

Chapter 4

THE FUND

- 4.01 A prospectus must include a section giving details on the fund offered in the prospectus. The objective is to assist investors to make informed assessments of the fund for decision making purposes.
- 4.02 For the purposes of this section, a prospectus must include the following:

Fund information

- (a) Name of the fund;
- (b) Base currency of the fund, where applicable;
- (c) Category of the fund;
- (d) In the case of a new fund, the initial offer period of the fund and its initial price;
- (e) The investment objective of the fund. There must also be a statement that any material change to the investment objective of the fund would require unit holders' approval;

- (f) The investment policy and principal investment strategies to achieve the stated investment objective. In describing the investment policy and principal investment strategies, the following information must be disclosed:
 - (i) Investment focus of the fund (e.g. equities, debt securities, money market instruments, collective investment schemes, etc.), the characteristics of the securities or instruments to be invested in and the asset allocation strategy. Where applicable, the investment focus should also include the countries or markets (e.g. global, regional or country-specific, developed or emerging markets, etc.) and target sector or industry. For avoidance of doubt, a fund that is established as a country-specific government bond or fixed income fund must contain prominent statement drawing attention to the government, government agency or supranational which the fund intends to invest in;

- (ii) Practice, technique or approach used by the fund manager in managing the investment portfolio; and
 - (iii) Where applicable, whether the fund manager may take temporary defensive positions which may be inconsistent with the fund's principal strategy in attempting to respond to adverse market conditions, economic, political or any other conditions, and the types of securities or instruments the fund would invest in during the defensive positions;
- (g) Where a fund invests or can invest in derivatives or embedded derivatives, a disclosure of the following:
 - (i) The types and characteristics of derivatives or embedded derivatives;
 - (ii) The purpose of investing in derivatives, either for hedging or investment, including the method used to determine the fund's exposure and a description of the method;

- (iii) Where applicable, the likelihood of high volatility of the NAV per unit of the fund; and
- (iv) In the case of derivative on commodity, a statement that such transactions will be settled in cash.

Securities lending and repurchase transactions

- (h) Where the fund participates in securities lending and repurchase transactions, the prospectus must disclose the following:
 - (i) The purpose for the management company engaging in securities lending and repurchase transactions, as well as its policies and practices;
 - (ii) The percentage of the fund's assets can be lent to third parties or involved in the ISSBNT (where applicable);
 - (iii) Risks associated with securities lending and repurchase transactions, including operational, liquidity, counterparty, custody and legal risk;

- (iv) Description and nature of the collateral to be received by the fund, including cash and non-cash collateral;
- (v) Any conflicts of interest and how they are mitigated, as well as whether the management company intends to participate in securities lending and repurchase transactions; and
- (vi) The risk management policy and procedures to address the potential risks involved;

Collateral policy and criteria

- (i) Disclose the selection criteria, nature and policy of the collateral held by the fund and description of the holdings of collateral, including:
 - (i) Percentage of collateralisation in respect of the securities lending and repurchase transactions into which the fund enters;
 - (ii) The nature and quality of the collateral, including asset type (e.g. cash, money market instruments,

shares or bonds), issuer, maturity and liquidity;

- (iii) Criteria for selecting counterparties, including legal and regulatory status, country of origin and minimum credit rating;
- (iv) Source and basis of valuation of collateral, including marked-to-market arrangements;
- (v) Description of haircut policy;
- (vi) Collateral diversification and correlation policies, if any;
- (vii) Policies for re-investment of cash collateral; and
- (viii) Risks associated with collateral management and, if applicable, re-investment of cash collateral;

Risk factors

- (j) Risk factors relating to the fund which would include, among others–
 - (i) general risks of investing in unit trust fund;

- (ii) specific risks associated with the investment portfolio of the fund; and
- (iii) description of liquidity risks and the associated impact on the fund and unit holders;

Risk management

- (k) The risk management strategies including liquidity risk management, and techniques to be employed by the fund manager;

Investment in derivatives

- (l) Where the fund's assets consist or propose to consist of warrants, options and embedded derivatives, risk factors must include the inherent risks associated with these types of investment;
- (m) Where the fund's assets consist or propose to consist of derivatives, the risks with respect to investment in derivatives, including the likelihood of high volatility in the NAV of the fund;

- (n) Where the fund invests in derivatives and embedded derivatives, the specific risk management adopted, including measures to be taken in the event of a downgrade in the rating of the issuer in the case of OTC derivatives;
- (o) In making disclaimers on risk factors, the disclaimers must not be as wide as to cause the risk disclosures to be of little or no beneficial use to investors;

Other information

- (p) Distribution policy;
- (q) Where a fund declares distribution out of capital, the following must be disclosed:
 - (i) The rationale for the policy to distribute out of capital;
 - (ii) The effects of making distribution out of capital; and
 - (iii) A statement indicating the greater the risk of capital erosion that exists and the likelihood that, due to capital erosion, the value of future returns would also be diminished;

- (r) Performance benchmark of a fund
 - (i) Where the fund's performance is or will be measured against a benchmark, the fund's performance benchmark and where the information on the benchmark can be obtained. If a customised benchmark or combination of multiple benchmarks is used, there must be a description on how the benchmark is derived;
 - (ii) Where there is a change in the benchmark, disclose the fact and explain the reason for the change; or
 - (iii) Where there is no benchmark for the fund, disclose the fact and explain why no benchmark is used;
- (s) The permitted or authorised investments and the investment limits and restrictions for the fund;
- (t) In the case of an authorised fund, details of the fund management company's policy in undertaking cross trades;

- (u) Where the fund's strategy is to preserve capital, a warning statement in bold must be disclosed stating that the fund's capital is not guaranteed;
- (v) Where a fund invests or propose to invest substantially in derivatives, i.e. exceeding 30% of the NAV, a warning statement on the likelihood of high volatility in the NAV of the fund as a result of the fund's investment in derivatives must be included and appear in bold font; and

Islamic fund

- (w) For an Islamic fund–
 - (i) a clear description of the Shariah approval process, including details of methodologies, screening process and rules on disposal of Shariah non-compliant investment or instruments; and
 - (ii) a statement to the effect that the investment portfolio of the fund will comprise instruments that have been classified as Shariah compliant by the SAC of the SC and, where applicable the SAC of BNM. For instruments that

are not classified by the SAC of the SC and, where applicable the SAC of BNM, a statement stating that the status of the instruments has been determined in accordance with the ruling issued by the Shariah adviser.

- 4.03 In addition to the above requirements, for certain types and categories of funds, a management company must also disclose the information stipulated in Chapters 16 – 20 of these Guidelines.