EFAMA
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THE EUROPEAN FUND CLASSIFICATION (EFC)

A ROBUST STANDARD SUITABLE FOR ASSET MANAGERS AND POLICYMAKERS

INTRODUCTION

Classifying funds into similar, representative groups is beneficial for the whole financial ecosystem: investors, asset managers and regulators. To support this, EFAMA has developed the European Fund Classification (EFC). It is the only fund classification structure owned and managed entirely by the fund industry itself, built on well-defined and completely transparent classification criteria. It permits an easy comparison of like-for-like funds and is completely free of charge. The EFC uses a proven and stable classification method based on the portfolio holdings of funds[1], rather than fund labels or marketing categories. It brings tangible benefits to all market participants by enabling transparent comparisons of funds and facilitating peer group analysis.

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This report evaluates how effective the EFC is in creating representative and coherent groups of investment funds. The objective is to determine whether the EFC consistently groups funds with similar characteristics and performance profiles, thereby validating its usefulness as a reliable tool for industry stakeholders and policymakers.

HOW ARE FUNDS CLASSIFIED IN THE EFC?

Currently, a total universe of 200,151 share classes or 43,168 funds are classified based on the portfolio holdings supplied by more than 500 fund management companies[2], making it one of the most comprehensive systems available. A fund is classified into one of six high-level EFC categories depending on its portfolio holdings: Equity, Bond, Multi-asset, Money market, ARIS (Absolute Return Innovative Strategies) or Other. Those six categories are then further

broken down into subcategories based on a combination of 9 criteria: country/region, sector, market capitalisation, currency exposure, credit quality, interest rate exposure, emerging market exposure, asset allocation and additional categorisation elements[3]. At the most granular level, there are currently over 1000 fund subcategories included in the EFC.[4] These subcategories are both exhaustive and unique, offering a level of detail and differentiation that sets it apart from other fund classification systems.

In addition, the EFC integrates data flags covering a broad range of key fund attributes, such as investment themes, SFDR classification, relevant EU regulatory frameworks, investor type (retail or institutional), fund structure (ETF, active or passive), and legal form (open-ended or closed-ended). These enriched data points significantly enhance the classification system's analytical depth, making it highly versatile and applicable across diverse regulatory, investment, and reporting contexts.

IS THE EFC DELIVERING? A CRITICAL LOOK AT ITS EFFECTIVENESS

To evaluate the effectiveness of the EFC in forming representative peer groups, we analyse a randomly selected group of equity and bond fund categories to ensure unbiased coverage. These categories span a broad range of allocation strategies, including variations across sectors, geographies, market capitalisations and credit qualities. Using EFC classifications and performance data sourced from Morningstar, we focus primarily on categories with a sufficiently large number of share class observations to ensure statistical relevance[5]. For completeness, however, we also include two smaller categories with only 18 observations each[6]. While flagged as small sample groups, their inclusion helps demonstrate that the classification system maintains consistency and accuracy even in less populated segments. The analysis is conducted at the share class level. We then evaluate the system under two distinct assumptions:

1. The dispersion of performance

If the EFC categorisation is effective, the distribution of fund performances within each EFC-defined category should be narrower than that of the overall universe of funds[7,8]. For instance, a specific equity fund category should display less performance variation than the entire set of equity funds; the same should hold true for bond fund categories. We use three different measures, each with their own characteristics, to measure the width of the performance distribution[9]:

Standard Deviation (SD) which measures how spread out the numbers are around the mean (average). Low standard deviation means that data points are close to the mean (less spread) and vice versa. We compute it as follows: $SD = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(x_i - \bar{x})^2}$, where s is sample standard deviation, n is the number of data points in the sample, x_i is each data point and $\bar{x}$ is the mean. While often used as a measure of dispersion, SD is sensitive to outliers.

The interquartile range (IQR) is the difference between the third and first quartiles. It specifically describes the range within which the middle 50% of the data lies. The measure indicates the consistency within a fund category and is resistant to outliers. A larger IQR means the middle 50% of the data is more spread out, while a smaller IQR indicates it's more tightly clustered. IQR is calculated as the difference between the third quartile (Q_3) and the first quartile (Q_1): IQR = Q_3-Q_1.

Median Absolute Deviation (MAD) measures how far each data point is from the median, using the median of those absolute differences. Unlike the standard deviation, MAD is resistant to outliers, making it a robust measure of spread. When MAD is higher, data points are more widely dispersed from the center (median). It is computed as follows: MAD = median($|x_i - \text{median}(x)|$), where x_i is each data point in the dataset, $\text{median}(x)$ is the median of the dataset and $|x_i - \text{median}(x)|$ is the absolute deviation from the median. MAD serves as a valuable complementary robustness

check to IQR, as it incorporates all data points in its calculation.

2. Verifying common expectations about fund performance

The EFC categorisation should preserve general empirical truths about fund performance. For example, over the past five years (2020-2024), global equity funds and North-American funds, driven by their significant exposure to U.S. equities, have generally delivered stronger performance than European equity funds[10], while this trend has temporarily reversed in 2025 with European equities outperforming both global and US equities[11]. On the fixed income side, corporate bonds have consistently delivered higher returns than government bonds over the same period.[12] We test whether these broadly accepted patterns hold true by comparing the average net performance of fund categories defined by the EFC.

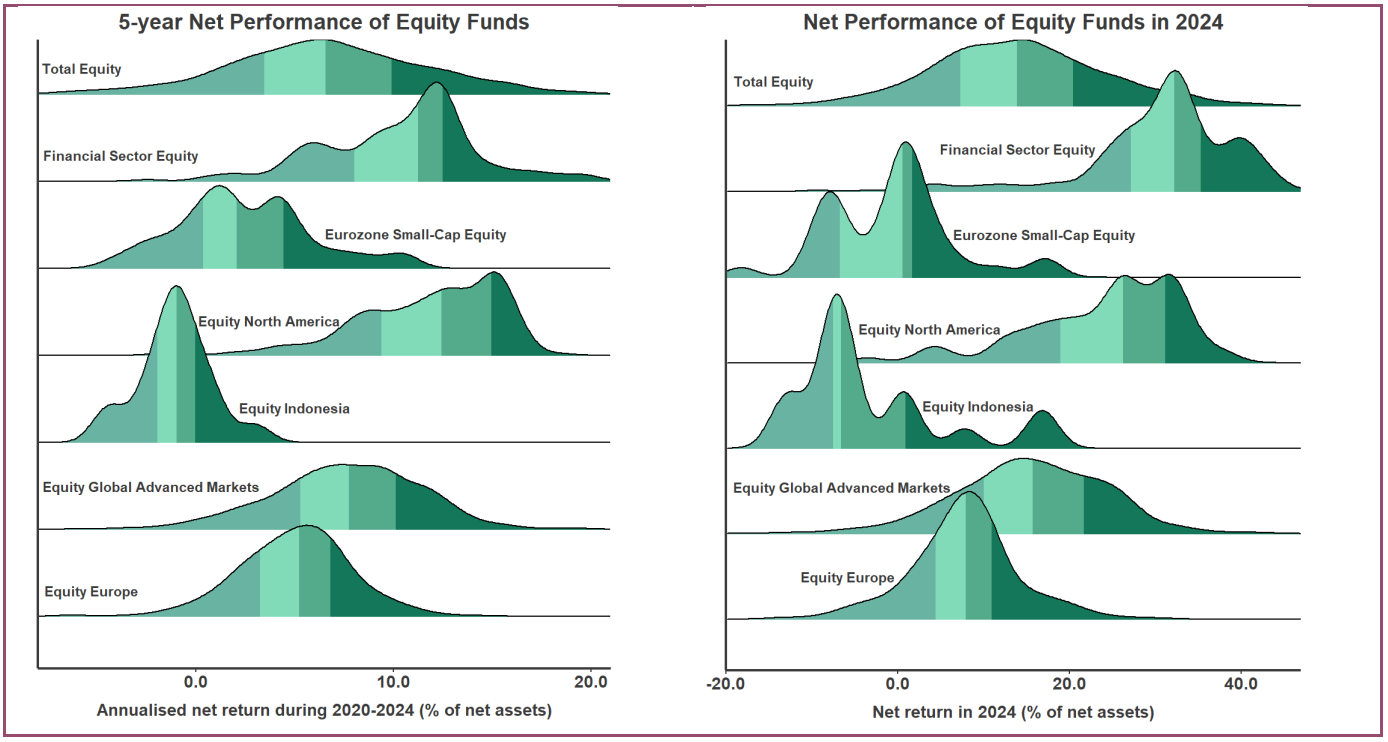
The equity fund categories tested include Financial Sector Equity, Equity North America, Equity Europe, Equity Global Advanced Markets, Eurozone Small-Cap Equity and Equity Indonesia, while the bond fund categories include Government Long-Term EUR Bonds, Corporate Long-Term EUR Bonds, Corporate Mid-Term USD Bonds, Government Mid-Term CHF Bonds, Corporate Mid-Term CHF Bonds and Corporate High-Yield EUR Bonds.[13] Net performance for all categories is assessed for the year 2024, as well as through the average annualised return over the five-year period from 2020 to 2024, to reflect a longer-term investment horizon[14]. The results are reported in the table below:

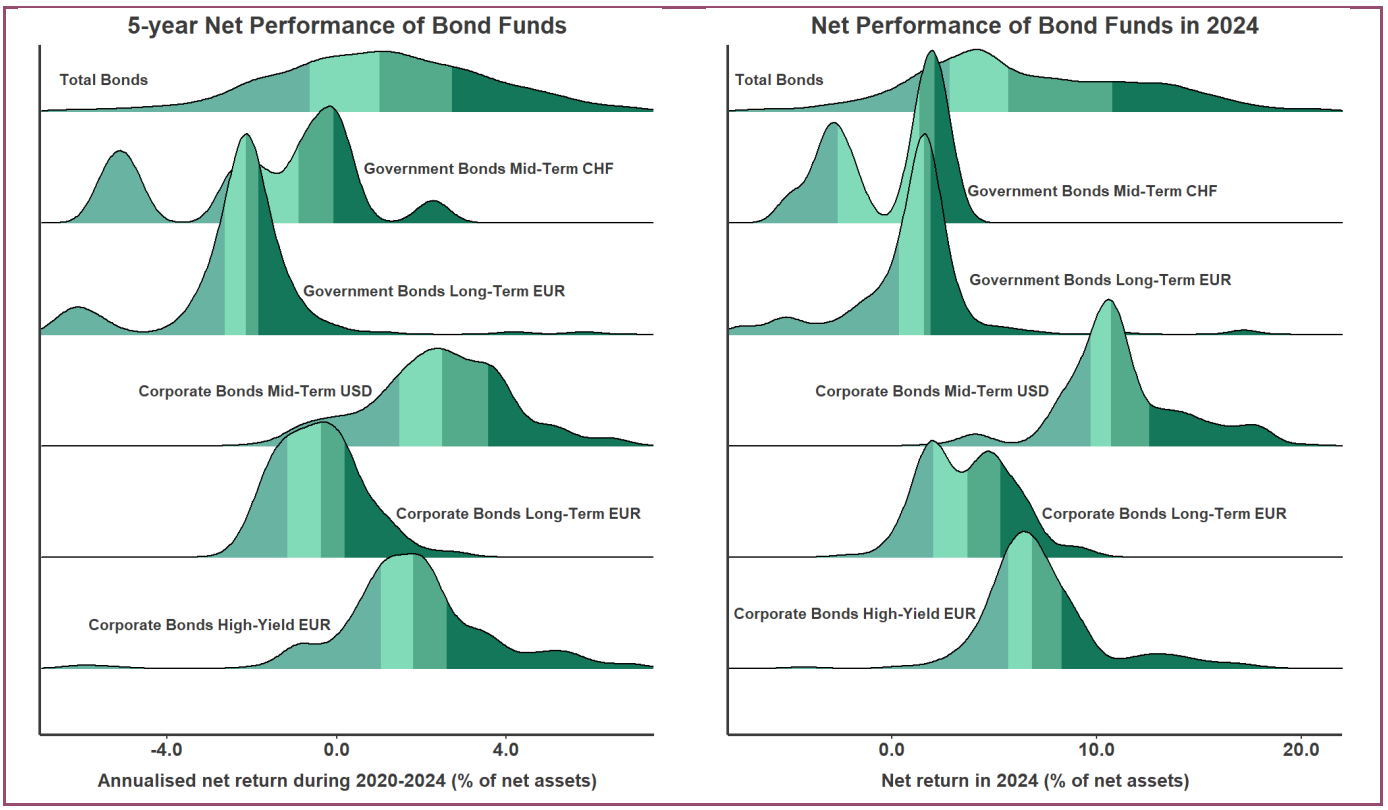
Return in 2024	Mean	Standard Deviation (SD)	Interquartile Range (IQR)	Median Absolute Deviation (MAD)
Equity				
Equity – Financial Sector	31.10	9.75	8.25	6.40
Equity - North America	24.06	8.80	12.32	8.43
Equity – Europe	7.87	9.80	6.56	4.70
Equity – Global Advanced Markets	15.13	10.08	12.03	7.50
Equity – Eurozone Small-Cap	-0.74	7.27	8.38	5.49
Equity – Indonesia*	-3.18	9.02	8.41	3.29
Total Equity	**14.26**	**37.88**	**13.25**	**9.82**
Bond				
Bond – Government Long-term EUR	0.79	3.26	1.76	1.00
Bond – Corporate Long-term EUR	3.73	3.15	3.29	1.80
Bond – Corporate Mid-Term USD	11.19	2.99	2.89	1.86
Bond - Government Mid-Term CHF*	-2.76	5.46	6.43	4.34
Bond - Corporate Mid-Term CHF	1.33	3.88	4.64	2.69
Bond – Corporate High-Yield EUR	7.30	3.11	2.64	2.92
Total Bond	**6.64**	**5.83**	**8.01**	**4.63**
5-year return 2020-2024	**Mean**	**Standard Deviation (SD)**	**Interquartile Range (IQR)**	**Median Absolute Deviation (MAD)**
Equity				
Equity – Financial Sector	10.49	4.04	6.16	3.10
Equity - North America	11.79	3.56	5.54	3.82
Equity – Europe	4.99	3.09	3.59	2.64
Equity – Global Advanced Markets	7.75	3.83	4.88	2.97
Equity – Eurozone Small-Cap	2.49	3.42	4.10	2.73
Equity – Indonesia*	-1.09	1.82	1.88	1.28
Total Equity	**6.63**	**5.19**	**6.56**	**4.85**

Bond				
Bond – Government Long-term EUR	-2.68	2.01	0.89	0.62
Bond – Corporate Long-term EUR	-0.41	0.99	1.34	0.79
Bond – Corporate Mid-Term USD	2.41	1.62	2.10	1.56
Bond - Government Mid-Term CHF*	-1.71	2.25	2.35	1.79
Bond - Corporate Mid-Term CHF	1.80	1.90	2.25	1.28
Bond – Corporate High-Yield EUR	1.60	2.30	1.56	1.45
Total Bond	**0.96**	**3.20**	**3.41**	**2.13**

* Equity Indonesia and Bond Government Mid-Term CHF are categories with a very limited number of observations (see Annex).

We find that the categories of equity and bond funds indeed have narrower distributions than the overall equity and bond investment fund universes. We detect lower standard deviations, lower interquartile ranges and lower median absolute deviations compared to the overall universes. This is also reflected in the distribution charts[15] reported below.





Source: EFAMA's calculation based on EFC classification and Morningstar data

The distributions of returns over the 5-year period are noticeably more stable than those for 2024. This is largely due to time diversification: over longer horizons, short-term fluctuations average out, revealing underlying trends more clearly. Longer periods also capture full business cycles, offering a more balanced view of performance. Therefore, analysing and comparing fund performance over a longer period provides a more meaningful and reliable assessment.

Our research confirms the well-established pattern that, on average, global developed markets and North American equities—driven primarily by the U.S.—outperformed European equities both in 2024 and over the five-year period from 2020 to 2024. However, performance dispersion among global and North American equity funds was significantly higher than among European equity funds during both periods.

In the first half of 2025, this dynamic temporarily shifted, with European equities outperforming the North-American and global equities for a period of time. This reversal was likely driven by a combination of elevated U.S. stock valuations and investor concerns over newly imposed U.S. tariffs. To assess whether the EFC successfully captured this shift and continued to accurately form fund peer groups, we extended our analysis to include year-to-date net performance[16] for 2025 for North-American, European and Global Equity funds. The results provide further strong validation of the EFC framework. It proved effective in capturing the 2025 market shift, reflecting the temporary outperformance of European equities. In addition, funds grouped within each geographic category continued to show narrower return distributions than the overall equity fund universe (see Annex). This demonstrates that EFC provides a consistent and meaningful classification system.

Similarly, the superior performance of corporate bonds over government bonds is also confirmed, based on comparisons across bond fund categories with matching maturities and currencies.

Thus, from both a statistical and logical standpoint, the EFC demonstrates a robust and coherent framework for categorising investment funds effectively.

CONCLUSION

By promoting clarity and consistency, the EFC helps build a more integrated, efficient, and investor-friendly European fund market. As a unique and comprehensive classification system, the EFC enables more transparent fund comparisons and better-informed investment decisions. Our analysis confirms that it serves as a robust and effective standard for the classification of investment funds. The results show that funds grouped under the same EFC category tend to exhibit more consistent performance characteristics compared to the broader market, indicating that the classification successfully forms representative peer groups. Furthermore, the EFC categories preserve key empirical observations in fund performance, such as the relative return patterns between equity funds with different geographical exposures or between corporate and government bonds. These findings support the view that the EFC offers a robust framework that can be confidently used by industry participants, regulators, and policymakers for performance evaluation and market transparency.

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ANNEX

I. PERFORMANCE DISTRIBUTION ANALYSIS OF EFC CATEGORIES IN 2025				
Return in 2025 (1st January- 30th June)	**Mean**	**Standard Deviation (SD)**	**Interquartile Range (IQR)**	**Median Absolute Deviation (MAD)**
Equity - North America	-5.43	5.12	3.28	3.79
Equity – Europe	6.69	6.47	6.85	4.76
Equity – Global Advanced Markets	-1.02	6.58	6.58	4.57
Total Equity	**1.03**	**8.53**	**10.45**	**6.51**

II. NUMBER OF OBSERVATIONS (SHARE CLASSES) INCLUDED IN THE ANALYSIS			
Category	**Return time series in 2024**	**Return time series 2020-2024**	**Return time series in 2025 (Jan-June)**
Equity – Financial Sector	245	206	-
Equity - North America	492	401	489
Equity – Europe	2,500	1,987	2,491
Equity – Global Advanced Markets	10,172	5,914	10,170
Equity – Eurozone SmallCap	114	114	-
Equity – Indonesia* (small category)	18	18	-
Total Equity	**58,289**	**39,190**	**58,201**
Bond – Government Long-term EUR	190	168	-
Bond – Corporate Long-term EUR	207	191	-
Bond - Corporate Mid-Term USD	320	225	-
Bond Government Mid-Term CHF* (small category)	18	18	-
Bond - Corporate Mid-Term CHF	174	137	-
Bond – Corporate High-yield EUR	541	341	-
Total Bond	**42,091**	**28,621**	**-**

Notes: The number of observations included in the analysis is influenced by: (i) the number of share classes identified by the EFC classification, (ii) the subset of those share classes with available data in Morningstar Direct, and (iii) the availability of return data for the year 2024 and the period from 2020 to 2024 for the finally determined share classes.

ENDNOTES

[1] *A neutral Classification Administrator (CA), FE fundinfo, performs the classification using the asset holdings of the fund. Fund managers are actively involved and consulted during every step of the verification process.*

[2] *The latest classification results can be found here. The figures presented reflect the **total number of classified funds**, encompassing both **verified** and **indicative** classifications.*

[3] *More information can be found in the EFC brochure.*

[4] *New ones are occasionally added to capture the latest trends in the European fund landscape.*

[5] *We set a threshold of 100 share class observations as the minimum for ensuring statistically reliable results.*

[6] *These are: Equity Indonesia (for equity) and Government Bonds Mid-Term CHF (for bonds).*

[7] *Funds with similar sectoral and geographical allocation have more similar performance compared to the whole universe of funds. These findings have been reported in our Market Insights #19: The sectoral performance of active and passive UCITS - is a simple measure enough?, as well as the EFAMA's Fact Book box: Net returns and fund costs: A nuanced look at value in UCITS. Moreover, other studies have proven the correlation between fund strategies and fund performance (see Füss et al. (2021), Huang et al. (2021), Sojli et al. (2020)).*

[8] *We do not focus on fund costs, as their distribution is largely influenced by other underlying factors, as demonstrated in our Market Insights #15: Key determinants of the costs of clean share classes of UCITS available to retail Investors.*

[9] *We also evaluated the third measure — the coefficient of variation ($CV = \frac{Standard\ Deviation}{Mean}$) — which, in theory, should be the most suitable, as it expresses the relative variability of a distribution compared to others. However, the CV is highly sensitive when the mean is close to or below 1, which is often the case for bond categories. This sensitivity makes the CV difficult to interpret reliably in such contexts.*

[10] *Global and U.S. equities have consistently outperformed European equities over the past decade leading up to 2025. See MSCI World, MSCI USA, and MSCI Europe Index Factsheets* or comparable geographically allocated indices.

[11] *The temporary reversal of the trend towards the outperformance of European equities over the US and global equities in 2025 (year to date) has been reported in our Factbook box UCITS net returns in 2024 and so far in 2025, as well as other sources: MSCI (2025) Some See a Renaissance for European Equities; Forbes (2025) European stocks surge ahead of S&P 500 In Q1 2025; Goldman Sachs (2025) Why European stocks are outperforming the US.*

[12] *This has been shown in the upcoming EFAMA's Fact Book box Net returns and fund costs: A nuanced look at value in UCITS.*

[13] *We deliberately include two pairs of government and corporate bond categories, each matched by currency and duration, to allow for a meaningful comparison of their performance.*

[14] *The broader universe of equity and bond funds (total share classes) is defined and calculated using Morningstar data for two main reasons: (i) to assess the effectiveness of the EFC using an established external data provider for investment funds, and (ii) to capture the largest possible universe of equity and bond share classes, thereby avoiding reliance on the overlapping ISINs between EFC and Morningstar Direct, which would otherwise limit the number of observations.*

[15] *These distribution charts are a graphical representation that show investment fund net returns are spread across different value ranges. The horizontal axis represents net performance, while the vertical axis shows the number or proportion of funds falling within each return range. A narrow, peaked distribution indicates that most funds within the category delivered similar returns, suggesting strong homogeneity. A wider or flatter distribution implies greater dispersion in performance, which may reflect less consistency within the group. Quartiles divide a dataset into four equal parts and help summarize the spread of values.*

[16] *We report the net performance of the selected categories for the first half of 2025 (January 1 – June 30, 2025) in the Annex.*