

Investment Management Association of Singapore
Risk and Performance Practices Survey 2016

3 October 2016

Agenda

- Investment monitoring structure and resources
- Investment performance and risk
- Compliance with GIPS

Appendix 1 : RPC Terms of Reference

Risk and Performance Committee

- The IMAS Risk and Performance Committee ("RPC") was set up in October 2008
[Terms of reference are set out in the Appendix 1]
- IMAS has also been the GIPS Country Sponsor since 2005
- The previous Risk and Performance Practices Survey was carried out in 2014 and the current survey serves as a timely update two years later
- A total of 29 fund houses responded to the survey and the results were analysed to provide an insight to the risk management, performance measurement and reporting by IMAS members

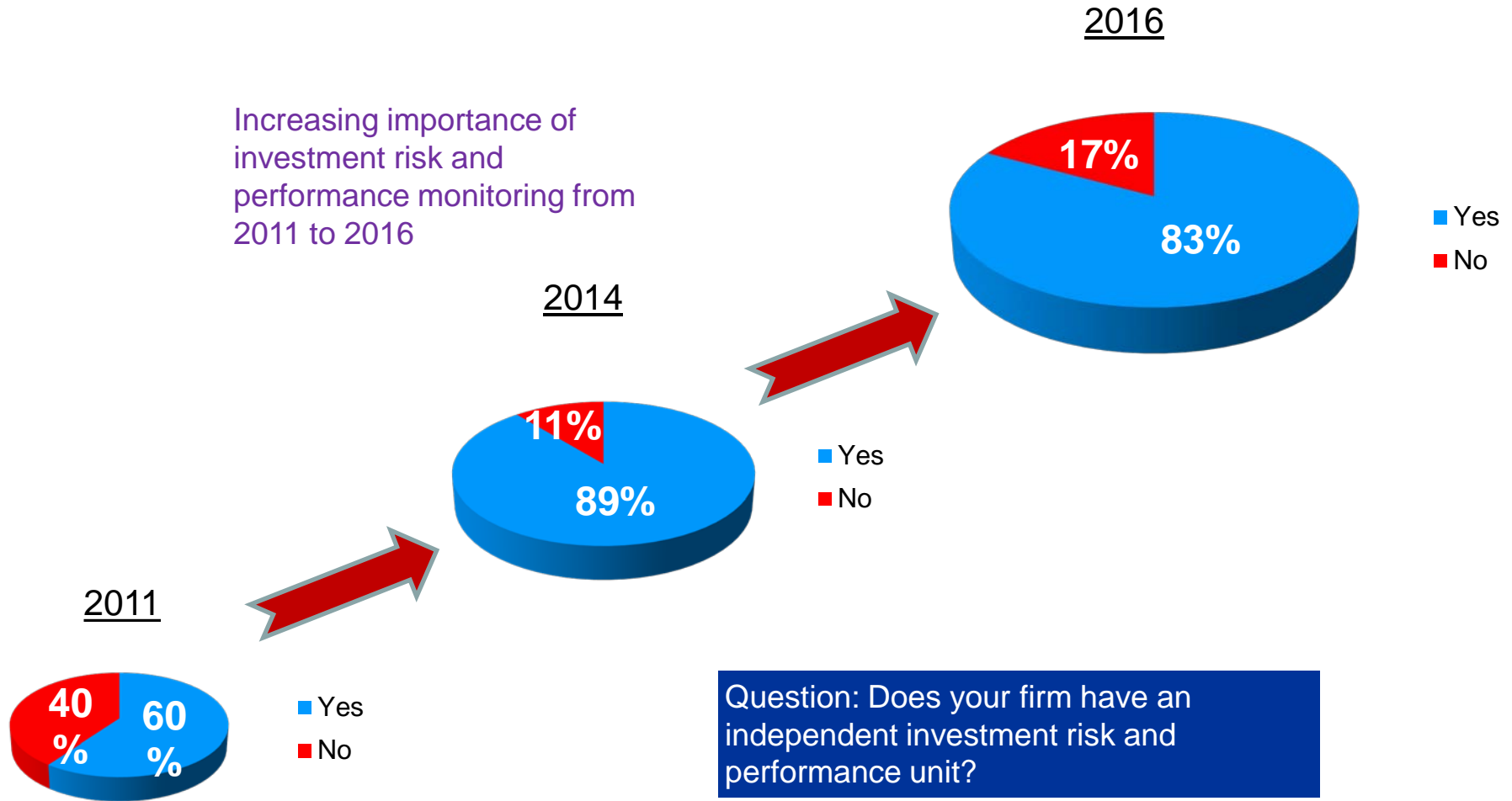
Survey highlights

- Of those Singapore fund houses that responded, the results are encouraging showing a high standard of risk and performance measurement in general
- Majority of respondents have an independent investment risk and performance unit, and most have at least 2 or more staff in Singapore
- However, size of the independent investment risk and performance unit appears to be decreasing
- 44% of respondents spent more than \$1m per annum on risk and performance
- Significant number of respondents ~45% still do not perform risk budgeting in their organisations
- 84% of respondents are either GIPS compliant or working towards becoming GIPS compliant
- 68% of respondents view GIPS compliance as a competitive advantage, however managers are beginning to see this as a necessity instead

Investment monitoring structure and resources

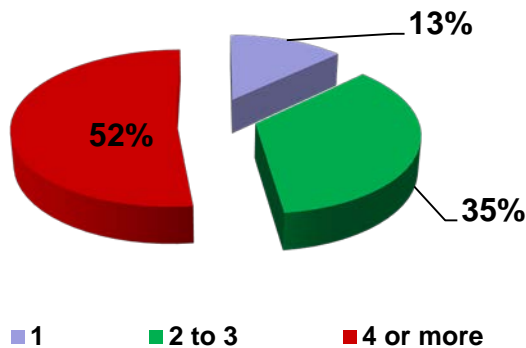
Majority of firms have independent investment risk and performance units

Increasing importance of investment risk and performance monitoring from 2011 to 2016

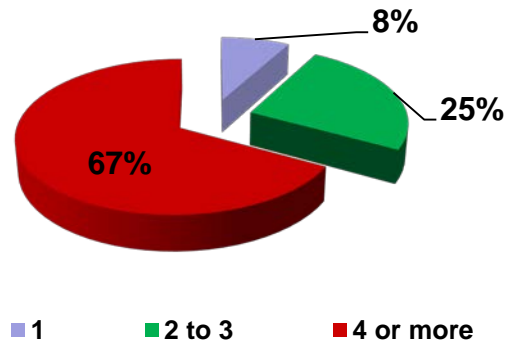


Growth of investment and performance units appears to have slowed

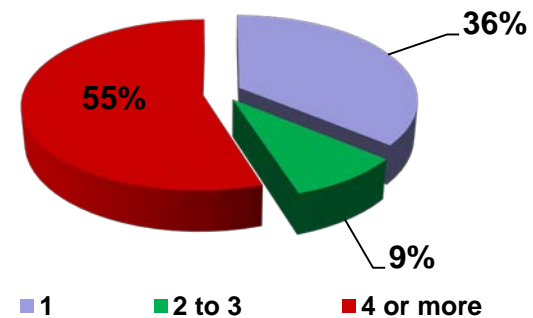
2014 Risk Units



2014 Performance Units

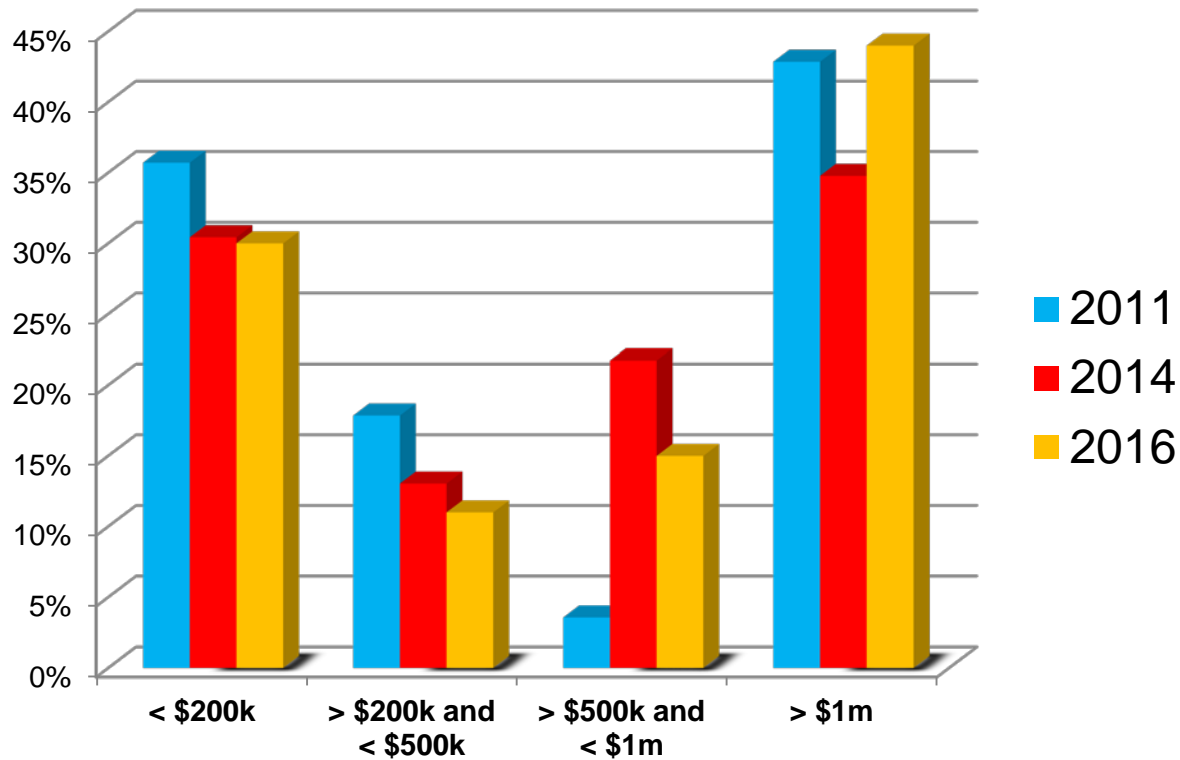


2016 Combined



Question: How many persons are there in your investment risk / performance unit?

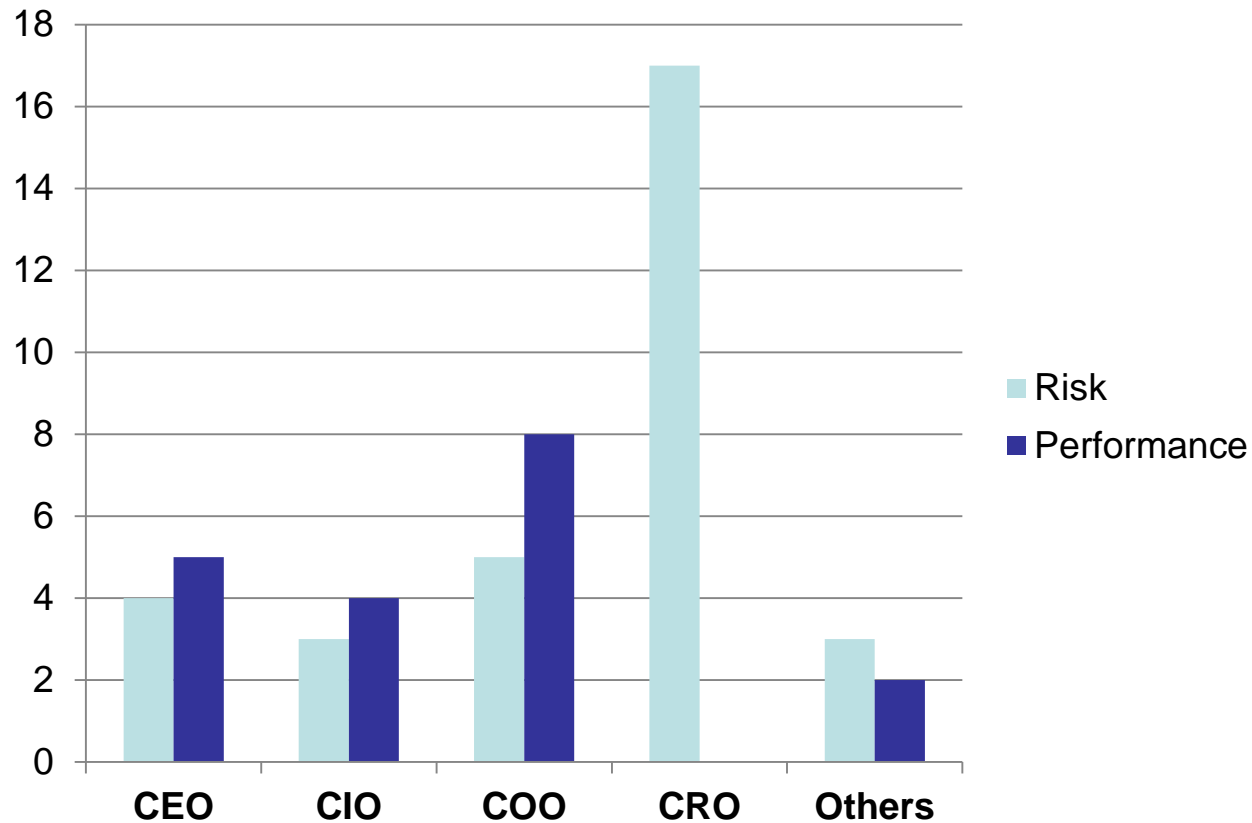
Majority of firms have budgets in excess of \$200k, with 44% in excess of \$1m!



Question: What is the approximate budget/expenditure that your firm associates with performance and risk?

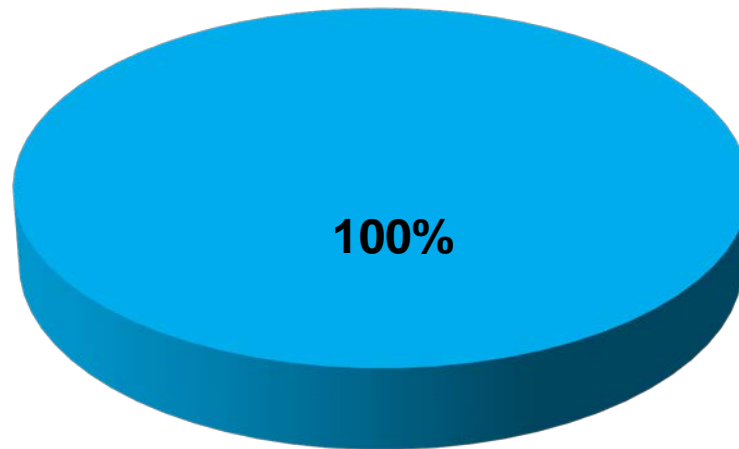
Investment performance and risk

Most of the firms have a designated CRO to oversee risk, while the CEO/CIO/COO monitors performance



Question: Who in your firm overlooks the reporting line for Risk and Performance?

Almost everyone does investment performance attribution reporting ...

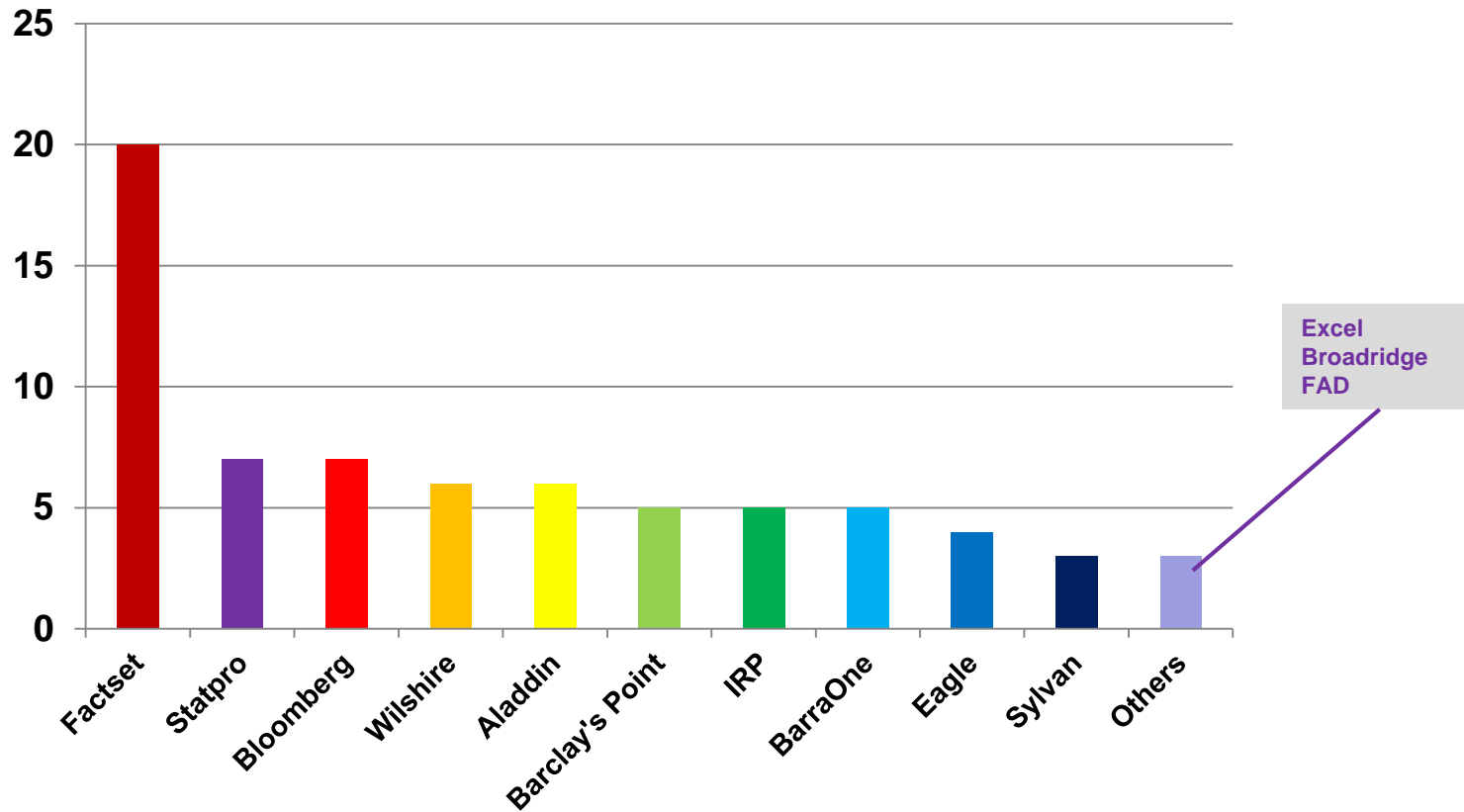


- Yes
- No

Rate of response: ~ 90%

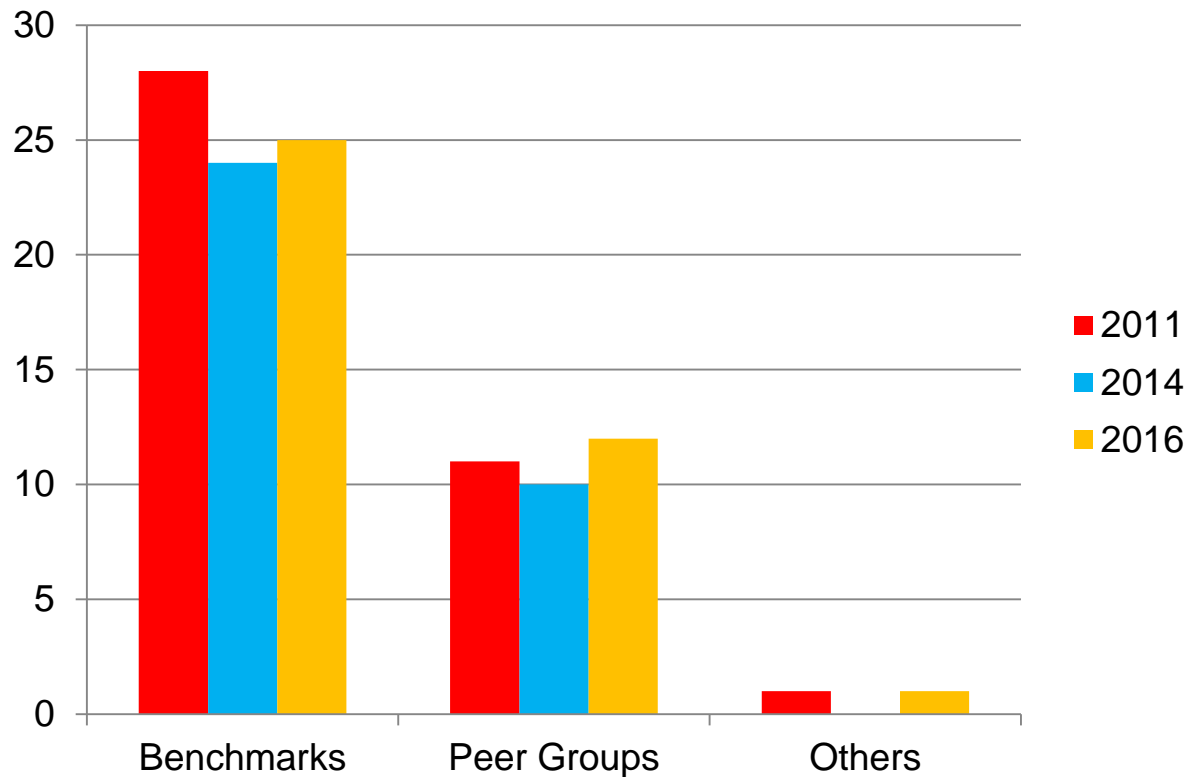
Question: Do you perform investment performance attribution reporting?

A wide spectrum of systems used for performance attribution



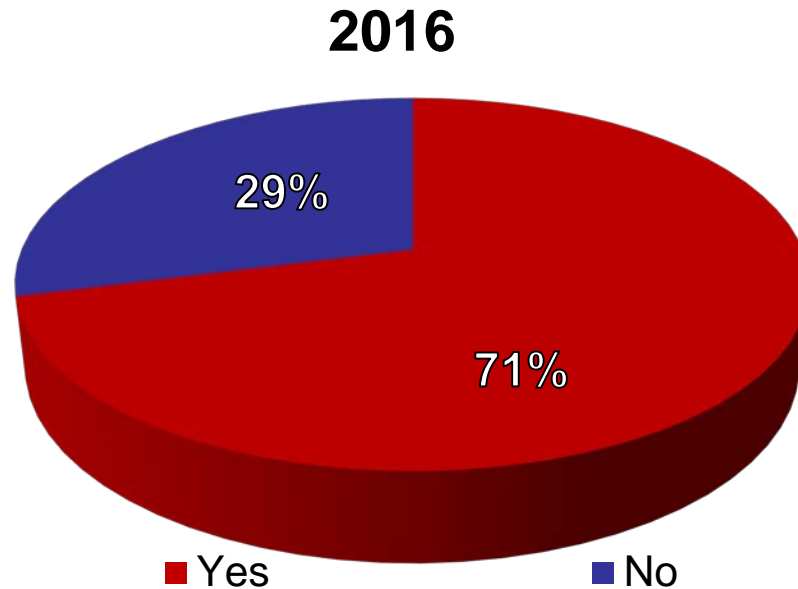
Question: What systems do you use for investment performance attribution?

Benchmarks and Peer Groups continues to be most popular measures of fund performance



Question: What are the popular measures of fund performance?

More than half of the firms use customized peer group comparisons

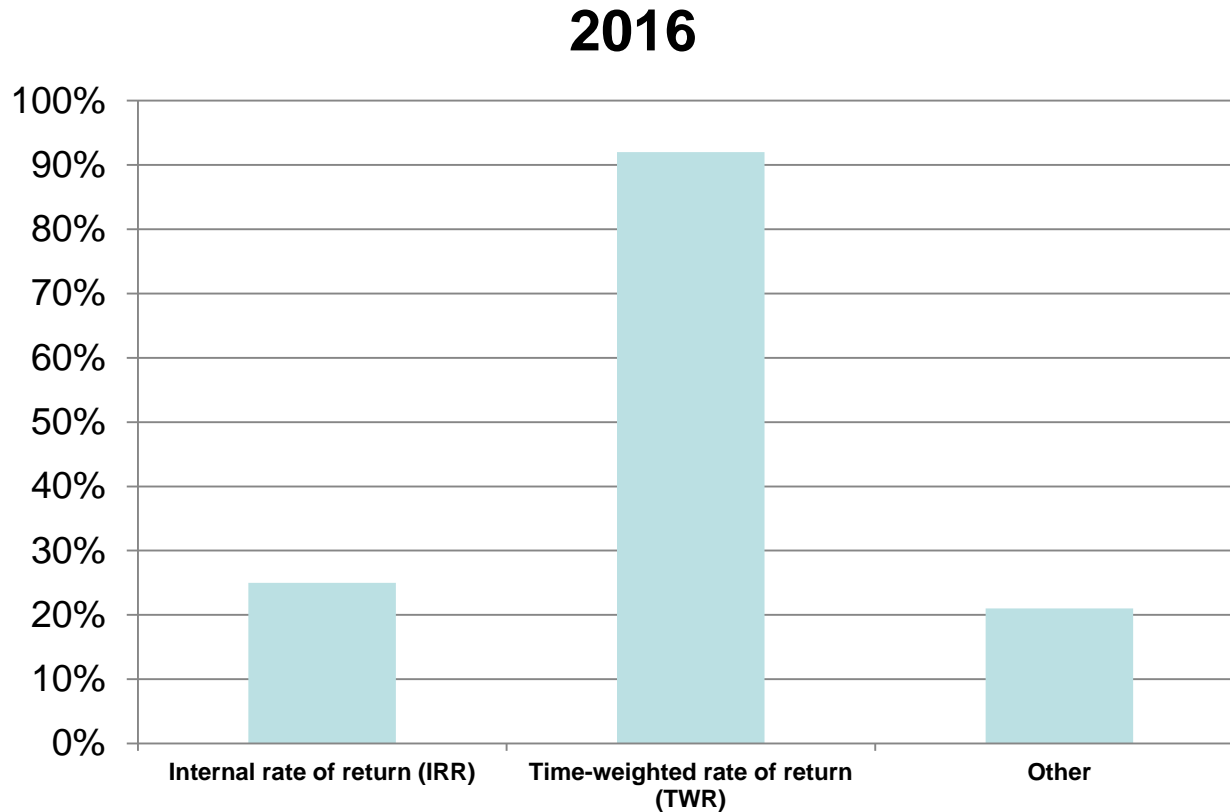


Question: Do you use any customized peer group comparisons?

Comments about benchmarks... Are you surprised?

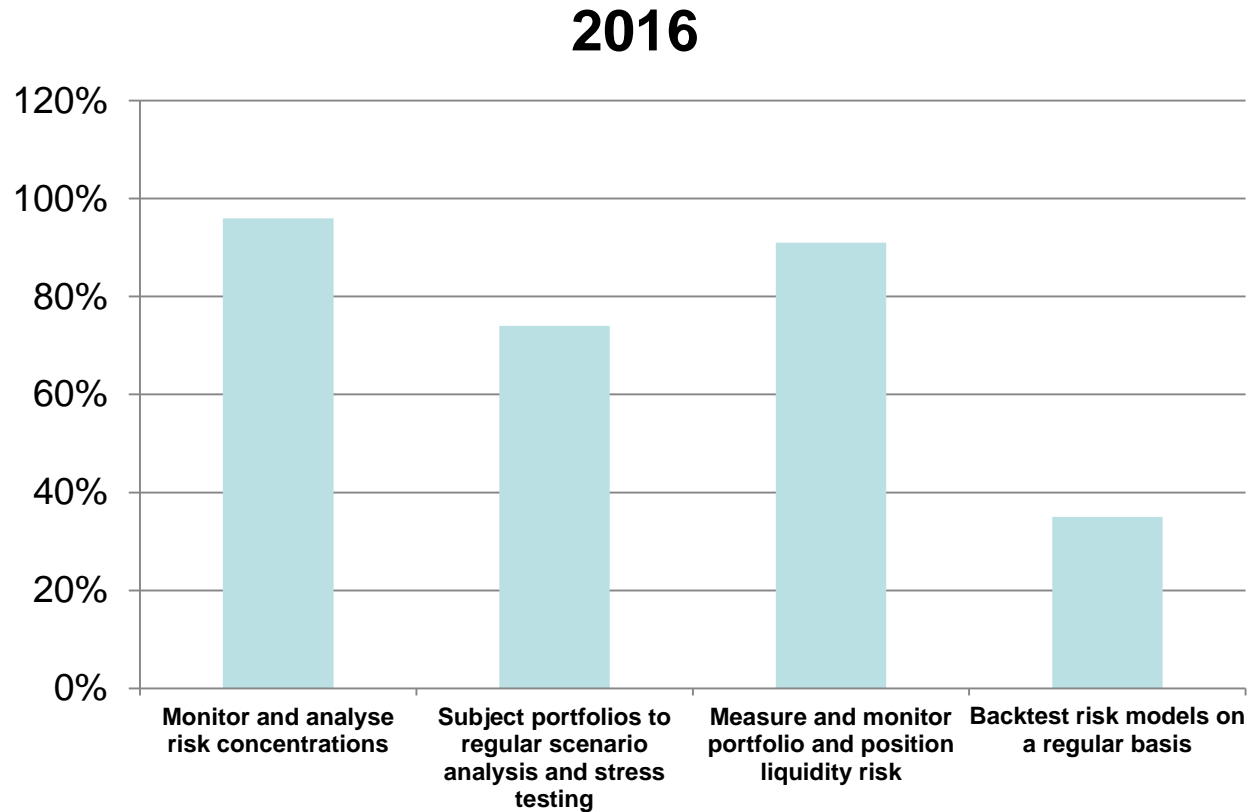
- High fees charged by vendors to create standard and customised benchmarks
- Benchmarks returns are less relevant for many clients so managing funds is becoming less benchmark focused.
- Some of the indices used as benchmark have been discontinued.

Most firms use time-weighted rate of return (TWR) for performance measurement



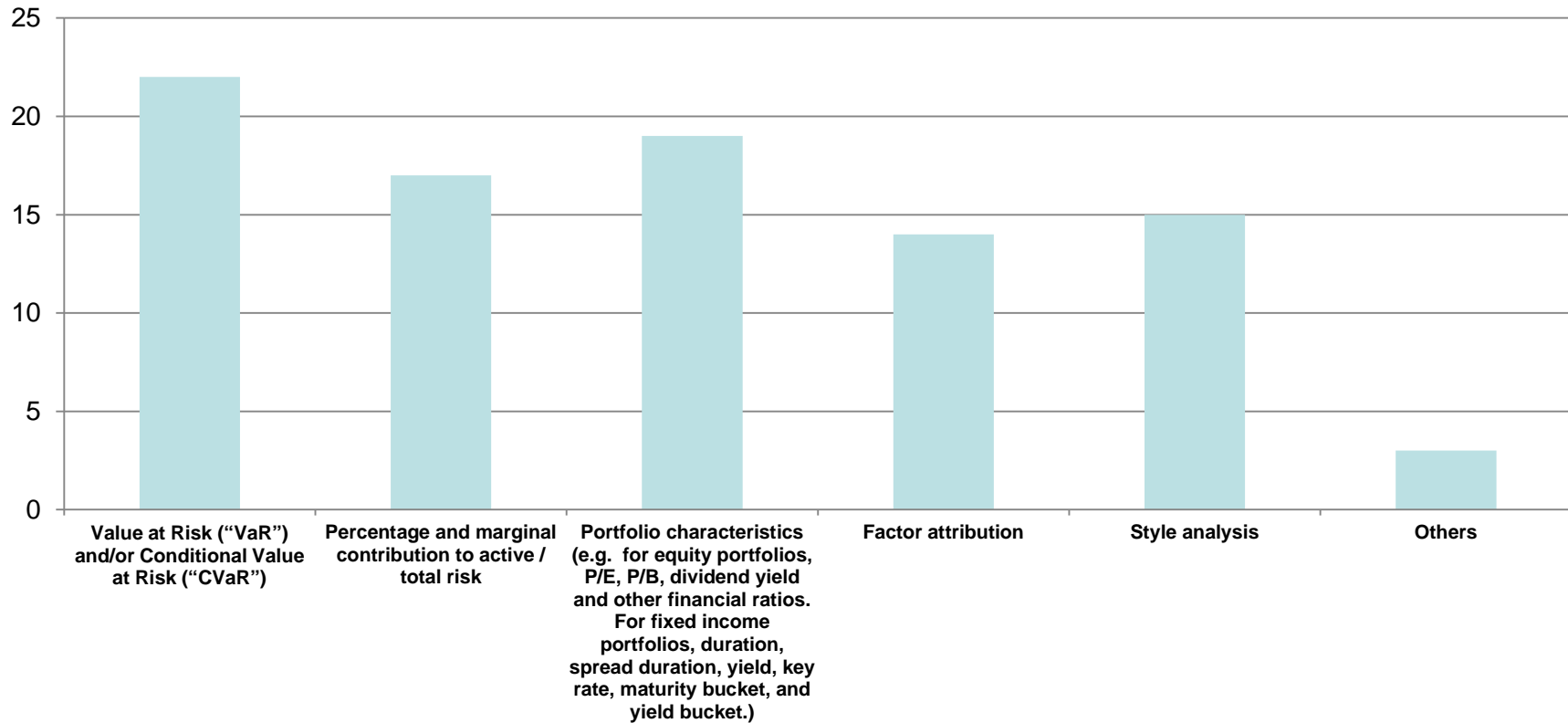
Question: What are the performance methodologies used?

Most firms monitor and analyse risk concentrations and measure/monitor portfolio and position liquidity risk



Question: Which of the following methods do you use to manage investment risk?

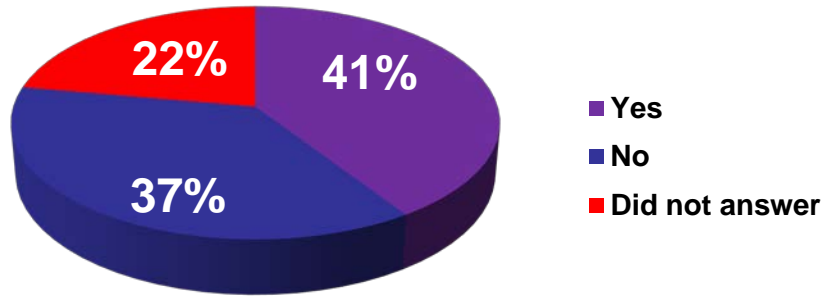
A wide variety of methods are used to monitor investment risk



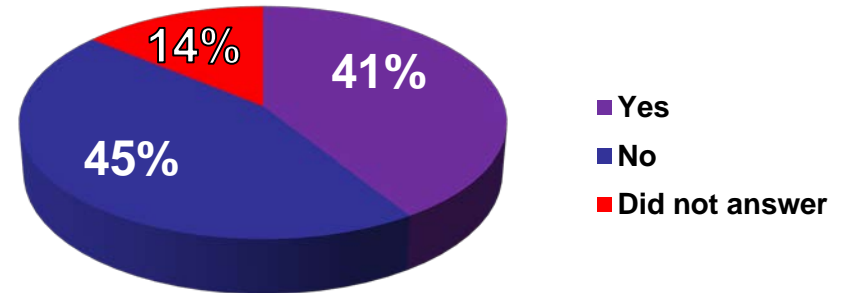
Question: Which methods do you use to monitor your investment risk?

Still, a significant proportion does not do risk budgeting.....any idea why?

2014



2016

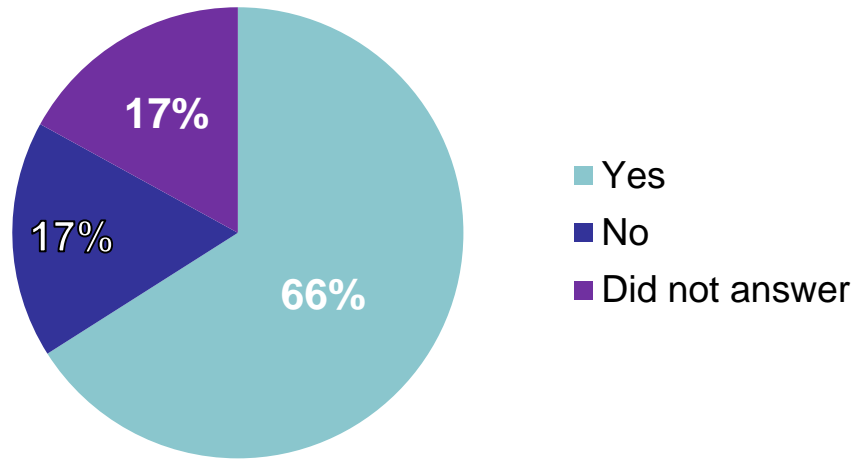


Question: Is risk budgeting performed in your organization?

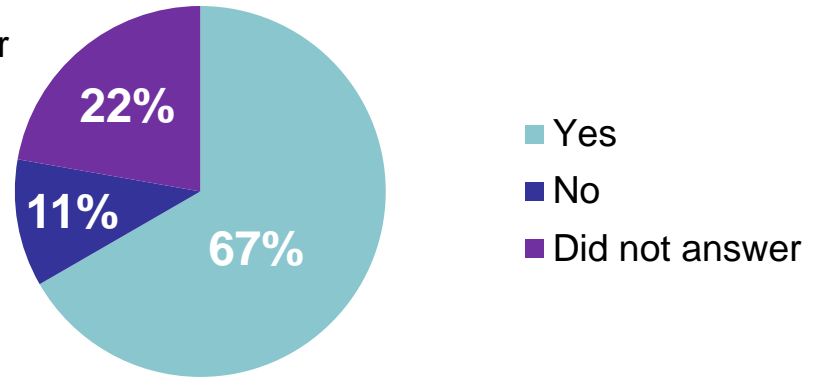
The majority performs investment risk reporting and risk attribution...which is within expectations

Question: Do you perform risk attribution?

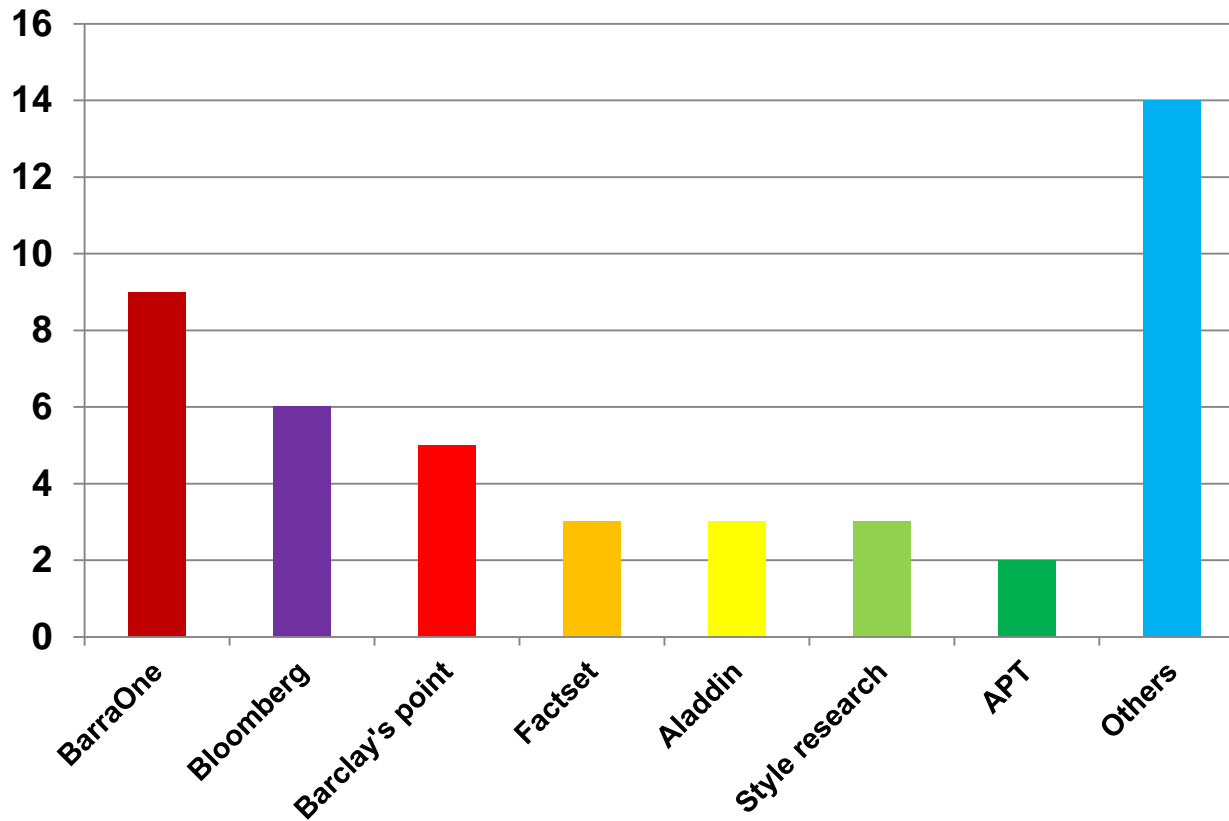
2016



2014

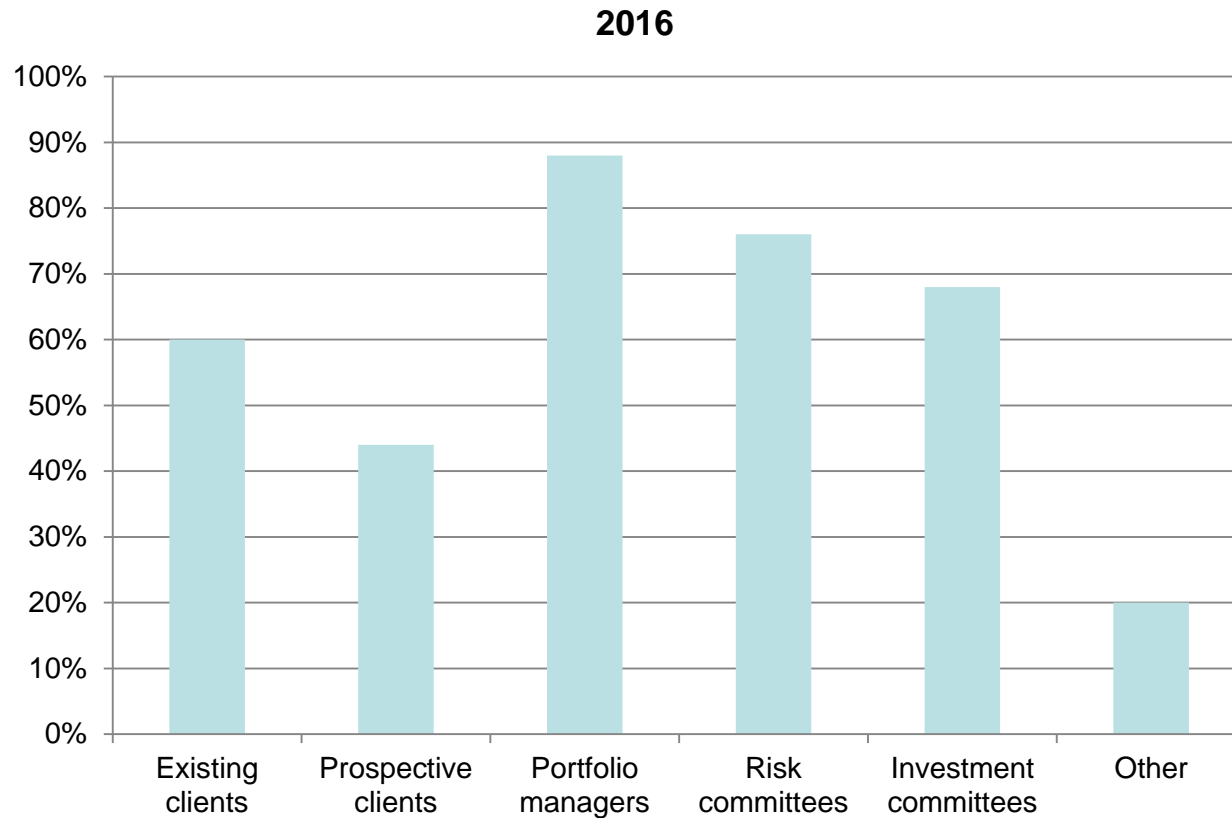


A wide spectrum of systems used for investment risk reporting



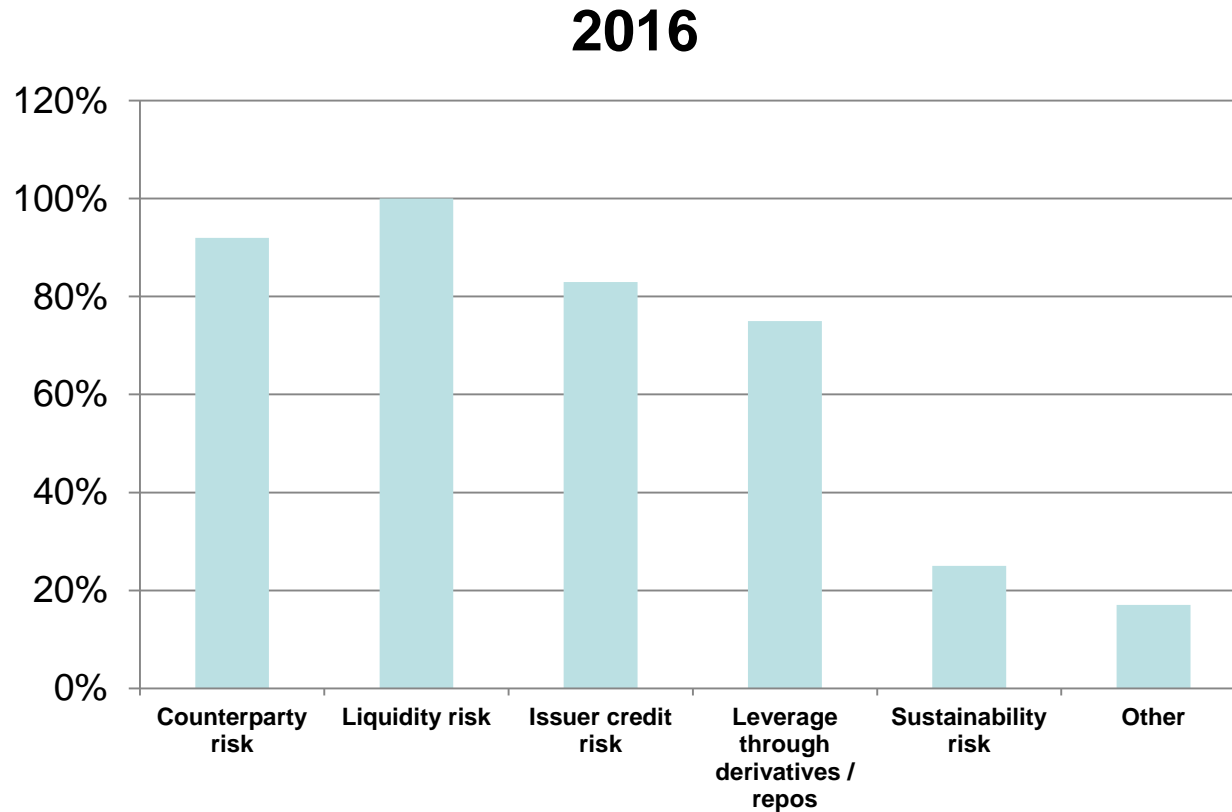
Question: What systems do you use for investment risk reporting?

Recipient of risk reports



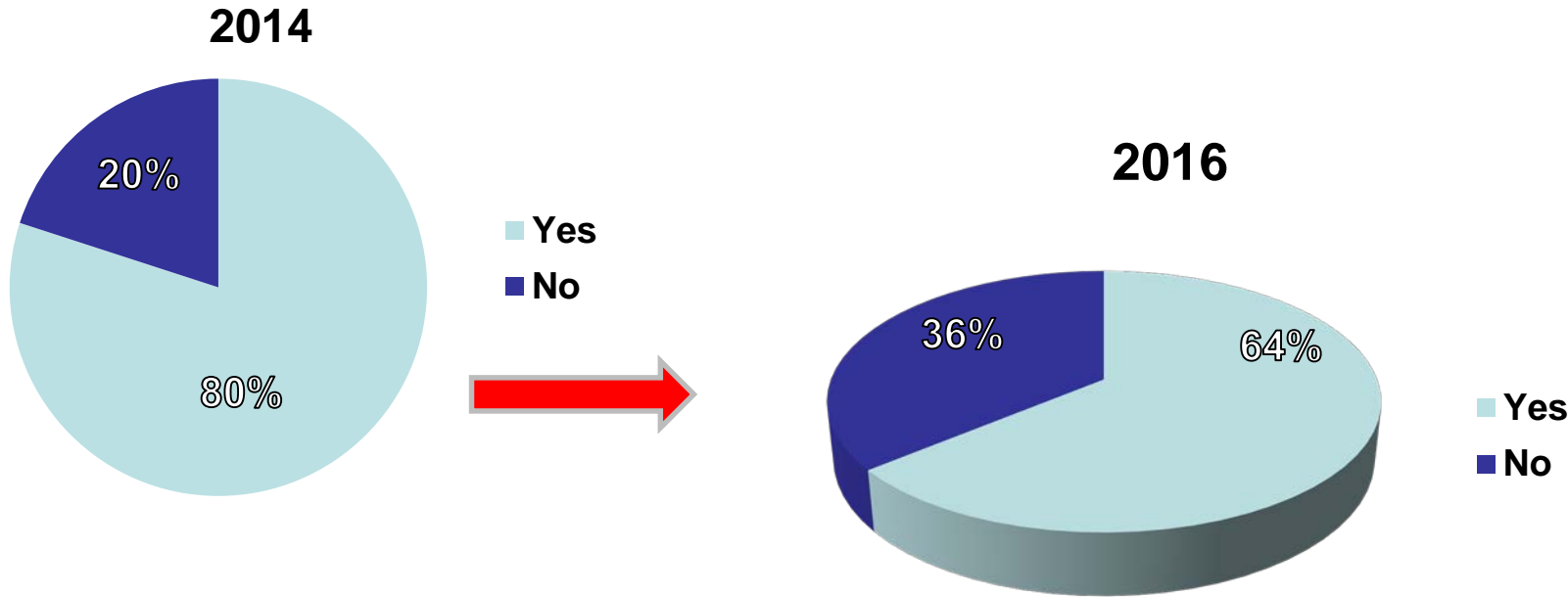
Question: Who are the recipients of your firm's risk reports?

Most risk are monitored by the risk function, but not 100%



Question: Which of the following risks are being monitored by your firm's risk monitoring function?

Majority of firms now use specialist providers or third parties for pricing of derivatives and complex securities

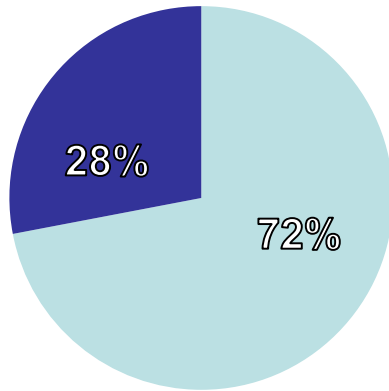


Question: Do you use specialist providers or third-parties for pricing of derivatives and complex securities?

Commonly used specialist providers are Bloomberg, Markit and SuperDerivatives.

Derivatives continue to be mainly used for efficient portfolio management and hedging

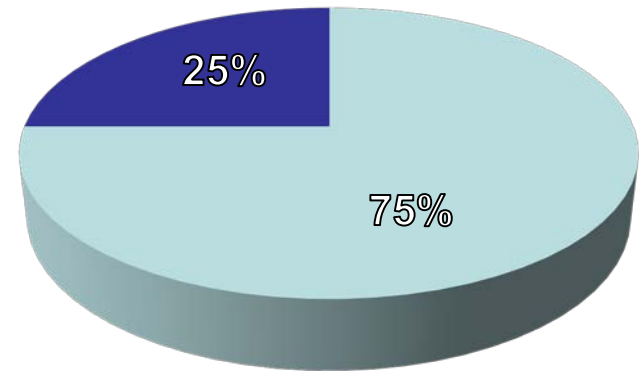
2014



- Limited to efficient portfolio management and hedging
- Both efficient portfolio management/hedging and speculative purposes



2016



Question: Please detail the use of derivatives in your portfolios.

Ways to achieve greater independence in risk analysis

Most respondents felt greater independence in risk analysis can be achieved via:

- Independent reporting (via risk management committees, external auditors and etc)
- Sourcing of data directly from systems
- Systematic and structured process and guidelines

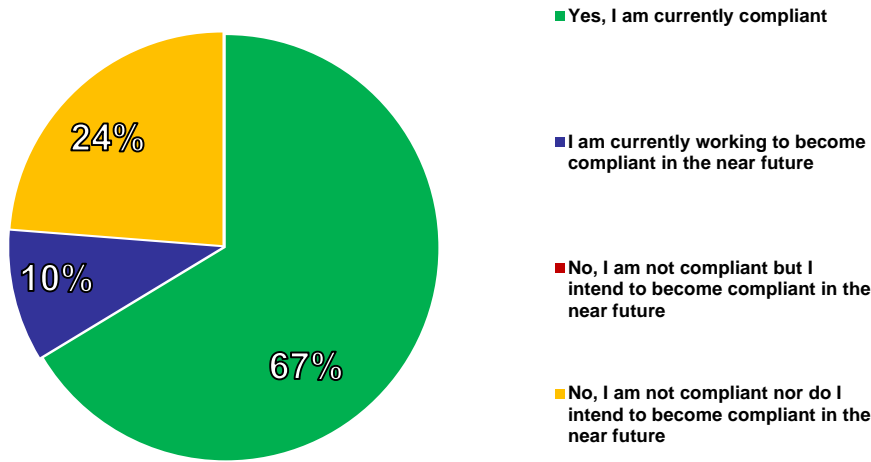
Remarks

- The development of risk and performance in investment firms has gained momentum post global financial crisis
- Risk budgeting - a business enabler as well as management of investment risk but strangely still widely neglected
- Derivatives are used mainly for efficient portfolio management, perhaps reflecting the appetite of the Singapore market
- Practices within the industry can be better shared among the industry players to foster greater industry understanding and support

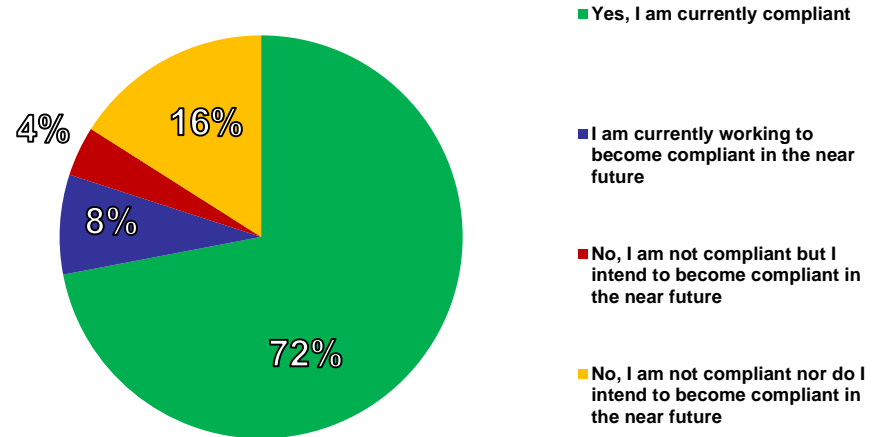
Compliance with GIPS

The majority of firms are either GIPS compliant or working towards becoming GIPS compliant

2014



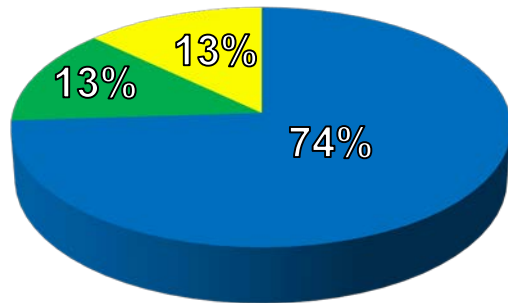
2016



Question: Are you currently compliant or working to become compliant with GIPS in the near future?

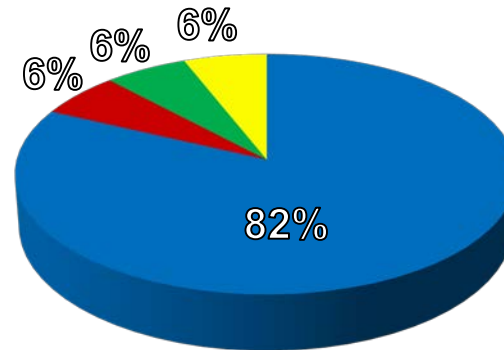
Most firms continues to be verified annually because it adds credibility to the claim of compliance and enhances their control environment

2014



- Annual
- Once every 2 years
- Not since initial claim of compliance
- Have never been verified

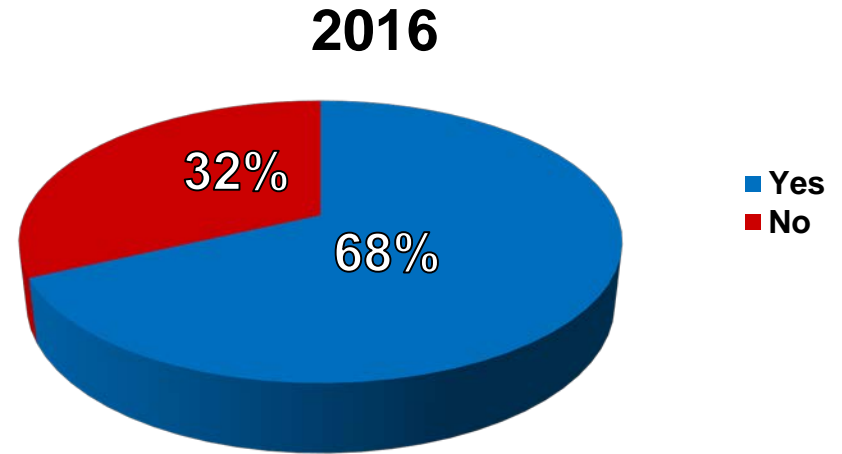
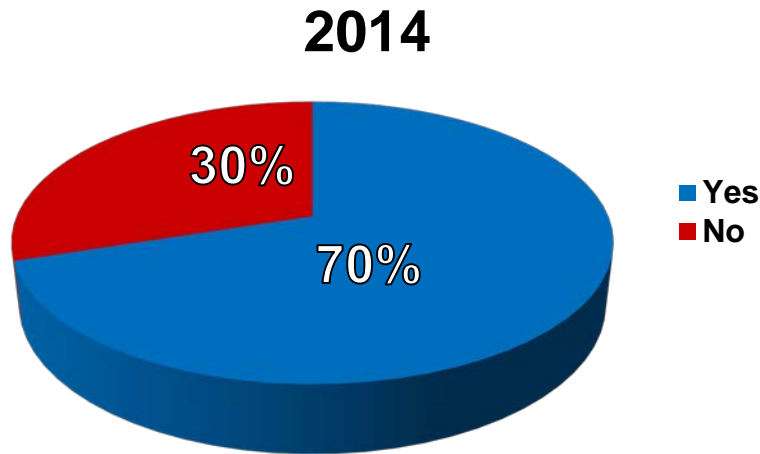
2016



- Annual
- Once every 2 years
- Not since initial claim of compliance
- Have never been verified

Question: If you are already in compliance with GIPS, what is your frequency of verification?

GIPS compliance is seen as a competitive advantage given the increasing sophistication and demands of investors



Question: Do you view compliance with GIPS as a competitive advantage to your organisation?

Some managers view it as a necessity rather than a competitive advantage

Remarks

- More firms are either already compliant or getting into compliance
- Compliance with GIPS is still viewed as a competitive advantage but the industry is also beginning to view it as a necessity