The European Fund Classification

An EFAMA Project to Facilitate the Comparison of Investment Funds: A Pan-European Approach

European Fund and Asset Management Association

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))) Outline

))) Introduction

As a central tool in the communication between fund promoters and investors, investment fund classification aims at grouping funds with comparable investment strategies and enabling meaningful comparisons between funds and their peer groups. In this sense, fund categories represent a critical device to sort out the universe of investment funds and help investors, or their advisers, make sound investment decisions.

For this reason, it is not surprising that regulators and trade associations maintain classification systems in many countries. To evaluate funds on a comparative basis, market data vendors also use fund categories. As a result, many different classification schemes today are competing in the European fund landscape to provide the most relevant fund categories.

This situation has become a major source of confusion for investors who may not appreciate why funds can be classified in a different way by classification providers. It is also a source of inefficiency as fund managers need to master the nitty-gritty of the existing classifications – and their ongoing changes – to ensure that their funds are placed in appropriate peer groups.

The founders of the European Fund Categorization Forum (EFCF) understood this situation had become untenable, and took on the task of defining a new, harmonized classification system of cross-border funds to help European investors compare funds from different jurisdictions without being misled by inconsistent fund categories.

EFAMA strongly supported this initiative from early on, and agreed to take on the responsibility for managing the EFCF in 2005 to ensure that it become a permanent feature of the cross-border industry with professional secretarial support.

The road towards a classification system that could be endorsed by leading fund management groups and EFAMA's Board of Directors proved harder than envisaged. But in the end, the EFCF achieved this goal and I am pleased, as EFAMA's President, to launch the European Fund Classification (EFC) officially with the publication of this brochure.

Robert Higginbotham, the initiator and Chairman of the EFCF, has clearly summarized the significance of this event for fund groups in his preface. The text of the brochure also provides a clear explanation of the vision and principles that guided the work of the EFCF.

By way of complementing and supporting this useful input, there are two critical points I would like to emphasize, starting with the monitoring arrangements put in place to secure the integrity of the classification process.

At the heart of the EFC lies a classification administrator mandated to classify funds on the basis of their portfolio holdings. This means that the EFCF and EFAMA have gone beyond the definition of a new industry standard by setting up a system of rigorous control of the classification results, thereby addressing one of the key weaknesses of self-regulatory initiatives, i.e. their lack of adequate monitoring and accountability.

The monitoring process will be made in total openness, independence and transparency with fund groups, data vendors, trade associations and other interested stakeholders. Self-regulation conceived in this way should effectively facilitate broad acceptance of the classification.

Secondly, the adoption of the EFC will not be achieved easily or overnight, as fund classifications are used in different models and diverse ways across Europe, reflecting national legal traditions and market practices. In the short term, the EFC will serve as a common point of reference for classification providers committed to facilitating the comparability between cross-border funds. This process has in fact already started thanks to the close partnership that has brought together leading cross-border fund groups and data vendors within the EFCF. Now that the classification has become reality, convergence should accelerate. Undoubtedly, trade associations have a key role to play in adopting the classification and/or convincing regulators to support it.

Simultaneously, there is a clear commitment on the part of EFAMA to encourage the adoption of the EFC as the industry standard when it comes to investment fund classification. Achieving this goal, alongside with the replacement of the existing simplified prospectus by standardized “key investor information”, would undoubtedly contribute to a more integrated and competitive European fund market.

To conclude, I wish to express my gratitude to the members of the EFCF. Without their time, expertise and efforts, which they shared with the other working group members on a voluntary basis, the classification would never have come to fruition, nor would its expected benefits for investors, fund managers and other stakeholders.

Mathias Bauer
EFAMA President

))) Preface

The launch of the European Fund Categorization, supported by EFAMA, is an important development for the European fund industry.

The development of a single market for European investment funds has seen many successes as it has moved from being a distant vision to becoming a vibrant international industry accounting for billions of Euros of customer assets from the largest institutions to the individual investor. As the industry has grown, the range of products available to customers has grown proportionately. Choice is definitely in the customers' interests as it gives them greater opportunity to meet their financial needs as well as driving competition which in turn should deliver lower cost and improved returns. However, a by-product of choice, if not presented clearly, could be confusion.

As an industry we have a huge range of capabilities that we can bring to our customers. If customers are confused about which product is right for their needs either because they cannot compare products of a similar type or because the range of products simply feels impenetrable due to its size then this confusion will act as a barrier to growth. As an industry we have a strong interest in reducing confusion in the minds of customers. If we manage to simplify our industry then we will increase the chance that customers will feel more comfortable engaging in the market. In addition, simplification should increase the amount of time customers hold on to their investments since they will be more likely to know why they invested in a particular area and, through on-going comparisons, they will be able to track their investments with increased confidence. All of this will lead to a more successful, long term growth industry.

There are many component parts to simplifying the industry. One such component is being able to present our products to customers in a way that permits simple comparison of like for like products based on sound investment fundamentals. This is the original purpose behind the creation of the European Fund Categorization Forum which has in turn created, over the last few years, the European Fund Classification.

The European Fund Categorization Forum has brought together some of the key industry participants from Fund Management companies, Data Providers and Trade Associations. It has always been the intent of the EFCF to ensure that this group reflects the breadth of the European investment market both in terms of participants and nationalities. In this regard it is particularly important that the Forum developed in conjunction with the European Fund and Asset Management Association (EFAMA) so that it can truly claim to be representative of the whole industry and in turn support EFAMA in its long term objectives to develop the single market for European Investment funds. The belief of the Forum has always been that it is in the industry's interests to develop a common classification system for its own products so as to present a single face to the customer and regulator which is built on the best, common principles of the whole industry without being steered by any particular singular commercial interest.

The group has now been working for more than 5 years since its formation in 2002. In this time it has developed, tested, redeveloped and retested classification systems for equity, fixed income and mixed funds. It has been an exhaustive process in order to ensure that the classification design criteria not only work in terms of representing high quality investment principles but also are practicable in such a diverse and vibrant market as the European investment fund market.

The European Fund Classification is now ready to be put in to practice. It will take time for the classification to become fully established as a key part of the industry fabric. Adoption of the classification by all industry participants will be built upon the confidence that the classification has been well designed and is of long term benefit to investment management companies, regulators and consumers. Furthermore, the classification will have to develop continuously in order to ensure it remains relevant.

As a founding member of the EFCF and its Chairman, I believe that the classification represents another opportunity for us to show how we, as an industry, can improve the workings of our own industry in a way that enhances customer understanding and therefore engagement and, in doing this, we can grow a more successful and exciting marketplace.

Robert Higginbotham
EFCF Chairman

))) Vision

The European Fund Classification (EFC) is a pan-European classification system of investment funds, which has been developed by the European Fund Categorization Forum (EFCF) – a working group of EFAMA composed of representatives from leading cross-border fund management companies, data vendors as well as national associations.

The concern that product development had outpaced the development of fund categorization, resulting in too broad classification sectors, motivated the search for a classification system capable of grouping together similar funds for comparison purposes.

The growth of cross-border fund distribution also heightened the need for a true pan-European classification system to provide consistent peer group analysis across European markets.

The strong motivation to achieve these objectives guided the work of the EFCF and led to the creation of a new classification system that can be characterized by three key principles:

- **Transparency:** high thresholds define fund categories to ensure transparency for investors and fund management companies and enable like with like comparison of funds.

- **Investor protection:** well defined fund categories, subjected to robust criteria, and effective monitoring based on the portfolio holding of the funds, will help investors buying funds knowing their inherent qualities.

- **Independence:** compliance with the classification criteria will be monitored by a neutral classification administrator.

EFAMA strongly believes that the agreement reached on a common approach to investment fund classification is another important step towards the establishment of a truly pan-European market for investment funds. The availability of the classification results free of charge will encourage fund management groups and data vendors to use the classification as the de-facto market standard.

The classification is primarily geared towards cross-border funds. This said, the growing importance of cross-border business and open architecture is increasing the competition between domestic and cross-border funds, thereby vindicating the need for a convergence towards a single classification system. From this perspective, the degree of success of the EFC over time could be measured in terms of its adoption as the common component of national classifications with the understanding that funds that are specifically targeted to local markets could be classified separately according to specific definitions.

Finally, it should be clear that the EFCF and EFAMA are committed to keeping the classification up to date as the markets develop.

))) Benefits of the Classification

Benefits for investors

The key objective of the EFC is to facilitate a transparent comparison of investment funds, especially cross-border funds, for investors and their advisers.

The threshold levels have been set high to ensure a high level of consistency between the categories' name and their characterizing investment policy.

The message to investors is that they would know what they get when they invest in an EFC compliant fund. For instance, when investing in an equity fund, investors should be assured that they will get an almost full exposure to equity markets. They should be able to benefit fully from their investment in periods of rising shares and if they want to protect themselves against market downturn risk, they should diversify their savings towards mixed or bond funds.

Benefits for fund providers

The results of the sector/peer group classification will be more transparent and less controversial, thereby ensuring greater surety when undertaking comparisons. Hence, fund providers will be able to spend less time in bilateral discussions with data vendors to clarify definitional issues.

The system will permit more consistent marketing of funds on a cross-border basis.

Benefits for data vendors

The classification will establish a "common language" that will help data vendors evaluate investment funds on a transparent, well-defined, robust and mutually agreed basis.

The availability of the results of the classification on a free-of-charge basis will allow data vendors to spend less resources screening fund categories and more on comparisons between investment funds – an area where data vendors will be able to retain the opportunity to innovate and add value.

))) History and Future

A gradual and co-operative approach

The EFCF was formed for the express purpose of defining the parameters for a pan-European investment fund sector classification scheme.

An interesting feature of the initiative was the composition of the EFCF. By agreeing to work together, fund management companies and data vendors recognized that they had a common goal – increasing transparency in fund comparison within a classification system that could be endorsed by a core group of cross-border firms and data vendors. By pooling expertise, they would reach mutual understanding of the difficulties involved in fund categorization and accelerate the convergence towards a common standard that could be brought to a wide audience thanks to their business network and reputation.

Neither EFAMA nor any national associations were represented in the EFCF initially, the EFCF founders wanting to reach technical solutions together before promoting their adoption on an industry-wide basis.

Rather quickly, however, it appeared that by opening their membership to EFAMA, the EFCF would move faster towards a pan-European approach to fund categorization. The willingness of all EFCF members to achieve this important goal rapidly convinced them to join forces with EFAMA to facilitate broad acceptance of the EFC across Europe.

Another important step was taken later when the EFCF invited EFAMA to take on the responsibility for running the Forum. The EFCF indeed considered that the most effective and impartial way to become a permanent feature of the cross-border fund industry was to become part of EFAMA. EFAMA accepted the invitation, thereby confirming its support to the adoption of the EFCF classification as a new industry standard.

The hiring of a classification administrator was another central decision in the activities of the EFCF. The main responsibility of the classification administrator is to monitor, regularly and free of charge, individual fund adherence to the classification criteria set by the appropriate sector definitions.

A first contract was signed with a joint venture between FundConnect and CCLux in September 2005 for the implementation of sector monitoring for fixed income sectors. This contract was extended in 2007 to cover all investment sectors.

A step-by-step process

The EFCF started to develop a schematic for fixed income funds, which was tested by the classification administrator on the basis of the portfolio holdings of the funds. This analysis proved very helpful in verifying assumptions made in the classification definition process and making some adjustments.

In parallel, the EFCF undertook the classification of equity and mixed funds.

Following intense consultations with EFCF members and EFAMA member associations, the EFCF finalized its classification in April 2007 and EFAMA's Board of Directors endorsed it.

The classification administrator tested the robustness of the schematic during the second half of 2007, in close co-operation with EFCF members. This process was conclusive and led to the decision to launch the classification in 2008.

An on-going development process

The market for funds is not static. Investment tastes change, often in response to market developments, and such changes need to be reflected within the classification system. Consequently, the EFCF will review the classification system annually, with specific issues dealt with as they arise.

The process will include considering proposals for removing sectors where there are too few members to permit fair comparisons to be made, and splitting out new sectors in circumstances where new funds have emerged in sufficient numbers and where their separate identification would be useful to investors.

The process will take into account relevant developments in the way fund categories are defined by regulators, data vendors and trade associations. It is already foreseen that the categorization of money market funds will be updated drawing on the results of the initiatives that have started in a number of countries and at EFAMA level to respond to the consequences of the liquidity crisis and re-position money market funds.

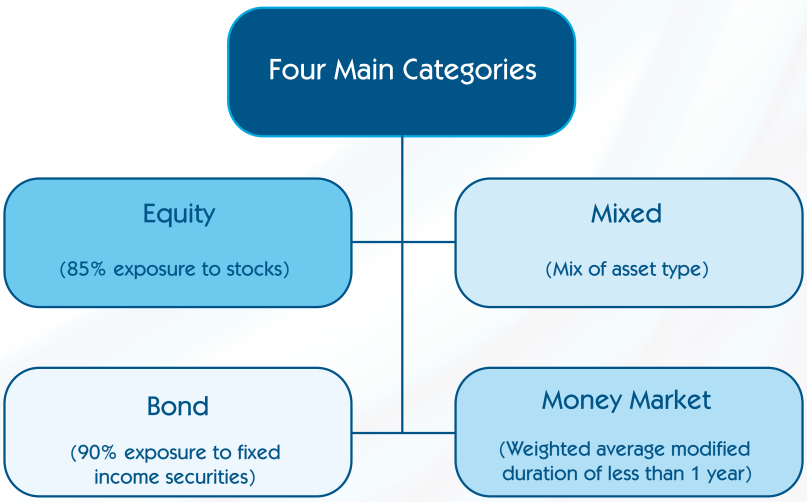
The EFCF will also undertake to assess whether new categories should be added to better cover funds types that are fully exploiting the investment possibilities conferred by UCITS III.

))) Classification Structure and Criteria

Overview of the EFCF classification

Each fund is assigned one of four categories according to the assets in which the fund invests:

- **Equity:** an equity fund should invest at least 85 percent of its assets in stocks.
- **Bond:** a bond fund should invest at least 90 percent in fixed income transferable securities. No exposure to equity is allowed.
- **Money market:** money market funds are categorized along duration (from an average maturity of 60 days until a weighted average modified duration of one year maximum) and investment possibility (from investment grade money market instruments to transferable debt instruments).
- **Mixed:** a mixed fund invests in stocks, bonds and cash.



The universe of equity, bond, money market and mixed funds is segmented according to 9 criteria: country/region, sector, market capitalization, currency exposure, credit quality, interest rate exposure, emerging market exposure, asset allocation and structural characteristics.

Structural characteristics refer to features characterizing funds, such as funds of funds, ETF and leverage. Leverage should be highlighted when market exposure exceeds 110%. To avoid extending too much the range of potential fund categories and overcome difficulties in defining these features precisely, fund providers will signal these characteristics at their discretion and the classification administrator will flag these characteristics.

	Asset Class Level			
Classification Criteria	Equity	Bond	Money Market	Mixed
Country / Region	x			x
Sector	x			
Market Capitalization	x			
Currency Exposure		x	x	x
Credit Quality		x	x	
Interest Rate Exposure		x	x	
Emerging Market Exposure		x	x	
Asset Allocation				x
Structural Characteristics	x	x	x	x

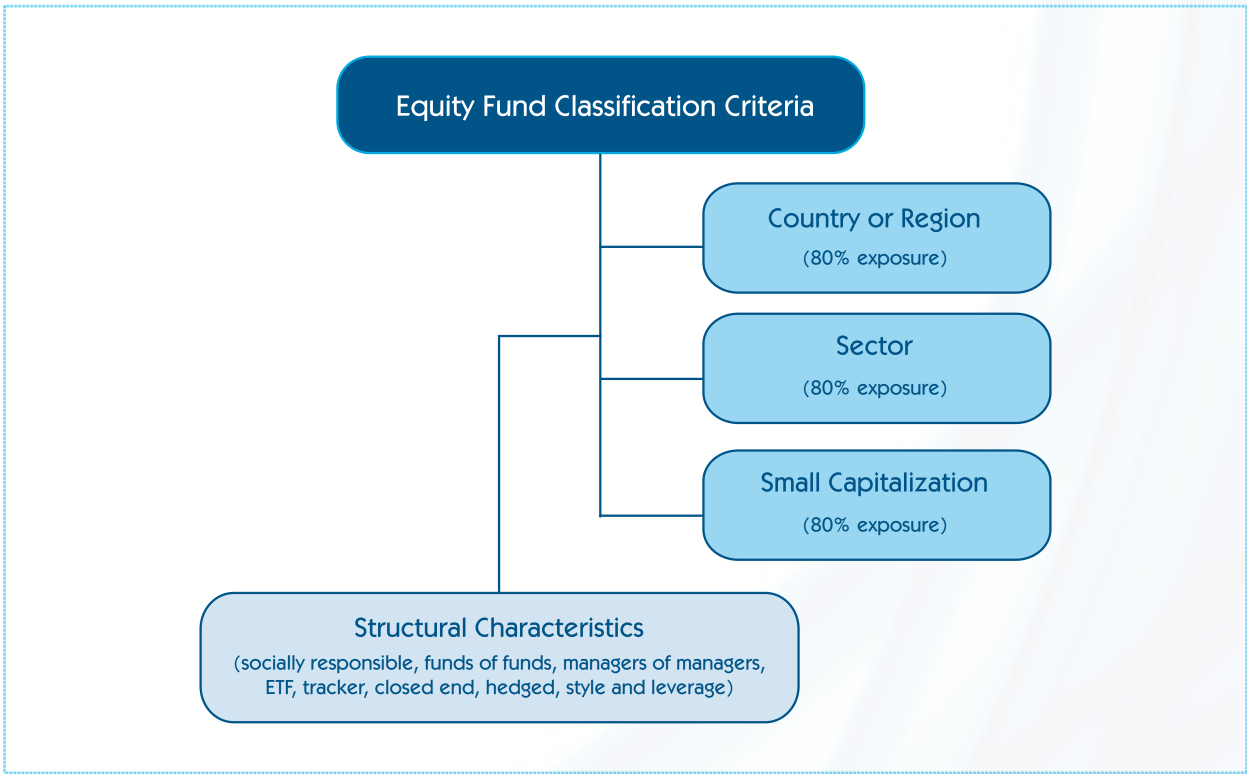
In addition to these four broad categories, the EFCF has also classified the following fund types that are not managed in relation with a specific asset class (see page 19 for the definitions):

- Absolute return
- Total return
- Convertibles
- Open-ended real estate
- Closed-ended real estate
- REITS
- Guaranteed
- Capital protected
- Lifecycle/Target Maturity
- Asset-backed securities
- Commodities

Equity fund categories

Equity funds invest at least 85 percent of their assets in equities.

Equity funds can be differentiated according to 3 classification criteria: country or region, sector and market capitalization. In addition, each fund can be assigned one or several structural characteristics.



- **Country or region:** single country (region) funds invest at least 80 percent of their assets in shares of companies established in the country (region) concerned. The domicile of a company is based on the company's primary listing or accepted country (region) of operations. The list of regions and sub-regions is provided in annex. Some judgment will have to be used in some cases, in particular when global firms have a main exchange on which their stock is listed and one of several main regions/countries of operation.

- **Sector:** funds investing at least 80 percent of their assets in companies belonging to a specific economic sector are classified in the relevant sector, if available. The list of sectors is based on the Global Industry Classification Standard (GICS), as elaborated by Standard & Poor's and Morgan Stanley Capital International.

  The sector exposure will be limited to 4 digit GICS sector, which covers 24 industry groups, belonging to one of the 8 main GICS sector: energy, materials, industrials, consumer discretionary, consumer staples, health care, financials, information technology, telecommunication services and utilities.

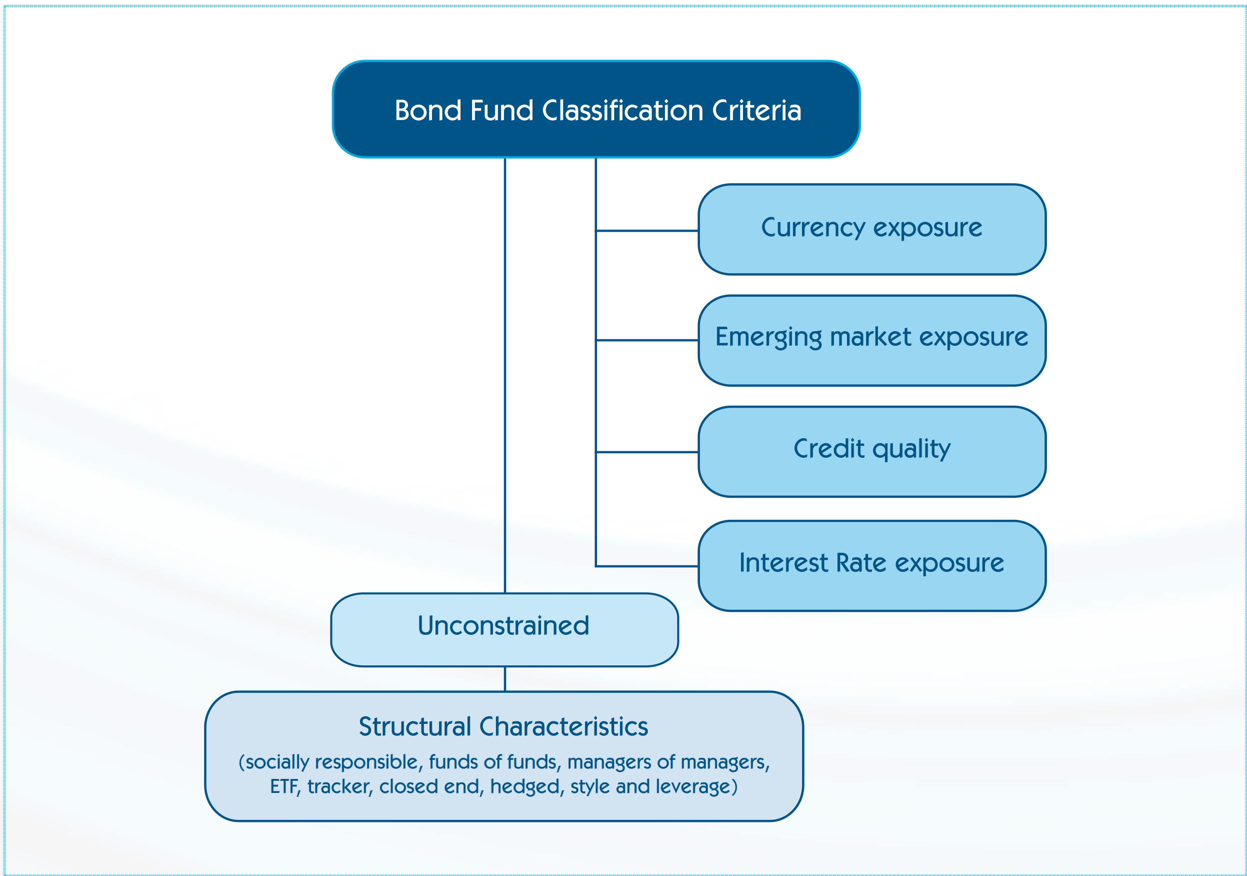
- **Capitalization:** The market capitalization criteria will be used to classify equity funds investing mostly in small capitalization. They will be called, for instance, European "Small Cap Equity" funds, whereas all other European equity funds investing in different caps will be called "European Equity" funds. Small capitalization is defined with the following regional limits: United States - U.S.$4 billion; United Kingdom - £1 billion; Euro area - €3 billion; Switzerland – CHF3 billion; Asia Pacific - U.S.$1.5 billion; and Global - U.S.$2.5 billion. The limits will be reviewed annually with due consideration with the market movements.

Bond fund categories

Bond funds invest 90 percent of their assets in fixed income securities. Investment in cash and other assets should not exceed 10 percent. No equity exposure is allowed, whereas convertibles are permitted to a limit of 20 percent of assets. The same limit also applies to asset-backed/mortgage-backed securities.

Bond funds can be differentiated according to 4 classification criteria, in addition to some structural characteristics: currency exposure, emerging market exposure, credit quality and interest rate exposure.

Bond funds that do not meet the thresholds associated with the classification criteria considered in the table below, i.e. funds seeking to generate performance by managing their portfolio very flexibly, will fall in an "Unconstrained Fund" Category.

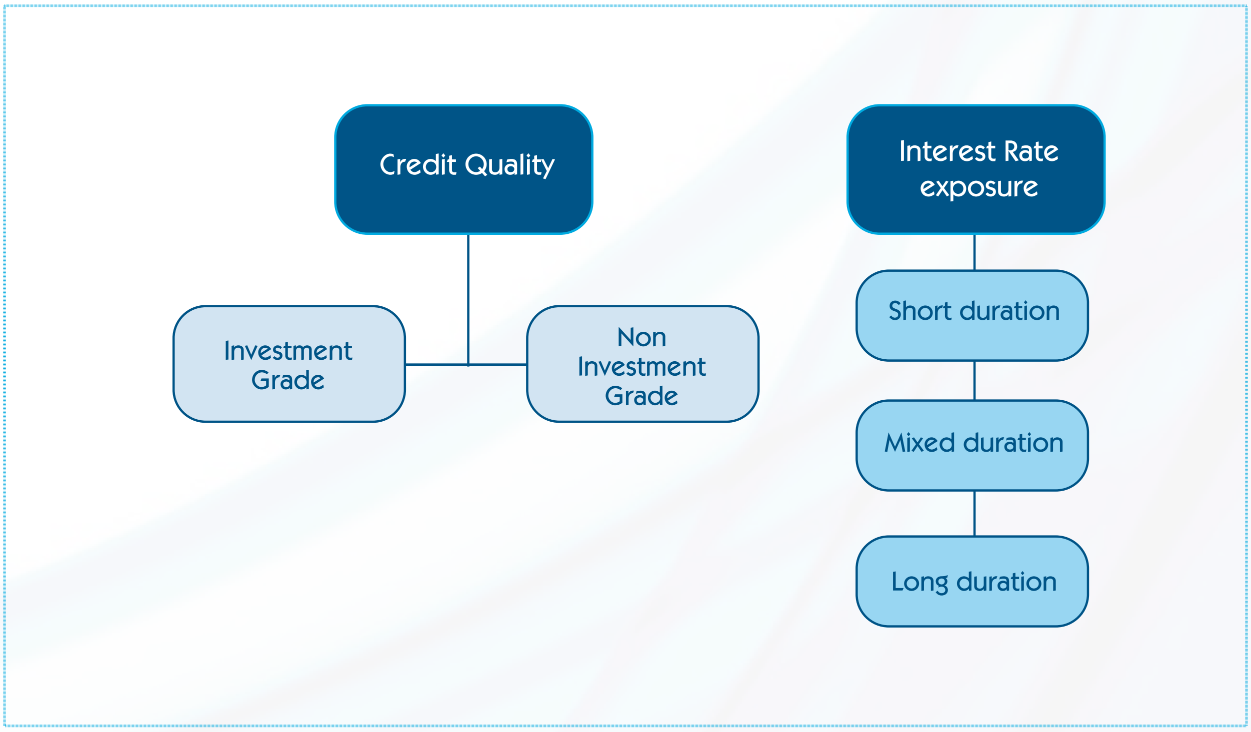


- **Currency exposure:** single currency funds invest at least 90 percent of their assets in debt securities denominated in the stated currency, with at least 70 percent exposure achieved without the use of currency hedging. Global funds with a dominant currency invest at least 70 percent of their assets in debt securities denominated in the stated currency, which may be achieved through currency hedging. Global bond funds invest their assets in debt securities denominated in different currencies.

- **Emerging market exposure:** bond funds that are allowed to hold 60 percent or more of their assets in emerging market debt are classified in the emerging market bond universe, either as investment grade or non-investment grade. The emerging market universe is based on the bond issuer's domicile rather than the currency of issuance.

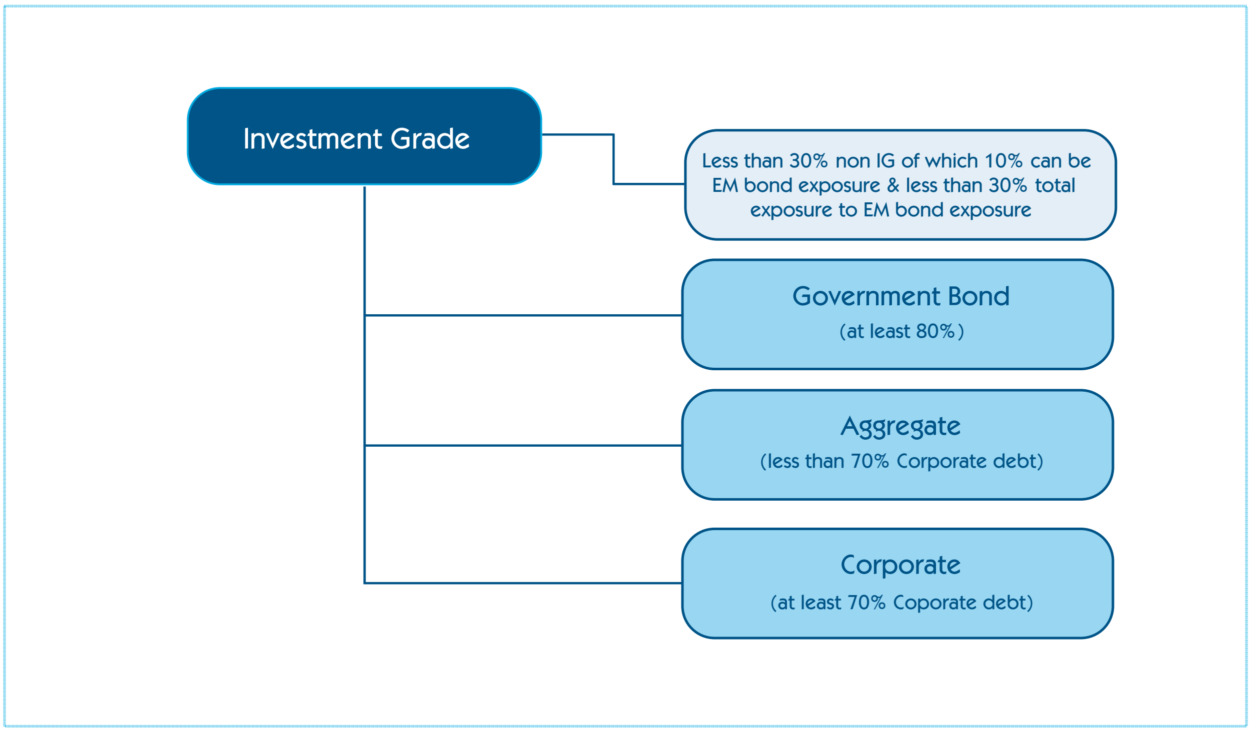
- **Credit quality:** the credit quality universe is split into two segments: the investment grade and the non-investment grade segments.

- **Interest rate exposure:** depending on their weighted average modified duration, bond funds can be classified as short, mixed or long duration.[1]

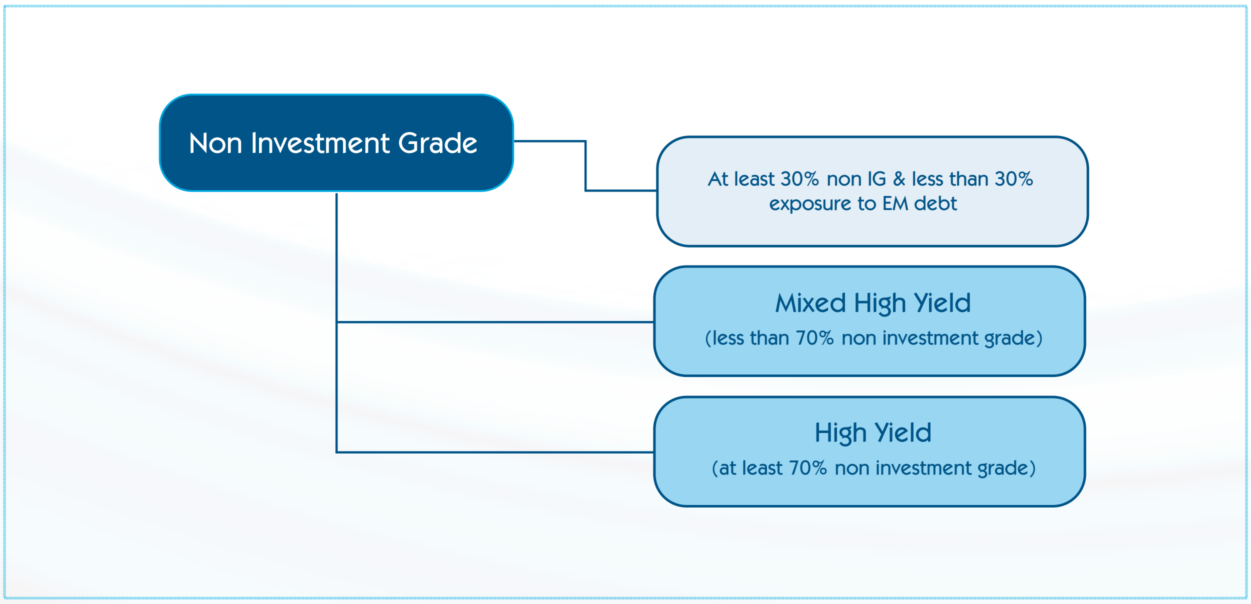


[1] The weighted average modified duration is defined as [Macaulay duration] / [1+(r/n)], where the Macaulay duration is the weighted average maturity of a bond where the weights are the relative discounted cash flows in each period, r is the yield to maturity of a bond, and n is the number of cash flows per year. The weighted average maturity is the weighted average time to maturity, or interest reset, of a unit of principal.

The investment grade universe is partitioned into three sub-categories reflecting the level of investment into government bonds and corporate debt as illustrated below. In order to support the expectation that investment grade investments should have limited credit risk exposure, the classification limits to the authorized share of non-investment grade investments to 30 percent of which only 10 percent can be emerging market bond exposure. Furthermore the total exposure to emerging market bond exposure should not exceed 30 percent.

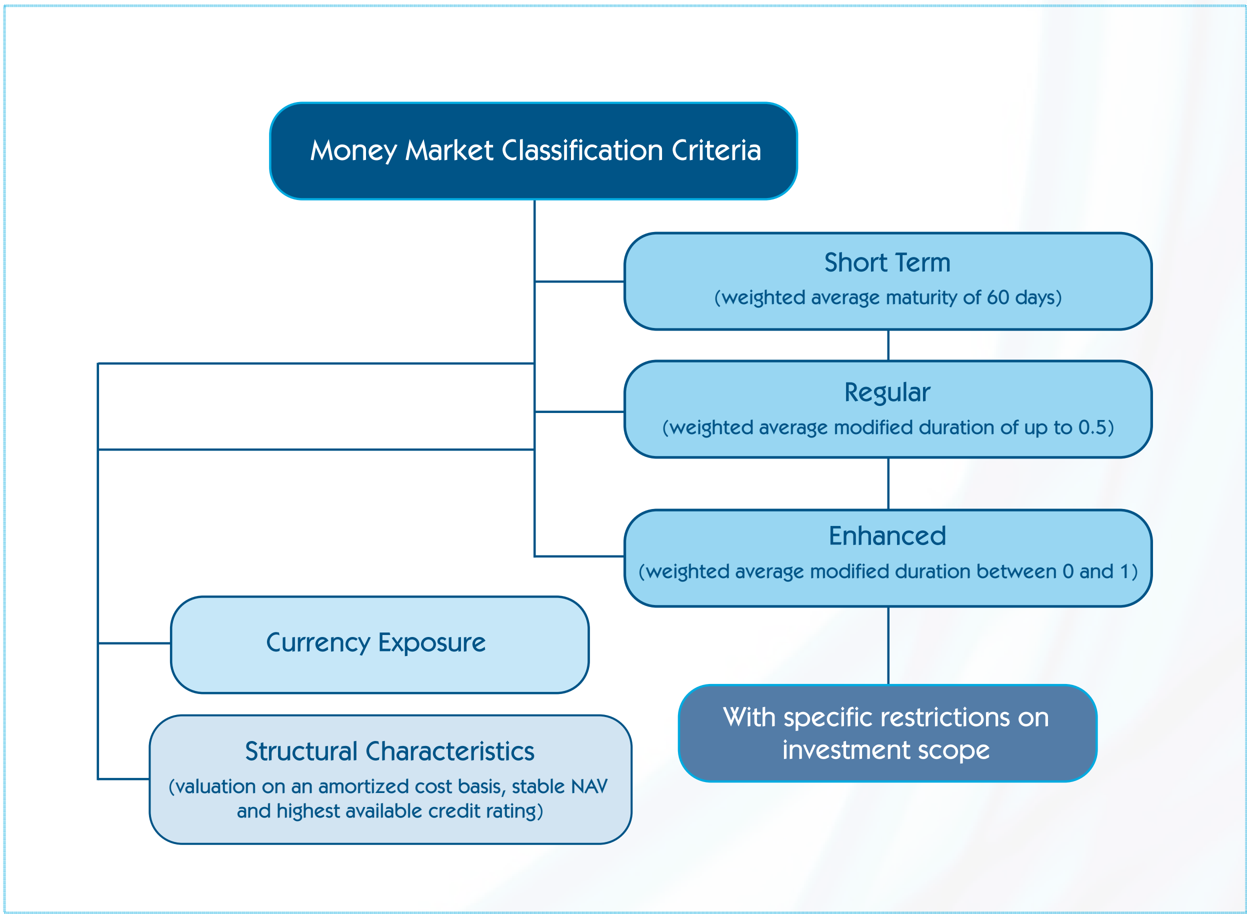


The non-investment grade universe is partitioned into two sub-categories reflecting the level of investment into high-yield debt.



Money market fund categories[2]

The EFC includes three types of money market funds that differ in terms of their investment policy: short-term, regular and enhanced money market funds. In addition, money market funds can also be differentiated by the currency of issuance of their assets.



At the discretion of their promoters, the classification will also highlight three structural characteristics of money market funds, i.e. whether they are

- valuing their investments on an amortized cost basis, i.e. at par on the basis that they will be held to maturity and accrue any discount or surplus over par on acquisition to income on a straight-line basis over the life of the investment;
- maintaining their net asset value constant at par (net of earnings);
- investing exclusively in money market instruments with the highest available credit rating by each competent rating agency which has rated these instruments.

2 As noted earlier, the categorization of money market funds will be updated to take into account the lessons learnt from the liquidity crisis that started in August 2007. The intention is to limit the use of the "money market" label to funds aiming at preserving principal, maintaining liquidity and providing a competitive money market yield.

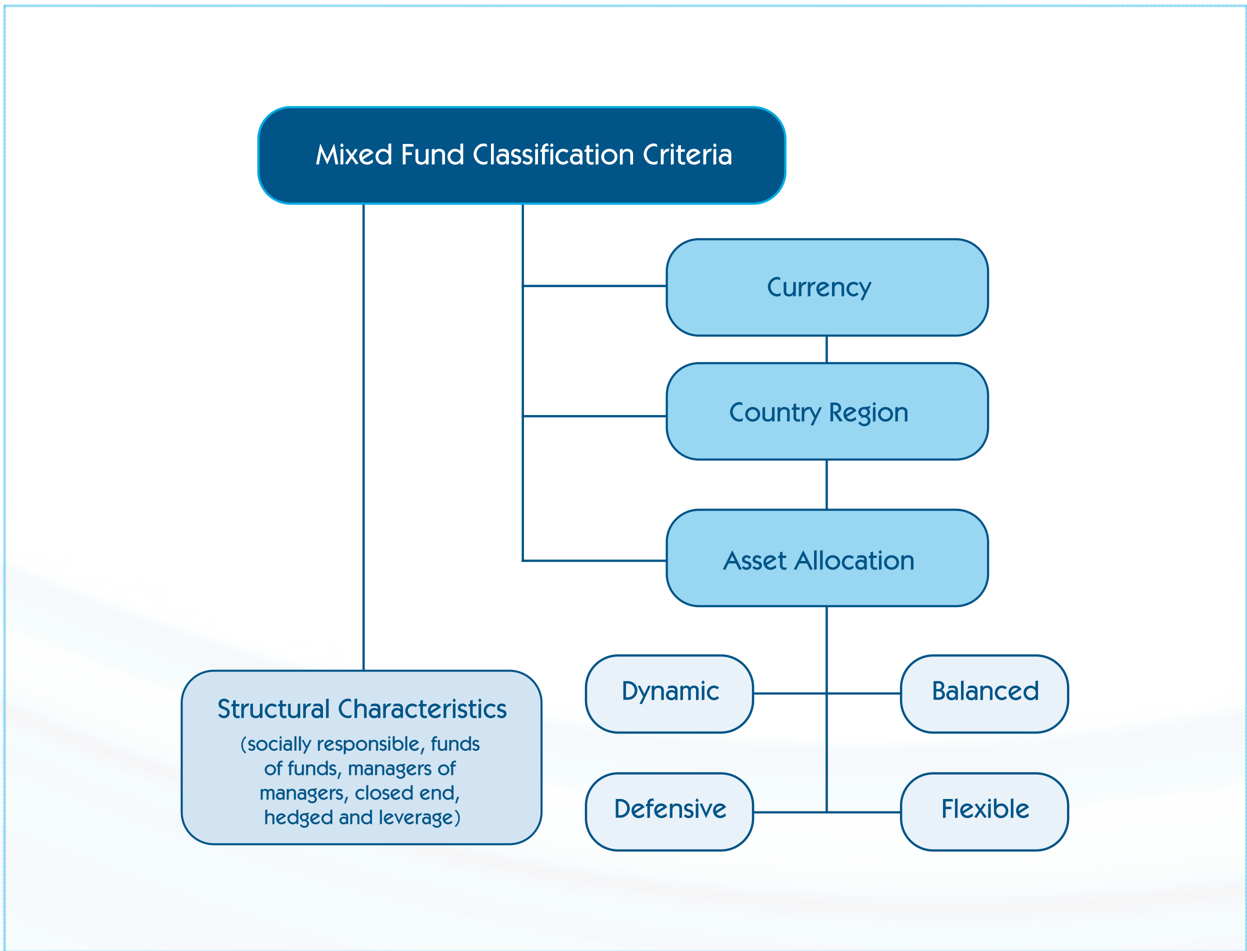
Mixed fund categories

Mixed funds can be differentiated according to 3 classification criteria:

- **Currency exposure:** minimum 70 percent exposure to the stated currency, which can be achieved through currency hedging.

- **Country or region exposure:** minimum 80 percent exposure to the stated country or region) and asset allocation.

- **Asset allocation:** the asset allocation universe of mixed funds is divided into four categories that are defined in terms of their equity exposure: "Defensive" (less than 35% equity exposure), "Balanced" (between 35% and 65% equity exposure) and "Dynamic" (more than 65% equity exposure). Funds maintaining a 100 percent equity exposure for a certain period of time in the context of an investment policy allowing investment up to 100 percent in any asset class would be classified as "Flexible Mixed Funds".



Other fund categories

A number of types of funds falling outside the four broad categories defined above have been defined by the EFCF.

Absolute return funds

Funds that are managed with the objective of generating a positive return over a cash benchmark, irrespective of market movements, and that are likely to make extensive use of derivatives to short/long securities or the market as a whole.

Total return funds

Funds that seek to maximize total investment return relative to a benchmark (typically over periods of more than 12 months) by participating in rising stock and bond markets and minimizing risks in declining markets.

Convertibles

Funds that invest at least 70% in convertible bonds and primarily equity linked notes, with less than 30% exposure to primarily equity linked notes.

Open-ended real estate funds

Funds that are regulated at national level by fund-specific regulation and that:

- are redeemable at certain moments at the request of unit/ shareholder
- are allowed to invest directly or indirectly through participations in real estates and/ or in shares/ units of other open ended real estate funds
- comply among others with well-defined rules concerning risk diversification, net asset value calculation and subscription and redemption rules.

Closed-ended real estate funds

Funds - listed or not - that are regulated at national level, not necessarily by fund-specific regulation and that:

- have a fixed number of shares outstanding,
- are allowed to invest directly or indirectly through participations in real estates.

REITS

Companies listed or not - that are regulated at national level by specific regulation and that

- aim at buying, selling and managing real estate (directly or indirectly),
- have a special tax status.

Guaranteed funds

Funds that offer a formal, legally binding guarantee (of income or capital).

Capital protected funds

Funds that are designed to protect from the full volatility of markets.

Lifecycle/Target Maturity

Funds that are managed toward significant withdrawals approaching a target date, with asset allocation becoming more defensive approaching the date.

Asset-backed securities

Funds that are investing at least 80% of the assets in financial securities backed by pools of underlying assets such as loans or other receivable, including leases, credit card debts and companies' receivables, will be categorized as ABS funds.

Commodities funds

Funds that are investing in commodities and commodity futures and options.

))) Classification Process

Outline of the classification process

The process consists of four steps, where the fund provider first delivers full holdings data to the classification administrator, who then processes and verifies the data. In addition to reporting holdings data, fund providers are also encouraged to indicate how they believe their funds should be classified to avoid misclassifications and back-and-back iterations with fund groups.

The processed data form the basis for a thorough bottom-up analysis where exposures to the classification criteria are calculated to determine a fund category. The outcome of this process is then compared with the fund provider's own expectation (if provided) and discussed in case of divergence of views.

Data collection

The data is delivered to the classification administrator on a quarterly basis (for the time being), in either a standard EFC template, or in the fund provider's proprietary template. If the data is delivered in an EFC template it can be sent directly into the portfolio system in an automated fashion where it is processed and verified. This service is free of charge. If data is not delivered in an EFC template, the fund provider can arrange with the classification administrator that they convert and process the raw data in another format. This service is subject to an individual charge depending on the workload.

Data processing

When holdings data is received in the portfolio system, a thorough verification process is performed. During this process, the information received from the fund provider is checked for consistency, both historically and compared to other fund providers and external sources, and other relevant information is collected as needed.

Fund classification

When data has been processed and verified, the classification system determines the category into which the funds should be classified. Some of the parameters, such as security types and regional exposures, are used for all fund types whereas others are only considered for specific fund categories, such as modified duration for fixed income funds and market capitalization for equity funds.

Verification

In the final stage of the classification process, the result is checked against the classification provided by the fund provider or the latest classification that has been agreed between the classification administrator and the fund provider.

In situations where the classification cannot be approved automatically, the classification administrator and the fund provider try to find a solution.

Deviations from the authorized thresholds are also monitored directly to determine whether they have a temporary or structural character.

If an agreement cannot be reached, the outstanding issues will be addressed by the EFCF monitoring committee which will function as a third party in these cases.

When the classification has been verified and approved, the results are published.

))) Rules and Procedures

Organization arrangements

The EFCF will continue to be responsible for the EFC in the future. This means in particular that any significant matters deemed to be of relevance to EFCF members and other stakeholders, e.g. the creation, deletion or amendments of categories, will be referred to the full membership of the EFCF for final approval.

The integrity of the EFC will be overseen by the EFCF Classification Committee (ECC). Areas falling with the ECC's remit include:

- Monitoring of the classification, to ensure that as far as possible funds included in a category comply with its definitions;
- Assessment of changes within the classification system in response to market developments and classification issues;
- Continuity issues arising when funds are merged, converted or changed from category.

The Committee is made up of representatives of a cross-section of EFCF member companies, the major fund data suppliers and EFAMA representatives.

Classification administrator

As explained above, the main responsibility of the classification administrator is to support the EFCF classification by collating and reviewing the portfolio holdings of every fund management company interested in adopting the classification, assigning and monitoring categorization of the funds after verification of the holding "attributes" and reporting which funds pass or fail the agreed sector tests.

The classification administrator receives portfolio holdings information from fund management companies or local trade associations.

The classification administrator agrees to communicate, free of charge, to EFCF members, fund management companies, data vendors and the industry at large the category into which funds are classified.

Reporting obligation and investment flexibility

All fund management companies interested in adopting the classification are committed to provide the holdings data, based on individual portfolio data disclosure policy, and other data relevant for calculating the correct exposures.

The EFCF agrees that fund managers need some flexibility in managing their portfolio. For instance, the equity exposure may fall below 85 percent when large inflows or sharply falling stock prices affect the level of equity exposure in a way that cannot be offset by fund managers in the short term. Provided that the move below the 85 percent threshold could not be considered as being structural, the funds concerned would remain classified as equity funds.

Along the same line of thinking, if for some reason, bond funds would end up with very small and unexpected equity exposure, the situation could be tolerated without being considered as a breach of category, provided that the deviation would be temporary.

Rules will be defined to determine for how long and how strongly deviations from the proposed classification criteria could be tolerated without being considered as a breach of category.

))) EFCF Membership

The members are listed below. The fund providers marked with a star are members of the EFCF that have already started to provide the classification administrator portfolio holdings for some of their funds.

Fund Providers

Allianz Global Investors *
BlackRock Investment Management *
BNP Paribas Investment Partners *
Credit Suisse Asset Management *
DWS *
Fidelity International *
Franklin Templeton *
Goldman Sachs
HSBC Asset Management Limited *
ING Investment Management *
Invesco *
JP Morgan Asset Management *
KBC Asset Management*
Mellon Global Investments
Morgan Stanley *
Pioneer Investments *
Robeco *
Schroders *
UBS Global Asset Management *
Union Asset Management

Data Vendors / Rating Agencies

Bloomberg
Feri Rating Research AG
Lipper
Morningstar

Trade Associations

Assogestioni
BVI
EFAMA

EFCF Classification Administrator

FundConnect & CCLux

))) Contact Points

European Fund Categorization Forum

The EFCF is chaired by Robert Higginbotham, President Mutual Funds – Fidelity International.

The EFCF classification results will be published on the website of EFAMA (*www.efama.org*) and FundConnect (*www.fundconnect.com*).

European Fund and Asset Management Association

Bernard Delbecque, Director of Economics and Research at EFAMA, is responsible for the EFC at EFAMA.

For enquiries about the EFC, EFCF membership, rules of procedures or other related topics, please contact Robert Higginbotham and/or Bernard Delbecque at: *info@efama.org.*

EFCF Classification Administrator

A joint venture between FundConnect and CCLux will monitor the EFCF classification as classification administrator.

CCLux is a subsidiary of the Luxembourg Stock Exchange with a dedicated focus on delivering a total data and service solution to the Luxembourg and European Fund Industry. For additional information check *www.cclux.lu* or contact Dominique Valschaert, CCLux CEO at *dva@cclux.lu*.

FundConnect is a Danish company with a dedicated focus on data solutions for the fund industry. FundConnect is a provider of data infrastructure solutions, technology and data services for the European fund industry, and the Danish fund data infrastructure FundCollect. For more info see *www.fundconnect.com* or contact Carsten Mahler, FundConnect CEO at *cm@fundconnect.com*.

For enquiries regarding the participation in the classification process, please contact Carsten Mahler.

))) Annex: EFC Regions

The EFC divides the world into four broad regions including all countries located in these regions: Americas, Asia Pacific, Europe and Middle East & Africa. Americas, Asia Pacific and Europe are decomposed into sub-regions. The schematic also includes Emerging Markets as a separate region, with distinct sub-regions.

AMERICAS

North America: USA and Canada
Latin America: South of Mexico, including Mexico and the Caribbean countries

ASIA PACIFIC

Asia Pacific Ex Japan: All countries located in Asia Pacific except Japan
Asia Sub Continent: India, Nepal, Pakistan, Sri Lanka, Bangladesh, Afghanistan
Greater China: China, Hong Kong, Taiwan

EUROPE

Advanced Europe: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom
Euro area: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain
Europe Ex-UK: Broad Europe excluding United Kingdom
Nordic: Denmark, Finland, Iceland, Norway, Sweden

MIDDLE EAST & AFRICA

EMERGING MARKETS

Latin America: South of Mexico, including Mexico
Asia Pacific: All countries except Australia, Hong Kong, Japan, New Zealand, Singapore
Central and Eastern Europe: Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Former Yugoslav Republic of Serbia and Montenegro, Macedonia, Malta, Poland, Romania, Slovak Republic, Turkey
Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan
Middle East & Africa: Egypt, Iran, Jordan, Libya, Oman, Morocco, Syria, Tunisia, Yemen and African countries

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