

Standardization of the Monthly Fund Managers Report

Every Asset Management Company (AMC) is required to prepare a monthly Fund Managers Report (FMR) and make it available on their website in a standardized format prescribed by Mutual Funds Association of Pakistan (MUFAP) as mentioned in the SECP's Circular No. 16 dated July 07, 2010.

The contents of the monthly Fund Managers Report shall be categorized into two sections; ***Mandatory Information*** and ***Voluntary Information***. The mandatory information shall be further standardized into standard section headings and information within those sections, including the format for presentation, must be included in every Fund Managers Report across the industry. The mandatory information should be on first page (page 1/front page) and the voluntary information may be on the second page. Unless specifically mentioned otherwise, all the sections shall apply to all categories. It is mandatory for all open-end funds to issue a monthly Fund Managers Report within the stipulated time frame (i.e. 5 working days), complying with the mandatory information as stated below.

The Mandatory Information to be included in the Fund Managers Report shall be

as follows: Section 1 – Basic Fund Information (all these heads need to be part of the FMR)

- i. **Fund Type** (open/closed end)
- ii. **Category** (as mentioned in the SECP's Circular No. 07 dated March 06, 2009 OR mention that 'not categorized according to SECP categorization')
- iii. **Net Assets** of fund as at month end (last working day of the month)
- iv. **NAV** per unit as at month end (last working day of the month)
- v. **Name of Trustee** of the fund
- vi. **Name of Auditor** of the fund
- vii. **Management fee** (if there is no fee, mention NIL – showing this heading is mandatory)
- viii. **Sales Load** [front & back end] (if there is no fee, mention NIL – showing this heading is mandatory)
- ix. **Launch Date** (Date of Inception)
- x. **Benchmark** (where benchmark is not a market index, the benchmark shall be defined along with a brief method/ formula for calculation of the benchmark) (Showing this heading is mandatory, if there is none, write the category mentioned in the offering document)
- xi. **Dealing Days & Cut-off time** for accepting sales/redemption applications
- xii. **Pricing mechanism**
- xiii. **Investment Objective** (a short statement about the investment criteria of the fund)
- xiv. Ratings along with the name of the rating agency (mentioning the rating agency is mandatory)
 1. **AMC Rating** with date (Star rating is not to be used) (AMC Management Quality Rating should be shown for every fund)
 2. **Fund Stability Rating** with date (for income/money market funds) – it should be mandatory for all income/money market funds to obtain this rating and where a fund has not obtained any such rating, it must be mentioned as Not Rated.
 3. Performance rating/ranking shall **not** be mentioned (this has been recommended as MUFAP's BOD is in discussion with SECP to have this finished)
- xv. **Risk Profile** of the Fund as per the Offering Document
- xvi. Name of the **members of the Investment Committee** (The names of the complete committee is

- mandatory, only the fund manager's name is not enough)
- xvii. **Leverage** (Add a disclosure about the amount of leveraging/borrowing done by the Fund. If there is no leveraging, then write Nil) (Showing this heading is mandatory)
- xviii. **Dispute resolution/ complaints handling** (add the contact details/link of Asset Management Company's own complaint service followed by the link of SECP's Service Desk Management System on the front page of their Monthly Fund Managers Report)

Section 2 –Investment/ Fund's Portfolio Specific Information

A. Asset Allocation at month end

A1. Containing the following headings (the following terminologies are to be used only):

1. **Cash** (this shall only include daily deposit bank balances and does not include term deposits which shall be separately shown)
2. **Placements with Banks and DFIs**
3. **Placements with NBFCs**
4. **Reverse Repos against Government Securities**
5. **Reverse Repos against all other Securities**
6. **TFCs**
7. **Government Backed/Guaranteed Securities**
8. **Stocks/ equities**
9. **PIBs**
10. **T-Bills**
11. **Ijarah Sukuks**
12. **Commercial Papers**
13. **CFS**
14. **Spread transactions**
15. **Others including receivables**

A2. All of the above shall be presented in percentage form and should total to 100% of the total assets

A3. The asset allocation shall include comparative figures for current month and previous month

A4. The same can be presented in a table, pie chart or bar chart format

B. Sector Allocation – at month end - For Equity Funds

B1. Top Five (equity) Sectors (5 separately & remaining all clubbed together as Others) in percentage form as a % of Total Assets

B2. The sectors shall be in line with KSE's defined sectors (e.g. 'Textiles' cannot be clubbed together – each sector in the category should be separately shown (i.e. 'Textile Composite', 'Textile Spinning' etc.))

B3. Equity funds here refer to funds with investments in equity B4. To be presented in a table or bar chart format.

C. Credit Quality/ Asset Quality of the portfolio at month end - For Income/Money Market/ Bond Funds etc.

C1. The asset credit quality shall be provided for funds which fixed income (including all income/money market/ bond/ aggressive income funds) as may be categorized.

C2. The following information shall be provided:

1. PIBs and T-Bills shall be classified as **Government Securities** and separately provided percentages (as a % of Total Assets)
2. TFCs and Sukuks issued by Government Corporations as appearing on MUFAPs's website shall be classified separately as **Government Guaranteed** and separately provided percentages (as a % of Total Assets)
3. All credit ratings from AAA to BBB shall be provided separately along with individual rating percentages (as a % of Total Assets)
4. One category shall be of all such investments that fall **below investment grade** i.e. Below BBB percentages (as a % of Total Assets)
5. One category shall be of all such investments that are **not rated/ unrated** percentages (as a % of Total Assets)
6. The same shall be presented as a table or pie chart format

D. Stock/ TFC Allocation at month end

D1. Containing the following:

1. **For Equity Funds:** Individual Names along with percentages of Top Ten stocks shall be provided (as a % of Total Assets)
2. **For Income Funds:** Individual Names of Top Ten TFCs shall be provided along with a total percentage (summed together) of these top ten TFCs (as a % of Total Assets)

D2. Where the total stocks or TFCs (as applicable) in the portfolio as on the month end are less than ten, then the entire list shall be provided.

- **For TFCs and, equities, full names shall be used** (symbols and SCRIPs are not to be used)
- **Full names**

D3. Equity Funds here refer to funds with investments in Equity

D4. Income Funds here refer to funds with investments in fixed income

securities D5. The same shall be presented in a table or bar chart format

E. Details of non-compliant investment with the investment criteria of assigned category

Details of non-compliant investment should be displayed in a similar table shown below: (Mentioned in the SECP’s Circular No. 16 dated July 07, 2010)

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	Percentage (%) of Net Assets	Percentage (%) of Gross Assets
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F. Weighted average time to maturity of the net assets – For income/aggressive income/ money market funds

Section 3 – Performance Specific Information

1. Return of the Fund vis-à-vis its Benchmark (comparing return with benchmark is mandatory; Stability Rating for Money Market/Income Funds is mandatory)

1. Year to Date (YTD) return for the current financial year; actual for equity and all funds and annualized for income, money market, aggressive income funds (incase, other return calculation from the voluntary information list is shown (e.g. MTD, since inception), the YTD should be displayed on top)
2. Trailing One Year Return (365 days); actual for equity and all funds and annualized for income, money market, aggressive income funds
3. Last Three Years and Last Five Years Return (separately for each year)
4. Since Inception Return (one number) to be calculated as average annual return (geometric mean) including return of each financial year since inception or last ten years whichever is earlier. (This is MUFAP's Board recommendation as since inception return for a period beyond 10 years is redundant).

NOTE:

In case return represents one time receipts e.g provisioning or reversal of provisioning, it shall be disclosed.

Include a statement that performance data does not include the cost incurred directly by an investor in the form of sales load. etc:

5. Total Return Calculation Formula:

Return: (Closing NAV-Starting NAV)/ Starting NAV*

Interim Dividend Adjustment: Dividend shall be adjusted on that particular day and not at month/period end.

*This is the simple return calculation method, which is mandatory for all AMCs to calculate. \

1. **Section 4 – Disclaimer Following disclaimer shall be written in the fund manager’s**

report (The disclaimer is to be printed on all the pages)

“This publication is for informational purposes only and nothing herein should be construed as a solicitation, recommendation or an offer to buy or sell any fund. All investments in mutual funds are subject to market risks. Past performance is not necessarily indicative of future results. Please read the Offering Document to understand the investment policies and risks involved.”

[The above wordings are mandatory to be used]

Additional Disclaimer for Capital Protected Funds and Capital Guaranteed Funds

Capital protected funds shall disclose the following statements in addition to the standard disclaimer:

- a. A statement on the specific terms of capital protection (e.g capital protection only applies to unit holders who hold their investments until maturity date)

Capital Guaranteed funds should disclose the following statements in addition to the standard disclaimer:

- a. Name and credit rating of the guarantor;
- b. A statement on the material terms of the guarantee (e.g guarantee only applies to the unit holders who hold their investments until maturity date)
- c. The guarantee is subject to the credit risk of the guarantor and it does not give any assurance to the future solvency of the guarantor;

Additional Disclaimer for non-compliant open end schemes

If a CIS is not compliant with either the minimum investment criteria specified for its category or with the investment requirements of its constitutive documents, following disclosures are mandatory:

The XYZ scheme holds certain non-compliant investments. Before making any investment decision, investors should review this document and latest Financial Statements.”

Additional disclosures regarding contingent WWF liability

Following additional disclosure shall be given.

Where requisite provision is not being maintained or partially maintained against the WWF liability -

“The Fund/Scheme has not made provisions amounting to Rs. against Workers’ Welfare Fund liability, if the same were made the NAV per unit/return of the Scheme would be lower by Rs...../..... %age. For details investors are

advised to read the Note..... of the latest Financial Statements of the Scheme.”

2. The FMR should also mention “MUFAP’s Recommended Format” for every fund.

Timeframe for submission of Fund Managers Reports

It is mandatory that the Fund Managers Reports for open end funds for each month ended shall be uploaded by the respective AMCs on their website within five (5) working days of the following month.

MUFAP shall monitor and ensure compliance with the same for each member and shall issue a reminder to any AMC not meeting the requirement the next day.

Prohibitions

The following will **not** be provided in the Fund Manager's Report in any section; both mandatory and voluntary.

1. Stimulated Performance/ Return for any Fund
2. Model Performance
3. No misleading information
4. Any information which is inconsistent with Constructive documents of CIS (point 4)
5. FMR should not give or be perceived to give impression that an investor could profit without being exposed to corresponding risk (point 6).
6. CIS should not be reflected as bank deposit, i.e. giving impression that investor cannot lose money, unless the CIS has a capital guarantee/ protection feature in place (point 7).
7. Phrases such as 'best performing' or 'first' should not be used unless attributable to an independent source. The terms 'low risk' or 'minimal risk', 'high return' should only be used relative to an alternative form of investment (point 12).

Compliance with standardized FMR Requirements of MUFAP

The Compliance of all funds will be reported in the MUFAP's quarterly newsletter.

Benchmark	%	%	%	%	%	%	%	%	%	%	%	%	%
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- c. Average Annualized Return since inception vis-à-vis the benchmark – this is to be calculated on a CAGR basis using the Morning Star Formula

$$\text{Total Annualized Return} = \left(\frac{\text{Current value of invested amount}}{\text{Initial invested amount}} \right)^{\frac{365}{n}} - 1$$

$$\text{Total Return} = \left(\frac{\text{Current value of invested amount}}{\text{Initial invested amount}} - 1 \right) * 100$$

Dividend history

- d. Morning Star should be mentioned where it is used.

6. Risk Ratios/ Risk Measures

If the risk ratios were to be used/ presented in Fund Managers Report, then the following are to be included:

1. Treynor Ratio for Equity Funds

The Treynor ratio is calculated as:

$$T = \frac{r_i - r_f}{\beta_i}$$

Where

T \equiv Treynor ratio, r_i \equiv portfolio i's return,

r_f \equiv risk free rate* β_i \equiv portfolio i's beta

* risk free rate of return on 90 days T-Bill

2. Sortino Ratio for all other Funds

The Sortino ratio is calculated as:

$$S = \frac{R - T}{DR}$$

Where, R is the asset or portfolio realized return; T is the target or required rate of return for the investment strategy under consideration; DR is the downside risk (The downside risk is the target semi deviation = square root of the target semi variance (TSV))

3. If any other ratio is used mention the formula anywhere in the document

Definitions

The Committee shall also make a brief and simple Investors Guide which shall be available on the website of MUFAP which shall contain the minimum things an investor needs to look at/ understand when reviewing any Fund Managers Report and shall include definitions and formulas for calculations for the ratios used within the report.

A. Sortino ratio

From Wikipedia, the free encyclopedia

The Sortino ratio measures the risk-adjusted return of an investment asset, portfolio or strategy. It is a modification of the Sharpe ratio but penalizes only those returns falling below a user-specified target, or required rate of return, while the Sharpe ratio penalizes both upside and downside volatility equally. It is thus a measure of risk-adjusted returns that treats risk more realistically than the Sharpe ratio.

The ratio is calculated as:

$$S = \frac{R - T}{DR},$$

Where, R is the asset or portfolio realized return; T is the target or required rate of return for the investment strategy under consideration, (T was originally known as the minimum acceptable return, or MAR); DR is the downside risk. The downside risk is the target semi deviation = square root of the target semi variance (TSV). TSV is the return distribution's lower-partial moment of degree 2 (LPM2).

$$DR = \left(\int_{-\infty}^T (T - x)^2 f(x) dx \right)^{1/2},$$

Where, T is often taken to be the risk free interest rate and f() is the pdf of the returns. Thus, the ratio is the actual rate of return in excess of the investor's target rate of return, per unit of downside risk. The ratio was created by Brian M. Rom in 1986 as an element of Investment Technologies' Post- Modern Portfolio theory portfolio optimization software.

B. Treynor ratio

From Wikipedia, the free encyclopedia

The Treynor ratio is a measurement of the returns earned in excess of that which could have been earned on a riskless investment (i.e. Treasury Bill) (per each unit of market risk assumed).

The Treynor ratio (sometimes called reward-to-volatility ratio) relates excess return over the risk-free rate to the additional risk taken; however systematic risk instead of total risk is used. The higher the Treynor ratio, the better the performance under analysis.

$$T = \frac{r_i - r_f}{\beta_i}$$

Where,

T \equiv Treynor ratio,

r_i \equiv portfolio i's return,

r_f \equiv risk free rate*

β_i \equiv portfolio i's beta

* risk free rate of return on 90 days T-Bill

Like the Sharpe ratio, the Treynor ratio (T) does not quantify the value added, if any, of active portfolio management. It is a ranking criterion only. A ranking of portfolios based on the Treynor Ratio is only useful if the portfolios under consideration are sub-portfolios of a broader, fully diversified portfolio. If this is not the case, portfolios with identical systematic risk, but different total risk, will be rated the same. But the portfolio with a higher total risk is less diversified and therefore has a higher unsystematic risk which is not priced in the market.

Frequent Errors

Problem Areas	Section in this Document	Comments
Category not as per SECP's Categorization	Mandatory – Section 1(ii)	Category of the fund doesn't follow requirements set by SECP in its Circular 7 of 2009, it doesn't follow the conditions if it should be clearly mentioned that it doesn't follow SECPs categorization
Fund Managers Comments not as per requirement	Voluntary – 2	Economic/Market Outlook mentioned
Benchmark not mentioned	Mandatory – Section 1(x)	Benchmark missing
Leverage not given	Mandatory – Section 1(xvii)	Leverage missing
Asset Allocation missing	Mandatory – Section 2 A	Asset Allocation missing
Top 10 Holdings missing	Mandatory – Section 2 D	Top 10 holding (equity/TFCs) for Equity and Income funds
%s not in terms of Total Assets	Mandatory – Section 2	% shown in terms of Net Assets
Full name of holdings not mentioned	Mandatory – Section 2 D	Symbols and SCRIPs are used
%s of holdings missing	Mandatory – Section 2 D	Breakup of percentages not mentioned
Return not calculated through recommended formula	Mandatory – Section 3	Returns are mentioned through morning star and/or comparison with benchmark not given
Some Statistics missing	Mandatory – Section 2	Some statistics like weighted average time to maturity of net assets for income/money market funds missing
AMC/Fund Stability Rating Missing	Mandatory – Section 1(xiv)	AMC rating and/or Fund Stability rating missing
Rating Agency not mentioned	Mandatory – Section 1(xiv)	Rating Agency is not mentioned alongside the AMC/Fund rating
Investment Committee Missing	Mandatory – Section 1(xvi)	Names of the Investment Committee missing or only the Fund Manager's name is given
Details of non-compliant investment missing	Mandatory – Section 2 E	This criteria was made mandatory by SECP in its circular 16 of 2010
		Disclaimer missing, distorted or

Disclaimer missing	Mandatory – Section 4(1)	not mentioned on every page (as it is a fund manager’s report not an AMC report)
MUFAP recommended Format not mentioned	Mandatory – Section 4(2)	‘MUFAPs Recommended Format’ should be displayed clearly
FMR not uploaded on time	Mandatory	FMR was not uploaded within 5 working days

Fund Type Open-end
Category (as per the SECP's categorization or mention that 'not categorized according to SECP categorization')
Launch Date Month DD, YYYY
Net Assets PKR 123.45 million (at month end)
NAV PKR 98.75 (at month end)
Benchmark 50% 3M PKRV + 50% 3M TDR – Net of expenses
-Dealing Days & Cut-off time (for accepting sales/redemption applications) Forward/Backward
-Pricing mechanism 1.5% (if none, write NIL)
Management Fee Up to 1.35 % (if none, write NIL)
Front-end load XYZ Depository Company of Pakistan Ltd.
Trustee ABC Chartered Accountants
Auditor AM2 (Name of Rating Agency)
Asset Manager Rating (for income/money market funds)
Risk Profile of the Fund as per the Offering Document

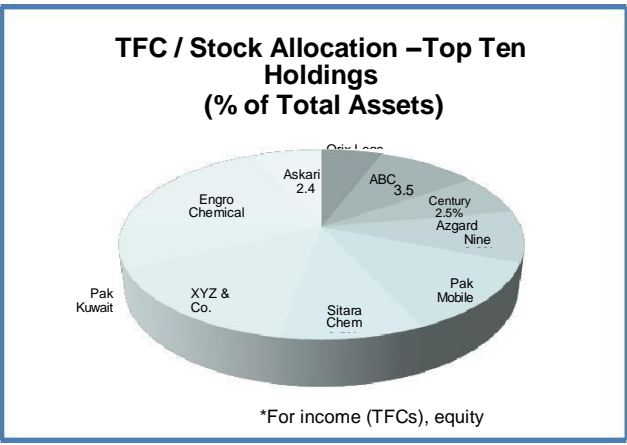
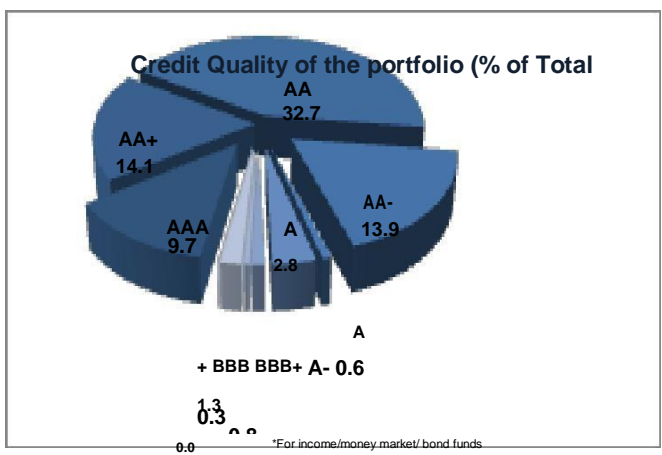
Investment Objective: The objective of the Fund is to deliver regular income and preservation of capital, primarily from debt and fixed income securities investments.
Name of the Members of Investment Committee:
 -CEO -CFO
 -CIO -Fund Manager
 -etc

Funds Returns		
	Fund's Name	BM*
Year to date (YTD)	23.80%	18.70%
Trailing 12-mnths (one year)	10.90%	14.80%
Annual (year 1, year 2, year 3, year 4, year 5)	xx%	xx%
Since Inception or 10 Years	xx%	xx%

	Fund's Name
Leverage: (Add a disclosure about the amount of leveraging/borrowing done by the Fund. If there is no leveraging, then write Nil.)	NIL
Weighted average time to maturity of the net assets (only for income/ bond/ MM Funds)	38 days

Asset Allocation (% of Total Assets)	Dec 10	Nov 10
Cash	3.2%	2.2%
Placements with Banks and DFIs	1.2%	11.5%
Placements with NBFCs	1.5%	1.5%
Reverse Repo against Govt. Securities	9.4%	14.5%
Reverse Repos against all other Sec.	7.2%	3.4%
Stocks/Equities	1.7%	4.5%
Government Backed/Guaranteed Sec.	7.2%	4.4%
TFCs	35.4%	20.8%
PIBs	12.3%	15.8%
T-Bills	7.5%	5.2%
Commercial Papers	1.5%	2.5%
CFS	7.7%	9.5%
Spread Transactions	2.1%	2.1%
Others including receivables	2.1%	2.1%
Ijarah	X	X

Oil & Gas Marketing		
Commercial Banks	2.2%	12.5%
Textile Composite	2.5%	2.5%
Fertilizer	10.4%	15.5%
Cement	8.2%	4.4%
Others	36.4%	21.8%
* (For equity funds only)		



Name of non-MUFAP's Recommended investment	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	Percentage (%) of Net Assets	Percentage (%) of Gross Assets

Dispute resolution/ complaints handling (add the contact details/link of Asset Management Company's own complaint service followed by the link of SECP's Service Desk Management System on the front page of their Monthly Fund Managers Report)

Disclaimer

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Fund Commentary

Fund delivered 23.86% annualized return in November '10 mainly due to valuation gains on its TFC portfolio. TFCs comprised of 46.5% of total assets whereas T-Bills (1-year) were 17%. TDRs exposure decreased significantly to 4.35% compared to 25.74% a month earlier owing to maturities falling within this month. On the other hand, deployments towards short term Money Market placements increased to 21.5% from 6% in November '10. Bank deposits stood at 10.6%. The duration of the Fund was 52 days at month's end. Fund Manager is carefully analyzing the inflation and interest rate outlook in the coming quarter to take the best course going forward

Economic, Stock Market, Fixed Income/ Money Market Summary/ Review & Outlook

These may be under separate headings or paragraph.

Other Voluntary Information

1. Graphical Representations (in line charts) of return vis-à-vis Benchmark
2. Chief Investment Officer and Fund Manager's Profile
3. a) Returns (monthly or since inception) of a period more than one year

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	YTD
Name of Fund %	%	%	%	%	%	%	%	%	%	%	%	%	%
Benchmark %	%	%	%	%	%	%	%	%	%	%	%	%	%

- c) Average Annualized Return since inception vis-avis the benchmark – this is to be calculated on a CAGR basis using the Morning Star

Formula

- d) Morning Star should be mentioned where it is used.

4. Dividend history
5. Risk Ratios/ Risk Measures
 1. Treynor Ratio for Equity Funds

Dispute resolution/ complaints handling (add the contact details/link of Asset Management Company's own complaint service followed by the link of SECP's Service Desk Management System on the front page of their Monthly Fund Managers Report)

MUFAP's Recommended Format

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