FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

Study and Comparison of Expense Ratios for Mutual Funds Globally and in India.

JULY 2018

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STUDY AND COMPARISON OF EXPENSE RATIOS FOR MUTUAL FUNDS GLOBALLY AND IN INDIA.

1. PREAMBLE:

The Foundation of Independent Financial Advisors (FIFA) had carried out its initial study of expense ratios for mutual funds in the year 2016. The objective of the said study was:

(i) to analyse the total cost of ownership of mutual funds in India and
(ii) to compare the same with the total cost of ownership of mutual funds across the globe.

Our study was prompted primarily by the findings of the Morningstar's "Global Fund Investor Experience Study 2015" (hereinafter referred to as GFIE Report 2015) in which:

(i) the Total Expense Ratio (TER) for equity mutual funds in India was slated at 2.65% and was apparently incorrect.
(ii) the GFIE report 2015 compared expense ratios across countries which had bundled (17 countries) and unbundled (8 countries) fee arrangements without making necessary adjustments to make them comparable.

The study was done with a view to address this anomaly.

The Key Findings of FIFA's Initial Study in respect of Equity Funds were:

(i) The cost of Equity Funds in India was 2.14% against 2.65% shown in the GFIE Report 2015
(ii) India was ranked as the 5th least expensive country as against the most expensive as per the GFIE Report 2015 out of the 25 countries that were reviewed in the said report.

In continuation of its series of studies published every two years, Morningstar has come out with its 2017 edition of the Morningstar study "Global Fund Investor Experience Study 2017" (hereinafter referred to as GFIE Report 2017).

As in its earlier study, the GFIE Report 2017 has once again compared cost of bundled funds (embedded funds) and unbundled funds without making the necessary adjustments to make them comparable thereby leading to wrong conclusions of comparative costs across the 25 countries reviewed in the report. India has been once again shown as one of the most expensive countries for equity mutual funds.

As an industry body we have:

(i) collated the data as per the GFIE report 2017 and made necessary adjustments to arrive at the total cost of ownership of funds in countries following bundled and unbundled structures. We have then ranked the 25 countries across the globe on the basis of the total cost of ownership before taxes.
(ii) undertaken an analysis of the fees and expense ratios for owning funds in India based on the data for quarter ended 31st March 2017.

This study is being done with the following objectives:

(i) To provide a fair assessment of the total cost of ownership of mutual funds across the globe by making costs comparable across countries with bundled and unbundled structures.
(ii) The relative ranking of various countries across the globe based on comparable costs and specifically India's relative ranking.
(iii) To assess and analyse the cost of owning mutual funds in India.
(iv) To determine the cost of distribution of mutual funds in India.

We believe that the findings of this study will put things in the right perspective and enable all the stakeholders to take the appropriate actions for a balanced growth of the Industry.

2. EXECUTIVE SUMMARY:

Part 1:

Global Comparison of Total Cost of Ownership of Mutual Funds Before Taxes: - Study based on the data available from the GFIE Report 2017

In continuation of its series of studies published every two years, Morningstar has come out with its 2017 edition of the Morningstar study “Global Fund Investor Experience Study 2017” (hereinafter referred to as GFIE Report 2017).

These studies publish the annual expense ratios of mutual funds in countries across the globe and grades countries based amongst other factors, on the asset weighted median expense ratios. However, the expense ratios as published without adjusting for exclusions / inclusions in expense ratios of unbundled and bundled countries are not meaningfully comparable.

Our study starts with a comparison of the data of country wise asset-weighted median expense ratios from GFIE Report 2015 and GFIE Report 2017 (refer Table 1 on page 16).

Observations on the change in expense ratios between the GFIE reports 2015 and 2017:

(i) We find an unusual increase in the asset weighted median expense ratios for Belgium across all categories. For example, in case of Fixed income funds the expense has gone up from 0.22% in 2015 to 1.02% in 2017.

(ii) In case of Switzerland there is an unusual decrease in the asset weighted median expense ratios in the fixed income and equity funds categories. In case of Fixed income funds the expense has gone down from 0.80% in 2015 to 0.15% in 2017 and for equity funds from 1.32% to 0.37%.

(iii) In case of India, the asset weighted median expense ratio for equity funds has gone down from 2.65% in 2015 to 2.22% in 2017 and for allocation funds the expense has reduced from 2.38% to 2.03%. It was apparent that 2.65% in 2015 for equity funds was incorrect but it now stands corrected to 2.22%.

The GFIE Report 2015 points out the complications in expense ratio comparisons:

“One of the difficulties in comparing Annual Expense Ratios across countries has been development of unbundled fee arrangements, whereby an advisor is not paid sales commission by the Fund Company in the traditional model but rather is paid a separate fee by the Fund Investor. When taken, this action has the effect of lowering official fund expense ratios because funds no longer need to collect money from shareholders to make advisor payments. It also has the effect of complicating expense ratio comparisons, because an investor in a lower cost fund may pay an additional fee to an advisor which is ***not considered*** *in Morningstar calculations”*[1].

[1] GFIE Report 2015 Page 21

And the GFIE Report 2017 reaffirms the same:

"While the costs of certain investment products are declining, and relatively cheap exchange-traded funds (not part of our quantitative fee score calculations, yet) are proliferating, ***investors are in many cases still paying as much to own a portfolio, as lower costs for investments are negated by higher costs for advice (as well as administration and operations),*** *areas that are more difficult to assess on a large scale"*[2].

"While the following tables of asset-weighted median fees–grouped by equity, fixed-income, and allocation funds – may not represent the total cost to an investor, these do facilitate an objective measure in comparing fund costs across markets"[3].

Despite the above observations, the GFIE Report 2017 goes on to make unfair comparisons.

A fair comparison would be to look at the total cost of ownership of owning mutual funds. The total cost of ownership of mutual funds to an investor comprises of:

a. **Total Expense Ratio (TER)**
b. **Front load charges:**
c. **Performance Fees:**
d. **Advisor Fees:**
e. **Platform Charges:**
f. **Exit Loads.**

Globally different practices are followed with respect to fees and expenses charged by mutual funds.

The same would differ in case of countries following bundled and unbundled structures.

In countries where unbundled structures are prevalent, the investor pays platform charges, advisory fees in addition to all other components of costs (other than brokerage) in a bundled structure.

In a bundled structure, brokerage is paid to distributors/advisors from the TER charged by the asset management companies to the mutual fund scheme.

In an unbundled structure, no brokerage is paid to distributors/advisors from the TER charged by the asset management companies to the mutual fund scheme. However, the investors pay platform charges (if applicable) and investment advisory fees in addition to the TER.

Only 2 countries, India and Canada out of 25 countries do not have any Front Load Charges. India is the only country where Front Load Charges have been banned.

We understand that India may be the only country where the exit loads are credited back to the scheme thereby benefitting the continuing investors.

Based on the GFIE Reports of 2015 and 2017 we have considered 8 countries with predominantly unbundled structures and the remaining 17 countries having predominantly bundled structures in our study.

[2]GFIE Report 2017 Page 21
[3]GFIE Report 2017 Page 25

We also find that that there were only 8 countries where there is a VAT on the expenses charged and it would be necessary to remove the tax component to arrive at a fair comparison of costs. India has one of the highest VAT rate amongst these countries.

To the asset-weighted median expense ratios from GFIE Report 2015 and GFIE Report 2017 the study makes adjustments on account of:

a. Front Load Charges;
b. Advisor and Platform fees paid by investors in countries with unbundled arrangements;
c. GST/VAT Charges.

to make costs comparable across countries. The country wise comparative costs are given in Table 5 (refer page 27)

The main findings are*:*

1) **Significant changes in relative rankings:**

When expense ratios as reported by Morningstar are made comparable, there are significant changes in the relative ranking of Equity funds from 25 countries (refer Table 5 on page 27):

(i) The ranking of Canada improves from 25 (the most expensive) to 9 and
(ii) The ranking of Switzerland falls from 1 (the least expensive) to 12.
(iii) The ranking of India improves from 24 (one of the most expensive) to 3 (one of the least expensive).

The average cost for Equity Funds across all countries, as per the GFIE report 2017, and without making any adjustments to make costs comparable, is 1.54% (refer Table 5 on page 27). However, after making the costs comparable the average cost across all countries increases to 2.15% (refer Table 5 on page 27), an increase of 0.61%.

This increase is driven by the changes in the cost of countries which have unbundled structures. In case of countries following an unbundled structure, the average cost as per GFIE report 2017 is 1.04% (refer Table 7 on page 31). However, after making the costs comparable, the average cost in case of these countries following unbundled structures increases to 2.40% (refer Table 7 on page 31), an increase of 1.36%.

Any policies formulated, regulations issued based on such unadjusted data available before making necessary adjustments could lead to undesirable outcomes.

This highlights the importance for making adjustments to arrive at the cost to the investor.

2) India is one of the least expensive country in the world and not one of the most expensive country.

Equities:

India is the 3rd least expensive country in the world and not one of the most expensive country (refer Table 5 on page 27). This is based on the data as on 31.3.2017. If one considers the reduction in TER mandated by the regulator since then, it is likely that the ranking of India would improve further.

In fact, the difference in expense ratio between Norway which is the least expensive country @ 1.80% and India which is 1.88% is only 0.08%. Compared to Japan which is the 2nd least expensive country, India is at the same cost. The average total cost for equity funds before taxes across all countries is 2.15%. The costs range from a low of 1.80% (Norway) to a high of 2.83% (U.K.) with a spread of 1.03.

India is the least expensive country among the developing nations where the mutual fund industry is still at the nascent stage.

On an objective comparison India should be classified in the "Top" category in the fees and expenses scorecard. However, Morningstar has classified India in the "below average" category in the fees and expenses scorecard.

Fixed Income:

India is ranked as the 10th least expensive country out of 25 countries reviewed in GFIE Report 2017 (refer Table 8 on page 33). If the costs for front load charges and platform and advisory charges were to be considered, India's ranking would improve dramatically.

Even if an adjustment was to be made only for platform charges @ 0.25%, India's ranking would improve to the 7th least expensive country

In fact, amongst countries with bundled structures, India's ranking is better at 6th out of 17.

3) Total Cost of Ownership is Higher in Countries with a Fee Based Model (Unbundled Structure) compared with Countries with an Embedded Brokerage Structure (Bundled Structure)

Perceptions created on a plain reading of incomparable data lead to the myth that costs in unbundled structures are lower than costs in bundled structures. However, the facts clearly contradict this perception as would be seen below-

The average total cost for equity funds before taxes in case of countries (8 countries) following unbundled structures is 2.40% (refer Table 7 on page 31).

The average total cost for equity funds before taxes in case of countries (17 countries) following bundled structures is 2.04% (refer Table 6 on page 30).

Costs of owning equity funds before taxes in countries with unbundled structures is higher by 0.36% on an average compared with costs in countries with bundled structures.

This clearly breaks the myth that unbundled structures are cheaper than bundled structures.

Part 2

Independent Study and analysis of fees and expense ratios for owning mutual funds in India

For our independent study of fees and expense ratios in India, we have calculated the weighted average expense ratios for owning Equity Oriented Funds (Equity Funds, Balanced Funds and Exchange Traded Funds (ETFs) and Fixed Income Funds, both under the regular and direct plans.

The study of the Weighted Average Expense Ratios is based on the AMFI Classification covering Rs 17.61 lac crores which is 97% of AAUM based on the quarter ended 31st March 2017.

The main findings are as under:

Based on the study, the weighted average expense ratio for owning Equity Oriented Funds and Fixed Income Funds is as under: -

EQUITY ORIENTED FUNDS (As per AMFI Classification):

Total Expense Ratio	Equity Oriented Mutual Funds (Equity Funds, Balanced Funds excluding ETFs)			ETFs			Equity Oriented Mutual Funds (Equity Funds, Balanced Funds Including ETFs)		
	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average
Net Expense	1.99%	0.99%	1.86%	0.00%	0.15%	0.15%	1.99%	0.72%	1.75%
Add GST @ 18%	0.36%	0.18%	0.33%	0.00%	0.03%	0.03%	0.36%	0.13%	0.32%
Total Cost	2.35%	1.17%	2.19%	0.00%	0.18%	0.18%	2.35%	0.85%	2.07%

FIXED INCOME FUNDS (As per AMFI Classification):

Total Expense Ratio	Fixed Income Mutual Funds (Excluding Money Market)			Money Market Mutual Funds			Fixed Income Mutual Funds (Including Money Market)		
	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average
Net Expense	1.08%	0.29%	0.71%	0.21%	0.10%	0.14%	0.87%	0.21%	0.53%
Add GST @ 18%	0.19%	0.05%	0.13%	0.04%	0.02%	0.02%	0.16%	0.04%	0.09%
Total Cost	1.27%	0.34%	0.84%	0.25%	0.12%	0.16%	1.03%	0.25%	0.62%

Part 3

Independent Study and analysis of cost of distribution for mutual funds in India

For our independent study of the cost of distribution for mutual funds in India, we have considered the weighted average expense ratios for Mutual Funds in India as elucidated in Part 2 of our study and analysis. Having arrived at the weighted average expense ratios separately for Regular Plans and Direct Plans, we have arrived at the cost of distribution of Mutual Funds in India.

The main findings are as under:

1) Overall Cost of Distribution is Low in India:

(i) The weighted average cost of distribution of mutual funds in India net of GST is 0.80% (refer Table 12 on page 41).

(ii) Thus, the overall effective brokerage received by distributors/advisors as a% of assets mobilized, advised and serviced by them net of GST at 0.80% is far lower compared to a cost of 1.25% which is charged globally for advisory fees and platform charges in lieu of commissions when investing in products with unbundled structures.

(iii) A compulsory shift to a fee based advisory model will entail an additional cost of 1.25% (the internationally prevalent norm) thereby increasing the total cost of ownership by 0.45%. On an AAUM of Rs 10.41 lakh crores it implies an addition burden of approximately 4684 crores on the investing community (refer Table 12 on page 41).

2) Share of Distribution Expense is actually Not High:

Based on March 2017 Quarter the overall sharing of revenue between Distribution and Fund Management is 56:44 against a globally accepted benchmark of 60:40 and the need for a much a higher ratio in view of the very low penetration in India.

	Total Expense Ratio (Regular)	GST	Net	% Sharing
Total Cost Regular	1.66%	0.25%	1.41%	100.00%
Cost of Distribution	0.94%	0.14%	0.80%	56.74%
Cost of Fund Management	0.72%	0.11%	0.61%	43.26%

Other Key Takeaways and Observations are:

1. SEBI has indirectly further reduced the expense ratio and the total cost to the investor in India by not allowing the Service Tax/ GST on expenses (other than Asset Management Fees) to be passed on to the investor.

2. SEBI has further indirectly/directly reduced the expense ratio and the total cost to the investor in India after 31.3.2017, (the date as on which the data has been considered for the findings in this report):

   a. by now allowing extra expenses on investments in B30 cities as against B15 cities earlier;
   b. by reducing the 20 basis points it hitherto allowed to be charged to the schemes on account of exit loads to 5 basis points.

3. After the reduction of the expense ratios by SEBI, India would probably now be the cheapest country in the world for owning equity mutual funds.

4. India is one of the most competitive countries in the world for Fixed Income Mutual funds;

5. In 2013, SEBI had felt a need to re-energise the Mutual Fund industry and had wide consultations with various industry participants. Thereafter SEBI took earnest measures to increase retail participation. The seeds were then sown, and the fruits thereof are beginning to be seen. However, certainly the goal set is yet to be reached.

6. Any reduction in the Total Expense Ratio or roll back of measures SEBI had introduced in 2013 to re-energise the Mutual Fund industry especially when the measures have just started to yield good dividends will not help in the growth of the Industry or its penetration.

7. Penetration and financial inclusion is one of the key objectives of the government. Penetration of Mutual funds as a% of assets under management (AUM) to GDP in India stands at around 12% only against a global average of 55%. The mutual fund industry in India is at the tip of an exponential growth, the benefits of which will be enjoyed primarily by the retail investors.

8. The long term returns post expenses earned by investors in Indian equity mutual funds are far superior than returns earned in equity mutual funds in other countries. An analysis of the TER as a percentage to the returns earned would be the best in India.

9. World over there are classifications of investors like accredited investors, qualified buyers etc. who have access to lower cost plans. India however, has gone other way. Regulation in India has mandated a direct share class to be made available to all investors irrespective of size and qualification of the investor. The investor in India has a choice to go direct through a low-cost plan or to invest through a distributor/advisor by paying a higher cost. It is his or her choice. We are not aware of any other country which gives this choice to ALL investors. We are not sure how the Morningstar report accounts for this whilst considering the ratings.

3. STUDY:

3.1 NEED FOR STUDY:

In continuation of its series of studies published every two years, Morningstar has come out with its 2017 edition of the Morningstar study "Global Fund Investor Experience Study 2017" (hereinafter referred to as GFIE Report 2017).

These studies publish the annual expense ratios of mutual funds in countries across the globe and grades countries based amongst other factors, on the asset weighted median expense ratios. However, the expense ratios as published without adjusting for exclusions / inclusions in expense ratios of unbundled and bundled countries are not meaningfully comparable.

As in its earlier study, the GFIE Report 2017 has once again compared cost of bundled funds (embedded funds) and unbundled funds without taking into consideration the fact that in case of unbundled funds the annual expense ratios or the TER is not the total cost of ownership of funds.

India has once again been shown to be one of the highest Total Expense Ratio (TER) countries for equity mutual funds.

The following extracts from the GFIE Report 2015 and GFIE Report 2017 clearly bring this out:

"One of the difficulties in comparing Annual Expense Ratios across countries has been development of unbundled fee arrangements, whereby an advisor is not paid sales commission by the Fund Company in the traditional model but rather is paid a separate fee by the Fund Investor. When taken, this action has the effect of lowering official fund expense ratios because funds no longer need to collect money from shareholders to make advisor payments. It also has the effect of complicating expense ratio comparisons, because an investor in a lower cost fund may pay an additional fee to an advisor which is ***not considered*** *in Morningstar calculations"*[4].

The following extract from GFIE Report 2017 reaffirms the same:

"While the costs of certain investment products are declining, and relatively cheap exchange-traded funds (not part of our quantitative fee score calculations, yet) are proliferating, ***investors are in many cases still paying as much to own a portfolio, as lower costs for investments are negated by higher costs for advice (as well as administration and operations),*** *areas that are more difficult to assess on a large scale. Advice fees can vary by investor, advisory firm, and account type, and fee schedules are not required disclosure in the same way as are the various fees associated with a registered fund itself"*[5].

In spite of the above observations, the GFIE Report 2017 goes on to state:

"While the following tables of asset-weighted median fees–grouped by equity, fixed-income, and allocation funds–may not represent the total cost to an investor, these do facilitate an objective measure in comparing fund costs across markets"[6].

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[4] GFIE Report 2015 Page 21

[5] GFIE Report 2017 Page 21

[6] GFIE Report 2017 Page 25

In the GFIE Report 2017, the findings and consequent comparison and grading of funds across countries in our opinion is not meaningful since it compares cost of ownership in a bundled structure with a scaled down cost in an unbundled structure. It's like saying that though apples cannot be compared with oranges, yet the comparison is a sound and objective comparison. In our view such incomparable comparisons can only give subjective conclusions and not objective conclusions.

However, though the costs are not meaningfully comparable, the GFIE report 2017 yet concludes and classifies India in the "below average" category in the fees and expenses scorecard[7].

We also believe that if the following qualitative factors were taken into account, India would have been ranked in a much higher category:

- World over there are classifications of investors like accredited investors, qualified buyers etc. who have access to lower cost plans. India however, has gone other way. Regulation in India has mandated a direct share class to be made available to all investors irrespective of size and qualification of the investor. The investor in India has a choice to go direct through a low-cost plan or to invest through a distributor/advisor by paying a higher cost. It is his or her choice. We are not aware of any other country which gives this choice to ALL investors. We are not sure how the Morningstar report accounts for this whilst considering the ratings.
- Morningstar rates India as number one on transparency and disclosure, globally, but at same time, it doesn't give India enough credit for the kind of caps on expenses it has already brought in,
- Equity funds in India do not have any set of fees or entry loads, and many do not have exit loads. At the same time, if there is an exit load which is charged, it is credited back to continuing investors, which means that in India, there are no setup fees or exit loads, which are used to compensate distributors/advisors.
- Brokerage paid to an intermediary for specific client accounts are disclosed biannually clearly in the statements, so clients know exactly how much and what they're paying for.

Based on the report, media, the regulator and some stakeholders carry and advocate a perception that India is indeed one of the most expensive Total Expense Ratio (TER) country in the world. This has many negative implications in as far as future regulatory trends are concerned, its impact on the growth and development of the industry and on all stakeholders in the industry.

Articles appearing in media are as under:

"*India's 'Fees and Expenses' grade is below average. It reflects some of the highest expense ratios for equity and allocation funds in the study and the reliance of ongoing trailing commissions to pay for advice. Canada, India, Italy, and Spain are the only countries in the study that report median fees of 2 per cent or more*[8]*."*

"It also added that the below-average grade of India's fees and expenses reflects some of the highest expense ratios[9]*."*

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[7] GFIE Report 2017 Page 22

[8] //economictimes.indiatimes.com/articleshow/61017809.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

[9] http://www.livemint.com/Industry/bfNi1aIEPtwamaxdkOuUZP/India-US-lead-in-mutual-fund-disclosure-practices-report.html

"India's Fees and Expenses grade of Below Average reflects some of the highest expense ratios for equity and allocation funds in the study and the reliance of ongoing trailing commissions to pay for advice. Canada, India, Italy, and Spain are the only countries in the study that report median fees of 2% or more[10]."

These kinds of media reports create a negative bias in the minds of regulator, government, general public and other sections of the industry that India has one of the highest expense ratios for equity funds.

The objective of this study is:

(i) To provide a fair assessment of the total cost of ownership of owning funds across the globe by making costs comparable across countries with bundled and unbundled structures.
(ii) The relative ranking of various countries across the globe based on comparable costs and specifically India's relative ranking.
(iii) To assess and analyse the cost of owning funds in India.
(iv) To determine the cost of distribution of funds in India.

We have tabulated the data of country wise asset-weighted median expense ratios from GFIE Report 2015 and GFIE Report 2017 without making any adjustments for asset weighted median expense ratio in Table 1.

[10] http://www.morningstar.in/posts/43369/india-leads-markets-fund-disclosure-practices.aspx

TABLE 1:

SUMMARY OF ASSET-WEIGHTED MEDIAN EXPENSE RATIOS INCLUDING GST/ VAT FOR MUTUAL FUNDS FOR 25 COUNTRIES AS PER GFIE REPORT 2017 AND GFIE REPORT 2015:

	FIXED INCOME				EQUITY				ALLOCATION			
Country	Fixed Income GFIE 17	Rank	Fixed Income GFIE 15	Rank	Equity GFIE 17	Rank	Equity GFIE 15	Rank	Allocation GFIE 17	Rank	Allocation GFIE 15	Rank
Australia	0.55	7	0.58	7	1.26	5	1.18	3	0.90	2	0.82	2
Belgium	1.02	20	0.22	1	1.75	19	1.30	4	1.61	19	1.10	5
Canada	1.15	23	1.51	24	2.23	25	2.35	24	2.02	24	2.16	24
China	0.61	10	0.89	19	1.73	16	1.76	18	1.76	23	1.76	23
Denmark	0.58	9	0.73	13	1.43	8	1.54	10	0.99	4	0.84	3
Finland	0.63	11	0.65	11	1.60	12	1.61	13	1.22	10	1.21	8
France	0.76	15	0.77	15	1.76	20	1.65	14	1.61	19	1.63	20
Germany	0.72	13	0.76	14	1.46	10	1.44	7	1.65	22	1.54	17
HongKong	1.14	22	0.96	20	1.72	15	1.52	9	1.41	15	1.69	22
India	0.71	12	0.53	6	2.22	24	2.65	25	2.03	25	2.38	25
Italy	1.12	21	1.09	22	2.07	23	2.31	23	1.56	18	1.58	18
Japan	1.35	24	1.51	24	1.64	14	1.65	14	1.45	17	1.40	13
Korea	0.56	8	0.41	2	1.63	13	1.60	12	1.05	7	1.05	4
Netherlands	0.75	14	0.50	4	0.67	2	0.80	1	0.99	4	1.11	6
New Zealand	0.9	19	0.64	9	1.38	7	1.46	8	1.21	9	1.41	14
Norway	0.5	6	0.50	4	1.50	11	2.00	21	1.04	6	1.12	7
Singapore	0.88	18	0.79	16	1.74	17	1.73	17	1.43	16	1.43	15
SouthAfrica	0.86	17	0.64	9	1.43	8	1.43	6	1.61	19	1.63	20
Spain	0.4	2	0.85	18	2.00	22	2.01	22	1.12	8	1.34	11
Sweden	0.47	4	0.70	12	1.23	4	1.56	11	0.96	3	1.60	19
Switzerland	0.15	1	0.80	17	0.37	1	1.32	5	1.27	11	1.30	9
Taiwan	1.45	25	1.36	23	1.91	21	1.76	18	1.32	12	1.33	10
Thailand	0.47	4	0.44	3	1.74	17	1.83	20	1.36	14	1.35	12
United Kingdom	0.84	16	1.05	21	1.28	6	1.65	14	1.34	13	1.43	15
United States	0.45	3	0.59	8	0.67	2	0.84	2	0.64	1	0.61	1

Source: GFIE Report 2015 and GFIE Report 2017, Morningstar Inc

Observations on the change in expense ratios in the GFIE report 2015 and 2017.

(i) We find an unusual increase in the asset weighted median expense ratios for Belgium across all categories. In case of Fixed income funds the expense has gone up from 0.22% in 2015 to 1.02% in 2017. For equity from 1.30% to 1.75% and for asset allocation from 1.10% to 1.61%

(ii) In case of Switzerland there is an unusual decrease in the asset weighted median expense ratios in the fixed income and equity funds categories. In case of Fixed income funds the expense has gone down from 0.80% in 2015 to 0.15% in 2017 and for equity funds from 1.32% to 0.37%.

(iii) In case of India, the asset weighted median expense ratio for equity funds has gone down from 2.65% in 2015 to 2.22% in 2017 and for allocation funds the expense has reduced from

2.38% to 2.03%. It was apparent that 2.65% in 2015 for equity funds was incorrect but it now stands corrected to 2.22%.

3.2 TOTAL COST OF OWNERSHIP OF MUTUAL FUNDS TO INVESTORS:

In our opinion what is pertinent is not only the fees and expense ratios charged by mutual funds, but the total cost of ownership of mutual funds to an investor.

1. The different components of total cost are given below:

a. Total Expense Ratio (TER):

TER refers to the fees charged by the Asset Management Companies (AMC's)/ mutual funds to the unit holders for investments managed by them. There is a practice of bundled fee and unbundled fee arrangements in different markets. In Unbundled fee arrangements an advisor is not paid brokerage by the fund company as in the traditional model but rather is paid a separate fee by the fund investor.

b. Front load charges:

There is a practice of charging front end load charges or entry load which are sales commissions paid at the time of purchase of the fund. Front Load charges range between 0%-5%.

"Specifically, in two thirds of the countries, front loads are negotiable with the advisor. In other markets they are fixed on a specific break point schedule, giving investors little room to negotiate price. In China and Finland loads are negotiable but only for large investments."

***Front loads are banned in India*.**

c. Performance Fees:

"In addition to ongoing stable expense ratios, fund investors sometimes are charged performance fees based on the returns of the fund[11]."

d. Advisor Fees:

These are fees paid by the unit holders to Investment Advisors where they avail the services of the Investment Advisors. This is mainly in cases of unbundled fee arrangements.

e. Platform Charges:

When using a platform to gain access to a range of unbundled funds, investors typically pay a fee for platform charges.

f. Exit Loads:

Exit loads are paid in certain schemes when the investors exit the fund before the mandated period.

[11] GFIE Report 2015 Page 21

3.3 GLOBAL PRACTICES:

Globally different practices are followed with respect to fees and expenses charged by mutual funds.

The same would differ in case of countries following bundled and unbundled structures.

In countries where unbundled structures are prevalent, the investor pays platform charges, advisory fees in addition to all other components of costs (other than brokerage) in a bundled structure.

The total costs of ownership of Mutual Funds in bundled and unbundled structures are as under:

In Bundled Structures:

i. Front-end Loads charged at the time of investment.
ii. Total Expense Ratio (TER) which includes commission/ fees paid to distributors/advisors by Asset Management companies/ mutual funds.
iii. Deferred Loads

In a bundled structure, commission is paid to distributors from the TER charged by the asset management companies to the mutual fund scheme.

In Unbundled Structures:

i. Front-end Loads charged at the time of investment.
ii. Total Expense Ratio (TER) does not include commission/ fees paid to distributors/advisors by Asset Management companies/ mutual funds.
iii. Deferred Loads.
iv. Investment Advisory Fees charged by Investment Advisors.
v. Platform Charges

In an unbundled structure, no brokerage is paid to distributors/advisors from the TER charged by the asset management companies to the mutual fund scheme, however the investors pay platform charges (if applicable) and investment advisory fees in addition to the TER.

The GFIE Report 2015 identified following 8 countries where the advisor fees are typically unbundled: United States, Australia, South Africa, Netherlands, New Zealand, U.K., Denmark and Switzerland[12].

The GFIE Report 2017 observes that *"While a number of markets have moved away from paying commissions in 15 of 25 markets, advisors are still paid predominantly through commissions"*[13].

Presumably this means that 15 of the 25 countries follow a predominantly bundled structure and 10 countries follow unbundled structure.

In the GFIE Report 2015, there was a reference as follows:

"There are number of other markets where unbundling is a growing trend including New Zealand, UK, Denmark and Switzerland"[14].

[12] GFIE Report 2015 page 21
[13] GFIE Report 2017 page 4
[14] GFIE Report 2015 page 21

Based on above, Denmark was considered as a country with unbundled structure in our earlier report. However, in the GFIE Report 2017, it is stated *"Denmark has one of the highest percentage of funds that report a front load among the countries in this study. Moreover, it is difficult for investors to access funds with no loads or trailer commissions"*[15]. In this study, we have therefore considered Denmark as a country following a bundled structure.

Other than the countries specifically mentioned in GFIE Report 2015 we were able to identify only Sweden as another country with unbundled structure. The GFIE Report 2017 observes that in Sweden *"Fewer than 25% of funds domiciled in Sweden report front loads, and funds without loads and retrocession are widely available, constituting a large part of investor assets"*[16]. In this study, we have therefore considered Sweden as a country following an unbundled structure.

We have considered 8 countries with unbundled structures in our study.

[15] GFIE Report 2017 page 38
[16] GFIE Report 2017 page 179

3.4 ANALYSIS:

Our study and analysis are in 3 parts:

- A study and analysis based on the data available from the GFIE Report 2017 in respect of equity and fixed income funds;
- An independent study and analysis of the fees and expense ratios for owning mutual funds in India;
- An independent study and analysis of the cost of distribution of mutual funds in India.

PART 1:

Global Comparison of Total Cost of Ownership of Mutual Funds Before Taxes: - Study based on the data available from the GFIE Report 2017

I. **Our Study**:

We have taken the asset-weighted median expense ratios for equity and fixed income funds for all countries including India as per GFIE Report 2017. To this we have made adjustments to arrive at the total cost of ownership of funds before taxes as discussed in the earlier section of this report.

Since the country wise data collated by Morningstar does not differentiate between costs in an unbundled structure environment and a bundled structure environment, this study endeavors to first make the total cost of ownership of mutual funds truly comparable by making following adjustments to the reported asset weighted median expense ratio:

a. Front Load Charges;
b. Advisor and Platform fees paid by investors in countries with unbundled arrangements;
c. GST/VAT Charges.

The details of adjustments made are as under:

a. Front Load Charges:

GFIE Report 2017 gives country wise data of% of Funds reporting Front Loads.

The Front Load% paid by the investor has not been mentioned in the Report. Internationally, Front Load charges are in the range of 0% to 5%. We have assumed Front Load charges @ 1.50% and amortised it over a period of 3 years being average holding period of the funds. The annual front load charges have therefore been taken to be 0.50 %. To arrive at the front load charge, we have multiplied the front load charges assumed at 0.50% with the% of funds reporting front load in the country as per GFIE Report 2017.

For e.g. in case of Belgium, where front load charges have been reported in 94% of the cases, the front load cost has been worked out @ 0.50% x 94%= 0.47%.

Front load charges are banned in India.

The table 2 below gives country wise adjustment for front load charges:

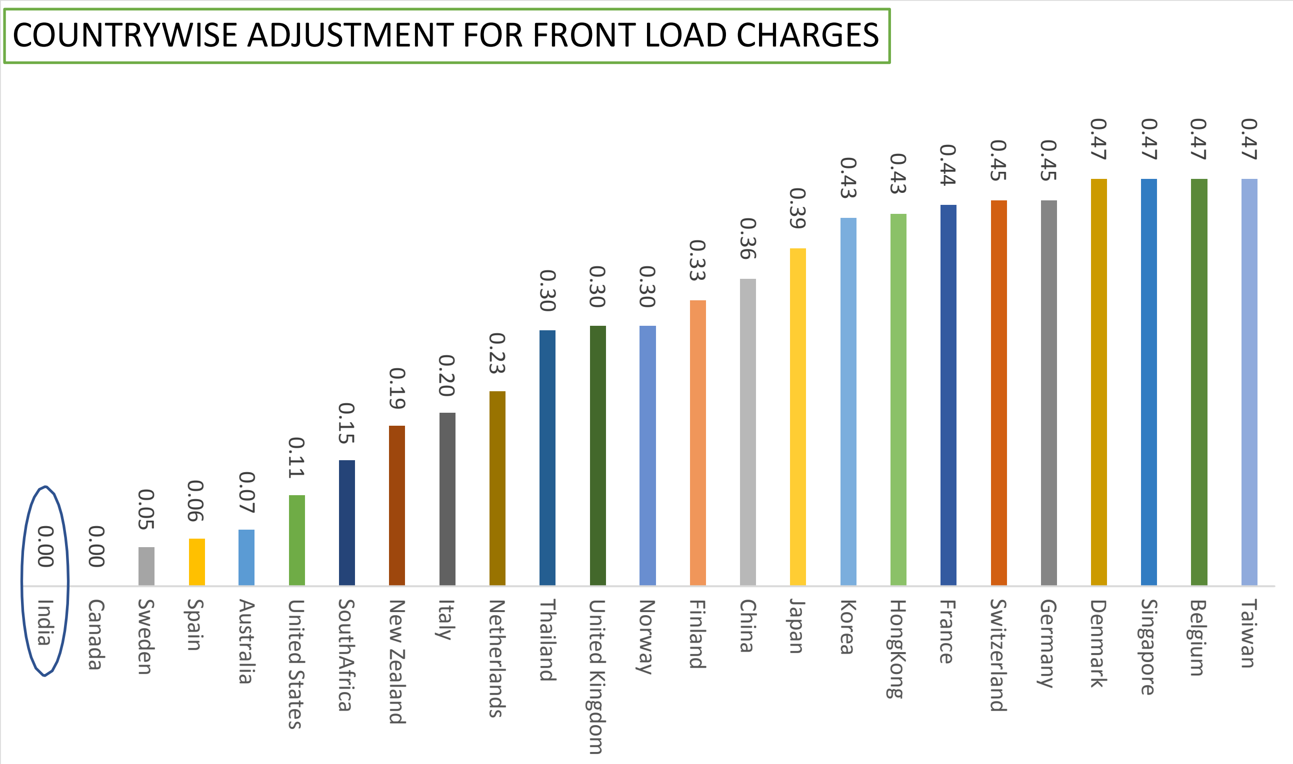
TABLE 2:

COUNTRY WISE ADJUSTMENT FOR FRONT LOAD CHARGES:

	Morningstar GFIE Report 2017		
Sr. No	**Country**	**Funds Reporting Front Load%**	**Front Load Charges**
1	**2**	3	4=(3*0.50%)
1	India	0	0.00
2	Canada	0	0.00
3	Sweden	9	0.05
4	Spain	11	0.06
5	Australia	13	0.07
6	United States	21	0.11
7	South Africa	29	0.15
8	New Zealand	37	0.19
9	Italy	40	0.20
10	Netherlands	45	0.23
11	Thailand	59	0.30
12	United Kingdom	60	0.30
13	Norway	60	0.30
14	Finland	66	0.33
15	China	71	0.36
16	Japan	78	0.39
17	Korea	85	0.43
18	Hong Kong	86	0.43
19	France	88	0.44
20	Switzerland	89	0.45
21	Germany	89	0.45
22	Denmark	94	0.47
23	Singapore	94	0.47
24	Belgium	94	0.47
25	Taiwan	94	0.47

GFIE Report 2017, Morningstar Inc.

Only 2 countries, India and Canada out of 25 countries do not have any Front Load Charges. India is the only country where Front Load Charges have been banned.



b. Advisory and Platform Charges:

"What is the total cost of owning an unbundled fund? We specifically looked at information available from the U.S., Australia, the U.K., and South Africa to answer this question. If an investor has accessed the fund directly, without the help of an advisor, then there are no more costs. Where an advisor is involved, there is no one number but typically a range. Broadly, ongoing fees paid to advisors range from 0.5% to 1.2% per annum, with 0.75% quoted as an average. These ranges were similar in each of the four markets. When using a platform to gain access to a range of unbundled funds, there is typically a fee for this service as well. The range here is 0.00% to 0.75%. These costs are typically very low or bundled elsewhere, in the case of the U.S., and tend to be in the order of 0.3% to 0.4% in other markets. If paying for both advice and an administration platform, the total cost of owning the fund could be an additional 1.0% to 1.5%.[17]"

GFIE Report 2015 specified the% range of costs incurred by customers for platform charges and advisory fees in countries following unbundled structure. However, the GFIE Report 2017 is silent on the% range of costs in respect of advisory and platform charges. We have assumed in our calculations that the% range of costs for platform and charges and advisory fees are the same as indicated in GFIE Report 2015.

We have assumed Advisory and Platform Charges @ 1.25% for following countries which have unbundled structures.

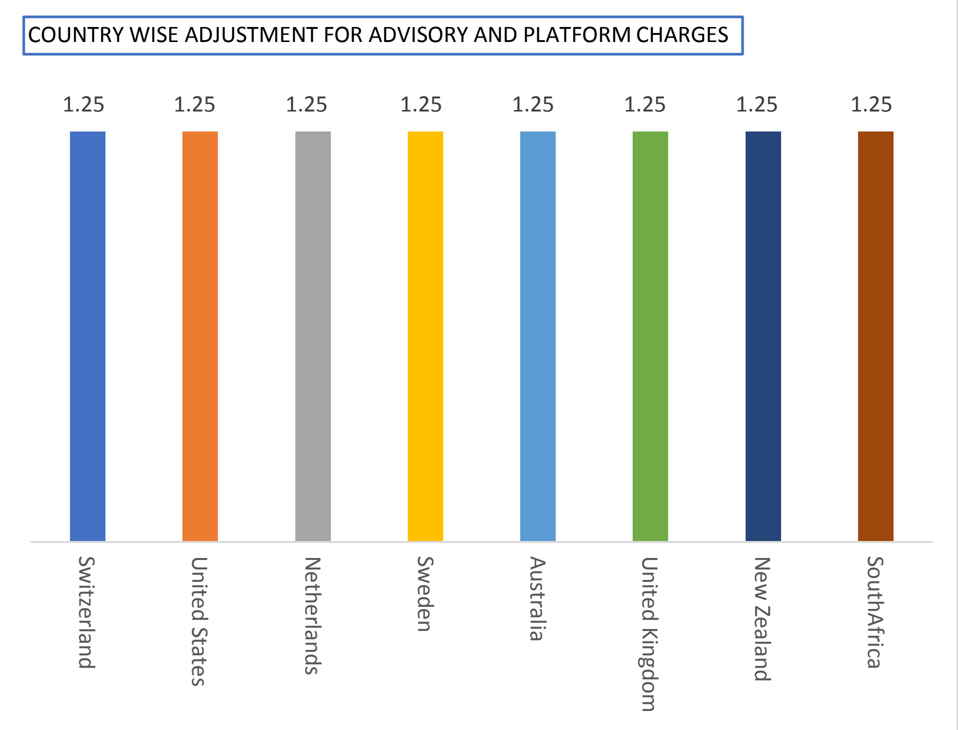
The table 3 below gives country wise adjustment for advisory and platform charges:

[17] GFIE Report 2015 page 22

TABLE 3:

COUNTRY WISE ADJUSTMENT FOR ADVISORY AND PLATFORM CHARGES:

Sr. No	Country	Asset Weighted Median Expense Ratio for Equity Funds As per GFIE Report 2017	Advisory+ Platform Charges
1	Switzerland	0.37	1.25
2	United States	0.67	1.25
3	Netherlands	0.67	1.25
4	Sweden	1.23	1.25
5	Australia	1.26	1.25
6	United Kingdom	1.28	1.25
7	New Zealand	1.38	1.25
8	South Africa	1.43	1.25



c. Taxes on Services:

According to GFIE Report 2017, out of 25 countries 17 are exempt from GST/VAT and 8 countries (including India) are subject to GST/ VAT etc.

It is universally acknowledged that costs and taxes are two distinct terms.

Cost is something which can be controlled.

Tax is a compulsory contribution to state revenue, levied by the government to the cost of some goods, services, and transactions. Taxes are imposed by the government and cannot be controlled.

An appropriate comparison should be only of costs which can be controlled.

In India, GST is charged @ 18%. The TER charged to the scheme includes GST @ 18%.

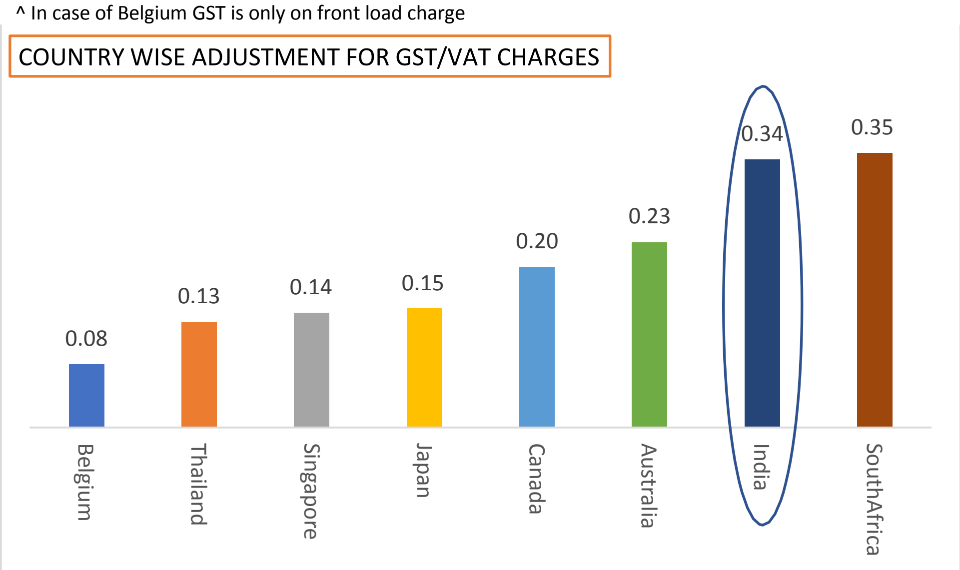
We have reduced the GST/ VAT from the expense ratios of these 8 countries to make the costs comparable with the countries where no GST VAT is charged.

The table 4 below gives country wise adjustment for GST/VAT:

TABLE 4:
COUNTRY WISE ADJUSTMENT FOR GST/VAT CHARGES:

	Morningstar GFIE Report 2017					
Sr. No	**Country**	**GST / VAT%***	**Asset Weighted Median Expense Ratio for Equity Funds As per GFIE Report 2017**	**Front Load Charges**	**Advisory + Platform Charges**	**GST/ VAT**
1	2	3	4	5	6	7=((4+5+6)/(100+3)*3)^
1	Belgium	21%	1.75	0.47		0.08
2	Thailand	7%	1.74	0.30		0.13
3	Singapore	7%	1.74	0.47		0.14
4	Japan	8%	1.64	0.39		0.15
5	Canada	10%	2.23	0.00		0.20
6	Australia	10%	1.26	0.07	1.25	0.23
7	India	18%	2.22	0		0.34
8	South Africa	14%	1.43	0.15	1.25	0.35

*GST/VAT Rates: Source GFIE Report 2017.
^ In case of Belgium GST is only on front load charge



II. Our Analysis:

Our analysis for equity and fixed income funds based on GFIE Report 2017 is given herein below:

A. Equity Funds:

As per GFIE Report, 2017, the asset-weighted median expense ratio for Equity Funds in India is 2.22% (1.88% before GST).

We have collated the data appearing in the GFIE Report 2017 and prepared the following Table 5 giving a summary of the Total Cost of Ownership of Equity Funds before taxes for 25 countries. We have also tabulated the data of total costs of owning funds before taxes in case of countries following bundled structures (17 countries) and unbundled structures (8 countries) in tables 6 and 7 respectively.

In these tables we have made adjustments for GST/VAT, front load charges, advisory fees and platform charges as applicable to the data appearing in the GFIE Report 2017 in case of both bundled and unbundled funds to arrive at the total cost of ownership of equity mutual funds before taxes.

The table 5 below gives the summary of Total Cost of Ownership of Equity Funds before Taxes for 25 countries:

TABLE 5:

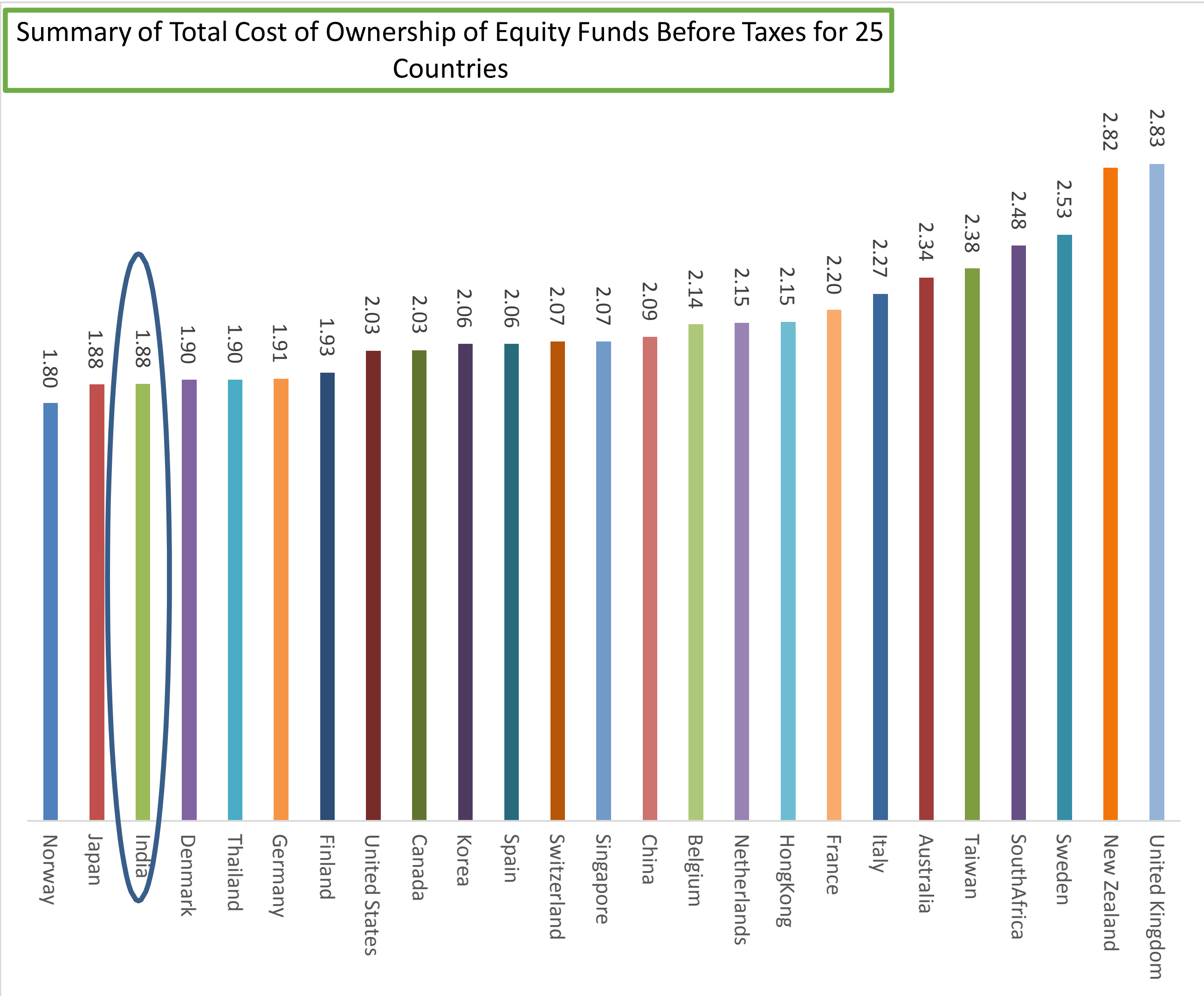
SUMMARY OF TOTAL COST OF OWNERSHIP OF EQUITY FUNDS BEFORE TAXES FOR 25 COUNTRIES:

#	Country	Total Cost of Ownership						Revised ranking	Difference in ranking as per Morningstar
		Asset Weighted Median Expense Ratio for Equity Funds as per GFIE Report, 2017	Rank as per GFIE Report, 2017	Front load charges	Advisory + Platform charges	Less: GST / VAT	Total cost of ownership for Equity funds before taxes		
1	2	3	4	5	6	7	8=(3+5+6-7)	9	10=(4-9)
1	Norway	1.50	11	0.30			1.80	1	↑ 10
2	Japan	1.64	14	0.39		0.15	1.88	2	↑ 12
3	India	2.22	24	0.00		0.34	1.88	3	↑ 21
4	Denmark	1.43	8	0.47			1.90	4	↑ 4
5	Thailand	1.74	17	0.30		0.13	1.90	5	↑ 12
6	Germany	1.46	10	0.45			1.91	6	↑ 4
7	Finland	1.60	12	0.33			1.93	7	↑ 5
8	United States	0.67	2	0.11	1.25		2.03	8	↓ -6
9	Canada	2.23	25	0.00		0.20	2.03	9	↑ 16
10	Korea	1.63	13	0.43			2.06	10	↑ 3
11	Spain	2.00	22	0.06			2.06	11	↑ 11
12	Switzerland	0.37	1	0.45	1.25		2.07	12	↓ -11
13	Singapore	1.74	17	0.47		0.14	2.07	13	↑ 4
14	China	1.73	16	0.36			2.09	14	↑ 2
15	Belgium	1.75	19	0.47		0.08	2.14	15	↑ 4
16	Netherlands	0.67	2	0.23	1.25		2.15	16	↓ -14
17	HongKong	1.72	15	0.43			2.15	17	↓ -2
18	France	1.76	20	0.44			2.20	18	↑ 2
19	Italy	2.07	23	0.20			2.27	19	↑ 4
20	Australia	1.26	5	0.07	1.25	0.23	2.34	20	↓ -15
21	Taiwan	1.91	21	0.47			2.38	21	→ 0
22	South Africa	1.43	8	0.15	1.25	0.35	2.48	22	↓ -14
23	Sweden	1.23	4	0.05	1.25		2.53	23	↓ -19
24	New Zealand	1.38	7	0.19	1.25		2.82	24	↓ -17
25	United kingdom	1.28	6	0.30	1.25		2.83	25	↓ -19
Average Cost		**1.54**		**0.28**	**0.4**	**0.07**	**2.15**		

Source: GFIE report 2017, Morningstar Inc.

Notes:

1. Front Load Charges- refer- page no 21 para a and Table 2 page 22
2. Advisory and Platform Charges refer- page 23 para b and Table 3 page 24
3. Taxes on Services refer- page 24 para c and Table 4 page 25



It is evident from the above table that:

(i) When costs are made comparable, there are significant changes in the relative rankings. For example, the relative ranking out of 25 countries:

a. of Canada changes from 25 (the most expensive) to 9 and
b. of Switzerland changes from 1 (the least expensive) to 12.
c. of India changes from 24 (one of the most expensive) to 3 (one of the least expensive).

(ii) India is the 3rd least expensive country in the world and not one of the most expensive country. In fact, if the difference in expense ratio between Norway which is the least expensive country @ 1.80% and India which is 1.88% is only .08%. Compared to Japan which is the 2nd least expensive country, India is at the same cost.

(iii) India is the least expensive country among the developing nations where the mutual fund industry is still at the nascent stage.
(iv) On an objective comparison India should be classified in the "Top" category in the fees and expenses scorecard. However, Morningstar has classified India in the "below average" category in the fees and expenses scorecard.
(v) The average total cost for equity funds before taxes across all countries is 2.15%. The cost is case of India is 1.88%.
(vi) The costs range from a low of 1.80% (Norway) to a high of 2.83% (U.K.) with a spread of 1.03%.

We have further compared the total cost of ownership before taxes in case of countries following a bundled structure and unbundled structure separately so as to arrive at the relative rankings of countries following similar structures.

The table 6 below gives the summary of Total Cost of Ownership of Equity Funds before Taxes for countries with Bundled Structures (17 countries):

TABLE 6:

SUMMARY OF TOTAL COST OF OWNERSHIP OF EQUITY FUNDS BEFORE TAXES FOR COUNTRIES WITH BUNDLED STRUCTURES (17 COUNTRIES):

#	Country	Total Cost of Ownership						Revised ranking	Difference in ranking as per Morningstar
		Asset Weighted Median Expense Ratio for Equity Funds as per GFIE Report, 2017	Rank as per GFIE Report, 2017	Front load charges	Advisory + Platform charges	Less: GST / VAT	Total cost of ownership for Equity funds before taxes		
1	2	3	4	5	6	7	8=(3+5+6-7)	9	10=(4-9)
1	Norway	1.50	3	0.30			1.80	1	↑ 2
2	Japan	1.64	6	0.39		0.15	1.88	2	↑ 4
3	India	2.22	16	0.00	0	0.34	1.88	3	↑ 13
4	Denmark	1.43	1	0.47			1.90	4	↓ -3
5	Thailand	1.74	9	0.30		0.13	1.90	5	↑ 4
6	Germany	1.46	2	0.45			1.91	6	↓ -4
7	Finland	1.60	4	0.33			1.93	7	↓ -3
8	Canada	2.23	17	0.00		0.20	2.03	8	↑ 9
9	Korea	1.63	5	0.43			2.06	9	↓ -4
10	Spain	2.00	14	0.06			2.06	10	↑ 4
11	Singapore	1.74	9	0.47		0.14	2.07	11	↓ -2
12	China	1.73	8	0.36			2.09	12	↓ -4
13	Belgium	1.75	11	0.47		0.08	2.14	13	↓ -2
14	HongKong	1.72	7	0.43			2.15	14	↓ -7
15	France	1.76	12	0.44			2.20	15	↓ -3
16	Italy	2.07	15	0.20			2.27	16	↓ -1
17	Taiwan	1.91	13	0.47			2.38	17	↓ -4
Average Cost		**1.77**		**0.33**		**0.06**	**2.04**		

Source: GFIE report 2017, Morningstar Inc.

Notes:

1. Front Load Charges- refer- page no 21 para a and Table 2 page 22
2. Advisory and Platform Charges refer- page 23 para b and Table 3 page 24
3. Taxes on Services refer- page 24 para c and Table 4 page 25

It is evident from the above table that:

(i) When costs are made comparable, there are significant changes in the relative rankings. For example, the relative ranking out of 17 countries:
   a. of Canada changes from 17 (the most expensive) to 8 and
   b. of Denmark from 1 (the least expensive) to 4.

(ii) In case of India out of 17 countries the relative ranking changes from 16 to 3. India is one of the least expensive countries in the world and not one of the most expensive countries.

(iii) The average total cost for equity funds before taxes in case of countries following bundled structures is 2.04%. The cost in case of India is 1.88%.

(iv) The costs range from a low of 1.80% (Norway) to a high of 2.38% (Taiwan) with a spread of 0.58%.

The table 7 below gives the summary of Total Cost of Ownership of Equity Funds before Taxes for countries with bundled Structures (8 countries):

TABLE 7:
SUMMARY OF TOTAL COST OF OWNERSHIP OF EQUITY FUNDS BEFORE TAXES FOR COUNTRIES WITH UNBUNDLED STRUCTURES (8 COUNTRIES):

#	Country	Total Cost of Ownership						Revised ranking	Difference in ranking as per Morningstar
		Asset Weighted Median Expense Ratio for Equity Funds as per GFIE Report, 2017	Rank as per GFIE Report, 2017	Front load charges	Advisory + Platform charges	Less: GST / VAT	Total cost of ownership for Equity funds before taxes		
1	2	3	4	5	6	7	8=(3+5+6-7)	9	10=(4-9)
1	United States	0.67	2	0.11	1.25		2.03	1	↑ 1
2	Switzerland	0.37	1	0.45	1.25		2.07	2	↓ -1
3	Netherlands	0.67	2	0.23	1.25		2.15	3	↓ -1
4	Australia	1.26	5	0.07	1.25	0.23	2.34	4	↑ 1
5	South Africa	1.43	8	0.15	1.25	0.35	2.48	5	↑ 3
6	Sweden	1.23	4	0.05	1.25		2.53	6	↓ -2
7	New Zealand	1.38	7	0.19	1.25		2.82	7	→ 0
8	United kingdom	1.28	6	0.30	1.25		2.83	8	↓ -2
	Average Cost	**1.04**		**0.19**	**1.25**	**0.07**	**2.40**		

Source: GFIE report 2017, Morningstar Inc.

Notes:

1. Front Load Charges- refer- page no 21 para a and Table 2 page 22
2. Advisory and Platform Charges refer- page 23 para b and Table 3 page 24
3. Taxes on Services refer- page 24 para c and Table 4 page 25

It is evident from the above table that:

(i) When costs are made comparable, there are changes in the relative rankings. For example, the relative ranking out of 8 countries:
   a. of South Africa changes from 8 (the most expensive) to 5 and
   b. of Switzerland from 1 (the least expensive) to 2.

(ii) The average cost of unbundled structures as per GFIE report 2017 is 1.04%. However, after making the costs comparable the average cost in case of unbundled funds increase to 2.40%, an increase of 1.36%. This highlights the importance for making adjustments to arrive at the true cost to the consumer.

(iii) The costs range from a low of 2.03% (U.S.A.) to a high of 2.83% (U.K.) with a spread of 0.80%.

(iv) Perceptions created on a plain reading of incomparable data lead to the myth that costs in unbundled structures are lower than costs in bundled structures. The average total cost for equity funds before taxes in case of countries following unbundled structures is 2.40% whereas the average total cost for equity funds before taxes in case of countries following bundled structures is 2.04%. The average cost is higher by 0.36% in case of unbundled structures as compared with bundled structures. This clearly breaks the myth that unbundled structures are cheaper than bundled funds.

B. **Fixed Income Funds (not including money market and liquid funds):**

We have collated the data appearing in the GFIE Report 2017 and prepared the following Table8 giving a summary of the asset-weighted median expense ratio for Fixed Income Funds (not including money market and liquid funds) before GST/VAT for all countries including India.

In Table 8, we have not adjusted for front load charges, advisory fees and platform charges to the data appearing in the GFIE Report 2017 due to unavailability of any reference to additional costs for owning fixed income funds in the GFIE Report 2017.

As per GFIE Report, 2017, the asset-weighted median expense ratio for Fixed Income Funds in India is 0.71% (0.60% before GST).

The Table 8below gives the asset weighted median expense ratio of Fixed Income Funds (not including money market funds) before taxes for 25 countries:

TABLE 8:

SUMMARY OF ASSET WEIGHTED MEDIAN EXPENSE RATIO OF FIXED INCOME FUNDS (NOT INCLUDING MONEY MARKET) BEFORE TAXES FOR 25 COUNTRIES:

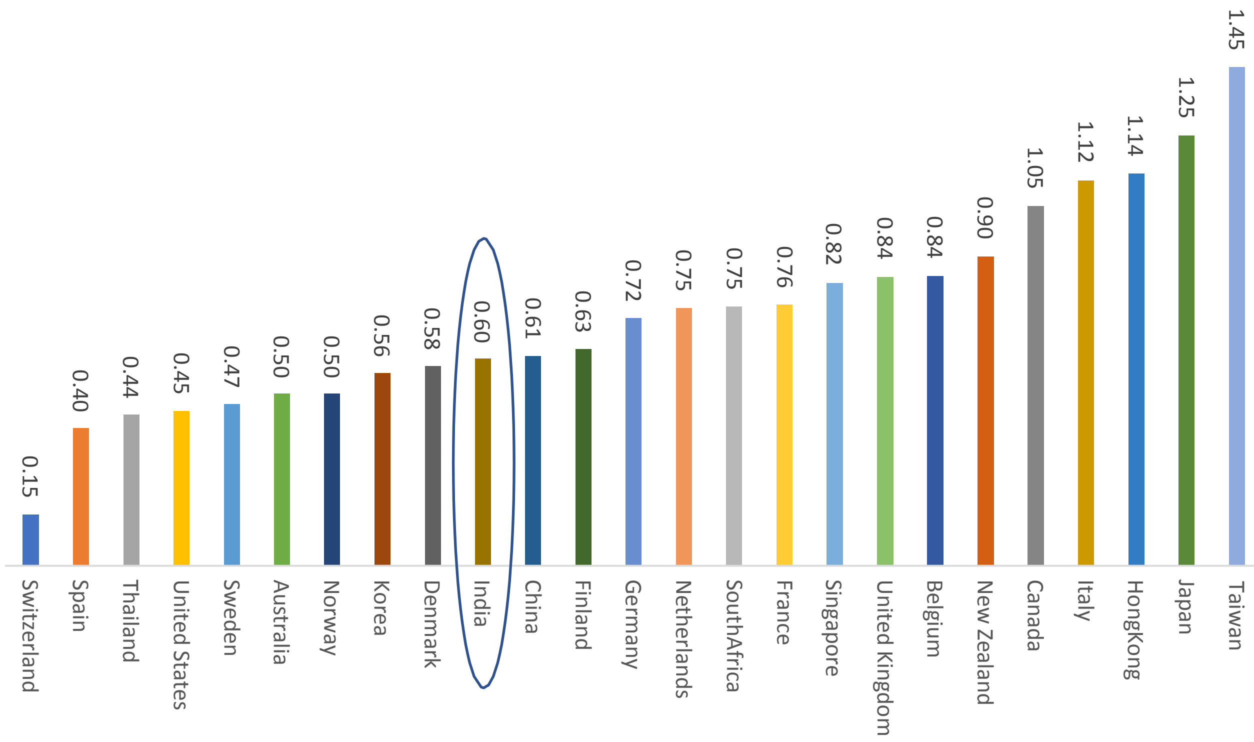
	Fixed Income GFIE 2017			
Country	**Asset Weighted Median Expense Ratio for Fixed Income Funds as per GFIE Report 2017**	**GST**	**Asset Weighted Expense Ratio for Fixed Income Funds before GST/VAT**	**Rank**
Switzerland	0.15		0.15	1
Spain	0.40		0.40	2
Thailand	0.47	0.03	0.44	3
United States	0.45		0.45	4
Sweden	0.47		0.47	5
Australia	0.55	0.05	0.50	6
Norway	0.50		0.50	6
Korea	0.56		0.56	8
Denmark	0.58		0.58	9
India	0.71	0.11	0.60	10
China	0.61		0.61	11
Finland	0.63		0.63	12
Germany	0.72		0.72	13
Netherlands	0.75		0.75	14
South Africa	0.86	0.11	0.75	15
France	0.76		0.76	16
Singapore	0.88	0.06	0.82	17
United Kingdom	0.84		0.84	18
Belgium	1.02	0.18	0.84	19
New Zealand	0.90		0.90	20
Canada	1.15	0.10	1.05	21
Italy	1.12		1.12	22
Hong Kong	1.14		1.14	23
Japan	1.35	0.10	1.25	24
Taiwan	1.45		1.45	25

Source: GFIE Report 2017, Morningstar Inc.

Notes:

1. Taxes on Services refer- page 24 para **C**

SUMMARY OF ASSET WEIGHTED MEDIAN EXPENSE RATIO OF FIXED INCOME FUNDS (NOT INCLUDING MONEY MARKET) BEFORE TAXES FOR 25 COUNTRIES



India is ranked as the 10th least expensive country out of 25 countries reviewed in GFIE Report 2017.

If the costs for front load charges and platform and advisory charges were to be considered, India's ranking would improve dramatically.

In fact, amongst countries with bundled structures, India's ranking is better at 6th out of 17.

PART 2:

Independent Study and analysis of fees and expense ratios for owning mutual funds in India

I. **Our Study**:

For our independent study of fees and expense ratios in India we have calculated the weighted average expense ratios for owning Equity Oriented Funds, Fixed Income Funds (excluding Money Market) and Money Market Funds, both under the regular and direct plans.

The Methodology for ascertaining the weighted average expense ratios for mutual funds in India is given below:

(i) The Association of Mutual Funds in India (AMFI) publishes the data of AAUM of all mutual funds in India as at the end of every quarter. We have taken the data of the AAUM for the quarter ended 31st March 2017 from the AMFI website. The data gives the breakup of the AAUM under each category, every scheme and further broken up into each plan i.e. regular and direct. The classification of funds has also been taken as per the data published by AMFI.

(ii) Mutual funds in India did not follow a common and consistent practice for disclosing the expense ratios in the fact sheets. Some mutual funds showed the expense ratios including Service Tax/ GST on asset management fees, additional expense in respect of investments from B15 cities, while others did not do so. In order to follow a common approach and to arrive at the total cost to the investor, we have obtained the scheme wise total expense ratio including Service Tax/ GST on asset management fees, additional expense in respect of investments from B15 cities from the respective mutual funds.

(iii) As per the AMFI website the industry AAUM as on 31st March 2017 is Rs. 18,29,583 crores. Our study is based on an aggregate AAUM of Rs. 17,81,655 crores (97.38%). We have not considered the data of 14 mutual funds whose aggregate AAUM is 46,596 crores (2.62%)[18].

(iv) For the purpose of our study and analysis we have considered the weighted average expense ratios. The same have been calculated considering the AAUM of each scheme and multiplying the same with the expense ratio to arrive at the total cost of every scheme in absolute terms. The total cost is then aggregated over all the schemes in the category and sub categories and divided by the aggregate AAUM to arrive at the weighted average expense ratio for the category.

(v) In case of GFIE Report 2017, Morningstar has used asset-weighted median expense ratios. *"The asset-weighted median values are calculated using only retail funds (those that are not classified as institutional in Morningstar's database and have an investment minimum below USD 100,000) either domiciled or available for sale in the specific country, split into the appropriate groups by asset class. We sort each group by expense ratio, and then calculate a weight and cumulative weight using net assets, substituting fund size in markets such as India where share class net asset data are thin. For markets where the net asset values are reported in various currencies, we convert all to the modal currency for the group or to the U.S. dollar. From there we determine the*

[18] We have not considered data for BoiAxa, Escorts, IDBI, IIFCL, IIFL, IL&FS, Peerless, Mahindra, J.M, Sahara, Taurus, Union KBC, Shriram, India Bulls, since this data was not available.

50th percentile and assign the closest actual expense ratio value as the asset-weighted median for the country group"[19].

(vi) In our opinion, the weighted average expense ratio is an appropriate indicator of the average fees and expenses ratio and the total cost of funds in a country.

II Our Analysis:

Our analysis for equity and fixed income funds is given herein below:

A Analysis of Equity Oriented Funds:

For our independent study of fees and expense ratios in India we have calculated and considered the weighted average expense ratios for owning Equity Oriented Funds in India.

The Table 9 below gives weighted average expense ratio for Equity Oriented Funds (as per AMFI Classification) in India:

TABLE 9:

WEIGHTED AVERAGE EXPENSE RATIO FOR EQUITY ORIENTED MUTUAL FUNDS (AS PER AMFI CLASSIFICATION):

	REGULAR		DIRECT			
	AAUM (Crs)	Weighted Avg. Ratio (%)	AAUM (Crs)	Weighted Avg. Ratio (%)	Total AAUM (Crs)	Total Weighted Avg. Ratio (%)
Equity						
Growth	375490.96	2.33%	70719.25	1.16%	446210.21	2.14%
ELSS	51420.25	2.50%	3011.11	1.57%	54431.37	2.45%
Other ETFs			37140.75	0.18%	37140.75	0.18%
Equity Total	**426911.22**	**2.35%**	**110871.12**	**0.84%**	**537782.33**	**2.04%**
Balanced						
Balanced	66904.88	2.37%	5094.70	1.13%	71999.58	2.28%
Balanced Total	**66904.88**	**2.37%**	**5094.70**	**1.13%**	**71999.58**	**2.28%**
Grand Total	**493816.10**	**2.35%**	**115965.82**	**0.85%**	**609781.92**	**2.07%**
Less: GST		**0.36%**		**0.13%**		**0.32%**
Cost to Investor before GST		**1.99%**		**0.72%**		**1.75%**

[19] GFIE Report 2017 Pages 21 and 22

To summarise:

(i) The weighted average cost of ownership for Equity Oriented Funds under regular option as per AMFI classification in India is 1.99% + GST 0.36% = 2.35%.
(ii) The weighted average cost of ownership for Equity Oriented Funds under direct option as per AMFI classification in India is 0.72% + GST 0.13% = 0.85%.
(iii) The weighted average cost of ownership for Equity Oriented Funds under both the regular and the direct option as per AMFI classification in India is 1.75% + GST 0.32% = 2.07%.
(iv) At 0.18% India must be cheapest country in the World for ETF's. They account for 6.09% of the Equity AAUM.

B. Analysis of Fixed Income Funds:

For our independent study of fees and expense ratios in India we have calculated and considered the weighted average expense ratios for owning Fixed Income Funds in India.

The table 10 below gives weighted average expense ratio for Fixed Income Funds as per AMFI Classification in India:

TABLE10:

WEIGHTED AVERAGE EXPENSE RATIO FOR FIXED INCOME FUNDSAS PER AMFI CLASSIFICATION IN INDIA:

	REGULAR		DIRECT			
	AAUM (Crs)	Weighted Avg. Ratio (%)	AAUM (Crs)	Weighted Avg. Ratio (%)	Total AAUM (Crs)	Total Weighted Avg. Ratio (%)
DEBT						
Income	391703.66	1.29%	352541.55	0.34%	744245.22	0.84%
Floating Rate	12668.65	0.82%	13838.60	0.27%	26507.25	0.53%
Fund of Funds - Overseas	1568.04	2.00%	253.42	1.45%	1821.45	1.92%
Gilt	8307.89	1.22%	7741.77	0.54%	16049.67	0.89%
GOLD ETFs	5563.12	1.03%	0.00		5563.12	1.03%
DEBT	419811.37	1.27%	374375.34	0.34%	794186.71	0.84%
Money Market						
Liquid	123131.98	0.25%	233579.82	0.13%	356711.81	0.17%
Money Market	5174.50	0.12%	15800.40	0.01%	20974.89	0.04%
Money Market	128306.48	0.25%	249380.22	0.12%	377686.70	0.16%
Grand Total	**548117.85**	**1.03%**	**623755.56**	**0.25%**	**1171873.41**	**0.62%**
Less: GST @ 18%		0.16%		0.04%		0.09%
Cost to Investor before GST		**0.87%**		**0.21%**		**0.53%**

To summarise:

(i) The weighted average cost of ownership for Fixed Income Funds under regular option as per AMFI classification in India is 0.87% + GST 0.16% = 1.03%.
(ii) The weighted average cost of ownership for Fixed Income Funds under direct option as per AMFI classification in India is 0.21% + GST 0.04% = 0.25%.
(iii) The weighted average cost of ownership for Fixed Income Funds under both the regular and the direct option as per AMFI classification in India is 0.53% + GST 0.09% = 0.62%.

C. Analysis of expense ratios of open ended and close ended funds:

We have also calculated the expense ratios for open ended and close ended funds in India. The same has been tabulated in Table 11 below:

TABLE 11:

TABLE GIVING BREAK UP OF OPEN AND CLOSE ENDED FUNDS AS PER AMFI CLASSIFICATION:

	Open Ended		Close Ended			
	AAUM (Crs)	Weighted Avg. Ratio (%)	AAUM (Crs)	Weighted Avg. Ratio (%)	Total AAUM (Crs)	Total Weighted Avg. Ratio (%)
Equity						
REGULAR	403782.89	2.33%	23128.32	2.67%	426911.22	2.35%
DIRECT	110259.31	0.84%	611.81	1.64%	110871.12	0.84%
Total	**514042.20**	**2.01%**	**23740.13**	**2.64%**	**537782.33**	**2.04%**
Balanced						
REGULAR	66904.88	2.37%	0.00		66904.88	2.37%
DIRECT	5094.70	1.13%	0.00		5094.70	1.13%
Balanced Total	**71999.58**	**2.28%**	**0.00**		**71999.58**	**2.28%**
DEBT						
REGULAR	471815.26	0.99%	76302.59	1.31%	548117.85	1.03%
DIRECT	556836.06	0.27%	66919.50	0.13%	623755.56	0.25%
DEBT Total	**1028651.32**	**0.60%**	**143222.09**	**0.76%**	**1171873.41**	**0.62%**
Grand Total	**1614693.10**	**1.12%**	**166962.22**	**1.03%**	**1781655.33**	**1.11%**
Less: GST @ 18%		0.17%		0.16%		0.17%
Cost to Investor Before GST		**0.95%**		**0.87%**		**0.94%**

To Summarise:

(i) The weighted average cost of ownership of open ended funds as per AMFI classification in India is 0.95% + GST 0.17% = 1.12%.
(ii) The weighted average cost of ownership of close ended funds as per AMFI classification in India is 0.87% + GST 0.16% = 1.03%.
(iii) It may be noted that 4.41% of Equity Funds are close ended.

PART 3:

Independent Study and analysis of cost of distribution for mutual funds in India

I. **Our Study**:

For our independent study of the cost of distribution for mutual funds in India, we have considered the weighted average expense ratios for Mutual Funds in India as elucidated in Part 2 of our study and analysis above. Having arrived at the weighted average expense ratios separately for Regular Plans and Direct Plans, we have arrived at the cost of distribution of Mutual Funds in India.

The Methodology for ascertaining the cost of distribution for mutual funds in India is given below:

Regulations governing mutual funds in India mandate that every scheme must have 2 separate plans

1. A "regular plan" which has distribution cost inbuilt in its expense ratio (bundled structures).
2. A "direct plan" which does not have distribution cost inbuilt in its expense ratio (unbundled structures).

Regulations mandate that mutual funds/AMC's shall provide a separate plan for investments under the direct plan in existing as well as new schemes. Such a separate plan shall have a lower expense ratio. The difference in the expense ratio between the two plans is only on account of the exclusion of distribution costs in the direct plan. In other words, the brokerage paid for distribution services is reduced from the expense ratio of the regular plan to arrive at the expense ratio of the direct plan. As such, both the regular and direct plans would have a separate net asset value (NAV).

The Regular Plan is used by investors who use services of a distributor. The direct plans are supposed to be used by customers who are knowledgeable and can invest on their own. It is also used by investors who use the services of a fee-based advisor. In such a case, the investor will pay advisory fees to the distributor over and above the expense ratio of a direct plan and as such his total cost of owning funds will be more than the expense ratio of the direct plan.

The regulations prescribe that:

TER for Direct Plan = TER of Regular Plan less Cost of Distribution expense of the Regular Plan.

or

Cost of Distribution of Regular Plan = TER of Regular Plan – TER of Direct Plan

As a part of our study this year, the cost of distribution for owning mutual funds has been ascertained based on the above formula.

The category wise % cost of distribution has been determined by reducing the TER of the direct plan from the TER of the regular plan for the category. We have then arrived at the category wise absolute amount of brokerage paid to distributors by multiplying the category wise % cost of distribution with the category wise AAUM. This absolute amount of brokerage paid category wise has then been aggregated to arrive at the total brokerage paid. The category wise AAUM has also been aggregated to arrive at the total AAUM. The total brokerage paid is then divided by the total AAUM to arrive at the weighted average brokerage paid before GST. The percentage of GST inbuilt in the brokerage paid has then been reduced to arrive at the actual% of brokerage paid to distributors/advisors which comes to 0.80%.

The table 12 below gives the details of the category wise AAUM (as per AMFI classification)/ Expense Ratios and brokerage paid.

TABLE 12:

TABLE GIVING CATEGORY WISE AAUM (AS PER AMFI CLASSIFICATION) / EXPENSE RATIOS AND BROKERAGE PAID:

	REGULAR		DIRECT		
Asset Class	**AAUM (Crs)**	**Weighted Avg. Ratio (%)**	**Weighted Avg. Ratio (%)**	**Brokerage Rate (except sub totals and Grand Totals)**	**Brokerage Include. GST (Crs)**
1	**2**	**3**	**4**	**5=(4-3)**	**6=(2*5)**
Equity					
Growth	375490.96	2.33%	1.16%	1.17%	4401.45
ELSS	51420.25	2.50%	1.57%	0.93%	479.21
Other ETFs^	0.00	0.00%	0.18%		
Equity Total	**426911.22**	**2.35%**	**0.84%**	**1.14%**	**4880.66**
Balanced					
Balanced	66904.88	2.37%	1.13%	1.23%	823.21
Balanced Total	**66904.88**	**2.37%**	**1.13%**	**1.23%**	**823.21**
DEBT					
Floating Rate	12668.65	0.82%	0.27%	0.54%	68.76
Fund of Funds - Overseas	1568.04	2.00%	1.45%	0.55%	8.60
Gilt	8307.89	1.22%	0.54%	0.67%	56.05
GOLD ETFs	5563.12	1.03%	0.00%	1.03%	57.53
Income	391703.66	1.29%	0.34%	0.95%	3716.75
Liquid	123131.98	0.25%	0.13%	0.13%	157.03
Money Market	5174.50	0.12%	0.01%	0.11%	5.66
DEBT Total	**548117.85**	**1.03%**	**0.25%**	**0.74%**	**4070.37**
Grand Total	**1041933.95**	**1.66%**	**0.35%**	**0.94%**	**9774.24**

Note: The brokerage rate (column 5) in the grand total in table 12 is arrived by dividing the brokerage amount (column 6) by the AAUM (column 2).

	Total Expense Ratio (Regular)	**GST**	**Net**	**% Sharing**
Total Cost Regular Plan	1.66%	0.25%	1.41%	100.00%
Cost of distribution	0.94%	0.14%	0.80%	56.74%
Cost of Fund Management	0.72%	0.11%	0.61%	43.26%

To summarise:

(i) The weighted average cost of distribution for all Mutual Funds in India under regular option is 0.80% + GST 0.14% = 0.94%.

(ii) Thus, the overall effective brokerage received by distributors as a% of assets mobilized, advised and serviced by them net of GST works out to 0.80% only compared to a cost of 1.25% which is charged globally as a fee for investment advice in lieu of brokerage when investing in products with unbundled structures.

(iii) In India the cost of distribution and advice included in the embedded cost structure is 0.80%. A compulsory shift to a fee based advisory model will entail an advisory fee cost of 1.25% (the internationally prevalent norm) thereby increasing the total cost of ownership by 0.45%. On an AAUM of Rs 10.41 lakh crores it implies an addition burden of approximately 4684 crores on the investing community.

4. CONCLUSIONS:

Part 1:

Global Comparison of Total Cost of Ownership of Mutual Funds Before Taxes: - Study based on the data available from the GFIE Report 2017

1) **Significant changes in relative rankings:**

When expense ratios as reported by Morningstar are made comparable, there are significant changes in the relative ranking of Equity funds from 25 countries (refer Table 5 on page 27):

(i) The ranking of Canada improves from 25 (the most expensive) to 9 and

(ii) The ranking of Switzerland falls from 1 (the least expensive) to 12.

(iii) The ranking of India improves from 24 (one of the most expensive) to 3 (one of the least expensive).

The average cost for Equity Funds across all countries, as per GFIE report 2017 and without making any adjustments to make costs comparable, is 1.54% (refer Table 5 on page 27). However, after making the costs comparable, the average cost across all countries increases to 2.15% (refer Table 5 on page 27), an increase of 0.61%.

This increase is driven by the changes in the cost of countries which have unbundled structures. In case of countries following an unbundled structure, the average cost as per GFIE report 2017 is 1.04% (refer Table 7 on page 31). However, after making the costs comparable the average cost in case of these countries following unbundled structures increases to 2.40% (refer Table 7 on page 31), an increase of 1.36%.

Any policies formulated, regulations issued based on the data available before making necessary adjustments could lead to undesirable outcomes.

This highlights the importance for making adjustments to arrive at the cost to the investor.

2) India is one of the least expensive country in the world and not one of the most expensive country.

Equities:

India is the 3rd least expensive country in the world and not one of the most expensive country (refer Table 5 on page 27). This is based on the data as on 31.3.2017. If one considers the reduction in TER mandated by the regulator since then, it is likely that the ranking of India would improve further.

In fact, the difference in expense ratio between Norway which is the least expensive country @ 1.80% and India which is 1.88% is only .08%. Compared to Japan which is the 2nd least expensive country, India is at the same cost. The average total cost for equity funds before taxes across all countries is 2.15%. The costs range from a low of 1.80% (Norway) to a high of 2.83% (U.K.) with a spread of 1.03.

India is the least expensive country among the developing nations where the mutual fund industry is still at the nascent stage.

On an objective comparison India should be classified in the “Top” category in the fees and expenses scorecard. However, Morningstar has classified India in the “below average” category in the fees and expenses scorecard.

Fixed Income:

India is ranked as the 10th least expensive country out of 25 countries reviewed in GFIE Report 2017 (refer Table 8 on page 33). If the costs for front load charges and platform and advisory charges were to be considered, India’s ranking would improve dramatically.

Even if an adjustment was to be made only for platform charges @ 0.25%, India’s ranking would improve to the 7th least expensive country

Infact, amongst countries with bundled structures India’s ranking is better at 6th out of 17.

3) Total Cost of Ownership is Higher in Countries with a Fee Based Model (Unbundled Structure) compared with Countries with an Embedded Commission Structure (Bundled Structure)

Perceptions created on a plain reading of incomparable data lead to the myth that costs in unbundled structures are lower than costs in bundled structures.

The average total cost for equity funds before taxes in case of countries (8 countries) following unbundled structures is 2.40% (refer Table 7 on page 31).

The average total cost for equity funds before taxes in case of countries (17 countries) following bundled structures is 2.04% (refer Table 6 on page 30).

Costs of owning equity funds before taxes in countries with unbundled structures is higher by 0.36% on an average compared with costs in countries with bundled structures.

This clearly breaks the myth that unbundled structures are cheaper than bundled structures.

Part 2

Independent Study and analysis of fees and expense ratios for owning mutual funds in India

For our independent study of fees and expense ratios in India we have calculated the weighted average expense ratios for owning Equity Oriented Funds (Equity Funds, Balanced Funds and Exchange Traded Funds (ETFs) and Fixed Income Funds, both under the regular and direct plans.

The study of the Weighted Average Expense Ratios is based on the AMFI Classification covering Rs 17.61 lac crores which is 97% of AAUM based on the quarter ended 31st March 2017.

The main findings are as under:

Based on the study, the weighted average expense ratio for owning Equity Oriented Funds and Fixed Income Funds is as under: -

EQUITY ORIENTED FUNDS (As per AMFI Classification):

Total Expense Ratio	Equity Oriented Mutual Funds (Equity Funds, Balanced Funds excluding ETFs)			ETFs			Equity Oriented Mutual Funds (Equity Funds, Balanced Funds Including ETFs)		
	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average
Net Expense	1.99%	0.99%	1.86%	0.00%	0.15%	0.15%	1.99%	0.72%	1.75%
Add GST @ 18%	0.36%	0.18%	0.33%	0.00%	0.03%	0.03%	0.36%	0.13%	0.32%
Total Cost	2.35%	1.17%	2.19%	0.00%	0.18%	0.18%	2.35%	0.85%	2.07%

For Equity Funds:

(i) The weighted average cost of ownership for Equity Oriented Funds under regular option as per AMFI classification in India is 1.99% + GST 0.36% = 2.35%.
(ii) The weighted average cost of ownership for Equity Oriented Funds under direct option as per AMFI classification in India is 0.72% + GST 0.13% = 0.85%.
(iii) The weighted average cost of ownership for Equity Oriented Funds under both the regular and the direct option as per AMFI classification in India is 1.75% + GST 0.32% = 2.07%.

FIXED INCOME FUNDS:

Total Expense Ratio	Fixed Income Mutual Funds (Excluding Money Market)			Money Market Mutual Funds			Fixed Income Mutual Funds (Including Money Market)		
	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average	Regular	Direct	Weighted Average
Net Expense	1.08%	0.29%	0.71%	0.21%	0.10%	0.14%	0.87%	0.21%	0.53%
Add GST @ 18%	0.19%	0.05%	0.13%	0.04%	0.02%	0.02%	0.16%	0.04%	0.09%
Total Cost	1.27%	0.34%	0.84%	0.25%	0.12%	0.16%	1.03%	0.25%	0.62%

For Fixed Income Funds:

(i) The weighted average cost of ownership for Fixed Income Funds under regular option as per AMFI classification in India is 0.87% + GST 0.16% = 1.03%.
(ii) The weighted average cost of ownership for Fixed Income Funds under direct option as per AMFI classification in India is 0.21% + GST 0.04% = 0.25%.
(iii) The weighted average cost of ownership for Fixed Income Funds under both the regular and the direct option as per AMFI classification in India is 0.53% + GST 0.09% = 0.62%.

For Open & Close Ended Funds (Refer Table 11 on page 38):

(i) The weighted average cost of ownership of open ended funds as per AMFI classification in India is 0.95% + GST 0.17% = 1.12%.
(ii) The weighted average cost of ownership of close ended funds as per AMFI classification in India is 0.87% + GST 0.16% = 1.03%.
(iii) It may be noted that 4.41% of Equity Funds are close ended.

Part 3

Independent Study and analysis of cost of distribution for mutual funds in India

For our independent study of the cost of distribution for mutual funds in India, we have considered the weighted average expense ratios for Mutual Funds in India as elucidated in Part 2 of our study and analysis. Having arrived at the weighted average expense ratios separately for Regular Plans and Direct Plans, we have arrived at the cost of distribution of Mutual Funds in India.

The main findings are as under:

1) Overall Cost of Distribution is Low in India:

(i) The weighted average cost of distribution of mutual funds in India net of GST is 0.80% (refer Table 12 on page 41).

(ii) Thus, the overall effective brokerage received by distributors/advisors as a % of assets mobilized, advised and serviced by them net of GST at 0.80% is far lower compared to a cost of 1.25% which is charged globally for advisory fees and platform charges in lieu of commissions when investing in products with unbundled structures.

(iii) A compulsory shift to a fee based advisory model will entail an additional cost of 1.25% (the internationally prevalent norm) thereby increasing the total cost of ownership by 0.45%. On an AAUM of Rs 10.41 lakh crores it implies an addition burden of approximately 4684 crores on the investing community.

2) Share of Distribution/Advisory Expense is actually Not High:

Based on March 2017 Quarter the overall sharing of revenue between Distribution/Advisory and Fund Management is 56:44 against a globally accepted benchmark of 60:40 and the need for a much a higher ratio in view of the very low penetration in India.

	Total Expense Ratio (Regular)	**GST**	**Net**	**% Sharing**
Total Cost Regular	1.66%	0.25%	1.41%	100.00%
Cost of Distribution	0.94%	0.14%	0.80%	56.74%
Cost of Fund Management	0.72%	0.11%	0.61%	43.26%

Other Key Takeaways and Observations are:

1. SEBI has indirectly further reduced the expense ratio and the total cost to the investor in India by not allowing the Service Tax/ GST on expenses (other than Asset Management Fees) to be passed on to the investor.
2. SEBI has further indirectly/directly reduced the expense ratio and the total cost to the investor in India after 31.3.2017, (the date as on which the data has been considered for the findings in this report):

   a. by now allowing extra expenses on investments in B30 cities as against B15 cities earlier;
   b. by reducing the 20 basis points it hitherto allowed to be charged to the schemes on account of exit loads to 5 basis points.

3. After the reduction of the expense ratios by SEBI, India would probably now be the cheapest country in the world for owning equity mutual funds.

4. India is one of the most competitive countries in the world for Fixed Income Mutual funds;

5. In 2013, SEBI had felt a need to re-energise the Mutual Fund industry and had wide consultations with various industry participants. Thereafter SEBI took earnest measures to increase retail participation. The seeds were then sown, and the fruits thereof are beginning to be seen. However, certainly the goal set is yet to be reached.

6. Any reduction in the Total Expense Ratio or roll back of measures SEBI had introduced in 2013 to re-energise the Mutual Fund industry especially when the measures have just started to yield good dividends will not help in the growth of the Industry or its penetration.

7. Penetration and financial inclusion is one of the key objectives of the government. Penetration of Mutual funds as a% of assets under management (AUM) to GDP in India stands at around 12% only against a global average of 55%. The mutual fund industry in India is at the tip of an exponential growth, the benefits of which will be enjoyed primarily by the retail investors.

8. The long term returns post expenses earned by investors in Indian equity mutual funds are far superior than returns earned in equity mutual funds in other countries. An analysis of the TER as a percentage to the returns earned would be the best in India.

9. World over there are classifications of investors like accredited investors, qualified buyers etc. who have access to lower cost plans. India however, has gone other way. Regulation in India has mandated a direct share class to be made available to all investors irrespective of size and qualification of the investor. The investor in India has a choice to go direct through a low-cost plan or to invest through a distributor/advisor by paying a higher cost. It is his or her choice. We are not aware of any other country which gives this choice to ALL investors. We are not sure how the Morningstar report accounts for this whilst considering the ratings.