

# **ASISA GUIDELINE ON SOUTH AFRICAN MULTI ASSET - INCOME FUND RISK DISCLOSURES**

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## INTRODUCTION

- 1.1. South African-regulated collective investment scheme portfolios ("**CIS portfolios**") are classified according to the ASISA Standard on Fund Classification ("**ASISA Fund Classification Standard**"). The South African Multi Asset – Income ("**SMAI**") category is a sub-category of a second-tier classification of South African portfolios with comparable investment objectives and investment universes, defined as:

*"South African Multi Asset – Income portfolios – These portfolios invest in a spectrum of equity, bond, money market, or real estate markets with the primary objective of maximising income. The underlying risk and return objectives of individual portfolios may vary as dictated by each portfolio's mandate and stated investment objective and strategy. These portfolios can have a maximum effective equity exposure (including international equity) of up to 10% and a maximum effective property exposure (including international property) of up to 25% of the market value of the portfolio."*

- 1.2. ASISA members identified a need to encourage the enhancement of disclosures for SMAI portfolios in an effort to improve transparency, investor and advisor understanding of the risk indicators of SMAI portfolios and to place investors in a position to make informed decisions.
- 1.3. This Guideline is being shared with ASISA members and the public at large for their consideration and voluntary implementation and is non-binding on ASISA members.
- 1.4. It is recognised that it will take time for members' systems, processes and documentation to be adapted to accommodate the recommendations made in this Guideline. Members that wish to follow this Guideline should endeavour to implement this Guideline as soon as is reasonably practicable.

## 2. OBJECTIVES OF THE SMAI DISCLOSURE GUIDELINE

- 2.1. This ASISA Guideline on South African Multi-Asset Income Risk Disclosures ("**Guideline**") has been established in the interests of investor protection through transparency and improved disclosure and comparability of SMAI CIS portfolios in South Africa.
- 2.2. The objectives of the Guideline are to:

- 2.2.1. promote investor awareness and understanding of SMAI CIS portfolios;
  - 2.2.2. assist investors with the comparison of SMAI CIS portfolios; and
  - 2.2.3. assist with the assessment of potential risks of investing in a particular type of SMAI CIS portfolio.
- 2.3. The purpose of the Guideline is to set out recommended consistent disclosures to be made to investors in respect of SMAI CIS portfolios.
  - 2.4. The information recommended to be disclosed in terms of this Guideline should be ascertainable in respect of each fund in the SMAI sector. It is recommended that it would similarly apply to a fund, whether a single manager fund or a multi-managed fund (Fund of Funds or Manager of Managers, where the information should be aggregated for each of the underlying funds).
  - 2.5. This Guideline has been developed taking into account existing regulatory disclosure requirements and international best practice guidelines. The Guideline is also focused on enhancing disclosures to more specifically cover risks.

### 3. CONSIDERATIONS

- 3.1. Board Notice 92 of 2014 ("**BN92**") of the Collective Investment Schemes Control Act 45 of 2002 ("**CISCA**") defines an "**MDD**" as a minimum disclosure document, which is a short document containing key information about a portfolio or scheme that a CIS manager provides to an investor to assist the investor in understanding the collective investment scheme product.
- 3.2. BN92 requires that a CIS manager must produce an MDD for each portfolio administered under its CIS, and sets out the essential characteristics of a portfolio which will enable an investor to understand the nature and the risks of the portfolio and to make informed investment decisions. BN92 further requires promoting the use of plain and understandable language by CIS managers in respect of any information provided or displayed to investors and encourages investor understanding of the key features of a CIS through the CIS manager's use of suitable disclosures for the intended target market.

3.3. MDDs are fundamental to the industry and are used by investors (both retail and institutional) and advisors as important decision-making tools. The guidelines outlined below are therefore intended to enhance existing disclosures made in terms of these requirements to be used in designing and publishing CIS managers' MDDs to better enable informed decisions by investors.

## RECOMMENDED DISCLOSURES

Risk	Metric & Display	Description in appendix
<b>Interest rate risk</b>	<ul style="list-style-type: none"> <li>- Total portfolio modified duration in years.</li> <li>- Contribution to portfolio modified duration by asset class and currency (should at a minimum split out inflation linked bonds, nominal bonds and perpetual instruments<sup>1</sup>).</li> </ul>	<p>Modified duration is a way to gauge how sensitive a portfolio's value is to changes in interest rates. It gives you an idea of how much the value of the portfolio will go up or down if interest rates change by 1%. The higher the modified duration, the more the portfolio's value will fluctuate.</p>
<b>Credit risk<sup>2</sup></b>	<ul style="list-style-type: none"> <li>- Portfolio percentage exposure by credit rating.</li> </ul>	<p>Credit risk is the chance that the company or government the portfolio has lent money to by buying their debt securities won't be able to pay the portfolio back. Credit ratings are scores given to companies or governments to show how likely they are to pay back their debt. Credit ratings are given by independent ratings agencies. In general, higher ratings mean lower risk, and lower ratings mean higher risk.</p>

<sup>1</sup> Debt instruments lacking a specified redemption or maturity date.

<sup>2</sup> It is recommended that counterparty disclosures be done at reference entity level (not issuer level). Where it is not possible to provide a rating for reference entity, it is recommended that the note exposure should be disclosed separately. Unrated reference entities may be allocated a manager score (if appropriately disclosed) or default score of unrated. It is recommended that the National scale rating be used.

<p><b>Currency risk</b></p>	<ul style="list-style-type: none"> <li>- Gross exposure: percentage of total portfolio by currency.</li> <li>- Net exposure: percentage of total portfolio by currency.</li> </ul>	<p>Currency risk is the chance that changes in exchange rates will affect the value of the portfolio. If the portfolio is invested in another country, the value could go up or down based on how that country's currency compares to the Rand.</p> <p>Currency risk of the portfolio can be reduced by the manager through hedging. The extent to which the currency risk is hedged is evident by comparing the gross (unhedged) to the net (hedged) exposure.</p>
<p><b>Effective exposure risk<sup>3</sup></b></p>	<ul style="list-style-type: none"> <li>- Asset allocation percentage of total portfolio.</li> <li>- List top 5 issuer exposure by percentage of total portfolio.</li> </ul>	<p>These metrics show the biggest companies or entities that have issued the most debt to the portfolio. It gives a quick snapshot of where the largest portions of the portfolio are invested, helping investors understand the level of risk and diversification in the portfolio.</p>
<p><b>Volatility</b></p>	<ul style="list-style-type: none"> <li>- Annualised portfolio standard deviation of returns for the same measurement periods as returns are displayed.</li> </ul>	<p>Volatility of returns in a portfolio shows how much the value of your investments goes up and down over time. If a portfolio has high volatility, its value can change a lot and very quickly. On the other hand, low volatility means the value changes more slowly and steadily. This helps you understand how risky or stable your investments might be.</p>
<p><b>Term risk</b></p>	<ul style="list-style-type: none"> <li>- Weighted average term to maturity of the portfolio, excluding perpetual instruments.</li> <li>- Aggregate portfolio percentage exposure to perpetual instruments.</li> </ul>	<p>Term risk measures the average time until debt investments are repaid, considering the size of each investment, to assess the risk of potential changes over time, such as credit quality.</p> <p>The percentage exposure to perpetual instruments indicates how much of the portfolio is in investments that never mature and pay interest indefinitely, assessing the credit risk and the risk of not recovering the principal.</p>

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<sup>3</sup> It is recommended that this be calculated on an adjusted basis, including derivative exposure.

<b>Complex instrument exposure</b>	<ul style="list-style-type: none"> <li>- Aggregate portfolio percentage exposure to complex instruments<sup>4</sup>.</li> <li>- Top 5 complex instrument reference (not issuer) entity exposure by percentage of total portfolio.</li> </ul>	<p>Instruments are classified as “complex” if they incorporate a structure which makes it difficult for the investors to understand the risk involved.</p>
<b>Unlisted instrument exposure</b>	<ul style="list-style-type: none"> <li>- Aggregate portfolio percentage exposure to unlisted instruments<sup>5</sup>.</li> </ul>	<p>Holding unlisted instruments means they may be harder to sell quickly at a fair market price. This could make the portfolio less flexible and potentially affect its value, especially in times of market stress.</p>

## DOCUMENT HISTORY

Date	Publication and amendments
17 September 2024	First published

## RESPONSIBLE SPA AND COMMITTEES

<b>Responsible Senior Policy Advisor</b>	ASISA Point Person to the Disclosures and Standards Standing Committee
<b>Responsible Board Committee</b>	Marketing and Distribution Board Committee
<b>Responsible Standing Committee</b>	Disclosures and Standards Standing Committee

<sup>4</sup> Complex instrument exposure is recommended to be determined in accordance with the European Securities and Markets Authority (ESMA) published Guidelines on complex debt instruments and structured deposits. As these Guidelines are updated from time to time it is recommended that the latest published Guidelines be accessed at: <https://www.esma.europa.eu>

<sup>5</sup> Unlisted instruments must be limited to Category 4.2 in Table 1 of Board Notice 90 of 2014.