On the Assogestioni document issued on 18 July 2008 (www.assogestioni.it, working papers section, 2008/4)

The Italian fund managers' association has once again stated that the survey compiled by the Mediobanca Research Department (MRD) is "methodologically vitiated" (section 3, pp. 9-13; slide no. 5 of presentation dated 17/7/08). The reasons for this opinion are:

- *Money-weighted rather than time-weighted approach*: an old, well-worn question: MRD's methodology **is conceptually accurate** and overall provides results which are equivalent to the one called for. The one genuine criticism comes down to the fact that MRD calculates the average assets to which the return relates on a monthly, as opposed to a daily, basis. In the past an annual average was calculated based on the balances at the start and end of the year. This method was strongly criticized, so the monthly method was adopted. The new method showed a discrepancy versus the former of 0.1 (nought point one) of a percentage point. Moreover, it is not difficult to check that the return profile overall is similar to those calculated by other sources (Bank of Italy and Fideuram). Over the past nine years the average returns calculated by MRD has been 1.3% per annum, compared with 1.1% for those calculated by the Bank of Italy. Therefore, if the association feels that the measurement used by MRD is unreliable, the logical conclusion is that it is asking for the overall judgement on its associates to be lowered even further;
- *Standard benchmark rather than specific benchmark for each investment fund*: **it is not true** that MRD does not take into account specific benchmarks. The second stage of the survey (which is currently being updated) involves specific comparison between the returns and benchmarks stated for each individual fund. Last year it was concluded that 86% of the funds had recorded returns that were below the declared benchmark, but when the period of observation is extended to five years (the minimum period of time to be considered for a fund) this rose to 98%; figures which speak for themselves;
- *The assumption that an investor can reach an index benchmark without having to incur a distribution cost is arbitrary*: this statement is **not merely inaccurate, it is highly questionable** on the grounds that it is opportunistic. In fact, in comparing returns and benchmark it is not necessary to look at the capacity of the investor (who, incidentally, could just as easily be an institutional investor as the traditional, unknowing little old lady), but at that of the manager. For the manager, to replicate a benchmark is virtually cost-free (index funds do not exceed 0.2%), and the problem which MRD highlights is the fact that the return which the investor receives is in fact quite far off the benchmark. The difference for equities, for example, was 2.6 points in 2006, in which case there are two alternatives, both of which would confirm the negative opinion: i) either the manager can guarantee achieving the benchmark, and the lower return to the investor is due to excess costs being debited (which would be an instance of using a third parties' savings to procure an unjust advantage), ii) or alternatively, the manager is delivering mediocre results in the sense that they are below what could be achieved merely by passively replicating an index; the fact that the weight of distribution costs may then be higher or lower than "other weights" is clearly of no interest to anyone seeking to evaluate the reliability of the industry as a whole. In any case, the fundamental question remains as to why the overall industry is unable to ensure returns which are higher than the risk-free rate, and so for as long as this continues, it is performing a negative function for the community;
- *Returns on funds should be calculated gross of distribution costs*: this statement should be viewed as **ingenuous**; if anything, such a calculation may be of interest for the association's own internal controversies, but it cannot legitimately be argued for whoever is seeking to judge the fund management industry "as a whole".

22 July 2008