

Share Classes of UCITS

**Morningstar Submission to ESMA
(2014/1577)**

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**Morningstar Response to ESMA
Discussion Paper on Share Classes of UCITS
(ESMA/2014/1577)
Submitted on 20th March 2015**

1. What are the drivers for creating different share classes?

Morningstar comment: The drivers that we observe are to meet the scenarios of

- a. Offering different alternatives to investors e.g. dividend distribution or reinvestment
- b. Meeting local investor preferences in different markets e.g. currency denomination or currency hedging
- c. Offering different terms to different types of investor e.g. institutions: high minimum investment/ lower ongoing charges; retail – lower minimum investment/higher ongoing charges; an option to elect a performance fee share class (with a lower ongoing charge)
- d. Offering different terms to different distribution channels, in part in response to regulation such as the Retail Distribution Review in the UK – a scenario that will potentially be exacerbated by MIFID II
- e. Enabling different investor groups to receive income with or without withholding taxes deducted.

2. Why do certain UCITS decide to create share classes instead of setting up a new UCITS?

Morningstar comment: Speed to market via establishment of a new class will generally be faster and registration and running costs will generally be lower. Adding share classes helps build one more sizeable fund than a proliferation of smaller, similar funds, making economies of scale more likely and investor choice more manageable whilst also relatively easily enabling the same fund and investment strategy to be offered in different guises to different investor types and in different markets and via different distribution channels.

3. What are the costs of creating and operating a new share class compared to the cost of creating and operating a separate UCITS?

Morningstar comment: No comment.

4. What are the different types of share class that currently exist?

Morningstar comment: The types that we observe in our database are:

- a. Treatment of income -
 - a. distribute or accumulate/ reinvestment/ roll-up
 - b. pre or post withholding taxes
- b. Investor type – different classes targeted toward, or restricted to certain investors –
 - a. Internal funds, private funds, institutional, retail, tax wrappers, insurance policies
- c. Distribution channel –
 - a. different classes available via (in some cases different) advisers, platforms or direct.

[This category is the primary reason for different classes including or excluding distribution costs in the form of trail commission amounts]

- d. Fee structure –
 - a. classes with different mixes of purchase, redemption, performance and ongoing fees
- e. With or without hedging
 - a. Of currency
 - b. Of duration
- f. Convenience or virtual currency classes
 - a. to facilitate dealing in currencies other than those for which currency denominated classes exist. [See also our response to question 9 for further detail of this type].

By way of example, the fund on the Morningstar database with most share classes (89) is shown in Appendix 3.

5. How would you define a share class?

Morningstar comment: As one of two or more ways to access an investment funds underlying portfolio of security and derivative holdings that offer a degree of optimisation to different investor types or circumstances.

6. Do you agree that share classes of the same UCITS should all share the same investment strategy? If not, please justify your position?

Morningstar comment: Yes, we agree.

7. Could you explain how the operational segregation between share classes works in practice?

Morningstar comment: - No comment.

8. Do you agree that the types of share class set out in paragraph 8 are compatible with the principle of having the same investment strategy? In particular do you agree that currency hedging that is described in paragraph 8 complies with that principle? If not, please justify your position.

Morningstar comment: Yes, we agree.

9. Do you believe that other types of share class that comply with the principle of having the same investment strategy exist (or could exist) and should be allowed? If yes, please give examples.

Morningstar comment:

- a. Whilst they are covered by the criterion set out in paragraph 8 we would emphasise that the distribution channel is an actual differentiator between, and reason for, the existence of certain share classes and can have a significant effect on if and how investors can access the best value class for their circumstances.

- b. We would also like to see explicit reference to currency convenience or virtual classes that facilitate dealing in currencies for which an independent share class is not available. These are increasingly prevalent albeit being referred to, reported on and implemented in very different ways by different fund firms. To illustrate the size of this issue our database currently reports on 7.986 such classes. Further information about these classes can be found in the attached paper (shown in full in Appendix 1).

10. Do you agree that the types of share class set out in paragraph 10 above do not comply with the principle of having the same investment strategy? If not, please justify your position.

Morningstar comment: Yes, in principle we agree though in practice have thus far only observed the types offering different degrees of protection against market risks such as interest rate risk plus one example of a fund with classes having different market exposures via beta hedging.

11. Please provide information about which existing UCITS do not comply with the criteria laid down in paragraph 6 as well as an indication of the assets under management and the number of investors of these UCITS.

Morningstar comment: The Morningstar database currently shows 160 duration hedged share classes (a full list is shown in Appendix 2).

12. Do you see merit in ESMA clarifying how regulatory ratios such as the counterparty risk limit should be calculated (e.g. at the level of the UCITS or share classes)?

Morningstar comment: No comment.

13. Do potential and current investors get adequate information about the characteristics, risks and return of different classes in the same UCITS? If not, what else should be provided to them?

Morningstar comment: It is certainly not straightforward for potential and current investors to identify what share classes are available; the differences between each class; which classes are available to them and how or which class offers the best value for their situation. KIIDs are not necessarily produced for each class, with some funds electing one class as 'representative' of all others. Other funds may include information for several classes on one KIID but the KIID itself is not mandated to include all relevant class differentiators. Meanwhile the prospectus will often be overwhelming and, whilst including the information, it is not always easy to find or to interpret. It can take our professional analysts some time to find, decipher and interpret the different types of classes available and terms thereof & we believe this could be considerably simplified for investors - who need to do the same with the added requirement of determining the optimum class for them to invest in and if or how they can do so.

14. Do you agree that ESMA should develop a common position on this issue? If not, please justify your position.

Morningstar comment: Yes, we fundamentally agree that a common position should be developed. Further, it would serve investors if standards around labelling and naming conventions were included. Some suggested ideas have previously been published in media and one such example can be seen [here](#) or [here](#) (and shown in full in Appendix 4).

About Morningstar

Morningstar is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors. Morningstar provides data on approximately 500,000 investment offerings, including stocks, mutual funds, and similar vehicles, along with real-time global market data on more than 14 million equities, indexes, futures, options, commodities, and precious metals, in addition to foreign exchange and Treasury markets. Morningstar also offers investment management services through its investment advisory subsidiaries and had approximately \$170 billion in assets under advisement and management as of Dec. 31, 2014. The company has operations in 27 countries.

Appendix 1: Virtual Currency Share Class Definition Morningstar Terminology and Definition

Morningstar Virtual Currency Share Class Terminology

While Morningstar identifies Share classes of this type as Virtual Currency share classes there are many other commonly used terms for this type of vehicle in the market such as:

- Dealing Currency Share Class
- Payment Currency Share Class
- Offered Currency Share Class
- Investor's Own Currency Class
- Investor's Currency of Reference Class
- Valuation Currency Share Class

Definition

Currency converted price (and dividend) quotations offered by funds, having no independent accounting profile of their own and identical in most other respects to the base currency class of the fund.

[Whilst most funds will accept investment in a wide range of currencies, investors will not see a NAV or unit price in their invested currency and will usually incur a currency exchange fee for subscription or redemption in currencies that the fund manager does not offer such (virtual) pricing currency classes].

Key Features:

- Created to reflect investment (pricing and dealing) currency options that the fund company has made available to investors.
- No separate accounting entity - all balance sheet statements are presented only in the base currency of the fund class.
- The number of units in issue will be identical to that of the base currency class.
- In a common currency, share class net assets will be identical to that of the base class, allowing for differences due to exchange rates used in currency conversion.
- Dividend payments may or may not be made in the virtual class currency.
- May or may not be referenced as an independent share class in the prospectus.
- May or may not have an independent unique ISIN.
- UCITS funds may or may not publish an independent KIID.
- No foreign exchange conversion fee for subscription or redemption in the virtual currency.

Appendix 2: Duration Hedged Share Classes

AA MMF Euro Corporate Bonds CH DUR
AB American Income A2 DUR PH USD Acc
AB American Income AA DUR PH USD Inc
AB American Income AT DUR PH USD Inc
AB American Income C2 DUR PH USD Acc
AB American Income CT DUR PH USD Inc
AB American Income I2 DUR PH USD Inc
AB American Income IA DUR PH USD Inc
AB American Income IT DUR PH USD Inc
AXA IM FIIS US Corp Bonds A(H)-C EUR Rdx
AXA WF Euro Credit Plus I-C EUR Redex
AXA WF Euro Inflation Bonds I-C EUR Rdx
AXA WF Gbl Credit Bonds I(H)C EUR Rdx
AXA WF Gbl Inflation Bd A(H)-C CHF Rdx
AXA WF Gbl Inflation Bd A(H)-C USD Rdx
AXA WF Gbl Inflation Bd A-C EUR Redex
AXA WF Gbl Inflation Bd E-C EUR Redex
AXA WF Gbl Inflation Bd F-C EUR Redex
AXA WF Gbl Inflation Bd F-D EUR Redex
AXA WF Gbl Inflation Bd I(H)-C CHF Rdx
AXA WF Gbl Inflation Bd I(H)-C GBP Rdx
AXA WF Gbl Inflation Bd I(H)-C USD Rdx
AXA WF Gbl Inflation Bd I-C EUR Redex
BNY Mellon Co Fd Euro Corp Bd DH GBP
CPR Oblig 24 Mois I
CSIMF Global Corporate Bonds ZAH DUR
Deutsche Invest I Local EM Bonds LDH
Deutsche Invest I Local EM Bonds NDH
Focused Corporate Bond USD CHF hdgd DH F
Focused Corporate Bond USD DH F
Focused Corporate Bond USD EUR hdgd DH F
Focused SICAV Corp Bd EUR CHF Hdg DH F
Focused SICAV Corp Bd EUR DH F
Focused SICAV Corp Bd EUR USD Hdg DH F
Goldman Sachs Asia Hi Yi Bd FX PAccHdg
Goldman Sachs Asia Hi Yi Bd FX PDistHdg
GS Europe High Income Bond Port Base Inc
GS Gbl Credit Port. (Hedged) I USD DH Q
GS Gbl Credit Port.(Hedged) P \$ DH Acc

GS Gbl Credit Port.(Hedged) P EUR H DH
GS Gbl Credit Port.(Hedged) R DH Acc
GS Gbl Credit Port.(Hedged) R GBP H DH
GS Gbl Credit Port.(Hedged)R EUR H DH
GS Gbl High Yield Base DH Cap
GS Gbl High Yield Base DH Dis
GS Gbl High Yield Base USD DH M-Dis
GS Gbl High Yield E € H DH Cap
GS Gbl High Yield E € H DH Dis
GS Gbl High Yield I CHF H DH Acc
GS Gbl High Yield I GBP Hdg Dur Hdg
GS Gbl High Yield I USD Dur Hdg
GS Gbl High Yield IO USD DH Acc
GS Gbl High Yield Other Ccy € H DH Cap
GS Gbl High Yield Other Ccy CHF H DH Q
GS Gbl High Yield Other Ccy CHF H DHAcc
GS Gbl High Yield Other Ccy HKD H DH
GS Gbl High Yield Other Ccy RMB Hdg DH
GS Gbl High Yield Other Ccy SGD H DH
GS Gbl High Yield R CHF H DH Acc
GS Gbl High Yield R EUR Hdg Dur Hdg Acc
GS Gbl High Yield R USD Dur Hdg
GS Gr & Em Mkts Debt Base DH Acc
GS Gr & Em Mkts Debt Base DH Inc
GS Gr & Em Mkts Debt E EUR Hdg DH Acc
GS Gr & Em Mkts Debt E EUR Hdg DH Inc
GS Gr & Em Mkts Debt I EUR Hdg DH Inc
GS Gr & Em Mkts Debt I GBP Hdg DH
GS Gr & Em Mkts Debt I€ H DH Acc
GS Gr & Em Mkts Debt OthCcy EURHdg DH
GS Gr & Em Mkts Debt R GBP Hdg DH Inc
GS Sterling Credit I E € H DH Dis
ING (L) Renta Fd EM Dbt HC I EUR DH
ING (L) Renta Fd EM Dbt HC I EUR DH Acc
JPM Emerg Mkts Corp Bd A\$ Dur H Cap
JPM Emerg Mkts Corp Bd C (Acc) - \$ Dur H
JPM Global Corp Bd A (acc) USD Dur Hdg
JPM Global Corp Bd A EUR Hdg & Dur
JPM Global Corp Bd B (acc) SEK H & Dur H
JPM Global Corp Bd B EUR Hdg & Dur
JPM Global Corp Bd C (Cap)-EUR Hdg&Dur
JPM Global Corp Bd C (dist)-GBP Hdg&Dur
JPM Global Corp Bd C EUR Hdg & Dur
JPM Global Corp Bd I USD Dur Hdg Acc
Kempen (Lux) Euro Non-Financial Crdt AD
Kempen (Lux) Euro Non-Financial Crdt ID

LF LUX S&P Cap IQ R2P Glb Credit IDH C €
Loomis Sayles Dur Hdg Glb CB H-I/A EUR
Loomis Sayles Dur Hdg Glb CB H-I/A USD
Loomis Sayles Dur Hdg Glb CB H-Q/A NOK
Loomis Sayles Dur Hdg Glb CB H-S/A GBP
Loomis Sayles Dur Hdg Glb CB I/A USD
MS INVF Euro Corporate Bond AD
MS INVF Euro Corporate Bond ADX
MS INVF Euro Corporate Bond BDX
MS INVF Euro Corporate Bond CD
MS INVF Euro Corporate Bond ID
MS INVF Euro Corporate Bond ZD
MS INVF Euro Corporate Bond ZOX
Natixis Global Inflation Fd DH-I/A EUR
Nordea Corporate Bond IDH K
OYSTER Global High Yield I USD DURH
OYSTER Global High Yield USD DURH
PIMCO GIS Divers Inc Dur Hdg E \$ Acc
PIMCO GIS Divers Inc Dur Hdg E \$ Inc
PIMCO GIS Divers Inc Dur Hdg E € Hdg Inc
PIMCO GIS Divers Inc Dur Hdg E €Hdg Acc
PIMCO GIS Divers Inc Dur Hdg E SGD Inc
PIMCO GIS Divers Inc Dur Hdg Ins Acc
PIMCO GIS Divers Inc Dur Hdg Ins€H Incll
PIMCO GIS Divers Inc Dur Hdg Inst£HdgAcc
PIMCO GIS Divers Inc Dur Hdg Inst£HdgInc
PIMCO GIS Divers Inc Dur Hdg Inst€HdgAcc
PIMCO GIS Divers Inc Dur Hdg Inv \$ Acc
PIMCO GIS Divers Inc Dur Hdg Inv \$ Inc
PIMCO GIS Divers Inc Dur Hdg R Inc
PIMCO GIS Divers Inc Dur Hdg T \$ Acc
PIMCO GIS Divers Inc Dur Hdg T € Hdg Acc
Robeco All Strategy Euro Bonds 10DH EUR
Robeco All Strategy Euro Bonds 40DH EUR
Robeco All Strategy Euro Bonds 40IH EUR
Robeco European HY Bds 0IH EUR Acc
Robeco European HY Bds DH EUR Acc
Robeco Financial Institutions Bonds 0DH€
Robeco Financial Institutions Bonds 0IH€
Robeco High Yield Bonds 0BxH AUD
Robeco High Yield Bonds 0BxH USD
Robeco High Yield Bonds 0DH EUR
Robeco High Yield Bonds 0DH USD
Robeco High Yield Bonds 0EH EUR
Robeco High Yield Bonds 0FH EUR
Robeco High Yield Bonds 0IH CHF

Robeco High Yield Bonds OIH EUR
Robeco High Yield Bonds OIH USD
Robeco High Yield Bonds OMH USD
Robeco Investment Grade Corporate Bd OIH €
Royal London Duration Hedged Credit Z
Russell Global Bond AUDH DURH Inc
Russell Global Bond EH U DURH Income EUR
Schroder ISF Euro Corp Bd A DurHdg Acc
Schroder ISF Euro Corp Bd A DurHdg Inc
Schroder ISF Euro Corp Bd C DurHdg Acc
Schroder ISF Euro Corp Bd Z € DurHdg Acc
Schroder ISF Gbl Corp Bd C € Dur H Acc
Schroder ISF Gbl Corp Bd I \$Duration HC
Schroder ISF Gbl Credit Dur Hdgd A
Schroder ISF Gbl Credit Dur Hdgd A Inc
Schroder ISF Gbl Credit Dur Hdgd A USD
Schroder ISF Gbl Credit Dur Hdgd A \$Hdg
Schroder ISF Gbl Credit Dur Hdgd A1
Schroder ISF Gbl Credit Dur Hdgd A1 Inc
Schroder ISF Gbl Credit Dur Hdgd A1 USD
Schroder ISF Gbl Credit Dur Hdgd B
Schroder ISF Gbl Credit Dur Hdgd B Inc
Schroder ISF Gbl Credit Dur Hdgd C Acc
Schroder ISF Gbl Credit Dur Hdgd C Inc
Schroder ISF Gbl Credit Dur Hdgd I
Schroder ISF Gbl Credit Dur Hdgd I Acc
Schroder ISF Gbl Credit Dur Hdgd I Inc
Schroder ISF Gbl Credit Dur Hdgd I USD
Schroder ISF Gbl Credit Dur Hdgd I € Inc

Appendix 3 – Example Fund, with 89 share classes

Neuberger Berman HY Bd A CAD Mthly Inc	Canadian Dollar
Neuberger Berman HY Bd A RMB Acc	Chinese Yuan Renminbi
Neuberger Berman HY Bd A Weekly SGD Inc	Singapore Dollar
Neuberger Berman HY Bd A ZAR Mthly Inc	South African Rand
Neuberger Berman HY Bd AUD E Acc	Australian Dollar
Neuberger Berman HY Bd AUD E Mth Dist	Australian Dollar
Neuberger Berman HY Bd AUD Hdg Adv Acc	Australian Dollar
Neuberger Berman HY Bd AUD Hdg I Inc	Australian Dollar
Neuberger Berman HY Bd AUDHdgA Mthly Inc	Australian Dollar
Neuberger Berman HY Bd B AUD Mthly Inc	Australian Dollar
Neuberger Berman HY Bd B RMB Mthly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd B RMB Weekly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd B Weekly AUD Inc	Australian Dollar
Neuberger Berman HY Bd B Weekly USD Inc	US Dollar
Neuberger Berman HY Bd B ZAR Mthly Inc	South African Rand
Neuberger Berman HY Bd C USD Acc	US Dollar
Neuberger Berman HY Bd C USD Inc	US Dollar
Neuberger Berman HY Bd C Weekly AUD Inc	Australian Dollar
Neuberger Berman HY Bd C2 AUD Mthly Inc	Australian Dollar
Neuberger Berman HY Bd C2 RMB Mthly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd C2 RMB Weekly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd C2 Weekly USD Inc	US Dollar
Neuberger Berman HY Bd C2 ZAR Mthly Inc	South African Rand
Neuberger Berman HY Bd CHF Hdg Adv Acc	Swiss Franc
Neuberger Berman HY Bd CHF I2 Acc	Swiss Franc
Neuberger Berman HY Bd CHF Instl Acc	Swiss Franc
Neuberger Berman HY Bd CLP Inst Acc	Chilean Peso
Neuberger Berman HY Bd CNY A Weekly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd CNY I Mthly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd EUR Adv Acc	Euro
Neuberger Berman HY Bd EUR Adv Inc	Euro
Neuberger Berman HY Bd EUR Hdg I2 Acc	Euro
Neuberger Berman HY Bd EUR Hdg I2 Inc	Euro
Neuberger Berman HY Bd EUR I Acc	Euro

Neuberger Berman HY Bd EUR I Inc	Euro
Neuberger Berman HY Bd EURHdgA Mthly Inc	Euro
Neuberger Berman HY Bd GBP A Mth Dist	Pound Sterling
Neuberger Berman HY Bd GBP Adv Acc	Pound Sterling
Neuberger Berman HY Bd GBP Adv Inc	Pound Sterling
Neuberger Berman HY Bd GBP Hdg I2 Acc	Pound Sterling
Neuberger Berman HY Bd GBP Hdg I2 Inc	Pound Sterling
Neuberger Berman HY Bd GBP I	Pound Sterling
Neuberger Berman HY Bd GBP I2 Acc	Pound Sterling
Neuberger Berman HY Bd GBP Instl Acc	Pound Sterling
Neuberger Berman HY Bd HKD A Acc	Hong Kong Dollar
Neuberger Berman HY Bd HKD A Mthly Inc	Hong Kong Dollar
Neuberger Berman HY Bd HKD A Weekly Inc	Hong Kong Dollar
Neuberger Berman HY Bd I CHF Inc	Swiss Franc
Neuberger Berman HY Bd I2 EUR Inc	Euro
Neuberger Berman HY Bd JPY Inst Acc	Japanese Yen
Neuberger Berman HY Bd RMB Hdg I Acc	Offshore Chinese Yuan
Neuberger Berman HY Bd RMBHdgA Mthly Inc	Offshore Chinese Yuan
Neuberger Berman HY Bd SEK Adv Acc	Swedish Krona
Neuberger Berman HY Bd SGD Adv Acc	Singapore Dollar
Neuberger Berman HY Bd SGD Adv Mthly Inc	Singapore Dollar
Neuberger Berman HY Bd SGD I Acc	Singapore Dollar
Neuberger Berman HY Bd SGD I Monthly Inc	Singapore Dollar
Neuberger Berman HY Bd T AUD Acc	Australian Dollar
Neuberger Berman HY Bd T AUD Mthly Inc	Australian Dollar
Neuberger Berman HY Bd T RMB Mthly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd T RMB Weekly Inc	Chinese Yuan Renminbi
Neuberger Berman HY Bd T Weekly AUD Inc	Australian Dollar
Neuberger Berman HY Bd T Weekly USD Inc	US Dollar
Neuberger Berman HY Bd T ZAR Mthly Inc	South African Rand
Neuberger Berman HY Bd USD A Weekly Inc	US Dollar
Neuberger Berman HY Bd USD Adv Inc	US Dollar
Neuberger Berman HY Bd USD Adv Mthly Inc	US Dollar
Neuberger Berman HY Bd USD B Acc	US Dollar
Neuberger Berman HY Bd USD B Monthly Inc	US Dollar
Neuberger Berman HY Bd USD C2 Acc	US Dollar
Neuberger Berman HY Bd USD C2 Mothly Inc	US Dollar
Neuberger Berman HY Bd USD E Acc	US Dollar
Neuberger Berman HY Bd USD E Mth Dist	US Dollar
Neuberger Berman HY Bd USD I Acc	US Dollar
Neuberger Berman HY Bd USD I Inc	US Dollar
Neuberger Berman HY Bd USD I Mthly Inc	US Dollar
Neuberger Berman HY Bd USD I2 Acc	US Dollar
Neuberger Berman HY Bd USD I2 Inc	US Dollar
Neuberger Berman HY Bd USD T Acc	US Dollar
Neuberger Berman HY Bd USD T Monthly Inc	US Dollar

Neuberger Berman HY Bd USD U Acc	US Dollar
Neuberger Berman HY Bd USD U Monthly Inc	US Dollar
Neuberger Berman HY Bd USDAdv Acc	US Dollar
Neuberger Berman HY Bd Z USD Acc	US Dollar
Neuberger Berman HY Bd ZAR B Wk Dist	South African Rand
Neuberger Berman HY Bd ZAR C2 Wk Dist	South African Rand
Neuberger Berman HY Bd ZAR E Acc	South African Rand
Neuberger Berman HY Bd ZAR E Mth Dist	South African Rand
Neuberger Berman HY Bd ZAR T Wk Dist	South African Rand

Appendix 4

A Call for Share Class Sanity | Morningstar

Fund Research & Insights

A Call for Share Class Sanity

More transparency is still required to benefit fund investors, particularly as the implementation of RDR looms large

Christopher J. Traulsen | 20 March, 2012 | 12:17PM



Fees, holdings, clearer statements of investment objectives, manager names and manager ownership of their own funds are among the areas where we in financial services can better serve those who count on us to steward their savings.

The issue I'd like to highlight here is not as weighty as some of the preceding, but it is important and there should be an easy solution that will bring more clarity to the investing public and their advisers.

The problem is one that is about to grow considerably worse here in the UK, as firms react to the Retail Distribution Review (RDR) and add classes with differing levels of trail commission: Share class proliferation and the lack of standardised class designations.

Indeed, some funds tracked by Morningstar already have well north of 40 share classes. Such classes can differ in currency denominations, currency hedging policies, duration hedging policies, fee-levels, minimum investments and the accumulation or distribution of income. Because of this, their performance can vary dramatically. To make matters more complex, there are even "virtual" share classes (don't ask).

That the nomenclature for share classes with similar traits varies from firm to firm is decidedly unhelpful. "B" shares at one firm might be retail and carry a relatively high fee, while at another, "B" shares might be institutional and carry a low fee but a very high minimum investment. Others may use numerical designations or a combination of letters and numbers.

To resolve this, what is needed is to develop a standard nomenclature for each relevant area of difference between classes.

The axes of differences that need to be accounted for are, broadly: intended investor audience, fee structure, distributing status, hedging policy and base currency. These could be addressed through an approach such as the following:

To designate intended audience, standardise on indicative letters such as the following: R=Retail, I=Institutional, L=Limited (e.g. private bank clients, qualified investors, etc.)

For Fee structure, use NT to indicate No Trail Commission, or T+ basis points to indicate the trail commission, e.g. T25, T50, etc. For base currency, use the three letter ISO currency code, and prefix this with H if the class hedged to that currency. For duration hedged class, use DH.

Taken together, such a nomenclature would give rise to class indicators such as the following:

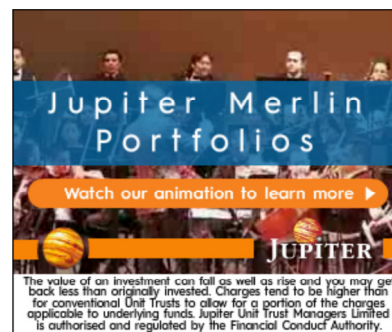
Share Class Name	Description
FundCo Global Bond RNT GBP Acc	Retail, no-trail accumulation class with GBP as base currency, with no currency or duration hedging
FundCo Global Bond RT50 H-GBP Inc	Retail, distributing class with a 50bp trail commission, hedged to its base currency of GBP
FundCo Global Bond I DH H-GBP Acc	Institutional, accumulating class hedged to its base currency of GBP, that also hedges out its duration exposure

Of course, the designators need not be the above, and there may be more or less specificity needed, but standardisation of nomenclature would greatly improve the ability of investors and advisers to better compare like-for-like classes of funds and ensure they understand the key traits of each class from a quick scan of a fund's name.

That's also greatly to the benefit of asset managers: it should cut down on inquiries and dramatically increase the odds that investors and advisers will identify and buy the share class that best fits their needs. With the onset of a wave of new RDR-spawned share classes, it's a particularly good time to address this issue. We hope the industry doesn't let the chance pass it by.

Christopher Traulsen is director of fund research Europe and Asia at Morningstar. This Morningstar article first appeared on [FTAdviser](#).

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