



# **GUIDELINE ON COMPLETION OF THE FUND CLASSIFICATION APPLICATION**



## 1. INTRODUCTION

- 1.1. The ASISA Fund Classification Application and the supporting documentation and information are the primary sources of information that the ASISA Fund Classification Standing Committee will consider to approve the classification of a CIS portfolio.
- 1.2. It is imperative that the status and use of the ASISA Fund Classification Application is fully appreciated and due attention is paid to its completion. The ASISA Fund Classification Application is available to any interested party and will reflect on the CIS Manco as well as ASISA and the industry at large.
- 1.3. A blank fund classification application in Word format is available on the ASISA website [www.asisa.org.za](http://www.asisa.org.za) together with the ASISA Fund Classification Standard.

## 2. GUIDELINES ON COMPLETION OF THE FUND CLASSIFICATION APPLICATION

A CIS Manco should retain the original format of the ASISA Fund Classification Application to ensure standardisation and facilitation of the classification process.

The following guidelines are offered in an effort to standardise and facilitate the efficient functioning of the classification process:

### 2.1. **History of previous portfolio changes**

The history of previous changes to the CIS portfolio must be included and kept up to date. This information assists the ASISA Fund Classification Standing Committee to consider applications on a comprehensive basis and also promotes consistent decision making. A lack of history may impede the consideration of an application.

### 2.2. **Portfolio objective**

The portfolio objective should be stated in a clear and concise manner and must correspond with the overarching investment policy in the FSB-approved Supplemental Deed and the information included in the Minimum Disclosure Document (MDD) required in terms of [CISCA Board Notice 92 of 2014](#).

### 2.3. **Investment policy**

2.3.1. Very broad parameters in supplemental deeds complicate the classification (and potential future re-classification) of CIS portfolios. For example, the supplemental deed for a general equity portfolio should generally not provide for investment in bonds or interest bearing



securities. It is useful if the supplemental deed contains information that is aligned with the classification categories defined in the ASISA Fund Classification Standard. The classification category, however, need not be specifically identified in the supplemental deed.

- 2.3.2. The investment policy should clearly identify the investable universe of the portfolio. It must include a detailed description of the types of instruments that may be included (for example equities, bonds, cash, property, derivatives, large cap shares, financial shares) and any other restrictions (for example particular markets such as South Africa, foreign, specific region, specific country). Exposure to particular markets, sectors or asset classes should be quantified (for example equities will not exceed 60%).
- 2.3.3. It is not necessary to include paragraphs that do not contain the above information, for example the paragraph indicating that a manager reserves the right to close the portfolio to new investors.

### 3. PORTFOLIO BENCHMARK

- 3.1. The portfolio benchmark must be clearly identified and described. A portfolio may only have one benchmark. If a combination of benchmarks is proposed, then the ratio of the compilation should be stated. The official FTSE/JSE code or similar codes of foreign exchanges (tickers or codes) of exchange benchmarks must be included to specifically identify the exchange benchmark. Equity type benchmarks should specify if the price index or the total return index will be used.
- 3.2. The following extract from the ASISA CIS Performance Fee Standard which is effective from 1 January 2017 also provides guidance on the use of benchmarks (relevant parts in **bold**):

“1. Performance Fee Benchmark appropriateness

The performance that is relevant to the calculation of a performance fee is the performance relative to a Performance Fee Benchmark. When selecting the Performance Fee Benchmark, **managers should ensure it is relevant to the investment objectives and mandate of the fund and is capable of being consistently applied.**

Benchmarks can generally be grouped into investable and non-investable. Examples of investable benchmarks are indices published by exchanges. Non-investable benchmark examples are inflation rates and peer groups.

Generally accepted characteristics of a benchmark are:



Investable Benchmark	Non-Investable Benchmark
<b>Must be appropriately chosen for the type of fund and represent the relevant risk and return drivers of the product</b> (see below).	Must be appropriately chosen for the type of fund and represent the relevant risk and return drivers of the product (see below).
<b>Must be verifiable by an independent party</b> i.e. prices verifiable through independent sources.	Must be verifiable by an independent party i.e. levels/values verifiable through independent sources.
<b>Must be gross of fees.</b>	<b>Must be gross of fees, except in the case of peer group comparisons.</b>
<b>Must be calculated on a total return basis and include reinvested income or dividends.</b>	
<b>Must be tradable.</b>	

Performance Fee Benchmarks should be transparently disclosed and explained to investors.

Acceptable performance fee benchmarks and behaviour include:

- a. **Equity and Fixed Income funds should use the appropriate Total Return Indices or an appropriate sector/asset peer group benchmark.**
- b. **Multi-asset class portfolios can use the appropriate Total Return Composite Indices, sector peer or real return benchmarks (inflation plus type benchmarks):**
  - Peer group benchmarks for performance fees allow clients to only pay performance fees should the manager do better than the average (or median) of their peers. However **peer benchmarks are net of fees.**
  - Where the manager is **targeting an absolute or real return the use of an inflation benchmark aligns the interest of investors through a full market cycle and may be the appropriate benchmark** to use. Real return benchmarks should be congruent with the risks associated with the portfolio.



- c. Should an appropriate single asset class index or peer group not exist, it may be necessary to utilise an alternative benchmark until such time that an appropriate index or peer group benchmark becomes available.
- d. Performance Fee Benchmark should be disclosed in the Minimum Disclosure Document.

The list below includes examples of **inappropriate** Performance Fee Benchmarks, hurdles and behaviour, but is not exhaustive:

- a. Hurdles not relative to the stated benchmark of the fund. For example an equity fund should not have an ALSI benchmark with a cash +x% Performance Fee Benchmark and hurdle.
- b. **Multi-asset class funds (such as balanced funds) should not use inflation + x% where x% is not in line with the risk profile associated with the fund.**
- c. Money market funds should not have performance fees.
- d. **Equity funds should not use an inflation benchmark.**
- e. **Index benchmarks for single asset class portfolios that do not reflect the investment universe of the fund, unless (c) in the previous paragraph applies.**
- f. Change of Performance Fee Benchmark or components of the performance fee structure without due notice to investors.
- g. Fees earned for benchmark performance should not be at a fee hurdle lower than the Performance Fee Benchmark.”

## 4. CIS MANCO RESTRICTIONS

- 4.1. CIS Manco restrictions are self-imposed internal restrictions *over and above* regulatory and classification restrictions. CIS Mancos need to appreciate the implications of self-imposed restrictions as any change to these restrictions could influence the classification of the portfolio and also trigger a loss of performance history (track record).
- 4.2. Please do not duplicate any information that is already included in the Investment Policy as per the supplemental deed. It is also not necessary to include a reference to regulatory and classification



restrictions as these will apply regardless.

## 5. SUPPORTING DOCUMENTS AND/OR INFORMATION

5.1. The following table summarises the requirements:

### SUPPORTING DOCUMENTS AND INFORMATION TO BE SUBMITTED TOGETHER WITH THE FUND CLASSIFICATION APPLICATION

<p><b>New portfolio</b></p>	<ol style="list-style-type: none"> <li>1. Copy of the Supplemental Deed of the Portfolio as approved by the FSB.</li> <li>2. In the case of a feeder fund, a written undertaking from the CIS Manco that the underlying/target fund of the feeder fund will adhere to the approved classification of the feeder fund portfolio.</li> <li>3. An indication of whether performance fees are charged to the portfolio and if so, confirmation that the CIS Manco adheres to the ASISA Performance Fee Standard.</li> </ol>
<p><b>Change to the structure, portfolio objective, investment policy or CIS Manco restrictions of an existing portfolio</b></p>	<ol style="list-style-type: none"> <li>1. Copy of the Supplemental Deed effecting the changes as approved by the FSB.</li> <li>2. Comparison between the current and future portfolio structure, portfolio objective, investment policy or CIS Manco restrictions indicating the changes.</li> <li>3. In the case of changes to a feeder fund, a written undertaking from the CIS Manco that the underlying/target fund of the feeder fund will adhere to the approved classification of the feeder fund portfolio.</li> <li>4. A proposal from the CIS Manco in respect of the retention of the performance history (track record) of the portfolio.</li> <li>5. An indication of whether performance fees are charged to the portfolio and if so, confirmation that the CIS Manco adheres to the ASISA Performance Fee Standard.</li> </ol>
<p><b>Change of the name of an existing portfolio</b></p>	<ol style="list-style-type: none"> <li>1. Copy of the Supplemental Deed effecting the name change as approved by the FSB.</li> <li>2. An explanation of the reason for effecting the name change.</li> <li>3. If the name is changed as a result of an existing portfolio being transferred from a CIS Manco to a Third Party in terms of an agreement, or a change to the Third Party, an indication of whether there were any investors in the portfolio prior to</li> </ol>



	<p>the portfolio becoming a third party named portfolio or prior to the change of the Third Party.</p> <ol style="list-style-type: none"> <li>4. A proposal from the CIS Manco in respect of the retention of the performance history (track record) of the portfolio.</li> <li>5. An indication of whether performance fees are charged to the portfolio and if so, confirmation that the CIS Manco adheres to the ASISA Performance Fee Standard.</li> </ol>
<b>Amalgamation of portfolios</b>	<ol style="list-style-type: none"> <li>1. Copy of the Supplemental Deed establishing the receiving/new portfolio as approved by the FSB.</li> <li>2. A detailed explanation of the rationale for amalgamating the portfolios and the process followed to achieve the amalgamation of the portfolios.</li> <li>3. A proposal in respect of the retention of the performance history (track record) of the portfolio.</li> <li>4. An indication of whether performance fees are charged to the portfolio and if so, confirmation that the CIS Manco adheres to the ASISA Performance Fee Standard.</li> </ol>
<b>Re-classification of portfolio</b>	<ol style="list-style-type: none"> <li>1. A detailed motivation for the re-classification of the portfolio;</li> <li>2. A proposal in respect of the retention of the performance history (track record) of the portfolio.</li> <li>3. If applicable, the documents set out above in relation to a change to the structure, portfolio objective, investment policy or CIS Manco restrictions of an existing portfolio.</li> </ol>
<b>Change in the benchmark of an existing portfolio</b>	<ol style="list-style-type: none"> <li>1. An explanation of the change in the benchmark and the rationale for such change.</li> <li>2. An indication of whether performance fees are charged to the portfolio and if so, confirmation that the CIS Manco will apply the ASISA Standard on CIS Performance Fees.</li> </ol>