

FIMM Combined Exam (FCE)

Name: _____



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Padlet QR Code

- Handout & Formula Sheet
- Mock Exam Questions
- Examination Information & Video
- FIMM e-Study Guide

Compulsory pre-contract programmes:

- FIMM Combined Exam (FCE) – Classroom
- FIMM Combined Exam (FCE) – e-learning
- Start Right with Best Practices (SRBP) – e-learning



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Exam Information

Essential Items:

- Pen & 2 Blank Paper
- Identification Card (IC)
- Normal/Scientific Calculator
Non-Programmable calculators only
(NO financial calculators)

60 Questions

2 Hours

Pass Mark: 75%



45 out of 60 questions



<https://www.youtube.com/watch?v=tFzP7Zd5vYE>



Exam Dos

- **Sit in a quiet**, private room with adequate lighting (preferably daylight-quality).
- Ensure your face and **device screen remain clearly visible** to the camera at all times for invigilator monitoring.
- **Dress appropriately** in formal or semi-formal attire (e.g., collared shirt, blouse, business casual).
- Be ready to **show your NRIC/passport** and examination environment upon request.
- **Keep your desk clean** and free from unauthorised materials.
- Only the following items are permitted during examination: a valid identification document (NRIC/passport), a drink (if necessary), two blank A4 sheets of paper, one pen, and a non-programmable calculator.
- **Set up your laptop** or desktop at least one (1) day before the examination. Ensure your **device is fully charged** or connected to a power source throughout the examination.
- Log in to Microsoft Teams and the examination platform at least 30 minutes before the scheduled start time.
- Ensure that your internet **connection is stable** and close all other programs or browser tabs except those required for the examination.
- Be prepared for potential technical difficulties (e.g., internet disruptions, power supply issues).
- Inform the invigilator immediately if you encounter technical issues (via Teams chat or phone).
- **Follow all instructions** provided by FIMM or the examination invigilators promptly and accurately.
- **Maintain examination integrity**: All answers must be your own and completed honestly without external assistance.



Exam Don'ts

- Do not take the examination inside a vehicle or in any public area, including but not limited to internet cafés, cafés, or other open spaces.
- **Do not allow anyone else to be present** in the test-taking room or area ("exam area") during the examination.
- **Do not talk**, communicate, or solicit information or answers from any person by any means during the examination.
- **Do not speak**, read, or verbalise any examination question or answer aloud.
- **Do not move away** from the computer or out of the web camera's range.
- **Do not leave the exam** area while the examination is in progress, EXCEPT in the event of an emergency and with the invigilator's permission.
- **Not allowed to leave the examination** place/room **within the 15 minutes** after the examination starts.
- **No toilet breaks** are allowed once the examination starts.
- **Do not switch off** or disable the web **camera** at any point during the examination.
- Do not keep or use any paper, device, equipment, materials, or documents that are not explicitly approved or allowed by FIMM.
- **Do not use headphones**, earphones, earbuds, or any other type of listening equipment during the examination.
- **Do not take screenshots**, record, copy, photograph, transcribe, or transmit any part of the examination questions or content, by any means, during or after the examination.
- **Do not open or use any other applications**, browse the internet, or consult digital data or web pages during the examination.
- **Do not bring or use unauthorised materials**, including mobile phones, electronic devices (e.g., smartwatches, cameras, recording devices), notes, or external materials in the examination environment.



Important!

Remember to **read and understand** the contents of **materials and documents** before sitting for the examination

Remember to **obtain a copy of the preliminary examination result/**

Or taking **photo of the exam results**, before leaving the examination session



Programme Contents

- | | | |
|---|---|--|
| 1 |  | Collective Investment Scheme (CIS) |
| 2 |  | Regulations & Distribution Channels |
| 3 |  | Distributions & Returns |
| 4 |  | Private Retirement Scheme (PRS) |

01



Collective Investment Scheme

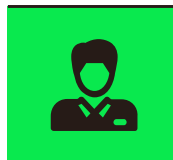
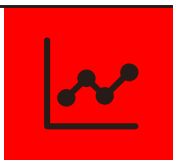
What is a **Collective Investment Scheme (CIS)**?

Pooled investment vehicles



Investors with similar investment objectives pool their savings together

Invests in a diversified portfolio of securities or assets



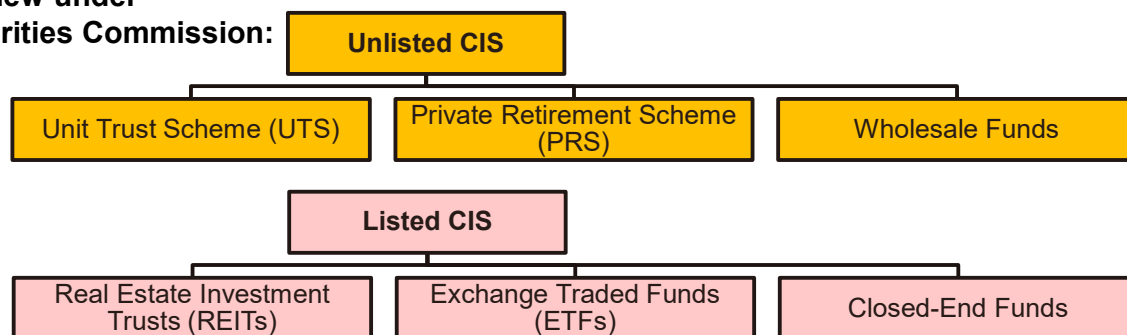
Managed by investment professionals

Also known as a *mutual fund*



Collective Investment Scheme (CIS) in Malaysia:

★ ★ Purview under Securities Commission:



Purview under other authorities:



Investment-Linked Funds

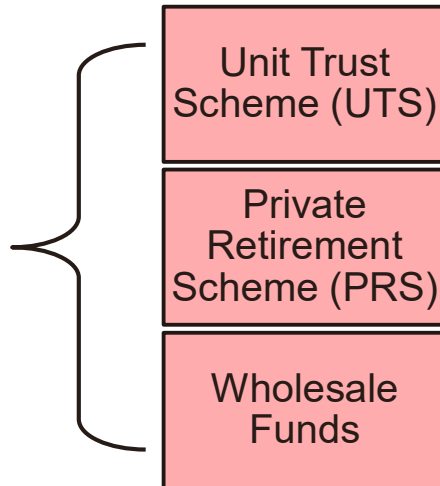
Pilgrims' Fund (Tabung Haji)

Pension & Provident Funds



★ Unlisted CIS

Arrangement
under a trust;
managed by fund
professional



Offered to ***sophisticated investors**:

- Accredited Investors
- High Net Worth Entity (HNWE)
- High Net Worth Individual (HNWI)

*Need not be conducted if the entity has opted out from being subjected to a suitability assessment

<https://www.sc.com.my/api/documentms/download.ashx?id=0fa41de0-425c-4b60-a070-5f596fd2e0b4>



Listed CIS ★★

Real Estate Investment Trusts (REITs)

- Own and manage income-producing commercial real estate.
- Recurring rental income through renting out the space of real estate.
- Alternative to property investment.

Closed End Funds

- Is a listed company that invests in shares of other companies.
- Number of units is fixed.

Exchange Traded Funds (ETFs)

- A fund track or replicate the performance of an index, a commodity, or a basket of assets.
- Transparent and conveniently accessible by investors
- Offers diversification as it invests in all representatives of an index.
- Passive management fund.

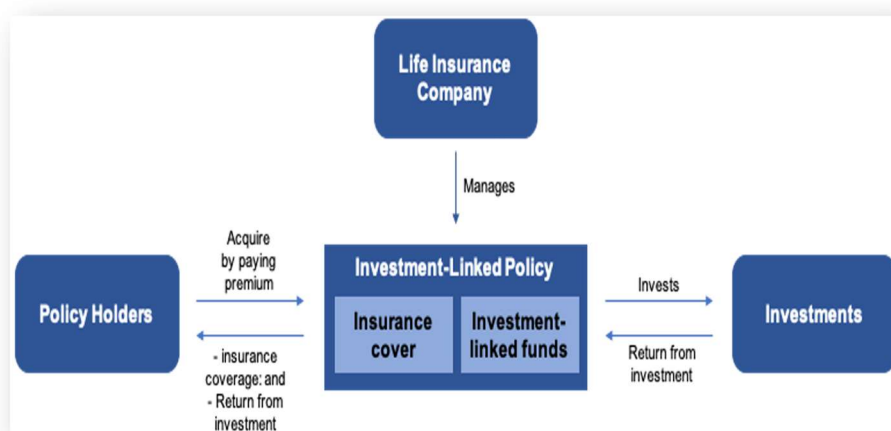


Unlisted vs Listed CIS

Characteristics	Unlisted CIS	Listed CIS
Listing Status	Units are NOT listed on a stock exchange	Units are listed and traded on a stock exchange
Transaction Price	Unit prices are computed based on the underlying assets to determine Net Asset Value (NAV), then dividing no. of units to derive NAV per Unit (NAV/U)	Prices are determined by market forces of demand & supply , market price could vary from the NAV/U
Price Changes	Prices remain unchanged within the same trading day until next valuation point (forward pricing)	Prices fluctuate throughout the day
No. of Units	No. of units (is not fixed) would increase with the creation of units and decrease with the cancellation of units	No. of units remain unchanged until the next issue (e.g. Rights Issue, Private Placement)
Transaction	Through Management Companies	Through stockbroker



★ ★ Characteristics of Investment-Linked Funds



Is not a type of UTS

not required to meet the disclosure provisions within the rules & regulations of the SC

not subject to the monitoring of a Trustee nor the Securities Commission Malaysia

Under the purview of **Bank Negara Malaysia (BNM)**

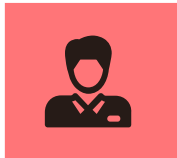
Promoted by **life insurance companies**; Policyholder acquires a life insurance policy, which represents units in an investment pool; Can be purchased with a single premium or regular premium payments.



★ UTS & PRS as an Investment



Bridges the gap between low-risk investments with better returns at an acceptable risk



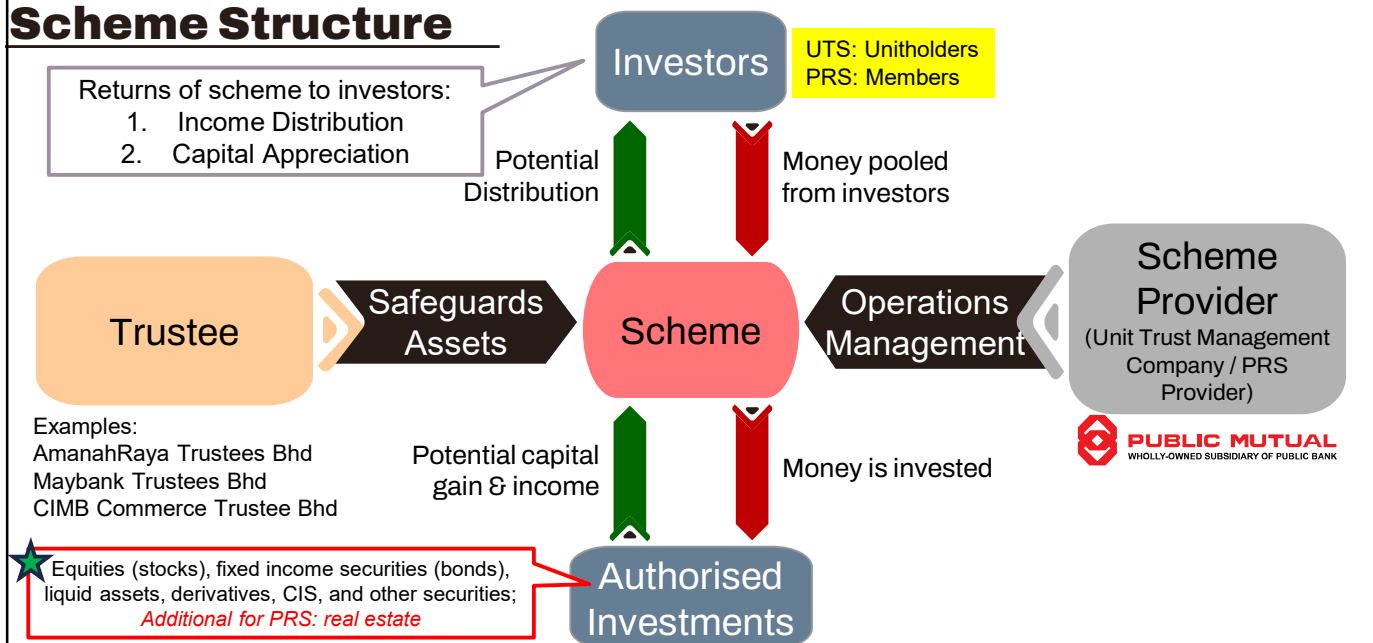
Enable investors to accumulate wealth and manage the impact of inflation in the medium to long term



Ideal investment avenue for investors with limited capital ; do not purchase securities in the portfolio directly



Scheme Structure



Scheme Provider

Key Requirements:

Holder of Capital Markets Services License (CMSL)

Fulfill the requirement of paid-up capital and shareholders' funds

Adequate human resources - necessary qualification, expertise and experience to carry on business

Key duties & responsibilities:

Keep adequate and maintain records of all information

Call for meetings for cases materially affect the interest of investors

Abstain from making improper use of its position to gain advantage

Avoid any conflicts of interest

Scheme Provider

★ Functions may be outsourced by a Scheme Provider:

Function	Details on outsourcing
1. Investment management	- An external Fund Management Company (FMC) is hired to manage the Fund's investments which includes stock selection, research and asset allocation. - The FMC can be either a domestic or foreign licensed company.
2. Fund accounting/Fund administration	This function involves performing valuation of the fund's investments NAV, preparing the fund's financial statements and dealing with the auditor.
3. Register of unit holders	This role is also known as Transfer agency. It involves the maintenance of unit holders' records and details which includes recording subscriptions and redemptions of fund's units.

★ Personnel with Oversight Functions

Board of Directors

- Policies and procedures in place to ensure a sound compliance framework
- Independent directors represent and safeguard the interest of investors

Investment Committee

- Ensure strategies are properly and efficiently implemented
- Actively Monitor, measure and evaluate the fund performance
- Approve the appointment of broker / dealer
- Approve the policies and procedures governing cross-trades
- Not a Shariah adviser of the same fund

Compliance

- Ensure compliance with all requirements
- Responsible for the maintenance of a compliance manual and code of conduct for the employees
- Report directly to the Board of Directors on a regular basis
- Have basic knowledge of Shariah laws and principles
- Report to the Compliance Committee



★ Personnel with Oversight Functions

Shariah Adviser *applicable to Islamic Funds*

- Provide Shariah expertise and advice
- Investment transactions comply with Shariah rulings, principal and concepts by Shariah Advisory Council (SAC)
- Prepare a report to be included in the fund reports

Shariah Committee

- Must be a composition of at least 3 individual Shariah Advisers to form a Shariah Committee

Internal Audit

- Report to Audit Committee
- Report on the adequacy, effectiveness and efficiency of the management, operations, risk management and internal controls

Audit Committee

- Review and report to Board of Director (BOD) on the internal audit framework and function
- Matters highlighted by the audit report are satisfactorily resolved
- Review the fund reports, related party transaction & conflict of interest that may arise



Key Requirements of the Trustee

Registered under:
Trust Companies Act 1949;
Public Trust Corporation Act 1995;
Foreign – Companies Act 2016

Registered with
Securities
Commission
(SC)

Independent to
Scheme
Provider

★ Main Role

Ensures that the Management Company adheres to all requirements stipulated in the deed and offering documents



★★ Functions of the Trustee

Protect investors'
interests

Safeguard assets of
the scheme

Dealing in units
(Creates & Cancels
Units)

Oversight function
and reporting to SC

as the legal owner of all the assets of the
Scheme held on behalf of the investors



The Deed The **Principle Document** that governs Scheme

Outlines the **rights & obligations** of the parties involved:

- Unitholders (for unit trust) or Members (for PRS)
- Unit Trust Management Companies (UTMCs, for UTS) or PRS Providers (for PRS)
- Trustee



Modification of the Deed

- Convene investors' meeting to obtain investors' approval where the interests of the investors may be materially prejudiced by any changes to the deed.
- Examples of changes: fund objective, risk profile, distribution policy, introducing new category of fees or charges, & increase in fees or charges.

Any **changes** made to the original deed through **"Supplementary Deed"**



The Deed

Minimum contents of the Scheme deed



- Covenants of the Scheme Provider
- Covenants of the Trustee
- Joint covenants of the management company and Trustee
- Other provisions including, but are not limited to, creation of the Scheme, particulars of the Scheme, particulars on provisions to be made for investments in assets, particulars on remuneration of the management company and Trustee.



The Deed



The operation of each Scheme is governed by a deed

The deed sets out the rights and obligations of the Scheme Provider (UTMC/PRS provider), Trustee and Investors (unit holders/members).

- The operation of each Scheme (UTS/PRS) is governed by a trust deed
- Provisions and covenants of the trust deed must meet the minimum requirement specified in the UTS Guidelines
- The trust deed sets out the rights and obligations of the Scheme Provider (UTMC/PRS Provider), trustee and investors (unit holders / members)



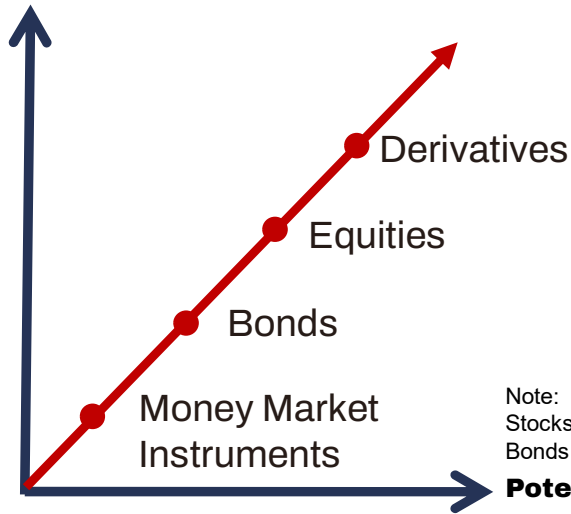
Types / Categories of Funds

- (a) By asset class and funds
- (b) By fund structure
- (c) By risk profile



By asset class and Funds ★★

Potential Return



Funds

Equity Funds

Mainly invest in stocks (listed companies), for capital gain;
Most common fund type.

Mixed Asset / Balanced Funds

Invest in stocks and bonds, for capital gain & income.

Fixed Income Funds

invest in Malaysian Government Securities and corporate bonds, pay fixed rates of returns

Money Market Funds

Invest in money market instruments (no entry & exit fees)

Note:
Stocks = Equities
Bonds = Fixed Income Securities

Potential Risk

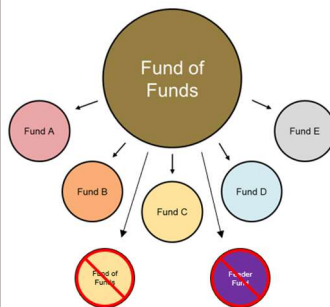


By Fund Structure

Fund of Funds

Invest in Other Funds

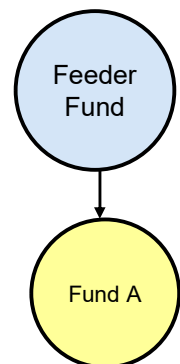
- Invests at least 85% of NAV in **min 5 CIS**.
- Up to 15% of NAV invests in money market instruments, deposits, and derivatives for hedging purpose.



Feeder Fund

Invest in a Target Fund
(Generally foreign funds)

- Invests at least 85% of NAV in **a single CIS** (Target Fund).
- To enable the offer of the foreign-based fund to local investors, which might not be possible due to local regulatory restriction or to take advantage of the foreign expertise.



By Fund Structure

Cont.



Index Fund
Underlying securities of an index

- Objective is to track, replicate to an index with the aim of providing investment **returns that closely match to the index's performance**.
- Referred to as **"Tracker Funds"**.

Government Sponsored UTS
Equities & Fixed Income Instruments

- Fixed Price: RM1 – invests on a balanced basis (equities & bonds).
- Variable Unit Price – mainly invests on Equity.

Shariah / Islamic Fund
Shariah compliant instruments

- Cater for Shariah concerned investors invest in a portfolio of Islamic debt securities (Sukuk), halal companies and Shariah compliant securities.



★★ Shariah-compliant Scheme

Conventional Scheme and Shariah-compliant Scheme may differ in the following areas:

- **Objectives**
- **Investment strategy**
- **Operations and management of the scheme/fund**
- **Documentation**
- **Investment avenue and activities**
- **Accounts and reporting**

The investment strategy would **need to be aligned with the objective of a Shariah-compliant fund within the scope of Shariah principles**.

Scheme provider: **ensure all daily operations of Shariah-compliant scheme comply with all the requirements of the SC and Shariah requirements**.

Compliance and supervisory function relating to Shariah matters are further enhanced by the role played by the schemes' **Shariah Adviser/Committee**.

Shariah-compliant scheme – exposed to **Shariah non-compliance risk** or **Shariah specific risk** – when a Shariah-compliant security is reclassified as a Shariah non-compliant security.



By Risk Profile

Conservative



Low Risk

- Short-term investment
- Conservative approach
- Capital preservation

Moderate



Moderate Risk

- Medium-term investment
- Balanced approach

Aggressive



High Risk

- Long-term investment
- Growth approach
- Capital appreciation



Disclosure Materials to prospects

Prospectus or Master Prospectus:



Unit Trust Scheme

**A copy (soft copy or hard copy)
should be given to potential
investors**

In order to help them make an

★ ★ Informed Decision

★ Disclosure Document:



Private Retirement Scheme



Disclosure Materials

For full details, please refer to FIMM Study Guide (Chapter 4, page 4-4 to page 4-11)

Cover page	▪ Name of the Fund/Scheme, Scheme Provider and Trustee ▪ Date of the prospectus/disclosure document ▪ Date of Scheme's constitution
Inside cover/ first page	▪ Responsibility Statement ▪ Disclaimer Statement ▪ For Islamic Fund, an additional statement by appointed Shariah adviser for the fund
Table of contents, definitions and directory	▪ Lists of all the sections and subsections ▪ Definitions, glossary ▪ Directory
Fund details	▪ Category, investment objective, investment policy and strategies ▪ Distribution policy, performance benchmark
Fees, charges and expenses	▪ List of fees and expenses of the fund ▪ Policy on rebates and soft commissions
Transaction information	▪ Valuation point ▪ Pricing policy ▪ Procedures on transactions



Disclosure Materials

For full details, please refer to FIMM Study Guide (Chapter 4, page 4-4 to page 4-11)

UTMC/ PRS Provider	▪ Corporate profile, board of directors, key personnel for fund management
Trustee	▪ Corporate details ▪ Roles, duties and responsibilities
Salient terms of deed 	▪ Rights and liabilities of the Investors ▪ Maximum fees and charges ▪ removal, replacement and retirement of UTMC/PRS Provider and Trustee ▪ Call for meeting
Taxation of the fund	▪ Detailing the taxation of the fund and tax liabilities of the investors.
Documents available for inspection	▪ Documents available for inspection at the registered office of the UTMC / PRS Provider

Additional for PRS

Contribution and withdrawals	▪ Procedures for contribution, pre-retirement withdrawal subject to tax penalty, switching and transfer (portability)
---------------------------------	---



★ Supplementary or Replacement of Master Prospectus / Disclosure Document

Outdated and/or irrelevant due to changes in rules & regulations

Supplementary

Action

Replacement

- **Corrects** the original prospectus / disclosure document, to **provide details of the significant change**
- Supplementary copy – forms part of the original prospectus / disclosure document
- Consultants must ensure **supplementary** and **original copy** of the prospectus / disclosure document **provided to investors**

- Issued with a replacement prospectus / disclosure document bearing a clear and bold statement stating that it is a replacement prospectus / disclosure document



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PRODUCT HIGHLIGHTS SHEET (PHS)

- A document that sets out the salient features of a fund (Summary of Master Prospectus / Disclosure Document)
- Must be prepared for each fund, except for the **PRS core funds** (covered under **single PHS**) ★
- Information must be clear, concise and effective to make the PHS a reliable source of information to investors
- To facilitate an investor's understanding of the product
- **Key contents:** Responsibility statement; Statement of disclaimer; Brief information on the product, Scheme and Scheme Provider; Product suitability; Key product features; Key risks and others. ★

Must be presented to the potential investor at the initial engagement



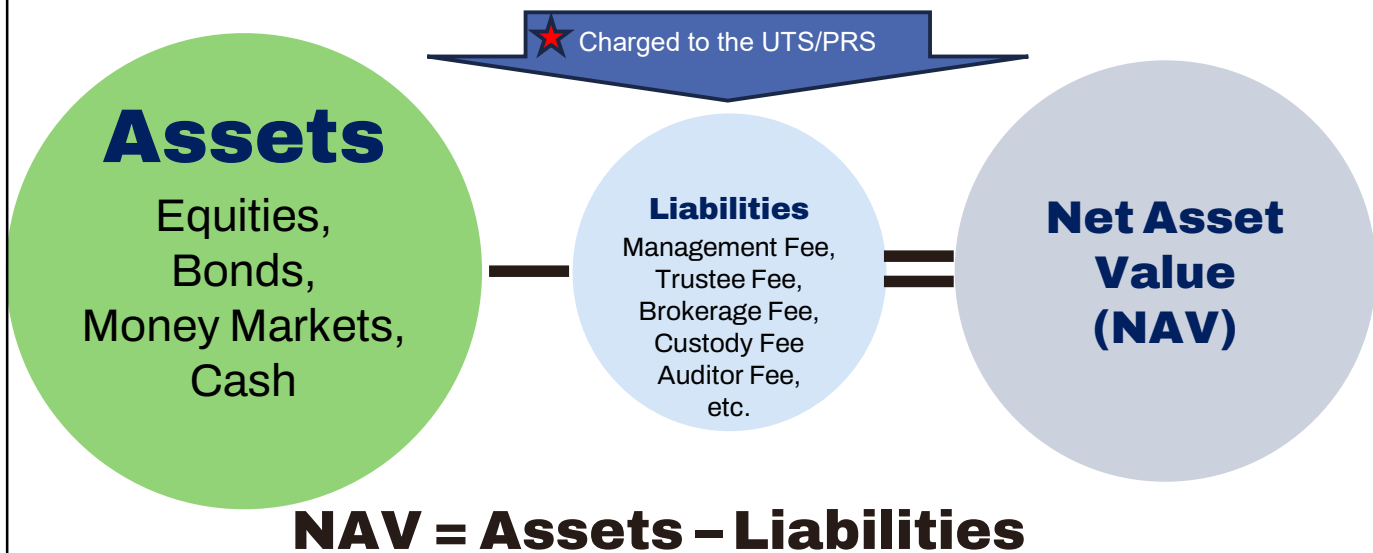
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NAV (Net Asset Value)



Selling and Repurchase Prices (single-pricing regime):

Net Asset Value per Unit (NAV per Unit) ★★

Example:

- Assume ABC Growth Fund :
- Gross Assets Value is RM500,000
 - Net Asset Value is RM490,000
 - Units in circulation is 100,000

Calculate the selling and repurchase prices of a unit.

$$NAV \text{ per unit} = \frac{NAV \text{ of UTS}}{Units \text{ in Circulation}} =$$



Forward Pricing IMS 1 - Dealing Cut-Off Time for Unit Purchases and Redemptions

The NAV per Unit of the fund is based on
the next valuation point

The NAV of the Fund is known after the relevant markets close
(end of the business day)

Dealing Cut-Off Time (DCT) for Unit Purchases and Redemptions:
Same business day-end's pricing must not be later than 4.00 pm.

Any applications received after the DCT will be processed based on the
next business day-end's pricing.



Forward Pricing

Valuation point: 3pm every business day.

Submit a request on the 5th of July 2021 at 2:30pm.

Below is the daily ABC Bond Fund NAV/U:

- 4 July 2021 - RM 0.8825
- 5 July 2021 - RM 0.8944
- 6 July 2021 - RM 0.9786
- 7 July 2021 - RM 1.0955

Investment: RM10,000

No of units entitled?



Methods of Investing



Cash	EPF Members Investment Scheme (EPF-MIS)
➤ For UTS & PRS	➤ For approved UTS

Ways of Investing:

- Lump Sum
- **Regular Savings**
- Reinvestment of Income Distributions



EPF Members Investment Scheme

Age below 55 – transfer from Account 1

★ *EPF Investment Amount =*

$$(Account\ 1 - Basic\ Savings) \times 30\%$$

Age 55 and above – withdrawal from Account 55 or Account Emas

Any amount in Account 55 or Account Emas but must retain at least RM1,000 in the account

Redemption proceeds

Before Age 55

- return to EPF Account 1

After Age 55

- credit to investor's bank account

Mr Wong is 56 years old and has RM10,000 in his Account Emas. He is interested to invest in XYZ Fund which is an EPF-MIS approved fund. What is his withdrawal eligibility amount to invest in the Growth Fund?

Note: The minimum investment amount is RM1,000.



★ EPF Members Investment Scheme

Q1: 22 years old
Basic saving: RM 10,000
Account 1: RM 15,000
Maximum investment withdrawal amount?

Answer:

Q2: 52 years old
Basic saving: RM 212,000
Account 1: RM 215,000

Answer:



Loan Financing

- A **leveraging** method in investment
- Normally provided by a panel of UTMC-approved lenders.
- Consultants do not encourage the purchase of units using loans.

★ **Leveraging:**

Borrowing an investment loan to gain maximum exposure

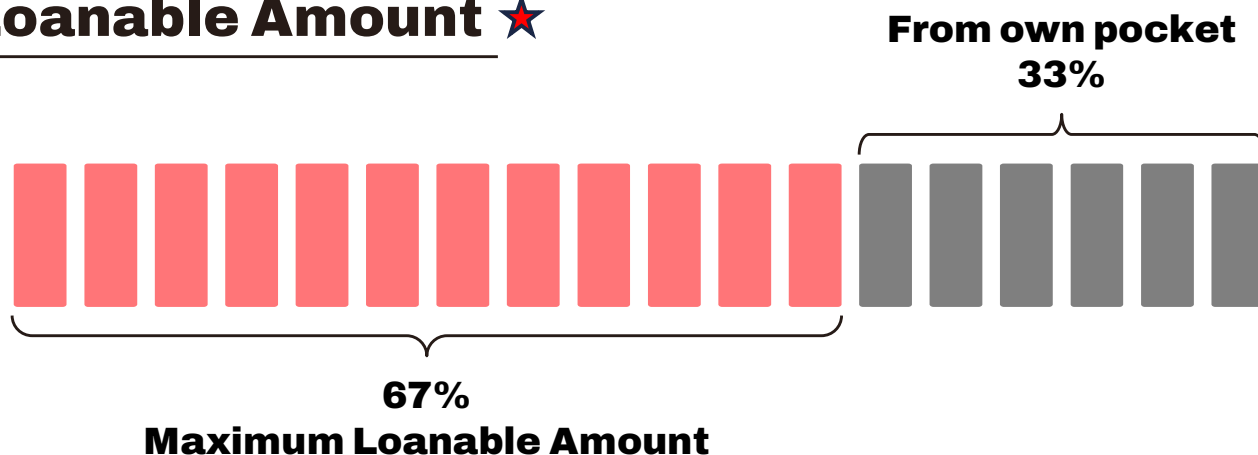
Borrowers expect that the investment rate of return will **exceed** the borrowing cost

Potential to provide additional profit

UTMC = Unit Trust Management Company



Loanable Amount ★



E.g. With a total investment of RM 200,000 with loan:

67% of RM 200,000 = RM 134,000 Maximum loanable

33% of RM 200,000 = RM 66,000 From own pocket



Borrowing Risks ★

01 Interest Rate Fluctuations

- Loan payment will increase if interest rates increase

02 Default in Loan Repayment

- The lender is entitled to liquidate the UTS if the borrower defaults on the loan repayment

03 Premature Loan Repayment

- May adversely affect the expected returns as investors may face a high risk of capital loss if they repay the loan early and sell UTS units. May also be subject to a penalty if the loan is settled during the lock-in period.

04 Margin Call

- The amount an investor has to pay his/her financier if the credit exposure of the unit trust loan falls below a certain level



Risk Disclosure Statement

1

A document to be signed by the investor (borrower)



2

Protects the interests of UTMC and UTC in disputes



3

higher margin of finance, higher potential loss/gain



4

Loan payments will increase if interest rates rise



5

Margin calls may be requested in addition to normal payments



6

Returns are not guaranteed



02



Regulations & Distribution Channels



Major elements of regulation

Protection of
investors'
interest

Proper
disclosure to
investors

Control over
market
participants

Prevent
improper market
practices



★ Main Regulator



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Mission:

To promote and maintain fair, efficient, secure and transparent securities and derivatives markets; and facilitate the orderly development of an innovative and competitive capital market.

- *Regulatory body for capital markets, including UTS & PRS industry.*
- Ensure proper functioning of the UTS and PRS industry to *develop capital market* stability and protect investors.
- *Ensuring proper conduct of all market participants* and take enforcement action.
- *Approving authority for all capital market activities*, such as issuance of shares, corporate bonds, etc.

Regulating & supervising:

- Management Companies (Scheme Providers)
- Schemes
- Distributors and Consultants
- Scheme Trustees
- Employer Trustees
- Private Pension Administrator (PPA)



Capital Markets & Services Act 2007 (CMSA 2007)

Section 92A(1) of the CMSA specifies the information that must be provided to a person who invests in a Scheme.



This may include information that explains the key characteristics of the capital market product, the nature of obligations assumed by parties dealing in the product, risks associated with the products and details of the essential terms of the product.

Failure to observe this requirement could result in *a fine not exceeding RM3 million, or imprisonment for a term not exceeding ten (10) years, or both.* ★



★ Self Regulatory Organisation (SRO)



Mandated by the SC to oversee the marketing & distribution activities of UTS & PRS.

Primary objectives

- Represents the industry on matters and concerns affecting the industry and embarks on projects to promote industry growth.
- Responsible to enhance the professional standards of Consultants and maintain public's confidence.
- Formulation of sound and ethical business practices, promote best practices in marketing and distribution of schemes, and enhance professionalism among distributors and consultants.
- Develop rules, guidelines and standards undertaken by distributors and consultants.
- Conduct exams and register candidates who pass as authorised consultants.
- Work closely with SC and the industry in development and growth of the UTS and PRS industry.



Core Principles of FIMM's Code



Video:
FIMM's
Code of Ethics

<https://www.youtube.com/watch?v=tkspvhAIFv0>

For full details, kindly refer to FIMM Study Guide [Chapter 5: Code of Ethics], from page 5-5 (section 5.18) to page 5-8 (section 5.33)



Core Principles of FIMM's Code (cont.)

Prohibited Conduct

Core Principle 1: Honesty and Integrity ★★

- *misappropriating investors' funds*
- commit forgery including forging signature of an Investor or any other person
- falsifying documents
- making false or exaggerated statements
- *using unauthorised designations, titles or qualifications*
- dealing in any Schemes or investment product, amongst others, those that are not authorised, licensed or recognised by the securities laws

Core Principle 2: Professionalism ★

- engage in aggressive and offensive sales practices
- *accept cash from investors*
- *allow any investor to transfer money or issue a cheque to any banking account other than the Distributor's account*
- execute transactions based on *pre-signed or pre-thumbprint forms*
- churning by executing excessive redemption and purchase of Schemes using the same investment proceeds into one or more funds
- make negative or unwarranted statement that may actually or likely to adversely affect the reputation of the industry and its stakeholders including FIMM and the SC
- encourage investors to invest in UTS or PRS through loan financing etc
- use advertisement and promotional materials which do not comply with the requirements of the SC Guidelines



Core Principles of FIMM's Code (cont.)

Prohibited Conduct

Core Principle 3: Avoidance of conflict of interest ★

- performing any switching transaction for an investor to generate sales commission or gain other benefits which are not in the best interest of the investors
- Where conflict of interest cannot be avoided, consultants have a responsibility to disclose the conflict to their investors in writing, be it *real or potential*.
- Consultants must prioritise investors' interest in the event of conflict

Core Principle 4: Disclosure of information ★★

- providing any forecast of any Scheme's performance
- making statements on yields or returns without any objective and reasonable basis
- concealing any information about a Scheme when comparing it with other Schemes
- providing information on matters which they are not competent to deal with or knowledgeable about

Core Principle 5: Observance of confidentiality

- disseminating or exchanging investors' personal and financial information with other Distributors, Consultants or any other party or requesting or procuring such information from them as prescribed by the Personal Data Protection Act (PDPA)



★★ Compliance Culture

A strong compliance culture assists the Consultants in carrying out their functions, for example in:

- **reducing client complaints and the costs of restitution** (note: 'costs' include time in resolving complaints and putting things right)
- **reducing risk of litigation** by clients (with all its associated penalties and costs)
- **attracting clients and retaining clients** by creating trust and confidence in their dealing with the clients
- in keeping Consultants up to date with current market developments and **enhancing the Consultants' professional standards** by attending compliance training



★ ★ **Non-compliance with the FIMM Code**

FIMM may take disciplinary or other appropriate action against Distributors and Consultants who fail to comply with any provision of the FIMM'S Code. They shall also be regarded as having committed a misconduct if they:

- Attempt to commit a misconduct under the FIMM's Code
- Commit an act preparatory to or in furtherance of the commission of a misconduct under this Code
- Abets the commission of a misconduct under the FIMM's Code, where they:
 - (a) instigate or instruct anyone to commit misconduct
 - (b) engage with anyone in any conspiracy to commit a misconduct
 - (c) intentionally aids the commission of a misconduct



★ **Investigation by FIMM**

FIMM will carry out an investigation upon receiving a complaint from an investor. FIMM may:

- Require the Consultant, Distributor and the employees and agents of Distributor to provide a written response to the allegation and matters raised by FIMM
- Record statements from the Consultant, Distributor and the employees and agents of Distributor in relation to the investigation, or from such other person who may assist in the investigation
- Require the Consultant, Distributor and the employees and agents of Distributor to procure information, documents, books and records and make copies or extracts of the same for FIMM





Other Regulators



COMPANIES COMMISSION OF MALAYSIA

- Ensuring companies and businesses comply with **business registration** and **corporate legislation**.
- Regulates the activities of all companies and businesses within Malaysia including **Distributors and Scheme Trustees**.



- **Promote monetary and financial stability**, providing a conducive environment for the **sustainable growth** of the Malaysian economy.
- To promote **reliable, secure and efficient clearing, settlement and payment systems** in the UTS and PRS industry.
- Overseeing the **foreign exchange** markets.



- Facilitating secure and easy **access to investments and fundraising**.
- Ensuring listed issuers and intermediaries meet their regulatory obligations to uphold investor protection, **market integrity and stability**.



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Regulations and Guidelines

Issued by SC



- Capital Markets & Services Act 2007 (CMSA2007)
- PRS Regulations
- Guidelines on Unit Trust Funds
- Guidelines on PRS
- Eligibility Requirements for PRS Providers
- Guidance Notes on Liquidity Risk Management for Fund Management & Unit Trust Management Companies
- Licensing Handbook
- Other Applicable Guidelines

Issued by FIMM



- ★ FIMM Consolidated Rules (FCR) - a consolidation of guidelines, By Laws and guidance notes previously issued by FIMM in relation to marketing and distribution of Schemes that are required to be observed by Distributors and Consultants; sets out the registration requirement for Distributors and Consultants, fit and proper criteria for registration, matters relating to examination and assessment, continuing professional development programme for Consultants and investigation and disciplinary proceedings;
- Investment Management Standards (IMS) - a series of standards that cover specific operational issues which must be complied by all Distributors in their operations, unless exemption or variation is given;
- Code of Ethics - provides for the ethical standards and professional conduct of Distributors and Consultants;
- Registration Manual – sets out the procedures relating to the registration of Distributors and Consultants pursuant to FCR;
- Guidance on Simple Language and Effective Drafting Practices for Prospectus - assists FIMM Members in complying with the Prospectus Guidelines for CIS issued by the SC.



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Guidelines on Advertising for Capital Market Products and Related Services (Advertising Guidelines) ★

These guidelines apply to the following persons who issue or authorise an advertisement or a promotional activity relating to a capital market product or capital market service:

- (a) An issuer of a capital market product;
- (b) A person carrying out the regulated activity;
- (c) A person who provides a capital market service; or
- (d) A person who operates or maintains a recognised market.

★ Minimum standards set out in the Advertising Guidelines

Consultants are expected to observe the following:

- a) Provide clear, fair and balanced information.
- b) Treat investors fairly at all times.
- c) Ensure advertisements fit their investors and can easily be understood
- d) Content of advertisements are consistent with information disclosed in prospectus, disclosure document and PHS
- e) Take reasonable measures to inform investors that the advertisement is subject to any relevant warning, disclaimer, qualification or terms and conditions

Dispute Resolution – Financial Markets Ombudsman Service (FMOS)

Consolidation of:

Ombudsman for Financial
Services (OFS)

+

Securities Industry Dispute
Resolution Centre (SIDREC)

Financial Markets
Ombudsman Service
(FMOS)

Established on

1st Jan 2025, *appointed by Bank
Negara Malaysia (BNM) &
Securities Commission (SC)* to
provide resolution services to
financial consumers and investors

Resolve disputes between **financial consumers and financial service providers** in an independent, fair and timely manner.



FMOS handles disputes by investors against licensed or registered financial service providers or capital market Intermediaries involved in the following activities but not limited to:

- I. Securities
- II. Fund Management
- III. Investment-linked funds
- IV. Derivatives



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Distribution Channels

UTMC & PRS Provider (Scheme Provider)

- Tied-Agent
- Employees

*Registered with FIMM

IUTA & IPRA#

IUTA = Institutional UTS Adviser
IPRA = Institutional PRS Adviser

- Tied-Agent
- Employees or independent individual

*Registered with FIMM



CUTA & CPRA

CUTA = Corporate UTS Adviser
CPRA = Corporate PRS Adviser

Employees or independent individual of CUTA/CPRA licensed by SC to carry out **financial planning activities**

*Registered with FIMM

If also a
Scheme
Provider

Non scheme
provider but
CMSL Holder

Agency Units

- Not exceed 4 tiers: Agent > AS > AM > GAM
- Size: not more than 50 persons
- Agent cannot recruit

Agency Units

- Not exceed 3 tiers: Agent > AS > AM
- Size: not more than **36 persons**
- Agent cannot recruit

UTMC = Unit Trust Management Company
PRS Provider = Private Retirement Scheme Provider

CMSL = Capital Markets Services License
AS = Agency Supervisor; AM = Agency Manager; GAM = Group Agency Manager

Consultant's Requirements

At least 21 years old

Min. Qualification: 3 credits in any SPM subjects

Pass FIMM Exam (unless exempted)

Fit and Proper:

(a) honesty, integrity and reputation

(b) Competence and capability

(c) Financial soundness and solvency



Any former Consultant who has left the UTS/PRS industry for more than 3 years must sit for FIMM examination if he intends to re-register as a Consultant.



REGISTRATION OF CONSULTANT

- Represent only 1 principal & must only deal in the Schemes of his Principal or those distributed by his Principal
- IUTA & IPRA: full-time employees register as consultants
- CUTA & CPRA: full-time employees who hold a CMSRL register as consultants
- Renew license before 31st December of each calendar year

IUTA = Institutional UTS Adviser
IPRA = Institutional PRS Adviser

CUTA = Corporate UTS Adviser
CPRA = Corporate PRS Adviser

CMSRL = Capital Markets Services
Representative's License



SUSPENSION & REVOCATION OF CONSULTANT

Registration of consultant will lapse if:

- The registration of his principal is **revoked**
- The registration of his principal is **suspended**
- His principal **ceases operations**



Responsibility of Consultants

I'm a good consultant

act with honesty, integrity and dignity, and conduct in a professional and ethical manner

treat investors fairly, with respect and disclose all pertinent information, act in the best interest of investors

not guaranteed any future performance

FIMM website: show proof of authorised consultant (registration with FIMM)

undertake a suitability assessment before recommending any fund(s) to investors

disclose the documents or information in an open and co-operative manner as and when required by FIMM or other regulatory authorities



Delivering Quality Service

1. Know your products well

2. Manage the expectations of the investors

3. Investment advice:

(a) Investor's investment goals

(b) Investor's investment horizon

(c) Investor's investment portfolio

(d) Age, personal circumstance and risk tolerance

Make sure the investors understand what they are investing in

Ensure that the total transaction time, from start to finish, is reasonable

Inform the investors about the processes involved in the purchase of units

Be responsive to investors' requests and queries

Reasonable basis for personal advice in 4 Steps

1. Gather sufficient Information

4. Match products that are suitable

2. Information gather is accurate & complete

3. Review the information gathered

In the event that a consultant is **unable to match** and recommend a scheme that would likely meet the investor's investment objectives and needs, the consultant must:

- (a) Not make a recommendation; and
- (b) Explain to the investor including the reasons for lack of suitable schemes.

★ Consultants' Role in Investment Planning

- putting investment planning in perspective by educating clients that investment decisions are preceded and based on investment strategies that are established to meet their financial goals within a certain time frame
- educating clients regarding the risk, liquidity, tax and management characteristics of the investments to help them manage their investment risk and undertake the appropriate strategies necessary to achieve their financial goals
- advising clients on the use of credit risks and the costs involved, investment decisions related to corporate plans, and investment strategies such as dollar cost averaging; and
- discussing and recommending appropriate UTS and PRS products



★ ★ Specific activities of the Consultants in investment planning

- determine the client's financial objectives and order of importance;
- analyse the client's financial position and cash flow. Suggest changes to improve the client's cash position and analyse priorities, if necessary;
- determine the client's priorities for the allocation of financial resources among stated non-investment objectives, such as the amount of emergency funds and the acquisition of additional insurance;
- calculate the remaining assets that will be available to meet investment goals;
- gather and analyse the data necessary for developing the client's investment profile, including indications about the client's general disposition toward risks;
- determine the risk and return characteristics of the client's current investments;
- state the financial assumptions;
- determine the adequacy of the client's resources for achieving stated investment goals and analyse the appropriateness of the client's current investment strategies. If resources are insufficient, consider revising the allocation of resources, changing goals, or using investments with higher risks and yields that are acceptable by the client.

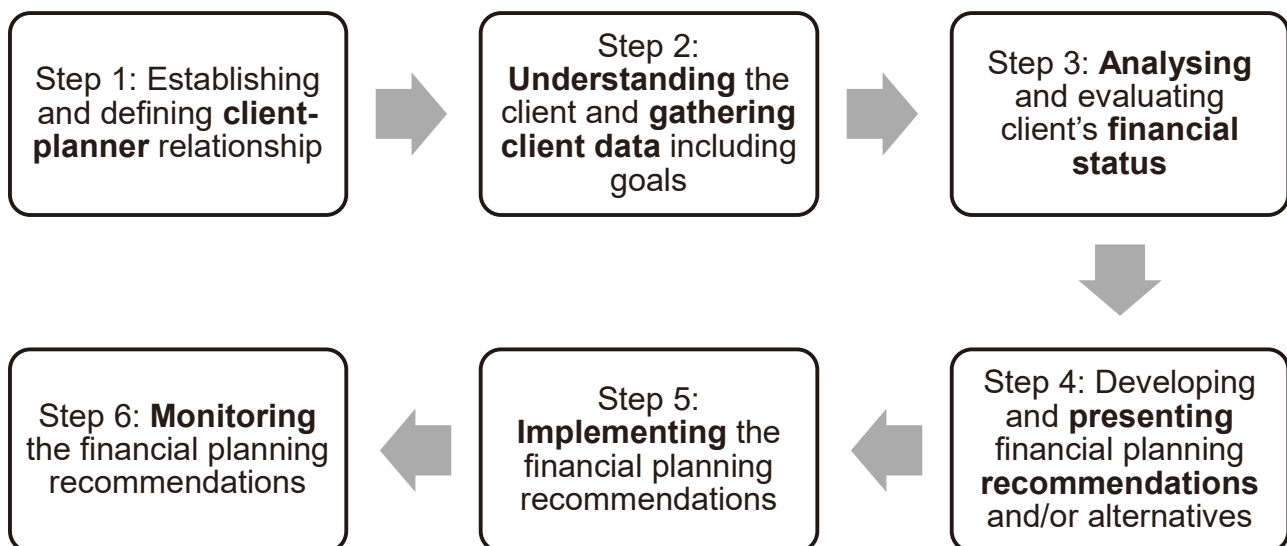


What is Financial Planning? ★★☆☆

- **Analysing a person's financial circumstances and providing a plan to meet his/her financial needs and objectives**
- Improve or maintain present and future lifestyle
- Protect and minimise the impact on assets from uncertainties
- Ensure having adequate income during retirement



★★ Steps in Financial Planning



Personal financial planning★

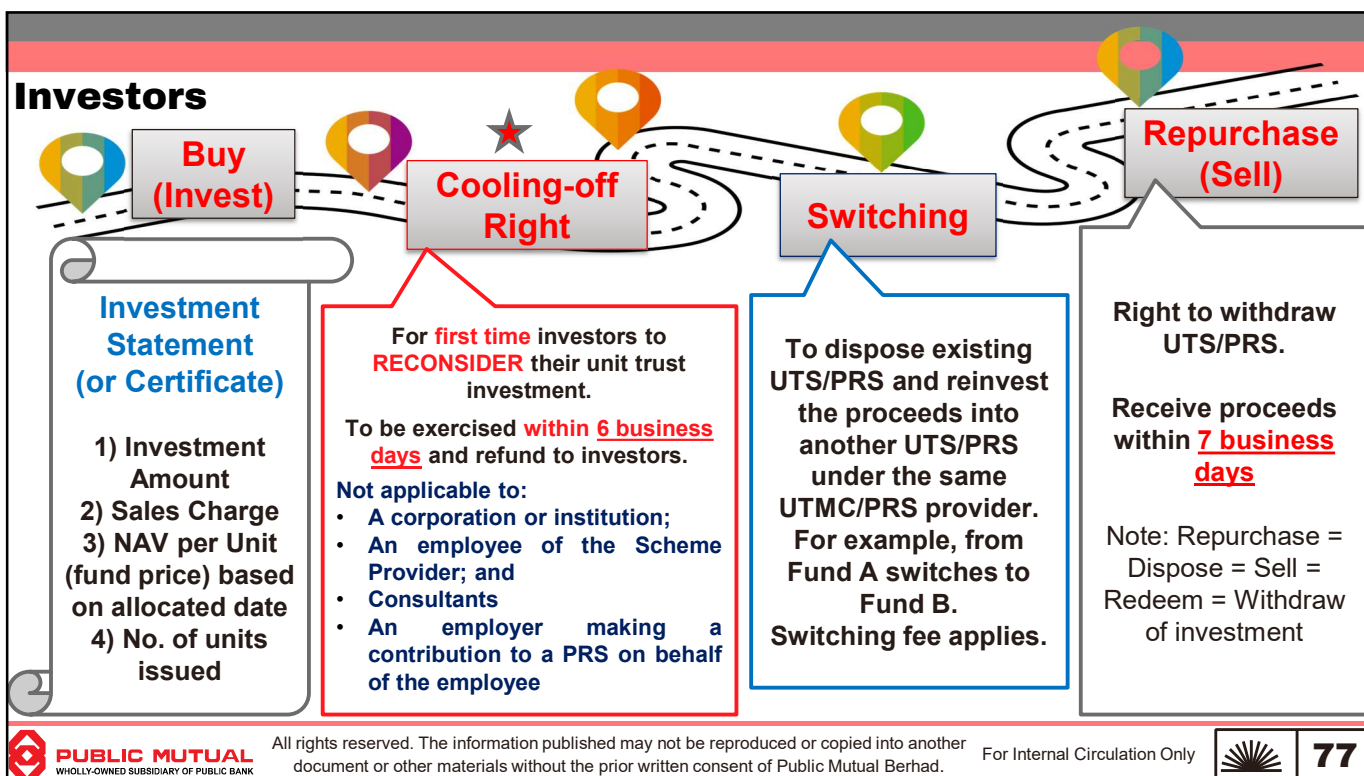
- Involves an understanding of a client's financial affairs, goals and personal objectives.
- Requires the application of technical, communication and other interpersonal skills.
- Involves a relationship with other professionals appointed by a client.
- A financial planner cannot be an expert in all the technical aspects necessary to produce an appropriate personal financial plan and must interact with other professional advisers
- Liaison with all these professionals would be an important part of ensuring that the client's personal financial plan can be completed.

Difference between Consultant & Financial Planner

Title	Consultant	Financial Planner
Licensing required	✓ Consultant License (Registered with FIMM)	✓ CMSL/CMSRL License (by SC) ✓ Consultant License (Registered with FIMM)
Product offering	✓ Single purpose financial planning (offering UTS & PRS only)	✓ Comprehensive Financial Planning (offering wide range of financial & investment products)
Income scheme	✓ Generally commission-based	✓ Advisory fee (based on time spent or size of the portfolio) / service-based reward / commission



The main reason for the financial planning industry to shift from a commission-based payment to charging advisory fees due to commission-based payment which is transaction-driven, makes it inappropriate when advising clients on setting and achieving financial goals



Register of Investors and Account Maintenance

The Register contains a large amount of personal data relating to each investor.

★ Investors may from time-to-time request that the personal data in the Register be updated for, among others:

- A change of mailing address and/or email address
- The issuance of a new Identity Card number
- A change of name
- The opening of new bank account
- A change of distribution reinvestment instructions

Fees & Charges

★★ Direct

Service Charge
Repurchase Charge / Exit Fee
Switching Fee
Transfer Fee



Indirect

Annual Management Fee
Annual Trustee Fee
Fund Operations Expenses



The Effect of Charges on Investment Capital



The amount invested after service charge is applied

$$\text{Working Money} = \frac{\text{Capital}}{1 + \text{Service Charge}}$$

Case Study

Investor A invests RM 5,000. If the service charge is 5%, what is the working money & service charge amount?

$$\text{Working Money} = \frac{\text{RM5,000}}{1 + 0.05}$$

$$\text{Working Money} = \text{RM } 4,761.90$$

$$\text{RM5,000} - \text{RM4,761.90} = \text{RM238.10}$$

$$\text{Service Charge} = \text{RM } 238.10$$



★ Benefits

Diversification	A fund itself is diversified via investments in different companies and assets to build a portfolio. Spreading of risk over a wide range of broad portfolio within a fund.
Valuation & Liquidity	Units can be bought & sold easily; Proceed of disposal: within 7 business days.
Professional Management	Experienced and qualified fund managers.
Investment Exposure & Investment Costs	Exposure to foreign markets and selected assets (e.g. Bond & Real Estate) which out of reach of investors with small capital or without the right resources & experience. Economies of scale applied, enjoy institutional rate.
Meeting investors' long term needs	Objectives include home purchase, education fund & retirement fund.
Affordability & ease of purchase	With an investment as low as RM10.



Benefits (cont) ★ Dollar Cost Averaging (Regular Saving)

Systematic & regular investment with fixed amount of RM, helps to lower down the average cost per unit

$$\text{Avg Cost/Unit} = \frac{\text{Total Investment Amount}}{\text{Total Units}}$$

$$\text{Avg Cost per Unit} = \frac{\text{RM30,000}}{6,850 \text{ units}}$$

$$\text{Avg Cost per Unit} = \text{RM 4.38}$$

Unit Price (RM)	Investor A: Investing fixed no. of units		Investor B: Investing fixed amount of RM (DCA)	
	Fixed units	Total Cost (RM)	Fixed amount (RM)	Units
10	1,000	RM10 x 1,000 = RM10,000	6,000	6,000 ÷ 10 = 600
4	1,000	RM4 x 1,000 = RM4,000	6,000	6,000 ÷ 4 = 1,500
8	1,000	RM8 x 1,000 = RM8,000	6,000	6,000 ÷ 8 = 750
6	1,000	RM6 x 1,000 = RM6,000	6,000	6,000 ÷ 6 = 1,000
2	1,000	RM2 x 1,000 = RM2,000	6,000	6,000 ÷ 2 = 3,000
TOTAL	5,000	RM30,000	RM30,000	6,850
Average cost per unit	= Total Cost ÷ Total Units = RM30,000 ÷ 5,000 = RM6.00		= Total Cost ÷ Total Units = RM30,000 ÷ 6,850 = RM4.38	



Dollar Cost Averaging

Case Study



Mr. Dave invested **regularly** for the past 3 months. His total investment is RM 4,500. What is the average cost per unit of his investment?

Formula

$$\text{No. of Units} = \frac{\text{Investment Amount}}{\text{NAV per Unit}}$$

$$\text{Avg Cost/Unit} = \frac{\text{Total Investment Amount}}{\text{Total Units}}$$

Month

NAV per unit

April	RM0.50
May	RM0.60
June	RM0.70



Dollar Cost Averaging

$$\text{No. of Units} = \frac{\text{Investment Amount}}{\text{NAV per Unit}}$$

Month	NAV per unit	Regular investment	Units
April	RM0.50	RM1,500	
May	RM0.60	RM1,500	
June	RM0.70	RM1,500	
Total		RM4,500	

Dollar Cost Averaging
(Average Cost per Unit)

$$= \frac{\text{Total Investment Amount}}{\text{Total Units}}$$

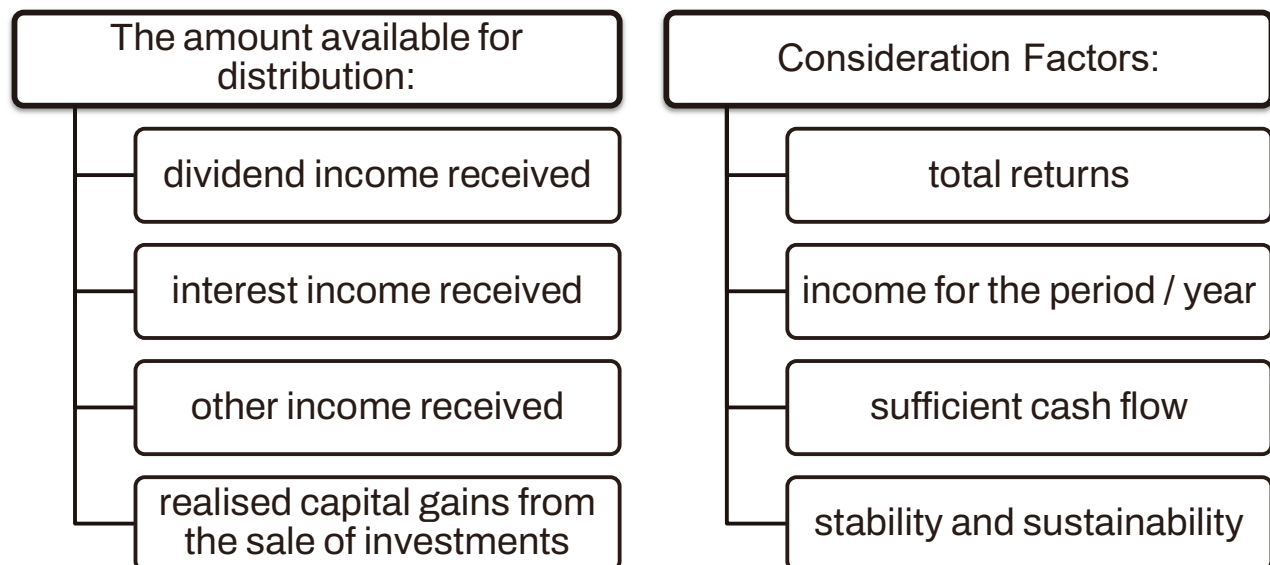


03

Distributions & Returns



Sources of Income Distribution & Factors



Income Distribution

CUM-NAV per unit (Cum-D)

NAV per unit *before* distribution

EX-NAV per unit (Ex-D)

NAV per unit *after* distribution

$$(EX \sim D) = (CUM \sim D) - Distribution$$

Example:

ABC Growth Fund declares a distribution of 10 sen per unit. The Fund's NAV is RM180 million with 100 million units in circulation. Does the distribution make a unitholder wealthier?

NAV per Unit before distribution

NAV before the distribution	RM180,000,000
Units in circulation	100,000,000 units
NAV per unit before the distribution	RM1.80

NAV per Unit after distribution

NAV after the distribution (RM180,000,000 – RM10,000,000)	RM170,000,000
Units in circulation	100,000,000 units
NAV per unit after the distribution	RM1.70

Unit price
will be
**adjusted
lower**

Example: ★★

A unit holder in UTS, after receiving a distribution, would find that the NAV of his or her investment falls by the amount of that distribution. The following table shows the unit holder's position before and after the distribution payment assuming the unit holder owns 1,000 units in the UTS:

Before distribution payment	After distribution payment
$\begin{aligned} \text{NAV for 1,000 units} \\ &= 1,000 \text{ units} * \text{RM1.80 per unit} \\ &= \text{RM1,800} \end{aligned}$	$\begin{aligned} \text{NAV for 1,000 units} \\ &= 1,000 \text{ units} * \text{RM1.70 per unit} \\ &= \text{RM1,700} \end{aligned}$
	$\begin{aligned} \text{Distribution received} \\ &= 1,000 \text{ units} * 10 \text{ sen per unit} \\ &= \text{RM100} \end{aligned}$

Case Study

En Ali raised a concern on his Fund investment where the fund's NAV per unit will be lower after a distribution is declared.

As a UTC, what's is the best way to respond to this investor?

Explain to the investor that the unit holder's position before and after distribution is the same.



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Income Distribution ★

Practice

1) CUM-NAV per Unit

Case Study

NAV Cum-distribution of Fund A is RM 150mil.

Units in circulation is 100mil.

A distribution of RM 0.50 per unit was declared.

- 1) What is the NAV per unit of Fund A Cum-D?
- 2) What is the NAV per unit of Fund A Ex-D?
- 3) A unitholder holding 2,000 units, how many units after distribution if distribution were reinvested?

2) $EX-D = CUM-D - Distribution$

3) $Total\ units = Current\ units + Add\ units$



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Income Distribution ★

Practice

1) CUM-NAV per Unit

Case Study

NAV Cum-distribution of Fund B is RM 350mil.

Units in circulation is 250mil.

A distribution of RM 0.25 per unit was declared.

1) What is the NAV per unit of Fund B Ex-D?

2) A unitholder holding 2,000 units, calculate investment value based on ex-D?

$$EX-D = CUM-D - Distribution$$

2) Investment Value = $Ex - D \times units$



Unit Split

1:3

For every **3** units I hold,
I get **1** additional unit.

End Result: 4 Units

1:10

For every **10** units I hold,
I get **1** additional unit.

End Result: 11 Units



To reward existing investors with more units,

Reduce the stated selling and repurchase prices & maintain a lower unit price (to attract more investors).



Unit Split ★

$$\begin{array}{c}
 \text{1} : \text{2} \xrightarrow{+} \text{3} \\
 \text{Original} \\
 \text{Units} = \text{Units After Split}
 \end{array}$$

$$\begin{array}{c}
 \frac{\text{3}}{\text{2}} \xrightarrow{\text{Original}} \frac{\text{2}}{\text{3}} \\
 \text{NAV per Unit} \\
 = \text{NAV per Unit after split}
 \end{array}$$



Unit Split

An investor has **100 units** with an **NAV per Unit of RM 0.25**

The UTMCI declares a Unit Split of **1:4**

		Before Unit Split	After Unit Split
1:4 Units $\rightarrow \frac{5}{4}$ NAV per Unit $\rightarrow \frac{4}{5}$	Units	100 Units	$\frac{5}{4} \times 100 = 125 \text{ units}$
	NAV per Unit	RM 0.25	$\frac{4}{5} \times 0.25 = \text{RM } 0.20$
	NAV	$100 \times 0.25 = \text{RM } 25$	$125 \times 0.20 = \text{RM } 25$





Unit Split

Case Study

A Fund's NAV is **RM100 million** and has **100 million units** in circulation. The UTMC declares a unit split of **1 : 4**. Calculate the below:

NAV before Unit Split	RM 100 million
Units in circulation	100 million
NAV per unit	
NAV per unit after the Unit Split	
Units in circulation after Unit Split	
NAV after the Unit Split	



Example: ★

ABC Growth Fund managed by the UTMC declares a split of 1:2 (e.g. 1 additional unit for every 2 units held). An investor with a holding of 1,000 units will receive an additional 500 units, resulting in a total of 1,500 units after the unit split. Does this make the investor better off?

Calculation of NAV per Unit before the split

NAV before the split	RM180,000,000
Units in circulation before the unit split	100,000,000 units
NAV per unit	RM1.80

Calculation of NAV per Unit after the split

NAV after the split	RM180,000,000
Units in circulation after the unit split (100,000,000 + 50,000,000)	150,000,000 units
NAV per unit	RM1.20

Number of units increase & unit price will be adjusted lower

An Investor holding 1,000 units before the 1:2 unit split has an investment value of RM1,800 (1,000 x RM1.80). After the unit split, the investor will hold 1,500 units valued at RM1,800 (1,500 x RM1.20). The unit split **does not increase the total investment value** on the day of the unit split.



Unit Split

NAV per unit	
Units in circulation	
Total value	

May conduct unit split exercise once in any financial year of the fund and when the monthly average **NAV per unit** of the fund has shown a **sustainable appreciation over a 6-month** period preceding the unit split exercise.



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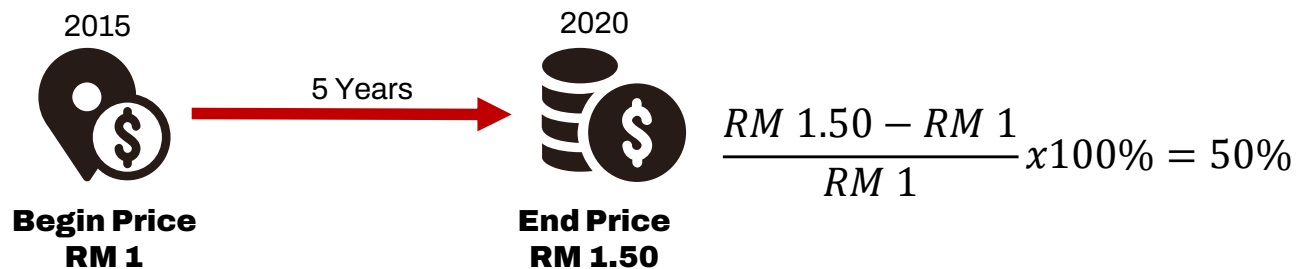
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Raw Return (Total Return)

$$\text{Raw Return} = \frac{\text{End price} - \text{Begin Price}}{\text{Begin Price}} \times 100\%$$



Raw Return (or Total Return) over 5 years = 50%



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Compound Annual Growth Rate

- Standardised measurement for different investment holding periods.
- ★ **More meaningful measurement of investment performance**

Measurement of an investment's annual growth rate over time,
with compounding taken into account

$$\text{Future Value} = \text{Present Value} (1 + \text{Rate})^{\text{Years}}$$



Compound Annual Growth Rate

Case Study

A UTS produced a 75% total return over a period of 5 years.

Assume there is a lump sum investment of RM 100,000.

What is the compound annual growth rate?

Formula

$$\text{FV} = \text{PV}(1+i)^n$$

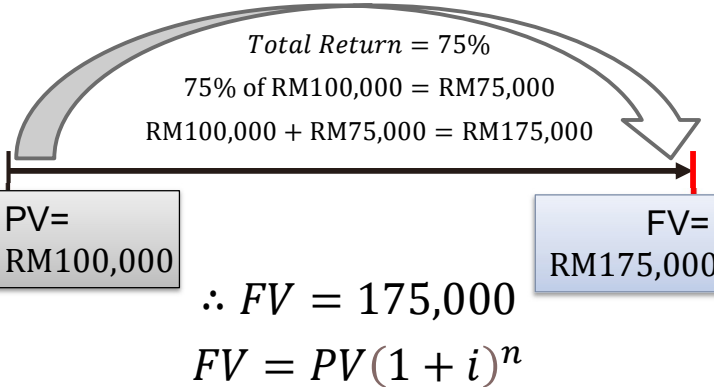


Compound Annual Growth Rate

Case Study

A UTS produced a 75% total return over a period of 5 years. Assume there is a lump sum investment of RM 100,000.

What is the compound annual growth rate?



$$RM175,000 = RM100,000(1 + i)^5$$

$$\frac{RM175,000}{RM100,000} = (1 + i)^5$$

$$1.75 = (1 + i)^5$$

$$\sqrt[5]{1.75} = 1 + i$$

$$1.1184 = 1 + i$$

$$1.1184 - 1 = i$$

$$0.1184 = i$$

$$i = 11.84\%$$

Compound Annual Growth Rate



How to key-in $\sqrt[5]{1.75}$

Key-in:

1st 5

2nd SHIFT

3rd ^

4th 1.75

5th =

Compound Annual Growth Rate



- A. 10.84% B. 11.84%
C. 12.84% D. 13.84%

Step 1:

$$RM175,000 = RM100,000(1 + i)^5$$

$$\frac{RM175,000}{RM100,000} = (1 + i)^5$$

$$1.75 = (1 + i)^5$$

Step 2:

Use Optional Answers to find the value of i

For example, let us use answer A = 10.84%

Convert 10.84% to a decimal point, which is 0.1084

So, $(1+i)$ is $1+0.1084 = 1.1084$

Step 3:

Using a normal calculator and key in:

$$1.1084 \times x = 1.75$$

You should get: 1.6729 (which is not equal to 1.75)



Compound Annual Growth Rate



- A. 10.84% B. 11.84%
C. 12.84% D. 13.84%

Step 1:

Unsolved at **1.75** = $(1 + i)^5$

Step 2:

Then try optional answer B = 11.84%

Convert 11.84% to a decimal point, which is 0.1184

So, $(1+i)$ is $1+0.1184 = 1.1184$

Step 3:

Key in

1st **1.1184**

2nd **XX** Power of 5

3rd **=====**
(4 times of =)

Then you will get **1.7497** (round up to **1.75**)



Rule of 72 ★

Used when an **investment value is double**, with given rate or time.

Examples:

An investor plans to double his investment value in 10 years' time, what is the required rate of return per annum?

$$\frac{72}{\text{Years}} = \text{Interest Rate}$$

$$\frac{72}{10} = 7.2\%$$

With an interest rate of 8% per annum, how long does it take to double an investment?

$$\frac{72}{\text{Interest Rate}} = \text{Years}$$

$$\frac{72}{8\%} = 9 \text{ Years}$$



Rule of 72 ★ *Practice*

Case Study

Aaron invested RM130,000 and wants it to grow to RM260,000 within 14.4 years.

What rate of return does he need to achieve this goal?

$$\frac{72}{\text{Years}} = \text{Interest Rate}$$



Fees & Charges

Direct

Service Charge
Repurchase Charge / Exit Fee
Switching Fee
Transfer Fee



Indirect

Annual Management Fee
Annual Trustee Fee
Fund Operations Expenses



Management Expense Ratio (MER)

To assess previous year's **cost of holding units** in UTS.
Reducing MER indicates that the UTMC is **managing the total fees & expenses more efficiently** given the fund size

$$MER = \frac{(Fees + Recovered Expenses)}{Average Fund Size} \times 100\%$$

We can use MER to compare:

- Past vs prospective returns
- MER of competitor UTS
- Opportunity cost



Note: The MER will have an impact on the **fund's Effective Rate of Return**



★ Management Expense Ratio (MER)

Practice

Calculate the Average Fund Size with the below figures:

Expenses	RM
Management Fee	9,036,940
Trustee Fee	302,165
Auditor's Fee	8,600
Bank Charges & Others	4,850,000
Total Expenses	14,197,705
MER	1.56%

$$MER = \frac{\text{Total Expenses}}{\text{Average Fund Size (AFS)}} \times 100\%$$

$$\text{So, AFS} = \frac{\text{Total Expenses}}{MER} \times 100\%$$

Average Fund Size

★ Taxation & Inflation

Fund investment rate of return (Inv. RoR) : 5%,

Tax payable on the return: 20%,

Inflation: 4.5%

What is fund level **effective return of return after tax & inflation?**

$$\text{Effective RoR} = \text{Inv. RoR} - (\text{inv. RoR} \times \text{Tax rate}) - \text{Inflation rate}$$

$$\text{Effective return} = 5\% - \left(5\% \times \frac{20}{100}\right) - 4.5\%$$

$$\text{Effective return} = 5\% - 1\% - 4.5\%$$

$$\text{Effective return} = -0.5\%$$

★ Taxation & Inflation

Investment: RM1 million with sales charge of 5%

Fund investment rate of return (Inv. RoR) : 8%,

Tax payable on the return: 10%,

Inflation: 5%

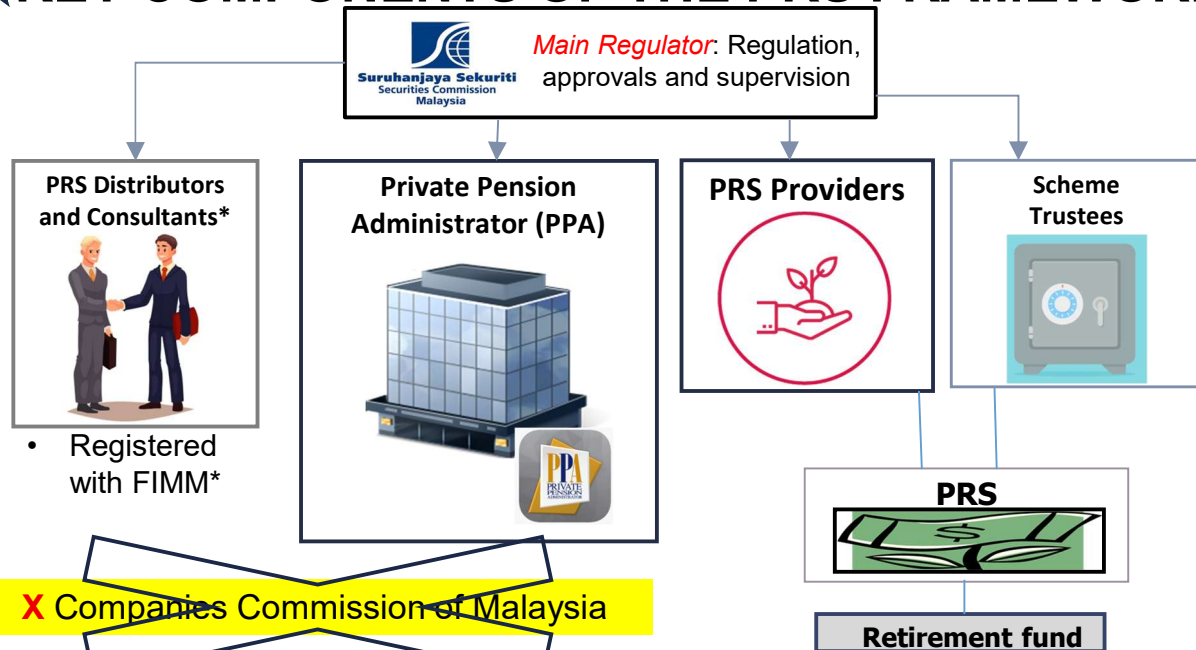
What is fund level **effective return of return after tax & inflation?**

04

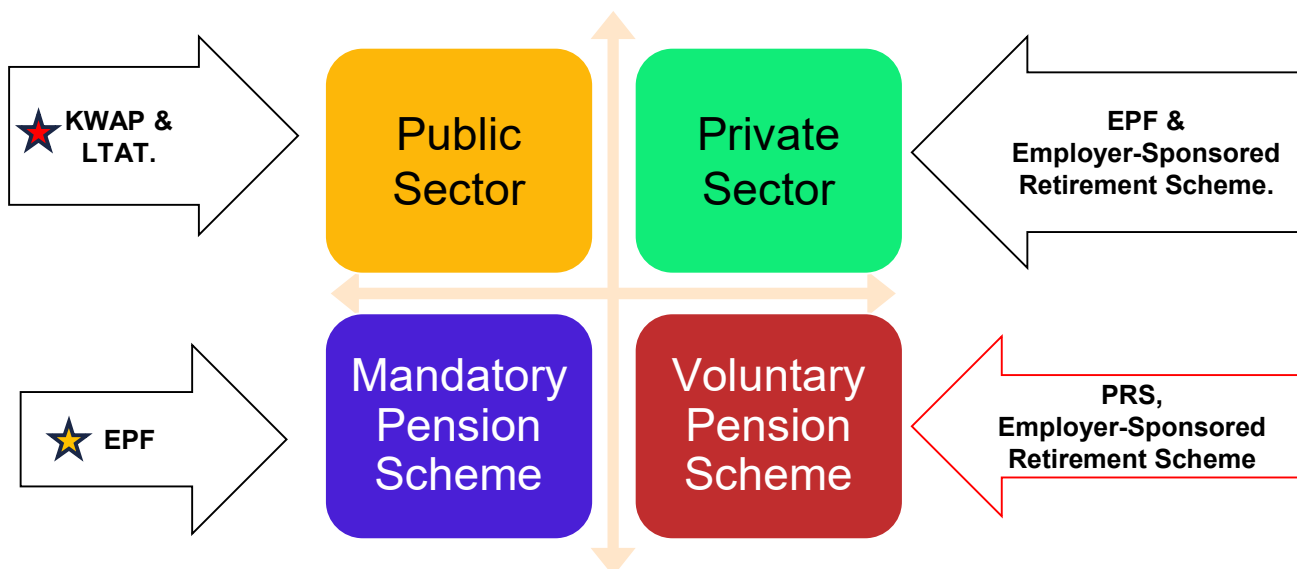


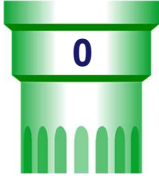
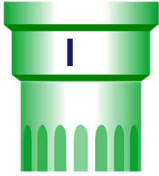
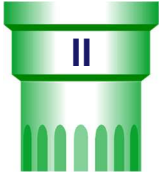
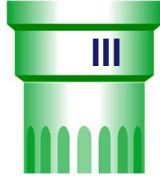
Private Retirement Scheme

★KEY COMPONENTS OF THE PRS FRAMEWORK



MALAYSIAN PENSION SYSTEM



WORLD BANK'S PENSION CONCEPTUAL FRAMEWORK				
Base or Social pension	Public pension plans that are publicly managed	Occupational/ personal pension plans	Voluntary personal pension schemes	Non-financial arrangements/ informal support
				
State	Mandatory	Mandatory	Voluntary	Voluntary
MALAYSIA PENSION LANDSCAPE				
Department of Social Welfare – Senior Citizen Financial Aid	<i>Not available in Malaysia</i> ★	- LTAT - KWAP - EPF - Civil Servant Pension Scheme	- PRS - Annuity - Employer-Sponsored Retirement Scheme	Family financial support by the younger generation (children are expected to care for parents and elders), universal healthcare



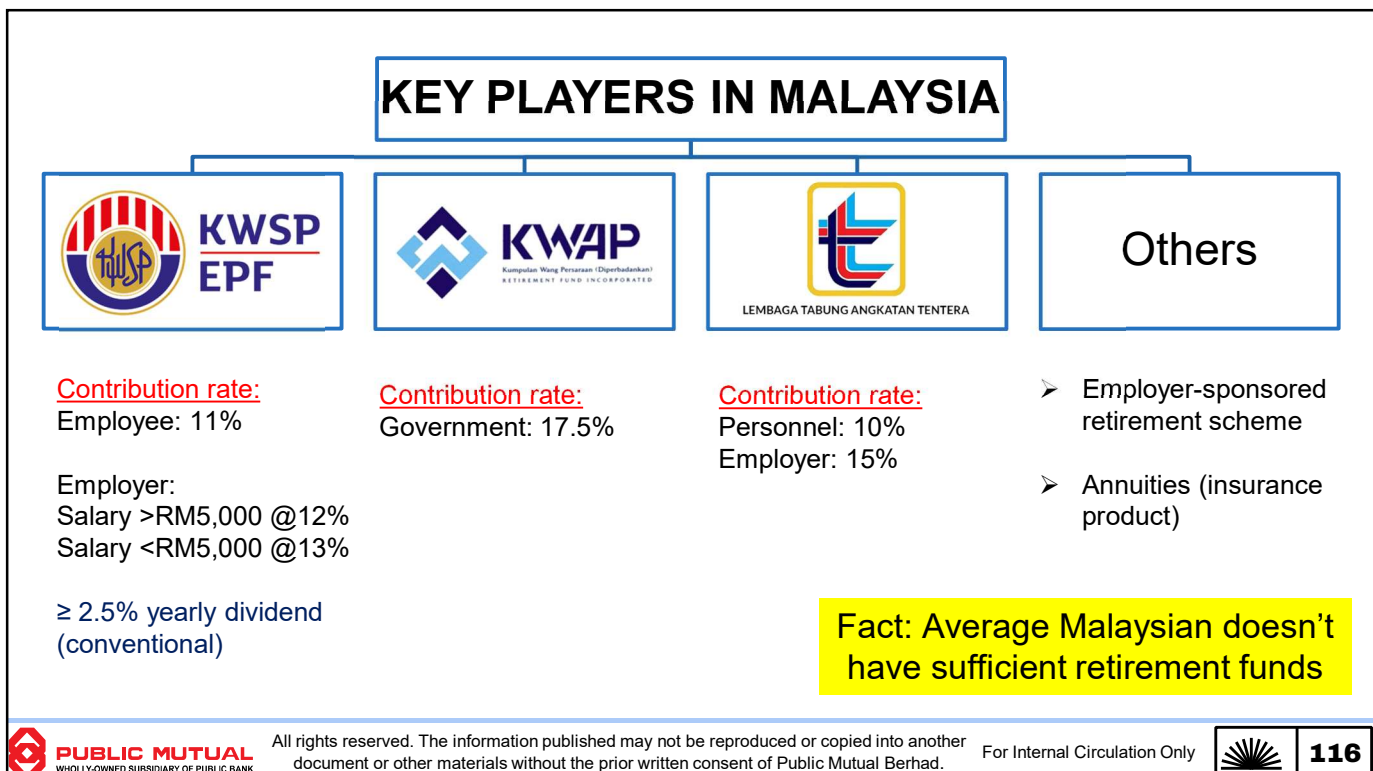
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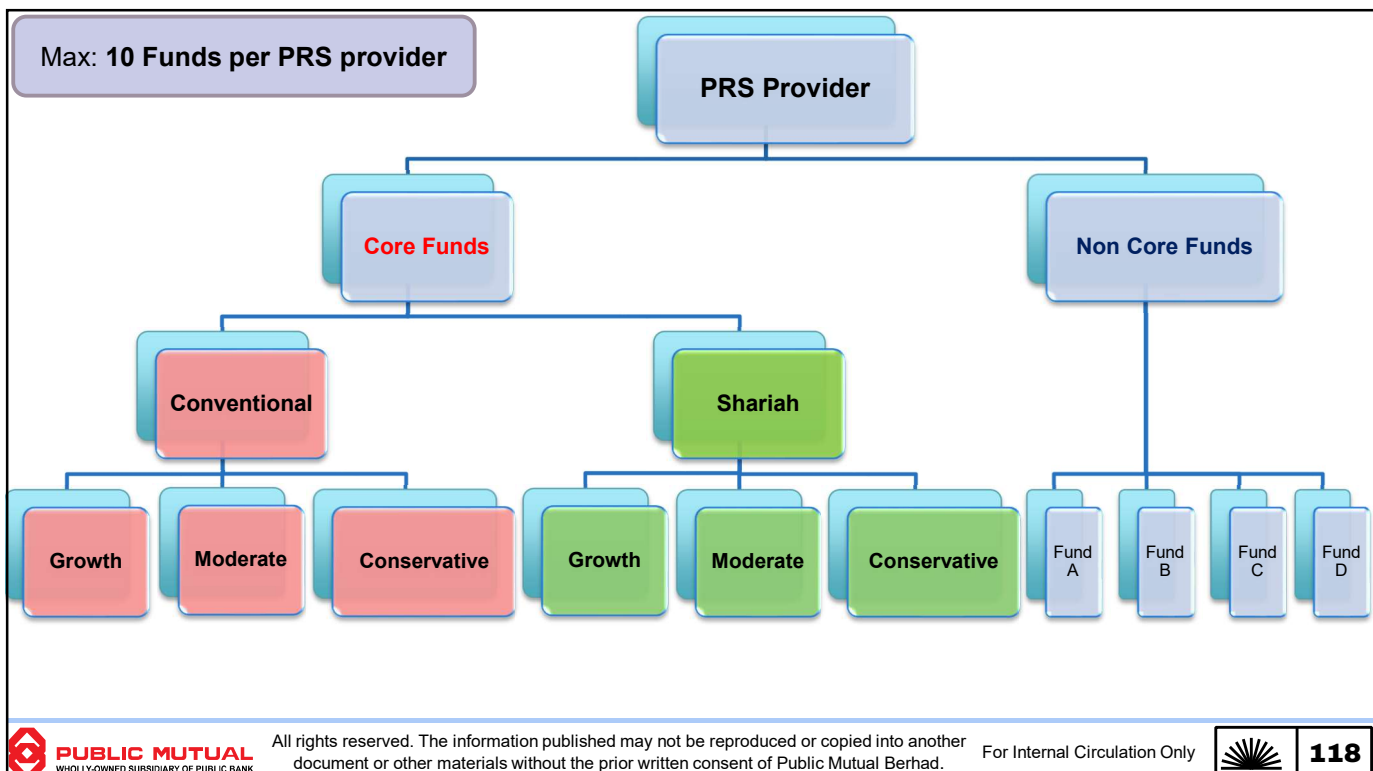
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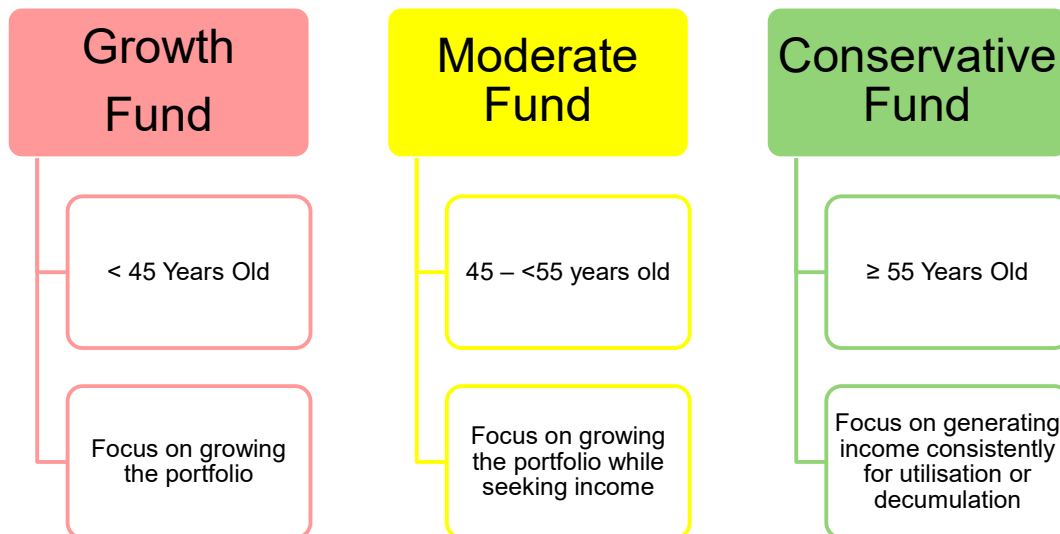
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4 POSSIBLE SOLUTIONS

- Raise the mandatory retirement age
- Increase the mandatory contribution
- Increase the minimum wage
- Develop a voluntary retirement scheme



★☆☆CORE FUNDS (Default Option)



What happen to member's portfolio if they did not choose any specific fund as they grow older?

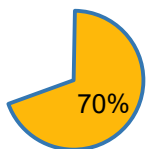
PRS Provider will have to notify the member 1 month in advance in writing that the member's investment will be switched according to the rules of default option unless instructed otherwise

Switches that are exercised at the Switch-in Date, the switching must be executed in equal proportion over a 5-year period based on the number of units remaining in the relevant fund

When a members made their first contribution to the Scheme 1 month before they attain the age of 45 or 55 years old as the case may be, PRS Provider must allocate such contribution to a moderate fund or conservative fund



Account Structure



sub-account
A

Cannot be withdrawn
before the retirement age
except for permitted
circumstances

Note: Retirement age is defined
under PRS Guidelines as the
age of 55 or any other age as
may be specified by the SC



sub-account
B

Able to withdraw on
housing or healthcare
purposes

Able to withdraw on
general purposes

Tax penalty 8%

Note: Withdrawal can be
made once a year



ELIGIBILITY

**Malaysian /
Foreigner**

**Individuals
18 years old & above**

**Employers,
contributing on
behalf of employees**

**Single
Accountholders
(No joint names)**



CONTRIBUTION

No fixed amount or interval

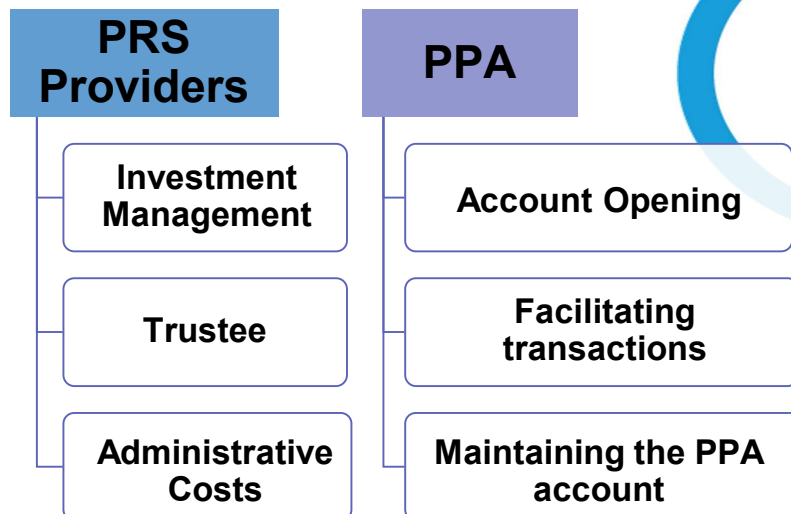
Option for member to contribute more than 1 fund

PRS Providers may set maximum & minimum contribution

PRS Providers may limit switching



FEE & CHARGES



Note: Fees & charges may be collected by PRS Provider acting on behalf of the PPA



BENEFITS OF PRS ★★

Pool of funds for retirement

Transparent investment vehicle

Protected from judgement debt

Reduce the burden on Government finances

Additional source of long-term capital for economic growth

Benefits to the Malaysian Capital Markets:

- a. Increased product innovation and competition
- b. Increased activities and skill sets of the intermediaries
- c. Building scale in the fund management industry



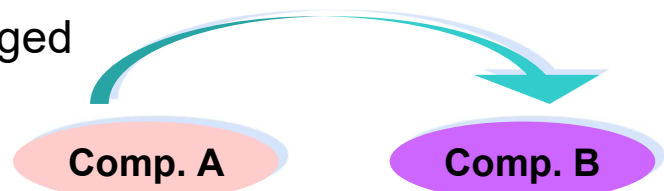
SWITCHING & TRANSFER



Switching between funds
within a same PRS Provider

CAN ONLY BE MADE *ONCE A YEAR*

Transfer to another fund managed
by a different PRS Provider
(Portability)



TAX INCENTIVES

For Employers

- *Tax deduction of up to 19%*
- On top of mandatory EPF contribution



For Individuals

- Up to RM3,000 per annum
- Extended to 2030



MEMBER WITHDRAWAL FROM PRS

Retirement Withdrawal – 55 years old or any age specified by SC

Pre-retirement withdrawal (sub a/c B) – subject to 8% tax penalty, 1 year after initial contribution & once a year.

★ **8% tax penalty exemption:**



- **Permanent departure** from Malaysia through emigration
- **Death:** PRS Provider must obtain prior authorisation from the PPA
- **Permanent total disablement, serious disease or mental disability**
- **For healthcare purposes:** for yourself or your immediate family members including spouse, children (biological / adopted / step), parents (biological / adopted / step / in-laws) and sibling (biological)
- **For housing purposes:** buy a house, building a house, to reduce or to redeem housing loan

VESTING PROGRAMME

Accrued Benefits

- Member's beneficial interest in a PRS
- Amounts accumulated in both sub-account A and B

Public Mutual PRS Vesting Programme

Vesting Schedules

- Contribution by employer to promote employee loyalty
- PRS Providers are to ensure benefits are not transferred until vested unconditionally



★★ Duties of a PRS Provider with Respect to Vesting

Conditionally vested units will be unconditionally vested under circumstances including but not limited to the following:-

- **cessation of the employee's employment**
- where the employer is in the course of being wound up or otherwise dissolved
- where a receiver and manager or an equivalent person has been appointed in respect of any property of the employer
- where the employer has, whether within or outside Malaysia entered into a compromise or scheme of arrangement with its Creditors, being a compromise or a Scheme of arrangement that is still in operation
- **merger of the employer with, or acquisition of the employer by, another entity**
- **termination of the vesting schedule**
- **death of the employee**
- any other circumstances as may be specified by the SC.





DUTIES & RESPONSIBILITIES OF PPA

Undertaking general promotion and awareness of the PRS

Responsible for facilitating and maintaining all PRS related transactions made by contributors and members

Function as a resource centre for data and research relating to the PRS industry

To perform the function of record keeping, administration and customer service for the members and contributors, and other specific duties including:

- Receiving and transmitting instruction in a manner specified by the SC
- Keeping records of all transaction or monies paid or received
- Providing information to the PRS Provider and member
- Such duties as may be specified by the SC



FUNCTION OF THE PPA



☐ Creating private pension account

☐ Maintain databases

☐ Transmit members' instructions

☐ Issue consolidated account statements

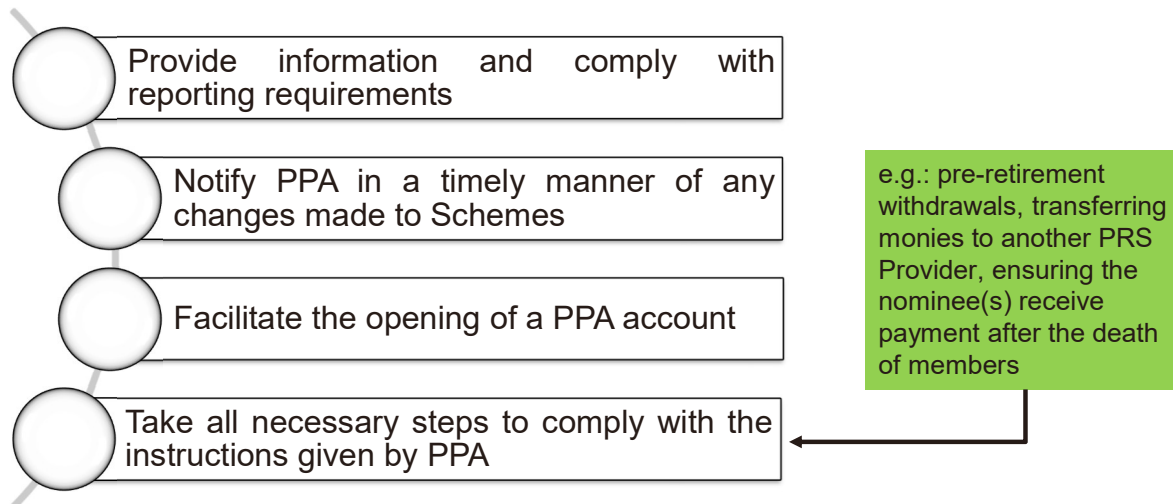
☐ Maintain a website

☐ Operate a call centre and deal with complaints

☐ Generate reports



Scheme Provider: Duties to PPA



UTS & Investment-Linked Funds vs PRS

Category	Unit Trust or Investment-Linked Funds	Private Retirement Scheme (PRS)
Core funds	No core funds available. Offers various funds based on demand.	Provides 3 core funds: Conservative, Moderate, and Growth.
Default option	No default option; investors must choose a fund.	Available for members who do not make a fund selection, based on age.
Withdrawal	No restriction on withdrawal	Sub-account A: Locked until retirement or special cases (death, disability, etc.). Sub-account B: Withdrawals allowed with conditions.
Portability	Need to sell first and use the proceed of withdrawal to buy from another fund house with sales charge.	Able to transfer investment from existing PRS provider to another.

Important Formula

$$NAV = Total Assets - Total Liabilities$$

$$NAV \text{ per Unit} = \frac{NAV}{No. of Units}$$

$$Working Money = \frac{Capital}{1 + Service Charge}$$

$$No \text{ of units} = Working Money \div NAV \text{ per unit}$$

$$Redemption = No \text{ of units} \times NAV \text{ per unit}$$

$$DCA = Total Investment \div No \text{ of units}$$

$$Raw Return = \frac{End Value - Begin Value}{Begin Value} \times 100\%$$

$$Compounded Annual Return: FV = PV(1 + i)^n$$

$$MER = \frac{Expenses}{Average Fund Size} \times 100\%$$

$$Loan Financing = 67\%; Own Capital = 33\%$$

$$EPF Eligible Amount = (Acc. 1 - Basic Savings) \times 30\%$$

$$Unit Split 1: 4$$

$$Unit \text{ after split} = (Units \text{ before split}) \times \frac{5}{4}$$

$$NAV/U \text{ after split} = (NAV/U \text{ before split}) \times \frac{4}{5}$$

$$EX \sim D \frac{NAV}{U} = CUM \sim D \frac{NAV}{U} - Distribution$$

$$Rule \text{ of } 72: \frac{72}{interest} = Years \quad \frac{72}{Years} = Interest$$