Concurrent Session - **3B**

Disclosure – the PDS, the register entries, and other disclosure docs

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Introducing

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Ministry of Business, Innovation and Employment

and

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BNP Paribas Securities Services

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Disclosure – the PDS, the register entries, and other disclosure documents

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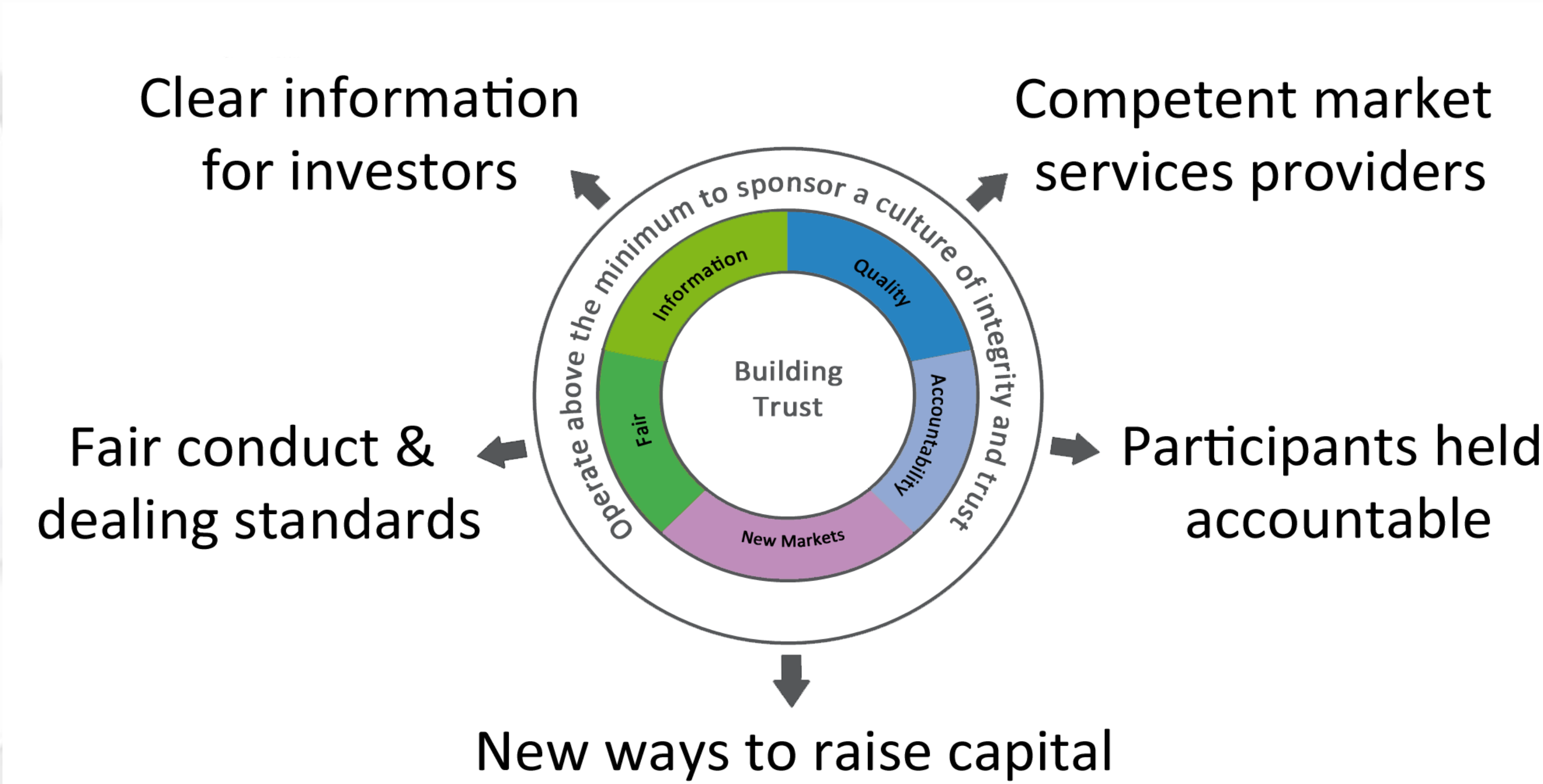
What is the FMC Act?



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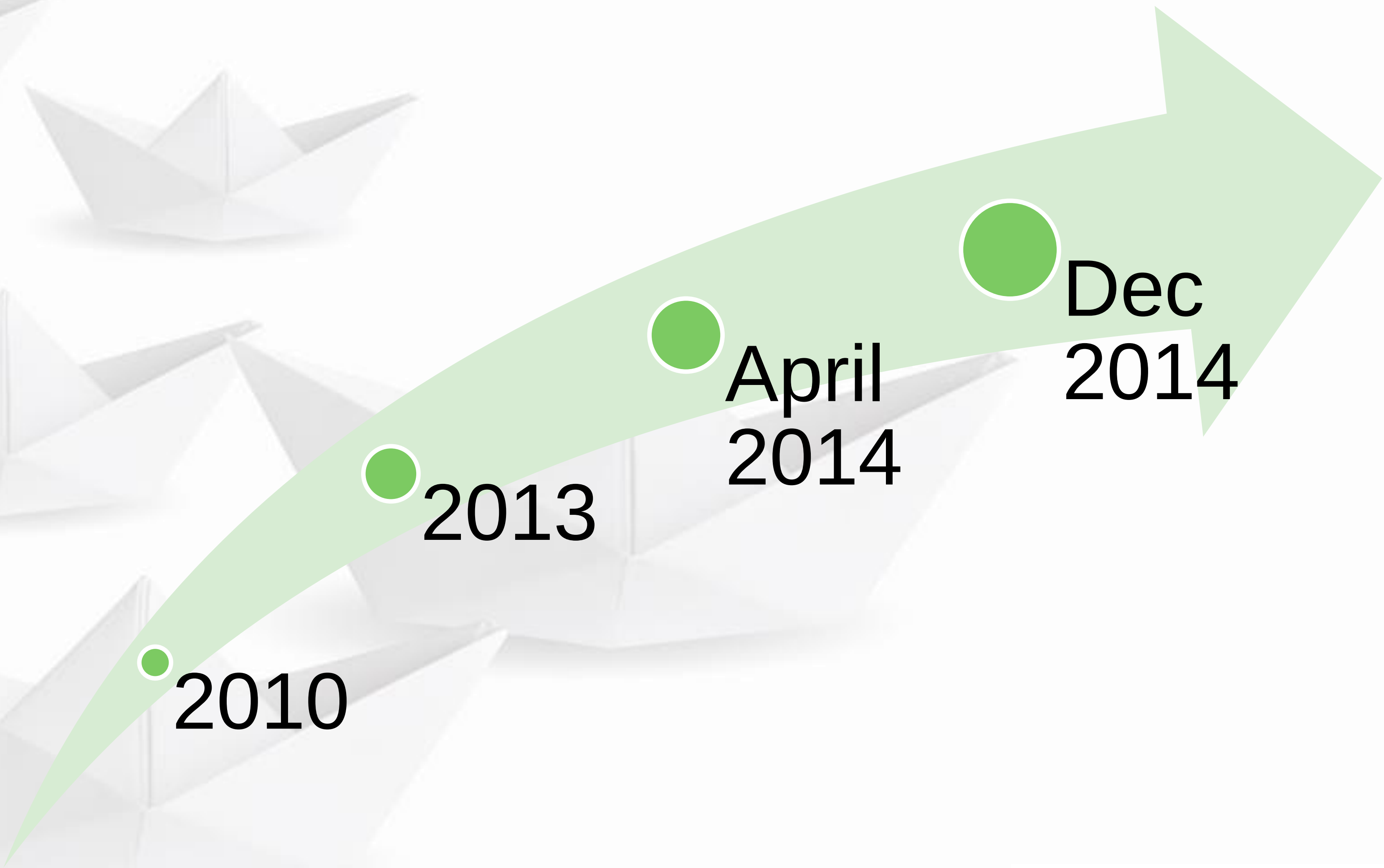
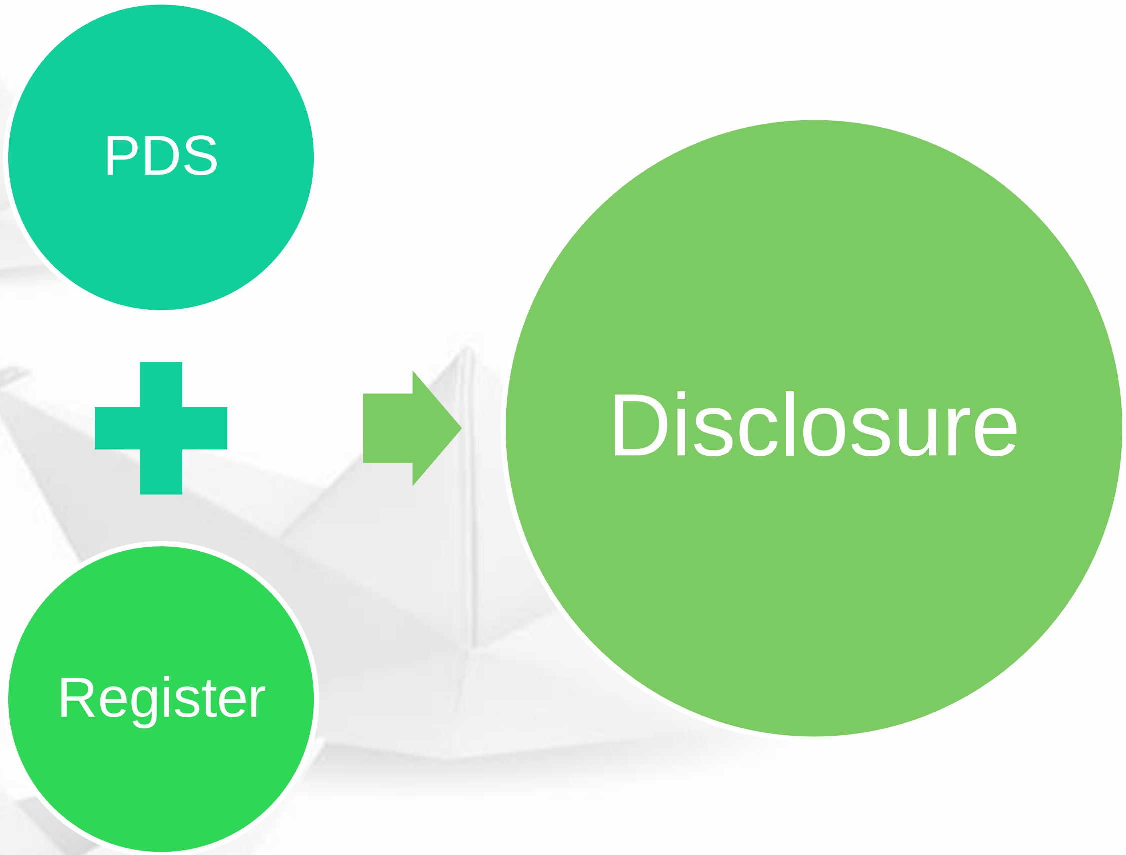
Process Overview



Next Steps

- Cabinet decisions
- Finalise drafting
- Make regulations
- 1 December 2014

Disclosure



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Managed fund updates

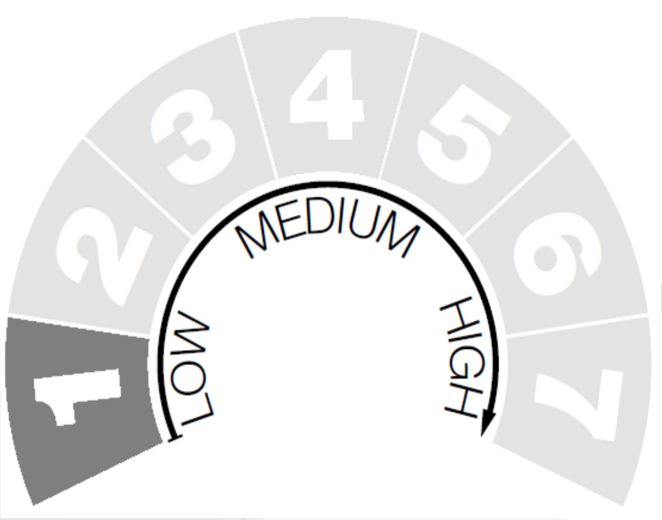
Q1

Q2

Q3

Q4

Risk indicator



UCITS IV directive context

- **What are its main objectives?**
  - To provide **European asset managers** with a **true single market**,
  - Making it possible for **global fund managers** to enter into Europe efficiently by being able to **distribute from a single location** and
  - To **enabling pan-European players to rationalise their set-up**
- **The directive comprises 5 measures:**

Increase industry efficiency

1. Fund mergers
2. **Management company passport**
3. Master-feeder structure

- **Compliance** monitoring
- **VaR, Backtest, Stress Test and Liquidity** monitoring

(from CESR/10 788 guidelines)

Increase cross-border distribution

4. Regulator to regulator notification Procedure

Increase investor protection

5. **Key Investor Document**

- Provision and distribution of th **KIID**
- **SRRI** Risk Calculation

(from CESR/10 673 guidelines)

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Primary articles of compliance in UCITs IV

2. Management company passport

Two possible approaches for global exposure calculation
- **Commitment** approach
- **VaR** approach

(from CESR/10 788 guidelines)

Commitment approach:
- Daily global exposure calculation

VaR approach:
- Daily VaR (absolute or relative)
- Back test
- Stress test
- Liquidity risk

5. Key Investor Information Document

A comprehensive document containing:
- **Main information** on the fund
- **Ongoing charges**
- **SRRI** Risk Calculation

(from CESR/10 673 guidelines)

One document for **each share class**
One document per **country of distribution**
Yearly publication
Re-edition in case of **change of the SRRI**

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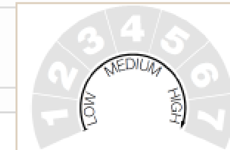
Risk indicator

Schedule 3: Managed investment products in managed fund – Risk Indicator



Risk indicator

Clause 4 presentation of the risk indicator diagram

Clause 5 how the risk indicator is calculated according to the table

Clause 6 cases where the risk indicator would deceive / mislead because of change in SIPO

Clause 7 cases where the risk indicator would deceive / mislead because of nature of the fund

Risk Class	Ann. stand. deviation
1	0%-0.5%
2	0.5%-2%
3	2%-5%
4	5%-10%
5	10%-15%
6	15%-25%
7	25%+

MBIE Comments

“advantage of this measure is that it provides a standard and relatively objective indicator of where a fund sits on the risk-return spectrum that can be compared across funds from different providers”

“draft regulations have adopted the core principle of [UCITs] guidance. It is envisaged that this guidance will then be supplemented with FMA frameworks and methodologies”

“Our intention is that a change in the risk indicator for a fund by 1 risk class would not generally require an update to the PDS”

- **Methodology**
  - Historical volatilty as the basis
  - At least weekly returns used (monthly ok)
  - Last 5 yrs of the fund’s total returns

- **SRRI revisions**
  - Material changes to risk-return profile
  - Changes in realised volatility also triggers revision
  - Preceding 4 months time horizon

- **Insufficient history**
  - Applicable to market funds
  - Use of representative portfolio
  - Combining ‘simulated’ and actual performance data allowed

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Analysis of the risk indicator

- **Is volatility the 'right' measure** and is it aligned with the investment strategy focus
- Volatility does not distinguish between **"good" / "bad" volatility**
- Volatility can mis-represent actual risk – case of infrequent valuations in PERE
- No reference to **liquidity in the SRRI document**

Counterpoint:
- SRM indicator focus on **propensity for drawdown**
- **Risk-reward trade-off** important not just volatility

- **Historical returns based not forward looking**, compared to the SRM
- Range of historical volatilty used heavily subject to market cycles
- **Embedded historical scenarios may not reflect future events**
- Difficult to account for complex risks – **credit / liquidity** in historical analyses
- Migration of indicator bands based on retrospective changes

Counterpoint:
- **Forward looking risk** management a key focus
- Combining **historical and forecast risk** as a best practice

- **Use of simulated performance** track records fraught with issues
- **Reverse engineering of volatility** from VaR for absolute return & structured funds subject to a HS / parametric compuation of VaR
- **Added complexity for total return funds** – maximum of actual volatility / volatility of reference allocation / risk limits

Counterpoint:
- **GIPS prohibits linking of simulated / model portfolios with actual performance**
- Impact of transaction costs need to be accounted for

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Calculation of the risk indicator

Type of fund	If the fund has 5 years of NAV data	If the fund has partial NAV data for 5 years	If the fund has no NAV data
Market funds	**Fund volatility**	- Calculate the fund's volatility from existing NAVs - **Choice of using data from the benchmark or another share to replace the missing returns data**	**Choice of using data from the benchmark, another share, or a Model Portfolio to replace the missing returns data**
Absolute return funds	The **maximum of:** - historical annualised volatility and - annualised volatility corresponding to the fund's Risk Limit	Annualised volatility corresponding to the fund's Risk Limit	Annualised Volatility corresponding to the fund's Risk Limit
Total return funds	The **maximum of:** - **historical annualised volatility** and - annualised volatility corresponding to the fund's Risk Limit - annualised volatility of the fund's Target Asset Mix	The maximum of: - annualised volatility corresponding to the fund's Risk Limit and - annualised volatility of the fund's Target Asset Mix	The maximum of: - annualised volatility corresponding to the fund's Risk Limit and - annualised volatility of the fund's Target Asset Mix
Structured	The **fund's volatility in relation to the 99% VaR at maturity**	The fund's volatility in relation to the 99% VaR at maturity	The fund's volatility in relation to the 99% VaR at maturity
Life cycle funds	**Annualised historical volatility**, so long as the fund has not changed its Target Asset Mix in the past 5 years	- Calculate the fund's volatility for existing NAVs - **Choice of using data from the benchmark, Target Asset Mix, or a model portfolio to replace the missing data**	**Choice of using data from the benchmark, Target Asset Mix, or a model portfolio to replace the missing data**

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Fund update report sample

Schedule 3: Managed investment products in managed fund – Part 3

FUND UPDATE

ABC Investment Trust Balanced Fund — 31 March 2013

What is the purpose of this statement?
This document tells you how the ABC Investment Trust Balanced Fund has performed and what fees it charged, and will help you to compare it with other funds. We prepared this statement in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of the fund

Invests in a wide range of assets with the aim of making a steady rate of return for investors over the medium to long term. This fund has a medium to high level of volatility.

Total value of the fund	$333,694,673
Date the fund started	1 October 2007

Risk/reward indicator for the Balanced Fund

The risk/reward indicator is rated from 1 (low) to 7 (high). A higher risk generally means higher potential returns over time, but more ups and downs along the way.

The risk/reward indicator is designed to help investors understand the uncertainties both for loss and growth that may affect their investment. The rating reflects how much the value of the fund's assets goes up and down.

There are other risks from investing in the fund that are not captured by the risk/reward indicator. See the Product Disclosure Statement (PDS) for more information about the risks associated with investing in each fund.

What fees are investors charged?

Investors in the Balanced Fund are charged fund fees. In the year to 31 March 2013 these were:

	% of your balance
Total fund fees and expenses	**0.65%**
Which are made up of:	
Management and administration fees	0.60%
Performance-based fees	nil
Other expenses	.05%

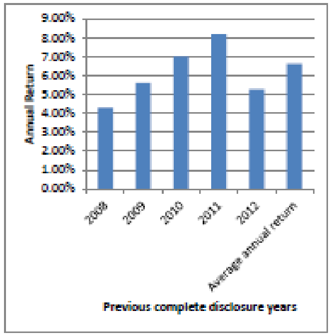
Investors were also charged scheme fees[1] of $60 per investor over the year to 31 March 2013.

Investors may also be charged one-off fees for specific actions or decisions (e.g. for withdrawing from or switching funds). See www.abcinvestmentslimited.co.nz/fees for more information about these fees.

How has the fund performed?

	Average over past five years	Past year
Annual return (after deductions for fund fees and tax[2])	6.07%	5.26%

The graph below shows the return after fund fees and tax for each tax year since the fund started and the average annual return since the fund started. **Important:** this does not tell you how the fund will perform in the future.



Example of how this applies to a member

Jane had $10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Jane received a return after fund fees were deducted of $526 (that's 5.26% of her initial $10,000). Jane also paid $60 in other ongoing fees. This gives Jane a total return after tax of $466 for the year

Description of the Fund

- **Clause 57**. description of the fund, including its investment objective and a summary of its investment strategy.
- **Clause 58**. risks of investing, including the inclusion of a risk indicator

Fund Performance

- **Clause 59.** how has the fund performed, including the inclusion of a benchmark
- **Clause 60.** meaning of returns, including basis of calculation of the returns
- **Clause 61**. benchmark returns to be included
- **Clause 62**. Inclusion of a bar graph of returns

Key points

- Brief description of the strategy of the fund
- Description of the risk indicator, and what it represents
- Returns are net of all fund fees and accrued tax
- Returns must be calculated as a time-weighted return
- If the period is more than 1 year, returns must be compounded
- Benchmark returns to be reinvested of all income

Fund update report sample

Schedule 3: Managed investment products in managed fund – Part 3

What does the Fund invest in

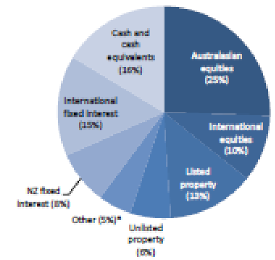
- **Clause 68**. actual investment mix (pie)
- **Clause 69**. target investment mix (pie / table)
- **Clause 70**. top 10 investments by value
- **Clause 71**. nature of "other", and the appropriateness / nature of the information used for the pie chart and table above
- **Clause 2(3)**. Categories of individual assets for target / actual investment mix

Key points

- Use of appropriate information and manager judgement to produce an accurate representation of the fund's assets
- Prescribed categories for asset classes (Australian equities can be both AU / NZ)
- Specific notation of composition of "other"
- Composition reflects aggregation of common holdings between fund and any underlying fund
- Look through considerations

What does the fund invest in?

This shows the types of assets that the fund invests in.



Target investment mix

Asset type	Target allocation
Australasian equities	25-50%
International equities	5-30%
Listed property	5-20%
Unlisted property	0-10%
New Zealand fixed interest	0-20%
International Fixed Interest	0-15%
Cash and cash equivalents	0-20%
Other*	0-30%

* Other comprises current hedges

Top 10 investments

	Name	Percentage of fund net assets	Type	Country	Credit rating (if applicable)
1.	XYZ Energy Limited	6%	Australasian equities	Australia	
2.	Oil OZ Limited	4%	Australasian equities	Australia	
3.	JKL Limited	4%	Australasian equities	Australia	
4.	DJ Limited	3%	Australasian equities	Australia	
5.	MNO Retail Property Trust	3%	Listed property	Australia	
6.	NZ Healthcare Limited	3%	Australasian equities	New Zealand	
7.	LMN Holdings Limited	3%	Australasian equities	New Zealand	
8.	Airport Bonds	4.5%	New Zealand fixed interest	New Zealand	BBB+
9.	XYZ Property Ltd	4%	Listed property	New Zealand	
10.	NZ Building Industries Ltd	3%	New Zealand fixed interest	New Zealand	unrated

The top 10 investments make up 30.5% of the fund.

Key personnel

Name	Current Position	Time in current position	Previous position	Time in previous position
Jane Smith	Chairperson	3 years	Partner, DEF Law	3 years
Jack Brown	CEO	2 years	CEO, XYZ Fund	2 years
Joanne Howard	Director (Investment Committee)	3 years	Head of Investment, LMN Bank	1 year
Michael Black	Director (Audit Risk and Compliance Committee)	1 year	Partner, DEF Law	3 years
Jane King	Director (Claims Committee)	6 months	Head of Risk, GHI Bank	4 years

Further information

You can also obtain this information and the PDS for ABC Investment Trust from the Offer Register at www.offerregister.govt.nz.

[1] Scheme fees are the fixed-dollar charges for membership in the Fund.
[2] Returns in this statement are after tax at the highest prescribed investor rate (PIR) of tax for an individual New Zealand resident. Your tax rate may be lower.

Implications

Improved transparency and clarity

- Clear sections in the PDS and Fund update focusing on Key Invesor Information
- Performance, risk-reward, top tens, asset mix

Enhanced and explicit risk oversight

- Synthetic risk-reward indicator used in Europe and Asia
- Customisable calculation subject to fund type to accommodate a variety of strategies

Consistency and comparability

- Single format for the update, with consistent labelling of key information
- Aligned with the KIID experience in Europe (customer-tested)

New regime

- Opportunities for the asset management industry
- A clear focus on the investor

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Thank **you**

Speaker thank you gifts

Prostate Cancer Foundation of New Zealand

THE NEW ZEALAND BREAST CANCER FOUNDATION

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Your feedback

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