

National Instrument 81-106

**Final Report
for Ontario Securities Commission**

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Contents

1.0. Introduction.....	3
1.1. Background	3
1.2. Methodology.....	3
2.0. Fund Reports—Patterns of Satisfaction and Reading	4
2.1. Overall.....	4
2.2. Weak Satisfaction with Current Mutual Fund Reporting	4
2.3. Quebecers and Atlantic Canadians the Most Satisfied.....	5
2.4. Moderate Levels of Reading	5
2.5. Dissatisfaction Linked to Non-Reading and Difficulty Comprehending.....	6
2.6. Special Credibility Problem in Quebec	8
2.7. Two Types of Non-Readers: the Less Satisfied vs. the Less Interested	9
2.8. Short-term Investors vs. Long-term Investors	10
2.9. Ramifications.....	11
3.0. Reporting Practices—Patterns of Preference	12
3.1. Overview	12
3.2. Written Reports on “How the Fund as a Whole Has Done”— Widespread Desire Except among the Elderly.....	12
3.3. What Information Has Value—All Information Highly Valued, Especially Performance-Related Information.....	13
3.4. Desired Frequency and Length of Reporting—5 pp. at Least Twice Yearly; Promotional Material on Sister Funds Acceptable	15
3.5. Canadians Want Transparency and Consistency	17
3.6. Demographic Uniformity Except for Quebecers’ Reservations about a Uniform Format.....	19
3.7. Ramifications.....	19
4.0. Delivery Channel	20
4.1. Unit Holders Web-Averse and Unaware of www.Sedar.com.....	20
4.2. Ramifications.....	22



5.0. Investor Behaviour and Channels of Communication.....	22
5.1. Overview	22
5.2. Mutual Fund Holders Think Long-Term.....	22
5.3. Increased Reporting Would Increase Transactions.....	23
5.4. Channels and Factors—Advisors, Fund Performance Records, Fund Company Reputations, Not Newspapers.....	24
5.5. Ramifications.....	25
Conclusion.....	25



1.0. Introduction

1.1. Background

In this document, COMPAS reports on the fruits of a national survey (N>1000) among past, present, and prospective mutual fund unit holders. The survey was undertaken on behalf of the Ontario Securities Commission, acting in concert with and on behalf of its provincial counterparts and the Canadian Securities Administrators. The context includes the discussions of the securities administrators with respect to the securities practice of providing Management Discussion and Analysis to shareholders as well as the draft Rule on investment fund, continuous disclosure.

The proposed National Instrument 81-106 and the companion policy 81-106CP are a standardized set of disclosure rules that address the need to provide more timely and useful ongoing financial and non-financial information about an investment fund. The reforms are intended to allow an average investor to better assess an investment fund's performance, position, and prospects.

1.2. Methodology

The present report is based on findings from quantitative or survey research rather than qualitative research, of which the best known type is focus groups. Qualitative studies can make vital contributions to the field of public opinion and consumer research. For example, focus groups can be used very successfully to identify themes for subsequent quantitative research or to assess physical products or reports. Quantitative or survey research is nonetheless superior for measuring objectively where people stand on an issue.

The particular suitability of quantitative studies for measuring where people stand rests on the following advantages:

- Unlike qualitative research, surveys are fully replicatable and hence more objective and scientific because they are implemented using detailed questionnaires rather than guides to discussion, as used in focus groups
- Unlike group settings in qualitative research (e.g. focus groups), surveys are immune to the contaminating effect of group pressure, group thinking, group leaders, and the phenomenon of social respectability
- Large sample surveys are far more immune than small group, qualitative research to sampling error, the random error whereby samples drawn from a universe of potential respondents reflect with varying accuracy the opinions of the universe from which they are drawn



- Because of their logistical efficiency, surveys are far less expensive per participant/respondent, more representative, and quicker to implement than qualitative studies such as focus groups.

In practice, samples of N=1000 are deemed accurate to within 3.2 percentage points 19 times out of 20. Interviews were undertaken by professional interviewers using computer-assisted telephoning interviewing equipment, and were completed during the second half of March, 2003. Sampling was proportional to the population of each province according to the Census of Canada.

2.0. Fund Reports—Patterns of Satisfaction and Reading

2.1. Overall

The key themes explored in this section are patterns of weak satisfaction with fund reports and low levels of reading. One factor in weak satisfaction and low intensity reading is a somewhat widespread difficulty understanding reports. Another factor is that most fund owners have a long-term perspective, and many see this as a reason to skim or sometimes overlook reports.

Quebec fund owners present a special dilemma, characterized by a paradoxical combination of a high inclination to doubt the believability of fund reports along with comparatively high levels of satisfaction and reading by Canada-wide standards. The paradoxical views of Quebecers reflect to some extent a pattern of paradoxicality that runs through Quebec's culture. Such paradoxicality is reflected, for example, in public misgivings about the role of government alongside reliance on the provincial government to defend French-speaking Quebec in the face of sundry economic, cultural, and linguistic challenges.

2.2. Weak Satisfaction with Current Mutual Fund Reporting

Past and present mutual fund holders in Canada are on average slightly satisfied with current, mutual fund reporting methods. On a 5-point satisfaction scale, qualifying respondents assign a mean score of 3.3 to their mutual fund reports.¹ The best that can be said about satisfaction level is that those who are satisfied, scoring 4 or 5 on the 5-point scale, outnumber 2:1 those who are dissatisfied, scoring 1-2 on the scale, as shown in table 1.

The worst that can be said is that the average score, 3.3, is barely above the mid-point of 3.0. It is rare for customers to assign satisfaction scores as low as the mid-point

¹ "(Q8) [ASK ONLY IF CURRENTLY OR PREVIOUSLY OWNED FUNDS] How satisfied were you with the mutual fund reports but NOT your personal statement of account that you received? [OPTIONAL] Please use a 5-point scale where 1 means very dissatisfied and 5, very satisfied."



on a satisfaction scale. In studies of customer satisfaction with federal and Ontario provincial programs, we typically find mean scores around 4 on 5-point scales. In practice, 54% score 3 or lower on the 5-point scale of satisfaction with mutual fund reports.

Table 1: “(8) [ASK ONLY IF CURRENTLY OR PREVIOUSLY OWNED FUNDS] How satisfied were you with the mutual fund reports but NOT your personal statement of account that you received? [OPTIONAL] Please use a 5-point scale where 1 means very dissatisfied and 5, very satisfied.”

	Mean	5	4	3	2	1	DNK
Satisfaction with the mutual fund reports but NOT your personal statement of account that you received	3.3	16	26	34	13	7	4

2.3. Quebecers and Atlantic Canadians the Most Satisfied

Mutual fund holders in Atlantic Canada (53% score a 5 or 4) and Quebec (50%) appear most satisfied with their mutual fund reports while fund holders in B.C. (34%) and Manitoba/Saskatchewan (35%) appear least satisfied. Fund holders in Alberta (43%) and Ontario (41%) fall in between. Satisfaction does not appear to vary by other key demographic indicators such as age, education, gender, income, or number of assets.

2.4. Moderate Levels of Reading

Paralleling the weak levels of satisfaction, reported above, is a pattern of moderate reading of fund reports. Only 15% of fund holders report reading “all of them carefully” while another 21% read “some of them carefully and glanced at others” for a grand total of 36% who read at least some reports carefully, as shown in table 2. By contrast, a grand total of 32% report skimming some reports at most.

Overall, the data lend themselves to a moderate interpretation of the importance of fund reports to unit holders as measured by how widely and intensively they read such reports. The data can be used to repudiate the extreme view that fund reports are essentially ignored along with the equally extreme but opposite view that unit holders hang on every word in them. The fact that only 6% claim not to have read any reports discredits the jaundiced view that unit holders do not read these reports. On the other hand, the fact that only 36% claim to have read at least some carefully discredits the Alice-in-Wonderland view that unit holders hang on every word in them.



Table 2: (Q9) [ASK ONLY IF CURRENTLY OR PREVIOUSLY OWNED FUNDS] “People say that they are sometimes too busy to do what they would like to do. Thinking of the mutual fund reports that you receive but NOT your personal statement of account, which of the following statements best describes how you treat them?” [NOT ROTATION]

	%
You read all of them very carefully	15
You read some of them carefully and glanced at the others	21
You skimmed through most of them	31
You skimmed through some of them	16
You did not bother with most of them	10
You looked at none of them	6
DNK/NO RESPONSE	1

2.5. Dissatisfaction Linked to Non-Reading and Difficulty Comprehending

Following a pattern that resembles a truism, fund holders who tend to read their reports tend to be satisfied with them, as shown in table 3. Meanwhile those who tend not to read them express dissatisfaction. In practice, those who read carefully all (mean 3.5; 50% top two box) or some (mean 3.6; 57% top two box) of their reports display significantly higher satisfaction levels than those who do not bother with most of their reports (mean 2.9; 27% top two box). Those who skim through most (mean 3.3; 40% top two box) or some (mean 3.3; 38% top two box) of their mutual fund reports fall in between careful readers and non-readers in terms of satisfaction.

*Table 3: Satisfaction by Reading:
Satisfaction Appears to Rise with Frequency of Reading Reports*

	Mean Satisfaction Score	Top Two Box (% 5 or 4)
You read all of them very carefully	3.5	50
You read some of them carefully and glanced at the others	3.6	57
You skimmed through most of them	3.3	40
You skimmed through some of them	3.3	38
You did not bother with most of them	2.9	27
You looked at none of them	3.1	24
DNK/NO RESPONSE	2.3	11

Pinpointing the link between satisfaction and reading intensity is a bit of a chicken-and-egg problem. Causality probably runs both ways. In defence of the authors of fund



reports, it is probably fair to say that fund holders would become more satisfied if they invested more effort and actually spent more time reading them. A public spirited advertising and promotion program encouraging fund holders to read their material would probably make some sense.

Such an advertising and promotion program would be essential, especially to the extent that regulators wish unit holders to increasingly turn to www.sedar.com for their reporting needs. As reported elsewhere herein, unit holders are almost universally unaware of the existence of the regulators' website. Furthermore, as also reported elsewhere in this document, unit holders are not heavy Internet users.

There is nonetheless some evidence that a widespread difficulty understanding fund reports depresses both reading and satisfaction. Some unit holders read the reports rarely or not at all because, according to their own testimony, they are too busy or the reports are not important to them. Other unit holders read the reports rarely or not at all because the reports are too difficult to understand or not entirely believable, they say. In practice, satisfaction is higher among those who are too busy (mean of 3.3) or who do not deem the reports of particular importance (3.4) than among those who have trouble understanding them (3.1) or don't find them believable (3.1). The differences are not large but they are statistically significant.² By this, we mean that the differences are sufficiently large given the sample of N=1000 that we can be certain that these differences are real and not a byproduct of mere chance alone. Though true and not the result of sampling accident, the differences are nonetheless not huge.

In practice, the main reason for skimming rather than careful reading is a perception of mutual funds as long-term investments, as shown in table 4. Among the 85% of current and past fund owners who do not read all of their reports carefully, 84% attribute their lack of fastidious reading to their treatment of funds as long-term investments. In second and third positions are the explanations that the respondent is a very busy person (73%) or reports are too long (67%). A sizeable number, half of unit holders (48%), say that the reports are too difficult to understand. Fewer than a third attribute their lack of fastidious reading to the idea that the report is not important (32%) or not entirely believable (31%).

² Significant at the 95% level.



Table 4: (Q10) [ASK ONLY IF CURRENTLY OR PREVIOUSLY OWNED FUNDS. IF OTHER THAN ANSWER 1 IN THE PRECEDING QUESTION]³ “Please tell me which of the following reasons explains why you did not read the mutual fund reports very carefully.” [ROTATE; RECORD YES/NO FOR EACH THAT APPLIES]

	Percent agreeing with each statement
You see mutual funds as a very long-term investment	84
You are a very busy person	73
The reports are too long	67
The reports are too difficult to understand	48
The reports are not useful for comparing one fund with another	43
The reports are not important to you	32
The reports are not entirely believable	31

From a reputational perspective, the fund industry might well choose to invest substantially in making its reports more easily understood. Doing so would almost certainly drive up satisfaction levels and may also draw monies from competing forms of investment. It is axiomatic that clients tend to move their investments or purchases from options with which they are moderately or stably satisfied to options with which their satisfaction is growing.

2.6. Special Credibility Problem in Quebec

The fund industry might do well to invest for the purpose of increasing the confidence of Quebecers in their industry. More than other Canadians, Quebec fund holders are apt to say that they are un-inclined to read carefully all the reports that they receive because these reports are not entirely believable—45% among Quebec respondents vs. 46% in second-place Sask/Man, 31% nationally, and a low of 19% in Alberta.

Quebecers’ skepticism about the credibility of fund reports should be treated on its own merits. The tendency of Quebecers to find fund reports unbelievable should not be attributed to either a special difficulty comprehending reports or to a lack of experience reading them. Quebecers are no more likely than Canadians as a whole to explain their lack of fastidious reading to a difficulty understanding fund reports—46% vs. 48% nationally (Q10). Quebecers are no less apt to read fund reports with care (Q9). Indeed,

³ The question was asked of the 85% of current or past unit holders who did not say that “they read all of them [reports] very carefully.”



45% of Quebecers read at least some reports carefully compared to 36% nationally and a low of 30% in Alberta.

2.7. Two Types of Non-Readers: the Less Satisfied vs. the Less Interested

We reported above that low satisfaction is related to non- or low intensity reading and perhaps ultimately to difficulty comprehending reports. By the logic presented earlier, difficulty understanding fund reports leads to both low rates of reading and low satisfaction levels.

In the present section, we broaden our analysis of the drivers of low intensity reading by distinguishing between two types of fund holders:

- The less satisfied—those who attribute their low intensity reading to one or other weakness of the reports that they receive (see table 5), and
- The less interested—those who attribute their low intensity reading to considerations other than the nature of fund reports, for example to the respondent's own, long-term investment horizon.

The less satisfied explain their low intensity reading in terms of such weaknesses of fund reports as excessive length (68%), incomprehensibility (48%), poor comparability (43%), and low believability (31%). The less interested unit holders attribute their low intensity reading to factors un-related to the content of fund reports. For example, the less interested may attribute their low rate of reading to their view of mutual funds as long-term investments (85%). Alternatively, the less interested may say that they are too busy to read the documents thoroughly (74%), or they may acknowledge not considering the reports as particularly important (32%).

We compared the degree to which fund owners read fund reports with the reasons that they give for skimming or not reading such reports carefully. Perceived reporting weaknesses are the only factors that are related statistically to reading intensity. In particular, respondents who did not bother looking at most reports are significantly more apt to say that their non-reading was explained by the fact that fund reports are

- too difficult to understand (66% vs. 48% among all fund holders),
- too long (81% vs. 68%), and
- not useful for comparing different funds (56% vs. 44%).

Among fund holders who looked at no reports, the lone statistically significant relationship is with the propensity to say that reports are difficult to understand—58% among fund holders who looked at no reports vs. 48% among all unit holders and 40% among those who read carefully most reports.

Criticisms of report content are linked not only with the propensity not read them but also with the propensity to assign them low satisfaction scores. Thus, those who say



that the reports are too difficult to understand or are not entirely believable are more apt to assign low satisfaction scores than those who declare that the reports are not important to them or that they are (just) too busy to read them, as shown in table 5.

*Table 5: Satisfaction by Reasons for not Reading the Report Carefully
Satisfaction Scores Lower When Concerned about Report Content*

	Mean satisfaction	Top Two Box (% 5 or 4)
The reports are not important to you	3.4	42
You see mutual funds as a very long-term investment	3.3	42
You are a very busy person	3.3	42
The reports are too long	3.2	39
The reports are too difficult to understand	3.1	31
The reports are not useful for comparing one fund with another	3.1	32
The reports are not entirely believable	3.1	31

2.8. Short-term Investors vs. Long-term Investors

The results of the preceding sections suggest that there are two distinct categories of investors, namely short-term thinkers and long-term thinkers.

Short-term investors represent 16% of respondents. These fund holders think in terms of days, weeks, or months. They tend to be younger, lower income, and asset-limited. Short-term investors are disproportionately under 35 years of age (46% versus 26%), earn under \$30,000 (25% vs. 12%) in annual income, and have less than \$50,000 in assets (44% vs. 34%). They may be less apt to hold any other type of investment apart from their mutual funds (e.g. 83% do not have stocks versus 73% of long-term thinkers), and they seem disproportionately from Quebec (34% versus 22% of long-term thinkers),

Most mutual fund holders (82%) are at least medium-term, if not long long-term, thinkers who base their investment decisions on returns in years or decades.

Short-term thinkers are especially apt to read some or all of the reports carefully (52% versus 33% among long-term thinkers). Meanwhile, long-term-thinkers (i.e. those who think in terms of years or decades) are especially apt to skim some or most of the reports (49% vs. 36%).

Among the few non-readers (6%), long-term thinkers are especially apt to say they did not read the reports because of their long-term outlook (86% vs. 70% among short-



term thinkers) as perhaps expected. Meanwhile, short-term thinkers are nominally more apt than long-term thinkers to cite each of the remaining reasons for non-readership.

2.9. Ramifications

Several ramifications emerge:

- An important finding is that unit holders express weak satisfaction with the quality of reporting that they receive. From this finding, it follows that (a) the industry and its regulators have a shared interest in enhancing the quality of reporting and (b) ambitious industry players stand to gain competitive advantage by improving and heralding the quality of their reports.
- Paralleling weak satisfaction is a pattern of low intensity report reading. Most unit holders do not read carefully most, if any, reports. Only 15% claim to read carefully all the reports that they receive while 32% claim that they skim some of them at most. Those who read reports with some frequency tend to be more satisfied than those who do not. From this fact, it follows that unit holders should be strongly encouraged to read the reports provided to them even if such reports are not improved.
- One group of unit holders, whom we label the “less interested,” claim not to read reports carefully because their perspective is long-term. The ramifications from this finding are unclear. It may be that special reports or special “reports within reports” ought to be tailored to the interests of long-term investors.
- Another group of unit holders, whom we label the “less satisfied,” claim not to read reports carefully because they find such documents difficult to comprehend. Both the industry and its regulators have an interest in transforming fund reports into documents that their customers do find understandable.
- Quebec fund owners represent a special dilemma. They show comparatively solid rates of report reading and satisfaction, and yet show high levels of scepticism about the believability of such reports. Both the industry and the Quebec regulator have an interest in enhancing the confidence of Quebec unit holders in the believability of fund reports.



3.0. Reporting Practices—Patterns of Preference

3.1. Overview

This section explores unit holders' views about many aspects of reporting, including ideal content, frequency, and formatting. We also report on how unit holders feel about receiving information on sister funds. Whatever their own actual reading practices, mutual fund investors are information-hungry in that they definitely want a great deal of information especially the minority who read their existing reports carefully. There is hardly an item of potential information that would not be valued.

The average unit holder would welcome 5 page reports at least twice yearly, and would find acceptable receiving information on sister funds.

3.2. Written Reports on “How the Fund as a Whole Has Done”—Widespread Desire Except among the Elderly

Two-thirds of investors would like to receive written analysis of overall fund performance. In response to a direct prompt, 68% of past, present, and prospective fund holders say they would like to be able to receive or have access to a report containing written analysis of their fund as a whole, as shown in table 6. The question asked of respondents was as follows: “Suppose you own a mutual fund in the future or manage one for someone close to you. Would you like to be able to receive or have access to a report containing a written analysis of how the fund as a whole has done?”

Table 6: “Suppose you own a mutual fund in the future or manage one for someone close to you.” [ALL RESPONDENTS] Would you like to be able to receive or have access to a report containing a written analysis of how the fund as a whole has done? [PROMPT ONLY IF NECESSARY] [%]

	ALL	<25K assets ⁴	>200K assets	<35 yrs	35- 49	50- 64	65+
Yes	68	77	63	77	72	64	40
No	30	23	35	23	27	35	54
DNK/REFUSED	2	1	2	*	1	2	6

The desire for such reporting appears stronger among entry-level investors than experienced ones. Thus, small investors (less than \$ 25,000 in assets) may be more inclined than large investors to want a written analysis of how the fund has performed—77% vs. 63%, as shown in table 6. Age is an especially important driver of the desire for such reporting. Among the youngest cohorts, 77% want such reporting. The desire for

⁴ Total assets part from respondent's principal residence.



this kind of analysis declines steadily to age 64, and then plummets to 40%, as shown in table 6.

In practice, most investors do want such reporting. The desire attenuates with investment experience as measured by age and asset value. The attenuation with experience probably arises because experience leads investors to look for other sources of information or to discount the fund manager's assessments. Infirmity is probably a special factor accounting for the unique decline of interest among investors 65 years of age and older. The over-65 category is a broad category that extends to unit holders in their 80's and 90's, by which time many become infirm.

3.3. What Information Has Value—All Information Highly Valued, Especially Performance-Related Information

Though not all fund-owners read the information that they receive, it is the rare fund-owner who does not want information, as shown in table 7. The most desired elements of information relate in some fashion to performance measures, for example, year-over-year performance numbers, fees and expenses, and disclosure of a fund's best and worst returns.

Two elements of information are seen as less valuable than the others even if they are nonetheless seen as valuable. These two elements are information on related party transactions and changes in the portfolio manager or advisor.

The lower value assigned to these two elements of information may be attributable to respondents' not seeing or not understanding the potential long-term significance of these two features of fund conduct. This interpretation is lent some credence by the fact that university graduates assign more importance to information about related party transactions than do investors with less than high school education—50% scoring 4-5 on the 5-point scale vs. 37% in the case of the least educated segment.

Attitudes about the informational elements that are of value tend to be homogeneous or random irrespective of demographic attribute (e.g. region, age) and financial characteristic (e.g. assets, income). A primary exception is the tendency of investors with assets over \$ 200,000 to ascribe greater value to all elements of information than do investors as a whole. The proportions of the most asset-rich investors assigning a score of "5" are

- 50% for the disclosure of a fund's best and worst returns vs. 38% among fund holders as a whole;
- 40% for how the fund invests assets vs. 32% among fund holders as a whole;
- 46% for a discussion of how the fund has performed vs. 37% among fund holders as a whole;
- 51% for information on year over year performance vs. 39% among fund holders as a whole;



- 37% for management changes vs. 27% among fund holders as a whole;
- 52% for management fees and expenses vs. 41% among fund holders as a whole.

Table 7: (Q12) "Please score each of the following types of information that may be included in a report using a 5-point scale where 1 means not at all valuable and 5, very valuable." [ROTATE]

	Mean	5	4	3	2	1	DNK
Year over year performance numbers	4.0	39	32	17	5	6	2
Management fees and expenses	3.9	41	24	18	8	7	3
Disclosure of a fund's best and worst returns	3.9	38	28	20	6	5	3
Discussion of how the fund has performed	3.8	37	27	22	7	5	2
How the mutual fund unit prices have changed during the year	3.8	36	27	22	7	6	3
Details on current fund holdings	3.8	33	30	23	6	5	3
How the mutual funds invests assets, for example stocks, bonds, or complex financial instruments	3.8	32	28	25	8	5	3
Related party transactions, for example where there could be a conflict of interest	3.4	27	21	23	11	12	7
Changes in the manager or portfolio advisor	3.3	27	20	24	15	12	3

The sustained tendency of asset-rich investors to see value in information suggests that investors' own characteristics are as important as the characteristics of fund reports in driving attitudes towards these reports. Asset-rich investors see special value in information in part because the size of their assets gives them more at stake. Yet, the fund-asset wealth of fund holders does not drive all fund-related behaviour. For example, the most heavily fund-invested segment is no more likely than unit holders as a whole to read carefully fund reports.



The only possible pattern of reading that is statistically linked to level of fund investment is a hint of a tendency among those with the fewest fund assets to skim reports. Those with less than \$ 25,000 in mutual funds are more likely than respondents as a whole to say that they skim through most of the reports—42% vs. 31%. However, those with less than \$ 25,000 in mutual funds do not differ from the population of fund investors in any of the other categories of skimming, reading, and ignoring fund reports.

While investors with large fund portfolios assign the most value to different elements of information, those who ignore fund reports assign the least value to these same elements. For example, 17% of those who looked at no reports assigned a value of “1” to disclosure of a fund’s best and worst years compared to 5% among unit holders as a whole.

The tendency of non-readers to assign low value to the various elements of information may amount to a truism or near tautology. Indeed, the relationship between non-reading and perceived low value may be reciprocal. On the one hand, those who do not value the information do not bother to read, thereby acting in a pattern that is consistent with their perceptions of value. On the other hand, those who do read come to appreciate the value of what they have read.

The following are some partial patterns of assigning value to elements of information:

- those who read all reports carefully see much value in information on how funds invest their assets—46% scoring “5” vs. 32% among fund holders as a whole;
- the elderly are more likely not to know how much value to assign to any particular element of information, and they also assign less value to information about management fees—25% bottom-2 box vs. 14% among unit holders as a whole.

3.4. Desired Frequency and Length of Reporting—5 pp. at Least Twice Yearly; Promotional Material on Sister Funds Acceptable

Fund holders want reports that average 5.4 pages in length⁵, at least twice yearly, as shown in table 8. Respondents were asked twice about the ideal frequency of reporting, initially without reference to the extra cost of preparing such materials and subsequently with such a reminder.⁶ Reminding respondents of the “potential cost to investors” predictably reduces enthusiasm for frequent mailings, but by a small margin. Thus, 41% want a mailing at least four times year prior to being reminded of the cost implications; this drops to 32% after such a reminder. The proportion wanting a report at least twice yearly diminishes from 74% to 66%.

⁵ Based on 93% response; 7% DNK.

⁶ See the ensuing footnote for the precise wording of the question that reminds respondents of the cost.



One particular issue is whether information on sister funds should be included in mailings to fund holders. Fund holders are neither enthusiastic about receiving such material nor opposed, as shown in table 9. A key factor in their ambivalence is that it is difficult for them to offer an opinion prior to being shown the precise kinds of information that they would receive.⁷

Though fund investors are relatively homogeneous in their views on these informational matters, some variation nonetheless emerges. Those who patiently read very carefully all the reports that come their way desire longer and more frequent reports than fund investors as a whole. For such careful readers, the ideal length is almost 7 pages (6.8). By comparison, those who look at no reports would prefer fewer than 3 pages (2.7). Quebecers (7.7 pages) are more accepting of longer documents.

Table 8: (Q15) "How often would you like to receive or be able to have access to these reports?"(%)

	Frequency Desires...	
	With no mention of cost (Q15)	With a prefatory mention of cost ⁸ (Q16)
Monthly	12	10
4 times a year	29	22
Twice a year	33	34
Once a year	24	30
DNK/REFUSED	3	3

*Table 9: (Q14) "Mutual fund companies sometimes send out information on their other mutual funds in addition to information on your own fund."
[IF ONLY A PROSPECTIVE FUND HOLDER, PREFACE WITH]
"Thinking ahead when you would own mutual fund units..."
[ALL RESPONDENTS] Is this information... [ROTATE]*

	%
That you definitely don't want to receive	29
That you don't really want but don't object to receiving	45
That you would want to receive	23
DNK/REFUSED	3

⁷ Unit holders' attitudes towards information on sister funds may parallel the public's general attitudes towards advertising. Most newspaper readers bemoan the volume of advertising in newspapers while at the same time select the newspapers to which they subscribe at least in part because of the particular advertising information that they can count on seeing in the chosen paper.

⁸ Q16 "Recognizing that the more frequent the reporting, the higher the potential cost to investors in the fund, how often would you like to receive or be able to have access to these reports?"



Those who read all their reports with some care are information-hungry. They not only want longer documents but they also wish to receive them more frequently—61% favouring documents at least four times a year vs. 41% with that view among fund investors as a whole. They also want information on sister funds—40% actively desire such information vs. 23% among unit holders as a whole. Among careful readers, 74% either desire or would accept receiving reports on sister funds compared to 68% among unit holders as a whole. Meanwhile, the segment most averse to receiving information on sister funds is the elderly—47% vs. 29% among unit holders as a whole.

3.5. Canadians Want Transparency and Consistency

In a reflection of the comparatively open character of Canada’s national political culture, fund holders want transparency and consistency in fund reports. In particular, they want fund holders to be reminded annually and not just at the time of their initial investment that they are entitled to request reports to be mailed, as shown in table 10.

The viewpoint of whether unit holders should be informed of a mailing option annually or just once is affected mainly by the degree to which unit holders are information-hungry. Those who read all their reports carefully definitely want an annual reminder of the mailing option—71% vs. 64% among respondents as a whole. Meanwhile, those who do not read or skim most of the documents that they receive are the segment most inclined to the view that investors should be informed only at the time of initial purchase—42% vs. 31% among unit holders as a whole.

*Table 10: (Q21A) “Suppose annual statements and reports are only mailed **if** requested, should mutual funds have to tell fund investors that they can ask for the reports to be mailed?” [NO ROTATION]*

	%
Every year	64
Only at the time of investment	31
DNK/REFUSED	4



Table 11: (Q20) “Mutual funds will be required to post on their websites their reports and financial statements. Keeping in mind the cost of mailing information and therefore the potential cost to investors in the fund, please tell me which of the following opinion is closest to your own.”

	%
Annual financial statements and reports should only be mailed if requested since they are all posted on the internet and are available by other means.	52
Annual financial statements and reports should be automatically mailed out to all mutual fund holders because these reports are so important for fund holders to have.	45
DNK/REFUSED	3

While respondents are reasonably certain that unit holders ought to be told annually of their right to report mailings, they are divided about whether such reports should be mailed out automatically or only on request. As shown in table 11, 52% feel that they should be mailed out only on request while 45% take the view that they should be mailed out automatically. In the wording of the question, respondents were reminded twice of the cost implications of mail-outs. They were asked to keep “in mind the cost of mailing information and therefore the potential cost to investors in the fund.” Had respondents not been reminded of the cost implications, advocates of automatic mailings might have formed a small majority instead of constituting a very large minority.

Table 12: (Q22) “As you may know, mutual funds own shares of companies and can vote at meetings of these companies. Funds are not currently required to report how they vote. Keeping in mind the potential cost of preparing such reports, should the mutual fund have to report to unit holders?”

[NO ROTATION]

	%
How they vote on all issues	21
How they vote on major issues like corporate takeovers or moving the company head office	48
Should they be free not to report how they vote	24
DNK/REFUSED	7



Table 13: (Q21B) One issue is whether the securities commissions should require all the funds to use almost identical formats for their reports. Which of the following opinions is closer to your own? [ROTATE]

	%
Funds should be required to use identical reporting formats so that investors will find it easy to compare the performance of different mutual funds	67
Funds should NOT be required to use identical formats because they will all end	26
DNK/REFUSED	7

In a similar spirit of transparency, fund holders wish funds to be required to report on how they vote at meetings of companies whose shares they own. A clear majority wants a requirement for funds to at least report on “how they vote on major issues like corporate takeovers or moving the company head office,” as shown in table 12. A fifth (21%) want a requirement for reporting on all votes while half (48%) want a requirement for reporting on major votes for a grand total of 69%.

Unit holders desire not only transparency but consistency as well. Two-thirds favour requiring funds “to use identical reporting formats so that investors will find it easy to compare the performance of different mutual funds,” as shown in table 13.

3.6. Demographic Uniformity Except for Quebecers’ Reservations about a Uniform Format

Canadians’ preferences for reporting practices vary hardly at all according to age, gender, region, and other demographic attributes. A notable exception is the mixed view among Quebecers about a uniform reporting format. Quebecers are the only demographic segment among whom support for using identical reporting formats does not exceed 50%. Among Quebecers, 46% favour uniform reporting formats while 39% oppose them, as compared to 67% and 26% among unit holders as a whole.

3.7. Ramifications

The main findings and concomitant ramifications are as follows:

- From the evidence of a widespread desire for reports on how their fund has performed, it follows that such reports should indeed be provided, ideally in the form of 5 page documents made available at least twice yearly according to the data emerging from this survey;
- From the evidence of some unique reservations among the elderly, it follows the such reports should be designed to be user friendly to the elderly, for example, by utilizing larger font;



- ❑ All the various content elements explored in this study elicited very high or somewhat high enthusiasm. From these findings, it follows that fund reports should indeed satisfy unit holders' thirst for such information.
- ❑ From the evidence that unit holders are not quite as interested in information on related party transactions and change of manager, it follows that institutions engaged in investor education should seek to explain to business journalists and their audiences the significance and value of such information;
- ❑ Given the findings from this study, a persuasive message addressed to investors might highlight the fact that asset-rich investors are information-hungry, and they want to know everything they can find out about their funds—from their year to year performance records to their management fees and changes in management;
- ❑ From the evidence of unit holders' desire for transparency in reporting, it follows that unit holders should be reminded annually of their right to mailed reports and funds should be required to report on how they vote on significant issues at meetings of companies that they own;
- ❑ From the evidence of divided opinion about whether mailings should be automatic or optional, it follows that such mailings should probably be optional; however, given that www.sedar.com awareness is negligible and Internet access and use are moderate at present but growing, it may be sensible for regulators to consider the possibility of automatic mailings for the short-term, optional mailings for the medium-term, and no mailings for the long-term;
- ❑ From the evidence of unit holders' desire for reporting consistency, especially outside Quebec, it follows that the industry on its own or under regulatory supervision should consider introducing some uniform formatting in reports to unit holders.

4.0. Delivery Channel

4.1. Unit Holders Web-Averse and Unaware of www.Sedar.com

Unit holders' strong support for annual reminders about the availability of report mailings may be rooted in a culture that is not strongly web-oriented or, at the very least, not strongly oriented to using the web for mutual fund purposes. A clear majority



(60%) have never visited a website of their mutual fund, as shown in table 14. The overwhelming majority acknowledge having never heard of the regulatory website, www.sedar.com: 89% no, 10%, and 1% not sure.⁹

*Table 14: (Q17) [ONLY PAST AND PRESENT FUND HOLDERS]
“Incidentally, how often in a typical year did you visit the website for your fund?” [NO ROTATION; PROMPT ONLY IF NECESSARY]*

	%
Never	60
Once or Twice	12
Monthly	11
Weekly	6
Seasonally	6
Yearly	3
Daily	2
DNK/REFUSED	1

Among the small minority claiming to have heard of the sedar website, as many as 40% admit not having ever visited it. Meanwhile, 33% say that they have visited the site once or twice, 17% often, and 10% regularly. Of the 1001 unit holders participating in the national survey, at most 60 have ever visited the site. Only 27 claim to have visited the site regularly or often.

Unit holders’ comparative lack of exposure to fund-related sites can only be explained in small part by limited access to the web. It is true that fifth (19%) of unit holders have no access to the web.¹⁰ Yet, the vast majority have some kind of access—31% at home, 19% at the office, and 40% at both locations. Among the large majority with Internet access, an average of 7.3 hours per week is spent on the Internet.¹¹ Only a small portion of this time is devoted to investment-related information-seeking. Respondents report that they devote 6.9% of their weekly Internet time or 30.2 minutes to seeking investment-related information in general and 4.7% of their time or 20.6 minutes to seeking mutual fund-related information.¹²

⁹ The question was as follows: “All mutual funds post their reports on a special website called [sedar.com](http://www.sedar.com) (PRONOUNCED SEE-DAR). Are you aware of this website?”

¹⁰ (Q26) “Do you personally have access to the Internet?”

¹¹ (Q27) “How many hours a week, if at all, do you spend on the Internet?”

¹² These figures are likely over-estimates. In the context of a survey on mutual funds, many respondents might conclude that it would be disrespectful to indicate that they spend 2% or less of their Internet time on fund-related matters. A concern not to be rude or offensive might well motivate respondents to inflate slightly their estimated allocation of time to fund matters.



Patterns of web usage and web awareness parallel patterns of report reading. Those unit holders who do not read reports tend also to never visit the website of their fund—75% vs. 60% among unit holders as a whole. In a similar spirit, not one respondent who looked at no report was aware of the sedar.com site. Thus, 100% of complete non-readers are unaware of the regulator site. Among those who read every report, the corresponding proportion is 81%.

4.2. Ramifications

From the evidence of low visits to fund-related websites and from the evidence of pervasive unawareness of www.sedar.com, it follows that the industry, the business media, and/or the regulators should launch a messaging campaign to educate investors about the fund-related sources of information available on the web.

5.0. Investor Behaviour and Channels of Communication

5.1. Overview

In this section, the COMPAS research team reports on the time horizon of unit holders, the likely impact on their investing behaviour if they received detailed fund reports a lot more frequently, and the channels of communication upon which they depend for making their fund-related decisions. In practice, unit holders do think in the long-term, and would increase their investments in mutual funds if they received more intensive reporting. With respect to channel of communication, unit holders rely more on their financial advisors, the perceived track record of their fund, and the reputation of their mutual fund company than they do on newspapers of any kind.

5.2. Mutual Fund Holders Think Long-Term

We reported above in section 2.6 that investors who skim or do not read their fund reports often attribute this inattention to their long time-horizons. Indeed, the overwhelming majority (82%) of unit holders think in years or decades, as shown in table 15.



Table 15: (Q23) “At this point, I’d like to ask some background questions for statistical purposes. When you think of investments and their returns, do you think mainly in terms of...”

	%
Decades	16
Years	66
Months	12
Weeks	3
Days	1
DNK/REFUSED	2

5.3. Increased Reporting Would Increase Transactions

More frequent reporting to unit holders may well stimulate more transactions in funds but marginally at most, according to respondents’ testimony. Fund investors were asked: “Suppose[ing] mutual funds provided detailed reports a lot more frequently than they do now, would you buy or sell funds a lot more than otherwise, somewhat more, somewhat less, or a lot less?” As responses to the question, increased transactions are more frequent than reduced transactions by a factor of about 3:2—30% vs. 19%, as shown in table 16. The proportion saying that they would transact a lot less is nominally higher than the proportion saying a lot more than otherwise (7% vs. 5%).

Table 16: (Q24) “Suppose mutual funds provided detailed reports a lot more frequently than they do now, would you buy or sell funds”

	%
A lot more than otherwise	5
Somewhat more	25
UNPROMPTED: no change	47
Somewhat less	12
A lot less	7
DNK/REFUSED	5



5.4. Channels and Factors—Advisors, Fund Performance Records, Fund Company Reputations, Not Newspapers

From the perspective of communicating to unit holders, some channels and factors are dramatically more effective than others. Unit holders' financial advisors rank at the very top with 49% of respondents assigning this category the highest possible score, 5. At the bottom with a maximum of 14% scoring 5 on the 5-point scale are investment newsletters, national and local newspapers, and their websites.

Table 17: (Q25) "Please rate each of the following factors in terms of their importance to you when thinking of a mutual fund investment, using a 5-point scale where 1 means unimportant and 5, very important." [ROTATE]

	Mean	5	4	3	2	1	DNK
Your financial advisor or broker	4.1	49	28	13	3	6	2
The individual fund's record of performance	4.1	43	32	16	4	4	2
The general reputation of an individual fund company	4.0	41	31	17	6	3	2
A mutual fund's financial statements	3.9	38	30	19	7	4	2
The holdings of a mutual fund	3.8	32	32	22	8	4	3
The management expense ratio	3.7	30	27	25	9	6	3
The general reputation of a specific fund rather than the fund company as a whole	3.7	27	31	27	7	5	3
The mutual fund prospectus	3.5	21	28	31	10	7	4
Newsletters or magazines on investing	2.9	11	20	34	16	17	1
The websites of national business newspapers	2.8	14	19	23	15	26	3
Local newspapers	2.8	14	16	27	16	24	2
National business newspapers	2.8	12	17	29	19	21	2

Unit holders are relatively homogeneous in their assessments of the importance to these different channels of communication and factors in their thinking, albeit with the following exceptions:



- Information-hungry unit holders, those who read carefully all their fund reports, tend to assign higher importance scores to all channels and factors than do other unit holders;
- Paradoxically, Quebecers place slightly more emphasis on national (English-language) business newspapers, 40% assigning scores of 4 or 5 compared to 30% among unit holders as a whole;
- Short-term investors think disproportionately in terms of business newspaper websites.

5.5. Ramifications

For the fund industry and its regulators, the main ramifications are that increased reporting would likely be a magnet for increased transactions and financial advisors are the most potent conduit or channel for transmitting information to unit holders.

6.0. Conclusion

The key ramifications from this study of unit holders are as follows:

- the industry and its regulators have a shared interest in enhancing the quality of reporting, and ambitious industry players stand to gain competitive advantage by improving and heralding the quality of their reports;
- Even in the absence of actual improvements in the readability and usefulness of fund reports, an advertising and promotion campaign to encourage unit holders to read their reports would likely increase satisfaction with such reports in light of the evidence that those who read more intensively are also more satisfied than those who read less intensively;
- Unit holders are not enormously satisfied with the quality of fund reporting, from which we conclude that both the industry and its regulators have an interest in transforming fund reports into documents that their customers find increasingly understandable and useful;
- From the evidence of a widespread desire for reports on how their fund has performed, it follows that such reports should indeed be provided, ideally in the form of 5 page documents made available at least twice yearly according to the data emerging from this survey;



- From the evidence of some unique reservations among the elderly, it follows the such reports should be designed to be user friendly to the elderly, for example, by utilizing larger font;
- All the various content elements explored in this study elicited very high or somewhat high enthusiasm. From these findings, it follows that fund reports should indeed satisfy unit holders' thirst for such information;
- From the evidence that unit holders are not quite as interested in information on related party transactions and changes of manager, it follows that institutions engaged in investor education should seek to explain to business journalists and their audiences the significance and value of such information;
- Given the findings from this study, a persuasive message addressed to investors might highlight the fact that asset-rich investors are information-hungry, and they want to know everything they can find out about their funds—from their year to year performance records to their management fees and changes in management;
- From the evidence of unit holders' desire for transparency in reporting, it follows that unit holders should be reminded annually of their right to mailed reports, and funds should be required to report on how they vote on significant issues at meetings of companies that they own;
- From the evidence of divided opinion about whether mailings should be automatic or optional, it follows that such mailings should probably be optional; however, given that www.sedar.com awareness is negligible and Internet access and use are moderate at present but growing, it may be sensible for regulators to consider the possibility of automatic mailings for the short-term, optional mailings for the medium-term, and no mailings for the long-term;
- From the evidence of unit holders' desire for reporting consistency, especially outside Quebec, it follows that the industry on its own or under regulatory supervision should consider introducing some uniform formatting in reports to unit holders;
- From the evidence of low visits to fund-related websites and from the evidence of pervasive unawareness of www.sedar.com, it follows that the industry, the business media, and/or the regulators should launch a messaging campaign to educate



investors about the fund-related sources of information available on the web;

- Findings from this COMPAS survey of unit holders suggest that increased reporting might increase transactions, albeit marginally at most.
- Financial advisors are likely the most potent conduit or channel for transmitting information to unit holders.

