

CIRCULAR

| | | | |
|-------|---|----------|----------------------------|
| Date: | 23 October 2023 | Ref No.: | ID/Members/ID-JW-PV/018-23 |
| To: | UTMC, PRS Providers, IUTA, IPRA, CUTA, CPRA | | |
| Attn: | Authorised Representative/Chief Executive Officer | | |

Fund Volatility Rating Methodology Survey

(i). We would like to seek your valuable input and assistance in an upcoming survey that will provide essential insights into updating the Fund Volatility Rating methodology as defined in Investment Management Standards 9 (IMS-9) – “Measuring and Disclosure of Volatility for Unit Trust Schemes and Recognized Funds”.

(ii). Background

As part of our ongoing efforts to provide information to Investors for informed decision making, we are conducting a short survey to gather input and perspectives from key stakeholders from the industry that specifically addresses the Fund Volatility Rating methodology.

(iii). Survey Objectives

a. Capture Stakeholder Perspectives

We seek to understand the views and experiences of Distributors, Consultants, and Investors regarding the current Fund Volatility Rating methodology.

b. Assess Current Operational Flow

The survey will provide insights into the current operational flow, challenges, and the feasibility of updating the methodology.

c. Identify Hurdles and Concerns

We aim to highlight any potential hurdles or concerns that may need to be addressed during the implementation of the updated methodology.

d. Industry-Wide Collaboration

We believe that by involving industry stakeholders, we can develop a more robust and widely accepted approach.

e. Applicability of additional Matrix for Consultants and Investor

In addition to the Fund Volatility Rating methodology, we are also exploring alternative Fund Ratings that may be utilised by your Consultants in marketing UTS and PRS and serve as an additional matrix for Investors decision making process.

(iv). Survey Details

We kindly request your participation of this survey and would appreciate your submission by **17 November 2023 (Friday)**. We have attached a copy of the survey questionnaire for your ease of reference (Appendix 1). The survey link is provided below:

<https://survey.alchemer.com/s3/7558367/Survey-on-Fund-Volatility-Rating-Distributors>

(v). Additionally, we seek your assistance in circulating another survey designed for your **Investors** via your internal communication channels (i.e., through emailer or any other viable forms) and encouraging their participation. Please be assured that we are not requesting any Investors' details such as personal information, contact and their fund holding information. Hence, the response that we receive from your Investors are anonymous.

We have attached a copy of the survey questionnaire for your reference (Appendix 2). Kindly encourage your Investors to complete the survey by **17 November 2023 (Friday)**. The survey link to be disseminated to your Investors is provided below:

<https://survey.alchemer.com/s3/7558263/Survey-on-Fund-Volatility-Rating-Investors>

(vi). If you have any questions or require further information, please do not hesitate to contact the Industry Development Department at ID@fimm.com.my.

Thank you.

Yours faithfully



JOYCE WEE

Senior Manager, Industry Development

APPENDIX 1

Survey on Fund Volatility Rating – Distributors

1. How familiar are you with the current fund volatility methodology used in the industry?

- Very familiar
- Somewhat familiar
- Not familiar

2. In your opinion, how relevant is the current Fund Volatility methodology in assessing the risk of investment funds?

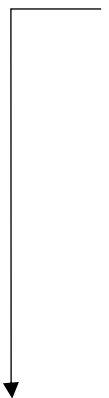
- Highly relevant
- Moderately relevant
- Not relevant

3. What limitations or challenges do you foresee with the current Fund Volatility methodology?
Please provide details:

4. Are there specific types of funds in which the current Fund Volatility methodology is unsuitable or ineffective? Please specify the types of funds and explain why:

5. Do you believe that additional Fund ratings or metrics beyond Volatility would provide a more comprehensive assessment of fund risk and returns?

- Yes, additional ratings are needed
- No, the current Fund Volatility Factor is sufficient



If you answered "Yes", which other Fund ratings or metrics do you consider relevant for assessing fund risk? Please select the ratings that you may consider.

- Alpha** - measure of a Fund Manager's skill in generating excess returns compared to a benchmark index. A positive alpha indicates outperformance, while a negative alpha suggests underperformance. It assesses the value added by the Fund Manager's investment decisions beyond market movements.
- Beta** - measures the Fund's sensitivity to market movements. A beta of 1 means the Fund moves in line with the market, while a beta greater than 1 suggests higher volatility. A beta less than 1 indicates lower volatility. It helps assess the Fund's risk level and how it may perform compared to the market.
- Sharpe Ratio** - measures how well a Fund has performed in relation to the risk it has taken. It considers the Fund's return and risk to provide a single metric. A higher Sharpe ratio indicates better risk-adjusted performance, meaning the Fund has generated higher returns relative to the amount of risk. It helps investors assess if the Fund's returns are worth the level of risk involved.
- Jensen** - measure of how well a Fund has performed compared to its expected return, considering the risk involved. It helps determine if a Fund Manager has generated higher or lower returns than expected, given the level of risk. Positive Jensen's Alpha indicates outperformance, while negative values indicate underperformance. It assesses the Fund Manager's skill in generating excess returns based on the Fund's risk and market conditions.
- Treynor** - measurement that helps assess how well a Fund has performed in relation to the amount of risk it has taken. It considers the excess return of the Fund (returns above the risk-free rate) and divides it by the Fund's beta, which measures its sensitivity to market movements. The resulting ratio indicates how much return the Fund has generated per unit of market risk. A higher Treynor Ratio suggests better performance, indicating that the Fund has achieved greater returns relative to its risk. It helps investors evaluate the Fund Manager's ability to generate returns considering market risk.
- Information Ratio** - measures how well a Fund performs compared to a benchmark, considering the level of risk taken. It shows the excess return the Fund generates relative to the benchmark, divided by the Fund's Volatility. A higher information ratio means the Fund has achieved better risk-adjusted performance, indicating the Fund manager's ability to generate returns above the benchmark while managing risk effectively. It helps investors assess how well the Fund Manager adds value compared to the benchmark.

6. In your experience, have investors expressed any difficulties in terms of understanding the current Fund Volatility methodology?

- Yes, frequently
- Yes, occasionally
- No feedback

If yes, how you assisted the investors? Please provide details:

7. What improvements or modifications would you like to suggest for the current Fund Volatility methodology? Please provide details:

8. Do you agree that the current semi-annual updating frequency for the Fund Volatility Class classification is outdated?

- Yes, the updating frequency should be increased to reflect current market conditions.
- No, the current semi-annual updating frequency is sufficient for assessing fund volatility.

How often do you think the Fund Volatility Class classification should be updated to accurately reflect the current market conditions?

- Monthly, to provide more frequent updates on fund volatility.
- Quarterly, as market conditions can change rapidly.
- Semi-annually, as the current frequency is adequate for assessing fund volatility.
- Others (Please specify):

9. In your opinion, what challenges will arise from the current semi-annual updating frequency for the Fund Volatility Class classification?

- The classification does not accurately reflect the real-time market conditions.
- It causes confusion for Consultants and investors when assessing fund volatility.
- It may lead to outdated investment decisions based on inaccurate volatility classifications.
- Others (Please specify):

10. How important is it to revise the methodology and update the Fund Volatility Class classification more frequently?

- Very important, as it ensures accurate representation of fund volatility in the current market environment.
- Moderately important, as more frequent updates may provide additional insights to consultants and investors.
- Not very important, as the current semi-annual updates are sufficient for assessing fund volatility.

11. Do you agree with the current methodology of converting Foreign Currencies to MYR to calculate the Fund Volatility Factor?

- Yes, I believe it provides an accurate representation of the Fund Volatility Factor.
- No, I believe it does not accurately reflect the risk of Foreign Currency-denominated funds.



How would you suggest addressing the issue of accurately representing the Fund Volatility Factor in the currency of which the Fund is denominated?

- Calculate and disclose the Fund Volatility Factor separately for each currency class.
- Develop a methodology that incorporates the Foreign Currency exposure into the Fund Volatility Factor calculation.
- Keep the current methodology of converting to MYR but provide additional information on currency-specific risks.
- Others (Please specify):

12. How do you perceive the impact of converting Foreign Currencies to MYR on the accuracy of the Fund Volatility Factor?

- It accurately represents the risk of foreign currency-denominated funds.
- It distorts the risk assessment of foreign currency-denominated funds.
- I don't think it has a significant impact on the accuracy of the Fund Volatility Factor.

13. In your opinion, how important is it for investors to assess the risk of Foreign Currency-denominated funds in relation to their chosen currency?

- It is crucial for investors to evaluate the fund's performance in their chosen currency.
- No impact as the Fund Volatility Factor is calculated in MYR.
- I don't think it significantly impacts the investment decision-making process.

APPENDIX 2

Survey on Fund Volatility Rating – Investors

Please provide your background to proceed with the survey

Gender

- Male
- Female

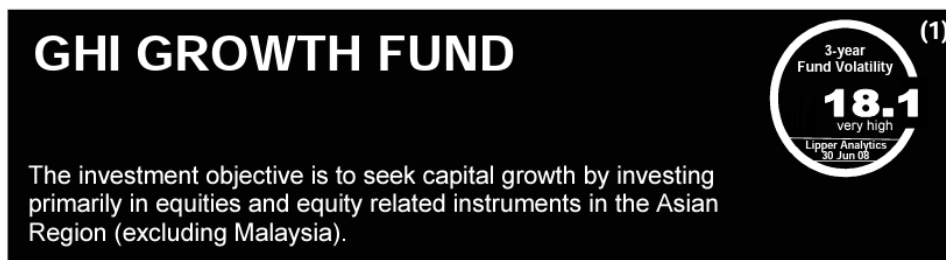
Age

- 35 and below
- 36 to 45
- 46 to 55
- 56 and above

Academic Qualification

- Secondary
- Diploma
- Bachelor
- Masters/PhD
- Professional Certificate

1. Are you familiar with the concept of Fund Volatility and how it relates to the risk of an investment? (Sample of the rating icon displayed in fund factsheet as below.)



- Yes, very familiar
- Somewhat familiar
- Not familiar

2. How important is the consideration of Fund Volatility in your investment decision-making process?

- Very important
- Moderately important
- Not important

3. Have you used Fund Volatility ratings or classifications in evaluating investment options?

- Yes, frequently
- Occasionally
- No, never

4. Do you find Fund Volatility ratings helpful in assessing the potential risk associated with an investment?

- Yes, very helpful
- Somewhat helpful
- Not helpful

5. Have you encountered any challenges or difficulties in interpreting or understanding Fund Volatility ratings when considering investment options?

- Yes, frequently
- Occasionally
- Rarely
- No, never

6. How confident are you in your ability to assess and understand the risk associated with investing in Funds based on the provided Fund Volatility ratings?

- Very confident
- Moderately confident
- Not confident

7. How would you prefer the Fund Volatility Ratings to be presented for a user-friendly reference in your investment decision-making process? Our suggestions below (please select those that apply):

- Clear visual/graphical representations that illustrate the volatility ratings
- Interactive representation of the volatility ratings in online medium (portal, website and etc.)
- Historical performance data showcasing the fund's volatility ratings over time
- Concise explanations of the volatility ratings and the associated risk levels
- Others (Please specify)

8. Which of the following assistance options would you find helpful in understanding the Fund Volatility Ratings? (Please select those that apply):

- Consultation with Unit Trust Consultants or Financial Planners
- Frequently Asked Questions (FAQ) section on the Unit Trust Company's website
- Call Centre assistance for Fund Volatility inquiries
- Interactive Chatbot for Fund Volatility information and guidance
- Summarised information sheet (available online or offline) explaining Fund Volatility Ratings