

CPF BOARD'S PRESS RELEASE

CPF Board Tightens CPF Investment Scheme (CPFIS) Admission Criteria for Funds¹

From 1 February 2006, new funds will have to meet more stringent admission criteria to be included into the CPFIS. Existing funds will not be affected.

1. A higher evaluation benchmark

To be admitted into CPFIS, new funds must meet the revised benchmark set at the top 25 percentile of funds in their global peer group², higher than the existing benchmark of top 50 percentile.

The evaluation benchmark is based on a number of factors such as the capability of the fund managers, the investment philosophy of the fund, its key decision makers, the appropriateness and quality of its research and analysis and its portfolio construction and implementation.

2. An expense ratio that is lower than the median of existing CPFIS funds in its risk category.

High cost of investment severely erodes returns. Hence, to lower the cost of investment, the admission criterion will be set at the median of the expense ratios. The median expense ratios will be reviewed annually. See Annex A for the median expense ratios of existing CPFIS funds as at end 2004.

New Funds into the CPFIS should preferably have a track record of good performance for at least 3 years.

The Board will also step up its education efforts and provide more information on the performance and cost of funds (like expense ratios, front-end loads etc) within the CPFIS.

CPF members must understand and ultimately bear the risks of their investment choices. These new measures are aimed at improving the quality of funds in CPFIS and to help members make better informed investment decisions.

¹ Funds refer to unit trusts and investment-linked insurance products under CPFIS.

² This refers to comparison of funds of similar asset class/strategy on a world-wide basis.

Annex A

Risk Classification ³	Median Expense Ratios ⁴ (%) of CPFIS Unit Trusts and Investment-Linked Insurance Products as at 31 December 2004 [Rounded off to the nearest 0.05]
Higher risk	1.95
Medium to High Risk	1.75
Low to Medium Risk	1.15
Lower Risk	0.65

³ Risk categories are:

- a. Higher risk - Funds that invest in equities.
- b. Medium to high risk – Funds that invest in a mixture of equities and bonds.
- c. Low to medium risk – Funds that invest in fixed income products or bonds.
- d. Lower risk – Funds that invest in money market products.

⁴ Expense ratios refer to the operating costs of unit trusts and investment-linked insurance products which include investment management fees, expressed as a percentage of the fund's average net assets for a given time period. The expense ratio does not include brokerage costs and various other transaction costs that may also contribute to a fund's total expenses. Expense ratio is commonly used in the industry to compare the cost of funds and forms the biggest component of fund cost. For guidelines on the computation of expense ratio, please refer to Investment Management Association of Singapore (IMAS) website:

http://www.imas.org.sg/cmaweb/attachments/publication/IMAS_Revised_Guidelines_on_Expense_Ratio.pdf