciled funds.
- Swiss domiciled equity and bond funds have been relatively stable in the most recent years after significant rises in average annual fees in 2001 and 2002.
- UK unit trusts and Oeics have seen rises in both TERs and annual management fees for equity funds for the past ten years. However, annual fees for bond funds have stayed at relatively similar levels over the same period.
- Management and performance fee revenues for cross-border equity, bond and money market funds reached €11.7bn in 2007 (from a total of some €1.4trn in assets under management), but are forecast to fall to €8.8bn in 2008 — and below €7bn in 2009.
- Total annual operating expenses borne by the cross-border funds industry have risen from €6.6bn in 2001 to €18.8bn in 2007, but are forecast to be €15.1bn in 2008 and could approach €11bn in 2009.

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About Lipper FMI

Lipper Fund Market Information (Lipper FMI) is the London-based fund market research and analysis division of Thomson Reuters Lipper. It specialises in all aspects of domestic, pan-continental and cross-border mutual fund markets in Europe and Asia.

Against a background of continual change in the mutual fund markets, Lipper FMI's objectives are to:

- overcome fragmented data and market opacity problems
- reveal the major changes taking place,
- share latest insights into marketplace complexities,
- identify companies either leading the field or setting the pace.

Lipper FMI's senior directors are leading market practitioners and have been associated with major projects for many leading investment management groups, as well as being advisers to, or participants in, EU Commission mutual fund industry research and various other fund industry think-tanks.

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