

Investment Management Association of Singapore
Risk and Performance Practices Survey 2011
27 July 2011

Agenda

Investment monitoring structure and resources

Investment performance and risk

Compliance with GIPS

Appendix 1 : RPC Terms of Reference

Risk and Performance Committee

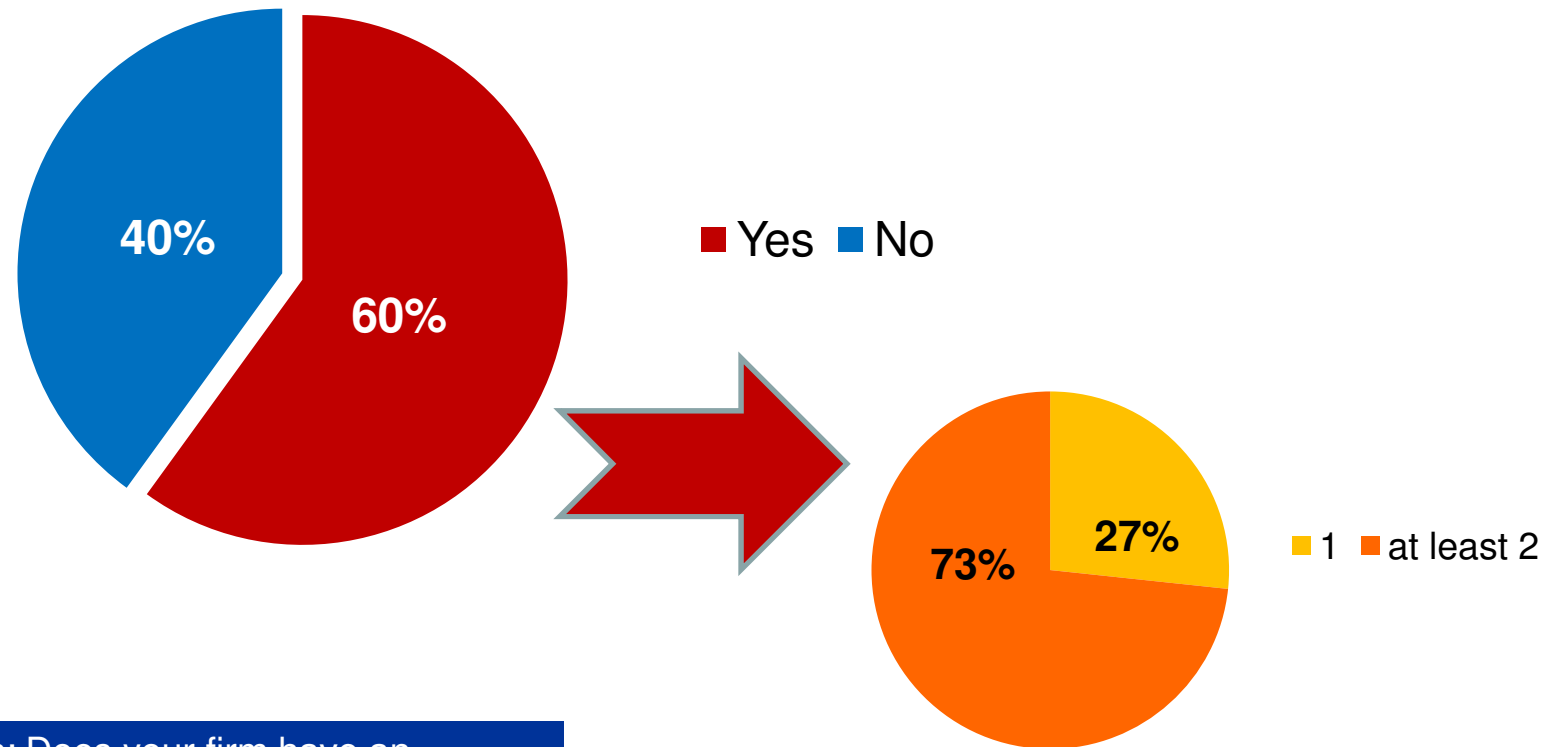
- The IMAS Risk and Performance Committee ("RPC") was set up in October 2008
[Terms of reference are set out in the Appendix 1)
- IMAS has also been the GIPS Country Sponsor since 2005
- The first Risk and Performance Practices Survey was carried out in 2009 and the current survey serves as a timely update two years later
- A total of 31 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
- The response rate has increased from 22 to 31 fund houses

Survey highlights

- Of those Singapore fund houses that responded, the results are encouraging showing a high standard of risk and performance measurement in general
- 40% of respondents spent more than \$1m per annum on risk and performance
- Majority of respondents have an independent investment risk and performance unit, and most have at least 2 or more staff in Singapore
- However, more than 60% of respondents still do not perform risk budgeting in their organisations
- 73% of respondents are either GIPS compliant or working towards becoming GIPS compliant
- 85% of respondents view GIPS compliance as a competitive advantage, and this is due to the increase in RFPs from clients and asset consultants asking whether the firm is GIPS compliant

Investment monitoring structure and resources

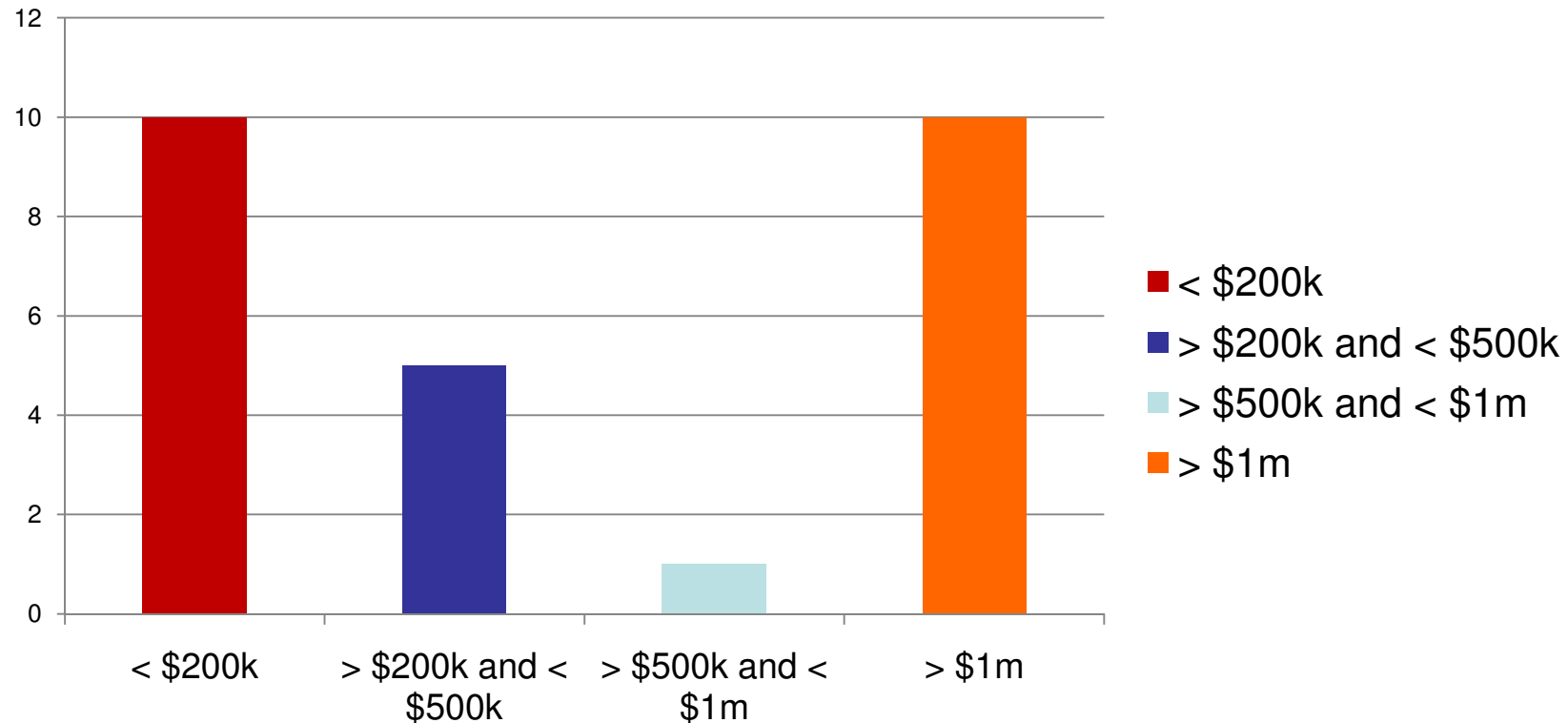
Majority of firms have an independent investment risk and performance unit



Question: Does your firm have an independent investment risk and performance unit?

$\frac{3}{4}$ of them have at least 2 staff in Singapore

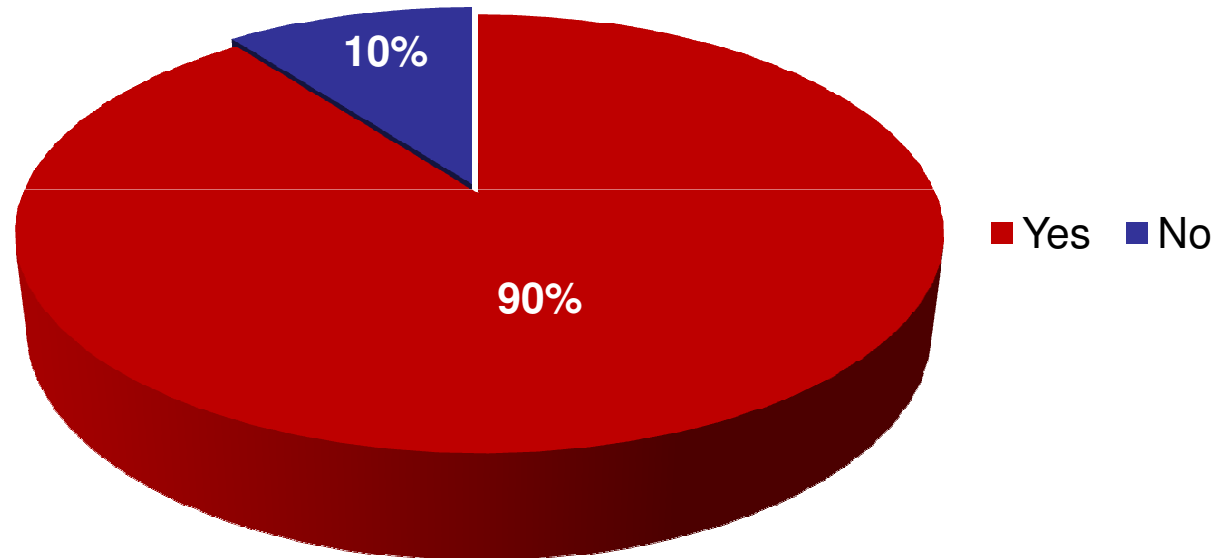
Majority of firms have budgets in excess of \$200k, with 40% in excess of \$1m!



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

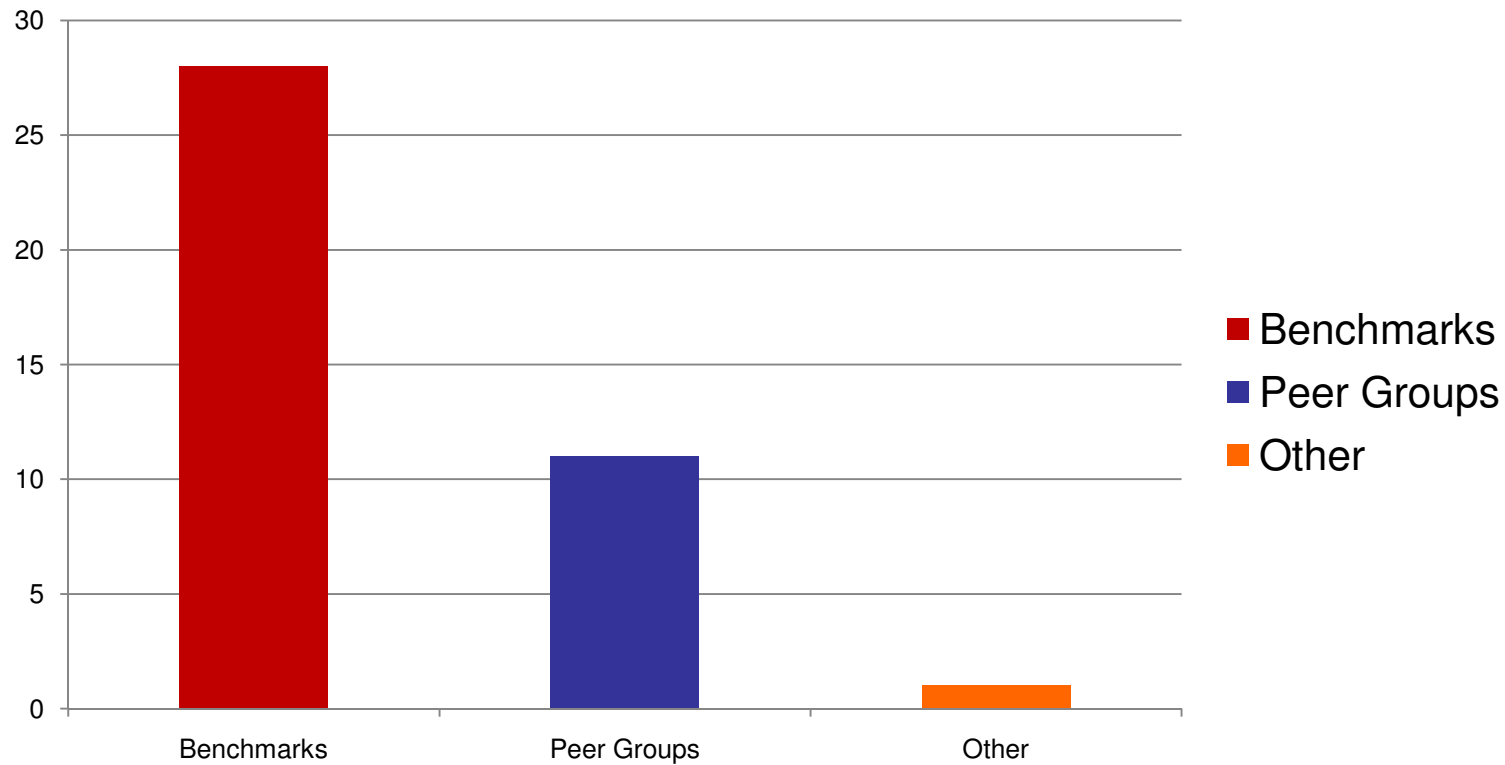
Investment performance and risk

Investment performance attribution reporting appears to be the de facto control process...



Question: Do you perform investment performance attribution reporting?

Benchmarks and Peer Groups are the most popular measures of fund performance

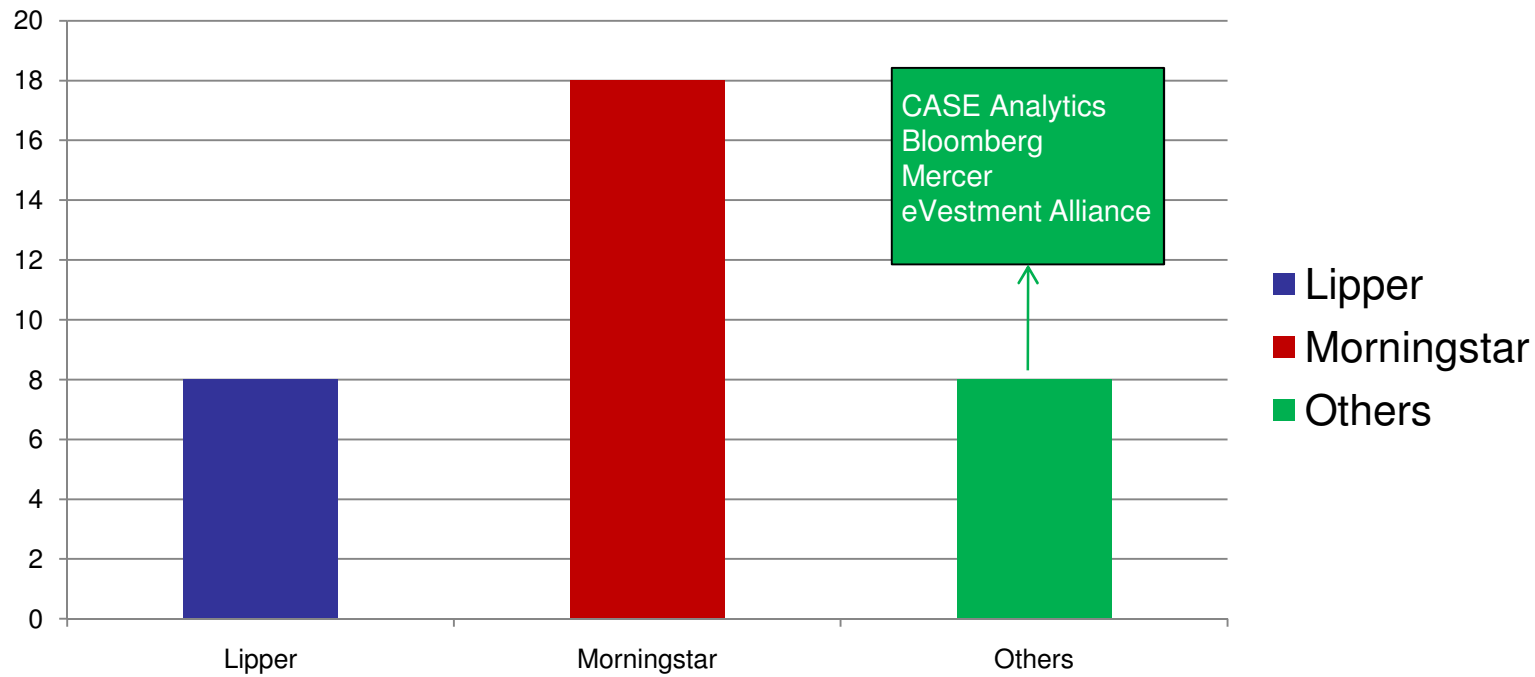


Question: What are the popular measures of fund performance?

Some current issues and comments about benchmarks... Are you surprised?

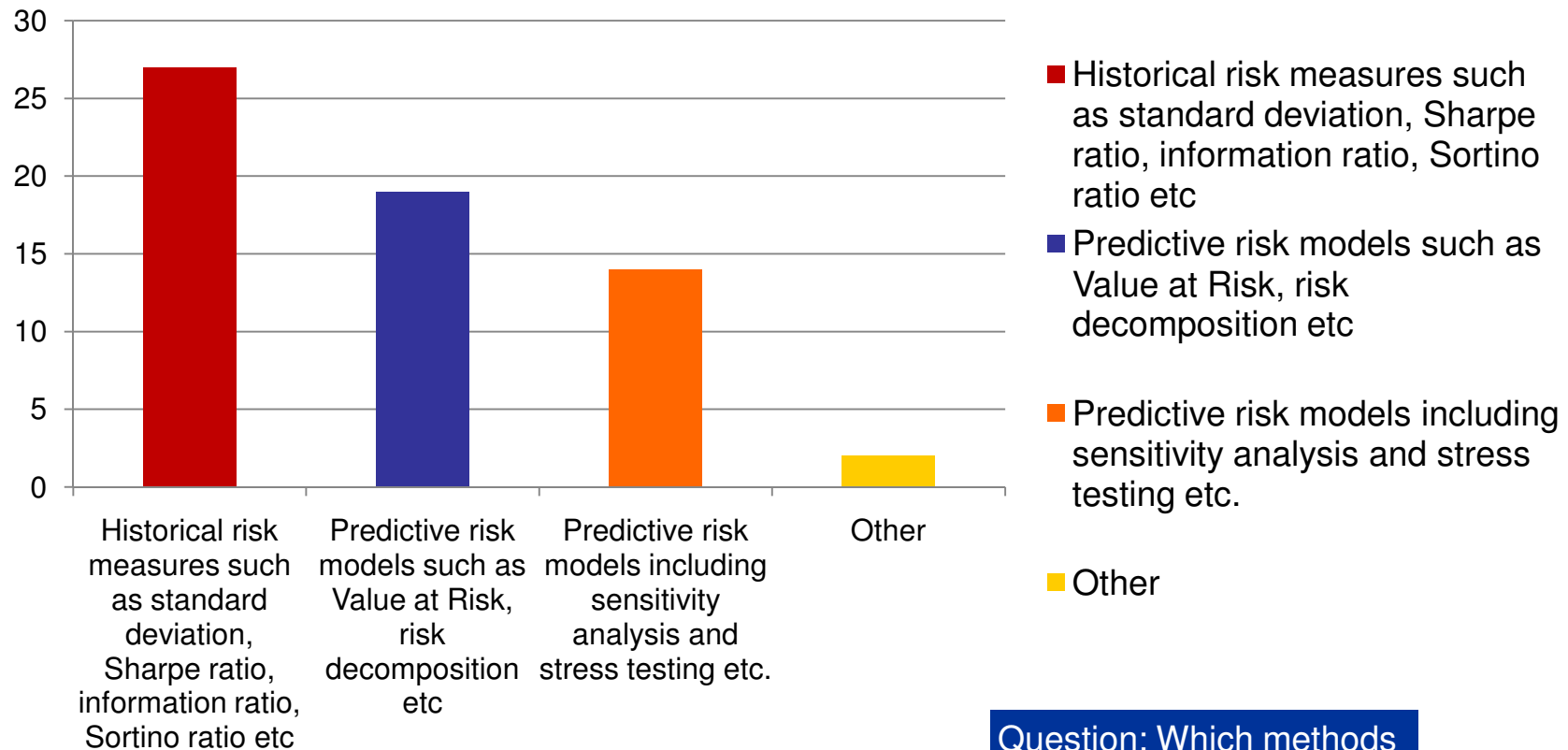
- High fees charged by vendors to create standard and customised benchmarks
- Benchmarks are not exactly fitting for the investment strategies
- Peer group data are not readily available and are only limited to some products whereby peer group data usually do not have very good match in product universe
- Processes have to be created for some index families not supported within the current analytical tools

Morningstar and Lipper seem to be dominant but there are many other systems used



Question: Do you use any fund comparison/universe/market comparison 3rd party systems?

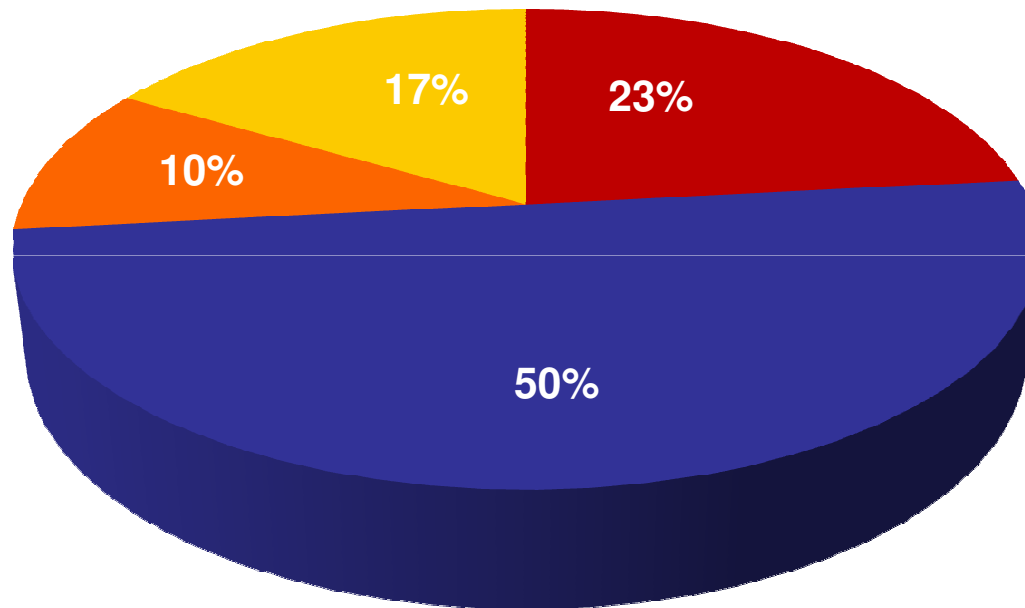
A wide variety of methods are used to monitor investment performance and measure the related risk



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

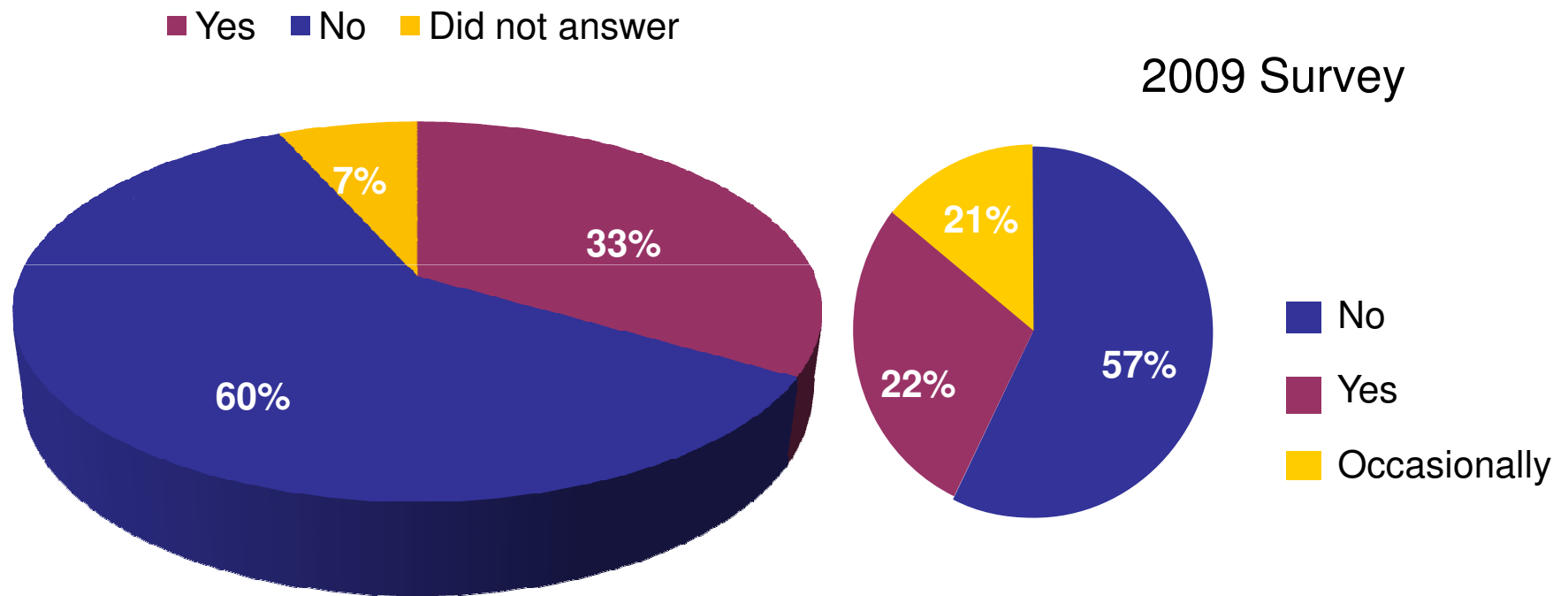
Ex-ante risk measures are at least moderately significant to most

■ Very significant ■ Moderately significant ■ Insignificant ■ Do not use at all



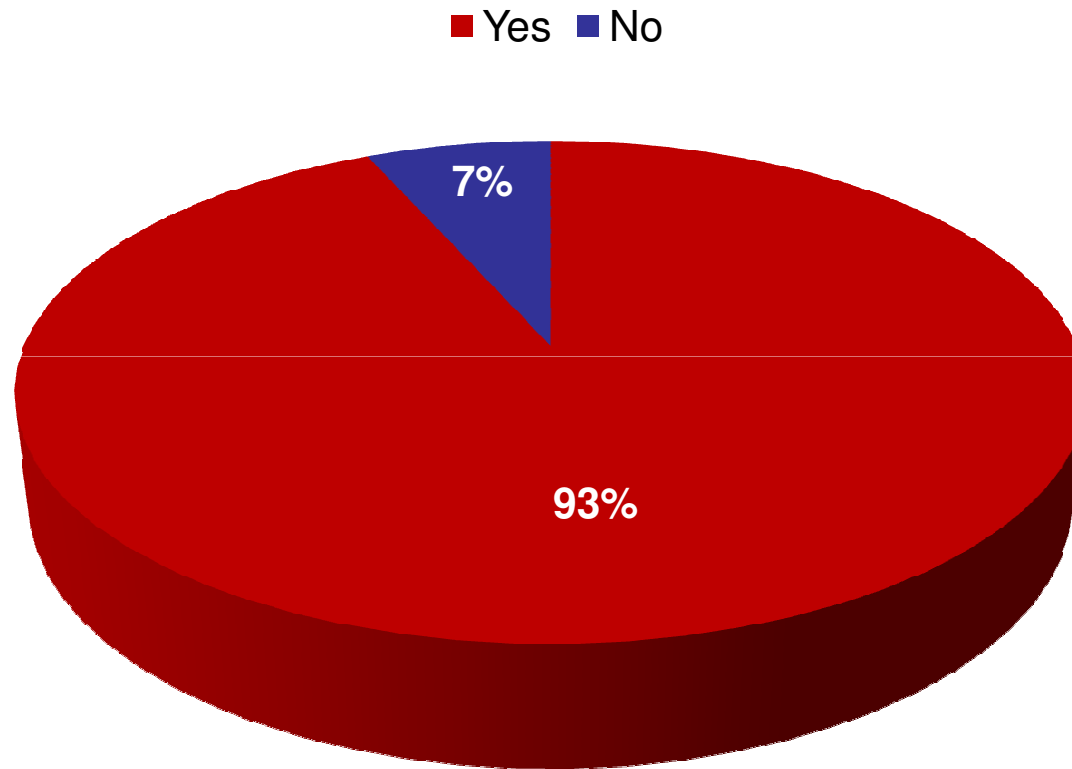
Question: How significant are ex-ante risk measures to your investment process?

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



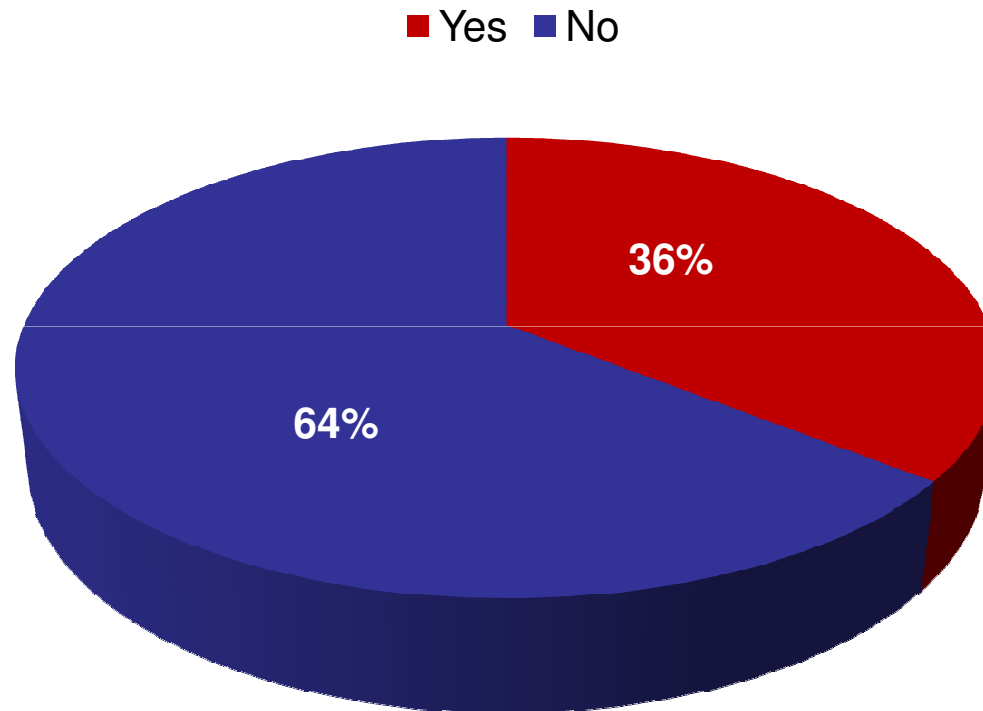
Question: Is risk budgeting performed in your organization?

Overwhelming majority performs investment risk reporting...which is within expectations



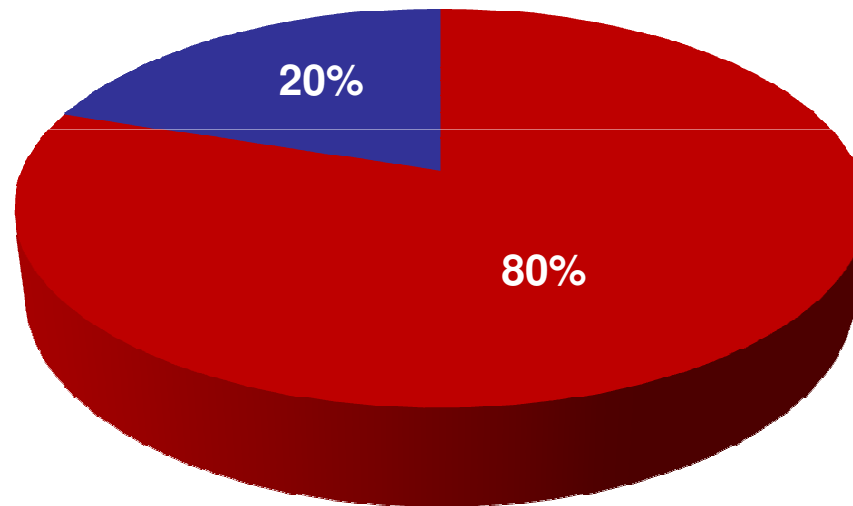
Question: Do you perform investment risk reporting?

Majority of firms do not use specialist providers or third parties for pricing of derivatives and complex securities



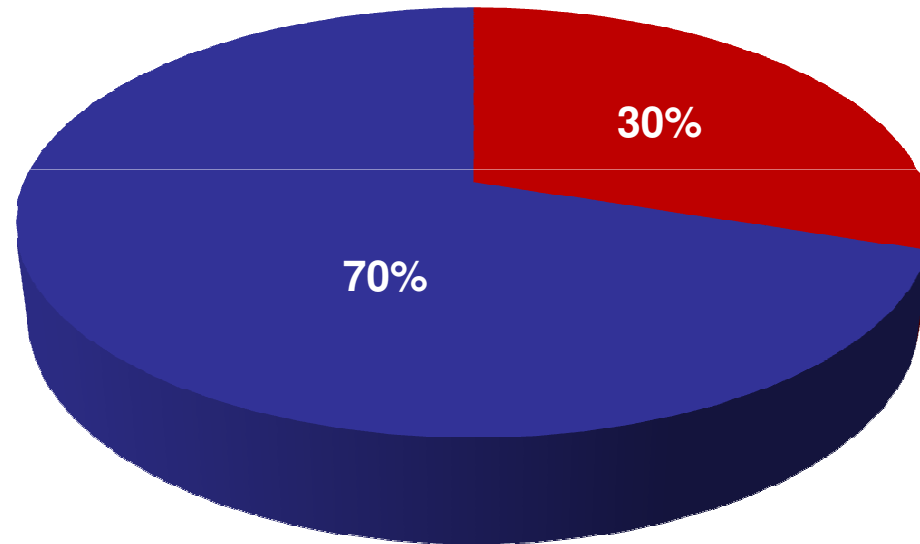
Derivatives are mainly used for efficient portfolio management and hedging

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



US/Singapore method is the preferred method...but why?

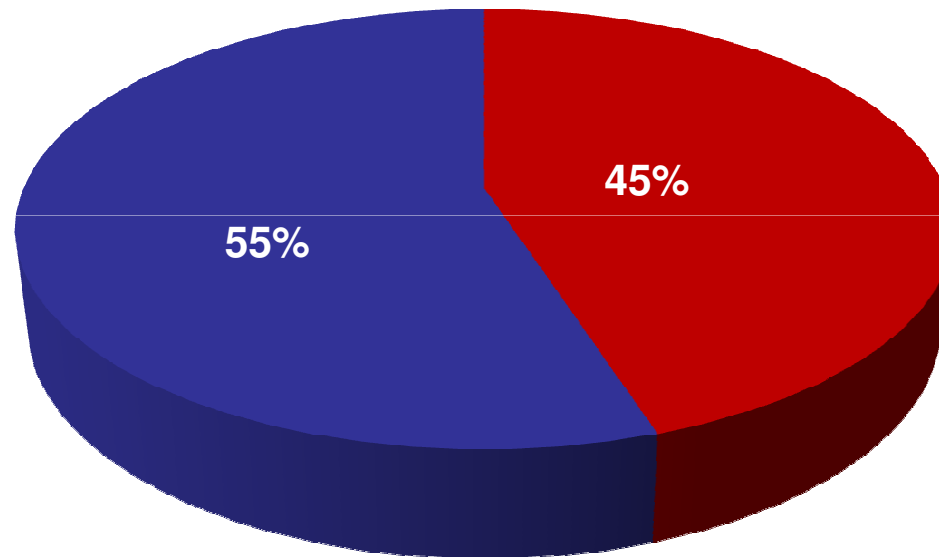
■ European method ■ US/Singapore method



Question: For turnover ratio calculation, do you have a preferred methodology?

The results clearly show that each has its own merits

■ As a sale/redemption ■ Excluded from calculation



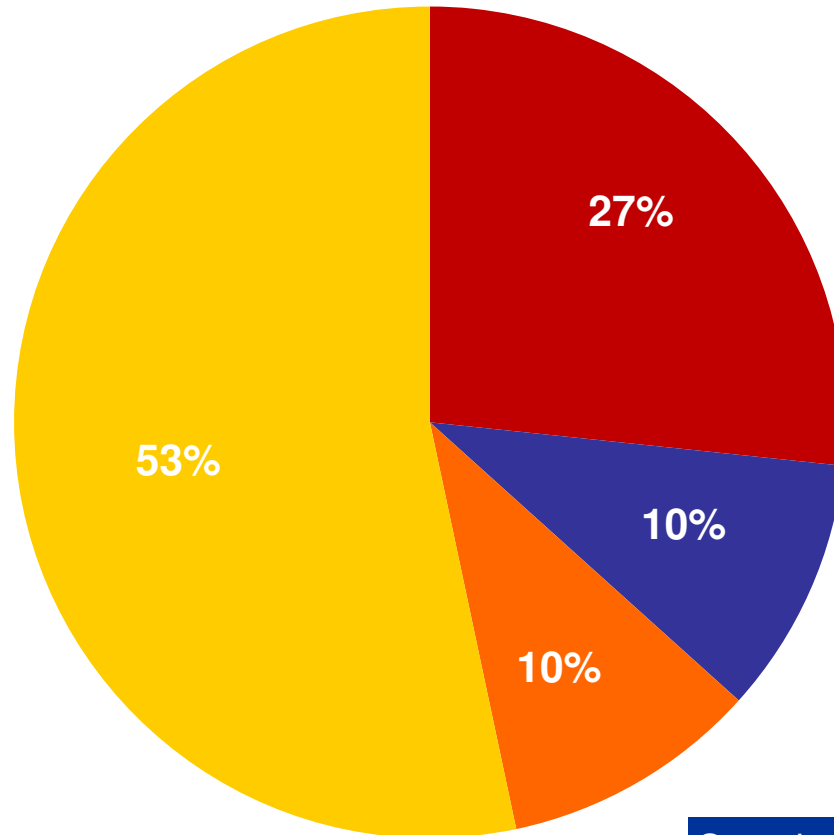
Question: How is fixed income maturity treated in your turnover calculation?

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

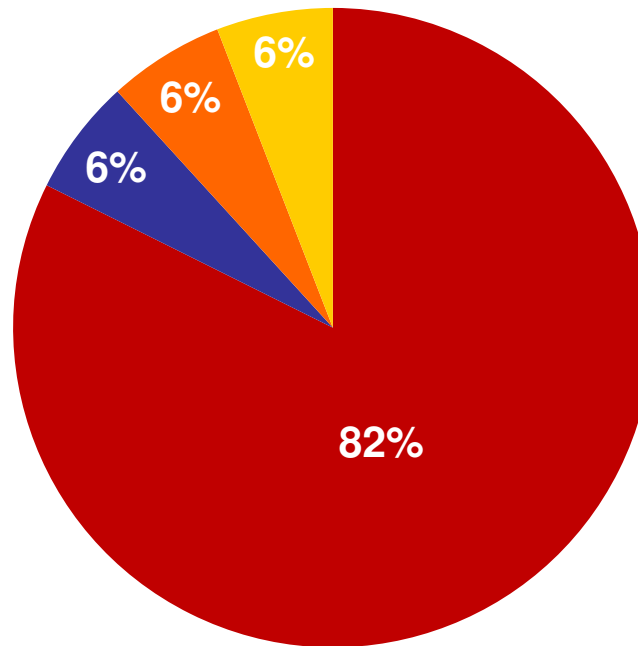


- No, I am not compliant nor do I intend to become compliant in the near future
- No, I am not compliant but I intend to become compliant in the near future
- I am currently working to become compliant in the near future

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

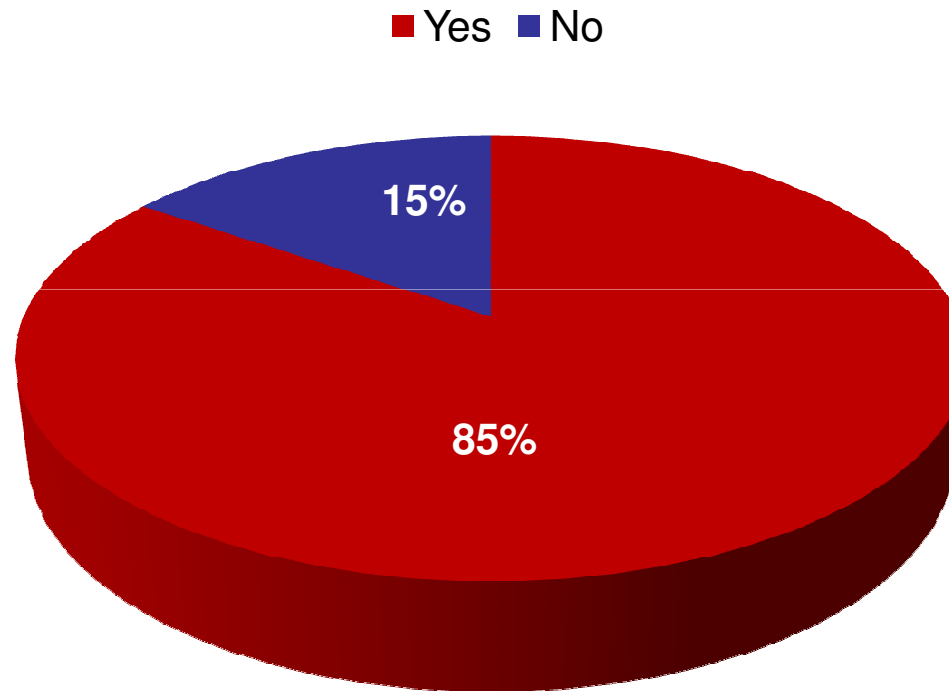
Most firms are verified annually because it adds credibility to the claim of compliance and enhances their control environment

■ Annual ■ Every 2 year ■ Plan to be next 12-24 months ■ No plans



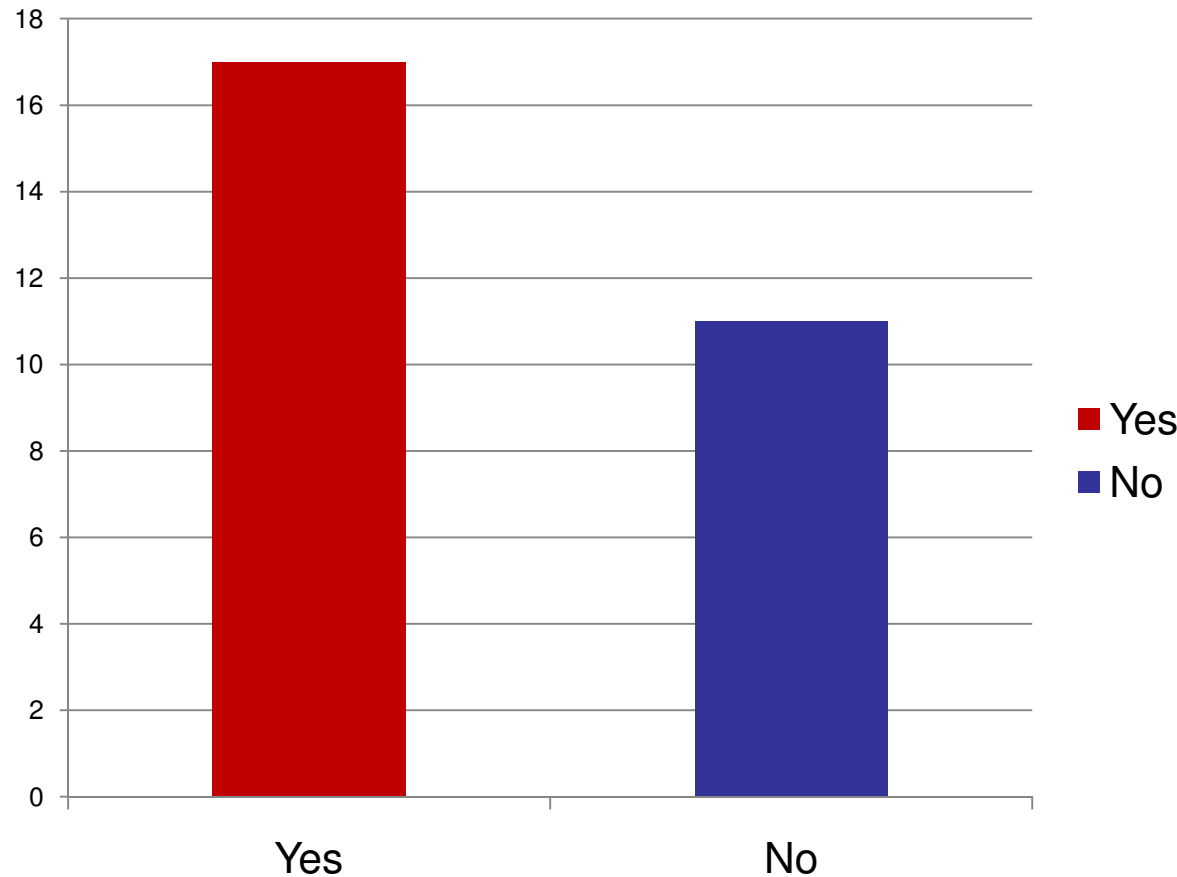
Question: If you are already in compliance, what is your frequency of verification?

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?

There appears to be an increase in RFP requests asking whether a firm is GIPS compliant which is different from 2 years ago



Question: Do you see an increase in Requests For Proposals (RFP) from clients or asset consultants asking whether your firm is in compliance with GIPS?

Remarks

- More firms are either already compliant or getting into compliance
- Compliance with GIPS is viewed as a competitive advantage which in the longer term, will become a necessity
- GIPS compliance is gaining popularity with increasing requests from investors
- GIPS compliance as one of the key criterias for outsourcing of mandates?

Appendices

RPC Terms of Reference

- Support the IMAS in its role as the GIPS country sponsor through consultative feedback on GIPS, promoting GIPS as best practice and enlisting regulators' support and sponsorship
- Promote best practice in understanding, use of and integration of performance analytics and attribution processes and tools as well as investment risk monitoring and management practices
- Enhance understanding and best practices in investment pricing and valuations methodologies