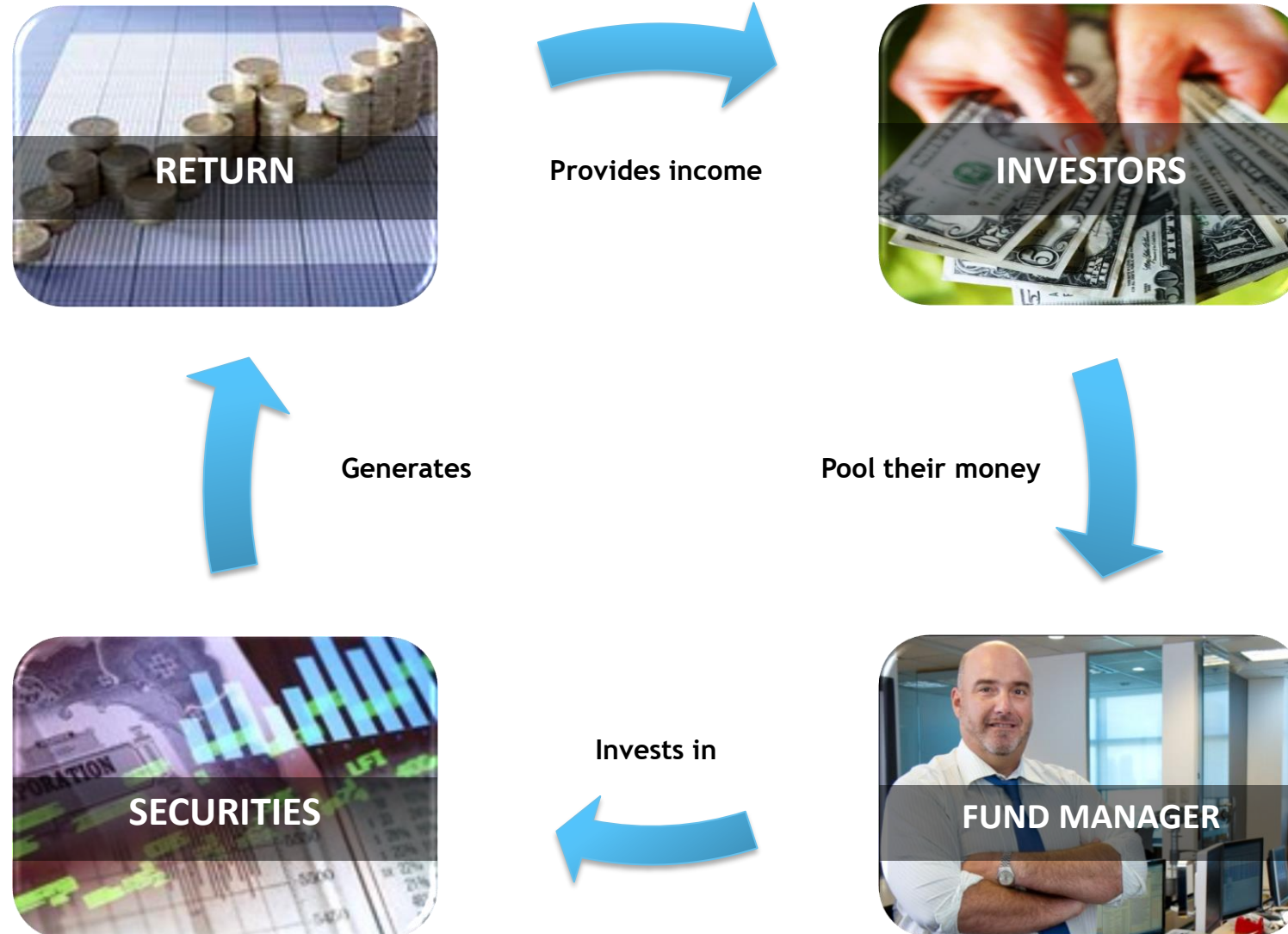




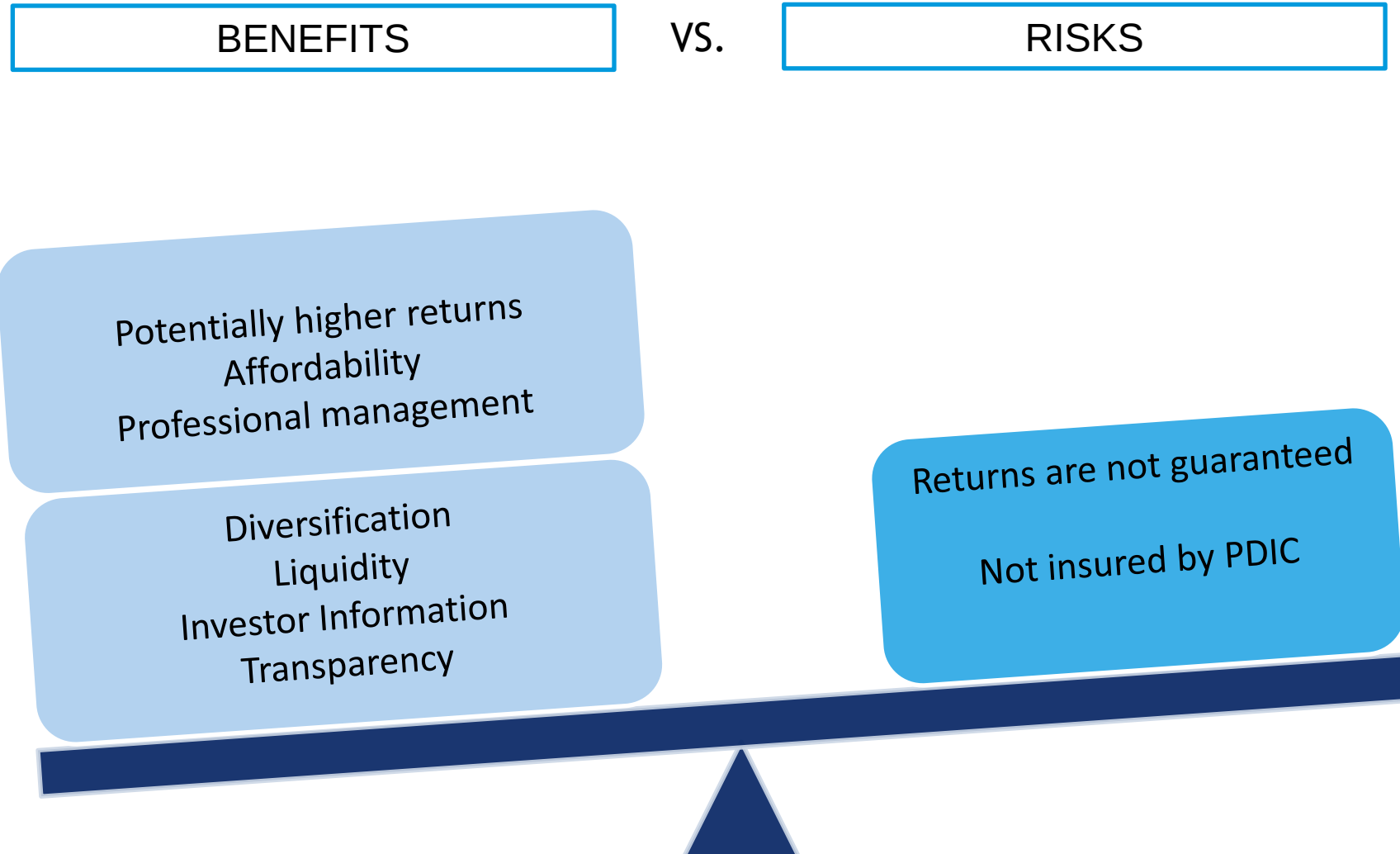
ATRAM Academy

Fund Structure: MF &UITF

How does a **Fund** work?



Benefits vs. Risks of investing in funds



Unit Investment Trust Funds (UITFs)

- Unit Investment Trust Funds (“UITF”) are **open-ended pooled trust funds** in any acceptable currency, operated by a **trust entity** and made available by **participation**.
- UITFs are established, administered and maintained by a trust entity **subject to BSP approval**.

Mutual Funds

- A Mutual Fund is an investment company that pools the funds of many individual and institutional investors to form a large asset base, in any acceptable currency, and made available by **shares of ownership**.
- Mutual Funds are regulated by the **Securities and Exchange Commission (SEC)**.

Key **differences** between UITFs and Mutual Funds

	UITFs	Mutual Funds
Regulator	Bangko Sentral ng Pilipinas	Securities and Exchange Commission
Structure	Contractual	Corporate
Instrument	Units of participation	Common shares
Governance	Bank/Non-Bank FI's Trust Committee	Board of Directors
Management	Bank/Non-Bank FI's Trust Department	Independent Investment Company Adviser/Fund Manager
Sales License	No licensing required; a TOAP certified trainer should train sales force	Sales agents need SEC license to sell funds
Annual Stockholders Meeting	No	Yes
Liquidity requirement	None	Yes. 5% of NAV subject to submission of liquidity plan to SEC, otherwise 10% of NAV

Types of Funds (TOAP Classification)

Money Market Funds

Money Market Funds are invested principally in short-term, fixed income deposits and securities with portfolio duration of one year or less.

Bond Funds

Bond Funds invest in a portfolio of bonds and other similar fixed-income securities with portfolio duration that may exceed one year.

Balanced Funds

Balanced Funds invest in a diversified portfolio of bonds and stocks where investment in stocks shall be up to a maximum of 40% to 60% of the fund.

Equity Funds

Equity Funds invest substantially in equities. Cash maybe kept for liquidity and portfolio rebalancing purposes

Types of **Bond Funds** (TOAP Classification)

Classification	Maximum Macaulay Duration
Intermediate-Term Bond Fund	3 years
Medium-Term Bond Fund	5 years
Long-Term Bond Fund	> 5 years

Types of **Balanced Funds** (TOAP Classification)

Risk Profile	Equity Allocation Range
At least Moderate	5% to 20% in equities
At least Moderate	21% to 40% in equities
Moderate to Aggressive	41% to 60% in equities
Aggressive	61% to 80% in equities

Special UITFs

Feeder Funds

A UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets **in a single collective investment scheme.**

Fund of Funds

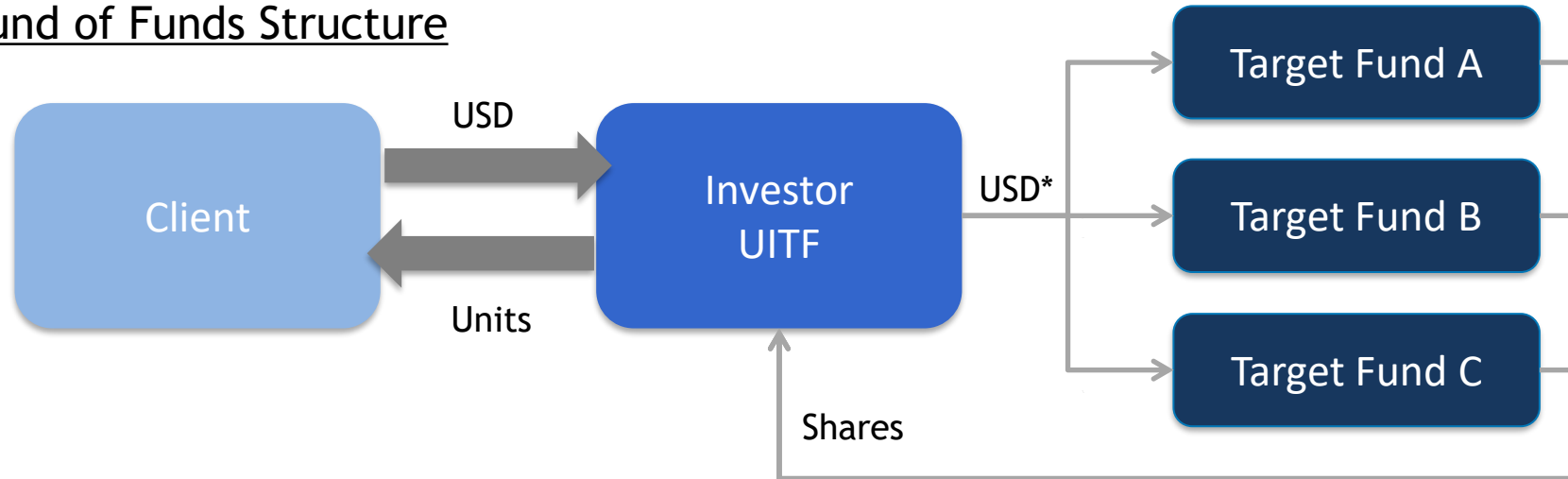
A UITF structure that mandates the fund to invest at least ninety percent (90%) of its assets **in more than one (1) collective investment scheme.**

Special UITFs

Feeder Fund Structure



Fund of Funds Structure



**at least 90% of the assets of the UITF*

Feeder Fund or Fund of Fund **Exposure** limits

- At least 90% of a feeder fund's assets shall be invested in a single collective investment scheme (CIS)
- At least 90% of a fund-of-funds' assets shall be invested in more than one collective investment scheme (CIS)

Guidelines for Feeder Funds and Fund of Funds (BSP Circular 767)

- The investment objectives of target funds should be aligned with that of the investor fund
- The underlying investments of the target funds are limited to the allowable investment outlets set forth in Subsection X410.9/4410Q.9 of the MORB/MORNBFI
- The target fund has no investment in other collective investment schemes
- The target fund is supervised by a regulatory authority as follows:
 - A local target fund shall either be approved by the BSP or registered with the SEC
 - A target fund constituted in another jurisdiction shall be registered/authorized/approved, as the case may be, in its home jurisdiction by a regulatory authority that is a member of the international organization of securities commissions (IOSCO)

Guidelines for Feeder Funds and Fund of Funds (BSP Circular 767)

- Investments in target funds shall be held for safekeeping by an institution registered/authorized/approved by a relevant regulatory authority in its home jurisdiction to act as third party custodian
- A trustee may invest the funds of a feeder fund or fund-of funds in a target fund administered by the trustee or its related party/company, provided that:
 - There shall be no cross-holding between the investor fund and the target fund. Cross-holding refers to the holding of shares/units of participation in one another by the two or more funds.
 - All initial charges on the target fund are waived.
 - The trust/management fee shall be charged only once, either at the level of the investor or at the level of the target fund.

Guidelines for Feeder Funds and Fund of Funds (TOAP's general policy)

- The powers, duties and responsibilities of the Investor Fund Trustee must include and define the following:
 - Choosing and switching Target Funds
 - Suspension of trading the UITF
 - Holdings in cash in excess of regulatory or defined cash allocation
 - Valuation, subscription and redemption frequencies
- Internal Processes/Disclosures
 - Internal process and client disclosure with regards to material changes. Material changes are those that a reasonable investor would consider important to his investment decision to buy, hold or sell.
 - Switching of Target Funds
 - Minimum information on Target Funds to be disclosed by Trustee:
 - Fund Manager
 - Latest available outstanding investments of the Target Fund/s
 - Fund Objectives
 - NAV/NAVPU
 - Historical Performance
 - Total Expense Ratio

Guidelines for Feeder Funds and Fund of Funds (TOAP's general policy)

- Internal Processes/Disclosures (continued)
 - Marketing materials should clearly state that the UITF is structured as a Feeder Fund or Fund of Funds
 - Fees should be well documented and properly explained and disclosed to clients.
 - Investor Fund Collection of Fees from Target Funds or Target Fund Manager (e.g. rebates or trailer fees)
 - Fee Charged on UITF on top of Target Fund/s' management fee
 - Investor Fund investing in related Target Fund --- management fee to be charged only once, either at the level of the Target Fund or the Investor Fund
 - Asset allocation ranges for the Target Fund/s must be included in the Plan Rules
- Breaches
 - BSP prescribed exposure limits for regular UITFs apply to the Target Fund/s.
 - For feeder funds, switching of funds that signify trading activity is strictly prohibited.
- Marketing Personnel
 - UITF sales personnel charged with marketing and selling Feeder Funds and Fund of Funds shall be trained properly. Previously certified UITF marketing personnel must undergo and pass a supplementary course for the selling of Feeder Funds and Fund of Funds.

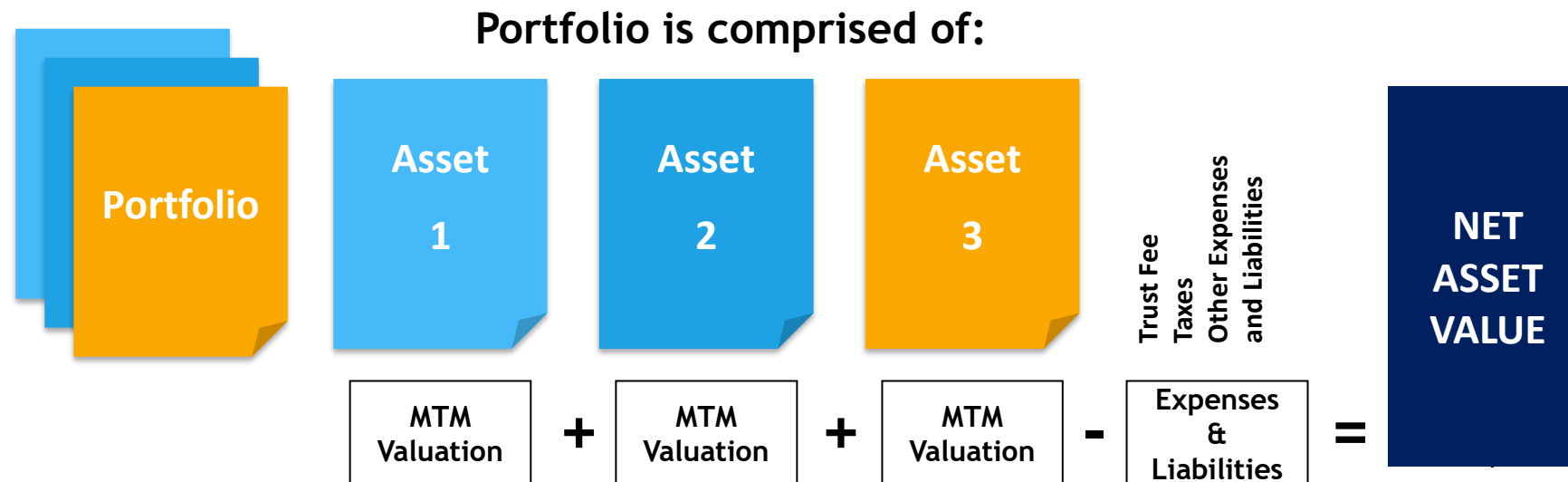
Other **Special UITFs**

- **Multi-class UITFs.** UITFs with more than one class of units in the fund and is invested in the same pool of securities and the same portfolio, investment objectives and policies.
- **Unit Paying UITFs.** UITFs which distribute income in the form of units called unit income.

What is **Net Asset Value**?

Net Asset Value (NAV) is a summation of the **market value** of each investment less fees, taxes, and other qualified expenses.

- All UITFs are to be marked-to-market on a daily basis.
- **Mark to Market (MTM)** is the act of assigning a value to a position held in a tradable financial instrument based on the current market price for that instrument.
- Under the MTM method of valuation, the value of the investment is constantly adjusted based on market rates.



NAVPU Valuation Methodology

Net Asset Value per Unit (NAVPU) is computed by dividing the fund's total NAV by the total outstanding units.

$$NAVPU = \frac{\text{Net Asset Value}}{\text{Total Outstanding Units of Participation}}$$

- Determines the beneficial interest of each participation unit
- NAVPU of Money Market Fund released on T+0.
- NAVPU Peso Bond Funds and Philippine Equity Funds released by Trust Operations refers to previous day's values. NAVPU of Feeder funds investing in global funds are released 2 days after valuation date.
- The day's subscription or redemption will be based on the NAVPU to be computed at the end of the day. NAVPU shall be released by Trust Operations either T, T+1 or T+2, depending on the fund product.

ROI Computation

$$ROI = \left(\frac{\text{Current NAVPU}}{\text{NAVPU at the start of the period}} \right) - 1 \times 100$$

Examples:

Year-to-Date ROI:

$$YTD ROI = \left(\frac{\text{Current NAVPU}}{\text{Previous year - end NAVPU}} \right) - 1 \times 100$$

Year-on-Year ROI:

$$YOY ROI = \left(\frac{\text{Current NAVPU}}{\text{NAVPU of same calendar date the previous year}} \right) - 1 \times 100$$

Past 1-month, 3-month, 6 month ROI:

$$N \text{ month ROI} = \left(\frac{\text{Current NAVPU}}{\text{NAVPU } n \text{ months from current date}} \right) - 1 \times 100$$

Do not annualize ROI numbers for periods less than 1 year.

ROI Computation

❑ **Simple Return** = (Current NAVPU/ beginning-of-period NAVPU) -1

	Fund NAVPU
03/19/17	115
02/19/17	112
01/19/17	113
12/29/16	110
03/19/16	105
12/31/03	102

Past 1 Mo:

(115/112) -1= 2.68%

YTD:

(115/110) -1= 4.55%

YoY:

(115/105) -1= 9.52%

Since 12/31/2003:

(115/102) -1= 12.75%

ROI Computation

Example

Investment amount (Principal)	P1,098.54
NAVPU (August 3, 16)	P10.9854/ unit
Units Owned	100 units
Value of total investment	P1,098.54
NAVPU (August 3, 17)	P12.1304/ unit
Units owned	100 units
Value of total investment	P1,213.04
Total inv- August 3, 2016	P\$1,213.04
Total inv- August 3, 2017	P1,098.54
Earnings	P114.50
ROI	10.42%

Fund Benchmark

A benchmark is a standard against which the performance of a mutual fund or investment manager can be measured.

In choosing the benchmark for a fund, it is important that the benchmark and the fund are composed of similar securities.

Market Index- A market index is an aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indexes are intended to represent an entire market and thus track the market's changes over time.



Survey of Regulations on Permitted/Restricted Investments

	UITFs	Mutual Funds
Exposure limit to single person/entity	BSP Circ 577: 15% of market value of fund, except for non-risk assets as defined by the BSP. UITFs which track an index may invest in an equity security included in that index up to the actual benchmark weighting of the issuer of 15%, whichever is higher	SEC Memo 12 (2013): 15% of NAV, except obligations of the Philippine government; Investment should not exceed 10% of the outstanding securities of the investee company
Foreign Stocks	Not expressly specified in BSP Circ 447 which allows exchange listed securities & marketable instruments that are traded in an organized exchange (circular silent if local or offshore securities). See footnote	SEC Circ 7 (2005): Profitable operation or consistent dividend for prior 3 years. Max allocation in portfolio dependent on prior 3 years ROE performance relative to PSEi's ROE
Foreign Sovereign/ Supranational Bonds	BSP Circ 447: Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country, or any supranational entity. See footnote.	SEC Circ 7 (2005): Sovereigns with ratings at least at par with ROP rating. Min AAA or Aaa for supranational issuers
Other Foreign Bonds	Silent. See footnote.	SEC Circ 10 (2006): At least BBB rating
Foreign Mutual Funds	Allowed for feeder funds and fund of funds	SEC has allowed some local mutual funds to invest in offshore funds which are 4-star rated by Morningstar. The SEC has allowed fund-of-funds structure.

Note: BSP Circ 676: Investment of a peso UITF fund in tradable foreign currency-denominated financial instruments shall be subject to (a) the requirements of Sections 3 and 8 of the Securities Regulations Code and (b) Provisions of Section 44 (Investments by Philippine residents) of the BSP Manual of Regulations on FX transactions

Survey of Regulations on Permitted/Restricted Investments

	UITFs	Mutual Funds
Exchange Traded Funds	As Target Funds (if recognized as a CIS in home jurisdiction), otherwise, silent and subject to approval	Silent, subject to approval.
REITs	Silent, subject to approval.	Silent, subject to approval.
Derivatives	BSP Circ 447: UITFs may use financial instruments solely to hedge risk exposures.	The rules are silent on local derivatives (except for commodities futures which are expressly prohibited)
Loans	BSP Circ 447: Loans are permissible but these should be traded in an organized market. BSP Circ 675: Loans arising from repo agreements which are transacted through an exchange recognized by the SEC, subject to the condition that the repo contracts may be lawfully pre-terminated by the trust entity administering the UITF and acting as lender	Silent, subject to approval.

Note: BSP Circ 676: Investment of a peso UITF fund in tradable foreign currency-denominated financial instruments shall be subject to (a) the requirements of Sections 3 and 8 of the Securities Regulations Code and (b) Provisions of Section 44 (Investments by Philippine residents) of the BSP Manual of Regulations on FX transactions

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