

ASISA STANDARD

FUND CLASSIFICATION FOR SOUTH AFRICAN REGULATED COLLECTIVE INVESTMENTS PORTFOLIOS

November 2011

1. BACKGROUND

The correct classification of funds is important to achieve the following objectives:

- a) promote investor awareness and understanding of the various fund types;
- b) assist investors in selecting funds;
- c) facilitate the comparison of funds both across and within categories;
- d) facilitate the analysis of different types of funds.

These objectives cannot be achieved without detailed procedures, which will ensure that fund classification is done timeously, on a standardised basis with procedural control.

For the purpose of this standard, collective investment means, units in a unit portfolio, other than units in a unit portfolio in property shares, managed by a collective investment management company under the Act or any other form of participation in a unit portfolio of collective investment scheme or similar scheme, whether called a unit or by any other name and whether listed on a recognised stock exchange or not and the word fund shall be construed as meaning a unit portfolio.

2. OBJECTIVES

The objective of this standard is to facilitate the timeous and appropriate classification and reclassification of funds, to ensure that funds meet their investment mandate requirements, adherence to category and sector definition and to ensure that appropriate information on fund objectives is available to the investing public to facilitate appropriate fund comparisons

3. MANAGEMENT COMPANY AND MEMBERS RESPONSIBILITIES

ASISA CIS members shall ensure that all appropriate personnel have current copies of the 'Classification of South African Regulated Collective Investment Portfolio' Standard and have full understanding of their requirements.

3.1 The Investment Mandate

- a) The responsibility for the classification of a collective investment portfolio and the approval of its investment mandate lies solely with ASISA.
- b) The investment mandate is a definitive document reflecting the portfolio's main characteristics and a signed commitment of both the CIS manager and asset manager. It must be lodged with ASISA, is a public document and is available to any interested party.
- c) It is a regulatory requirement that the Supplemental Deed for each portfolio stipulates apart from the portfolio's investment policy, also the asset class(es) of the fund, *i.e.* Equity, Asset Allocation, Fixed Interest or Real Estate. With the foregoing as basis, an investment mandate is prepared, with the portfolio's classification to be in line with the stated mandate.
- d) Management companies must indicate on the investment mandate a proposed portfolio classification. ASISA will confirm the classification, or consult with the CIS manager where it differs from the proposal.

3.2 Procedure for Investment Mandate approval

- a) Subject to paragraph (d) below, a CIS manager who has submitted an application to the FSB for;
 - i. registration of a new portfolio; or
 - ii. change of an existing portfolio's investment policy; or
 - iii. name change of existing portfolio; or
 - iv. change of any material feature to an existing fund,
 must submit to ASISA a proposed investment mandate for classification and approval of the portfolio before launching such new portfolio or changing the investment policy or name of such existing portfolio or changing any material feature to an existing fund.
- b) The Fund Mandates & Classification Standing Committee or any sub-committee of ASISA constituted for that purpose will convene on a regular basis, *i.e.* on average of once a month to consider investment mandates lodged in terms of paragraph (a).
- c) ASISA will communicate the date of the forthcoming monthly meeting of the Fund Mandates & Classification Standing Committee or such sub-committee within five days of the last monthly meeting to member representatives and compliance officers of member companies provided that it is the responsibility of the member company to ensure that ASISA has updated details of its member representative and compliance officer.
- d) A CIS manager may, if in its view the Fund Mandates & Classification Standing Committee or such sub-committee thereof will approve its investment mandate without any changes, launch a new portfolio or change the investment policy or name of an existing portfolio or change any material feature to an existing fund provided that:

- i. the CIS manager will submit the investment mandate to ASISA before launching such new portfolio or changing the investment policy or name of such existing portfolio or changing any material feature to an existing fund.
 - ii. should the Fund Mandates & Classification Standing Committee or sub-committee thereof propose making structural changes to the investment mandate before approving it, i.e. changes to the portfolio classification, the CIS manager will be considered to have breached paragraph (a).
- e) A CIS manager who breaches paragraph (a) shall be liable to a fine per investment mandate. If the CIS manager's breach of paragraph (a) results in breaches of other ASISA Codes of Practice and Standards, the CIS manager will be liable to for such further breaches
- f) The investment mandate must be accompanied by either:
 - i. a copy of the portfolio's proposed investment policy (from the Supplemental Deed); or
 - ii. a copy of the clause constituting the relevant amendment (from the Supplemental Deed) with an explanatory letter on the proposed change.
 - iii. any other supporting documentation reasonably requested by the Fund Mandates and Classification Standing Committee to assist in reaching an informed decision.
- g) All Investment mandates must be completed in accordance with the *ASISA Guideline: Completion of Collective Investment Mandates*.
- h) Once the investment mandate has been approved by ASISA and a final amended mandate has been received from the CIS manager, ASISA will confirm the classification with the management company and inform the relevant Information Agencies of the portfolio's classification, or amendment to existing investment mandate, and forward a copy of the approved mandate.
- i) Investment mandates may be modified, taking into account any possible consequential implications on the Supplemental Deed. These changes must be forwarded to ASISA for approval and potential re-classification. A portfolio that is re-classified as a result of a change in the agreed investment mandate could forfeit its past performance. Forfeiture of past performance in the case of a change in the investment mandate without re-classification will be reviewed on a case-by-case basis.
- j) CIS managers may only forward their investment mandates to outside parties once ASISA approval has been obtained and a final agreed mandate has been submitted.
- k) A change to the investment objective of a portfolio (that does not require a ballot) as per its investment mandate, requires a notification to all unit holders of the portfolio.
- l) ASISA must be informed of the launch date of a portfolio where it is clear that it would differ from that indicated on the investment mandate.

3.3 Naming of funds

CIS managers must be sensitive to all tiers of classification in the initial naming of their portfolios. For example, a portfolio in any sector should not carry in its name, any reference to another sector or portfolio classification.

There is no compulsion to change names of existing portfolios when re-classified or names of portfolios in existence at the time of introduction or change of this standard, should these clash with those for sectors other than that in which they were classified. Here, it is left to the CIS manager concerned to decide on appropriate action, i.e. portfolios incorporating the word “global” might appear in both the world-wide and foreign portfolios categories. A further example is a portfolio with the word “growth” in its name could well be in the general, growth, or value portfolio sectors. However, it would be in the interests of the portfolio to change the name to correctly reflect the mandate of the portfolio so as not to mislead or confuse investors. Kindly refer to the *ASISA Guideline: Principles for Selection of Names for Collective Investment Portfolios* for further information.

- a) Funds of funds must have the wording “fund of funds” included in their names.
- b) Index portfolios must have the word “index” or “tracker” included in their names.
- c) Money market portfolios must have the wording “money market” in their names.
- d) Feeder portfolios must have the wording “feeder funds” in their names.
- e) Portfolios may only use the word “institutional” in their names if they are exclusively available to retirement funds, long-term insurers, investment managers or collective investment schemes.

3.4 General

- a) New categories will be considered where there are five or more portfolios with identical or substantially similar investment objectives. In such instances the portfolio’s past performance history will be included in the newly created category.
- b) ASISA will continuously reviews portfolio classification and the definitions of these classifications.
- c) CIS Managers that are in possession of audit certificates as issued by an auditor or a compliance certificate certified by the compliance officer indicating that a particular portfolio is compliant to Regulation 28 of the Pension Funds Act (Act 24 of 1956), must annually supply ASISA with copies of these certificates in order for ASISA to create and maintain a list of all Regulation 28 compliant funds within the CIS industry. ASISA will be required to publish this information onto the ASISA website.

3.5 Compliance requirements

CIS managers must ensure that:

- a) Portfolios comply with the agreed Investment Mandate.

- b) Portfolios comply with the various tiers of classification as stipulated in the most current *Classification of South African Regulated Collective Investment Portfolios* standard.
- c) Compliance officers of CIS managers must keep copies of the signed investment mandate.
- d) Confirmation on electronic mandates to indicate that the required parties have signed the mandate.
- e) At the end of each quarter, every CIS manager is required to submit a certificate of compliance with its agreed mandate and classification definition for each portfolio to the ASISA office within 10 business days of quarter end. A fine will be imposed on the late submission of a compliance certificate as stipulated by the Marketing and Distribution Board Committee.
- f) The CIS manager's Compliance Officer must sign compliance certificates to confirm that the portfolios under the management of that particular company comply with the compliance requirements as stipulated in paragraph 3.5. A fine per portfolio will be imposed for a contravention of the investment mandate and sector classification requirements as stipulated by the Marketing & Distribution Board Committee.
- g) Where portfolios do not comply, the Compliance Officer should indicate where the portfolios do not comply, why they do not comply, what action will be taken to address this. Non-compliant portfolios will be given a maximum period of 90 days to ensure compliance, provided that the non-compliance is of an inadvertent nature, i.e. non-compliance due to market movements, corporate actions or large cash flows. Any other inadvertent non-compliance should be corrected within 30 days. Adverent non-compliance should be corrected immediately.
- h) Where a CIS manager has changed its investment mandate and has failed to inform ASISA of such change resulting in non-compliance in terms the approved investment mandate or sector definition, a fine will be imposed as stipulated by the Marketing and Distribution Board Committee.

3.6 Complaints procedure

Portfolio classification will be monitored by ASISA on the basis of compliance and complaints procedures to ensure compliance with declared investment mandates and the sector class definition requirements. Non-compliant portfolios will be given a maximum period of three months, from the date of detecting a transgression, in which to ensure compliance with their investment mandate and the sector classification definition. Failure to comply after the expiry of any prescribed period will result in re-classification of the portfolio accompanied by a potential loss of performance history.

3.7 Monitoring adherence to this standard and the lodging of a formal complaint

To assist in the adherence to this standard and as part of the monitoring of appropriate classification of portfolios, ASISA members are requested that, when a possible breach of the appropriate standard is identified, a formal complaint should be lodged in writing to the ASISA office and the grounds on which the complaint is based must be clearly stated.

Upon lodging the complaint, ASISA will investigate and action will be taken where required. The complainant will be advised of the outcome in writing.

3.8 Appeals procedure

- a) Any party who feels aggrieved by a ruling of ASISA in terms of this standard may appeal to the ASISA Investments Board Committee, provided that the notice of appeal is lodged in writing with this Board, through the Chief Executive Officer, within 5 (five) business days of ASISA having issued its written ruling.
- b) A quorum of the Investments Board Committee is required to consider any appeal.
- c) The notice of appeal shall be in writing, set out in full the grounds of the appeal and be supported by full documentation on the matters forming the subject matter thereof.
- d) Pending the adjudication of any appeal, the parties shall adhere to the ruling of ASISA.
- e) The Investments Board Committee may call for further evidence for the purposes of adjudication of the appeal.
- f) The Investments Board Committee shall consider the appeal at their next board meeting and issue a written ruling within 10 (ten) business days thereof.

4. ASSOCIATION FOR SAVING & INVESTMENTS SA' RESPONSIBILITIES

- a) ASISA shall monitor compliance with this standard and any breaches brought to its attention shall be individually considered and appropriate action taken.
- b) This standard and the *ASISA Guideline: Completion of Collective Investment Portfolio Mandates* and the *Classification of South African Regulated Unit Trusts* shall be updated from time to time and fully reviewed annually.
- c) The ASISA office shall ensure that all requirements prescribed by this standard are met.
- d) The ASISA office will keep copies of all agreed investment mandates for public inspection.
- e) The responsibility for classification and re-classification of portfolios will lie solely with ASISA.
- f) Where a breach has been identified, as per the portfolio compliance certificate or by way of complaint, the breach will be forwarded to the ASISA Fund Mandates & Classification Standing Committee for consideration in terms of severity of the breach, corrective action required to remedy the breach and the required proof of rectification.
- g) The recommendations of the Fund Mandates & Classification Committee will then be forwarded to the ASISA Executive Committee for adjudication.

- h) Where it is ruled that an offence has been committed in terms of the Standard relating to Portfolio Classification, fines will be imposed as stipulated by the Investments Board Committee.
- i) The ASISA office will ensure that the CIS manager has taken the appropriate corrective action, as stipulated by the Fund Mandates & Classification Standing Committee.

5. CLASSIFICATION OF SOUTH AFRICAN REGULATED COLLECTIVE INVESTMENT PORTFOLIOS

(All percentages contained herein to apply at effective or net exposure level)

The first tier of classification is as follows:

- 5.1 Domestic Portfolios:** These are collective investment portfolios that invest at least 70% of their assets in South African investment markets at all times. These collective investment portfolios could invest a maximum of 25% of their assets outside South Africa, plus an additional 5% in Africa outside of South Africa.
- 5.2 Worldwide Portfolios:** These are collective investment portfolios that invest in both South African and foreign markets. There are no minimum set for either domestic or foreign assets.
- 5.3 Foreign Portfolios:** These are collective investment portfolios that invest at least 85% of their assets outside South Africa at all times.
Please note that for the purposes of 5.1, 5.2 and 5.3 South African investments markets exclude “inward-listed securities,” unless a moratorium period applies.

Each of these categories is sub-categorised into the second tier of classification, namely:

- i. Equity portfolios;
- ii. Asset Allocation portfolios;
- iii. Fixed Interest portfolios; and
- iv. Real Estate portfolios

The second tier of classification is further sub-categories in the following detailed sub-categories:

- Equity Portfolios
 - Equity – General portfolios
 - Equity – Growth portfolios
 - Equity – Value portfolios
 - Equity – Large cap portfolios
 - Equity – Smaller companies portfolios
 - Equity – Oil & gas and basic materials portfolios
 - Equity – Financial portfolios
 - Equity – Industrial portfolios
 - Equity – Varied Specialist portfolios
- Asset Allocation Portfolios
 - Asset Allocation – Prudential Low Equity portfolios
 - Asset Allocation – Prudential Medium Equity portfolios
 - Asset Allocation – Prudential High Equity portfolios

- Asset Allocation – Prudential Variable Equity portfolios
- Asset Allocation – Flexible portfolios
- Asset Allocation – Targeted Absolute and Real Return portfolios
- Fixed Interest Portfolios
 - Fixed Interest – Bond portfolios
 - Fixed Interest – Income portfolios
 - Fixed Interest – Money market portfolios
 - Fixed Interest – Varied Specialist portfolios
- Real Estate Portfolios
 - Real Estate – General portfolios

6. SECTOR DEFINITIONS:

DOMESTIC PORTFOLIOS

6.1 Equity Portfolios:

Equity portfolios are collective investment portfolios that invest predominantly in shares listed on the Johannesburg Stock Exchange. These portfolios invest a minimum of 75% of the market value of the portfolios in equities at all times and generally seek maximum capital appreciation as their primary goal. All equity and derivative investments must conform 100% to the defined investment requirement of each category. However,

- a) a minimum of 80% of the equity portfolio must, at all times, be invested in the JSE Securities Exchange South Africa sector/s as defined by the category, and
- b) a maximum of 20% of the equity portfolio may be invested outside the defined JSE Securities Exchange South Africa sector/s provided that these investments comply fully with the category definition.

6.1.1 Equity – General portfolios - These portfolios invest in selected shares across all industry groups of the JSE Securities Exchange South Africa as well as across the range of large, mid and smaller cap shares. These portfolios do not subscribe to a particular theme or investment style. The portfolios in this category offer medium to long-term capital growth as their primary investment objective.

Benchmark: FTSE/JSE All Share index (J203T)

6.1.2 Equity - Growth portfolios - These portfolios seek maximum capital appreciation as their primary objective through investment in growth companies. Growth companies can be defined as those whose earnings are on or are anticipated to enter a strong and sustainable upward trend and typically trade on high price to earnings ratios (PE ratios). These portfolios are invested in growth companies across all industry groups of the JSE Securities Exchange South Africa.

Determination of a company as “growth share” takes into consideration the company’s sustainable earnings growth on the basis of a combination of:

- a) The 2 year historical earnings growth and
- b) 1-year consensus I-Net forecasts.

Benchmark: FTSE/JSE All Share Style Growth index (J331T)

6.1.3 Equity - Value portfolios - These are portfolios that seek medium to long-term capital appreciation as their primary investment objective. The portfolios seek out “value” situations by typically investing in shares with low relative PE ratios as well as shares that are trading at a discount to their net asset value. These portfolios frequently offer a higher than FTSE/JSE All Share Index average level of income. These portfolios are invested in selected “value” shares across all industry groups of the JSE Securities Exchange South Africa.

Determination of a share as “value share” takes into consideration:

- a) The current PE trading at a discount to the average PE of the market.
- b) The dividend yield of the company significantly exceeding the dividend yield of the market.

Benchmark: FTSE/JSE All Share Style Value index (J330T)

6.1.4 Equity – Large cap portfolios – These portfolios seek long-term growth as their primary objective through investment in large market capitalisation shares which fall within the top 40 JSE Securities Exchange South Africa listed shares ranked by market capitalisation, *i.e.* included in the FTSE/JSE Top 40 Index.

Benchmark: FTSE/JSE Top 40 index (J200T)

6.1.5 Equity – Smaller companies portfolios – These portfolios invest in established smaller companies as well as in emerging companies that are in the initial phase of their life. New investment by the portfolios are restricted to fledgling, small and mid-cap shares only and at least 80% of the portfolio will be invested in fledgling, small and mid cap shares at all times. Due to both the nature and focus of these portfolios, they may be more volatile than funds that are diversified across the broader market.

Benchmark: FTSE/JSE Mid Cap index (J201T)

6.1.6 Equity - Oil & gas and basic materials portfolios – These portfolios invest in companies whose principal business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other agricultural and natural resources or where at least 50% of their earnings are derived from such business activities and excludes service providers to these companies.

These portfolios invest primarily in securities listed in the FTSE/JSE Oil & Gas and Basic Materials industry groups and may be more volatile than portfolios that are diversified across a wider range of FTSE / JSE industry groups.

Benchmark: FTSE/JSE Mining index (J177T)

6.1.7 Equity – Financial portfolios - These portfolios invest in shares of financial services companies including banks, insurance companies, brokerage firms and other companies whose principal business operations involve the provision of various financial service or where at least 50% of their earnings are derived from the provision of such financial services. The portfolios invest primarily in companies listed in the FTSE/JSE Financials industry group. These portfolios may be more volatile than portfolios that are diversified across a wider range of FTSE / JSE industry groups.

Benchmark: FTSE/JSE Financials index (J580T)

6.1.8 Equity – Industrial portfolios – These portfolios invest in selected industrial companies listed on the JSE Securities Exchange South Africa but generally excludes all companies listed in the FTSE / JSE Oil & Gas, Basic Materials, and Financials industry groups.

Benchmark: FTSE/JSE All Share Industrials index (J257T)

6.1.9 Equity – Varied specialist portfolios - These portfolios invest in a single industry group or in companies that share a common theme or activity as defined in their respective mandates. However due to the unique nature of their mandates they cannot be categorised into any of the afore-listed categories. The performance of these portfolios cannot be compared to others in this category. Due to both the nature and focus of these portfolios, they may be more volatile than portfolios that are diversified across the broader market.

Should it be considered appropriate, where five or more portfolios share a common focus or theme as defined in their mandates, a new category will be created and the portfolios transferred, provided that a suitable benchmark can be established or index is published.

6.2 Asset Allocation Portfolios:

Asset Allocation portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money and property markets.

6.2.1 Asset Allocation – Prudential Low Equity portfolios - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to display reduced short term volatility, aim for long term capital growth and would have an effective equity exposure (including international equity) below 40% at all times. These portfolios conform to legislation governing retirement portfolios, (Regulation 28 of the Pension Funds Act) and are thus suitable as investment vehicles for retirement portfolios. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolios mandate and stated investment objective and strategy.

6.2.2 Asset Allocation – Prudential Medium Equity portfolios - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to display average volatility, aim for medium to long term capital growth and would have an effective equity exposure (including international equity) between 40% and 65% at all times. These portfolios conform to legislation governing retirement portfolios, (Regulation 28 of the Pension Funds Act) and are thus suitable as investment vehicles for retirement portfolios. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolios mandate and stated investment objective and strategy.

6.2.3 Asset Allocation – Prudential High Equity portfolios - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to have an increased probability of short term volatility, aim to maximise long term capital growth and would have an effective equity exposure (including international equity) above 60% at all times. These portfolios conform to legislation governing retirement portfolios, (Regulation 28 of the Pension Funds Act) and are thus suitable as investment vehicles for retirement portfolios. The underlying risk and return

objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy.

6.2.4 Asset Allocation – Prudential Variable Equity portfolios - These portfolios invest in a spectrum of investments in the equity, bond, money, or property markets. These portfolios tend to have an increased probability of short term volatility, aim to maximise long term capital growth and would have an effective equity exposure (including international equity) between 0% and 75% at all times. These portfolios conform to legislation governing retirement portfolios, (Regulation 28 of the Pension Funds Act) and are thus suitable as investment vehicles for retirement portfolios. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy

6.2.5 Asset Allocation – Flexible portfolios - These portfolios invest in a flexible combination of investments in the equity, bond, money and property markets. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. These portfolios are often aggressively managed with assets being shifted between the various markets and asset classes to reflect changing economic and market conditions to maximise total returns.

6.2.6 Domestic – Asset Allocation – Targeted Absolute and Real portfolios – These portfolios invest in a combination of equity, bond, money market, property or derivative instruments. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. These portfolios tend to display below average short-term volatility and are mandated to manage towards a predetermined, explicit benchmark. These portfolios may not conform to legislation governing retirement portfolios, (Regulation 28 of the Pension Funds Act) and do not necessarily offer capital or performance guarantees.

6.3 Fixed Interest Portfolios:

Fixed Interest Portfolios are collective investments that invest in bond, money market investments and other income earning securities.

6.3.1 Fixed Interest - Bond portfolios – These portfolios invest in bonds, fixed deposits and other interest-bearing securities. These portfolios may invest in short, intermediate and long-dated securities. The composition of the underlying investments is actively managed and will change over time to reflect the manager's assessment of interest rate trends. These portfolios offer the potential for capital growth, together with a regular and high level of income.

Benchmark: BEASSA All Bond index

6.3.2 Fixed Interest - Income portfolios – These portfolios invest in bonds, fixed deposits and other interest earning securities which have a fixed maturity date and either have a predetermined cash flow profile or are linked to benchmark yields, but excluding any equities. To provide relative capital stability, the average modified duration of the underlying assets is limited to a maximum of two years. These portfolios are less volatile and are characterised by a regular and high level of income.

Benchmark: STeFI Composite index

6.3.3 Fixed Interest - Money market portfolios - These portfolios seek to maximise interest income, preserve the portfolio's capital and provide immediate liquidity. This is achieved by investing in money market instruments with a maturity of less than one year while the average maturity of the underlying assets may not exceed 90 days. The portfolios are typically characterised as short-term, highly liquid vehicles.

Benchmark: Alexander Forbes money market index

6.3.4 Fixed Interest – Varied Specialist portfolios – These portfolios invests in bonds, fixed deposits, structured money market instruments, real estate, listed debentures and other high yielding securities, provided that not more than 5% may be invested in ordinary equities. They seek to maximise income with either preservation and stability of capital, or an offer of potential growth of capital. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. However, in terms of the investment mandates of these portfolios, they fall outside the existing sub-categories of the Fixed Interest sector. Should it be considered appropriate, where five or more portfolios have a similar focus, a new category will be created and the funds transferred.

6.4 Real Estate Portfolios:

Real Estate - General portfolios – These portfolios invest in listed property shares, collective investment schemes in property and property loan stock. The objective of these portfolios is to provide high levels of income and long-term capital appreciation. Due to liquidity constraints in the Real Estate sector on the exchange these portfolios must maintain a minimum effective exposure to real estate securities of 50% and may include other high yielding fixed interest and other securities from time to time.

Benchmark: FTSE/JSE SA Listed Property index (J253T)

WORLDWIDE PORTFOLIOS

These are collective investments that invest in both South African and foreign markets. No minima are set for either domestic or foreign assets.

6.5 Equity Portfolios:

Equity portfolios are collective investments that invest predominantly in shares listed on stock exchanges. These portfolios invest a minimum of 75% of the market value of the portfolio in equities at all times and generally seek maximum capital appreciation as their primary goal. All equity investments must conform 100% to the defined investment requirement of each category.

6.5.1 Equity – General portfolios - These portfolios invest in selected shares from equity markets across the globe including South Africa. These portfolios will invest across countries and industry sectors as well as across the range of large, mid and smaller cap shares. These portfolios do not subscribe to a particular theme or investment style. The portfolios offer medium to long-term growth as their primary investment objective.

Benchmark: Morgan Stanley Capital World index (Total return)

6.5.2 Equity – Varied specialist portfolios - These portfolios invest in a single industry or sector or in companies that share a common theme or activity as defined in their respective mandates. These portfolios may invest in selected shares across all sectors. Should it be considered appropriate, where five or more portfolios focus on a common theme, a new category will be created and the portfolios transferred.

6.5.3 Equity – Technology sector portfolios - These portfolios seek capital appreciation by investing in companies whose principal business operations involve, or are expected to benefit from, changes in scientific or technological advances. These portfolios may be more volatile than funds that are diversified across many industry sectors.

6.6 Asset Allocation Portfolios:

Asset Allocation portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money and property markets to maximise total returns (comprising capital and income growth) over the long term.

6.6.1 Asset Allocation – Flexible portfolios - These portfolios invest in a flexible combination of investments in the equity, bond, money, or property markets to maximise total returns over the long term. The portfolios have complete or stipulated limited flexibility in their asset allocation both between and within asset classes, countries and regions. No minimum or maximum holding applies to domestic or offshore investment. These portfolios are often aggressively managed with assets being shifted between the various markets and asset classes to reflect changing economic and market conditions to maximise total returns.

6.7 Fixed Interest Portfolios:

Fixed Interest Portfolios are collective investments that invest in bond, money market investments and other income earning securities.

6.7.1 Fixed Interest – Varied Specialist portfolios– These portfolios invests in bonds, fixed deposits, structured money market instruments, listed debentures and other high yielding securities. They seek to maximise income with either preservation and stability of capital, or an offer of potential growth of capital. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. However, in terms of the investment mandates of these portfolios, they fall outside the existing sub-categories of the Fixed Interest sector. Should it be considered appropriate, where five or more portfolios have a similar focus, a new category will be created and the funds transferred.

FOREIGN PORTFOLIOS

These are collective investment portfolios that invest at least 85% of their assets outside South Africa at all times.

6.8 Equity Portfolio:

Equity portfolios are collective investment portfolios that invest predominantly in shares listed on stock exchanges. These portfolios invest a minimum of 75% of the market value of the portfolio in equities at all times and generally seek maximum capital appreciation as their primary goal. All equity investments must conform 100% to the defined investment requirement of each category.

6.8.1 Equity – General portfolios - These portfolios invest in selected shares from equity markets across the globe. They do not subscribe to a particular theme or investment style and will be invested across all market sectors, as well as across the range of large, mid and smaller cap shares. The portfolios offer medium to long-term growth as their primary investment objective.

Benchmark: Morgan Stanley Capital World index (Total return)

6.8.2 Equity – Varied specialist portfolios - These portfolios invest in a single industry or sector or in companies that share a common theme or activity as defined in their respective mandates. These portfolios may invest in selected shares across all sectors of stock exchanges. Should it be considered appropriate, where five or more portfolios focus on a particular theme a new category will be created and the funds transferred.

6.9 Asset Allocation Portfolios:

Asset Allocation portfolios are portfolios that invest in a wide spread of investments in the equity, bond, money and property markets to maximise total returns (comprising capital and income growth) over the long term.

6.9.1 Asset Allocation – Flexible portfolios - These portfolios invest in a flexible combination of investments in international equity, bond, money, or property markets to maximise total returns over the long term. The portfolios have complete or stipulated limited flexibility in their asset allocation both between and within asset classes, countries and regions. These portfolios are often aggressively managed with assets being shifted between the various markets and asset classes to reflect changing economic and market conditions to maximise total returns.

6.10 Fixed Interest Portfolios:

Fixed Interest portfolios are collective investments that invest in bond and money market investments and those which seek to maximise interest and rental income.

6.10.1 Fixed Interest - Bond portfolios – These portfolios invest in bonds, fixed deposits and other interest-bearing securities from markets around the world. These portfolios may invest in short; intermediate and long-dated securities. The composition of the underlying investments is actively managed and will change over time to reflect the manager’s assessment of interest rate trends. These portfolios offer the potential for capital growth, together with a regular and high level of income.

6.10.2 Fixed Interest – Varied specialist portfolios – These portfolios invest in bonds, fixed deposits and other high income-earning securities in international markets.

ASISA GUIDELINE COMPLETION OF COLLECTIVE INVESTMENTS SCHEMES MANDATES

1. INTRODUCTION

The concept of the investment mandate as a separate document is due to the difficulty of accurately identifying the objectives and investment parameters of particular collective investment schemes. While broad parameters are contained in supplemental deeds, and are frequently spelled out in marketing material, these sources are inappropriate for classification purposes. Consequently, fund managers had great latitude when investing on behalf of collective investment schemes, encouraging widespread interpretation of fund objectives, and complicating the classification of different funds.

The investment mandate has no legal standing, but will be used to classify each collective investment scheme. By getting both the CIS Manager and the Portfolio Manager to sign the document, the investment mandate ensures that no internal differences in perception of the mandate exist. The investment mandate will be made public, and will enable investors to fully appreciate the investment parameters and distinguishing characteristics of the potential investment. The document will also be used to monitor mandate adherence by the portfolio manager.

It is imperative that the status and use of the investment mandate is fully appreciated and due attention is paid to its completion. The document will reflect on the CIS Manager as well as the Association for Savings & Investment SA (ASISA) and the industry at large. It is essential that the investment mandate be submitted to ASISA prior to a collective investment scheme's launch, so that ASISA can complete the classification process and pass the latter on to CIS Statistics Service Providers

A blank investment mandate in Word format can be obtained from the ASISA office.

2. GUIDELINES

While completing investment mandates, many common problems are encountered (comments in parentheses, below, are examples of responses previously received). The following is offered in an effort to standardize and facilitate the logical functioning of the classification process:

- a) CIS Managers should, at all times, **retain the original format of the investment mandates** to ensure standardization and facilitation of the classification process.
- b) Only **one benchmark** per collective investment scheme will be accepted. This should be stated in the clearest possible terms. If a combination of benchmarks is proposed, then the ratio of the compilation should be stated. Equity type benchmarks should specify if the price index or the total return index would be used. The official JSE sector code must also be shown for equity type

benchmarks. CPI type benchmarks must state if the benchmark would be before or after costs (The investment return achieved by the fund (i.e. NAV to NAV) must be generated against a pure index level. Index/benchmark return cannot be adjusted downwards by the fees taken in the funds to try and make it "comparable". For example: if a fund (with a 1% annual service fee) returns 15% and the index returns 16%, the fund cannot reduce the index return by the 1% annual service fee. In this case the fund will under perform the index by 1%).

- c) The fund objective should be stated in the most **concise** manner. Vague marketing jargon is unacceptable. (for example, *one fund offered: "the fund aims to provide outstanding long-term upper quartile returns over the medium to long term". Another: "this fund seeks to achieve a prudent balance between capital appreciation and portfolio risk by diversifying investments across the various asset classes of shares, gilts, cash and listed property. This spread in asset allocation is aimed at lowering the risk associated with investing in one asset class and seeks to offer greater protection against stock market weakness than a general equity fund"*).
- d) Where funds seek exposure to particular markets, sectors or asset classes, this should be **quantified**. (for example, *one fund wanted to be classified as a domestic fund, but consistently had more than 20% of its assets invested offshore*).
- e) CIS Managers need to appreciate **the implications of self-imposed constraints**. Thus, many smaller funds listed as internal constraints, or investable universes, companies less than R500m in size *at the time of investment*. A natural consequence of this constraint is that, over time, the fund could well be reclassified as a general (or other) type of fund, with the concomitant loss of performance history. A possible solution could be the quantification of exposure of the fund. For example, one small cap fund has as an internal constraint "a maximum of 10% of the fund may be invested in the largest 100 securities by market cap of the JSE All Share index".
- f) Where funds want to be classified as foreign, they should state so **explicitly**. Having done so, they can then qualify their current constraints, for example "subject to the asset swap ruling". (for example, *one fund listed the following as its investable universe: "cash, bonds and stock market securities in South African and international markets". Another domestic fund offered "listed mining and resource shares anywhere in the world"*).
- g) If funds have remained silent on international investment, they can expect to be taken to task if they invest offshore. If an established fund has not yet invested offshore, it is assumed that it either did not, or could not, do so. (for example, *one value fund wanted to be classified as a domestic fund, but offered as its Investable Universe "all value shares worldwide"*).
- h) Similarly, funds, which comply with Regulation 28 of the Pensions Act (the Domestic – Asset Allocation – Prudential categories), should state so **explicitly**. The following wording will suffice under Fund Limits and Constraints: "The Fund conforms to regulations governing retirement fund investments and, as such, is a suitable vehicle for retirement funds".

- i) Where equity funds want to invest in the capital (bond) market, the extent of this investment should be **quantified**. In any event, they will be subject to the definitions of the respective category. For example, equity funds will still have to have a minimum equity allocation of 75% to prevent reclassification. (for example, one *Industrial Fund* offered as its investable universe: “financial and industrial shares, listed bonds, debentures and preference shares”. Another: “...money and capital markets will be used from time to time...”).
- j) The **underlying portfolio** will also be considered when classifying the fund, despite what the investment mandate says.
- k) The naming of funds will be a problem for some time, and it is not unreasonable to expect a few collective investment schemes to change their names. In the ASISA fund classification document, the following is stated: It must be stressed that CIS Managers should be sensitive to names used for all tiers of classification in terms of the initial naming of their funds. There would be no compulsion to change fund names should these clash with those for sectors other than that in which they were classified. It would be left up to the CIS Manager concerned to decide on any action they wish to take i.e. funds incorporating the word “global” might appear in both the worldwide and foreign funds categories.
- l) In the case of Islamic or Sharia compliant portfolio the following statements must be included as follows under the headings:

Portfolio Limits and Constraints:

The portfolio shall not include any interest bearing securities, other than those included in a recognised Islamic Index, such as Dow Jones or FTSE, preference shares prohibited by the AAOIFI standards, or shares of companies predominantly (i.e. more than 5%) engaged in conventional insurance contracts, intoxicants, gambling, pornography, unlawful meat, taking interest bearing deposits or raising interest bearing loans

Any other comments:

The portfolio shall appoint a Sharia Supervisory Board as required by AAOIFI and will be marketed as a Sharia/Islamic fund.”

INVESTMENT MANDATE IN RESPECT OF

TYPE OF MANDATE (✓)	New portfolio				
	Name change				
	Classification change				
	Administrator change				
	Benchmark change				
	Portfolio manager change				
	PIGS status change				
	Other, please specify				
PORTFOLIO OBJECTIVE:					
INVESTABLE UNIVERSE OF PORTFOLIO:					
INVESTMENT POLICY (AS IN SUPPLEMENTAL DEED)					
PORTFOLIO BENCHMARK:					
PORTFOLIO LIMITS AND CONSTRAINTS:					
WILL THIS FUND BE MANAGED ACCORDING TO PRUDENTIAL GUIDELINES? (✓)	Yes		No		
TYPE OF PORTFOLIO (✓)	Retail portfolio		Institutional portfolio		
NATURE OF PORTFOLIO(✓)	Index	Fund of funds	Multi-Manager	General	Other
ANY OTHER COMMENTS:					
PORTFOLIO MANAGER: CONTACT DETAILS: Telephone: E-Mail:					
INVESTMENT MANAGER:					
MANAGEMENT COMPANY:					



PORTFOLIO INCEPTION DATE:	
DATE PREVIOUS MANDATE:	
EXPECTED LAUNCH DATE/ EFFECTIVE DATE OF REVISED MANDATE	
PORTFOLIO CLASSIFICATION CATEGORY:	
APPROVED BY ASISA	<p>..... Name</p> <p>..... Date</p> <p>..... Signature</p>

Signed for and on behalf of: Name:

Title:

Management Company:

Date:

Signed for and on behalf of: Name:

Title:

Investment Manager:

Date:

PRINCIPLES FOR SELECTION OF NAMES FOR COLLECTIVE INVESTMENT PORTFOLIOS

1. OBJECTIVE

To provide principles for the selection of portfolio names that are consistent with the purposes of the portfolio classifications and to prevent misleading names. Generally to avoid confusion with the investor public.

2. PRINCIPLES

- (a) Collective Investment Scheme managers should be sensitive to classification categories when selecting a name for a new portfolio.
- (b) Names of portfolios must not be confusing to the investor public, for example:
 - i. The name of a portfolio must not have wording that conflict with the portfolio's classification or mandate.
 - ii. The name of an equity general portfolio must not have the word "growth" or a word used in the title of another category.
 - iii. The name of a portfolio must not have wording that would indicate relevance to another category than the one of that portfolio.
- (c) Some specific portfolios must include prescribed words:
 - i. A bond portfolio must have the word "bond" or "gilt" in its name,
 - ii. An index portfolio must have the word "index" or "tracker" in its name,
 - iii. A money market portfolio must have the words "money market" in its name,
 - iv. A fund of funds must have the words "fund of funds" in its name.
 - v. A feeder portfolio must have the words "feeder fund" in its name.
 - vi. Portfolios may only use the word "institutional" in their names if they are exclusively available to retirement portfolios, long-term insurers, investment managers or collective investment schemes.
- (d) Creative names, for purposes of marketing, that do not have a specific meaning that would indicate relevance to a specific class, would be acceptable. However, it is preferred that the name of the category be included as part of a portfolios name.

3. PROCEDURE

When submitting an application to the FSB for a portfolios registration, the portfolio mandate, on the ASISA template form, should be appended to the supplemental deed and copied to ASISA. This will assist the FSB in the processing of the supplemental deed and approval of the portfolio name and allow ASISA to classify the portfolio timeously.

GUIDELINE ON THE RETENTION OF PERFORMANCE HISTORY

The following is the philosophy to be used by the Fund Mandates & Classification Standing Committee for deciding whether performance history should be lost or not following a change in fund structure. The default position in deciding if the performance history should be retained or not will always be for the history of a fund to be retained, unless the circumstances suggest otherwise.

The following guideline deals with the philosophy for deciding whether performance history should be lost or not following a change in fund structure.

- a. As a general rule, a fund would lose its track record after an amendment to the Investment Policy contained in the fund's supplemental deed. Changes to a supplemental deed can only be implemented once a successful ballot of unit holders has been confirmed by the appointed auditors. The conclusion of a successful ballot is thus, in most instances, the trigger for the loss of a fund's performance history. A change to a fund's investable universe to also include participatory interests in other collective investment schemes (i.e. a change to a hybrid type fund) will not necessarily result in a loss of performance history
- b. There are, however, ballots that require unit holder approval that do not materially affect the manner in which the fund is managed, and it is critical that guidelines are established in an effort to prevent opportunistic loss of performance history by amending non-critical elements of the supplemental deed.
- c. The overriding principle adopted by the committee is to question whether the historic approach adopted by the CIS Manager in delivering on the legal and marketed obligation to its unit holders is in any way materially different to the way it intends doing so after the completion of the successful ballot.
- d. The test of material difference is not a purely objective one and may at times require an informed consideration and decision by the industry elected members of the committee. The general materiality test applied is to ask the question "Is the performance track record representative of the way the fund is going to be managed in the future?"