



# SA INC 2010 and BEYOND

ASISA

## CIS FUND (RE)CLASSIFICATION A Work in Progress



## ••➤ HISTORIC CONTEXT

- Fund Classification Standard based upon evolutionary process
- Shaped by market forces, legislation and regulation
- Marketing document
- Regulatory document
- Currently Asisa and Regulator has concerns
  - Fund proliferation
  - Ambiguous categories
  - “Musical chairs” syndrome



## ...➤ CURRENT POSITION

- Most participants recognise current FC weaknesses
- Past FM Committees suggested improvements & changes
- Attempts unsuccessful for a variety of reasons
  - Competitive forces
  - Regulatory issues (may require ballot exemption)
- FM Committee tasked with bringing proposals to industry
- Roadmap provided to Investments Board Committee in Feb 2010
- Draft proposal will be tabled
- Requires vision & commitment from all parties to be implemented successfully



## ••➤ PRINCIPLES FUND CLASSIFICATION CODE

- Do we want an industry backed FC system?.....YES!
- Balance between simplification and over-complication
- Should be aligned with global best practice
- Must incorporate unique SA characteristics (e.g. Excon and PFA)
- Should aid investors in comparing funds with similar characteristics
- Should be based on “Where” and “What” principle



## ••➤ WHAT FUND CLASSIFICATION STANDARD IS NOT!

- A marketing document
- A legislative/regulatory document



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# FUND CLASSIFICATION VERSION 2.0.....



## ...➤ ASSUMPTIONS

- 80/20 exposure guideline
- All exposures are at effective (net) exposure level
- References to sectors infer Industry Classification Benchmark (ICB) standards
- Funds should be classified in “best fit” category
- All categories will notionally exist in framework but only opened where 5 or more funds exist
- Tries to remain independent of legislation e.g (PFA, Excon)

...➤ TIER 1 – GEOGRAPHIC (WHERE)

<u>Current name</u>	<u>Proposed name</u>	<u>Current limit</u>	<u>Proposed limit</u>
Domestic	South African	<ul style="list-style-type: none"> <li>• min 75% domestic</li> <li>• max 5% Africa</li> <li>• max 20% foreign</li> </ul>	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• min 75% South African</li> <li>• max 5% Africa</li> <li>• max 20% foreign</li> </ul>
Worldwide	Worldwide	None	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• less than 80% in any specific country/region</li> </ul>
Foreign	Global	<ul style="list-style-type: none"> <li>• min 85% foreign</li> <li>• max 15% domestic</li> </ul>	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• min 80% Global</li> <li>• max 20% South African</li> </ul>

...➤ TIER 2 – ASSET CLASS (WHAT)

<u>Current name</u>	<u>Proposed name</u>	<u>Current limit</u>	<u>Proposed asset class limit</u>
Equity	Equity	min 75% equity	<b>Proposal:</b> • min 80% of NAV invested in equity
Asset Allocation	Multi Asset	All asset classes	All asset classes
Fixed Interest	Close (to be split into Money Market and Bond)		
Real Estate	Real Estate	min 50% listed property	<b>Proposal:</b> • min 80% of NAV invested in listed real estate
N/a	Money Market	Money Market as per CISCA	Money Market as per CISCA
N/a	Bond	min 100% fixed interest	min 100% of NAV in fixed interest

...> TIER 3 – EQUITY (SECTOR)

Current name	Proposed name	Current limit	Proposed asset class limit
Equity – General	Equity – General	No limits	No limits
Equity – Growth	Close		<b>Proposal:</b> • to Equity - General
Equity – Value	Close		<b>Proposal:</b> • to Equity - General
Equity – Large cap	Equity – Large cap	80% of equity must be in sector (Alsi40).	<b>Proposal:</b> • min 80% of funds NAV must be in sector plus; • 100% of non-cash purchases must be in sector at time of purchase • Sector defined as any share with market greater than 40 <sup>th</sup> constituent of Top 40 Index as published by JSE
Equity – Smaller companies	Equity – Smaller companies	80% of equity must be in sector (Outside of Alsi40). Can only buy into share if in sector	<b>Proposal:</b> • min 80% of funds NAV must be in sector plus; • 100% of non-cash purchases must be in sector at time of purchase • Sector defined as any share with a market capitalisation value smaller than that of the last constituent of the JSE Top40 Index as published by JSE

...> TIER 3 – EQUITY (SECTOR)

<u>Current name</u>	<u>Proposed name</u>	<u>Current limit</u>	<u>Proposed asset class limit</u>
Equity – Oil, gas and basic materials	Equity – Resources	80% of equity must be in sector description. Can only buy into share if in sector	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• min 80% of funds NAV must be in sector plus;</li> <li>• 100% of non-cash purchases must be in sector at time of purchase;</li> <li>• Sector defined as any share falling in the Oil, Gas and Basic Materials sectors. This sector to excludes funds investing exclusively in gold and other precious metals</li> </ul>
Equity – Financial	Equity – Financial	80% of equity must be in sector description. Can only buy into share if in sector	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• min 80% of funds NAV must be in sector plus,</li> <li>• 100% of non-cash purchases must be in sector at time of purchase</li> <li>• Sector defined as any share falling in the Financial sector</li> </ul>
Equity – Industrial	Equity – Industrial	80% of equity must be in sector description. Can only buy into share if in sector	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• min 80% of funds NAV must be in sector plus,</li> <li>• 100% of non-cash purchases must be in sector at time of purchase</li> <li>• Sector defined as any share falling in the Industrial sector</li> </ul>
Equity – Technology	Close (Not enough demand)		
Equity – Varied Specialist	Equity – Varied Specialist	Used if a fund cannot be classified in another equity sector	To be used if a fund cannot be classified in another equity sector e.g. gold, dividend, technology etc.

...➤ TIER 3 – MULTI ASSET (SECTOR)

Current name	Proposed name	Current limit	Proposed asset class limit
Asset Allocation – Prudential Low Equity	Multi Asset – Cautious	max 40% equity	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• max 40% equity (including cumulative preference shares)</li> <li>• max 25% listed property</li> <li>• max 55% combined equity and listed property</li> </ul>
Asset Allocation – Prudential Medium Equity	Multi Asset - Moderate	max 65% equity	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• max 60% equity (including cumulative preference shares)</li> <li>• max 25% listed property</li> <li>• max 75% combined equity and listed property</li> </ul>
Asset Allocation – Prudential High Equity	Close		
Asset Allocation – Prudential Variable Equity	Multi Asset Aggressive/Assertive/Growth	max 75% equity	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• max 75% equity (including cumulative preference shares)</li> <li>• max 25% listed property</li> <li>• max 90% combined equity and listed property</li> </ul>
Asset Allocation – Flexible	Multi Asset – Flexible	No limits	No limits
Asset Allocation – Targeted Absolute & Real Return	Close (These funds to move to multi asset)		
N/a	Multi Asset – Managed Income	N/a	<b>Proposal:</b> <ul style="list-style-type: none"> <li>• max 15% equity (including cumulative preference shares)</li> <li>• max 15% in listed property</li> <li>• max 25% combined equity and listed property</li> <li>• max 100% in redeemable preference shares</li> </ul>

...➤ TIER 3 – FIXED INTEREST (SECTOR)

Current name	Proposed name	Current limit	Proposed asset class limit
Fixed Interest – Bond	Bond – Variable term bonds	Modified duration unlimited	Modified duration unlimited
Fixed Interest – Income	Bond – Short term bonds	Max 2 years modified duration	Max 2 years modified duration
Fixed Interest – Money market	Money market	Money Market as per CISCA	Money Market as per CISCA
Fixed Interest – Varied Specialist	Close (These funds to move to multi asset)		

...➤ TIER 3 – REAL ESTATE (SECTOR)

<u>Current name</u>	<u>Proposed name</u>	<u>Current limit</u>	<u>Proposed asset class limit</u>
Real Estate – General	Real Estate – General	min 50% of NAV in listed real estate	<p><b>Proposal:</b></p> <ul style="list-style-type: none"> <li>• min 80% of funds NAV must be in sector plus,</li> <li>• 100% of non-cash purchases must be in sector at time of purchase</li> <li>• Sector defined as any share falling in the Real Estate sector</li> </ul>



## ••➤ ISSUES STILL TO BE RESOLVED

- How are ETF's treated? e.g. ;
  - can a resources fund hold a gold ETF?
  - can a financial services fund hold a Financials ETF
- Wording ensuring specialist funds only invest in their specialist asset class e.g. ;
  - a small cap fund holding a large cap stock
  - a financial fund holding a resources stock



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THANK YOU