



Foundation of Independent Financial Advisors

OCT 2019



Note on FIFA meeting with Morningstar on 14th Oct 2019 at their Chicago Office.

Dear Members,

On Monday, 14th October 2019 FIFA had a meeting with Morningstar at their Chicago office. The meeting was attended by –

Attendees from Morningstar :

- Kunal Kapoor, Chief Executive Officer
- Aditya Agarwal, Managing Director, India
- Kaustubh Belapurkar, Director, Manager Research, India
- Jeff Ptak, Head of Manager Research
- Grant Kennaway, Global Practice Leader, Manager Research
- Christina West, Director, Manager Research Services
- Dan Waryck, Global Business Development
- Elizabeth Brigham, Head of Product Marketing, Software

Attendees from FIFA:

- Dhruv Mehta
- Lalit Gianchandani
- Roopa Venkatkrishnan

The purpose of the meeting was to give our feed-back to Morningstar on its Global Investor Experience Study : Fees and Expenses dated 17th September, 2019 (GIES 2019).

Members are aware that last year FIFA published its 2nd Study and Comparison of expense ratios for mutual funds globally and in India. The study revealed that the cost of owning Equity Funds in India was 3rd lowest across the globe. This was in contrast to the Morningstar Global Investor Experience Study 2017 which had shown India to be amongst the most expensive globally.

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 Investor Experience Study 2015" in which:

- (I) the Total Expense Ratio (TER) for equity mutual funds in India was slated at 2.65% which was apparently incorrect.
- (II) the GIES 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.

Morningstar (MS) in GIES 2019 continues to refer to India as one of the most expensive markets for equity and allocation funds.

At the outset, Dhruv Mehta pointed out to Mr. Kunal Kapoor that the Morningstar study, does not evaluate the total cost of owning a fund which is what is relevant as against considering only the expenses of a fund and ignoring other costs that an investor incurs for owning the fund.

This methodology penalises markets like India where it is common to bundle advise and distribution fees into funds expense ratio and favour those where advisory fees, platform and other charges are paid over and above the funds expense ratio. The comparison therefore is not on an apple to apple basis thereby misleading investors on the relative ranking in relation to Fund Fees and Expenses.

As a leading global research organisation MS needs to make the necessary adjustment of all costs (fees for advice, platform charges, entry loads and exit loads) to enable investors to make a proper assessment and meaningful comparison of cost of investing in Mutual Funds.

Mr. Kapoor heard us and requested that we have a detailed discussion with the Research Team headed by Mr. Jeffery Ptak.

We then had a detailed discussion on GIES Report–Fees and Expenses 2019.

FIFA highlighted the following points:

- (I) The study in GIES 2019 has been done without considering the total cost of ownership of funds.

As in its earlier study, the GIES 2019 has once again compared cost of bundled funds (embedded funds) and unbundled funds and graded countries based, amongst other factors, on the asset weighted median expense ratios only without making the necessary adjustments to make them comparable. Expense ratios as published, without adjusting for exclusions / inclusions In expense ratios of unbundled and bundled countries, are not meaningfully comparable.

This has resulted in incorrect conclusions of comparative costs across the countries and India has been once again been shown as one of the most expensive countries for equity mutual funds.

The short coming of the report and its conclusions have been acknowledged by MS itself. The following extracts from the GIES 2019 reaffirms the short comings.

“This study does not evaluate the potential total cost of owning a fund and receiving financial advice across the world. Reliable data on financial advice and platform fees are not available across the 26 markets we consider in this global study. Advice fees can vary by investor, advisory firm, and account type, and fee schedules are not required disclosure in the same way as the various fees associated with a registered fund itself”.

GIES 2019 further observes:

“We are aware that our study methodology tends to penalise costlier fund markets where it's been common to bundle advice and distribution fees into fund expense ratios”.

Despite the above observations, the GIES 2019 goes on to make unfair comparisons and ranks countries on incomparable data sets.

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:

- Total Expense Ratio (TER)
- Front load charges:
- Performance Fees:
- Advisor Fees:
- Platform Charges:
- 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. No brokerage is paid to the distributor/advisor.

In a bundled structure, brokerage is paid to distributors/ advisors from the TER charged by the asset management companies to the mutual fund scheme. The investor does not incur any further costs.

According to FIFA:

- (I) Comparing and ranking the countries having bundled structures with countries having unbundled is incorrect;
 - (ii) The correct way to compare and rank the countries is by considering the total cost of ownership of funds rather than considering selective and partial costs to compare and rank the countries;
 - (iii) In case of unbundled structures MS needs to adjust for advisor and platform fees;
 - (iv) In case of bundled structures MS needs to make adjustment for front load charges, exit load charges;
 - (v) MS also needs to make adjustment for GST and VAT charges in case of both bundled and unbundled structures.
- (II) Another suggestion made by FIFA during the meeting was that MS should segregate the comparison of expense ratios and relative rankings for countries with unbundled and bundled structures. The countries with bundled structures and unbundled structures should be compared separately.

Mr. Ptak commented that even if the comparison of expense ratios and relative rankings was segregated for countries with bundled and unbundled structures, India would still be one of the most expensive countries with bundled structures.

We pointed out that

FIFA's 2nd Study and Comparison of expense ratios for mutual funds globally and in India in July 2018 revealed that the cost of owning Equity Funds in India was 3rd lowest across the globe.

We further pointed out that in case of countries with bundled structures, adjustment for front load charges, exit load and GST and VAT will have to be made to make the total costs of ownership comparable.

If the total cost of ownership of funds is considered for comparison and the countries are ranked thereafter, it will give completely different rankings for the countries and give different conclusions.

- (iii) We highlighted that adjustments to cost also need to be made for GST and VAT. 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. Also, the GFIE has a separate chapter on Taxes and the taxes both on income and value add need to be considered separately.

In response the Morningstar research team pointed out the difficulties of carrying out such adjustments across 26 countries and the non-availability of reliable data on financial advice and platform fees paid separately by investors. This in itself was an implicit acceptance of our view on the deficiency of the result of their research.

Our response to them was that by claiming that reliable data on financial advice and platform fees is not and thereby ignoring a significant component of an investor's cost, renders the whole exercise meaningless and leads to blatantly false conclusions. How can one compare and rank fund fees with such glaring omissions?

- (iv) Another suggestion was that If Morningstar cannot make adjustments for total costs it should only compare the Investment Management Fees that the Asset Management Companies charge in case of the Bundled countries and not the total fees. For example, in the case of India, the cost of direct plans should be considered and not the regular plans.
- (v) In certain markets like in the U.S.A. there is a greater flow of investments into passive funds as the actively managed fundson an aggregate are not beating benchmark. The expenses charged by the passive funds is bound to be lower as no active fund management is required. Hence it is necessary to segregate the Fund Fees for Active and Passive Funds.
- (vi) Investment Management fees benefit from scale economies. There is no reference to the Industry size to enable a proper assessment. It was suggested that size of the Industry should also be given along with costs to enable a proper assessment.
- (vii) Cost also have to be measured against the nominal returns. For example, in the case of Fixed Income Funds, an expense ratio of 0.5% would be considered very low in markets where interest rates are 8% but very high in markets where interest rates are 2%. Similarly in case of equity funds, the cost incurred by the investors to own a fund should be ranked/graded in relation to the returns earned.

The Morningstar Research Team was appreciative about the feed-back given by us. We hope that our constructive feed-back and suggestions are considered in their future studies.

FIFA Welcomes New Members

Mem Type	Mem No.	Type	Member / Organization	Location
General	O2099	N.Indv	Wealthy World Pathways Pvt Ltd	Ambala
General	O2100	Ind	Ashish Harji Madhaparia	Madhapar
General	O2101	Ind	Mayank Arvindbhai Vashi	Navsari
General	O2102	Ind	Bhargav Maheshkumar Adhyaru	Amreli
General	O2103	N.Indv	Funds First Financial Services	Hyderabad
General	O2104	Ind	Chandresh Maganlal Bhoraniya	Rajkot
General	O2105	Ind	Chitt Shaileshkumar Kotecha	Amreli
General	O2106	Ind	Dharmesh Kishorbhai Makwana	Amreli
General	O2107	N.Indv	SK Investments	Miraj
General	O2108	Ind	Nayan Mahesh Shah	Mumbai
General	O2109	Ind	Kirti Bhagandas Sidhvawala	Mumbai
General	O2110	Ind	Hitesh Morardan Gadhavi	Bhuj
General	O2111	Ind	Manojkumar Chhelshankar Bhaglani	Madhapar
General	O2112	Ind	Naran Devshibhai Hirani	Bhuj
General	O2113	Ind	Alpesh Govind Vaghjiyani	Madhapar
General	O2114	Ind	Harji Arjan Madhaparia	Madhapar
General	O2115	Ind	Hansa Harji Madhaparia	Madhapar
General	O2116	Ind	Lalit Kumar Garg	Firozabad
General	O2117	Ind	Bhavesht Raychandbhai Modh	Palanpur
General	O2118	Ind	Jinesht Nareshbhai Doshi	Jamnagar
General	O2119	Ind	Veena Vimal Morbia	Bhuj
General	O2120	Ind	Vinod Devji Halai	Bhuj
General	O2121	Ind	Bhavesht Ramjibhai Patel	Bhuj
General	O2122	Ind	Krunal Jethalal Mehta	Bhuj
General	O2123	Ind	Hemen Ashok Shah	Bhuj
General	O2124	Ind	Harsh Jayantkumar Shah	Bhuj
General	O2125	Ind	Nipul Indravaden Pathak	Bhuj
General	O2126	Ind	Ashish Ajitkumar Rajavadha	Bhuj
General	O2127PAss	Ind	Nilesh Harishchandra Todarmal	Pune
General	O2128PAss	Ind	Yogendrasingh Suratsingh Patil	Pune
General	O2130PAss	Ind	Vaishali Vivek Munot	Pune
General	O2131PAss	Ind	Ajay Amar Ahuja	Pune
General	O2132PAss	Ind	Dhaval Shirish Chitre	Pune

Mem Type	Mem No.	Type	Member / Organization	Location
General	O2143PAss	Ind	Chirag Kishorchandra Thakkar	Pune
General	O2144PAss	Ind	Shantanu Shashikant Mulay	Pune
General	O2145PAss	Ind	Deepak Gendmal Bandi	Pune
General	O2146PAss	N.Indv	Prem Capital Advisor	Pune
General	O2147PAss	Ind	Prsad Satish Kulkarni	Pune
General	O2148	Ind	Nagarajan Santhan	Tirupur
General	O2149	Ind	Nirali Ashit Shah	Surat
General	O2150	Ind	Valady V Barathwaaj	Keelkattala
General	O2151	Ind	Rajesh Subramanian	Thane
General	O2152PAss	N.Indv	Rainbow Stock Vision Pvt Ltd	Pune
General	O2153PAss	Ind	Mahendra Jairam Tank	Pune
General	O2154PAss	Ind	Sandesh Mohanlal Shah	Pune
General	O2155PAss	Ind	Vasudeo Narayan Solapurkar	Pune
General	O2156PAss	Ind	Mandar Chhabanrao Agalave	Pune
General	O2157PAss	Ind	Ashish Hemendra Shah	Pune
General	O2158PAss	Ind	Milon Mukhopadhyay	Pune
General	O2159PAss	Ind	Kalpadrum Dwarkanath Purandare	Pune
General	O2160PAss	Ind	Prasad Raghunath Sabnis	Pune
General	O2161PAss	N.Indv	Khajana Capital Services LLP	Pune
General	O2162PAss	N.Indv	Arthawel Investment Consultant LLP	Pune
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General	O2164PAss	Ind	Shreya Sunil Vernekar	Pune
General	O2165PAss	Ind	Apurva Padmakar Deshmukh	Pune
General	O2166PAss	N.Indv	Arthtech Investment Consultants	Pune
General	O2167PAss	Ind	Trupti Rahul Jaju	Pune
General	O2168PAss	Ind	Kedar Prabhakar Kulkarni	Pune
General	O2169PAss	Ind	Niwas Madhukar Upasani	Pune
General	O2170PAss	Ind	Anil Bakubhai Parikh	Pune

Events



On 1st Oct, 2019 Mr. Ashish Goel conducted “Knowledge Sharing Session” in Ludhiana which was attended by many IFAs from Ludhiana, Jalandhar,, Chandigarh, Mohali, Panchkula, Patiala, Zirakpur, Mandi Gobindgarh, Ferozpur, Bathinda, Abohar, Nawashahar, Sangrur, Moga, & Amritsar.

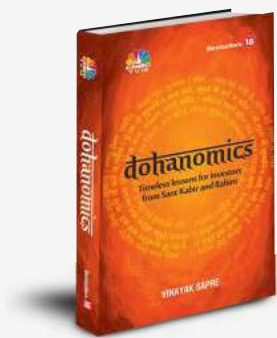


On 2nd Oct, 2019 Mr. Hari Kamat conducted “Knowledge Sharing Session” in Goa which was attended Mr Nilesh Shah MD of Kotak AMC & Chairman of AMFI & by 1000+ IFA's





Advisor Corner



Remember, Financial advisor's job doesn't end with managing money but managing emotions and creating happy experiences are of paramount importance.

By Vinayak Sapre

Retirees : Market is big, are you equipped to handle them? @dohanomics
<https://t.co/pU8i6uiv90>

Quiz

- Q.1 - Mutual fund portfolio is required to be disclosed on weekly basis.

A) True B) False
- Q.2 - Mutual funds cannot levy entry load to the investors.

A) True B) False
- Q.3 - Mutual funds are required to calculate NAV of a mutual fund unit upto 5 decimal places.

A) True B) False
- Q.4 - Long term capital gains from equity shares and equity oriented mutual funds are exempt upto _____ every year.

A)) Rs. 25,000 B) Rs. 2,50,000

C) Rs. 2,00,000 D) Rs. 1,00,000
- Q.5 - A Multi Asset Fund needs to invest in at least 3 asset classes.

A) True B) False

Ans. Q.1 - B), Q.2 - A), Q.3 - B), Q.4 - D), Q.5 - A),

All Members are requested to update their email IDs and cell numbers on telegram and database. Also, please provide the GST Number. All those Members who have not paid the Annual Fee are requested to do so at the earliest for both 2017-18 & 2018-19.

Your contribution towards this newsletter is solicited. Please share your views on events that you at your end.

Mail to response@fifaindia.com

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