

Investment associations, special-purpose
associations and hedge associations

Market developments

2013

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Market development in 2013 for investment associations, special-purpose associations and hedge associations

1. Conclusions

The associations generated a total profit of DKK 36.4 billion in 2013. Total assets increased by DKK 61.7 billion during 2013 to DKK 691.3 billion, corresponding to an increase of 9.8% compared with assets at the end of 2012. Assets increased for investment associations and hedge associations whilst special-purpose associations with more specific investment purposes saw an assets decrease. The investment return was positive by 7.5% on average in 2013 for all types of association.

The costs incurred by associations in per cent of investors' assets increased marginally from 1.03% in 2012 to 1.06% in 2013 together with a considerable increase in assets. Part of the increase in 2013 cost rates may be ascribed to an increase in the equity sub-funds' percentage of the assets, as the equity sub-funds are typically more expensive to manage than fixed income sub-funds and mixed sub-funds.

As part of its continued supervisory work, the Danish FSA will follow up on ten specific initiatives to cut costs and improve returns. These initiatives were presented in the Danish FSA's study on costs published in April 2014.

Recently reported figures for Active Share and Tracking Error indicate that 56 out of 188 equity sub-funds are not employing the active management strategy set out in their prospectuses. This means that some investors are not receiving the active management they were promised and for which they typically pay a premium compared with passive management. As the boards of directors of associations are obligated to protect the interests of investors, see section 47 of the Investment Associations etc. Act, the Danish FSA will request a report from the associations which have sub-funds notified as active yet appear to be passively managed.

See part 4 for general comments on the statistics behind the analysis article, including the data basis.

2. Main trends in associations' financial statements

2.1 Total main trends

Overall, in 2013, associations generated positive returns on Danish and foreign stock markets, and also bond markets contributed positively, with lower returns, however. At the end of the year, associations had a total profit after administrative costs and tax of DKK 36.4 billion, see table 1.

Table 1. Extract of balance sheet and income statement, 2009-2013

| DKK million | 2009 | 2010 | 2011 | 2012 | 2013 | Growth per annum | |
|---|---------|---------|---------|---------|---------|------------------|-----------|
| | | | | | | 2009-2013 | 2012-2013 |
| Income statement items (extract) | | | | | | | |
| Interest rates and dividends | 17,844 | 19,513 | 20,626 | 21,630 | 23,055 | 6.6% | 6.6% |
| Capital gains and losses | 70,654 | 48,855 | -23,192 | 51,418 | 20,797 | -26.3% | -59.6% |
| Profit before costs | 88,498 | 68,368 | -2,566 | 73,048 | 43,852 | -16.1% | -40.0% |
| Administrative costs | 4,024 | 5,255 | 5,351 | 5,942 | 6,894 | 14.4% | 16.0% |
| Net profit or loss for the year | 84,053 | 62,700 | -8,177 | 66,490 | 36,353 | -18.9% | -45.3% |
| Balance sheet items (extract) | | | | | | | |
| Fixed income | 277,054 | 324,857 | 339,042 | 381,215 | 413,581 | 10.5% | 12.4% |
| Equity investments | 188,037 | 220,883 | 194,078 | 245,520 | 296,597 | 12.1% | 26.5% |
| Total assets | 486,668 | 566,490 | 552,592 | 654,136 | 739,882 | 11.0% | 18.4% |
| Investors' assets | 468,607 | 550,880 | 533,487 | 629,581 | 691,271 | 10.2% | 18.0% |
| Financial ratios | | | | | | | |
| Return for the year in % | 26.04 | 13.70 | -0,34 | 11.99 | 7.46 | - | - |

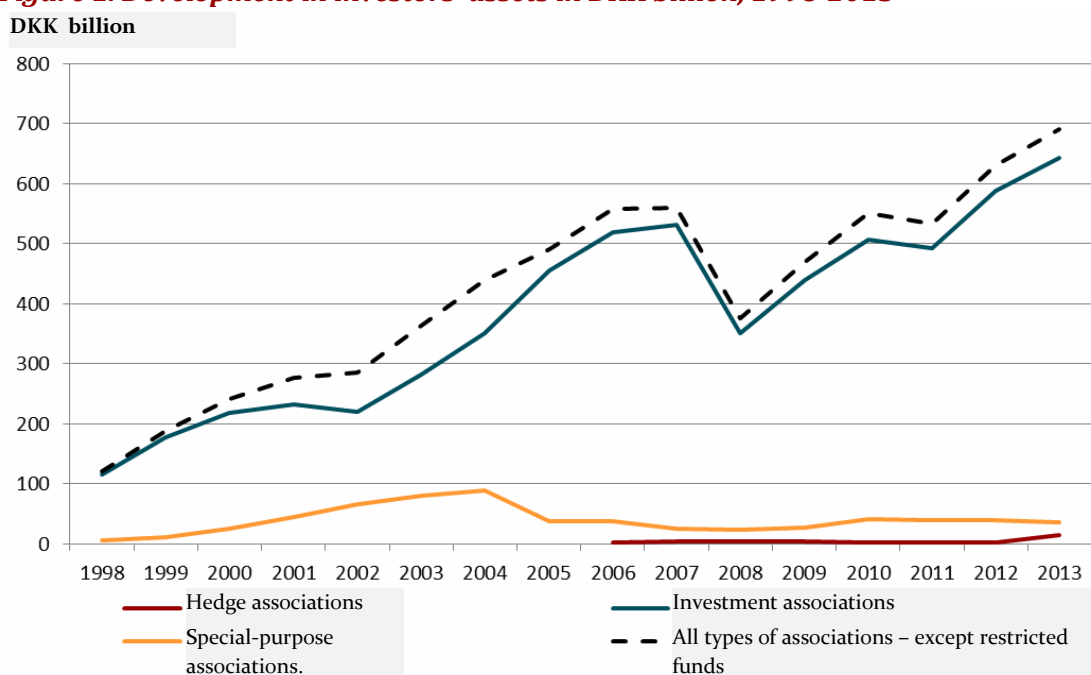
Note: The accounting figures are based on reports from the sub-funds which were on the market in the individual years of the five-year-period. Equity investments (stocks and investment association certificates) include the investment certificates of investment associations in other associations.

Source: Reports to the Danish FSA.

In addition to the positive price movement of DKK 20.8 billion, income from interest rates and dividend payments contributed with DKK 23.1 billion to a profit before costs of DKK 43.9 billion in 2013. Total administrative costs of associations represented around DKK 6.9 billion in 2013, corresponding to an increase of 16% compared with the previous year.

Total assets of associations were around DKK 691.3 billion at the end of 2013. Compared with the previous year, assets increased by 18% corresponding to DKK 61.7 billion, see figure 1.

Figure 1. Development in investors' assets in DKK billion, 1998-2013



Source: Reports to the Danish FSA.

Investment associations continue to represent the largest part of total assets with its share of 93%. Broken down by types of association, hedge associations have seen the most profound asset increase of 445%, corresponding to just about DKK 11 billion. Investment associations saw an increase of 9.3% whereas the assets of special-purpose associations fell by 10.6%, see table 2.

Table 2. Asset development, 2012-2013

| | 2012 (DKK million) | Number of sub-funds | 2013 (DKK million) | Number of sub-funds | Growth in investors' assets % |
|------------------------------|-----------------------|------------------------|-----------------------|------------------------|-------------------------------------|
| Investment associations | 588,309 | 506 | 643,183 | 525 | 9.3 |
| Special-purpose associations | 38,816 | 39 | 34,710 | 33 | -10.6 |
| Hedge associations | 2,456 | 11 | 13,378 | 16 | 444.8 |
| Total | 629,581 | 556 | 691,271 | 574 | 9.8 |

Note: Assets are the investors' assets at the end of the year.

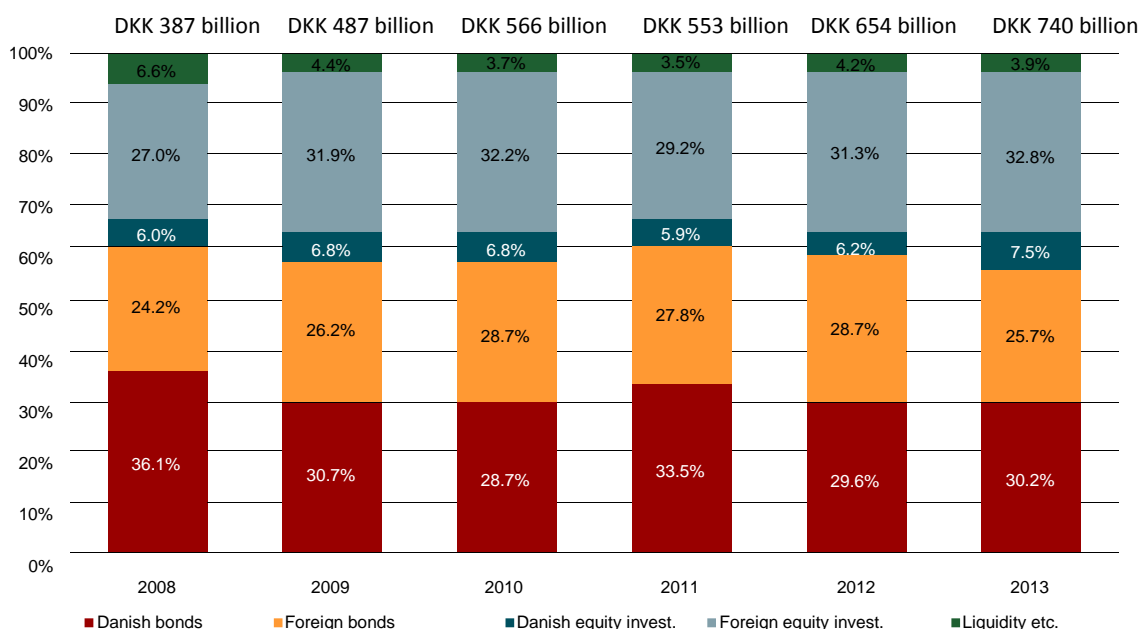
Source: Reports to the Danish FSA.

Note: One sub-fund is not included in the statistics.

Placement of assets, return and expense ratios

At the end of 2013, associations had invested 55.9% of their funds in bonds and 40.3% in equity investments, i.e. stocks and investment association certificates, see figure 2.

Figure 2. Assets broken down by investment categories, 2008-2013



Note: Equity investments include stocks, as well as investment association certificates in other associations.

Source: Reports to the Danish FSA.

2013 was a particularly good year for equity-based sub-funds. These sub-funds generated a return of 16% which is considerably higher than the return for fixed income-based sub-funds and mixed sub-funds of 1.5% and 6.9% respectively, see table 3. The expense ratio for equity-based sub-funds are also higher than fixed income-based sub-funds and mixed sub-funds and this is the case for the entire period 2003-2013.

Table 3. Return and expense ratio of different investment strategies, 2003-2013

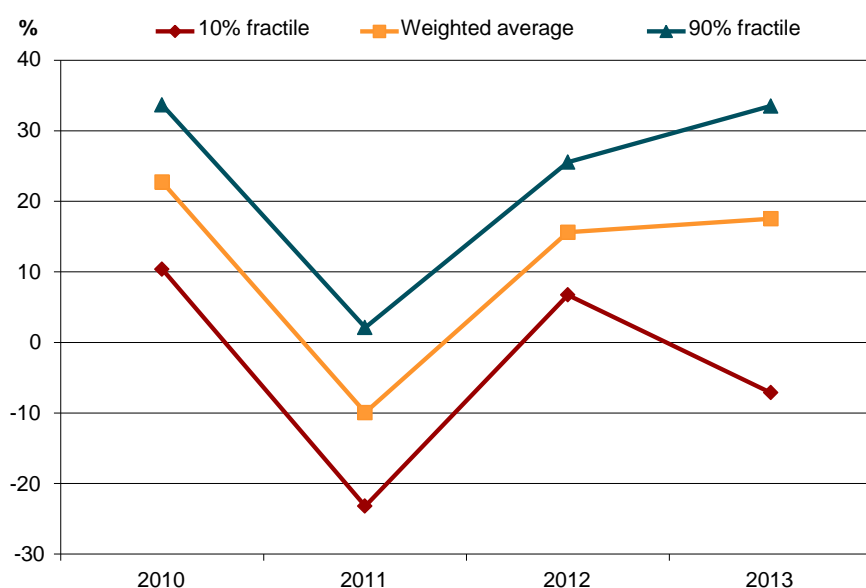
| | Assets (DKK mill.) | Rate of return | | Expense ratio | |
|------------------------------|--------------------|----------------|----------|---------------|----------|
| | | 2013 | 2003-13* | 2013 | 2003-13* |
| Equity-based sub-funds | 256,935 | 16.0 | 10.7 | 1.4 | 1.3 |
| Fixed income-based sub-funds | 363,854 | 1.5 | 3.9 | 0.8 | 0.7 |
| Mixed sub-funds | 56,911 | 6.9 | 5.1 | 0.9 | 1.0 |
| Total | 691,271 | 7.5 | - | 1.0 | - |

Note: Assets are the investors' assets at the end of the year. The rate of return indicates the return after expenses. *Before 2010 a different definition was used to differentiate between equity sub-funds, fixed income sub-funds and mixed sub-funds and this may influence data slightly.

Source: Reports to the Danish FSA.

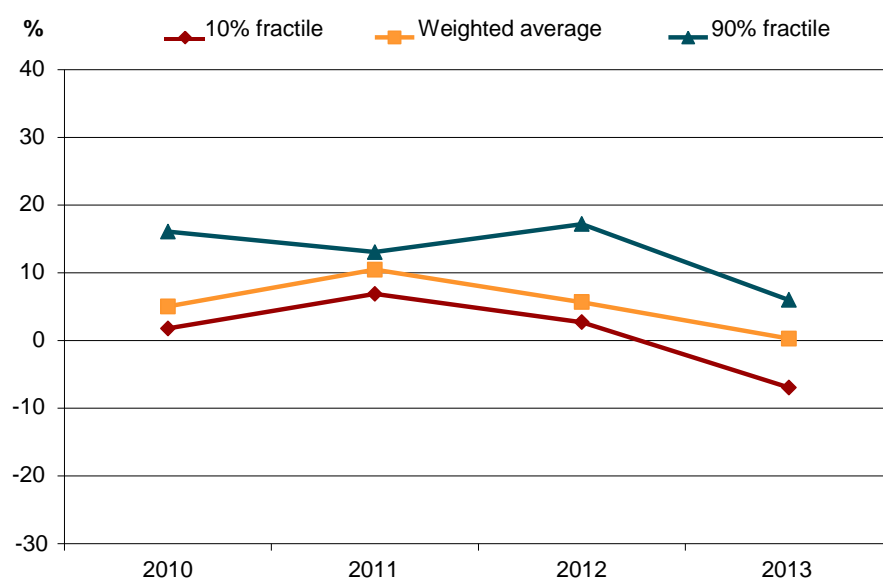
Total return covers a certain dispersion among the associations which have shown considerable variation historically, see figures 3 and 4. Figure 3 shows an increase in the dispersion of the return of equity sub-funds in 2013 following a period from 2010-2012 in which the variation in returns had been relatively stable. The dispersion in the return of the fixed income sub-funds was marginally lower in 2013 compared with the previous year.

Figure 3. Annual return in per cent for equity sub-funds – fractiles and weighted average, 2010-2013



Source: Reports to the Danish FSA.

Figure 4. Annual return in per cent for fixed income sub-funds – fractiles and weighted average, 2010-2013

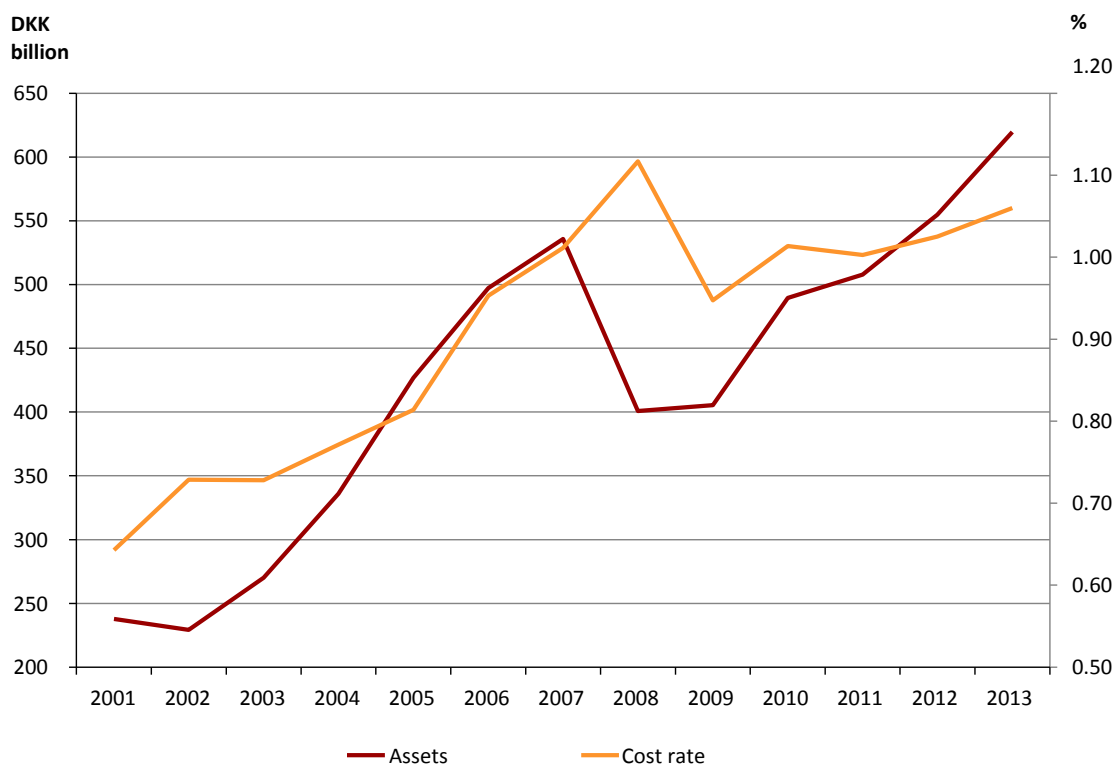


Source: Reports to the Danish FSA.

2.2 Investment associations

Total assets of investment associations have more than doubled since 2001, having increased to the highest level so far in 2013, see figure 5. During the same period, the percentage of costs increased from 0.64% in 2001 to 1.06% in 2013.

Figure 5. Development in the assets of investment associations, as well as the development in cost rates, 2001-2013



Note: Assets are the average investors' assets during the year. Cost rates are generated based on the financial ratios reported.

Source: Reports to the Danish FSA.

Part of the increase in 2013 cost rates is ascribed to an increase in the equity sub-funds' percentage of the assets, see figure 6. Equity sub-funds are also typically more expensive to manage than fixed income sub-funds.

Figure 6. Assets of investment associations broken down by equity sub-funds and fixed income sub-funds, 2001-2013

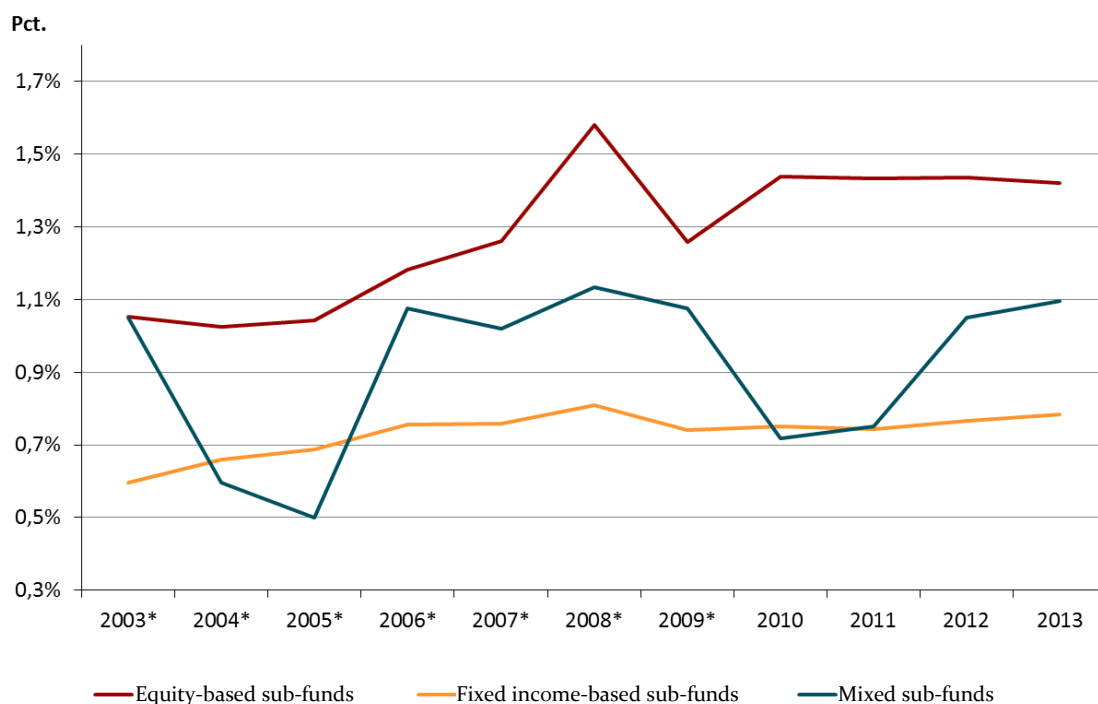


Note: *The distribution of assets does not total 100%, which is because the remaining assets are distributed by the mixed sub-funds.

Source: Reports to the Danish FSA.

The asset-weighted average cost rate for fixed income sub-funds has increased marginally from 0.77% in 2012 to 0.78% in 2013, see figure 7. The cost rate for mixed sub-funds also increased whilst the cost rate for equity sub-funds decreased from 1.44% in 2012 to 1.42% of investors' assets.

Figure 7. The cost rates of investment association sub-funds by type of sub-fund, 2003-2013



Note: *Before 2010 a different definition was used to differentiate between equity sub-funds, fixed income sub-funds and mixed sub-funds and this may influence data slightly. Cost rates are generated based on the financial ratios reported.

Source: Reports to the Danish FSA.

In April 2014, the Danish FSA published a study report on the cost level in Danish investment associations. The study showed that investors generally do not achieve economies of scale when investment associations increase the assets that they manage. Instead the economies of scale fall to the banks.

On the basis of the report, the Danish FSA designated ten specific initiatives to cut costs and improve the return; initiatives which the boards of directors of investment associations are to take an active position on in the future.

In its continued supervisory work, the Danish FSA follows up on such initiatives with the boards of directors of the investment associations to ensure continuous focus on minimising associations' costs and to ensure that the boards of directors take active positions on the quality of the services received from the associations.

3. New reports on Active Share and Tracking Error

The Danish FSA's increased focus on the level of expenses in investment associations was most recently described in the Danish FSA expense study which was published in April 2014. As a result, from 31 December 2013, the Danish FSA asked sub-funds of investment associations to report two new measures of active management; Active Share and Tracking Error, as well as inform the Danish FSA whether the individual sub-fund invests according to an active or passive strategy.

A passive strategy is characterised by a portfolio composition close to the index selected, i.e. that the portfolio is expected to achieve a return almost identical to the index selected. By contrast, an active strategy is where the portfolio manager creates a portfolio of assets which deviates from the composition of the index selected for the purpose of outperforming the reference index. The costs of active management are typically higher than for passive management, which is counterbalanced by the fact that active sub-funds seek to deliver a return which is higher than the return of the reference index return.

As at 31 December 2013, Danish investment associations

Box 1 - Active Share and Tracking Error
Active Share is a measure of composition of a fund's portfolio deviation relative to the fund's benchmark.

The measure was developed by K.J. Martijn Cremers & Antti Patajisto stating that a fund's Active Share must be more than 60% in order for the fund to be considered under active management, or, in other words, at least 60% of a fund's portfolio composition must differ from the fund's benchmark. If Active Share is less than 60% the fund is semi-actively managed, whereas a ratio of less than 20% denotes a passively managed fund.

Tracking Error is the variation in monthly return between a fund and its benchmark. According to Cremers & Patajisto, a Tracking Error of 4 or more indicates that a fund is actively managed whereas a Tracking Error around 1 and less shows that a fund's return highly resembles the benchmark. Values between the two points indicate that a fund is semi-active.

See more in Appendix A2.

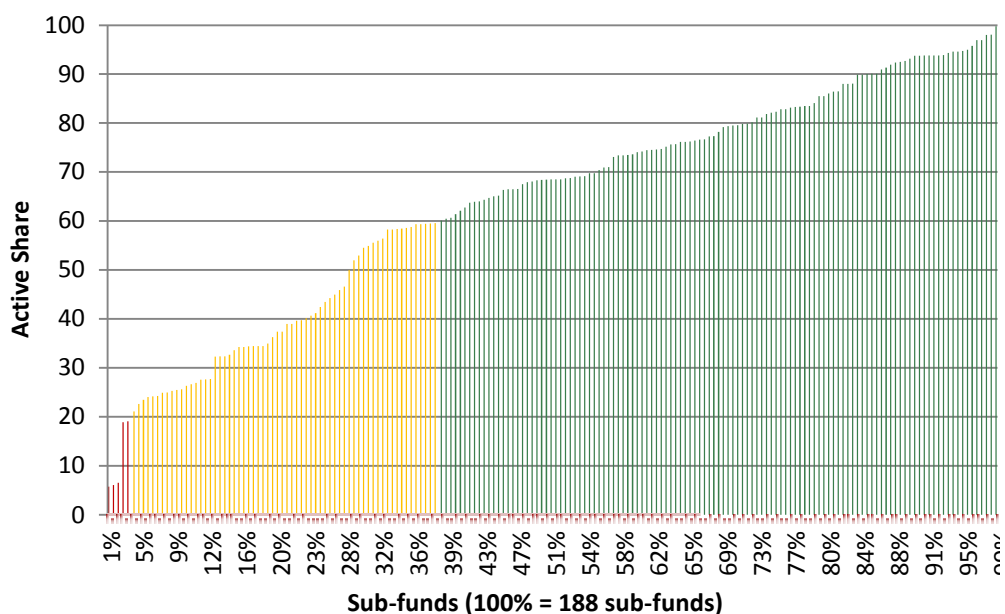
reported Active Share for 215 equity sub-funds and Tracking Error for 188 of these sub-funds. Reports of Tracking Error solely comprise equity sub-funds and sub-funds which have used the same benchmark for three years as a minimum. Other equity sub-funds which measure against a benchmark only need to report Active Share. As the two measures must be assessed together, the following paragraphs will only focus on sub-funds which have reported both numbers.

Active Share and Tracking Error show the level of active management of the equity sub-funds. This information is useful in the assessment of whether investors receive the active management they were promised and for which they typically pay a premium compared with passive management.

The level of active management of the equity sub-funds may change over time. Whilst Active Share provides a snapshot of the level of active management of the equity sub-funds, Tracking Error measures the level of active management over a longer period, for example, 36 months, see Appendix A2. This means that, at any given time, an equity sub-fund may have a portfolio composition which only differs slightly from the benchmark and which continues to be assessed as being active on the basis of Tracking Error.

When the 60% limit for Active Share is used as a benchmark for active management, 117 out of 188 sub-funds (62%) may be characterised as actively managed, see figure 8. A total of 66 sub-funds (35%) fall within the semi-active group with an Active Share between 60% and 20%, whereas 5 sub-funds (3%) have an Active Share of less than 20%. The average sub-fund has an Active Share of 63.9% whereas the median is slightly higher than 68.5%.

Figure 8: Active Share distribution for Danish stock sub-funds



Source: Reports to the Danish FSA.

Sub-funds which follow a narrow benchmark may have difficulty achieving a high Active Share because of a limited investment universe, see Appendix A3. Many of the 71 sub-funds with an Active Share of less than 60% are sub-funds with narrow benchmarks. This group includes e.g. 23 sub-funds which use the Danish total index (OMX CAP GI) as a benchmark. This index covers merely 150 shares.

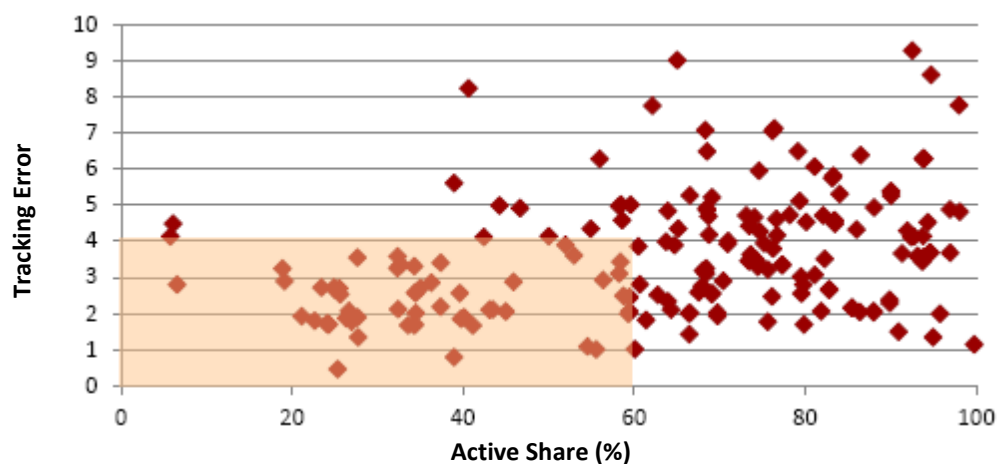
Note, however, that sub-funds which follow a narrow benchmark do not automatically achieve a low Active Share. A number of sub-funds in the group of actively managed sub-funds with Active Share above 60% use narrow benchmarks. All things being equal, in these cases, the managers have successfully overcome the challenge of actively composing a portfolio which differs from a narrow benchmark.

However, some sub-funds follow comprehensive benchmarks where Active Share is significantly lower than the limit value of 60%. Thus, a number of sub-funds follow comprehensive benchmarks, such as the MSCI World and the MSCI Europe index which are composed of 1612 individual shares and 434 individual shares, respectively, and yet have an Active Share considerably lower than the 60%. This is even though the investment universe should make it sufficiently possible to actively select the positions in the portfolio. For these sub-funds, the inclusion of Tracking Error provides a clearer description of whether sub-funds are actually following a passive strategy.

Figure 9 provides a comparison between Active Share and Tracking Error in the sub-funds. The average Tracking Error for the sub-funds is 3,6%, thus not far from 4% which is the limit value for actively managed funds, as described in Box 1.

Considering only the group of sub-funds with an Active Share of more than 60%, the average Tracking Error is 4%. Generally, both measures indicate that this group of sub-funds is actually being actively managed. The average for the group with an Active Share of less than 60% is at 3%, however, with a considerably lower dispersion than for the group with an Active Share of more than 60%.

Figure 9. Active Share vs. Tracking Error



Source: Reports to the Danish FSA.

In general, the first reports of Active Share and Tracking Error from investment associations indicate that around 70% (132 sub-funds out of 188) of the sub-funds provide the active management promised to its investors. Considering only the investment universe of sub-funds, particularly sub-funds which follow comprehensive benchmarks generally score high on both targets. This is because the manager can more easily create the portfolio to differ from benchmarks when there is a large number of companies to choose from. However, note that also a number of sub-funds with narrow benchmarks score high on one or both measures. This indicates that the use of narrow benchmarks in itself does not prevent a high value for the two measures. The reports for 56 of the sub-funds indicate that in reality, these sub-funds do not practice the active management strategy expressed in their prospectuses.

The Danish FSA will use these new reports to help ensure that investors receive the active management that they have been promised and are paying for. On the basis of an analysis of the associations' reports, the Danish FSA will contact the investment associations which have sub-funds that are notified as active but appear to be passively managed for the purpose of clarifying the strategy of such sub-funds. This will primarily include the sub-funds located in the hatched area of figure 9. In the future, the new reports will be part of the Danish FSA's ongoing supervision of investment associations.

4. About the statistics

This article covers investment associations, special-purpose associations and hedge associations subject to Danish supervision. Thus this article covers most associations operating in Denmark but not all associations. The figures are based on annual reports made to the Danish FSA.

Associations subject to supervision are regulated by the Investment Associations etc. Act and have exclusive rights to the designations “investeringsforening” (investment association), “specialforening” (special-purpose association) and “hedgeforening” (hedge association). However, in this paper “investment association” is equivalent to mutual fund, “special-purpose association” to special-purpose fund, and “hedge association” to hedge fund.

In 2013, a total of 75 associations reported to the Danish FSA. This article reviews reports from 52 investment associations, 12 special-purpose associations and 11 hedge associations (the associations are shown in Appendix 1). The Danish FSA also received reports from a total of 574 sub-funds in these associations.

The Alternative Investment Fund Managers etc. Act entered into force on 22 July 2013. With the entry into force of the Alternative Investment Fund Managers etc. Act, hedge associations and special-purpose associations were deleted from the Investment Associations etc. Act as of 2014 to be joined together in one single designation “capital association” for future regulation under the provisions in the Alternative Investment Fund Managers etc. Act. Thus, this 2013 market development article for 2013 gives the last separate account of the development of the association types “hedgeforening” and “specialforening”.

5. Appendix

A1. All associations being supervised, 2013

| | Number of sub-funds |
|---|--------------------------------|
| BI Management A/S | 39 |
| Investeringsforeningen AL Invest | 1 |
| Investeringsforeningen AL Invest Obligationspleje | 1 |
| Investeringsforeningen BankInvest | 25 |
| Investeringsforeningen BankInvest Almen Bolig | 1 |
| Investeringsforeningen Nielsen Global Value | 1 |
| Investeringsforeningen Stonehenge | 3 |
| Investeringsforeningen Valueinvest Danmark | 4 |
| Investeringsinstitutforeningen BankInvest | 3 |
| | |
| Carnegie Asset Administration A/S | 6 |
| Investeringsforeningen Carnegie Worldwide | 6 |
| | |
| Danske Invest Management A/S | 102 |
| Investeringsforeningen Danske Invest | 69 |
| Investeringsforeningen Danske Invest Select | 29 |
| Specialforeningen Danske Invest | 1 |
| Placeringsforeningen Profil Invest | 3 |
| | |
| Formuepleje Fund Management A/S | 24 |
| Investeringsforeningen Absalon Invest | 13 |
| Investeringsforeningen CPH Capital | 4 |
| Investeringsforeningen Indeks | 1 |
| Hedgeforeningen Formuepleje Epikur | 1 |
| Hedgeforeningen Formuepleje Fokus | 1 |
| Hedgeforeningen Formuepleje Merkur | 1 |
| Hedgeforeningen Formuepleje Pareto | 1 |
| Hedgeforeningen Formuepleje Penta | 1 |
| Hedgeforeningen Formuepleje Safe | 1 |
| | |
| Handelsinvest Investeringsforvaltning A/S | 12 |
| Investeringsforeningen Handelsinvest | 11 |
| Investeringsforeningen StockRate Invest | 1 |
| | |
| ID-Sparinvest A/S | 37 |
| Investeringsforeningen Sparinvest | 34 |
| Specialforeningen Sparinvest Pengemarked | 1 |
| Placeringsforeningen Sparinvest | 2 |
| | |
| Invest Administration A/S | 23 |
| Investeringsforeningen Lån & Spar Invest | 7 |

| | |
|---|-----------|
| Investeringsforeningen Etik Invest | 2 |
| Investeringsforeningen Gudme Raaschou | 8 |
| Investeringsforeningen Fundamental Invest | 2 |
| Investeringsinstitutforeningen Lån & Spar MixInvest | 4 |
| Investeringsforeningen SmallCap Danmark | 1 |
| Investeringsforeningen SmallCap Danmark | 1 |
| Investeringsforvaltningsselskabet SEBinvest A/S | 49 |
| Investeringsforeningen Alternativ Invest | 2 |
| Investeringsforeningen Maj Invest | 11 |
| Investeringsforeningen MS Invest | 1 |
| Investeringsforeningen SEB Invest | 20 |
| Investeringsforeningen UCAP Invest | 1 |
| Investeringsforeningen Wealth Invest | 6 |
| Specialforeningen KAB/Lejerbo Invest | 7 |
| Hedgeforeningen Mermaid Nordic | 1 |
| Jyske Invest Fund Management A/S | 66 |
| Investeringsforeningen Jyske Invest | 30 |
| Investeringsforeningen Jyske Invest International | 33 |
| Hedgeforeningen Jyske Invest | 3 |
| Nordea Fund Management A/S | 76 |
| Investeringsforeningen MS Invest | 1 |
| Investeringsforeningen Nordea Invest | 42 |
| Investeringsforeningen Nordea Invest Bolig | 2 |
| Investeringsforeningen Nordea Invest Engros | 14 |
| Investeringsforeningen Nordea Invest Kommune | 2 |
| Investeringsforeningen Nordea Invest Portefølje | 13 |
| Investeringsinstitutforeningen Nordea Invest Portefølje | 1 |
| Hedgeforeningen Nordea Invest Portefølje | 1 |
| Nykredit Portefølje Administration A/S | 86 |
| Investeringsforeningen Alm. Brand | 7 |
| Investeringsforeningen BIL Nordic Invest | 3 |
| Investeringsforeningen Investin | 4 |
| Investeringsforeningen Lægernes Pensionsinvestering | 17 |
| Investeringsforeningen Multi Manager Invest | 15 |
| Investeringsforeningen Nykredit Almen Bolig Invest | 2 |
| Investeringsforeningen Nykredit Invest | 15 |
| Investeringsforeningen Nykredit Invest Engros | 9 |
| Placeringsforeningen Nykredit Invest | 1 |
| Specialforeningen BLS Invest | 2 |
| Specialforeningen HP Invest | 3 |
| Specialforeningen Nykredit Invest | 3 |

| | |
|---|------------|
| Specialforeningen TRP-Invest | 1 |
| Hedgeforeningen HP | 1 |
| Hedgeforeningen Nykredit Alpha | 3 |
| PFA Portefølje Administration A/S | 7 |
| Investeringsforeningen PFA Invest | 7 |
| Sydinvest Administration A/S | 44 |
| Investeringsforeningen Sydinvest | 29 |
| Investeringsforeningen Sydinvest International | 9 |
| Investeringsforeningen Sydinvest Emerging Markets | 2 |
| Investeringsforeningen Strategi Invest | 2 |
| Investeringsforeningen Finansco | 1 |
| Hedgeforeningen Sydinvest | 1 |
| Tiedemann Independent A/S | 4 |
| Investeringsforeningen Independent Invest | 3 |
| Investeringsinstitutforeningen World Wide Invest | 1 |
| <hr/> Total | 575 |

A2. Active Share and Tracking Error

1. Active Share

Active Share is a measure of showing the percentage of the portfolio that does not coincide with the benchmark selected.

Calculation

Active Share is calculated as follows:

$$\text{Active Share} = \frac{1}{2} \sum_{i=1}^N |w_{fund,i} - w_{index,i}|$$

$w_{fund,i}$ Asset i's weighting in the portfolio

$w_{index,i}$ Asset i's weighting in the benchmark index

Sub-funds

Active Share is calculated for sub-funds and classes grouped as equity sub-funds. In practice, this means sub-funds with a equity exposure of at least 85%.

However, Active Share should only be calculated if the sub-fund or class has specified a basis for comparison in the prospectus, e.g. referred to as benchmark, reference index or similar.

2. Tracking Error

Tracking Error is a measure showing the difference between the return for a sub-fund and the development in the sub-fund's benchmark.

Calculation

Tracking Error is calculated as follows:

$$\text{Tracking Error} = \sqrt{\sum_{i=1}^N \frac{((R_p - R_b) - \overline{(R_p - R_b)})^2}{N - 1}}$$

where

R_p = Return on the portfolio

R_b = Benchmark return

$(R_p - R_b)$ = Average additional return between portfolio and benchmark

N = Number of return periods

Tracking Error is calculated with two decimals and on the basis of 36 monthly observations. Tracking Error is reported annually.

Sub-funds and classes

Tracking Error is only calculated for sub-funds and unit classes with a benchmark.

Period

Tracking Error is always calculated at the end of December for a period covering the past three years.

If a sub-fund has existed less than three years at the end of the year, or if the sub-fund has changed its strategy within the past three years, the Tracking Error has not been calculated. If the sub-fund has had several benchmarks during the three-year-period, the respective benchmarks have been used in the calculation of the relevant periods.

A3. The significance of benchmarks for active management

Active Share was initially developed on the basis of analyses of American equity mutual funds. These funds all typically use comprehensive benchmarks characterised by being composed of a large number of companies. The American S&P500 index is an example of such index, composed of 500 different companies. Funds which follow a comprehensive benchmark typically have better opportunity to carry out active management, as it is easier to compose a portfolio which differs from the benchmark composition.

Contrary to the American funds, a certain part of Danish investment association sub-funds follow relatively narrow benchmarks. The majority of Danish associations have sub-funds focusing on Danish stocks where the total index of the Copenhagen stock exchange (OMXC CAP GI) with 150 companies is typically used as the benchmark. Similarly, a vast number of sub-funds with euro and BRIC-country-specific focus use benchmarks comprised of 20-30 companies in the narrowest benchmarks. Managers of such sub-funds may have difficulty achieving an Active Share of more than 60% as the composition of their benchmark limits the possibility of significantly differentiating from this. Under such preconditions it should be assessed, however, whether it is relevant to offer an actively managed sub-fund when the opportunity to carry out active management is challenged by a limited investment universe. The supplement with the financial ratio Tracking Error may, however, help provide a more nuanced picture of the extent to which the sub-funds are being actively managed. This is one of the reasons why the sub-funds were asked to report both financial ratios.