



Federation of Malaysian Unit Trust Managers (Company No. 272577-P)



FMUTM –Lipper Fund Volatility Factor and Classification for Unit Trust Schemes and Recognized Funds

Often an investor assumes two equity funds with similar investment objectives carry the same level of risks. This assumption may not be true because investment styles and strategies adopted by the two fund managers are not the same.

Federation of Malaysian Unit Trust Managers and Lipper now offer investors a risk factor and classification on unit trust funds that have at least a three years performance track records to assist investors in their fund selection process.

The risk factor and classification is known as Fund Volatility Factor and Fund Volatility Classification.

Fund Volatility Factor (FVF)

To better communicate the risk profile of each fund to investors, FMUTM is introducing an industry practice for disclosure of FVF for all funds, with a minimum three years performance track records.

In its simplest form, the FVF is a measure of the rise and fall in a fund's return over a period of time relative to its average returns. FVF is basically the annualized standard deviation of the fund over the past three years. A fund will have a higher FVF if its returns fluctuate widely against its average returns and vice versa.

Illustration

Fund A has a consistent yearly return of 5% over the past three years. The standard deviation or volatility for this fund during this period is zero because the fund's return in any single year does not differ from the average of 5%.

On the other hand, in each of the last three years, Fund B had an annual return of -10%, +10% and 30% respectively. Although it has a higher average return of 10%, Fund B will show higher volatility or rise and fall in market value compared to Fund A. Fund B is hence more risky because its returns fluctuate more widely around the average return over the period.

Investors must understand that while Fund B offered a higher average yearly return of 10%, it carried a higher risk, in that the returns were volatile and are not always consistent. Depending on the investor's risk profile, he may prefer Fund A with lower return of 5% per annum but carries less risk of delivering unexpected returns.

Fund Volatility Classification (FVC)

FVC ranks all qualified funds by their FVF in an ascending order, which is then evenly divided into five classes as follows:

FVC Table		Fund Volatility Classification (FVC)
20%	lowest FVF	Very Low
20%		Low
20%		Moderate
20%		High
20%		Very High
20%		highest FVF

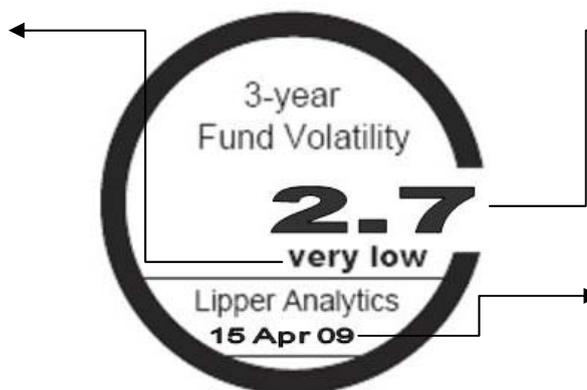
20% of all qualified funds with the lowest FVF will be assigned “Very Low” in the Fund Volatility Classification, the next 20% received a score of “Low”, the middle 20% are classified as “Moderate”, the next 20% are assigned “High” and the highest are classified as “Very High”. Both FVF and FVC will be updated periodically by Lipper.

An investor can also determine a fund’s risk level relative to the industry by simply checking where the fund is been assigned in the FVC table. Generally, a bond fund should have a low FVF and should be sitting within “Low” or “Very Low” volatility classification. If a bond fund is located in FVC that is “Moderate” or higher, it means it’s FVF is relatively high. This fund may have adopted investment strategies that are more aggressive than other normal bond funds to deliver higher returns.

Disclosure of FVF and FVC in an Icon

FMUTM has introduced a standard format in disclosures of FVF and FVC through an Icon (see below) in order to provide investors with, at the first instance, how volatile the returns of a qualified fund has fluctuated in the past and also, a first test of compatibility of investors’ risk tolerance versus their expected returns. The example below shows the Icon for a hypothetical fund with a FVF or standard deviation of 2.7 over the three-year period as of 15 April 2009.

“Very low” is the FVC of the fund. It means the fund’s FVF is residing within the lowest 20% of all qualified funds.



“2.7” is the value for FVF. It means there is a possibility for the fund’s returns to rise and fall around 2.7% relative to the average return

Both the FVF and FVC are current as of this date.

You may also find that the values for FVF, FVC and the relevant date may be disclosed in tabular format especially for materials that consist of multiple funds information.

More on FVF and FVC

- FVF is subject to monthly revision and FVC will be revised every six months. Presently, only funds launched in the market for at least 36 months will display the FVF and its FVC.
- Funds with low or high volatilities in the past do not necessarily indicate they will register the same volatilities in the future.
- The FVF and FVC are not intended to be the sole criteria in determining the suitability of a fund to investors. Investors should take into consideration other factors such as their financial needs, risk profile and investment horizon before making an investment decision.
- The FVF and FVC are not to be used as a comprehensive measure in determining consistency in return performance of funds. If in doubt, investors should consult their professional advisers.