Review [1]

ASSOGESTIONI, I problemi del risparmio gestito in Italia (Problems facing the fund industry in Italy)

- A) *Problemi aperti nel settore italiano del risparmio gestito*, by Marcello Messori and Alessandro Rota, Milan, 17 July 2008 (presentation);
- B) *I problemi del settore italiano del risparmio gestito*, by Marcello Messori (Standing President, Assogestioni), Assogestioni working paper no. 4, 2008 (July 2008).

English excerpt

These are two studies unveiled by the Italian asset management association on 17 July 2008, in the course of a press conference organized "to present research which aims to examine the possible causes of the problems facing the Italian asset management industry and outline some possible policy solutions". The presentation marked A is more general in nature, and is addressed to the journalists who were invited to this occasion. The fifth slide of the presentation is given over to criticizing the methods utilized in what they refer to as the "Mediobanca analysis", by which is meant the publication issued by the Mediobanca Research Department (MRD) entitled "Statistics on 1205 Italian Funds and SICAVs (1984-2007)", which at the time had not yet been published. For details on the inconsistencies contained in these criticisms, please see the report entitled: "Italian funds 2008: problems and vices", which has already been published on this website; the attachment is included with this review. The rest of presentation A aims to summarize some of the issues contained in the working paper marked B, which henceforth shall be referred to as "Assogestioni WP".

This review is divided into two parts: the first is a review proper of the research published by Assogestioni, the second, henceforth referred to as the "Attachment", serves to clarify some of the technical issues involved in the various methodologies.

With regard to the first part, the MRD largely shares the positions put forward recently by Assogestioni, which in its WP states that "in the last ten years especially, the aggregate of investment funds operating in Italy ... has delivered unsatisfactory net performances" (page 4). However, some clarifications ought to be made. For instance, it should be stressed that the Italian market is inefficient because it does not select operators based on their capabilities: no-one has yet found any trace of the supposed "superior abilities" of fund managers in terms of their ability to pick the right stocks and the right time to buy them (page 3) and put the "losers" out of the market as a result. But the oddest aspect of all is the abrupt about-turn performed by Assogestioni with regard to the cost of funds and the behaviour of Italian investors. On pp. 4-5 of the review, we recall how in 2001 Assogestioni proclaimed, loudly and publicly, that Italian funds were the cheapest in Europe, that distribution costs were low, and that Italian investors were "mature"; its findings were supported by what appeared to be first-class surveys commissioned from renowned consultants. Today Assogestioni is saying the exact opposite. It is clear that the MRD identifies more with the latter position, not least because Assogestioni now admits that investors are interested in net returns, and affirms "the need for improvements in the quality of these products and related pre- and post-sales services". We conclude regretfully: "If Assogestioni had been less prejudiced against the MRD survey, it would perhaps have understood these problems earlier" (page 6), making clear that "an efficient industry must be able to select its applications of funds focusing the timing of investments accurately and providing suitable 'advice' to investors with a view to increasing their wealth, and deriving a legitimate overall profit from achieving this goal?" (p. 13).

---

[1] An earlier version of this review was shared with a total of ten referees including Italian economists of the highest standing. All comments (and recommendations) have duly been taken into consideration, but as is customary, responsibility for the final version of this paper lies solely and exclusively with the authors.

The second part of the review is in fact a technical appendix, and may prove a challenging read for the "uninitiated". The crux of the disagreement between Assogestioni and the MRD revolves around the fact that: a) Assogestioni considers the returns on Italian funds as calculated by the MRD to be "vitiated by methodological flaws", and b) the MRD demonstrates that this is not true. This it does in three distinct steps:

1) It is necessary to make a distinction between the returns of the individual fund managers and the returns of the fund system as a whole; the former serve to measure whether returns are higher or lower than a given benchmark, and when this is the objective the MRD does not calculate returns for each individual fund, but uses the data shown in the statements published by the individual fund managers themselves and compared with the benchmark; here Assogestioni's criticism is not applicable, as the object of its criticism does not exist. But the MRD goes further, and shows that the returns calculated hitherto by the fund managers themselves using the so-called TWR-Time Weighted Return method are incorrect, for they do not observe the GIPS standard (cf. p. 11, "we have the impression that the criticisms levelled in the Assogestioni WP [against the MRD] have been addressed to the wrong party");
2) It is evident, however, that for "reasons of policy" it is necessary to know what the "fund system" as a whole actually produces, and that this should be calculated according the perspective adopted by the MRD, which involves also taking into consideration the asset volumes to which the individual returns apply (the investor community is interested in the overall volume of wealth created or destroyed, not some incomprehensible list of percentages set alongside roughly a thousand different funds); this means the perspective adopted is basically that referred to as MWR-Money Weighted Return. Bearing in mind the information available, no-one is able to produce "perfect" calculations; the methodology utilized by Mediobanca "does not fully resolve the problem of the actual flows of subscriptions and redemptions in the course of the year (which no-one knows to this day), but we believe it approaches them with sufficient precision" (p. 12); the quality of the results is demonstrated through various tests, and a diagram shows even more clearly that no *de facto* difference exists in the return trends between Mediobanca's calculations and those by Bank of Italy and Fideuram;
3) Finally, a comparison is made between the return values obtained using the three different methodologies (MWR, TWR, MRD), showing that in conditions similar to those we have seen in the past 15 years, the returns calculated using the three different alternatives end up reflecting the same trend in terms of timing, and above all that the difference between them in terms of the overall product of the fund system as a whole is absolutely negligible (pp. 14-15).

Mediobanca Research Department
November 2008