FOR IMMEDIATE RELEASE **11 SEPTEMBER 2018**

AIC CALLS FOR KIDS TO BE SUSPENDED

- **AIC publishes detailed evidence '*Burn before reading*'**
- **AIC calls for Treasury Select Committee hearing on KIDs**

The **Association of Investment Companies (AIC)** has called for Key Information Documents (KIDs) to be suspended following the publication of its report '*Burn before reading*' which demonstrates conclusively that KIDs are systematically flawed due to their reliance on past performance as a basis for future projections. In its response to the FCA's '*Call for Input: PRIIPs Regulation*', the AIC has also urged the FCA to act swiftly to protect consumers and warn them not to rely on these documents when making investment decisions.

The AIC has also called for the Treasury Select Committee to launch an enquiry into KIDs given the failure of policymakers and regulators to take action to protect consumers.

Ian Sayers, Chief Executive of the Association of Investment Companies said:

"The evidence is overwhelming. KIDs are not simply unhelpful, they are actively misleading. As more experienced investors will just ignore them, it is the less experienced who will suffer the most. Telling investors that they can have high returns at medium-low risk in unfavourable markets is particularly toxic and entirely divorced from reality.

"Imagine an investor who puts money into the stock market today based on the huge potential gains being shown in many KIDs. Then the market suffers a significant correction. As our analysis shows, an updated KID for the same investment might then tell the investor that they now stand to lose more money if they continue to hold. So they sell. It is the classic 'buy high, sell low' mistake that is doomed to lose unwary investors money and it is hardwired into the KID. It will continue indefinitely through changing stock market cycles.

"The rules should be suspended now so these fundamental flaws can be addressed. Regulators should warn consumers who have already received these documents not to rely on them when making investment decisions. If regulators continue to delay taking steps to protect consumers, then they should be held accountable if investors lose money as a result and feel they have been misled. It is nearly nine months since these documents were first produced and the reality of them was there for all to see, yet there has been no meaningful response from policymakers or regulators.

“The Treasury Select Committee should investigate this issue to hold policymakers and regulators to account so that action is taken sooner rather than later and consumers can get the protection they deserve.”

Summary of evidence

Misleading performance scenarios

KIDs purport to tell the consumers “what you might get back after costs.” Due to recent market performance, these projections are currently wildly optimistic:

- 11% of investment company KIDs indicate that, in ‘moderate’ market conditions, investors might get returns of over 20% per year over the recommended holding period

- 51% indicate returns of between 0% and 10% per year in ‘unfavourable’ markets

- 11% indicate returns of between 10% and 20% per year in ‘unfavourable’ markets

Misleading disclosure of risk

KIDs use risk indicators to express risk as a single figure from 1 (low risk) to 7 (high risk). They look identical to risk indicators produced by open-ended funds, but are calculated differently, and so mislead investors into believing investment companies are lower risk.

- Investment companies with equity portfolios have an average risk indicator of 4.0 whereas equivalent open-ended funds average 5.1

- Investment companies with property portfolios have an average risk indicator of 3.8 whereas equivalent open-ended funds average 5.1

- Venture Capital Trusts (VCTs) have the lowest average risk indicator of all investment company sectors of 3.4, despite being invested in higher-risk investments

Misleading in all market conditions

To demonstrate the systemic nature of the problems with the performance scenarios, the research models 22 moderate performance scenarios (calculated on relevant data from between 2003 and 2013) for an investment company. It then compares these scenarios with the actual return an investor would have received had they held the investment for a recommended holding period of 5 years.

- For half of the periods (11 out of 22) the KID moderate scenario indicated the opposite of the actual investment outcome. That is, the KID indicated an investment gain when the true outcome was a loss or showed a loss when the true outcome was a gain.

This is not an unexpected outcome given the market volatility in this period and demonstrates why basing future projections on recent past performance will often be misleading and encourage investors to 'buy high, sell low'.

Making a bad situation worse

Using the risk indicator in combination with the performance scenario creates even greater risk to consumers.

- One third of investment companies have risk indicators of 3 (medium-low risk)

- Of these investment companies,15% have KIDs which indicate that investors might receive returns of between 10% and 20% per year in 'unfavourable' market conditions over the recommended holding period

-Ends-

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Notes to Editors

1. The Association of Investment Companies (AIC) was founded in 1932 to represent the interests of the investment trust industry – the oldest form of collective investment. Today, the AIC represents a broad range of closed-ended investment companies, incorporating investment trusts and other closed-ended investment companies and VCTs. The AIC's members believe that the industry is best served if it is united and speaks with one voice. The AIC's mission statement is to help members add value for shareholders over the longer term. The AIC has 354 members and the industry has total assets of approximately £187 billion.
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