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PROFESSIONAL GUIDE

AFG-AFTI Guide to Performance Fees for UCITS and Retail Investment Funds

November 2018 – Updated July 2022





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AFG plays an active role in long-term projects such as taxation of savings and competitiveness of the Paris financial centre; France's positioning on the international stage; sustainable finance and all ESG-related issues. Along these lines, it works to promote diversity, which drives competitiveness and financial education, and supports long-term saving to allow savers to play a role in the economy and the recovery.

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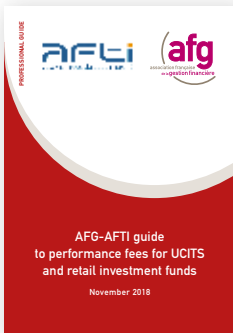


The French Association of Securities Professionals (Association Française des Professionnels des Titres – AFTI) was formed in 1990 with the principal aim of bringing together professionals from the banking and financial sector entities whose work involves financial instruments.

AFTI's mission is to promote and represent the post-trade services industry in the Paris marketplace and within the European Union.

It was with this aim that post-trade professionals chose to join forces within a professional organisation open to credit institutions, investment firms and the associations representing them, market undertakings, clearing houses and central securities depositaries, investment services providers authorised by the French financial markets regulator – AMF – under the conditions laid down in Book III of the AMF's General Regulation, regardless of their status or size, as well as French or foreign persons or institutions that, because of their knowledge of the markets, can contribute to the Association's objective or standing.

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In November 2018, AFG and AFTI published a guide to performance fees for UCITS and non-dedicated retail investment funds. European regulations have changed since then and last year ESMA published an update to its UCITS Q&A and its AIFMD Q&A, adding some important clarifications. In particular, it introduced a condition for recovery of under-performance over a five-year period.

This new version takes these regulatory changes into account. It includes an example of the drafting of a prospectus that complies with the ESMA's latest guidelines and a detailed calculation algorithm proposed by AFTI. The definitions in this guide have also been revised to ensure that the terminology is more consistent with that of the regulations.

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INTRODUCTION

The French asset management industry offers a wide range of management services, enabling it to meet different investment objectives for different investors.

Some collective investment schemes (CIS) in France have fee structures that include performance fees. These structures aim to ensure better alignment between the interests of investors and asset management companies, with a view to outperforming a predefined index or exceeding a predefined threshold.

This guide reaffirms how important it is for the methods used to calculate performance fees to comply with the principles set out by IOSCO¹ in 2016. Performance fees levied by open-ended collective investment schemes must reflect as accurately as possible the performance generated by management and ensure that investors are not treated unfairly in the distribution of out-performance.

AFG (French Asset Management Association) and AFTI (French Association of Securities Professionals) have compiled a set of best practices for the implementation of performance fees for French UCITS and non-dedicated retail investment funds. This joint guide aims to promote examples of French standards for methods and practices relating to operational implementation that are considered relevant and desirable, with a view to ensuring better alignment between the interests of investors and asset management companies.

This guide relates to some of the French CIS that are marketed to non-professional investors: UCITS and non-dedicated retail investment funds.

This guide is in two parts:

- ▶ the first part deals specifically with the methodological principles for the calculation of performance fees;
- ▶ the second part focuses more on the technical aspects of the application of performance fees.

¹) IOSCO "Good Practice for Fees and Expenses of Collective Investment Schemes" FR09/16.

1. METHODOLOGICAL PRINCIPLES FOR THE CALCULATION OF PERFORMANCE FEES FOR OPEN-ENDED CIS²

Introduction

Asset management companies can choose to introduce, in addition to a fixed management fee, a performance fee consisting of an amount accruing to the management company, which is determined based on the performance of the CIS concerned in relation to its management objective.³

The positive effect of this system is that it allows the interests of the asset management company to be aligned with those of investors and with the declared management objective of the CIS, by giving the asset management company a direct interest in the fund's performance in relation to a relevant performance objective.

However, in order for these beneficial effects to be assessed, an appropriate calculation method is required. We should also point out that practices in France in this area still vary widely.

With French and European regulators paying increased attention to the problem of performance fees, AFG and AFTI have decided to publish this professional guide, which aims to:

- ▶ provide a reminder of regulatory requirements in this area, particularly the good practices issued by IOSCO and transposed into standards by the French Financial Markets Authority (AMF);
- ▶ identify a number of good practices in France in terms of calculation methods and communication with investors;
- ▶ present standardised terminology for the characteristics of these calculation methods to facilitate exchanges between concerned parties.

Given the diverse range of situations, this document will of necessity present a generic approach focusing on the most commonly encountered problems, without anticipating specific circumstances that may justify the adoption of different practices in individual cases. As a general rule, the methods used and the implementation of a performance fee system are ultimately the responsibility of the asset management company, in accordance with the provisions of the AMF's General Regulation and related legal texts.

The company controls the elements of the method chosen and all its effects. We would also like to point out that the existence of a performance fee system should not be construed on its own, but as one of several elements of the asset management company's remuneration structure. In particular, the calibration and proportionate nature of the parameters used in the performance fee calculation method must be taken in their entirety.

The document will review the regulatory references in the first section, briefly define the terminology used for the main elements of a performance fee calculation method, list the basic principles to be observed, and present various examples of methods that comply with these principles in a generally satisfactory manner.

²) These principles apply to funds (or classes of units) open to retail investors: UCITS and non-dedicated retail investment funds. To make this document easier to read, the term "fund" will often be used as a generic term covering the various structures of CIS.

³) This Guide does not include certain types of variable remuneration such as an "equalisation reserve" used by funds whose liabilities are held exclusively via a register of names, or "liquidation surpluses" in the context of "carried interest".

Regulatory references

Extracts from the AMF's General Regulation in force as at 03/01/2018

■ Article 319-13

The management fee referred to in Article 319-12 may include a variable portion linked to the performance of the alternative investment fund (AIF) in relation to the management objective when:

1. Explicit provision is made for this in the key investor information document or the information document for investors in the AIF;
2. This is consistent with the management objective as described in the Prospectus and the key investor information document or the information document for investors in the AIF;
3. The share in the out-performance of the AIF allocated to the asset management company must not induce the latter to take excessive risk with regard to the investment strategy, objective and risk profile defined in the Prospectus and the key investor information document or, failing this, in the information document for investors in the AIF.

■ Article 321-118

The management fee referred to in Article 321-116 may include a variable portion linked to the out-performance of the UCITS in relation to the management objective when:

1. Explicit provision is made for this in the key investor information document of the UCITS;
2. This is consistent with the management objective as described in the Prospectus and the key investor information document of the UCITS;
3. The share in the out-performance of the UCITS allocated to the asset management company must not induce the latter to take excessive risk with regard to the investment strategy, objective and risk profile defined in the Prospectus and the key investor information document of the UCITS.

Extract from AMF position DOC-2012-12, A guide to fees

■ 2. Performance fees

This Article 2 applies to asset management companies governed by Section 1 and Section 1 bis of Volume III of the AMF's General Regulation.

In accordance with the principles set out by IOSCO⁴ in November 2004 (principle reiterated in Articles 314-78 and 319-13 of the AMF's General Regulation), which must be observed by all members of IOSCO, the management fee for a fund may include a variable portion when:

1. It does not provide an incentive for the asset management company to take excessive risk in the hope of increasing the performance of the UCITS or AIF;
2. It is compatible with the fund's objective and the fund's risk profile as presented to investors;
3. The calculation of performance is verifiable, to prevent any possible manipulation. The payment frequency set by the asset management company must also be reasonable. It should be noted that a period of one year is considered reasonable;
4. It does not lead to breach of the principle of equal treatment of investors;
5. Investors are informed of the existence of a performance fee and its potential impact on the return of the UCITS or AIF.

⁴ The International Organisation of Securities Commissions (IOSCO) is an international organisation founded in 1983 that brings together the regulators of the world's main stock exchanges.

2.1. Payment frequency

In accordance with the above-mentioned principles, the calculation of performance must be verifiable in order to prevent any manipulation. In this context, the payment frequency set by the asset management company must be reasonable. It should be noted that a period of one year is considered reasonable. A payment period of less than one year is therefore not considered adequate.

2.2. Share of out-performance

The asset management company must send a technical note to the AMF when the share of out-performance that may be allocated to it exceeds the threshold of 30%. The purpose of this note will be to document the scheme in its entirety, in particular providing details of the system put in place to prevent excessive levels of risk from being taken.

Below 30%, the AMF may ask the asset management company for a technical note if it believes that the share of out-performance could constitute an incentive to take significant risk and/or could prove incompatible with the management objective and risk profile of the UCITS or AIF.

Extracts from the final report IOSCO FR09/16, Good Practice for Fees and Expenses of Collective Investment Schemes

■ Good practice 2

A regulatory regime that permits performance fees should set standards for:

- ▶ their method of calculation;
- ▶ the information the CIS operator should disclose to investors about their use;
- ▶ the disclosure medium to be used.

In any event, a performance fee should respect the principle of equitable treatment of investors.

■ Good practice 3

A performance fee should be consistent with the investment objectives of the CIS and should not create an incentive for the CIS operator to take excessive risks in the hope of increasing its own remuneration. To that end:

- ▶ the calculation of a performance fee should be verifiable and not open to the possibility of manipulation; in particular, the following items should be unambiguously determined:
 - how investment performance will be assessed (i.e. including or excluding subscription and redemption fees, etc.);
 - what reference benchmark will be used;⁵
 - what the calculation formula will be (including a description, if applicable, of the method for offsetting gains against past losses).
- ▶ the frequency for crystallising the performance fee and transferring the amount earned in such fees to the CIS operator should not be more than once a year, except when the CIS operator uses a fulcrum fee model (see below).
- ▶ any benchmark to which the performance of the CIS is to be compared should be verifiable and provided by an independent party.

CIS operators should design calculation methods allowing for the performance fee to result in a value that is proportionate to the investment performance of the CIS.

Calculation methods should not deny investors an adequate share of the return achieved from the risks taken on their behalf and previously accepted by them.

⁵) Generally, it may not be considered good practice for the CIS operator to be allowed to create its own benchmark (even if independently verifiable) or to use one created by an affiliated party.

■ Good practice 4

Where the calculation of the performance fee is based on the fulcrum fee model:

- ▶ the calculation of the fee is compared to an appropriate benchmark and is based on the same benchmark used to determine excess performance;
- ▶ the fee increases or decreases proportionately with the investment performance of the CIS over a specified period of time; and
- ▶ the CIS's investment performance should be calculated on the CIS's net asset value, calculated net of costs.

Where the performance of the CIS is not based on a fulcrum fee model but is measured with reference to a benchmark:

- ▶ calculation of the fee is based on the same benchmark used to determine excess performance;
- ▶ the excess performance is calculated net of costs.⁶

■ Good practice 5

It remains important for investors to be adequately informed of the existence of the performance fee and of its potential impact on the return that they will get on their investment.



Extracts from the final report of ESMA's recommendations: *Guidelines on performance fees in UCITS and certain types of AIFs (ESMA 34-39-968)*

16. The performance fee calculation method should include, at least, the following elements:
- a. the reference indicator to measure the relative performance of the fund. This reference indicator can be an index (e.g. Eonia, Eurostoxx 50, etc.), a HWM, a hurdle rate (2%) or a combination (e.g.: HWM + hurdle rate);

- b. the crystallisation frequency at which the accrued performance fee, if any, becomes payable to the manager and a crystallisation date at which the performance fee is credited to the manager;
 - c. the performance reference period;
 - d. the performance fee rate which may also be referred to as the "flat rate" i.e. the rate of performance fee which may be applied in all models;
 - e. the performance fee methodology defining the method for the calculation of the performance fees based on the abovementioned inputs and any other relevant inputs; and
 - f. the computation frequency which should coincide with the calculation frequency of the NAV (e.g.: if the fund calculates its NAV daily, the performance fee should be calculated and accrued in the NAV on a daily basis).
22. When assessing the consistency between the performance fee model and the fund's investment objectives, strategy and policy, the manager should check:
- a. whether the chosen performance fee model is suitable for the fund given its investment policy, strategy and objective. For instance, for funds that pursue an absolute return objective, a HWM model or a hurdle is more appropriate than a performance fee calculated with reference to an index because the fund is not managed with a reference to a benchmark; in addition, a HWM model for an absolute return objective, might need to include a hurdle to align the model to the fund's risk-reward profile;
 - b. whether, for funds that calculate the performance fee with reference to a benchmark, the benchmark is appropriate in the context of the fund's investment policy and strategy and adequately represents the fund's risk-reward profile. This assessment should also take into account any material difference of risk (e.g. volatility) between the fund's investment objective and

⁶ The "excess performance" should be the difference between the net performance of the portfolio and the performance of the benchmark.

the chosen benchmark, as well as the consistency indicators included below under paragraph 26. For example, it should not be deemed appropriate for a fund with a predominantly long equity-focused strategy to calculate the performance fee with reference to a money market index.

23. As a general principle, if a fund is managed in reference to a benchmark index and it employs a performance fee model based on a benchmark index, the two indices should be the same.
24. This includes, among others:
 - performance measures: the fund has a performance objective linked to the performance of a benchmark (e.g.: Index A + positive absolute return objective; Index A + HWM; Index A + X% hurdle rate, etc);
 - portfolio composition: the fund portfolio holdings are based upon the holdings of the benchmark index (e.g.: the individual holdings of the fund's portfolio do not deviate materially from those of the benchmark index).
25. In such cases, the benchmark used for the portfolio composition should be the same as the benchmark used for the calculation of the performance fee.
35. The crystallisation date⁷ should be the same for all share classes of a fund that levies a performance fee.
36. In case of closure/merger of funds and/or upon investors' redemptions, performance fees, if any, should crystallise in due proportions on the date of the closure/merger and/or investors' redemption. In case of merger of funds, the crystallisation of the performance fees of the merging fund should be authorised subject to the best interest of investors of both the merging and the receiving fund. For instance, in cases where all involved funds are managed by the same manager (e.g. in the context of a cross-border merger), crystallisation of performance fees should be presumed contrary to investors' best interest unless justified otherwise by the manager. Generally, the crystallisation date should coincide with 31 December or with the end of the financial year of the fund.
37. A performance fee should only be paid in circumstances where positive performance has been accrued during the performance reference period. Any underperformance or loss previously incurred during the performance reference period should be recovered before a performance fee becomes payable. In order to avoid misalignment of interests between the fund manager and the investors, a performance fee could also be payable if the fund has overperformed the reference benchmark but had a negative performance, as long as a prominent warning to the investor is provided.
40. If the fund employs a performance fee model based on a benchmark index, it should be ensured that any underperformance of the fund compared to the benchmark is clawed back before any performance fee becomes payable. For this purpose, the length of the performance reference period, if this is shorter than the whole life of the fund, should be at least five years.
41. Where a fund utilises a HWM model, a performance fee should be payable only where, during the performance reference period, the new HWM exceeds the last HWM. The starting point to be considered in the calculations should be the initial offering price per share. For the HWM model, if the performance reference period is shorter than the whole life of the fund, the performance reference period should be at least five years on a rolling basis. In this case, a performance fee may only be claimed if the out-performance exceeds any underperformances during the previous five years and performance fees may not crystallise more than once a year.

⁷⁾ Crystallisation involves freezing a sum that has been set aside as a provision and thus regarding it as definitive and due for payment. This covers the amount of the performance fee which, at the end of an observation period, changes its status from a provision made by the fund administrator to an amount due to the asset management company, as well as redemption fees.



Extract from ESMA's UCITS Q&A

Question 3: Performance reference period for the benchmark model Date last updated: May 2021

Question 3: Based on paragraph 40 of the Guidelines on performance fees, how should the performance reference period for the benchmark model be set?

Answer 3: Paragraph 40) of the guidelines recommends that:

- i. any underperformance of the fund compared to the benchmark index should be clawed back before any performance fee becomes payable; and
- ii. the length of the performance reference period, if this is shorter than the whole life of the fund, should be set equal to at least five years.

In order to comply with the above recommendations, it should be ensured that any underperformance is brought forward for a minimum period of five years before a performance fee becomes payable, i.e. fund managers should look back at the past five years for the purpose of compensating underperformances.

In case the fund has overperformed the benchmark index, the fund manager should be able to crystallise performance fees.

The following example illustrates the principles above :

	Net performance	Under-performance to be compensated in the following year	Payment of performance fees
Y1	5%	0%	YES
Y2	0%	0%	NO
Y3	-5%	-5%	NO
Y4	3%	-2%	NO
Y5	2%	0%	NO
Y6	5%	0%	YES
Y7	5%	0%	YES
Y8	-10%	-10%	NO
Y9	2%	-8%	NO
Y10	2%	-6%	NO
Y11	2%	-4%	NO
Y12	0%	0%*	NO
Y13	2%	0%	YES
Y14	-6%	-6%	NO
Y15	2%	-4%	NO
Y16	2%	-2%	NO
Y17	-4%	-6%	NO
Y18	0%	-4%**	NO
Y19	5%	0%	YES

* The underperformance of Y12 to be taken forward to the following year (Y13) is 0% (and not -4%) in light of the fact that the residual underperformance coming from Y8 that was not yet compensated (-4%) is no longer relevant as the 5-year period has elapsed (the underperformance of Y8 is compensated until Y12).

** The underperformance of Y18 to be taken forward to the following year (Y19) is 4% (and not -6%) in light of the fact that the residual underperformance coming from Y14 that was not yet compensated (-2%) is no longer relevant as the 5-year period has elapsed (the underperformance of Y14 is compensated until Y18).

The following are additional examples aimed at further clarifying the mechanism of compensation of underperformances:

- i. in the case the net performance of the fund in Y18 was equal to 2% (instead of 0%), the underperformance to be carried

forward to the following year (Y19) would be equal to -4%. This is in light of the fact that during Y18, the underperformance of -2% coming from Y14 should still be compensated and, in addition to that, the performance of -4% coming from Y17 should be brought forward to the following year ;

- ii. in the case the net performance of the fund in Y18 was equal to 5% (instead of 0%), the underperformance to be carried forward to the following year (Y19) would be equal to -1%. This is in light of the fact that the residual underperformance coming from Y17 that was not yet compensated (-1%) should be brought forward to the following year (Y19) ;
- iii. in the case the net performance of the fund in Y18 was equal to 7% (instead of 0%), the net performance of the fund would compensate the underperformance of -6% coming from Y17. The positive accrual of performance fees for the 1% difference would therefore be crystallised in the payment of the performance fees to the management company. There would be no underperformance to be carried forward to Y19.

This is in line with the principle in the guidelines that underperformance in a given year (e.g. Y14) should still be compensated during a period which includes the fifth year following that underperformance (Y18), while not be brought forward to the sixth year (Y19).

Question 4: Performance reference period in case of funds' mergers Date last updated: May 2021

Question 4: How should the performance reference period be set in case of a merger where the receiving UCITS is a newly established fund with no performance history and it is in effect a continuation of the merging UCITS?

Answer 4: In order to ensure that the merger is not conducted with the aim of resetting the performance reference period, in the case of a merger where the receiving UCITS is a newly established fund with no performance history and the competent authority of the receiving UCITS assesses that the merger does not substantially change the UCITS' investment policy, the performance reference period of the merging UCITS should continue applying in the receiving UCITS.

Terminology

Any given method of calculating performance fees includes the following elements (specific calculation methods may require additional elements for a full description):



1. An observation period:

the period for which the performance (or excess performance⁸⁾ of the CIS will be calculated. This period cannot be less than one year. It may be extended if the performance (or excess performance) conditions are not met. These conditions are assessed at an interval defined by the crystallisation frequency. Its maximum length will be that of the reference period.



2. Crystallisation frequency:

the frequency at which it is determined whether performance (or excess performance) has occurred over the observation period.

In this case, the calculated provision definitively accrues to the asset management company. The provision for performance fees then becomes payable to the asset management company and its status changes to “payment pending” from an accounting viewpoint. The reference values used in calculating performance are updated for the new observation period that begins. If the performance (or excess performance) conditions are not met, the observation period is extended. The crystallisation frequency is usually based on the fund's financial year.

⁸⁾ Excess performance occurs when the fund's performance exceeds that of the benchmark indicator against which it is being compared.

3. A method for calculating performance and excess performance over the observation period. This performance can be measured by comparing the change in the Net Asset Value of the fund with that of the benchmark index or by comparing the amount of excess performance that investors effectively benefited from during the period with a notional asset that had the same performance as the benchmark indicator. Depending on the method used, this can take the form of a rate (percentage growth in the value of the fund) or an amount in the fund currency.

4. A reference indicator, the performance of which will be compared with that of the CIS to calculate the excess performance of the CIS. This reference indicator may take the form of a market index (with or without excess performance) or a target annual return. All information about the nature of the index must be available. In particular, in the case of composite indices (i.e. those comprising several market indices), the proportions of the market indices that go into them and the rebalancing frequency must be determined in advance and indicated in the Prospectus. In the event that the benchmark index unexpectedly ceases to operate, the asset management company will implement the appropriate continuity plan defined in accordance with the “Benchmark Regulation”⁹. The performance of the old index and the new index will be linked until the end of the current observation period.

5. If excess performance is calculated as a percentage, the **basis** to which it is applied is also defined in order to determine excess performance in the fund currency. This basis will generally be the net assets of the CIS after management costs but before provisions for performance fees.

6. A provisioning rate, which is applied to excess performance in the fund currency in order to determine the amount of the provision. This provisioning rate must not exceed 30%, unless an exception is justified.

7. A description of how redemptions are handled in case of an existing provision: for example, the provision associated with redemptions may accrue to the asset management company or to the fund. Moreover, a breakdown of subscriptions/redemptions for this calculation can be shown net (the amount of redemptions remaining after deduction of subscriptions received) or gross (the total amount of redemptions received). If the fund is subject to a “swing pricing” mechanism, the provision must be taken into account separately from the adjustments to Net Asset Value related to the scale of the subscriptions or redemptions.



8. A recovery mechanism¹⁰ for past underperformance (or negative performance).

9. A reference period, at the end of which the mechanism for recovering past underperformance (or negative performance) can be reset. This period cannot be less than five years, in accordance with the ESMA guidelines published in April 2020.



10. Any other information needed to reproduce the calculations, particularly:

- a. Existence of a cap on the provision (upper limit on the amount that can be collected by the asset management company, as an amount or a percentage of assets). If the cap is a percentage of assets, the basis must also be specified as part of the description of the calculation method (assets on the previous day or average assets for the financial year);
- b. Existence of a positive performance requirement in addition to an excess performance requirement.

⁹ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 (“Benchmark Regulation”).

¹⁰ AFG considers the use of the term High Watermark to be inappropriate in the context of methods used to calculate performance fees for open-ended funds. This is a special type of compensation mechanism that is specifically adapted to funds that use series accounting (or the equalisation method).

Below is a table summarising the standard terms to be included in the description of the method in the Prospectus and in communications with fund administrators:

Observation period	Minimum one year and extendable if necessary
Crystallisation frequency	Gives the date on which the provision accrues to the asset management company if the conditions are met.
Date of first collection	For a new fund or a new class of units, specify the date on which performance fees will first be collected (one year or more)
Calculation method	Unambiguous and verifiable <i>Specify the type of method (e.g. “indexed asset”, “daily variation”, “systematic offsetting”, other) and provide details of how it works (e.g. if the “indexed asset” method is used, define the reference asset).</i>
Provisioning	For each calculation of NAV <i>Specify that provisioning takes place each time NAV is calculated. Specify the rules for the recognition of provisions, the aggregation of provisions from one NAV calculation to the next until crystallisation, and provision reversals (and, in particular, that provision reversals are capped in the amount of the previous provisions).</i> <i>Specify how provisions are dealt with at the close (paid out in full or in part to the asset management company).</i>
Reference indicator	Index established independently of the asset management company (with or without the requirement to outperform it) or Fixed performance target (> 0) <i>For the index, specify the name, type of data (net return, total return, price index, etc.) and type of price (opening, closing, other), composition (for a composite index) and rebalancing frequency.</i>
Calculation basis	Must be net of costs applied to the CIS (other than the provision for performance fees itself), particularly fixed management fees <i>Specify the calculation basis.</i>
Provisioning rate	Generally ≤ 30% <i>Specify the provisioning rate and the fact that it is the same for the recognition and the reversal of the provision.</i>
Handling of redemptions	<i>Specify whether the portion of the provision corresponding to redeemed units accrues definitively to the asset management company, including in case of a subscription/redemption by the same client.</i>
 Recovery of underperformance (or negative performance)	(where applicable) Unambiguous and verifiable In accordance with the ESMA guidelines published in April 2020 and Q&A published in May 2021
 Reference period	Minimum five years In accordance with the ESMA guidelines published in April 2020 and Q&A published in May 2021
Other specific forms of treatment	Positive performance requirement Maximum provision amount (and calculation basis if relevant)

📖 Fundamental principles underlying the calculation of performance fees

Equitable treatment of investors

Other than the method that involves calculating performance fees individually based on each investor's subscription and redemption dates, which is generally rarely used in practice, we would firstly like to note that a perfect method does not exist.

Given the inflows and outflows during the observation period, each investor will in fact have the same amount deducted for performance fees (as all units in the CIS are identical), even though they may have had a different performance from all other investors, depending on the respective subscription and redemption dates.

The regulator acknowledges that this is not possible, and has thus proposed the following standard (reiterated in the recent review of management fees applied in 2015):

- ▶ transfers of wealth between investors must be limited as much as possible;
- ▶ the method used to calculate performance fees must not unduly enrich the asset management company.

Preference should therefore be given to methods that, at a minimum, avoid a windfall effect leading to an increase in the provision for performance fees simply through the addition of a new subscription.

This increase in the provision is to the detriment of existing investors, whose performance is diluted, and of new investors, who contribute to the recognition of a provision resulting from excess performance from which they did not benefit. In particular, this excludes the method based on comparing the performance of the fund with that of the index when performance is calculated simply as the ratio of net asset values at the beginning and end of the financial year ("reference NAV" method). This method automatically leads to an increase in any pre-existing provision in case of a subscription, unless the method includes a specific mechanism for correcting these volume effects.

On the other hand, it should be noted that this leads to a transfer between existing and new investors, since the new investor will benefit from the pre-existing provision if the performance of the CIS decreases (as reversals of provisions offset the decrease in the relative performance, without the new investor having contributed to the recognition of this provision). This is acceptable if transfers of wealth between investors are limited as far as possible.

No incentive to take excessive risk

A method of determining performance fees must not result in excessive risk being taken. The following approaches, by way of example, may help to achieve this objective:

- ▶ linking risk-taking by management with a risk of adversely affecting its ability to generate performance fees. This means that the asset management company is required not to recognise any provisions so long as any underperformance accumulated during the recovery period has not been recovered.

The definition of recovery period is therefore a crucial factor. The asset management company must be able to reset its calculation after a certain amount of time if it has become difficult or even impossible to again achieve excess performance. However, a minimum recovery period is necessary to prevent excessive risk-taking. The minimum recovery period may not be less than five years;

- ▶ imposing an upper limit on the provision that the asset management company can deduct, which must be consistent with the risk profile of the portfolio.

The allocation rate applied in case of an increase in performance must be equal to the reversal rate applied in case of a decrease in performance. If the reversal rate were lower than the allocation rate, this would favour the asset management company to the detriment of the fund.



Clarifications provided by ESMA on the reference period and the recovery mechanism

The ESMA guidelines published in April 2020 provide clarifications on how the reference period works. At the end of May 2021, they were supplemented by updates to the UCITS Q&A and AIFMD Q&A. Their application represents a change relative to the method previously in force in France.

The principle is that all underperformance must be systematically recovered before the asset management company can recognise a provision. For each underperformance, the reset can only take place at the end of a reference period, the length of which may not be less than five years.

Consequently, each underperformance noted at the end of an observation period results in a specific recovery period. For example, if there are two consecutive years of underperformance, two recovery periods are associated with them. If the asset management company is unable to again achieve excess performance, the first year of underperformance may be cancelled at the end of the fifth year following the year of underperformance and the second will be only cancelled the following year (see above Q&A question 3).

Any out-performance occurring during this reference period will first be used to compensate for the older underperformance.

To learn about the latest interpretations of the national or European regulator regarding application of the Guidelines, AFG encourages its members to contact their case managers.

Compatibility of the method with the management objective and the risk profile of the CIS

The performance of the CIS that is used as the basis for calculating performance fees must be compared with a relevant reference, taking into account the objective and management style of the portfolio. In particular, the risk levels inherent in the fund and the reference must be similar. This principle means that appropriate references must be chosen for the calculation of performance fees, i.e. they must be compatible with those expressed in the management objective, although they do not necessarily have to be identical.

For example, using a fixed threshold (zero risk) or a money market benchmark index (low risk) to calculate the excess performance of a CIS invested in equity (high risk) is not recommended. However, this type of indicator can be used to calculate the excess performance of a CIS that aims to generate an absolute performance, insofar as the potential performance of the fund and the trigger threshold are consistent and there is no structural directional bias in the strategy implemented.

Verifiability of calculations and information for investors

By verifiability, we mean that the calculation method must make use of independent data sources (for index levels, for example) and that its application must be non-discretionary.

An observer with access to all the information (indices, subscriptions and redemptions, etc.) and the characteristics of the method will thus be able to recalculate the provisions deterministically. However, this does not imply that any investor will be able to replicate these calculations, insofar as the necessary information may not be public (particularly subscriptions and redemptions, which are required for calculating provisions in the indexed assets method).

Furthermore, investors should ideally be informed via the Prospectus of:

- ▶ the existence of a performance fee and the method used to calculate it, which must enable the fee to be verified,

by outlining all the characteristics of the method chosen, as stated above;

- ▶ the potential impact of the fee on the fund, for example by presenting a few simple scenarios. It is possible to stress that the performance fee will be deducted only if the CIS effectively overperforms (in accordance with the chosen method) over the observation period. However, it would be necessary to specify that this principle may not apply to the investor if the period of their investment in the fund does not coincide with an observation period. When excess performance scenarios are presented¹¹, a scenario demonstrating that the fund may deduct a performance fee even if the investment has declined in absolute value should also be presented if the method allows such an effect;
- ▶ systematic biases between investors that may result, for example, from the calculation method, other than the “equalisation reserve” method, such as a potential transfer from existing investors to new investors in case of a pre-existing provision (since the provision “offered” to the new investor may partially offset potential future underperformance).

Additional information regarding the treatment of events that occur during the lifetime of the fund

In all of the following cases, the guiding principle applied by the asset management company in its choice of treatment must be the avoidance of a sudden change in Net Asset Value and the selection of a method that does not put the fund at a disadvantage in a systematic and foreseeable manner.

Whenever possible, substantial changes made as of the closing date of the observation period must allow any problems linked to the calculation and treatment of performance fees to be avoided:

- ▶ change of reference indicator;
If the reference indicator changes during an observation period, the performance of the reference indicator for this period will be calculated by linking the benchmark index that was previously in force up to the date of the change and the new reference indicator used afterwards.
- ▶ creation of a new share class during the observation period;
- ▶ elimination of a share class or dissolution of the fund;
- ▶ merger of the fund through absorption by another fund.

More details of events that are liable to occur during the lifetime of the fund are included in the second part of this guide.

Examples of methods

This section lists examples of methods used in France that demonstrate characteristics that presumably meet the criteria of existing regulations and adhere to the good practices described in this guide. It is important to note that this list is not exhaustive and that there may be variations on the methods presented here.

☰ Indexed assets method (“indexed assets”)

To illustrate what we have discussed, below is a description of the indexed assets method, which we believe complies with regulatory requirements and the good practices listed in this document.

Principle and method of calculation

The performance of the fund is regarded as the creation (or destruction) of value generated in the fund currency. This amount is compared with the creation or destruction of value that a similar investment in a fund equivalent to the reference indicator would have generated.

The method thus involves calculating indexed assets, which represent the net assets of a virtual fund that has experienced the same flows of subscriptions and redemptions as the fund for which we are calculating the fee, and the performance of the reference indicator.

These indexed assets can be calculated using the formula below (ignoring the treatment of any detachment of coupons by the fund):

$$IA_t = (IA_{t-1} + Sub_{t-1} * NAV_{t-1} - Red_{t-1} * VLI_{t-1}) * It/I_{t-1}$$

Where:

- ▶ **IA** is the indexed assets (in euros);
- ▶ **I** is the level of the reference indicator;
- ▶ **Sub** and **Red** are subscriptions and redemptions in number of units;
- ▶ **VLI** is the indexed assets **IA** divided by the number of units in the fund;
- ▶ **NAV** is the Net Asset Value (i.e. after provision).¹²

The calculation basis for the provision is then simply the difference between the fund’s net assets (to which the previous day’s provision for performance fees is added back) and the indexed assets.

The level of the provision for performance fees is obtained by applying the provisioning rate to this basis.

Bias of the method

One consequence of the indexed assets method is that if a subscription takes place when there is already a provision for performance fees, this provision will not change. It must therefore be ensured that there is no possibility of an unfair gain in favour of the asset management company.

On the other hand¹³, this means that if the fund underperforms after this date, a new investor will benefit from the damper effect of the provision associated with their units (since the provision decreases when excess performance reduces the gross under-performance of the fund). However, this provision will have been recognised to the detriment of the provision associated with the units of existing investors at the time of the subscription.

Secondly, the indexed assets method can be considered to work by minimising the total discrepancy between the provision associated with each unit and the provision that would have been associated with the same unit if the fee had been calculated based on its performance alone. This works by calculating what the provision for the “average” unit in the fund would be and associating it with all the units in the fund.

A consequence of this is that there may be transfers of wealth between different categories of investors, depending on the extent and timing of movements in liabilities.

These two types of wealth transfers between investors are considered acceptable as they are limited as far as possible.

On the other hand, this method has the advantage, compared with the “reference NAV” method (see example below), that it does not generate a provision simply because of subscriptions occurring when a provision already exists (volume effect). We can illustrate this by looking at what happens to the NAV and the provision in the event of a subscription when there is already excess performance.

¹²) If the fund is subject to a “swing pricing” mechanism, this NAV must be taken into account without the potential upwards adjustment occurring in case there is a significant volume of subscriptions.

¹³) As already mentioned, this is a common characteristic of methods that do not apply a performance fee to each individual subscription.

We will review below the example of a fourth investor who buys a unit of a UCITS in which there had previously been three investors and that had already generated an excess performance before the arrival of this new investor.

■ Impact of a subscription – Initial situation

Investment in the fund by a new investor. The three existing investors have already benefited from excess performance (represented by the total of the two sections in green and orange), which has given rise to a provision (represented by the section in orange). The new investor enters at the net asset value (1,400).

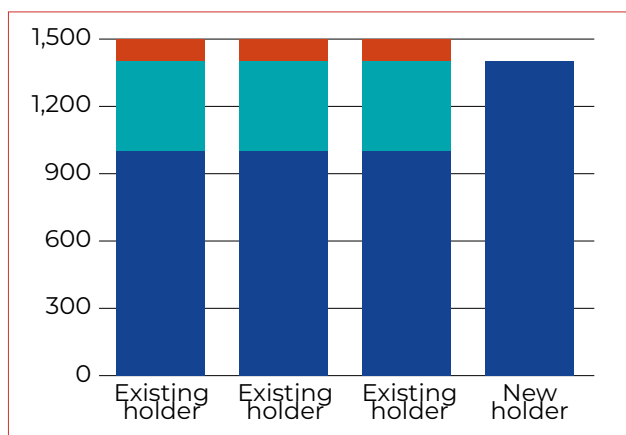
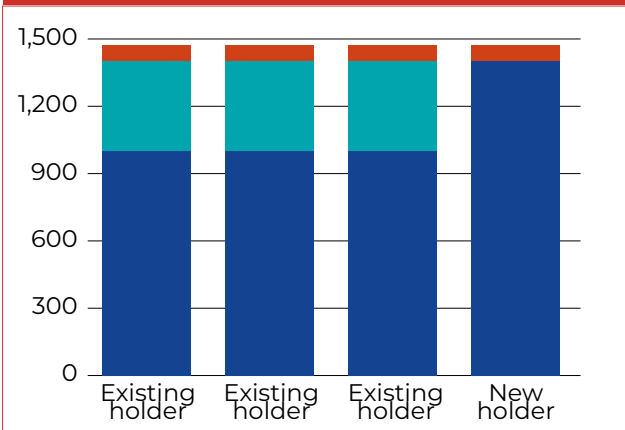


Figure 1. Example of the impact of a subscription – initial situation (Source AFG)

■ Impact of a subscription – “Indexed Assets” method

The calculated excess performance, and thus the total provision, are not impacted by the arrival of the new investor. The provision per unit thus decreases in proportion to the size of the subscription. Each existing investor contributes to the recognition of a provision for the new unit. The net asset value is not affected. The recognition of this provision means that the new unit has a buffer in the event of future underperformance. In return, the provision associated with units of existing investors will be reduced by 25%, reducing their potential for offsetting.

Figure 2. Example of the impact of a subscription – “Indexed Assets” method (Source AFG)



■ Impact of a subscription – “Reference NAV without cancelling out the volume effect” method

In accordance with this method, excess performance is calculated based on changes in the Net Asset Value per unit and then applied to all of the fund assets. The performance per unit is therefore recalculated in its entirety based on the new gross assets per unit. It will now be lower, as the new gross assets per unit are lower than previously. Nevertheless, as this performance is then applied to each unit in the fund to calculate the total provision, the latter will increase significantly as a result of the new subscription. The net asset value will decline as a result, in the absence of any other events apart from the subscription. As a result of this “volume effect”, the remuneration of the asset management company increases even though no excess performance has been generated since the last subscriptions.

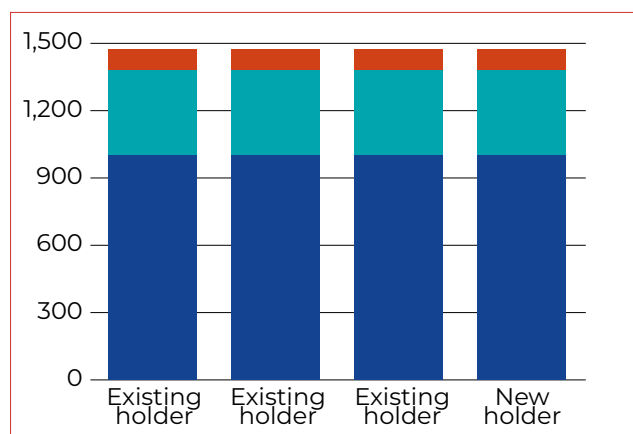


Figure 3. Example of the impact of a subscription – “Reference NAV” method (Source AFG)

Method involving the systematic offsetting of the volume effect of subscriptions (“systematic offsetting”)

An alternative to the indexed assets method that is based on observation of NAV also satisfies regulatory requirements and complies with the good practices listed in this document.

Principle and method of calculation

This method is based on the same principles as the “reference NAV” method, but corrects the volume effects that the latter causes.

The provision for performance fees is determined by the rate of deduction multiplied by the fund’s excess performance in relation to its index multiplied by the number of units in circulation. If no mechanism is in place to cancel out the volume effect of subscriptions, an increase in the number of units will automatically lead to an increase in the provision for performance fees. The cumulative amount of the volume effect of subscriptions is therefore systematically deducted from this provision. The new amount that is thus obtained then corresponds to the effective provision for performance fees.

The volume effect of the day’s subscriptions is equal to the share of the latter (relative to the total number of units) in the effective provision for performance fees. This amount is added to the cumulative amount used to offset the volume effects of subscriptions. The cumulative amount used for offsetting is capped at the theoretical maximum amount of the provision for performance fees before applying the offsetting mechanism.

i.e.

$$\text{Effective Prov.}_T = \text{Prov.}_T - \text{Total Offsetting}_T$$

Where:

$$\text{Prov.}_T = T \times \text{FGV} \times (\text{Excess Performance}_T) \times \text{Unit}_{T,t}$$

With:

$$\text{Excess Performance}_T = \text{Perf. Fund}_T - \text{Perf. Index}_T$$

And:

$$\text{Total Offsetting}_T = \text{Offsetting}_T + \text{Min}(\text{Total Offsetting}_{T-1}, \text{Prov.}_T)$$

With:

$$\text{Offsetting}_T = \text{Subscription}_T / \text{Units}_T \times (\text{Effective Prov.}_{T-1})$$

Bias of the method

On the other hand, and as before, if the fund underperforms after a new subscription, a new investor will benefit from the damper effect of the provision associated with their units (since the provision decreases when excess performance decreases). However, this provision will have been recognised to the detriment of the provision associated with the units of existing investors at the time of the subscription.

This is acceptable if transfers of wealth between investors are limited as far as possible.

☞ Daily provision method (“daily variation”)

Another method that arrives at a comparable result to those above is the calculation and recognition of provisions each time NAV is calculated based on excess performance since the previous NAV calculation.

This method is as valid as those above in terms of the treatment of investors and, in particular, in terms of limiting potential unfairness between investors and the asset management company.

To ensure that past underperformance can be recovered, it requires that a negative virtual provision be stored, if applicable, throughout the recovery period, even though crystallisation of the provision at the end of the observation period remains at a minimum of zero.

The calculation is carried out as follows:

$$\text{Effective_Provision}_t = \text{Max}(0, \text{VP}_t)$$

$$\text{VP}_t = \text{VP}_{t-1} + \text{Provision_Day}_t$$

$$\text{Provision_Day}_t = \text{Basis}_t \\ \times (\text{Perf_Fund}_t - \text{Perf_Index}_t) \\ \times \text{Rate_Provision}$$

Where:

- ▶ Basis_t is the calculation basis for the provision on day t , generally the net assets of the fund before provisioning of the performance fee.
- ▶ VP_t , the virtual provision on date t , can be positive or negative. It is reset to zero when a deduction from the provision is made at the end of an observation period or, if there is no deduction, at the end of the recovery period. The virtual provision is stored and used for the calculation, but no real provision is recognised. The amount of the provision actually recognised at date t is equal to $\text{Effective_Provision}_t$.
- ▶ Perf_Fund_t and Perf_Index_t are the performance of the fund and the index **since the last time NAV was calculated**, i.e. $\text{NAV}_t / \text{NAV}_{t-1}$ for the fund and I_t / I_{t-1} for the index, where NAV is the NAV after reintegration of the provision for performance fees and I is the level of the reference indicator.

☞ Illustration of certain aspects of different methods

The following example illustrates some of the effects that different methods can have. The example concentrates on two effects in particular:

- ▶ the “volume effect”, which occurs with the above-mentioned “reference NAV” method in particular;
- ▶ the effect caused by the “variable factor” method, which involves having a rate of reversals on provisions that is lower than the rate of allocation to the provision

and underlines the disadvantages these have for investors.

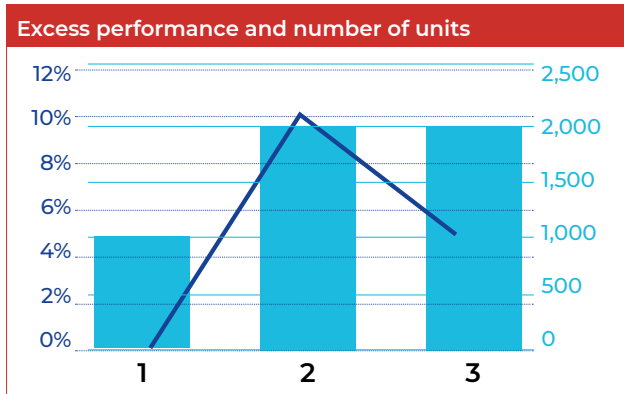
These two methods are presented in the second graph (showing changes in the total provisioned amount), along with two other

methods that do not have any significant bias:

- ▶ the “indexed assets” method. It should be noted that in this case, as is generally the case, there is no difference in the provisioned amount between the “indexed assets”, “systematic offsetting” and “daily variation” methods;
- ▶ the “equalisation reserve” method, which involves monitoring each unit issued separately (and therefore calculating a different provision for each date on which units were subscribed to). Owing to its complexity and the fact that it is onerous to implement, this method is in practice reserved for certain types of funds that are not valued frequently (typically hedge funds) and is not covered by this guide.

Presentation of example

The graph below shows changes in the fund's excess performance (equal to its performance: flat benchmark) over time and the number of units.



Investors 1 (1,000 units) present in (1) benefit from significant excess performance between (1) and (2): + 10% YTD

Investors 2 subscribe to 1,000 units in (2) when the fund is overperforming.

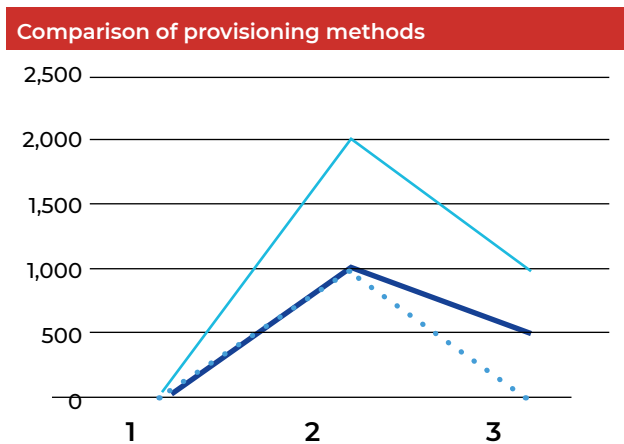
— YTD excess performance
 ■ Number of units

In total in (3), before the effects of the provision for performance fees:

- ▶ the **performance per investor** is as follows:
 - **investors 1:** for 1,000 units subscribed to at a NAV of €100, there was an excess performance of 5% (+€5,000);
 - **investors 2:** for 1,000 units subscribed to at a NAV of €110¹⁴, there was an under-performance of 4.55%¹⁵ (-€5,000).
- ▶ the performance for all investors (**or performance of net assets**) is zero (€5,000 - €5,000);
- ▶ excess performance measured by the **Net Asset Value** is 5%.

Comparison with other methods

The graph below compares the variable allocation rate method with the indexed assets method, the equalisation reserve method and the volume effect method.



- ... Indexed assets provision
- Total equalisation reserve provision
- Variable factor provision
- Volume effect provision

In this graph, the variable factor and equalisation reserve methods are combined.

¹⁴) In reality, investor 2 subscribes on the basis of the NAV after provision in (2). However, taking this into account makes calculations more complex without changing the reality of the mechanisms in place. To simplify matters, we regarded investor 2 as having subscribed here on the basis of the NAV before provision.

¹⁵) Relative reduction in NAV before provision from €110 to €105.

Analysis of the effects of the variable allocation factor method

The variable allocation factor method does not correct any remaining unfairness and, as the examples show, actually widens inequalities between investors:

1. the variable allocation rate method (€500 deducted) leads to a larger provision for the asset management company than the indexed assets method (€0, since the overall excess performance that investors have benefited from is zero);
2. in this example, investors who invested in (1) will not, in a bearish phase, recover the full fee that they funded insofar as the asset management company will return only part of it. These investors will thus suffer losses on two fronts;

3. with the variable allocation factor method or the indexed assets method, investors who invested in (2) benefit in both cases from the “offsetting” effect of the provision on NAV, although for a smaller amount with the first method (as the remainder goes to the asset management company and not to investors). As explained above, this residual inequality is unavoidable unless methods of the “equalisation reserve” type are used.

Moreover, the “corrective” factor can depend on subscriptions to the fund and therefore varies widely in open-ended funds. The effect illustrated above of asymmetrical allocations to and reversals of provisions may in reality be higher or smaller for open-ended funds receiving several subscriptions during a period of excess performance; successive variations in the corrective factor can accumulate.



Example of the drafting of a prospectus

The prospectus must present the calculation method in a way that is clear and not misleading. Below is an example of a prospectus for a fund that uses the indexed assets method.

This example includes a condition of positivity: to be able to receive a performance fee, the fund must have a positive performance, in addition to having performed better than its benchmark index. This clause is not mandatory. Phrases related to this clause are in brackets [] to distinguish them from the rest of the text. They are not necessary if the condition of positivity is not provided for.

Introduction

As of 1 January 2022, the performance fee will be calculated as follows:

The performance fee is a variable fee and is contingent upon the achievement by the Fund [of positive performance for the financial year and] of performance that exceeds that of its benchmark over the observation period.

If a provision is recognised at the end of the observation period, it is crystallised, which means that it definitively accrues to and becomes payable to the Manager.

Calculation method

The amount of the performance fee is calculated based on a comparison between the performance of the Fund and that of a notional CIS achieving the performance of its benchmark index and recording the same pattern of subscriptions and redemptions as the actual Fund.

The excess performance generated by the Fund on a given date is understood to be the positive difference between the net assets of the Fund and the assets of the notional CIS on the same date. If this difference is negative, this amount represents an underperformance that will need to be recovered in the following years before a provision for the performance fee can again be recorded.

Recovery of underperformance and reference period

As stipulated in the *ESMA Guidelines* on performance fees, “the reference period is the time horizon over which the performance is measured and compared with that of the reference indicator, at the end of which the mechanism for the compensation for past underperformance (or negative performance) can be reset.”

This period is set at five years. This means that after five consecutive years without crystallisation, uncompensated underperformance older than five years will no longer be taken into account to calculate the performance fee.

[Condition of positivity]

A provision can be recognised and a fee can be received only if the performance of the fund is strictly positive for the financial year (NAV higher than the NAV at the start of the year).]

Observation period

The first observation period will last 12 months and begin at the start of 2022.

At the end of each financial year, one of the following two [three] cases may occur:

- The Fund underperformed over the observation period. In this case, no fee is charged and the observation period is extended by a year to a maximum of five years (reference period).
- [The Fund outperformed over the observation period but had negative absolute performance for the financial year. In this case, no fee is charged, the calculation is reset, and a new 12-month observation period begins.]
- The Fund outperformed over the observation period [and had positive absolute performance for the financial year]. In this case, the asset management company receives the provisioned fees (crystallisation), the calculation is reset, and a new 12-month observation period begins.

Provisioning

At the time of each net asset value (NAV) calculation, a provision is set up for the performance fee (equal to XX% of the out-performance) if the Fund's performance exceeds that of the notional CIS over the observation period [and is positive for the financial year]; in case of underperformance, the provision is reversed in an amount limited to the existing provision.

In case of redemptions during the period, the share of the provision corresponding to the number of redeemed shares will definitively accrue to and be charged by the Manager.

Crystallisation

The crystallisation period, i.e. the frequency at which the performance fee provisioned, if any, must be paid to the asset management company, is 12 months.

The first crystallisation period will end on the last day of the financial year ended 31 December 2022.

Illustration 1: general operation

	Year 1	Year 2	Year 3	Year 4	Year 5
Performance of the fund units	10%	-4%	-7%	6%	3%
Performance of the benchmark index	5%	-5%	-3%	4%	0%
Excess/under performance	5%	1%	-4%	2%	3%
Cumulative performance of the fund over the observation period	10%	-4%	-7%	-1%	2%
Cumulative performance of the benchmark index over the observation period	5%	-5%	-3%	1%	1%
Cumulative excess/under-performance over the observation period	5%	1%	-4%	-2%	1%
Deduction of a fee?	Yes	Yes [No, because the fund's performance is negative even though it outperformed the benchmark index]	No, because the fund underperformed the benchmark index [and also had negative performance for the financial year]	No, because the fund underperformed over the entire current observation period, which began in year 3	Yes
Start of a new observation period?	Yes, a new observation period begins in year 2	Yes, a new observation period begins in year 3	No, the observation period is extended through years 3 and 4	No, the observation period is extended through years 3, 4 and 5	Yes, a new observation period begins in year 6

NB: To make the example easier to understand, we have shown the performance of the fund and the benchmark index as percentages. In reality, excess/underperformance will be measured as an amount equal to the difference between the net assets of the fund and those of a notional fund, as described in the above methodology.

Illustration 2: treatment of uncompensated performance after five years

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Performance of the fund units	0%	5%	3%	6%	1%	5%
Performance of the benchmark index	10%	2%	6%	0%	1%	1%
A: Excess/under-performance current year	-10%	3%	-3%	6%	0%	4%
B1: Recovery of uncompensated under-performance Year 1	N/A	-10%	-7%	-7%	-1%	Outside scope
B2: Recovery of uncompensated under-performance Year 2	N/A	N/A	0%	0%	0%	0%
B3: Recovery of uncompensated under-performance Year 3	N/A	N/A	N/A	-3%	-3%	-3%
B4: Recovery of uncompensated under-performance Year 4	N/A	N/A	N/A	N/A	0%	0%
B5: Recovery of uncompensated under-performance Year 5	N/A	N/A	N/A	N/A	N/A	0%
Excess/under performance observation period	-10% (A)	-7% (A + B1)	-10% (A + B1 + B2)	-4% (A + B1 + B2 + B3)	-4% (A + B1 + B2 + B3 + B4)	1% (A + B2 + B3 + B4 + B5)
Deduction of a fee?	No	No	No	No	No	Yes

The underperformance generated in year 1 and partially compensated for in the following years is disregarded in year 6.

2. TECHNICAL ASPECTS OF THE APPLICATION OF PERFORMANCE FEES

Introduction

The principle of performance fees (or variable management fees) is based on the fact that the asset management company is able to link part of its remuneration to its management performance.

Performance fees have been used in France for many years and have already been the subject of technical and regulatory studies by market professionals.

In addition to methodological principles, professional fund administrators find it useful to apply certain best practices that enable them to minimise residual operational risks that can potentially arise from processes involved in implementing and monitoring performance fees.

Fund administrators therefore consider it necessary to explain in detail the information contained in documents describing the method and, in particular, the procedures to be used for calculations, to avoid any errors in interpretation. Furthermore, many different procedures are used, which calls for special vigilance when they are implemented by the calculation systems.

Events that occur periodically, such as the closing of accounts, and events linked to the life cycle of the fund (merger through

absorption) are also regarded as details that need to be clarified between professionals, in order to limit potential additional operational risks that could lead to errors in the calculation of Net Asset Value.

The accuracy and security of the tools used to perform the calculations, particularly when these tools are desktop programs like Excel which do not always allow the calculations to be processed via other systems such as Net Asset Value calculation software, are crucial.

This part of the Guide will explain the risks and constraints associated with the operational processing of performance fees and will outline practical procedures for implementation, particularly from an organisational viewpoint, to make their application simpler and more secure. Guidance is provided on a number of points with the aim of reducing operational risks at various key stages of the process.

If the method and/or the procedures are new, either for the asset management company or for the fund administrator, or if a major event occurs during the lifetime of the fund (merger through absorption, etc.), the auditor must be consulted by the asset management company before the calculation is carried out.

Implementation and documentation

Implementation of the calculation method is essentially based on regulatory documents (generally the Prospectus) and interactions between the asset management company and the fund administrator to ensure that the process is correctly understood and applied.

The information contained in the constitutional documents, the objective of which is to provide clear information that is comprehensible to investors, thus makes it possible to understand the calculation principles chosen by the asset management company and is generally supplemented by technical discussions, to allow the fund administrator to implement it in the calculation tools.

Prior to calculation of the first Net Asset Value that will be used as the basis for these fees, all the information required for the calculation of performance fees must be formally agreed between the asset management company and the fund administrator.

In addition, procedures for the exchange of information, particularly for the purposes of monitoring the Net Asset Value, between the asset management company and the fund administrator should be clearly defined between the parties involved before they are implemented.

This exchange of information should include:

- ▶ the full text relating to the rules for calculating performance fees, based on the most recent constitutional documents in force;
- ▶ if necessary, the transposition of this text into a list of precise information/criteria;
- ▶ other information/criteria not included in the constitutional documents but necessary to ensure that calculations are performed correctly.

Focus on the Prospectus

The Prospectus is drawn up by the asset management company and is subject to authorisation (or registration) by the regulator and validation by the custodian.

This document, which is aimed at investors, must contain all the information that will enable them to understand the investment vehicle being offered to them. To this end, a description of the costs that may be borne by the fund and, in particular, of performance fees is a key element.

Clarification of the scope of calculation

The fund can create additional classes of units during its lifetime, and each of these classes may or may not incur dedicated performance fees. Performance fees are calculated only for those classes of units for which information is provided in the “Performance Fee” section of the CIS’s constitutional documents.

One best practice is for the asset management company and the fund administrator to hold discussions each time a new class of units is created, in order to summarise all the classes of units in the fund and specify whether or not they incur a performance fee.

Focus on additional information

This is information that is not always included in the constitutional documents, but which needs to be specified in order for calculations to be carried out in practice.

The main elements that require additional clarification are:

▶ Codification and currency of the Reference Indicator (benchmark)

A large number of indices are available on the market, some of which use very similar terminology. It is therefore worth checking that the index chosen for calculations matches the index defined by the asset management company

in the constitutional documents. Agreement on both the exact codification, as used by the index provider for example, and its currency is therefore one of the vital operational elements.

► **Start date of calculations**

The effective start date for calculating performance fees must be systematically and formally agreed with the administrator when each class of units is created or reactivated.



► **Observation period**

When a fund is created, the observation period for calculating performance fees is very often linked to the closing date; however, it can also be 31 December (see point 36 of the *ESMA Guidelines*). If the financial year is shorter than a year, no fees should be deducted (as a reminder, the AMF has stipulated that the frequency at which performance fees are deducted must be reasonable, which was confirmed by the *ESMA Guidelines*, and that a period of less than one year cannot be considered reasonable). If a new class of units is created during a financial year, the first crystallisation date can therefore not coincide with the next closing date. Crystallisation may not occur before the anniversary date of the creation of the unit and must coincide with that of the pre-existing units (see point 35 of the *ESMA Guidelines*). An automatic lag between different classes of units is therefore created for the first observation period of this new unit.

► **Frequency of payments**

The crystallisation of management fees for redemptions is set out in the constitutional documents. It is also helpful to specify how frequently they will be paid to the fund administrator prior to the first crystallisation, as adjustments to the calculation tool may be necessary.

► **Calculation procedures**

Further clarification must be provided, such as the net assets used as the basis of calculation. To facilitate communication between the asset management company and the fund administrator, a sheet summarising the information needed to understand and implement the performance fees to be applied to a given fund is provided in the annexe. The use of a summary sheet when a method is implemented or when any subsequent changes are made could prove very useful.

The sheet is in three parts:

- **General information:** identifies the fund and contact persons;
- **Accounting rules and methods:** replicates the text of the Prospectus describing the method and procedures used;
- **Additional information:** list of information required for operational processing (calculations, payments, etc.) that is not necessarily specified in the Prospectus.

☰ Calculation system and information exchange protocols

The Excel spreadsheet is the tool that has historically been used to calculate performance fees. It was originally designed by asset management companies and then used by fund administrators each time net asset values were calculated. Fund administrators also gradually began to offer their own solutions, initially via Excel spreadsheets and then using dedicated applications developed internally or via functional extensions to their valuation software. Protocols for exchange and calculation vary depending on the parties involved, their tools and production processes.

The advantage of this desktop program is that it provides immediate access to all components of a calculation, including formulas, and makes auditing easier. It is also used universally and therefore easy for all parties concerned (asset management companies, fund administrators and auditors) to understand. It is extremely flexible and modular and combines ease of implementation and data presentation. It can be adapted to the requirements and specificities of each party's calculations.

Excel, a fairly flexible tool, obviously has disadvantages as well as advantages:

- ▶ the data and formulas needed for calculations are contained directly in the Excel spreadsheet (unlike a software application where the programs link to tables). That means that these data are easy to access. Protections therefore need to be put in place on certain cells in the spreadsheet to prevent accidental modification. Only cells used for variable data do not need to be protected;
- ▶ unless you go into a cell, it is not easy to identify whether a formula has been overwritten, modified or incorrectly indexed. Accidental changes to cells containing calculation formulas or non-variable data will not necessarily generate an alert to the operator. During the spreadsheet design phase, it is therefore very important to perform tests based on the widest possible range of scenarios and, obviously, to be very careful when cells containing input fields need to be extended. Therefore,

the first key step in the implementation process is to ensure that the method defined by the asset management company has been fully understood and correctly transposed into the calculation tool.

The fund administrator can design the spreadsheet once they have understood the process requested by the asset management company. Within the scope of its responsibilities, the asset management company remains in charge of final validation and ensures that the spreadsheet complies with the methods and procedures it has defined.

It is vital that the provider of the file protects all calculation cells and non-variable data, leaving only the necessary variable fields free (date, collection, indices, net assets, etc.). The provider of the file holds the password protecting all these cells and remains responsible for it, even if they decide to communicate it to a third party. The file is exchanged between the fund administrator and the asset management company each time protected data are modified or added.

When a spreadsheet is created with characteristics that are new to the asset management company or fund administrator, tests will be carried out based on various scenarios and validated by the asset management company to determine which process is best suited to the needs of each party involved.

The modularity of Excel supports the multiple methods for applying performance fees, in contrast to integrated modules such as systems for calculating Net Asset Value, which are less suited to the implementation of atypical or dedicated methods or procedures. In addition, more automated systems (such as accounting tools) are not designed to reproduce the calculation formulas or interim results in audit reports and, to comply with the audit protocols of asset management companies and auditors, some fund administrators provide a justification through an Excel spreadsheet even though the calculations are performed by their accounting software.

It is nevertheless desirable to move towards more integrated processes since these tools have now become sufficiently developed to cover the majority of calculation methods and procedures currently used. They are developed by specialist teams in accordance with standardised principles and meet security criteria for both configuration and data entry. The advantage of these tools is that the calculation is integrated directly into the Net Asset Value processing chain, which eliminates the manual part of the process and the resulting break in the calculation chain. Finally, when the calculation is performed in an external tool, the results of the calculations

can easily be interfaced in the accounting tool without manual intervention. To the extent that the tool includes its own functions for protecting data, formulas, etc., files that are exchanged do not necessarily have to be protected using the same procedures as for an Excel spreadsheet.

The fund administrator's services must include the provision to the asset management company of not only the result of the calculation but also the figures used in the calculation, and the expected reporting format of these data must be specified in advance in the service contract.

Events occurring during the lifetime of the fund

Apart from implementation of the process for calculating performance fees and the process for determining Net Asset Value, certain events will require special attention or even specific treatment.

These include periodic events that are foreseeable as they are mentioned in the fund documentation: resetting of the observation period, payment of accrued fees or performance fees, payment of distributable sums and possibly payments on account. The payment of accrued performance fees has no impact on the calculations. The resetting of the observation period (i.e. the data are reset in preparation for a new observation period) and the payment of distributable sums (or payments on account) have a significant impact.

When managing distributable sums or payments on account, the level of fund assets (and the Net Asset Value) are impacted in line with the amount distributed. The calculation system must therefore take account of these events and the assets after payment must be "adjusted" to reflect this event.

If the observation period is reset or in the event of a distribution, the auditor is seldom consulted about the performance fee

spreadsheets. If there is a change of methodology, formal validation by the asset management company may be necessary.

Other events that cannot be foreseen when the fund is created may also affect the calculation of performance fees, such as mergers through absorption, demergers, splits or reverse splits of units or liquidations. Information must be exchanged between the asset management company, the auditor and the fund administrator and formal validation by the asset management company may be required.

a) Merger through absorption

A merger through absorption usually occurs between funds of the same type and with the same management strategy and similar accounting characteristics. This does not guarantee that they will have the same performance and/or the same procedures for calculating performance fees.

In the merging fund, calculations of performance fees are "frozen" on the date of the merger through absorption. If the merging fund has generated an excess performance, the provision recognised should be regarded as "accrued fees".



However, the management company may instruct the fund administrator to transfer this excess performance to the receiving fund (in compliance with point 36 of the *ESMA Guidelines* which stipulates that: “*the crystallisation of the performance fees of the merging fund should be authorised subject to the best interest of investors of both the merging and the receiving fund*”).

In the receiving fund, the usual procedure is a contribution of assets and a subscription of units: in this case, calculations are not frozen. The spreadsheet shows a subscription that will result in the weighting of assets.

b) Demergers, splits or reverse splits of units

In the case of a demerger or split (involving, respectively, the separation of a fund into two or more distinct funds and a change in the fund’s nominal value), no impact is anticipated on performance fees because:

- in the case of a demerger or split, all of the assets and liabilities are distributed on a pro rata basis (no impact on performance or on the components of the Net Asset Value). The old spreadsheet will be frozen and two or more new spreadsheets will be created for each class of units resulting from the demerger, and any transfers of underperformance are then distributed among the various spreadsheets;
- in the case of a demerger related to the creation of a side pocket, the principle of separation involving the creation of a new CIS that acquires the good assets, a new spreadsheet is created for this new CIS;
- in the case of a reverse split of units, only the number of units and the NAV are modified. This needs to be taken into account in the spreadsheet. As the modifications offset each other, there is no impact on performance, the provision, etc.



c) Liquidation

In the case of a liquidation, it is advisable to treat this event as a mass redemption of units. Any performance fees for which provisions may have been recognised are therefore considered “accrued fees”.

Other “exceptional” events may also occur during the lifetime of the fund, such as a change of asset management company or manager, a change of fund administrator or a new strategy decided on by the asset management company. All the information required for calculations of performance fees must be formally agreed between the asset management company and the fund administrator. These events should not have any impact on the calculations, but may require adjustments to the procedures for exchanging information. In the event of a change of fund administrator, a transition phase will be necessary. If there is a change of accounting service provider and if the previous provider supplied the spreadsheet (or did this via its internal system), the asset management company must give the new service provider formal validation of the new model. If the file is transferred between the old and new service provider, the asset management company must also provide formal validation.

If there is a change in the management strategy or index, barring an exception, the calculations should continue by linking the indices. There will therefore be two variable fee calculation periods during the observation period and there is no need to begin a new period before proceeding with a crystallisation and before fees can be paid to the asset management company.

Method of application – basis of calculation

Calculation of fixed management fees

Fixed management fees are calculated before performance fees are charged. The methods used must ensure that the maximum management fee stated in the Prospectus (expressed on the basis of net assets after provision) is not exceeded.

The various steps of the calculation are as follows:

- Step 1:** simulation of the calculation of provisional net assets;
- Step 2:** calculation of fixed fees based on provisional net assets;
- Step 3:** application of these provisional data in the Excel spreadsheet (or equivalent tool);
- Step 4:** recognition of the provision for performance fees, if applicable;
- Step 5:** deduction of the provision to determine the final net assets.

In step 5, if the accounting tool has not frozen the calculations of fixed management fees (step 2), it will have to recalculate them. In that case, the tool must be able to recalculate the provisional net assets (from step 1), ignoring the performance fees accounted for in step 4, in order to have the same basis of calculation for its fixed fees.

Fixed management fees are calculated without taking into account the calculation of performance fees. If the accounting software does not allow this treatment, the Excel spreadsheet will take this into account in order to correct the effects. However, it should be noted that asset management companies must be sure to apply the maximum fee based on the fund's net assets (i.e. net assets after provision).

Assets used as the basis of calculation

The assets that must be taken into account to calculate performance fees are the provisional assets on the calculation date (gross assets). Performance must be calculated based on gross assets. Gross assets correspond to the assets on the calculation date less fixed management fees and before any provision for uncrystallised performance fees.

Management of foreign currencies

When accounting for units held in a different currency from that of the fund, the exchange rate used for conversion calculations done by the performance calculation system is the same as that used to calculate the Net Asset Value, in order to avoid discrepancies related to conversions during interim calculations.

Recovery of negative performance over five years

The various steps can be described as follows:

- ▶ calculation of excess performance or underperformance for each year;
- ▶ in case of underperformance, the corresponding amount will be carried over to the following four financial years and performance fees (PF) will be provisioned only if performance offsets this carried over underperformance;
- ▶ in case of excess performance, this excess is first used to offset past underperformance carried over to the previous four years;
- ▶ during the financial year, PF will be provisioned only if performance offsets the underperformance carried over from the previous four financial years.



Management of special requests

Any request for exemption from the rules for calculating or recording performance fees should be made in writing and validated by the asset management company's risk manager.

ANNEXES



Algorithm for calculating performance fees – One condition: outperform a benchmark

In very broad terms:

- calculation of excess performance or underperformance for each year;
- in case of underperformance, the corresponding amount will be carried over to the following four financial years and PF will be provisioned only if performance offsets this carried over underperformance;
- in case of excess performance, this excess is first used to offset past underperformance carried over to the previous four years;
- during the financial year, PF will be provisioned only if performance offsets the underperformance carried over from the previous four financial years.

Detailed algorithm

- Each day, we compare the actual net assets excluding PF with the indexed assets, as is currently done.
- At the end of the financial year, the indexed assets are systematically “reset” in order to determine the amount of excess performance or underperformance for each period during the financial year (actual assets on the last day of the financial year excluding PF vs. indexed assets).
- During the **1st year**, we provision PF only if the performance differential (assets excluding PF - indexed assets) is positive (as we now do).

At the end of the 1st year:

- ▶ if the performance differential (assets excluding PF - indexed assets) is positive, there is no carryover and we “start again” at the beginning of the 1st year (since there is no previous underperformance to be carried over, we start a new underperformance carryover period);
- ▶ if the differential is negative, this difference is carried over as underperformance to be offset over the next financial years up to a maximum of four years.

The reference assets are then “reset” with the year-end assets.

- During the **2nd year**, we provision PF only if the performance differential (assets excluding PF - indexed assets) exceeds the underperformance to be offset.

Still during the year, the amount of underperformance carried over and to be offset is adjusted for redemptions ⁽¹⁾.

At the end of the 2nd year:

- ▶ if the performance differential (assets excluding PF - indexed assets) is positive and exceeds the underperformance carried over and to be offset, there is no carryover and we “start again” at the beginning of the 1st year (since there is no longer any previous underperformance to be carried over, we start a new underperformance carryover period);
- ▶ if the performance differential (assets excluding PF - indexed assets) is positive but does not exceed the underperformance carried over and to be offset, this carryover is reduced by the excess performance of the 2nd year, the balance of the residual underperformance is carried over and no carryover remains with respect to the performance of this 2nd year;
- ▶ if the performance differential (assets excluding PF - indexed assets) is negative, we carry over an amount corresponding to the underperformance to be offset with respect the 2nd year in addition to the amount carried over from the 1st year ⁽²⁾.

The reference assets are then “reset” with the year-end assets.

- During the **3rd or 4th year**, we provision PF only if the performance differential (assets excluding PF - indexed assets) exceeds the total amount of underperformance to be offset.

Still during the year, the amount of underperformance to be offset is adjusted for redemptions ⁽¹⁾.

At the end of the 3rd (or 4th) year:

- ▶ if the performance differential (assets excluding PF - indexed assets) is positive and exceeds the underperformance carried over and to be offset, there is no carryover and we “start again” at the beginning of the 1st year (since there is no longer any previous underperformance to be carried over, we start a new underperformance carryover period);
- ▶ if the performance differential (assets excluding PF - indexed assets) is positive but does not exceed the underperformance carried over and to be offset, the excess performance for the year offsets the past underperformance (applied first to the oldest), the residual underperformance is carried over and no carryover remains with respect to this 3rd (or 4th) year);
- ▶ if the performance differential (assets excluding PF - indexed assets) is negative, we carry over an amount corresponding to the underperformance to be offset with respect to the 3rd (or 4th) year and continue to carry over the underperformance to be offset from previous years ⁽²⁾.

The reference assets are then “reset” with the year-end assets.

- During the **5th year**, we provision PF only if the performance differential (assets excluding PF - indexed assets) exceeds the total amount of underperformance to be offset.

Still during the year, the amount of underperformance to be offset is adjusted for redemptions ⁽¹⁾.

At the end of the 5th year:

- ▶ if the performance differential (assets excluding PF - indexed assets) is positive and exceeds the underperformance carried over and to be offset, there is no carryover and we “start again” at the beginning of the 1st year (since there is no longer any previous underperformance to be carried over, we start a new underperformance carryover period);

- ▶ if the performance differential (assets excluding PF - indexed assets) is positive but does not exceed the underperformance carried over and to be offset, the excess performance for the year offsets the past underperformance (applied first to the oldest), the residual underperformance is carried over, except the residual underperformance of the 1st year which is “disregarded”, and no carryover remains with respect to this 5th year ⁽²⁾;
- ▶ if the performance differential (assets excluding PF - indexed assets) is negative, we carry over an amount corresponding to the underperformance to be offset with respect to the 5th year and continue to carry over the underperformance to be offset from previous years, except that of the 1st year which is “disregarded” ⁽²⁾.

The reference assets are then “reset” with the year-end assets.

- Each of the **following years** works like the 5th year:
 - ▶ provision for PF only if: assets excluding PF - indexed assets - sum of carryovers > 0;
 - ▶ adjustment of underperformance carried over based on redemptions;
 - ▶ after any offset with the excess performance for the year, the carryover of underperformance for year N-4 is “removed” from the history of underperformance to be offset ⁽²⁾;
 - ▶ reset of the reference assets with the year-end assets.
- The daily spreadsheet is basically unchanged:
 - ▶ addition of amounts of past underperformance to be recovered ⁽²⁾;
 - ▶ calculation of any adjustment of this underperformance when units are redeemed;
 - ▶ total past underperformance adjusted for S/R taken into account to calculate the daily provision.

⁽¹⁾ Adjustment of underperformance carried over and to be offset based on redemptions: adjusting the underperformance carried over based on redemptions seems necessary because, in principle, the investor who exits the fund “leaves” with a portion of the past underperformance, so there is no longer any need to keep this portion of underperformance to be offset.

Thus, if 80% of the unitholders exit the fund, the total underperformance carried over is reduced by 80%; there is therefore no risk of being in a situation where it would be impossible to recover the underperformance carried over as a result of an asset becoming too weak.

This adjustment is made by reducing the amount of each of the underperformances to be carried over based on the number of units redeemed relative to the number of existing units at the start of each financial year with underperformance carried over = carryover at start of year / number of units at start of year * number of redemptions since start of year.

⁽²⁾ The carryover of past underperformance is subdivided into four counters (carryover of underperformance from years N-1 to N-4); at the end of each period, after any offset with the excess performance for the year (with offsetting applied first to the oldest underperformance carried over - from N-4 to N-1), the underperformance of the year being closed becomes the N-1 carryover for the new year, the N-1 carryover becomes the N-2 carryover, and so on up to the rest of the N-4 carryover, which “disappears”.

NB: carryovers are of course capped at zero (since they are carryovers of underperformance).

Performance Fees AFTI Summary Sheet

GENERAL INFORMATION			
Name of fund:			
AMF classification:			
CONTACTS	Surname and first name	E-mail address	Telephone no.
Asset management company:		@	
		@	
Valuation by:		@	
		@	
Auditor:		@	
		@	
Custodian:		@	
		@	
ACCOUNTING RULES AND METHODS (extract from the Prospectus)			
Rules on performance fees			
<p>“Example: 20% of performance, calculated by comparing changes in the fund’s assets with changes in the assets of a reference fund whose performance is exactly the same as its reference indicator, i.e. the index consisting of 50% DJ Euro Stoxx 50.”</p>			
Description of calculation method and procedures			
<p>“Example: The performance fee is based on a comparison of the performance of the mutual fund and a benchmark index defined below over the reference period. The benchmark index is equal to the reference indicator of the fund (50% DJ EURO STOXX 50 index (dividends reinvested) and 50% Eonia index). The performance fee is calculated over a reference period of 12 months from December to December. The first reference period will run from the launch date of the fund to the first closing date of the fund (end of December 2010). The performance fee relating to unit S will be deducted for the first time in December 2016. Performance is calculated by comparing changes in the fund’s assets with changes in the assets of a reference fund whose performance is exactly the same as the fund’s reference indicator and that has experienced the same changes in subscriptions and redemptions as the actual fund.</p> <ul style="list-style-type: none"> ▶ If, during the reference period, the performance of the mutual fund exceeds that of the reference fund, the variable portion of management fees will represent 20% of the difference between the performance of the mutual fund and the performance of the reference fund, provided that the performance of the Net Asset Value has been positive since the start of the reference period. ▶ If the variable portion results in the fund’s negative performance during the reference period, the variable portion will be reduced so that the Net Asset Value is equal to the reference Net Asset Value (Net Asset Value at the end of the previous financial year). ▶ If, during the reference period, the performance of the mutual fund is less than that of the reference fund, the variable portion of management fees will be zero. ▶ If, during the reference period, the performance of the mutual fund since the start of the reference period exceeds that of the reference fund calculated for the same period and if the performance of the fund since the start of the reference period is positive, this excess performance will be subject to a provision for variable management fees when the Net Asset Value is calculated. <p>If the mutual fund underperforms in relation to the reference fund between two net asset value calculations, any provision recorded previously will be adjusted through a provision reversal. Provisions reversals are capped in the amount of the previous provisions.</p> <p>This variable portion will be definitively collected at the end of the reference period only if, for the reference period just ended, the performance of the mutual fund exceeds that of the reference fund and if the performance of the mutual fund is positive for the reference period. In the event of the redemption of units, if a provision has been recorded for performance fees, the share proportionate to the redeemed units is calculated and accrues to the asset management company.</p> <p>These fees will be charged directly to the fund's profits.</p>			
Date last updated:			Page 1/2

SUMMARY							
Prospectus			SHEET				
REFERENCE INDICATOR							
Composite indicator	Y/N						
Name of index	Percentage of the index in the benchmark	Index provider	Provider code	Comments:			
1/	%						
2/	%						
3/	%						
4/	%						
5/	%						
6/	%						
	0	Check digit					
Type of price	Opening <input type="checkbox"/> Closing <input type="checkbox"/> Other <input type="checkbox"/>						
Rebalancing frequency:							
If "Other", specify							
PAYMENTS							
Frequency of payment of variable fees			Comments:				
Annual (minimum period)?	Yes <input type="checkbox"/> No <input type="checkbox"/>						
Other frequency?	Specify:						
			Frequency of redemption fees	Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Half-yearly <input type="checkbox"/>			
Redemption fees	Yes <input type="checkbox"/> No <input type="checkbox"/>			Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> On request <input type="checkbox"/>			
GENERAL CALCULATION PROCEDURES							
Length of first financial year	Start	End					
Specify the dates	/ /	/ /					
Additional notes:			Calculation method	Indexed assets <input type="checkbox"/> Other <input type="checkbox"/>			
			If "Other", specify:				
			Method of application				
			Recovery mechanism	Yes <input type="checkbox"/> No <input type="checkbox"/>			
			Specify the mechanism	Target value <input type="checkbox"/> Nominal NAV <input type="checkbox"/>			
				Closing NAV <input type="checkbox"/>			
				Highest closing NAV subject to a provision <input type="checkbox"/> Highest closing NAV over several financial years <input type="checkbox"/> Number of financial years:			
				Highest NAV for the financial year <input type="checkbox"/>			
			If "Other", specify:				
			Other methods				
Fixed fees	Recalculated <input type="checkbox"/> Not recalculated <input type="checkbox"/>						
Day's assets	Yes <input type="checkbox"/> No <input type="checkbox"/>						
Previous day's assets	Yes <input type="checkbox"/> No <input type="checkbox"/>						
Other	Yes <input type="checkbox"/> No <input type="checkbox"/>						
If "Other", specify:							
SPECIAL CALCULATION PROCEDURES							
List of units	Calculation?	Currency of units	Target excess perf. (%)	Start date 1 st calculations	Crystallisation date		
1/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
2/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
3/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
4/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
5/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
6/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
7/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
8/	Yes <input type="checkbox"/> No <input type="checkbox"/>			/ /	/ /		
Date last updated:					Page 2/2		



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Adina Gurau Audibert, Head of Asset Management (AFG)
and Stéphane Aidan, Head of Risk Management, coordinated this work.



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