COLLECTIVE INVESTMENT VEHICLES SCHEME INDUSTRY

OF

TRINIDAD AND TOBAGO

BASELINE STUDY

PART 1: MAIN REPORT

August 2007

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EXECUTIVE SUMMARY

<u>Background</u>

In 2005, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) and the Central Bank of Trinidad and Tobago sponsored a survey and analysis of the mutual funds industry ("the study"). This was a base-line study that was designed to assess and evaluate the structure and functioning of the industry with a view to providing a background for its proper regulation. The study addressed not only those products that are generally called mutual funds, but also a number of other collective investment scheme products whereby an individual investor contributes payments towards a pool of investments that is managed by a professional investment manager on behalf of the whole group. The individual investor has no say in the investment decisions being made but will receive a proportionate share of the profits, income or property under the group scheme. Defined in this way, Collective Investment Schemes include closed and open-ended mutual funds and certain kinds of annuity schemes.

<u>Pattern of Growth</u>

The Collective Investment Scheme industry has grown at a phenomenal rate over the last five years, during which time it has been growing faster than bank deposits. The results of the survey conducted as part of the study show that:

1. *Funds under management in domestic mutual funds grew by approximately 500% between 2000 and 2005, increasing from TTD$6 Billion in December 2000 to TTD$27 Billion by the end of December 2004. By comparison the worldwide industry grew by 35% over the same period.*

2. *Since 1997, most of the activity in the capital market has been in debt securities rather than equity securities, this despite record levels of trading and values in the stock market especially in 2003 and 2004, and this has been reflected in the investment portfolios of CIS's.*

Of some $100 billion of new securities issued between 1997 and 2003, only about $32 billion were in equities and of that, only $2.8 billion were Initial Public Offers, the rest being raised in stock splits and rights issues which tend only to involve existing shareholders. In this regard, the information in the table following is instructive. It shows that there are substantial collective investments on behalf of thousands of investors, both directly as unit/funds holders, and more *indirectly as pension fund contributions, that are being funnelled into a relatively few highly inter-related hands and in relatively few types of investments, primarily debt instruments in the domestic capital markets.*

For the Period ending December	Funds Under Management for the Local T&T CIS Industry $Billions)	Bank Deposits Within the Local T&T Industry ($Billions)	New equities Issued ($Millions)	Debt and Debt Derivatives ($Billions)
2000	6.405	18.52	210	3,907
2001	9.39	21.43	313	10,958
2002	15.42	22.50	564	11,247
2003	21.44	23.82	102	10,903
2004	27.09	27.65	2,198	7,962

Source: *Survey Results*

The growth and growing importance of the mutual funds sector indicate a broadening of the participation of investors in the capital market. The combination of the broader capture of investors and some of the developing characteristics of the industry structure bring into sharper focus the need to provide a comprehensive regulatory framework for the industry.

Issues in Structure and Operation

The industry has developed a significant degree of concentration in that four fund management groups are reported to manage some 97% of the funds under management in domestic CISs. When taken with the fact that institutional investors probably account for 70% of all CIS investments a picture of significant concentration begins to emerge.

This concentration in the industry has developed under a regime in which supervision and regulation are weak and fractured. In this environment, the standards and practices observed by individual fund providers and managers vary significantly leading to potential concerns at an industry level about fund governance, risk management, marketing and promotional practices and surveillance and reporting.

Major Findings

Size and Structure

As at December 31st 2004, 61 funds were registered of which 31 were local and 30 were foreign. The total funds under management were $27.09 billion and these were managed by seven (7) groups.

Industry Concentration

The industry is highly concentrated in a number of areas. Seventy-seven percent of total funds under management were invested in TT dollar and the remainder in US dollar funds. Fifty-five percent of the local dollar investments were placed in money market funds while 22 percent of the US dollar investments were in similar funds. Institutional investors accounted for over 80 percent of investments in equity and bond funds.

One group accounted for a little less than half the funds invested while the two leading groups accounted for over 80 percent. Forty-seven percent of the investments were made in the financial sector, domestic sovereign and statutory corporations accounted for 36 percent. A mere 2.3 percent and 1.6 percent were made in the local manufacturing and energy sectors respectively. Debt instruments accounted for approximately 88 percent of portfolio investments, while equities accounted for 12 percent and mutual funds an insignificant less that 0.5 percent.

Nomenclature Issues

The portfolio composition was examined to determine how they conformed to nomenclature standards that are utilised in more mature jurisdictions, as well as those recommended in the Stikeman Elliot Review. A core principle of the standard is that an investment company should invest at least 80 percent of its assets in the type of investment suggested by the name of the fund.

The examination revealed:

- *Of 8 money market funds, one had more than 80 percent of its funds invested in short term investments while two had between 61 – 70 percent invested. In terms of short and medium term investments, one fund made between 61 – 70 percent of its investments in that category, two made between 50-60 percent of its investments and two between 41 – 50 percent.*
- *Of 5 bond funds, one held more than 80 percent of its investments in equities, one made 51 – 60 percent of its investments in long term securities and two held between 61 – 70 percent in short term securities.*
- *Of 6 equity funds, three held between 71- 80 percent of its investments in equities while another held between 51 – 60 percent; one held more than 81 percent of its investments in short term instruments.*

<u>Corporate Governance Issues</u>

The mechanisms and structures of governance were examined in the context of best practices that may be applied to the governance model that best approximates the situation in the local industry. That would be the contract trustee model.

In terms of policy setting and enforcement by the Board of Directors/Trustee the performances of seven groups were evaluated against four international standards. Three met all standards, two met two standards and one met one standard. Three had established investment objectives and four had compliance procedures.

With respect to evaluation of managers, two groups evaluated managers at least monthly, another two at least quarterly and one at least annually.

Governance was also measured against seven compliance mechanisms. Two groups used six of those mechanisms, while one used five, four, three and one.

Manuals were deemed to be required in seven areas. Two groups had manuals in six areas, one had in four areas, while two had in two areas and another in one area. However five groups had manuals in the administrative practices area.

An examination of the practices in the area of continuous reporting on key areas of business activity revealed that most funds reported to investment managers. On average however, only two families reported at least monthly or quarterly to the Board of Directors. On the issue of reporting to investors, it was found that fund families in the banking group published reports at least annually in accordance with the guidelines of the Central Bank of Trinidad and Tobago. Outside of the banking group, only one fund family published annual reports, albeit on an inconsistent basis. Further, only one group held an annual investors' meeting.

In summary, the survey results revealed a young industry characterized by phenomenal levels of growth and high concentration levels. This constitutes a significant segment of the securities market and of the country's savings, which remarkably operates outside of an effective regulatory framework. There exists limited standardization of practices and insufficient adherence to internationally accepted and good corporate governance standards. In addition, the study revealed there is insufficient reporting to investors. As a result it was difficult to undertake a proper and scientifically accepted comparison of performance among funds, as well as against international performance benchmarks.

The Way Forward

The evidence that has emerged from the survey is compelling enough to warrant an immediate intervention in terms of the establishment and implementation of policies to facilitate the smooth and sustained operations of the industry. The recommended intervention is in the form of a regulatory framework that should consist of two limbs, namely moral suasion and legislation. Importantly, the industry is a going concern and as such any proposed measures, even those that may result in a change in the status quo, should be developed in the context of maintaining the smooth operations of the industry.

Complementary to the regulatory framework is the requirement for the production of a current and up to date market watch monitoring system for mutual funds. This market watch system when fully developed, should contain current public information on all registered funds and on certain aspects of the operations of foreign funds in Trinidad and Tobago through registered representatives. This system will facilitate peer comparisons among fund and fund managers. It will also provide up to date data on fund operations and will facilitate a range of key statistical analyses on different aspects of such fund operations and performance.

As a repository of sensitive and vital information on the industry, this monitor must have certain characteristics to maintain its integrity and value as a regulatory instrument. These include:

- *Continuous reporting of fund operations by fund managers;*
- *A basis for managing necessary access to the system while ensuring that its confidentiality is preserved and ;*
- *Procedures for maintaining the monitor and watch.*

1 INTRODUCTION

1.1 Background

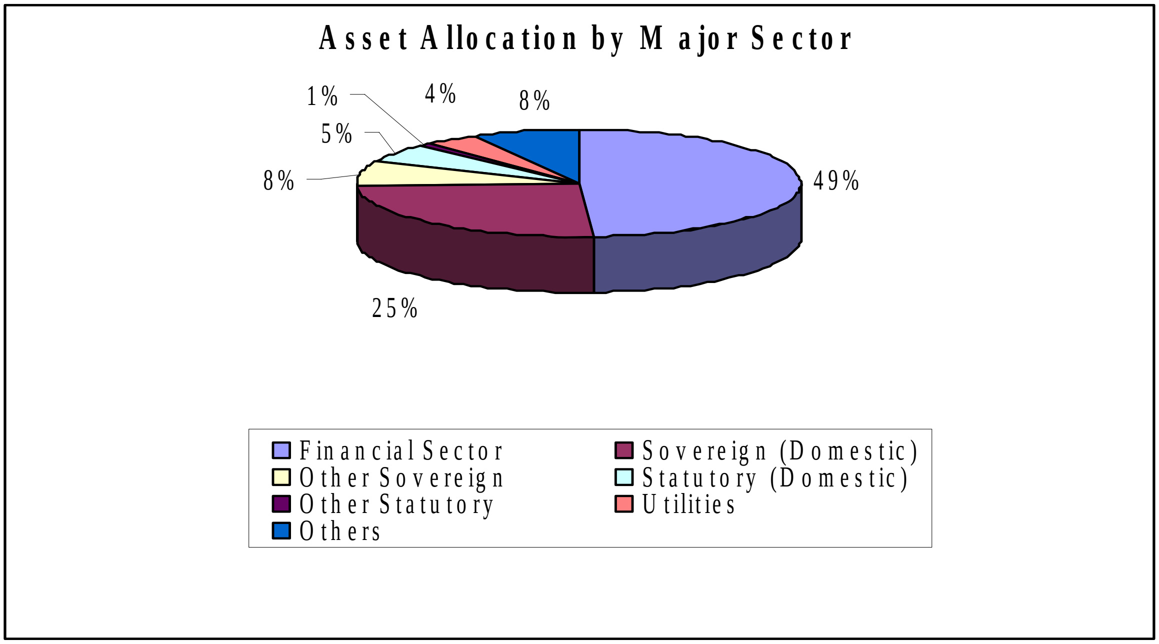
Collective Investment Vehicles (CIV)[1] or Collective Investment Schemes (CIS)[2] are forms of financial instruments that are available to investors, allowing them to pool their investments for management by professional investment managers. Collective investment vehicles include the entire mutual fund industry, including money market funds, equity funds, bond funds and hybrid funds as well as certain types of annuity and pension funds.

The CIV industry in Trinidad and Tobago is young and still developing. It commenced in 1981 with the establishment of the Trinidad and Tobago Unit Trust Corporation (UTC) through an Act of Parliament.[3] The UTC operated as a monopoly supplier until the liberalisation of the market in 1994. Over the years and particularly since 1994, the industry has expanded significantly. At the end of 2004, for the CIS industry represented approximately 20.0 percent of the value of assets in the financial system, inclusive of savings.

Between 1997 and 2004, investments in CIV, particularly in mutual funds, emerged as the preferred form of national investment. Over that period, the rate of growth of these funds exceeded that of savings in commercial banks so much so that today CIS have become one of the leading vehicles for financial intermediation between savings and real output in the economy.[4] It is instructive to note however that the majority of available funds are invested in the financial sector with relatively little going to such strategic economic activities as energy and tourism. (See Chart 1 overleaf.)

[1] Except otherwise stated all references to CIVs pertain to Trinidad and Tobago
[2] The preferred nomenclature of the Central Bank of Trinidad and Tobago
[3] The Unit Trust of Trinidad and Tobago Act 1981.
[4] Except otherwise stated all references to the economy are to the economy of Trinidad and Tobago

Chart 1: Asset Allocation by Major Sector



Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

1.2 Economic Impact

The growth trend associated with CIV in Trinidad and Tobago mirrors global trends. Using data from the mutual funds industry as a whole, that industry grew worldwide by 38.0 percent from US $11.3 trillion in 1999 to US $15.6 trillion in 2004. The recent trends in the global mutual funds industry over the period 1999 – 2004 are presented in Appendix 1.

In general, the activities associated with this industry impact positively on financial markets and the real sectors. With regard to financial markets in particular, they tend to contribute to a lowering of investor costs, increasing liquidity in capital markets and diversification and minimization of investor risk. The resulting growth therefore is in part a function of the economic benefits associated with the industry.

1.3 Regulatory Framework

The industry is the manager and custodian of a substantial share of the financial resources of the economy. A key prerogative for the industry therefore is the establishment of a comprehensive and appropriate regulatory framework. In Trinidad and Tobago, this framework is less than comprehensive and is also fractured, with key elements of the regulatory requirements not being addressed adequately or at all. There is a triumvirate of supervisory and regulatory systems. Firstly, there are the mandatory regulations and guidelines in the Unit Trust Corporation of Trinidad and Tobago Act (UTC Act) which applies specifically and only to the operations of the UTC but not to the rest of the industry. Secondly, there are guidelines established by the Central Bank in 1995 and which apply only to CIV established by institutions licensed under the Financial Institutions Act of 1993. Thirdly, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) has responsibility for the receipting of prospectuses for new offerings under the Securities Industry Act of 1995.

1.4 Study Objectives

The growth and size of the CIV industry makes it an important part of the local financial and economic landscape. Its activities can have a significant impact on local economic activity. It is imperative therefore that the relevant authorities, as well as interested stakeholders have a sound understanding of its operations, key drivers and risks. (This is critical if its long-term sustainability is to be preserved.) In recognition of this imperative, the Central Bank of Trinidad and Tobago (CBTT) and the Trinidad and Tobago Securities and Exchange Commission commissioned a baseline study of the industry. The study was undertaken by a team of professionals from both institutions and covered the period 1998 to 2004. The data used in the study are those available as at December 31st, 2004 or closest. The report of the study is produced in this document.

The specific objectives of the study were:

1. to conduct a comprehensive review and analysis of the growth, size and structure of the CIV industry in Trinidad and Tobago including the allocation of capital to the industry and its impact on securities market development;
2. to assess and analyze the legal, administrative and governance structures in place for fund management companies; and
3. to review and assess fund management practices which are employed in the industry.

This report will inform the formulation of an effective regulatory framework for CIV in Trinidad and Tobago.

1.5 Methodology

The basic methodology was the use of survey instruments and techniques for comprehensive data capture. This included desktop research of relevant documents and information, a secret shopper field survey and questionnaires that were administered to key informants. The detailed methodology is provided in Appendix 2.

1.6 Constraints

The constraints that were faced in undertaking the study were primarily the results of the existence of different regulatory regimes and the absence of a comprehensive regulatory framework. This was manifest in the *modus operandi* of the various fund and fund families particularly with regard to disclosure requirements and standards, as well as nomenclature issues evidenced by the lack of standardisation with respect to terminology which were not always available in a consistent and comparable format, a situation that posed statistical and computational challenges.

1.7 The Report

The report is divided into two parts. Part 1 consists of the substantive report that constitutes the research findings. It comprises the following sections in addition to the Executive Summary and Introduction:

- Development
- Industry Structure
- Governance
- Performance
- Operations
- Risk Management and Portfolio Management Practices
- Policy Implications

Part 2 contains the appendices to the study. These appendices provide elaboration on a number of areas discussed in the main report. A list of these appendices is provided in the Table of Contents.

2 DEVELOPMENT

2.1 *The Early Years*

The CIV industry in Trinidad and Tobago was initiated with the establishment of the Trinidad and Tobago Unit Trust Corporation in 1981. The *raison d'etre* of the UTC was to establish an institution that would provide greater investment opportunities for locals. It was intended to serve two basic purposes:

- the mobilization of savings of the domestic population so that these could be channelled into desirable investments; and
- the provision to persons of modest means a facility through which they could own shares and thereby link household savings more directly with productive activity.

The UTC launched its first CIV, the First Unit Scheme in 1982. This is a Growth and Income fund that invests in shares of local companies trading on domestic, regional and international stock exchanges, in government and government guaranteed bonds, and in other regional and US dollar denominated investments. Seven years later, it launched the Second Unit Scheme, a Trinidad and Tobago dollar denominated money market fund. In 1990, its third fund - the Chaconia Income and Growth Fund, which is incorporated in the United States of America and regulated by the US Securities and Exchange Commission, was launched. Other offerings include the Universal Retirement Fund and the US Dollar Money Market Fund. The UTC was the monopoly provider of these forms of financial instruments until the liberalisation of the financial market in 1994.

2.2 *Post-liberalisation*

Sponsors

Since 1994, three of the largest financial institutions have emerged as major sponsors. These are Republic Bank Limited, RBTT Bank Limited (formerly the Royal Bank of Trinidad and Tobago), and First Citizens Bank (formerly First Citizens Bank Limited). Each institution has made a family of funds available to potential investors and provides domestic and foreign opportunities for investment in a range of industries. More recently, other sponsors have emerged, including one of the newest financial groups (AIC), an insurance group (Colonial Life) and a Securities Company – Bourse Securities Limited to name but a few. In addition several foreign mutual funds are being marketed in Trinidad and Tobago by local agents on behalf of the foreign sponsors/issuers.

Today, there are seven sponsors of local funds namely:

- AIC Financial Group
- Colonial Life Insurance Company
- First Citizens Trust and Asset Management
- RBTT Trust and Asset Management
- Republic Bank Limited
- Bourse Securities Limited
- The Trinidad and Tobago Unit Trust Corporation

Table 1 provides a summary of existing sponsors and funds.

Table 1: Sponsors and Funds

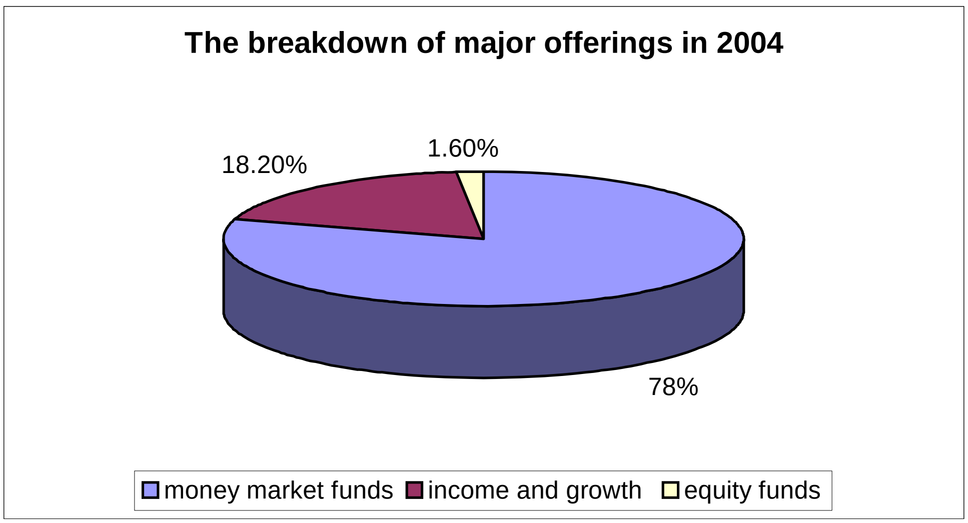
Sponsor	Fund
First Citizens Bank Group	The Paria Fund FCB Retirement Provider
RBTT Group	Roytrin Mutual TTD Money Market Fund Roytrin Mutual US$ Money Market Fund Roytrin Mutual TTD Income and Growth Fund Roytrin Mutual US$ Income and Growth Fund RBTT Bank TTD Group Future Cash RBTT Bank TTD Individual Future Cash
UTC	T.T. Dollar Money Market Fund (Second Unit Scheme) U.S. Dollar Money Market Fund Growth and Income Fund (First Unit Scheme) Chaconia Income and Growth Fund Universal Retirement Fund
AIC Financial Group	AIC TT Caribbean Equity Fund AIC TT Income and Growth Fund AIC TT Short Term Income Fund
Bourse Securities	Savinvest Capital Growth Fund Savinvest US$ Capital Growth Fund Savinvest Group retirement Plan Savinvest Individual Retirement Plan
CLICO	Colonial Life Core Fund
Republic Bank Group	Republic Caribbean Equity Fund

Source: Investment Managers

Products

A wide range of products is available to the investor. Money market funds dominate the offerings and account for approximately 78.0 percent of the Funds Under Management (FUM) in the industry. Growth and income and equity funds account for 18.2 and 1.6 percent shares of FUM, respectively. The respective market shares by product are shown in Chart 2. In addition, two investment managers account for over 80.0 percent of the market.

Chart 2: Major Offerings in 2004



Source: Investment Managers

At the end of 2004, there were 206 funds registered with the TTSEC of which 169 were foreign and 37 were local. Of these 206 funds, 61 are distributed in the local market including 30 foreign funds and 31 local funds. Trading takes place in six currencies.[5]

In terms of fund structure, most of the funds issued in Trinidad and Tobago are open ended funds that allow for continued increases in the number of units in issue over time. There are also a limited number of closed ended funds in which the number of units to be issued, the total value of the assets to be managed, or both are fixed at defined maximum values. Unit prices for all funds

[5] Barbados Dollars, Canadian Dollars, Euro Dollars, Pound Sterling, Trinidad and Tobago Dollars, and United States Dollars.

are intended to be determined by market forces – either the market values of the underlying investments in open- ended funds, or the market value of the unit in a close- ended fund which is traded on a stock market. Consequently, unit prices are subject to fluctuations caused by market forces, and typically, most funds offer investors no protection against such market risks. By December 2004, the only closed ended fund in operation in Trinidad and Tobago was the Praetorian Fund that is managed by GHL/RBTT.

Fund Types/Investment Strategies

Each fund seeks to pursue a particular investment strategy that is intended to be reflected in the naming of the fund.[6] The predominant categories are money market funds, bond funds, equity funds, hybrid funds, deferred annuity plans, and fund of funds. Table 2 below summarises the 61 local and foreign fund types marketed in Trinidad and Tobago by type of fund or investment strategy.

Table 2: Number of Funds by Type

Fund Type/Investment Strategy	No of Local	No of Foreign	TOTAL
Money Market	8	2	10
Bond	5	3	8
Equity	6	17	23
Growth & Income	4	1	5
Real Estate	1	0	1
Hybrid	1	3	4
Pension/Deferred Annuity	6	0	6
Funds of Funds	0	4	4
TOTAL	31	30	61

Source: Survey Results

6 The investment objective of the fund, specifically, the nature of CIVs portfolio of assets and the related general features of the fund are for the purposes of this section of the report derived from the general classifications as referred to in the investment prospectus of the fund.

3 INDUSTRY STRUCTURE

3.1 Overview

The industry structure is analysed by examining the major functionaries and interrelationships at the macro level, as well as at the internal corporate or micro level.

3.2 Macro level

The structure of the industry at the macro level is presented in simple summary form in Chart 3. This chart shows the major functionaries and interrelationships at the global level of the industry. Those functionaries are the (quasi) regulators or regulatory mechanism (in the case of the UTC), the sponsors or promoters, the sales agents and the investors.

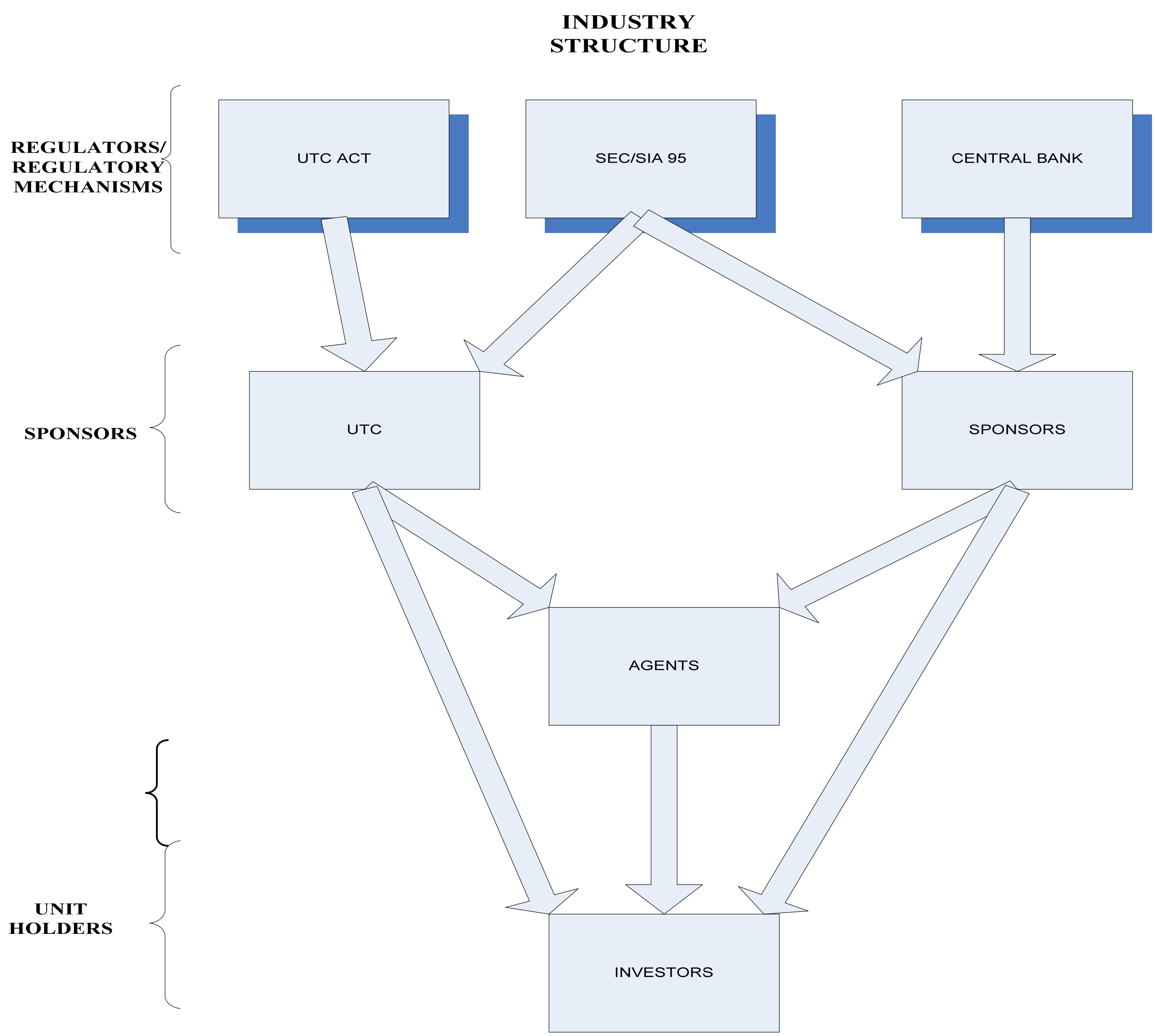
3.3 Micro level

The micro level focused on the internal corporate structure of the CIV and was analysed specifically by looking at the roles and responsibilities of the various functionaries as set out in the prospectuses and observed in practice. These functionaries and their interrelationships are shown in Chart 4 below. In general, the prospectuses show that within individual CIV, there exists different levels of functional responsibilities including:

- The trustee which is normally a financial institution, is mainly responsible for:
  - ✓ overseeing the fund with a fiduciary responsibility to unit holders;
  - ✓ assisting in providing custodianship of the fund’s assets;
  - ✓ assisting in monitoring the assets;
  - ✓ ensuring investment objectives are being followed;
  - ✓ supervising compliance procedures and internal controls; and
  - ✓ establishing borrowing limits.

- The custodian which is also a financial institution is usually an associate of the sponsor and is primarily responsible for:
  - ✓ assisting in providing custodianship of the fund’s assets.
  - ✓ assisting in monitoring the assets.

Chart 3: Industry Structure



Source: Trinidad and Tobago Securities and Exchange Commission

- The fund auditor which is normally an outside accounting firm that is responsible for
  - ✓ undertaking an independent review of the CIV; and
  - ✓ preparing financial statements of the CIV for submission to the trustee

- The distributor which is usually the investment manager, an affiliate company, or a separate dealer/ agent, the main responsibilities of which are:
  - ✓ the marketing of the fund; and
  - ✓ maintaining a register of all the investors.

- The investment adviser which is normally also an associate of the sponsor and is responsible for:
  - ✓ assisting in managing the portfolio of assets.
  - ✓ assisting in establishing investment objectives; and
  - ✓ providing necessary investment advice to the investment manager and the trustee.

- The investment manager which is also an associate with responsibility for:
  - ✓ assisting in establishing investment objectives;
  - ✓ assisting in managing the portfolio of assets either directly or by outsourcing an investment adviser;
  - ✓ establishing compliance procedures and internal controls; and
  - ✓ determining the Net Asset Value of the units of the fund.

- The portfolio manager which is the investment manager or an affiliate institution.

- Legal adviser which is an outside firm of attorneys-at-law.

A review of the prospectuses indicated that the main funds were managed and operated from within competing financial groups. Except in two cases, the typical organization had one associate performing the role of trustee, while one or two other affiliates performed the other functions. Generally, outsourcing was limited to the legal and auditing functions. There is evidence to suggest that in practice, in a number of instances, there was not strict adherence to the governance structures laid out in the prospectuses through a blurring of the lines of responsibility.

Overall, the responsibility scenario suggests that:

1. in the main an internal separation of responsibilities exists primarily between that of trusteeship and other functions;

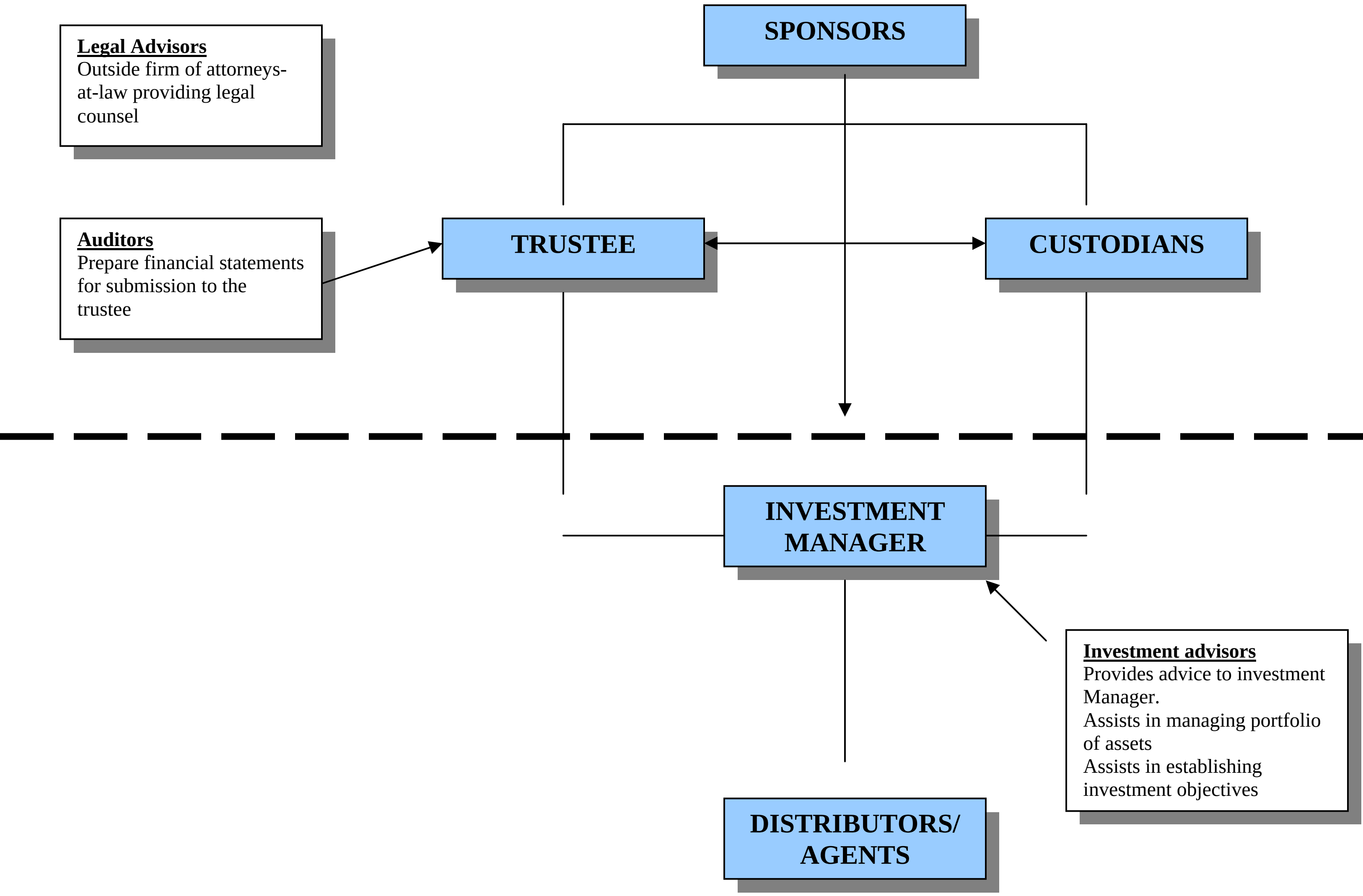
2. there was no standardized or consistent definition of the role of functionaries across fund families implying that there may be an overlap of some responsibilities among the respective functionaries;

3. the majority of oversight responsibilities are undertaken by affiliates of the sponsors and reside within the same group;

4. there is little involvement of independent or outside interests in the oversight of the activities on a CIV, such involvement being mainly in the discharge of the functions of legal advisor and auditor; and

5. in some instances there is deviation from what is set out in the prospectus.

Chart 4: Micro Structure of a typical CIV



Source: Trinidad and Tobago Securities and Exchange Commission

4 GOVERNANCE

4.1 Overview of Governance Models

This section examines the mechanisms and structures of governance in the industry. In particular it focuses on the integrated systems and controls that exist in the respective fund families to achieve their investment objectives and maximize the returns to unit holders. Accordingly, there was an examination of the monitoring mechanisms to guard against irregularities, stated controls and treatment of conflicts of interest. The major means of investigation were the prospectuses and the survey results.

In February 2005, the IOSCO working committee on governance defined corporate governance for CIS as: *"A framework for the organization and operation of CIS that seeks to ensure that CIS are organized and operated efficiently and exclusively in the interests of CIS investors, and not in the interests of CIS insiders".*[7] Typically therefore, an investigation of governance structures seeks to determine how things are done, who does what and how the respective players are accountable for their action.[8]

While there is no generally agreed best practice governance system, four broad types of governance systems have been identified by IOSCO (2005).[9] These are:

a) Corporate Model – Board of Directors
b) Corporate Model – Depository
c) Contractual Model – Depository
d) Contractual Model – Trustee

These systems are found mainly in different OECD countries. For example, model (a) is found in the US and Mexico; model (b) is found in the UK and Ireland; model (c) is found in Portugal, Switzerland, Italy, Germany, Spain, France and Luxembourg and model (d) is found in Hong Kong and, with respect to open-ended funds, in Canada.

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[7] International Organisation of Securities (February 2005). "Examination of Governance for Collective Investment Schemes." Technical Committee. Spain

[8] See Boardroom (Jan/Feb 2002): "Fund Governance a critical issue: Interview with Glorianne Stromberg". Vol. 10 Number 1

[9] IOSCO February (2005). "Governance for Collective Investment Schemes" Consultation Report: of the Technical Committee. Spain.

In the Hong Kong Trustee model, the Investment Manager is separated from the Trustee, who has oversight responsibility. The Trustee can also remove the Investment Manager. Canada is moving towards requiring open-ended CIS to establish an independent review committee (IRC). This body would provide an independent check. This model has some similarities between this model and the model used in the UK where, independence is required between the trustee and Investment Manager.[10]

The basic aim of the IOSCO recommendations on governance systems is to ensure that Collective Investment Schemes (CIS) are run in the interest of the investors. This calls for mechanisms to reduce the possibility or effects of conflict of interests and the protection of investors from misleading, manipulative, fraudulent practices and negligence on the part of the CIS.[11] At the same time, significant differences in CIS can have implications for differences in cost structure and differences in mechanisms required for good governance.

4.2 Governance Structures in Trinidad and Tobago

Nature of Governance System and Independent Oversight

The governance model adopted by locally registered mutual funds bears more of the characteristics of the contract trustee model. The funds are established and governed by a trust deed with the major players being the Trustee, which has policy making and oversight authority and the Investment Manager or Operator[12], which in the main is responsible for portfolio management, promotion and administration. Since in the majority of cases CIV are promoted by financial groups in which associated entities perform these roles, it may likely pose challenges to establish the necessary level of independence that is called for in the IOSCO standard.

In the main the Trustees, Investment Managers and Custodians reside within the same group. This raises issues concerning how well investors are protected. In fact, this was one of several reasons for the supervision of mutual funds advanced by the IOSCO in 1997.[13] The reasons are inclusive of the following:

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10 This is an important recommendation by the Elirchman Report to Canada. See Elirchman, Stephen (2000). "Making it mutual: Aligning the interests of investors and managers". Report prepared for the Canadian Securities Administrators

11 International Organisation of Securities Commissions (February 2005). "Examination of Governance for Collective Investment Schemes". Technical Committee, Spain.

12 This is the preferred terminology in the local prospectuses.

13 IOSCO (1997). Principles for the Supervision of the Investment Managers of Collective Investment Schemes. Technical Committee, Spain.

- Protection of investors - This includes ensuring that assets are kept safe for investors, ensuring that investors receive the correct number of units and, investments are made in accordance with objectives and are appropriately diversified;.
- Promotion of market integrity - to attract investors;
- Promotion of Investment Manager integrity - wide range of Investment Manager duties can impact on the efficiency of its functions and supervision is likely to raise the standard of the investment manager;
- Anticipatory and preventative approach to problems.

Relevant features in the structure of CIV

A major feature in the structure of the CIV is that generally, outside of the Board of Directors (BoD), Investment Managers and Auditors, the designation of functionaries and their roles are not standardized in the prospectuses. However, there are a few commonalities that were observed across funds.

1. For all fund families, except for the Unit Trust Corporation (UTC), the Trustee function was performed by commercial banks.
2. Except for one fund family and another promoter, the functionaries including the Trustee are affiliates to the Sponsor/Promoter.
3. The auditing function is dominated by one firm.

All funds were operated within competing financial groups. Generally, one affiliate performed the role of trustee, while one or two other affiliates performed the other functions. There was little outsourcing of major functions. As a result, while there might have been an internal separation of trustees from all the other functionaries by way of the designation of different entities to perform the functions, there was little involvement of third parties or independent firms in the oversight of activities.

4.3 The Trustee

Responsibilities

The position and role of the BoD of the Trustee are pivotal in the industry. In every case, the prospectuses indicated that the BoD had an important fiduciary responsibility to unit-holders consistent with trust law and the trust deeds. In addition, most trustees also performed the custodianship role, except in the case of the UTC where the Central Bank performed this role.

Another important function outlined in the prospectuses is that of managing the business affairs of the fund. Five fund families identified this function in their prospectuses. However, the empowerment of the BoD to appoint officers to administer the fund was only contained in the prospectus of the UTC. Similarly, the responsibility for the determination of the NAV and borrowing were included in the prospectus of one other financial institution.

In practice, the functions of the BoD differed from what was indicated in the prospectuses. They all assumed responsibility for certain aspects of policy formulation and compliance and a few undertook management and custodial functions.

Policy function

Boards of Directors did not consistently discharge all of the policy functions required by the standard. In five (5) fund families, the Board of Directors established borrowing limits, four (4) established compliance procedures and internal controls, and three (3) established investment objectives. Viewed from a different perspective, only one (1) Board undertook at least three of the functions, two undertook two of the functions and one undertook only one function. See Table 3.

Table 3: Policy Roles of Boards

		Number of Fund Family Trustee Boards	Number of fund family Boards with a combination of three functions	Number of fund family Boards with two functions	Number of fund family Boards with one function
A	Establishes investment objectives	3	Combination A, B & D= 1 Board	Combination B and D = 2 Boards; Combination A and D =1 Board Combination B and C =1 Board	Function A only = 1 Board Function D only = 1 Board
B	Establishes compliance procedures and internal controls	4			
C	Establishes sales agents compensation	1			
D	Establishes the borrowing limits of the Funds	5	Total Number: 1 Board	Total umber: 4 Boards	Total Number: 2 Boards

Source: Prospectuses filed and Survey results

Compliance Function

The BoD oversees the fund and has fiduciary responsibilities to the unit holders. Again, the functions required under this responsibility were not discharged by all families in all cases. Seven families indicated that the BOD/Trustee accepted fiduciary responsibility to unit holders; four ensured that investment objectives were followed, four supervised compliance and three ensured compliance with lending limits. Other than the issue of fiduciary responsibility, only 1 Board undertook all the other functions, one undertook two of the functions and two undertook only one other function. As shown in Table 4 below, these elements varied across funds and there was no uniformity in the elements that each adopted. The most popular elements performed were:

- Ensuring that investment objectives were met, and
- Supervising compliance procedures and internal controls.

Table 4: Compliance Roles by Boards

		Number of Fund Families Trustee Boards	Number of fund families Boards with a combination of three functions, other than A	Number of fund family Boards with two functions other than A	Number of fund family Boards with one function other than A
A	Oversees the fund and has fiduciary responsibility to the unit or shareholders	7	Combination B, C & D = 1 Board	Combination B & C = 1 Board	Function B =2 Boards
B	Ensures investment objectives are followed	4		Combination C & D = 2 Boards	
C	Supervises compliance procedures and internal controls	4			
D	Ensures compliance with lending limits	3	Total Number: 1 Board	Total Number: 3 Boards	Total Number: 2 Boards

Source: Prospectuses and Survey Results

Notes: One fund did not mention any other compliance function besides A.

Management Function

As shown in Table 5 below, most BoDs did not exercise management functions, where these are defined in terms of portfolio management, activities associated with unit holder returns or administrative functions.

Table 5: Management Functions performed by the Board of Directors of Fund Families

<table>
<tr><th></th><th></th><th>Number of Fund Family Trustee Boards</th><th>Number of Fund Family boards with all Management Functions</th><th>Number of Fund Family Boards with one Management Function only</th><th>Number of Fund Families with no management function</th></tr>
<tr><td>1</td><td colspan="2">Portfolio</td><td rowspan="10">1

Total Number = 1 Board</td><td rowspan="10">Function 2B = 1 Board;

Function 3A = 1 Board

Total Number = 2 Boards</td><td rowspan="10">4

Total Number = 4 Boards</td></tr>
<tr><td>1A</td><td>Manages the portfolio of assets</td><td>1</td></tr>
<tr><td>2</td><td colspan="2">Unit Holder Returns</td></tr>
<tr><td>2A</td><td>Recommends price for units or shares of the fund</td><td>1</td></tr>
<tr><td>2B</td><td>Approves price of units or shares of the fund</td><td>2</td></tr>
<tr><td>2C</td><td>Evaluates assets</td><td>1</td></tr>
<tr><td>3</td><td colspan="2">Administrative Functions</td></tr>
<tr><td>3A</td><td>Handles investment complaints</td><td>2</td></tr>
<tr><td>3B</td><td>Manages administrative operations</td><td>1</td></tr>
<tr><td>3C</td><td>Markets and/or distributes the fund</td><td>1</td></tr>
</table>

Source: Prospectuses and Survey Results

4.4 The roles of other functionaries

The definitions of the roles of functionaries were also not standardized across fund families. Moreover, these various functions were performed by the same firm within the financial group. In some cases as shown in Table 6 below, different functions identified by some funds were performed by one functionary within the fund family. For example, in respect of the management of the portfolio of assets, there was no distinction between the roles of the investment manager and advisor for three fund families, while for one fund family, no distinction was made between the investment manager and portfolio manager with respect to the performance of this duty.

Table 6: Role Distinction

	Number of fund families with no distinction between investment manager and advisor	Number of fund families with no distinction between investment and portfolio manager
Manages the portfolio of assets	3	1
Ensures investment objectives are followed	2	1
Recommends price for units or shares of the fund	1	0
Valuates Assets	1	0

Source: Prospectuses and Survey Results

The investment advisors, investment managers and portfolio managers managed the portfolio of assets and ensured that investment objectives were met for all the fund families. This is seen in Table 7 overleaf which shows that in the case of the fund administrator, the most popular roles were the maintenance of the register of all investors and the treatment of investor complaints. In two funds, the fund administrator also exercised some compliance and evaluation functions. The primary roles of the distributor were the marketing and distribution of funds, the hiring of sales agents and the establishment and evaluation of the compensation of sales agents.

Table 7: Investment, Compliance and Administrative Roles

Duties	Investment Advisors	Investment Manager	Portfolio Manager	Fund Administrator	Sponsor/Promoter	Distributor
Establishes investment objectives	1	1	0	0	2	0
Ensures investment objectives are followed	3	3	1	0	0	0
Manages the portfolio of assets	5	3	2	0	0	0
Evaluates Fund Manager’s/Investment advisor’s performance	0	1	0	0	1	0
Maintains a register of all investors	0	1	0	4	0	1
Handles investment complaints	0	0	0	3	1	2
Establishes Compliance Procedures and Internal Controls	0	1	0	2	1	0
Supervises compliance procedures and internal controls	0	1	0	2	0	0
Ensure compliance with lending limits	0	1	0	1	0	0
Establishes the borrowing limits of the funds	0	0	0	0	0	0
Manages administrative operations	0	1	0	4	1	0

Source: Prospectuses and Survey Results

Table 8: Marketing and Unit Pricing Roles

	Investment Advisors	Investment Manager	Portfolio Manager	Fund Administrator	Sponsor	Custodian	Distributor
Hires sales agents	0	0	0	0	1	0	5
Evaluate sales agents performance	0	0	0	0	2	0	4
Establishes sales agents compensation	0	0	0	0	2	0	4
Markets and or distributes the fund	0	0	0	0	1	0	6
Recommends the price for units or shares of the fund	1	2	1	2	0	1	0
Approves price of units or shares of the fund	0	2	0	2	0	1	0
Valuates assets	1	2	1	2	0	1	0
Provides Custodianship of Assets	0	0	0	1	0	4	0

Source: Prospectuses and Survey Results

4.5 Compliance Mechanisms

With respect to the existence of compliance mechanisms, similar patterns of lack of consistency were observed. One board established no compliance procedures. Five used internal audits and compliance reports; four established audit committees, while three employed specialist compliance personnel and had compliance manuals. One fund family established an Investment Committee, and had an investment and liquidity policy.

Table 9: Compliance Mechanisms

	Compliance Mechanism	Number of Fund Families
A	Compliance Officer	4
B	Compliance Manuals	3
C	Audit Committee	4
D	Internal Audits	5
E	Compliance Reports for the Board	5
F	Compliance Reviews	3
G	Other	1
Number of Fund Families		**Combinations**
1		A, B, D, E
1		C, D, E
2		A, B, C, D, E, F
1		A, C, D, E, G
1		F

Source: Prospectuses and Survey Results

Notes: Other is Investment Policy, Liquidity, and Investment Committee

4.6 Evaluation of portfolio managers

There were wide variations in the frequency of evaluation of managers responsible for portfolio management as shown in Table 10. Six fund families undertook evaluations quarterly; one conducted evaluations monthly, one conducted no evaluations at all and one fund indicated that its evaluations were conducted on a daily basis. Two funds indicated that they would also undertake such evaluations in response to certain specific requests.

Table 10: Frequency of Evaluation of Managers

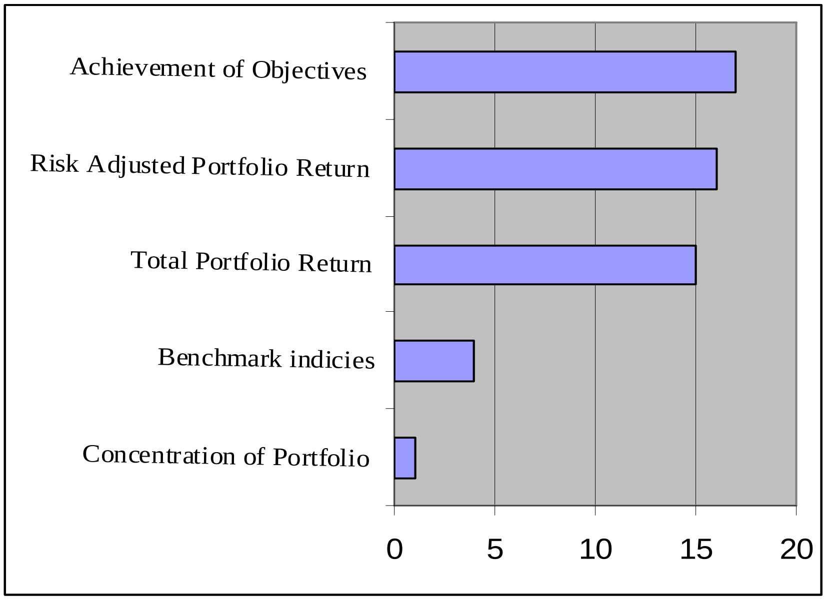
	Stated Policies	Number of Fund Families
A	Daily	2
B	Weekly	1
C	Monthly	2
D	Quarterly	6
E	Semi Annual	2
F	Annually	3
G	Per Request	2
H	None	1

Number of Fund Families	Combinations
1	A, B, C, D, E, F, G
1	C
1	D, G
1	H
2	D
1	F
1	D, E, F
1	A, D

Source: Survey Results

Based on the ranking indicated by respondents, the most important evaluation criterion was the achievement of the investment objectives. This was followed in order by risk-adjusted returns, total portfolio returns, benchmark indices and portfolio concentration.

Chart 5: Frequency of meeting Evaluation Criteria among fund families



Source: Survey Results

4.7 Reporting lines

<u>*Investment Performance*</u>

Reports on investment performance and transactions were done in monthly and quarterly intervals and in most cases there was no external reporting relationship for the primary operator, not even to a different entity within the group. In terms of investment performance, three fund families indicated that investment performance was not reported within the group. While two fund families indicated that they submitted reports from the Portfolio Manager/Investment Advisor to the Investment Manager, in reality both parties were within the same firm in the financial group. Only two firms indicated that the reports were submitted to the BoD, the latter being a separate firm within the financial group. With respect to portfolio transactions, in the majority of cases, fund families reported within the same firm undertaking the investments. Again, only two firms actually submitted reports to the BoD. The summary findings are presented in Table 11 below.

Table 11: Reporting Investment Performance

Source and destination of reports		Number of fund families	Frequency				
From	To		Monthly	Quarterly	Semi-Annually	Annually	No report
Investment Performance							3
Current Portfolio Manager/Investment Advisor	Investment Manager	2	2				
Current Portfolio Manager/Investment Advisor	Board of Directors	1	1	1		1	
Fund Administrator	Board of Directors	1		1			
Portfolio Transactions							1
Portfolio Manager/Investment Advisor	Portfolio Manager	1	1				
Portfolio Manager/Investment Advisor	Investment Manager	3	2	1			
Portfolio Manager/Investment Advisor	Board of Directors	1		1			
Fund Administrator	Board of Directors	1		1			

Source: Survey Results

4.8 Report on Fund Activities

There was little commonality between funds concerning the source and destination of reports on income and expenses, and sales and redemptions as shown in Table 1. In most cases, these reports were undertaken and presented in-house. In three cases financial statements on income and expenses were submitted to the BoD. The frequency with which financial statements were undertaken varied widely as well. Three fund families reported that they provided these statements on a monthly basis, three reported that they did it on an annual basis, and one fund family reported that they undertook this semi-annually and annually.

Table 12: Reporting on Financial Activities

Source and destination of reports		**Number of fund families**	**Frequency**				
From	To		Monthly	Quarterly	Semi-Annually	Annual	No report
Statement of Income and Expenses							1
Transfer Agent	Transfer Agent	1	1				
Investment Manager	Investment Manager	1	1				
Investment Manager	Board of Directors	1	1				
Transfer Agent/Manager	Board of Directors	1			1	1	
Custodian/Depository	Operator/Investment Manager	1		1			
Fund Administrator	Board of Directors	1		1			
Sales and Redemptions							1
Fund Administrator	Board of Directors	1		1			
Portfolio Manager/Investment Advisor	Investment Manager	1	1				
Transfer Agent/Manager	Board of Directors	1	1				
Portfolio Manager/Investment Advisor	Portfolio Manager/Investment Advisor	1		1			
Investment Manager	Investment Manager	1	1				
Transfer Agent	Transfer Agent	1	1				

Source: Survey Results

Two fund families reported that they submitted reports on sales and redemptions to the BOD. The other fund families which provided this report, indicated that the submissions were done within the same firm in the group. Reports on sales and redemptions were done over monthly intervals for four fund families, on a quarterly basis for two fund families, while no report was undertaken in one case.

4.9 Report on the Accounting Functions

There were equally wide variations with respect to the source and destination of reports on the accounting activities of fund families. Three fund families indicated that they did their reports monthly. The others reported other time intervals, daily, quarterly and annually. Three submitted reports to the BoD. In all other instances, the reports were undertaken and transmitted within the same firm.

Table 13: Reporting on Accounting Functions

From	**To**	Number of fund families	**Daily**	**Monthly**	**Quarterly**	**Annual**	**No report**
Statement of Net Assets							1
Transfer Agent	Transfer Agent	1		1			
Investment Manager	Investment Manager	1		1			
Operator/Investment Manager	Board of Directors	1		1			
Transfer Agent/Manager	Board of Directors	1				1	
Custodian/Depository	Operator	1	1				
Fund Administrator	Board of Directors	1			1		
Valuation of Portfolio Securities							1
Transfer Agent	Transfer Agent	1		1			
Investment Manager	Investment Manager	1	1				
Portfolio Manager/Investment Advisor	Portfolio Manager/Investment Advisor	1			1		
Transfer Agent/Manager	Board of Directors	1			1		
Custodian/Depository	Operator	1	1				
Fund Administrator	Board of Directors	1			1		

Source: Survey Results

The valuation of securities was also undertaken at varying intervals across fund families. Accordingly, three funds indicated that they reported valuations on a daily basis, one reported on a monthly basis, and three reported doing so on a quarterly basis. Two of these fund families reported making quarterly submissions to the BoD.

4.10 Report on Compliance Functions

Two fund families indicated that they did not produce reports on compliance, risk management and internal audits. The others showed marked differences in the source and destination of the reports, and the frequency with which such reports were prepared as shown in Table 14 below.

Table 14: Report on Compliance Functions

From	To	Number of fund families issuing reports	Monthly	Quarterly	Semi annual	Annual	No report
Compliance Report							2
Operator/Investment Manager	Board of Directors	1		1			
Sponsor	Sponsor	1	1				
Portfolio Manager/Investment Advisor	Investment Manager	1		1			
Transfer Agent/Manager	Board of Directors	1			1		
Fund Administrator	Board of Directors	1		1			
Risk Management Report							2
Operator/Investment Manager	Board of Directors	1		1			
Sponsor	Sponsor	1	1				
Portfolio Manager/Investment Advisor	Board of Directors	1		1			
Portfolio Manager/Investment Advisor	Investment Manager	1		1			
Fund Administrator	Board of Directors	1		1			
Internal Audit Report							2
Sponsor	Board of Directors	1				1	
Sponsor	Sponsor	1				1	
Board of Directors	Board of Directors	1				1*	

Outsourced	Board of Directors	1				As requested	
Fund Administrator	Board of Directors	1		1			

Source: Survey Results

The compliance report was submitted to the BoD of the trustees for two fund families on a quarterly basis, while the submission was semi annual for another fund family. The other two fund families reported monthly and semi-annually and the reports originated and were submitted within the same firm in the group. Wherever compliance reports were undertaken, they were done within the fund family.

4.11 Risk Management Report

A similar pattern emerged with respect to risk management reporting. Two fund families did not produce such reports, while three said that they made monthly submissions of this report to the BoD as shown in Table 14. While the other funds prepared the report on a monthly basis, it remained internal for the firm. In one instance the submission was made to the sponsor, while in the other case it was made by the Portfolio Manager/Investment Advisor to the Investment Manager, both operating within the same firm.

4.12 Internal Audit

Five fund families indicated that they undertook internal audit reports. Four submitted these reports to the BoD while the fifth firm indicated that the report remained internal to the sponsor. In terms of frequency, two firms indicated that the reports were done annually; another indicated that it was done bi-annually, and yet another indicated that it was done on a quarterly basis. The fifth fund family indicated that the report was not done at regular intervals, but that it was undertaken when requested.

4.13 Policy Manuals

While not all fund families produced policy manuals for the functionaries, for those that did there were some consistencies as shown in Table 15. One fund family indicated that they do not as yet have stated policies. Five of the fund families said they had stated polices with respect to administrative practices, while four reported the existence of codes of conduct for investment managers.

Table 15: Policy Manuals

	Stated Policies	Number of Fund Families
A	Sales Practices	3
B	Dispute Resolution for Customers	2
C	Fund Manager Evaluation	2
D	Code of Conduct for Board Members	3
E	Administrative Practices	5
F	Codes of Conduct for Investment Managers	4
G	Other	2

Number of Fund Families	Combinations
1	E, F
1	A, E
1	F
1	A, C, D, E, F, G
1	A, B, C, D. E, F
1	B, D, E, F

Source: Survey Results

Notes: 'Other' is Investment, and Liquidity for one fund and Valuation, Custodial Distribution for another.

Three fund families indicated that they had stated polices for sales practices, and three indicated the same for the codes of conduct for board members. At the same time, two fund families indicated that they had written policies for dispute resolution, fund manager evaluation and other areas.

In terms of general policy statements by fund families, three said that they generate statements for at least four activities, including the codes of conduct for board members and investment managers, as well as for administrative practices. The other fund families had only up to two functions with stated policies. Fund families were therefore at different stages in the development of policy manuals.

4.14 Voting power of unit holders

For all fund families, the unit holders do not ordinarily elect the members of the Board of Trustees. All the funds indicated that the members of the BoD were appointed by the sponsor, and their appointments were based primarily on educational qualifications and experience. In some cases the directors may be elected by the shareholders of the sponsor or the appointee may be a representative of a related company. The UTC is unique in terms of how directors are appointed to the Board. The appointees must be representatives of the Ministry of Finance and of the Initial Contributors of seed capital.

The voting rights of unit holders in all fund families are in proportion to the units they hold. Collectively, the funds have set out in their prospectuses, the following grounds under which a meeting involving unit holders can be held:

- Change in investment objectives
- To sanction, modify, alter or add to the Declaration of Trust
- To remove the Trustee
- To terminate the Fund

Some funds families were more elaborate than others in the prospectuses on the details with regards to the right to call meetings by unit holders, the power of unit holders to change trustee, the rights of unit-holders to change trustees and the constitution of the fund. The contents of these sections of the prospectus are largely influenced by the legal advisors. To such an extent therefore fund families with the same legal advisors tend to reflect similarities in their prospectus.

5 PERFORMANCE

5.1 Overview

The performance of local CIV is assessed under the following broad headings as follows:

1. Funds under management
2. Sales
3. Repurchases
4. Asset allocation
5. Marketing and distribution mechanisms
6. Investor behaviour by fund type
7. Share valuation and pricing practices for shares
8. Disclosure of fees and expenses
9. Performance evaluation and presentation
10. Fund valuation
11. Fees and expenses
12. Accuracy and comparability in performance measurement, evaluation and presentation
13. Accounting practices

5.2 Funds under Management

Between the establishment of the industry in 1997 and 2004, the CIS industry was in a rapid growth phase. Expectedly, funds under management increased significantly over the period, by 2,460.0 percent from $1.1 billion[14] to $27.1 billion. See Table 16: Funds Under Management

[14] Except otherwise stated all currency is in Trinidad and Tobago dollars

Table 16: Funds Under Management

Year	Total ($million)
1997	1,143.3
1998	2,936.9
1999	3,741.1
2000	4,759.3
2001	9,390.0
2002	15,424.0
2003	21,438.5
2004	27,092.0

Source: Central Bank of Trinidad and Tobago and Trinidad and Tobago Securities and Exchange Commission

This spectacular growth was caused by:

- the introduction of new and varying types of funds tailored to the specific needs of differing market segments;
- the development of a stable financial sector; and
- the growth of the domestic economy at an average rate of 7.6 percent[15] per year over the period.

The most significant growth was experienced by the money market funds. This resulted from the short term nature of the fund, through which investors can earn rates of return that exceeded those paid by banks on savings, as well as the relatively quick and easy access to funds. This type of fund is preferred by local investors. This component of funds under management grew by 13.9 percent between 1998, when they were first introduced, and 2004 from $1,227.5 billion to $18,282.6 billion. In 1998 and 2004, money market funds accounted for 41.8 and 67.5 percent respectively of all funds under management.

Other noteworthy performances were recorded by pension/deferred annuity plans, and equity funds over the period 2001- 2004. In the case of the pensions/ annuity plans in particular, their overall share of funds under management remained relatively small. The performance of the bond fund component was also impressive, growing by 11.6 percent over the period while holding a relatively constant share of the market.

15 Central Statistical Office

Table 17: Funds Under Management By Type and Value ($ 000)

Year	Bond Fund	Equity Fund	Growth and Income Fund	Hybrid Fund	Money Market Fund	Pension/ Deferred Annuity Plan	Total
1997	0.0	0.0	1,142.9	0.0	0.0	0.4	1,143.3
1998	229.2	0.0	1,473.8	0.0	1,227.5	6.4	2,936.9
1999	651.3	0.0	1,266.4	0.0	1,814.3	9.0	3,741.1
2000	953.0	41.6	1,298.8	0.0	2,451.0	14.8	4,759.3
2001	1,505.1	36.6	1,449.6	0.0	6,375.7	23.0	9,390.0
2002	1,963.9	52.6	2,008.7	0.0	11,342.7	56.0	15,424.0
2003	2,439.0	189.6	3,501.5	0.0	15,226.6	81.8	21,438.5
2004	2,888.0	562.9	5,219.4	18.9	18,282.6	120.2	27,092.0

Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

Table 18: Funds Under Management By Type and Percentage Share

Year	Bond Fund (%)	Equity Fund (%)	Growth and Income Fund (%)	Hybrid Fund (%)	Money Market Fund (%)	Pension /Deferred Annuity Plan (%)	Total
1997	0.0	0.0	100.0	0.0	0.0	0.0	100.0
1998	7.8	0.0	50.2	0.0	41.8	0.2	100.0
1999	17.4	0.0	33.9	0.0	48.5	0.2	100.0
2000	20.0	0.9	27.3	0.0	51.5	0.3	100.0
2001	16.0	0.4	15.4	0.0	67.9	0.2	100.0
2002	12.7	0.3	13.0	0.0	73.5	0.4	100.0
2003	11.4	0.9	16.3	0.0	71.0	0.4	100.0
2004	10.7	2.1	19.3	0.1	67.5	0.4	100.0

Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

5.3 Market Shares

Of the thirty (30) active locally registered funds, sixteen (16) account for ninety-nine point seven percent (99.71%) of the total value of funds under management as at December 31, 2004. These sixteen funds are managed by four (4) of the seven (7) locally domiciled fund families namely the Trinidad and Tobago Unit Trust Corporation, RBTT Bank Limited, Republic Bank Limited and First Citizens Trust and Asset Management Limited. (See Table 19)

Table 19: Funds Under Management - as at December 31st, 2004

	Fund Family	Fund Name	Fund Type	Denominational Currency	Funds Under Management	Percentage of total funds under management
1	**Trinidad & Tobago Unit Trust Corporation**	Second Unit Scheme	Money Market Fund	TTD	$5,988,569,000	22.10%
2	**Trinidad & Tobago Unit Trust Corporation**	First Unit Scheme	Growth & Income Fund	TTD	$4,193,781,106	15.48%
3	**Trinidad & Tobago Unit Trust Corporation**	US Dollar Money Market Fund	Money Market Fund	USD	$2,959,087,000	10.92%
4	**Trinidad & Tobago Unit Trust Corporation**	Universal Retirement Fund	Annuity/ Pension Fund	TTD	$111,229,298	0.41%
5	**RBTT Bank Limited**	Roytrin Mutual TTD Money Market Fund	Money Market Fund	TTD	$4,843,440,360	17.88%
6	**RBTT Bank Limited**	Roytrin Mutual US$ Money Market Fund	Money Market Fund	USD	$3,161,051,024	11.67%
7	**RBTT Bank Limited**	Roytrin Mutual TTD Income and Growth Fund	Growth & Income Fund	TTD	$1,006,654,298	3.72%
8	**RBTT Bank**	Roytrin Mutual	Growth	USD	$18,989,230	0.07%

	Fund Family	Fund Name	Fund Type	Denominational Currency	Funds Under Management	Percentage of total funds under management
	Limited	USD Income and Growth Fund	& Income Fund			
9	**RBTT Bank Limited**	RBTT Bank TTD Group Future cash	Annuity/ Pension Fund	TTD	N/A	N/A
10	**RBTT Bank Limited**	RBTT Bank TTD Individual Future cash	Annuity/ Pension Fund	TTD	N/A	N/A
11	**First Citizens Trust and Asset Management Limited**	The Abercrombie Fund	Money Market Fund	TTD	$1,299,000,000	4.79%
12	**First Citizens Trust and Asset Management Limited**	FCB Retirement Provider	Annuity/ Pension Fund	TTD	$8,921,356	0.03%
13	**First Citizens Trust and Asset Management Limited**	First Energy Fund	Hybrid Fund	USD	$18,870,000	0.07%
14	**First Citizens Trust and Asset Management Limited**	The Paria Fund	Money Market Fund	USD	$31,450,000	0.12%
15	**Republic Bank Limited**	Republic Money Market Fund	Money Market Fund	TTD	$2,849,302,225	10.52%
16	**Republic Bank Limited**	Republic Caribbean Equity	Equity Fund	TTD	$523,003,806	1.93%

	Fund Family	Fund Name	Fund Type	Denominational Currency	Funds Under Management	Percentage of total funds under management
		Fund				
	Total				$27,013,348,703	99.71%
	Total FUM (all funds)				**$27,092,070,890**	**100.00%**

Source: Survey Results

These sixteen funds constitute seven (7) Money Market Funds, four (4) Growth and Income funds, four (4) Annuities/ Pension, one (1) Equity fund and one (1) Hybrid fund. As at December 31st, 2004; Money Market Funds accounted for seventy-eight percent (78%) of all funds under management. Growth & Income funds were the second largest type, accounting for 19.27% of the total funds under management. The Equity Fund, Annuity/Pension Funds and the Hybrid Fund account for 1.93%, 0.44% and 0.07% of total funds under management respectively. (Table 20)

Table 20: Market Shares by Fund Type - as at December 31st, 2004

TYPE OF FUND	FUNDS UNDER MANAGEMENT	PERCENTAGE OF TOTAL FUNDS UNDER MANAGEMENT
Money Market Fund	$21,131,899,609	78.00%
Growth & Income Fund	$5,219,424,634	19.27%
Equity Fund	$523,003,806	1.93%
Annuity/Pension Fund	$120,150,654	0.44%
Hybrid Fund	$18,870,000	0.07%
Total (four major players)	**$27,013,348,703**	**99.71%**

Source: Survey Results

Eleven (11) of the sixteen funds are denominated in Trinidad and Tobago dollars and five (5) in United States dollars. They include:

..1. four (4) Trinidad and Tobago Dollar (TTD) Money Market Funds,
..2. three (3) United States Dollar (USD) Money Market Funds,
..3. two (2) TTD Growth & Income Funds,
..4. one (1) USD Growth & Income Fund,

..5. four (4) TTD Annuity/Pension Funds,
..6. one (1) TTD Equity Fund and
..7. one (1) USD Hybrid Fund.

Funds denominated in Trinidad and Tobago Dollars account for 77% of all funds under management, with 55.5% in money market funds and 19.3% in growth and income funds. Although US Dollar denominated fund products account for only 23% of total funds under management, the distribution among fund types – that is in favour of money market funds – is similar but much more pronounced. (Table 21)

Table 11: Funds under Management by Type and Currency

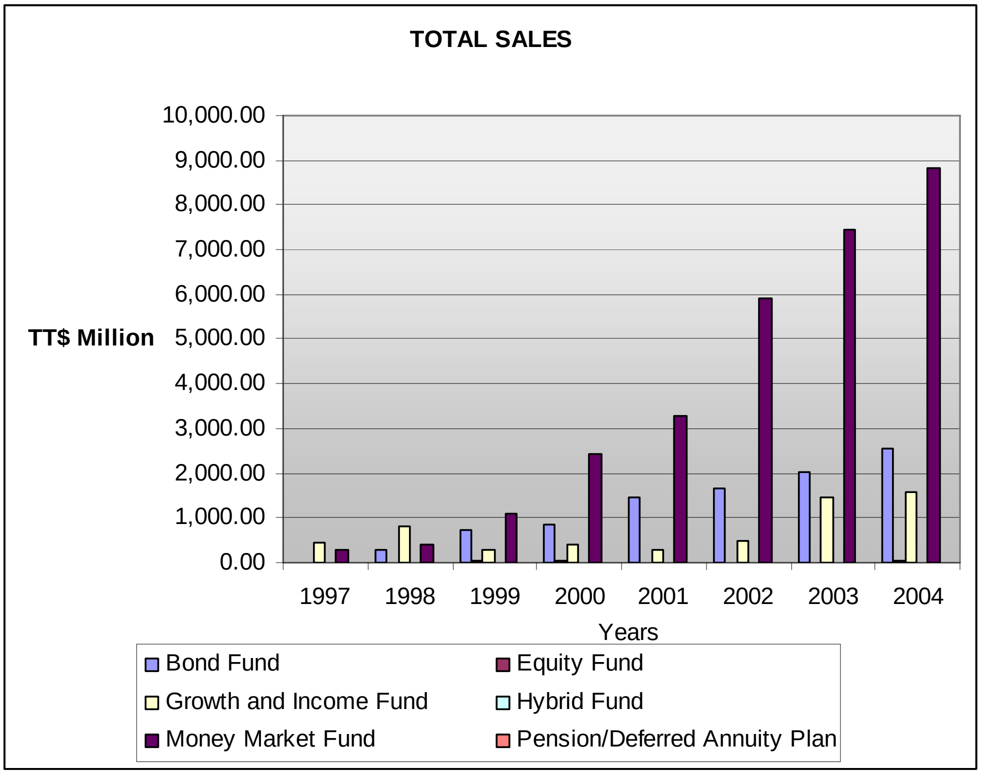
Funds By Type and Currency			
	$ Million		
TT Dollar Funds			
Money Market	14,979		55.46%
Growth & Income	5,199		19.25%
Annuity/Pension Funds	120		0.44%
Equity	523		1.94%
TOTAL TT Dollar Funds		***20,821***	***77.09%***
US Dollar Funds			
Money Market	6,151		22.77%
Growth & Income	19		0.07%
Hybrid	18.9		0.07%
Total US Dollar Funds (in $TT)		***6,189***	***22.91%***
GRAND TOTAL		**27,010**	**100.00%**

Source: Survey Results

5.4 Sales

Between 1997 and 2004, sales increased by 1,665 percent from $736.5 million to $13 billion. In 2004, sales from money market funds accounted for $8.8 billion, representing 67.9 percent of the total sales. Initially, and for obvious reasons, sales in 1997 were dominated by growth and income funds. This changed quickly with the introduction of other funds such that by 1999, sales in money market funds and bond funds exceeded sales in growth and income funds. This pattern has since persisted.

Chart 6: Breakdown of Total Sales



Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

5.5 *Repurchases*

Repurchases increased by 2,321.0 percent from $408.9 million in 1997 to $9.9 billion in 2004. Again, this performance measure is dominated by activity related to the largest component of funds under management, money market funds. In 2004, they accounted for repurchases of $6.9 billion, representing 69.1 percent of the total repurchases. Repurchases of equity funds and bond funds averaged 170.9 and 135.2 percent respectively for the period 1997 to 2004. Money market repurchases averaged 72.1 percent over the study period. (See Table 22)

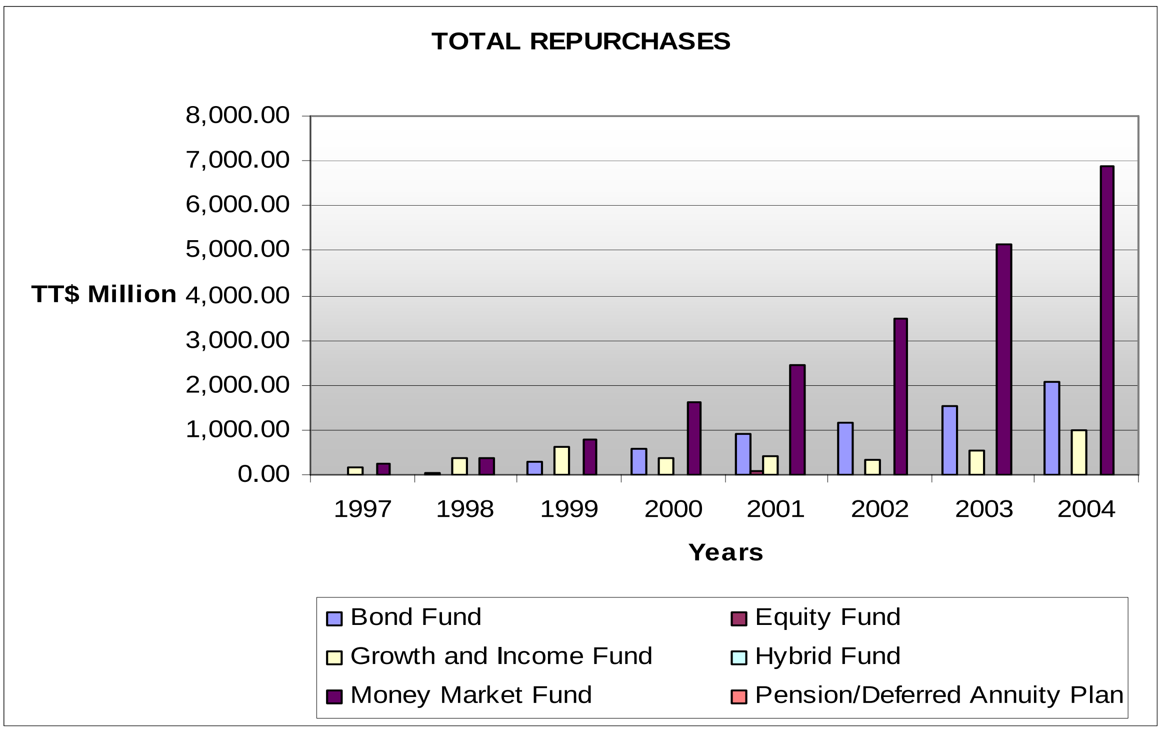
Table 22: Total Repurchases 1997-2004

Structure of Fund	Bond Fund	Equity Fund	Growth and Income Fund	Hybrid Fund	Money Market Fund	Pension/Deferred Annuity Plan
1997	0.0	0.0	150.0	0.0	259.0	0.0
1998	44.8	0.0	364.8	0.0	381.8	0.01
1999	298.8	11.1	636.7	0.0	802.3	0.0
2000	569.5	6.2	378.6	0.0	1,597.3	0.05
2001	902.6	62.3	419.6	0.0	2,464.2	0.04
2002	1,155.8	11.1	337.5	0.0	3,468.8	0.09
2003	1,546.8	7.0	555.8	0.0	5,136.0	0.7
2004	2,063.1	15.0	982.8	0.0	6,866.5.9	1.4

Figures in millions

Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

Chart 7: Fund Repurchases



Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

5.6 Asset Allocation

The analysis of the allocation of assets was based on an examination of the pattern of investments by economic activities between 1998 and 2004. Overall, approximately 47.7 percent of assets were invested in the financial sector over the period. With respect to domestic government securities, investments increased from 14.7 percent in 1998 to 24.3 percent in 2004.

At the end of 2004, there were $27.0 billion worth of assets of which close to 50 percent was invested in the financial sector. Investments in the domestic sovereign and its statutory corporations were $7.9 billion or 29.3 percent of total assets. Energy sector securities accounted for a mere 1.6 % of total assets, while regional and extra-regional assets accounted for 8.8 percent.

Table 23: Asset Allocation by Industry/sector for the years 1998 and 2004.

INDUSTRY/SECTOR	1998		2004	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Financial Sector	1,291.7	47.8	12,812.6	47.5
Conglomerates	0.0	0.0	812.1	3.0
Distribution	0.0	0.0	145.4	0.5
Energy	0.0	0.0	434.7	1.6
Manufacturing	0.0	0.0	607.1	2.3
Property & Construction	0.0	0.0	208.7	0.8
Utilities	0.0	0.0	1,013.2	3.8
Tourism	0.0	0.0	0.3	0.0
Sovereign – Domestic	396.5	14.7	6,544,9	24.3
Sovereign - Extra-Regional	0.0	0.0	566.6	2.1
Sovereign – Regional	0.0	0.0	1,535.3	5.7
Statutory Corporation – Domestic	0.0	0.0	1,358.9	5.0
Statutory Corporation – Extra Regional	0.0	0.0	26.4	0.1
Statutory Corporation – Regional	0.0	0.0	244.5	0.9
Unclassified	1,013.1	37.5	655.3	2.4
TOTAL ASSETS	**2,701.3**	**100**	**26,966.2**	**100**

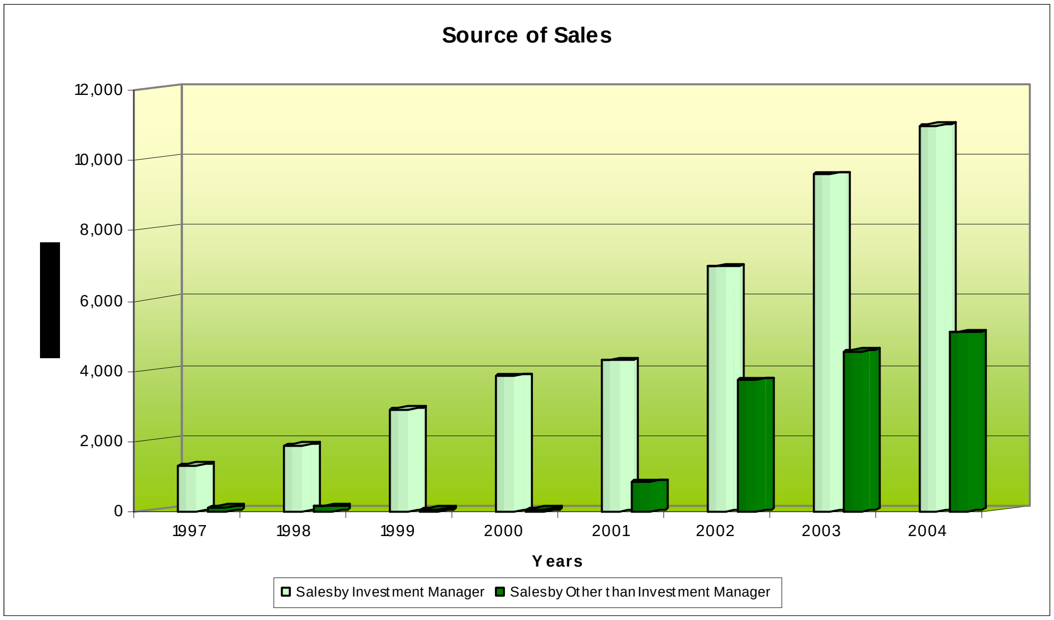
Figures in millions

Source: Central Bank of Trinidad and Tobago/ Trinidad and Tobago Securities and Exchange Commission

5.7 Marketing and Distribution Mechanisms

Sales were undertaken by both Investment Managers and Agents. Over the period, the ratio varied as the level of competition increased to show a greater reliance by investment managers on their own sales forces rather than on the use of agents.

Chart 8: Source of Sales



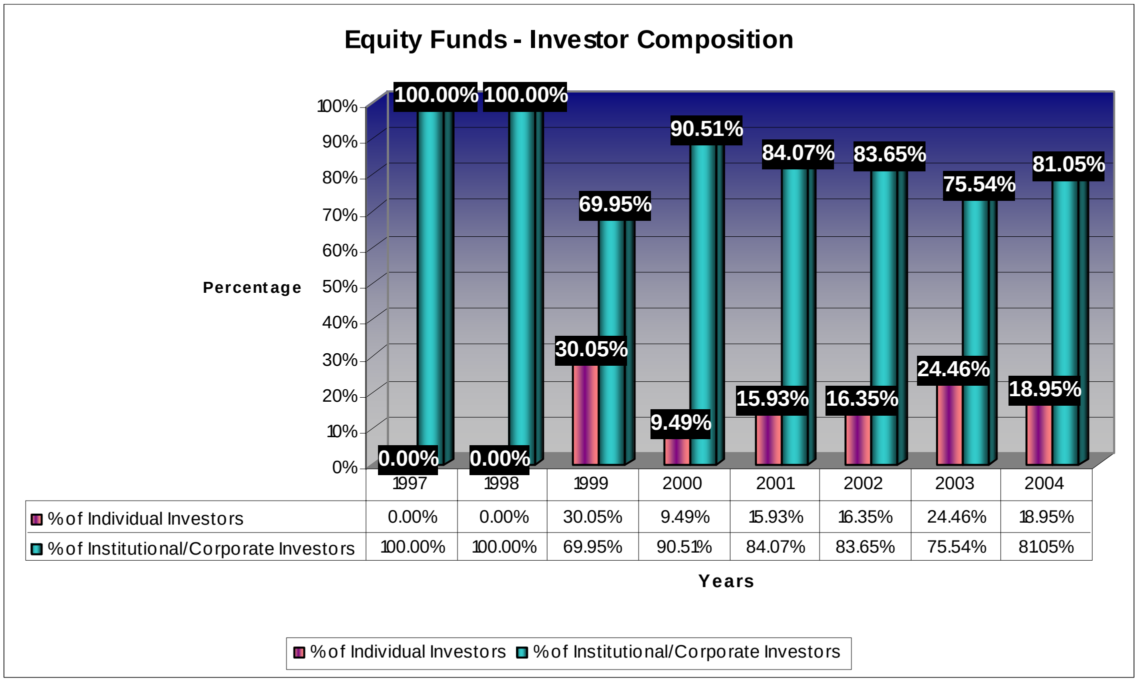
Source: Central Bank of Trinidad and Tobago/Trinidad and Tobago Securities and Exchange Commission

5.8 Investor Distribution by Funds

<u>Equity Funds</u>

Institutional/corporate investors dominate investment activity in every type of available fund. Over the period they accounted for 90.5 percent of equity fund investments, with a high of 100 percent in 1997 and 1998. Investment by individual investors peaked at 30.05 percent in 1999, but by 2004 individual investors represented only 19% of equity funds.

Chart 9: Investor Composition – Equity Funds

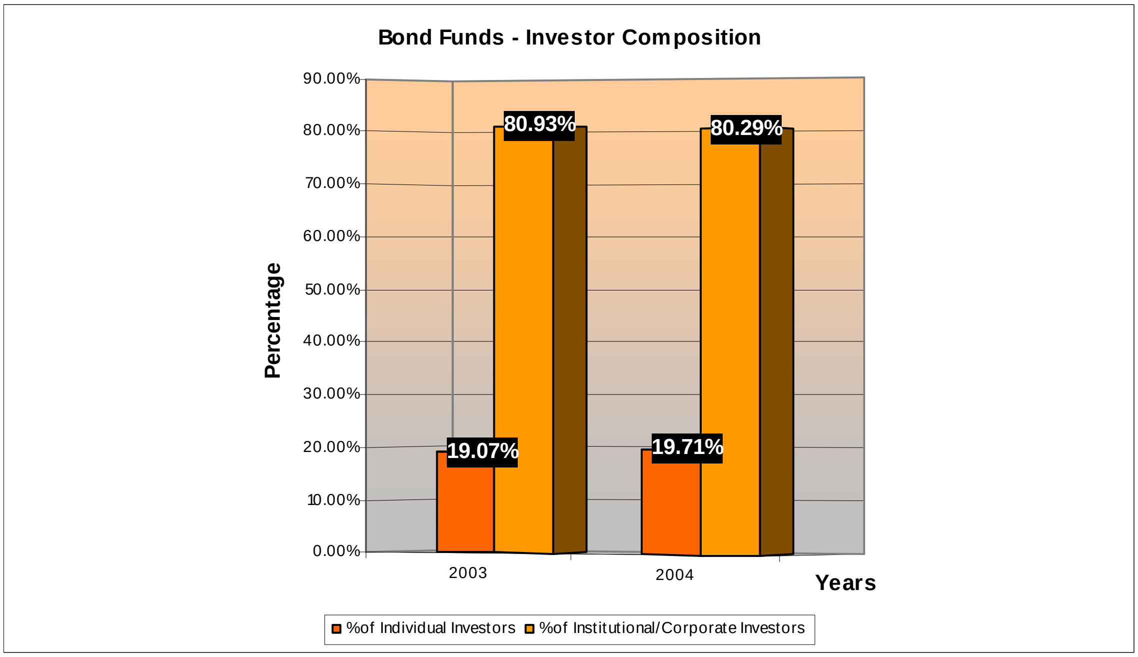


Source: Central Bank of Trinidad and Tobago/Trinidad and Tobago Securities and Exchange Commission

<u>Bond Funds</u>

Data for this component of the market were available for 2003-2004. Yet a similar investment pattern existed. Institutional/corporate investors were the primary investors in Bond Funds and they accounted for approximately 80.6 percent of all bond fund sales. On the other hand, individual investors represented the corresponding 19.4 percent of all bond fund sales over the two year period.

Chart 10: Investor Composition – Bond Funds

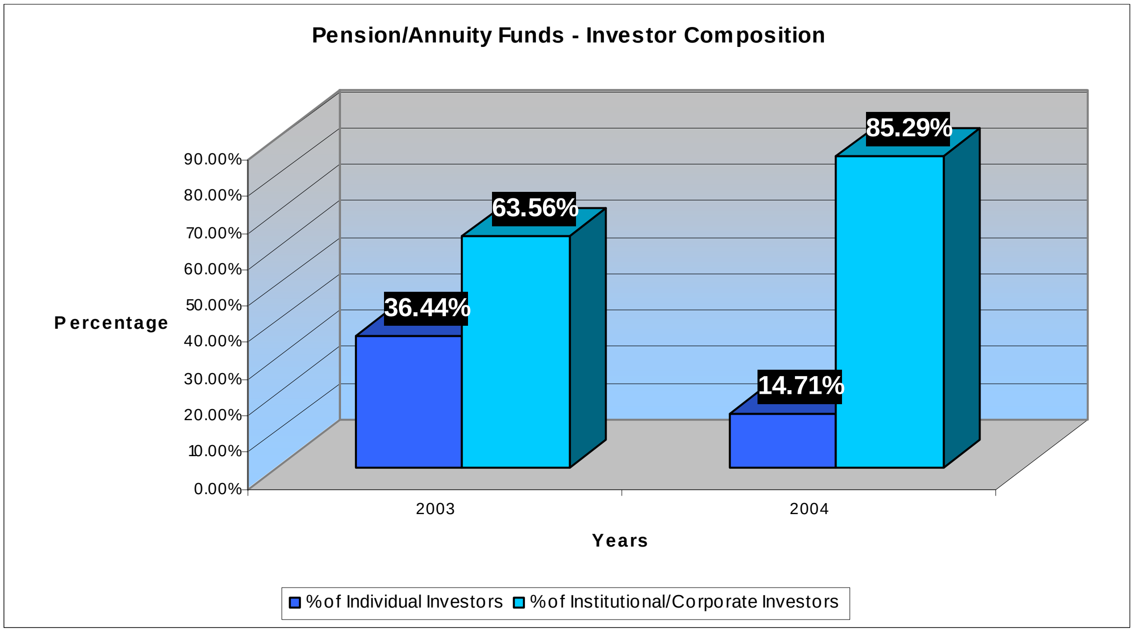


Source: Central Bank of Trinidad and Tobago/Trinidad and Tobago Securities and Exchange Commission

Deferred Annuity Funds

Based on the available data for 2003-2004, institutional/corporate investors were the main investors in Deferred Annuity Funds. It was observed that over the period, there was an overall increase in the percentage of sales to institutional/corporate investors and a decrease in the percentage of sales to individual Investors. In 2003, Deferred Annuity sales to institutional/corporate investors were 63.6, percent while sales to individual investors were 36.4 percent. These percentages changed significantly in 2004 as investments by individual investors decreased by 21.7 percent to 14.71 percent with institutional investments gaining the remaining market share of 85.29%.

Chart 11: Investor Composition – Deferred Annuity Funds



Source: Central Bank of Trinidad and Tobago

<u>*Other Funds*</u>

Data by type of investors was unavailable for other categories of mutual funds, namely income and growth funds, money market funds and hybrid funds.

5.9 Valuation and Pricing Practices

The analysis of performance in relation to valuation and pricing fund practices is based on international best practices developed from the CFA and IOSCO[16]. Nine best practices were identified and these were used to evaluate the CIV through a review of available prospectuses. Compliance with each best practice was rated in terms of those that met the practice substantially, those that met the practice partially and those that either did not meet the practice at all or the practice was not referred to in the prospectus. A summary of the results of the analysis is presented in Table 24 below. The relevant methodology is outlined in Appendix 8.

[16] "Global Investment Performance Standards" (CFA) and "Regulatory Approaches to the Valuation and Pricing of CIVs" (ISOCO)

Table 24: Summary analysis of valuation and pricing practices

Best Practice	% prospectuses that met the practice substantially	% prospectuses that met the practice partially	% prospectuses that did not meet the practice or for which no data available for this practice
1. Valuation determined in good faith	0.0	0.0	100.0
2. Valuation methodology disclosed in its constitutive and offering documents and undertaken consistently in accordance with these documents, unless change is desirable in the interest of investors; valuations must specify assumptions and data used, methodology, and market analysis performed	54.8	29.0	16.1
3. CIV valued on a per share basis based on the schemes' asset value, net of allowable fees and expenses previously disclosed to investors, divided by the number of outstanding shares	83.9	0.0	16.1
4. New, current and past investors should be treated equitably such that purchases and redemptions are effected on a non-discriminatory basis; valuations must use trade date accounting, now defined by recognition of the asset or liability within 3 days of the actual transaction	80.7	3.2	16.1
5. CIV valued regularly at intervals appropriate to the particular scheme; portfolios valued at least monthly but in the case of real estate assets these must be valued once yearly at market value by a licensed commercial property valuator	80.7	0.0	19.3
6. Valuation based on market rather than book value; in cases where market value cannot be used, there must be disclosure of the reasons	64.5	0.0	35.5
7. Use of accrual accounting for all securities that accrue interest	0.0	0.0	100.0
8. Valuator should have a level of independence	6.4	9.7	83.9
9. Valuation should meet or exceed International Financial Reporting Standards (IFRS).	29.0	0.0	71.0

Source: CIV Prospectuses

Interpretation of results:

1. Valuation and pricing should be done in good faith- none of the prospectuses addressed this issue.

2. V*aluation and pricing methodology be clearly disclosed in the offering and constitutive documents and that CIV interests be valued consistently according to these documents* -54.8 percent met this standard; 29.0 percent partially met the standard; 16.0 percent did not address this issue in their prospectuses.

3. Interests should be valued on a per share basis, net of allowable fees and expenses - 83.9 percent met this standard; 16.1 percent did not make mention of this standard in their prospectuses.

4. New, current and past investors be treated equally- 80.7 percent met this standard; 3.2 percent partially met the standard; 16.1 made no reference to this practice in their prospectuses.

5. Satisfactory frequency of valuations - 80.7 percent were satisfactory; 19.3 percent did not include this in their prospectuses.

6. Valuations based on market rather than book value - 64.5 percent met this standard; 35.5 percent made no reference to this practice in their prospectuses.

7. The use of accrual accounting for securities that accrue interest - None of the prospectuses mentioned this standard.

8. Independence of the valuator - 6.4 percent met this standard: 9.7 percent partially met the requirement; 83.9 percent made no mention of this practice in their prospectuses.

9. *Valuation should meet or exceed IFRS standards* – 29.0 percent satisfied this requirement; 71.0 percent made no mention of this requirement in their prospectuses.

5.10 Disclosure of Fees and Expenses

Similarly, the analysis of performance in relation to disclosure of fees and expenses is based on international best practices developed from the CFA and IOSCO[17]. Seven best practices were identified and were used to evaluate the CIV by looking at available prospectuses. Compliance with each best practice was rated in terms of those that met the practice, those that met the practice partially and those that did not meet the practice at all.

[17] Final Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds, the Technical Committee of IOSCO, November 2004.

Table 25: Summary analysis of practices pertaining to disclosure of fees and expenses

Best Practice	**Degree of Adoption of Best Practice (percent)**			
	Met Best Practice	**Did Not Meet Best Practice**	**Partially Met Best Practice**	**No Response**
1. Disclosure of Fees and Expenses to Investors: disclosure should be accurate and comparable	16.0	0.0	84.0	0.0
2. Conditions of Remuneration of the Investment Manager: must be performance-based and transparent	65.0	0.0	35.0	0.0
3. Transactions Costs: any available historical cost information should be disclosed to investors	100.0	0.0	0.0	0.0
4. Hard and Soft Commissions on Transactions: all benefits from hard or soft commissions should be paid directly to the fund	0.0	0.0	16.0	84.0
5. CIS Investments in other Funds (Funds of Funds): any double fee structure that may exist should be disclosed	0.0	100.0	0.0	0.0
6. Multi-class Funds: investors in the same class should bear the same fees and expenses. Any differences in fees should be based on objective criteria.	16.0	0.0	13.0	71.0
7. Changes in the Fund’s Operating Conditions: any changes should be disclosed in the form of a new total expense ratio in the prospectus and/or routine reports. If the new cost structure is significantly higher current investors should be allowed to redeem their share free of charge or to vote against the changes.	0.0	0.0	0.0	100.0

Source: CIV Prospectuses

<u>*Interpretation of results*</u>:

1. *Disclosure of Fees and Expenses to Investors: disclosure should be accurate and comparable* – 16 percent met this standard, and 84 percent partially met the standard.

2. *Conditions of Remuneration of the Investment Manager: must be performance-based and transparent* – this standard was met by 65 percent of the funds while 35 percent partially met the standard in their prospectuses.

3. *Transactions Costs: any available historical cost information should be disclosed to investors* – 100 percent met this standard.

4. *Hard and Soft Commissions on Transactions: all benefits from hard or soft commissions should be paid directly to the fund* – 84 percent did not deal with this area in their prospectuses while 16 percent partially met the standard.

5. *CIS Investments in other Funds (Funds of Funds): any double fee structure that may exist should be disclosed* - None of the prospectuses mentioned this standard.

6. *Multi-class Funds: investors in the same class should bear the same fees and expenses. Any differences in fees should be based on objective criteria* – 16 percent met this standard and 13 percent partially met the standard while 71 percent did not meet this standard in their prospectuses.

7. *Changes in the Fund's Operating Conditions: any changes should be in the form of a new total expense ratio in the prospectus and/or routine reports. If the new cost structure is significantly higher, current investors should be allowed to redeem their share free of charge or to vote against the changes* - none of the prospectuses mentioned this standard.

5.11 Performance Evaluation and Presentation

The analysis of performance in relation to disclosure of fees and expenses is based on international best practices developed from IOSCO[18]. A set of 17 international best practices were identified from international standards. These were used to evaluate the performance of CIV through a review of their prospectuses. Compliance with each best practice was rated in terms of those that met the practice, and those that met the practice partially.

[18] "Global Investment Performance Standards" (CFA) and the Technical Committee of IOSCO.

Table 26: Summary analysis of practices relating to Performance Evaluation and Presentation

Best Practice	Degree of Adoption of Best Practice		
	Met Best Practice	**Partially Met Best Practice**	**Non Response**
1. Total return, including realized and unrealized gains and losses must be used	0.0	0.0	100.0
2. Time weighted rates of return that adjust for external cash flows must be used	0.0	0.0	100.0
3. All returns must be calculated after the deduction of actual trading expenses	0.0	0.0	100.0
4. If actual trading expenses cannot be separated from a bundled fee then the **gross of fee** returns must be reduced by the entire bundled fee or the portion of the bundled fee that contain trading expenses	0.0	0.0	100.0
5. Firms must disclose the types of fees included in the bundled fee	0.0	0.0	100.0
6. Firms must disclose the specific fees and expenses deducted from gross fees	0.0	100.0	0.0
7. Firms must clearly label returns as either gross of fee or net of fees	0.0	0.0	100.0
8. Firms must disclose the currency used to express performance	0.0	0.0	100.0
9. Firms must disclose the fee schedule for each CIS	0.0	100.0	0.0
10. Firms must disclose all significant events which help investors to assess performance	0.0	0.0	100.0
11. Returns for periods of less than one year are not to be annualized	0.0	0.0	100.0
12. The performance track record of past firm or affiliation must be linked to or used to represent the historical record of the new firm	0.0	0.0	100.0
13. The total return of the benchmarks that reflect the investment strategy of particular CIS must be disclosed for each annual period and if the benchmark changes the firm should give reasons for the change	0.0	0.0	100.0
14. CIS should calculate and present their performance according to formulas which are used consistently	0.0	0.0	100.0
15. CIS performance should be presented for standardized time periods	0.0	100.0	0.0
16. CIS performance information should be accompanied by a prominent disclaimer that CIS performance changes over time and that past performance is not indicative of future results	16.1	83.9	0.0
17. CIS should provide relevant information relating to its performance upon the request of any investor	0.0	0.0	100.0

Source: CIV Prospectuses

<u>*Interpretation of results*</u>:

1. *Total return, including realized and unrealized gains and losses must be used* - None of the prospectuses mentioned this standard.

2. *Time weighted rates of return that adjust for external cash flows must be used* - None of the prospectuses mentioned this standard.

3. *All returns must be calculated after the deduction of actual trading expenses*- None of the prospectuses mentioned this standard.

4. *If actual trading expenses cannot be separated from a bundled fee then the* ***gross of fee*** *returns must be reduced by the entire bundled fee or the portion of the bundled fee that contains trading expenses* - None of the prospectuses mentioned this standard.

5. *Firms must disclose the types of fees included in the bundled fee* - None of the prospectuses mentioned this standard.

6. *Firms must disclose the specific fees and expenses deducted from gross fees* - 100 percent partially met this standard.

7. *Firms must clearly label returns as either gross of fee or net of fees* - None of the prospectuses mentioned this standard.

8. *Firms must disclose the currency used to express performance* - None of the prospectuses mentioned this standard.

9. *Firms must disclose the fee schedule for each CIS* - 100 percent partially met this standard

10. *Firms must disclose all significant events which help investors to assess performance* - None of the prospectuses mentioned this standard.

11. *Returns for periods of less than one year are not to be annualised* - None of the prospectuses mentioned this standard.

12. *The performance track record of past firm or affiliation must be linked to or used to represent the historical record of the new firm* - None of the prospectuses mentioned this standard.

13. *The total return of the benchmarks that reflect the investment strategy of particular CIS must be disclosed for each annual period and if the benchmark changes the firm should give reasons for the change* - None of the prospectuses mentioned this standard.

14. *CIS should calculate and present their performance according to formulas which are used consistently* - None of the prospectuses mentioned this standard.

15. *CIS performance should be presented for standardized time periods* – 100.0 percent partially met this standard.

16. *CIS performance information should be accompanied by a prominent disclaimer that CIS performance changes over time and that past performance is not indicative of future results* - 16.1 percent undertook this best practice, 83.9 percent partially met this best practice.

17. *CIS should provide relevant information relating to its performance upon the request of any investor* - None of the prospectuses mentioned this standard.

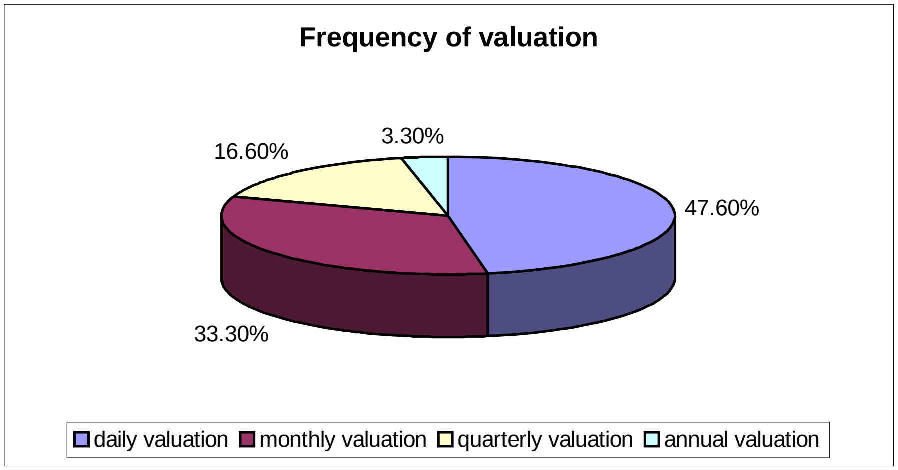
5.12 Fund valuation

The fund valuation practices that were captured in the survey relate mainly to the frequency of valuation and the use of market values as opposed to other non-market approaches to valuation. The survey also captured information on the currency in which fund share prices are quoted, the valuation of impaired assets and the particular currency and rate used for the valuation of CIV portfolios. As a consequence, the assessment of the appropriateness or otherwise of the valuation of funds therefore are specific to adherence to best practices in these areas.

Frequency of valuation

The survey indicated that 47.6 percent of CIV valued their portfolios daily; 33.3 percent valued their portfolios monthly; 16.6 percent valued portfolios quarterly; and 3.3 percent valued their portfolios annually. Therefore, approximately 80.9 percent valued their portfolios at least monthly. This compares favourably with international standards. Additionally, 80.0 percent of funds that currently value portfolios quarterly indicated that in the very near future, they would be valuing funds on a weekly basis. It is projected therefore that soon as much as 94.2 percent of funds will be valuing their portfolios at least monthly.

Chart 12: Frequency of Valuation



Source: Investment Managers

Method of Valuation

In terms of the use of market rather than non-market basis for valuation, 60.0 percent of funds valued publicly traded assets at market value compared to 23.2 percent of funds that were based on book value. CIV portfolio assets that are not publicly traded were valued at market value by 16.7 percent of funds, compared to 50.0 percent which valued these assets at book value. In this asset class, 33.3 percent also did valuations on a discounted cash flow basis.

Table 27: Method of Valuation

	Assets Publicly Traded (%)	**Assets Not Publicly Traded (%)**
Market Value	60.0	16.7
Book Value	23.2	50.0
Non-Response	16.7	33.3

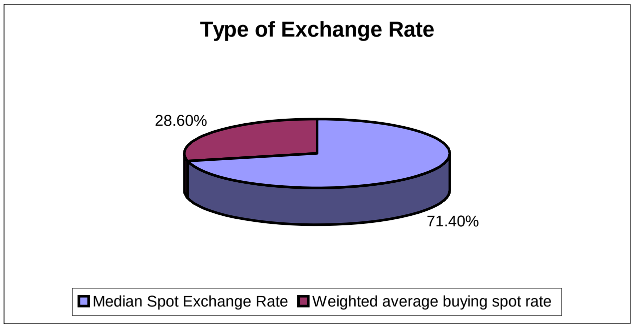
Source: Investment Managers

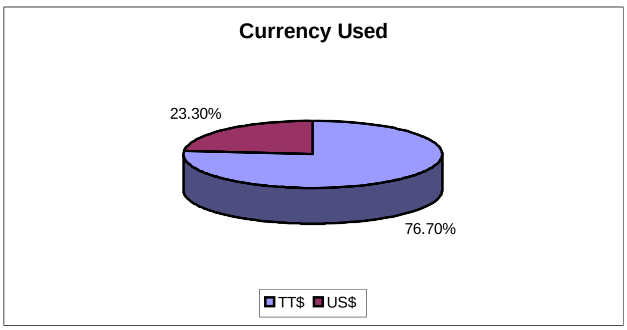
Currency price quotation

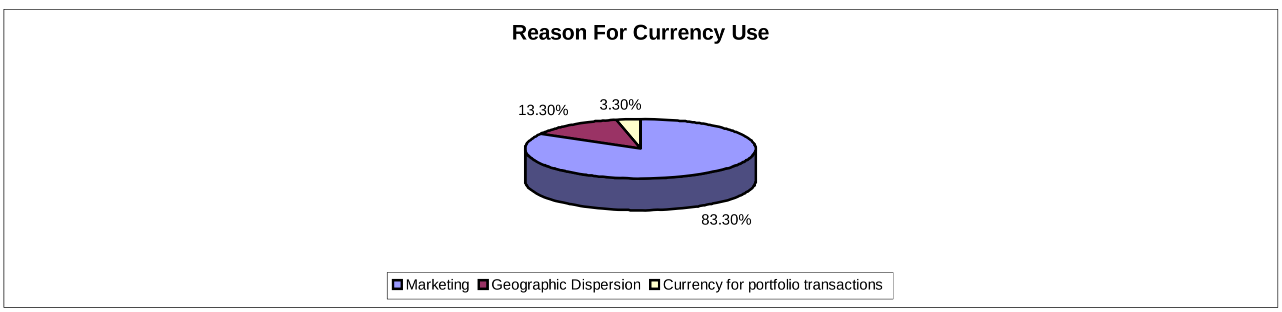
Share prices are quoted in two currencies, the Trinidad and Tobago (TT) dollar and the United States (US) dollar. The TT dollar was used by 76.7 percent of funds while the other 23.3 percent used the US Dollar. Marketing was identified as the main reason for quoting in either currency by 83.3 percent of the funds that were surveyed. Others indicated that the geographic dispersion of the funds' assets and the currency used for portfolio transactions were factors that determined the currency in which the share price was quoted.

In the valuation of foreign currency denominated assets, 70.0 percent used the US dollar spot rate, 30.0 percent had no response or indicated this area was not applicable. Of the funds that responded, 71.4 percent indicated that they used the median spot exchange rate for valuing foreign assets while 28.6 percent indicated that they used the weighted average buying spot rate.

Chart 13: Currency price quotation and valuation







Source: Investment Managers

5.13 Fees and Expenses

<u>Overview</u>

Performance relative to fees and expenses was analyzed in relation to structure, and frequency of deduction.

Structure

The fees were of two types: front end and back end. Front-end fees are paid by customers at the point of sale of the units or shares, while back-end fees are charges paid at the point of repurchases. These fees are investors' specific. The survey results indicate that 36.7 percent of funds imposed front-end fees while, 13.3 percent imposed back-end fees. The remainder imposed neither category of fees and was categorized as no load schemes.

Frequency of Deduction

Frequency of fee deductions is an important performance criterion since it influences performance results. Inconsistent frequency can contribute to the distortion of performance results. The available information suggests that for the two main categories of fees, investment management and trustee fees, deductions are made at least quarterly by approximately 87.7 percent of funds. The frequency with which the various fees are deducted from the funds during the year is shown in Table 28 below.

Table 28: Frequency of deduction of fees and expenses

Deduction Frequency	Fee Type					
	Investment Management	Trustee	Operational	Administrative	Trading	Custodial
Daily	16.7	13.3	0.0	0.0	13.3	0.0
Weekly	0.0	0.0	0.0	0.0	0.0	0.0
Monthly	36.7	36.7	36.7	50.0	23.3	16.7
Quarterly	33.3	36.7	0.0	0.0	0.0	3.3
Annually	0.0	10.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	6.7	23.3	33.3	0.0
Non Response	13.3	13.3	56.7	26.7	30.0	80.0

Source*:* Investment Managers

5.14 Accuracy and Comparability in Performance Measurement, Evaluation and Presentation.

Overview

Accuracy and comparability of performance was another performance criterion that was assessed through the survey. The findings below relate specifically to the data provided with respect to performance measurement, evaluation and presentation

Measurement

For the calculation of gross returns, 39.6 percent calculated total return as the change in the funds' net asset value[19], 6.6 percent of funds used the gross yield on investment in the fund as their gross return and 6.7 percent used the Dietz formulae.[20] Approximately 46.6 percent of funds provided no response to this question. For the calculation of net returns, the formula used by funds for calculating net returns mirrored that used to calculate gross returns. This difference in the formulae used for calculation of returns poses a challenge in comparing performance among funds, as was the significant non-response to questions in this area.

In the calculation of multi-period returns, time weights were preferred by 63.3 percent of the funds and dollar weights by the remainder. Geometric averages were utilized by 56.7 percent in preference to arithmetic averages that were utilized by 30.0 percent. Although the majority seemed to use best practice in terms of time weights and geometric averages, there was a significant use of less appropriate methods for calculating multi-period returns.

Evaluation

As shown in Table 29 below, funds tended to use risk adjusted performance measures primarily to report to trustees/ directors and investment managers and less so to investors. This practice is likely to increase the asymmetry of information between investors and sponsors. This in turn can mask critical elements of fund performance and hamper accurate performance evaluation. It also runs counter to full disclosure.

Table 29: Summary of risk adjusted performance measures and reporting

Stakeholders	Use of Risk Adjusted Performance Measure in Reports	
	Yes (%)	No (%)
Trustee/Director	63.3	36.7
Investment Manager	63.3	36.7
Investor	23.3	76.7

Source: Investment Managers

As shown in Table 30 below, the majority of funds used peer group benchmarks to report risk-adjusted performance to stakeholders. Usage ranged from 56.7 percent of reports to trustees/director, 40.0 percent of reports to investment managers and 23.3 percent of reports to investors. This result is consistent with the finding that risk-adjusted performance measures were not generally reported to investors. Again, there was significant non-response in this area.

19 Net asset value (NAV is sometimes described as the bid price or offer price for shares
20 This is the modified time-weighted return

Table 30: Choice of risk adjusted performance measures for stakeholder reporting

Stakeholders Reports	Use of Risk Adjusted Performance Measure in Reports		
	Peer Group (%)	**Other (%)**	**No Response (%)**
Trustee/Director	56.7	6.7	36.7
Investment Manager	40.0	6.7	53.3
Investor	23.3	6.7	70.0

Source: Investment Managers

Benchmarks are important for performance evaluation in general and the choice of the appropriate benchmark is important for the accuracy of performance evaluation. Interestingly, the survey results indicate that 80.0 percent of the funds used benchmarks to evaluate performance. A variety of benchmarks were used. In summary, approximately 19.9 percent of funds used special purpose benchmarks developed in-house, 16.7 percent used the Trinidad and Tobago Composite Stock Market Index, 26.7 percent benchmarked against those of their competitors, 10.0 percent used foreign indices, 3.3 percent benchmarked against the local 90-day treasury bill and 3.3 percent benchmarked against the USA 90-day treasury bill.

Presentation

Almost all funds indicated that they used some performance presentation standards. Specifically, 13.3 percent of funds used AIMR, 20.0 percent used GIPS and 16.7 percent used both AIMR and GIPS while 3.3 percent did not respond. For the industry as a whole, compliance with the standards for performance presentation requires funds to meet all of the different requirements for presentation. However, funds either met some or most of the requirements. In general, it was found that these funds used the presentation standards as a guide when presenting or disclosing their performance.

Frequency and type of performance reporting

In terms of the frequency of performance reporting to investors, 63.3 percent of funds reported on a quarterly basis, 10.0 on a monthly basis, 3.3 percent on a semi-annual basis, 3.3 percent on an annual basis and 20.0 percent used other frequencies. Other frequencies referred to funds that disclosed performance reports on demand. Net returns were presented by 76.7 percent of the funds while 20.0 percent presented returns as gross returns. Disclosing returns on an annualized basis was the preferred form for 66.7 percent of the funds while the remainder used a current period basis.

2.1 Accounting practices

The accounting standards and the resulting methods of valuation and measurement constitute another significant performance for CIV. The findings of the survey of 60 CIV traded locally indicate that 73.0 percent produce financial statements in accordance with the International financial Reporting Standards (IFRS), 22.0 percent in accordance with the Canadian Generally Accepted Accounting Principles (CANADIAN GAAP) and 3.0 percent in accordance with the United Kingdom generally Accepted Accounting Principles (UK GAAP). This finding is consistent with the international approach that has showed a recent and increasing trend towards convergence with IFRS.[21] All locally issued CIV utilize this standard which constitute the benchmark for comparisons with particular focus on International Accounting Standard (IAS) 32: Financial Instruments – Disclosure and Presentation and IAS 39: Financial Instruments – Recognition and Measurement. The relevant accounting standards are discussed in Appendix 3.

5.15 Conclusions

Overall, the review of the performance evaluation process indicated that in terms of valuation and pricing, the prospectuses and survey information appeared to confirm a significant degree of adherence to international best practices. This degree of adherence to best practices was lower than that in developed market jurisdictions but approximates the experience of emerging market jurisdictions in comparable areas.

With regard to the disclosure of fees and expenses, generally funds did not meet best practices in this area. For most funds, a major omission was the standard on disclosure of material changes in operating conditions. So was the lack of disclosure of fees other than the investment management fee and the trustee fee.

Performance presentations was another area in which local practice did not match international best practice, with the majority of funds only partially meeting the international requirements of compliance by meeting all components of the standard. This deficiency generally posed a serious challenge to performance evaluation and comparison. Several factors have hampered the adoption of best practices across the board. Among them are the lack of legally enforceable standards in many areas such as minimum common standards for the preparation of prospectuses and minimum standards for valuation and pricing. In addition, many funds are characterized by less than optimal information management systems and inadequate human resources.

[21] GAAP Convergence, February 2002

6 DISCLOSURE PRACTICES

6.1 Background

A key element of the operations of CIV relates to their disclosure practices. This arises primarily because in the market for CIV, there is an asymmetry of information between buyers and sellers, not unlike in any other sophisticated service or commodity market.[22],[23] As a result, the review of the operations of the CIV focused on their disclosure component as it relates specifically to the protocols and practices for disclosure at all levels and junctures so as to attain the objective of a more informed investor.

The fundamental principle is that proper disclosure should be full and frank, reliable, timely and readily accessible. In this way, it will serve to inform and modify investor behaviour by providing all the information that is material to the decision of the investor. Such information will enable the investor to compare costs and investment performance of competing CIV, as well as to evaluate the suitability of a CIV and the value of the shareholder's interest in the CIV.

Disclosure information is usually provided in two forms: an offering document and ongoing information. The offering document normally constitutes the prospectus while the ongoing information is generally provided in periodic reports. The industry also distinguishes between mandatory disclosure and voluntary disclosure. The former is required by the regulators or legislation while the latter may be in the form of optional promotional material. The latter is also designed to capture the attention of prospective investors in order to market a specific CIV. This type of material is more likely to present information in less balanced and less rigorous ways than would be acceptable for mandatory disclosure. However, promotional material is subject to limitations in the assertions that may be made and must always stipulate that a full description of the investment can be found in the offering document. Other important elements of disclosure practices relate to fees and expenses, advertising, promotion and performance, and internet disclosures, as well as the specific disclosure guidelines that relate to banking institutions that promote CIV.

[22] "… the vast majority of American bank consumers are unaware of the risks and fees involved in the sale of uninsured investment products, such as mutual funds and annuities that are increasingly available at US banks and other financial institutions" American Association of Retired Persons, Survey 1994.

[23] Princeton Survey Research Associates (1996): The Investor Knowledge Survey: A Report of the Findings revealed that one-fifth of all individual investors (in stocks, bonds, funds or other securities) could be considered to be "financially illiterate"

6.2 Mandatory Disclosures

Prospectuses

Prospectus disclosures generally are mandatory in nature. They cover all material facts including:

- ✓ the type and legal status of the fund
- ✓ the investment policy and strategy
- ✓ identification of the parties fulfilling key roles
- ✓ guarantees
- ✓ explanation of the fees, commissions, and expenses
- ✓ types and degrees of risks being assumed and risk management techniques
- ✓ rights and privileges of an investor fund performance, and
- ✓ portfolio holdings

Generally, prospectuses include all material information which investors would reasonably require in order to make well-informed investment decisions.

The survey of prospectuses revealed that they all provided information that was generally consistent with the Organisation for Economic Co-operation and Development (OECD) Standard Rules (1971) and the International Organization of Securities Commissions (IOSCO) Prospectus Principles (1994). Forty three percent were considered to have provided potential investors with information which is likely to be readily understood by the average investor, while the remainder used jargon that is likely to be more familiar to sophisticated investors. In addition, approximately half stated that potential investors should read the entire document before making a purchasing decision.

By comparison, an examination of the quality of information provided at the point of sale revealed unsatisfactory practices by sales representatives with regard to disclosure of risks, fees and expenses, and the lack of pertinent standards in the industry. Of the sample, 50.0 percent had no prospectus available for the investing public to peruse. Where prospectuses were available, they were generally provided upon request by the potential investor.

Two-thirds of the salespeople provided information that was of a high standard, including detailed explanations, disclosures and investor warnings. There was, however, evidence that some CIV providers were prepared to allow potential investors to purchase their products without the benefit of the most essential information.

6.3 Continuous or Ongoing Disclosures

In addition to informing investors about the basic features of the CIV prior to the investment through the prospectus, the sponsor has an obligation to provide subsequent information to investors regarding the performance, risks and any material changes in the CIV. In most jurisdictions, this is part of the regime for mandatory disclosure. In this context, a report to unit holders should be provided at least once per year, but semi-annual reports are also common. Typically, these reports should be in written form, but the use of information technologies via the internet is becoming increasingly popular.

Such disclosure is designed to facilitate high levels of transparency and give consumers an opportunity to revisit the key characteristics of the funds. It is the norm in some jurisdictions to require that fundamental changes in investment policies be disclosed to and approved by investors.

It is also important that fund managers provide estimates of exposures to principal risk factors that are likely to affect fund returns in advance and report returns relative to those same exposures. In addition to providing numerical data, CIV in other jurisdictions initiate discussions as a means of explaining the factors that influenced fund performance, the analysis by the investment manager on fund performance, current market conditions and investment strategy.

The findings indicate that 46.0 percent of the funds provided investors with such information in a satisfactory manner. The specific information referred to includes information on portfolio holdings and fund performance statements describing, for instance, the bonds or equity investments actually being held on the balance sheet. One investment manager commented that this type of information was not currently released for “competitive reasons”.

With regard to the provision of financial statements to unit holders, that information was provided either through publication in the newspapers or directly to the investors via mail. This was not a requirement by the regulators and as a result its effectiveness and efficiency could not be verified.

The summary of responses received with respect to disclosure of financial results is provided in Appendix 4.

6.4 Other disclosure practices

Fees and other expenses

According to IOSCO, one aspect of disclosure requiring close attention is the disclosure of fees and other charges. The average investor may not have the capability to determine whether fees are reasonable or to assess whether they are high relative to those of competitors, and it may not be obvious whether additional services offered by one provider are sufficient to justify higher fees. The same applies to expenses. These difficulties are magnified when information regarding fees and expenses is not presented in a uniform manner by competing CIV.

In order to maintain a fair fee structure and minimize conflicts of interest, the authorities may also decide to limit or impose conditions on transactions between the CIV and its affiliates. Where regulators believe that direct regulation or limitation on these transactions may not be necessary however, disclosure and transparency are strongly preferred.

One major criticism of CIV is that unlike many other financial products, CIV do not provide the exact dollar amounts of fees that individual investors pay while they hold the investment. Although CIV provide information about their fees in percentage terms and in dollar terms using hypothetical examples, they do not provide investors with information about the specific dollar amounts of the fees that have been deducted from the value of their shares. In contrast, most other financial products and services provide specific dollar disclosures of fees and other charges paid. Since market forces determine the quantum of fees charged by a fund, most regulators see no need to place limits in the legislation.

An examination of individual customer statements revealed that none provided the required breakdown. In general the statements were limited to an opening and closing balance of the account.

6.5 Advertising, Promotion and Performance Disclosure

The advertising material of a fund must be in compliance with the brochures, the regulation or the offering documents. IOSCO stipulates that the regulator must have the power to enforce withdrawal of advertisements or take appropriate action against non-compliance with any prescribed provisions in respect of advertisements. [24]

The obligation to avoid misleading statements or to present information in a manner which is not deceptive and the responsibility (of the regulator) to prevent false or misleading advertising is also clear.

Whenever the advertising material presents information regarding previous years yield, a highlighted warning should be included, that the yield obtained in the past does not represent a guarantee of future results.

Usually the performance was advertised in the media using annualized returns. The CFA Institute (formerly AIMR) prescribes, however, that *"performance for periods of less than one year must not be annualized"*. If annualized returns are to hold true the following conditions will have to be maintained:

- All interest income derived must be re-invested in the fund
- The fund must perform no worse than it did for the period for which the annualized return was calculated
- There must be no increase in fees or taxes

The findings of the survey of advertisements and promotional material publicizing annualized returns for abbreviated periods revealed that no disclaimer or prudential warning was provided with respect to the interpretation of the performance information. Thus, the nature of performance data presents difficulties for meaningful comparison with competing schemes. Considerable variation was also noted in the methodologies used for the computation of net asset values, and the frequency of reporting the values. These variations, which affect the interpretation of the calculated returns highlighted in advertisements and promotional material, were not disclosed to the investor.

[24] Recently there have been two cases where the TTSEC was required to intervene when advertisements appeared in the press containing information that was determined to be materially different from what was contained in the prospectuses. On one such occasion newspaper advertisements stated that the scheme's strategy involved investing funds in equity securities and real estate, balanced with a holding of debt securities but predominantly in a specific sector. However, this was inconsistent with what was submitted in the prospectus, since no particular sector was highlighted in that document. The other case cited involved an issue of nomenclature, where the promotional material referenced a scheme that was significantly different from the one that was registered by the Commission.

6.6 Internet Disclosures

The internet has become an important medium for information and communication in the CIV industry worldwide. It is more cost effective and enables investors to compare information among funds readily. In the more developed markets some regulators are publishing prospectuses for general information on their websites.

A review of sponsors' websites revealed that online fund information was available for 24 of the 31 locally registered and trading mutual funds. In terms of ease of access, the prospectuses of four were available within a few clicks of the respective home pages. Disclosure through this medium therefore is minimal. Of the range of contents, potential market/investor appeal was highlighted in 71.0 percent of the funds, investment objectives in 67.0 percent, interest calculation methodology in 58.0 percent, distribution frequency in 58.0 percent, and minimum/subsequent investment in 58.0 percent. Appendix 5 shows the contents of the websites.

Only 13.0 percent of the sites provided disclosures on the type of fund and historical NAVs. Three-year historical rates of return were disclosed on 13.0 percent of the sites and 5-year rates on 8.0 percent. Effective annualized yield was reported on 8.0 percent of the sites and financial statements on a mere 4.0 percent.

6.7 CIV of banking institutions

Best practices

In the case of CIV operated by banking institutions, best practice dictates that sponsors should disclose to investors the basic risks of investing in non-deposit investment products. In particular potential investors should be made aware that these products are not insured by the Deposit Insurance Corporation (DIC). They are not deposits or other obligations of the bank, and are not guaranteed by the institution. They are subject to risk, including the risk of loss of principal amount invested. There is no evidence that these practices were followed.

Best practice further dictates that the CIV sales should be separated physically from the deposit-taking area. With respect to the three banks visited there was no such physical separation and customers were able to purchase units at the normal tellers' counter. It was explained, however that purchases by first-time investors can only be completed after speaking to a customer service representative, while subsequent purchases were handled by a bank teller.

6.8 Guidelines on related transactions

The guidelines of the Central Bank restrict transactions between related parties and a fund as is the norm in most jurisdictions. These restrictions relate mainly to non-arms length transactions and apply specifically to financial institutions the activities of which are governed by the Bank. The specific restrictions include*:-*

1) *A prohibition preventing the investment by a financial institution and/or its affiliates of not more than 25.0 percent of any pension fund of which it is a trustee, in mutual funds launched by the same institution and/or its affiliates.*
2) *A restriction limiting the investment in mutual funds managed by a financial institution and/or its affiliates to 25.0 percent of any bond or other security underwritten by the same institution and/or its affiliates.*
3) *A prohibition preventing the investment by a financial institution of mutual funds in the financial institution's shares or stock.*
4) *A prohibition preventing the investment of funds in assets in which the financial institution has an interest or a conflict of interest in the fund which might represent obligations of or guaranteed by the financial institution except for the placement of cash deposits in the normal course of business.*
5) *There must be clear separation of mutual fund business from other business of the financial institution – separate qualified managers, independent audit teams and its own policies and procedures."*

Whereas the assets of the CIV sponsored by the commercial banks comprised less than 25.0 percent of securities transactions which were deemed to be with related parties, the same could not be said for the others. It was estimated that one such CIV had as much as 77.0 percent of its funds invested in affiliated assets, while another had 84.0 percent in similar investments. The investment manager of both schemes explained that such disclosure is made in the notes to the accounts.

A main conflict of interest occurs when an investment manager invests in securities that could also be owned by the CIV under his or her management. In other advanced markets, regulators have placed restrictions on cases of "front-running" involving managers buying a stock and then investing his or her fund in it, in order to increase the price for personal benefit. Other jurisdictions have determined that one way of avoiding this conflict is to preclude managers from directly owning securities that their fund can also own, or in the absence of this restriction, require disclosure.

Some investment managers reported that in accordance with International Financial Reporting Standards, details of all related party transactions are disclosed in the notes to the accounts. In some prospectuses it was also observed that there was a disclosure that transactions may be undertaken with related parties. Since few funds in Trinidad and Tobago actually provide continuous fund performance reports to investors, disclosure of this type of information was limited to these two means. Since the industry remains largely unregulated, sponsors have wide discretion to implement any such investment restrictions or disclosures through their investment policies.

7 RISK MANAGEMENT AND PORTFOLIO MANAGEMENT PRACTICES

7.1 Overview

This section of the report examines the portfolio and risk management practices in the industry. The primary unit of analysis is the fund family. The analysis begins with an examination of the general and relevant characteristics of the industry. It also highlights the distribution of funds by fund type, concentration levels, the geographic diversification of the portfolio and the maturity profile of the investments. A review is undertaken of the portfolio composition of the various fund types in terms of aggregate portfolio composition, and by investment manager. Risk management policies are also examined with emphasis on the internal risk management policies of the investment managers, and the actual practice of the funds to treat with risks. The database for this section is extracted from funds data as at the end of 2004 or closest.

7.2 Structure

Fund types and concentration

In 2004, the domestic mutual fund industry was dominated by money market funds which accounted for approximately 78.0 percent of the total assets of the industry. Growth and income funds as well as equity funds accounted for 18.2 and 1.6 percent respectively.

The industry was highly concentrated particularly with respect to locally registered mutual funds. Two investment managers accounted for more than 80.0 percent of the industry, both in terms of money market funds and non-money market funds as shown in Table 31. In addition, some investment managers had more than one fund operating under the same fund type, typically a US dollar denominated fund and a TT dollar denominated fund. The largest funds accounted for more than 50.0 percent of the total funds under management for money market funds, and more than 90.0 percent of total funds under management for non-money market funds.

Table 31: Concentration levels in the domestic industry

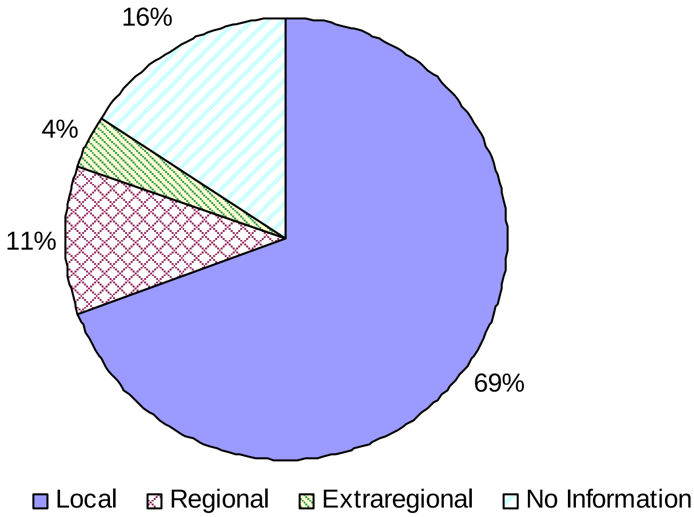
Fund	Concentration Levels	
	% Share of two leading Investment Managers	**% Share of two largest funds**
Money Market	78.0	51.2
Equity funds & Growth and Income Funds	91.9	91.9

Source: Survey Results

Geographic Diversification

Understandably, approximately 78.0 percent of the total assets of TT$27.0 billion were placed locally. Out of this 69.6 percent was invested in financial instruments. Investment in regional economies accounted for 10.7 percent of the total assets, while 3.8 percent was invested extra-regionally. See Chart 14 below.

Chart 14: Geographical distribution of portfolio investments



Source: Survey Results

Maturity profiles

The data indicate a strong dependence on debt securities. Approximately 43.0 percent of the assets were held in medium and long-term securities, primarily government securities.

Table 32: Investment profile

Securities	Total Value of Securities Invested (TT$ Billion)	% of total securities invested
Short term securities	12.2	45.0
Long-term securities	7.8	28.9
Medium-term securities	3.7	13.8
Equities	3.2	11.9
Mutual funds	0.1	0.4
Total	27.0	100.0

Figures in billions
Source: Survey Results

Investments were primarily in short-term instruments which accounted for 45.0 percent and long-term instruments which accounted for 28.93 percent. The former included treasury bills, bank deposits, and commercial paper. It was also noted that the exposure of the industry as a whole to stock market movements was contained by the fact that such investments were limited to approximately 12.0 percent of the total portfolios.

7.3 Nomenclature and Portfolio Composition

The portfolio composition of the funds were examined to see how they conformed to the nomenclature standards that are utilised in the more developed countries and adopted from the standards prescribed by the US Securities and Exchange Commission (USSEC), as well as those recommended in the Stikeman Elliot Review of the Trinidad and Tobago Securities Act of 1995.[25] The USSEC standard suggests that an investment company should invest "at least 80.0 percent of its assets in the type of investment suggested by the name of the fund". The standard is stricter for money market funds where 95.0 percent of investment should be in short-term instruments. The Stikeman Elliot Report proposes that an investment scheme using the name money market should hold at least 90.0 percent of its portfolio in cash or short-term securities which will mature in less than one year. It also recommended that a bond fund should hold at least 70.0 percent of its portfolio in bonds with over one year to maturity.

Table 33 below summarises the portfolio compositions of the major fund types.

[25] The Stikeman Elliot Report on Recommendations for a Revised Securities Industry Act. December 2004

Table 33: Aggregate portfolio composition

	Money Market Fund (%)	Bond Fund (%)	Equity Fund (%)	Growth and Income Fund (%)	Annuity/Pension Fund (%)
Short-Term Debt	49.4	30.5	8.0	31.3	14.0
Medium-Term Debt	17.0	9.9	4.3	1.8	7.6
Long-Term Debt	33.3	37.1	9.5	11.5	15.0
Mutual Funds	0.2	18.2	7.2	0.3	0.0
Equity	0.0	4.2	71.0	55.1	63.4

Source: Survey Results

The findings on the portfolio composition of the aggregate funds suggest that it could be divided into those that are concentrated in favour of debt instruments and those that are in favour of equities. The former included money market and bond funds, while the latter included equity funds, growth and income funds and annuity/pension funds. The typology excluded hybrid funds that were offered by one sponsor and invested in long-term instruments.

Money Market Funds

The combined investments in short-term securities accounted for 49.4 percent of the total portfolio of money market funds, while medium and long-term securities accounted for 17.0 and 33.3 percent respectively (see Table 33). Thus, at least half of the money market portfolios were held in medium and long-term securities, with the latter accounting for a larger percentage of the securities. Table 34 presents a breakdown in terms of the number of money market funds holding their portfolios within various percentile intervals.

Table 34: Money Market Funds – Portfolio Composition

Securities	Portfolio Composition							
	0	**1-30%**	**31-40%**	**41-50%**	**51-60%**	**61-70%**	**71-80%**	**Over 81%**
Short-Term Debt	0.0	4.0	1.0	0.0	0.0	2.0	0.0	1.0
Medium-Term Debt	3.0	4.0	1.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	2.0	1.0	0.0	2.0	2.0	1.0	0.0	0.0
Mutual Funds	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Survey Results

Note: Total number of funds = 8.

One fund in this category came close to satisfying the nomenclature recommended in the Stikeman Elliot Report. Two held more than half of their portfolio in short-term instruments, but still below the USSEC based and Stikeman Elliott standards. The others held less than half of their portfolio in short-term securities.

The findings also suggested that there were sharp differences in the proportion of investments in various debt instruments with various maturities. Three companies held more than half of their portfolio in long-term securities, while three funds held more than 60.0 percent in short-term instruments. The differences in portfolio composition suggest that funds are not operating in a competitive environment. Those with the bulk of their investments in longer-term securities can be expected to derive higher per unit returns from doing so, even though they are registered as money market funds. Moreover, there are liquidity implications that arise where the bulk of the portfolio is held in medium and long-term investments, and where trade in the secondary capital market is weak. This is likely to lead to a potential mismatch between investments and redemptions in certain circumstances.

The results emphasise the importance of oversight and rigid enforcement of a prescribed nomenclature. In the absence of such, fund managers can ignore with impunity the nomenclature standard and boost returns by purchasing higher yielding long-term securities.

Bond Funds

Long-term debt accounted for 37.1 percent of the portfolios of bond funds. That apart, bond funds kept their portfolio fairly liquid with short-term securities accounting for 30.5 percent and mutual funds, 18.3 percent. The distribution of the portfolios according to the number of funds is shown in Table 35.

Table 35: Bond Funds – Portfolio Composition

Securities	Portfolio Composition							
	0	**1-30%**	**31-40%**	**41-50%**	**51-60%**	**61-70%**	**71-80%**	**Over 81%**
Short-Term Debt	0.0	2.0	1.0	0.0	0.0	2.0	0.0	0.0
Medium-Term Debt	0.0	4.0	1.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	2.0	1.0	0.0	1.0	1.0	0.0	0.0	0.0
Equity Funds	3.0	1.0	0.0	0.0	0.0	0.0	0.0	1.0
Mutual Funds	2.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Survey Results

Note: Total number of funds = 5

Of the five funds classified as bond funds, one met the Stikeman Elliot recommendation. This fund held approximately 85.0 percent of its portfolio in medium and long-term bonds. Another fund held 46.6 percent of its investments in medium and long-term securities. Two funds held 51% or more of their portfolios in long-term securities and equities, while two funds held over 60% in short term securities.

Equity Fund

The Stikeman Elliot Report did not define the nomenclature for this category of funds. On aggregate however, 71.0 percent of these funds were held in equities. Long-term bonds accounted for a mere 9.6 percent of the portfolio. Liquidity was maintained as short-term securities and mutual funds accounted for about 15.19 percent of the overall portfolio. The portfolio structures are shown in Table 36 below.

Table 36: Equity Funds – Portfolio Composition

Securities	Portfolio Composition							
	0	**1-30%**	**31-40%**	**41-50%**	**51-60%**	**61-70%**	**71-80%**	**Over 81%**
Short-Term Debt	1.0	3.0	1.0	0.0	0.0	0.0	0.0	1.0
Medium-Term Debt	3.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	2.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0
Equity Funds	2.0	0.0	0.0	0.0	1.0	0.0	3.0	0.0
Mutual Funds	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Survey Results

Note: Total number of funds = 6.

Four funds invested more than half of their portfolio in equities. Of these three held more than 70.0 percent of their portfolio in equities. The other funds held debt instruments instead of equities, with one having over 81% invested in short term equities. Overall however the funds which invested in equities accounted for the largest share of total equities.

Growth and Income Fund

The Stikeman Elliott Report made no recommendations in respect of the nomenclature of general strategy funds such as the income and growth funds. However, an examination of the portfolio for the four funds revealed that equity investments accounted for 55.1 percent of the aggregate portfolio and investments in long-term securities accounted for 11.5 percent. Liquidity was maintained as 31.3 percent of the aggregate portfolio was invested in short-term instruments.

Table 37: Growth and Income Funds – Portfolio Composition

Securities	Portfolio Composition						
	0	**1-10**	**11-20**	**21-30**	**31-40%**	**41-50%**	**51-60%**
Short-Term Debt	0.0	0.0	1.0	1.0	2.0	0.0	0.0
Medium-Term Debt	1.0	2.0	1.0	0.0	0.0	0.0	0.0
Long-Term Debt	1.0	0.0	2.0	0.0	1.0	0.0	0.0
Equity Funds	1.0	0.0	0.0	0.0	0.0	1.0	2.0
Mutual Funds	1.0	1.0	2.0	0.0	0.0	0.0	0.0

Source: Survey Results

Note: Total number of funds = 4

The examination of the portfolio composition by number of firms revealed that three funds held between 40.0 to 60.0 percent of their portfolio in equities, one held 30% to 40% in long term debt and two held 30% - 40% in short term debt.

Annuity/Pension Fund

On aggregate, the portfolios of the four annuity/pension funds were primarily invested in equities, which accounted for 72.4 percent of the portfolio. Medium-term bonds accounted for 7.6 percent, while 15.0 percent were invested in long-term bonds. The funds still maintained some liquidity as 14.0 percent of their aggregate portfolio was invested in short-term instruments.

Table 38: Annuities/Pension Funds – Portfolio Composition

Securities	Portfolio Composition							
	0	**1-30%**	**31-40%**	**41-50%**	**51-60%**	**61-70%**	**71-80%**	**Over 81%**
Short-Term Debt	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium-Term Debt	3.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	2.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0
Equity Funds	1.0	1.0	0.0	0.0	1.0	0.0	1.0	0.0
Mutual Funds	2.0	1.0	0.0	0.0	0.0	0.0	0.0	1.0

Source: Survey Results

The data in Table 38 suggest that notwithstanding the concentration in values indicated above, there was a high degree of variation in the portfolio composition of individual investment managers. Two funds had portfolio composition with 51% or more in equities, one with over 81% in mutual funds, and one with over 41% in long-term securities.

7.4 Risk Management Policies

The sustainable development of the industry hinges not only on the degree of diversification of investments, but as well on the risk management systems employed. Notwithstanding the dominance of money market funds in the industry, some level of portfolio diversification is evident. Yet, there is a requirement for effective risk management to minimise all the risks to which mutual fund investments may be exposed to, including the risk of contagion from the potential failure of any given fund. The general thrust of IOSCO recommendations with regards to risk and portfolio management has been in the direction of the management of risk through capital, control systems and risk disclosure to investors.[26] This section examines where the local fund industry has reached with regards to the development of risk management systems.

[26] See IOSCO (1997). "Principles for the Supervision of the operators of Collective Investment Schemes". Technical Committee, Spain.

Board approved policy

An IOSCO consultation report on governance for collective investment schemes noted that: "*The general goal [of investor protection] is not to protect investors from suffering any market-driven loss, but rather to enable investors to understand the risks that pertain to investments in specific CIS.*"[27]

There was some disclosure of risk in the prospectuses as fund managers outlined the risks associated with investments in their schemes (See Appendix 6). However, not all the investment managers had a board approved risk management policy in place. Of the seven investment managers domiciled in the domestic market, four indicated that they already had a board approved risk management policy in place. These fund families accounted for 46.6 percent of the schemes available. The remaining fund families indicated their intention to put measures in place that would assist in risk management.

The risks outlined by the prospectuses were general in nature. The prospectuses provided limited information on the specific risks with which the fund portfolio must treat in the short to medium-term, the potential impact of these risks, how these risks would be measured or what tactics the fund would adopt to overcome these risks. In addition, there was little mention of the risk return strategy of the funds.

Risk-return trade-off

Five of the seven investment managers indicated that they have a stated policy with regards to the management of the risk/return trade-off. The managers indicated different risk tolerance levels, as attitudes to risks were almost evenly spread between lower than market risk and higher than market risk. From the findings, it was also evident that competition in the sector is intense, as most investment managers sought to exceed the average market returns.

In a market environment where the pool of investments is limited, the resulting competitiveness is likely to lead to pressure on funds to be creative and aggressive. This increases the importance of supervising funds to facilitate a level playing field. In such a situation and in addition to the high liquidity in the domestic market, funds are likely to seek to gain the competitive edge through their overseas investments. Risk disclosure on the specifics of these investments therefore is critical to the internal operations of the fund and to investors.

[27] "Examination of Governance for Collective Investment Schemes". Consultation Report (2005), Technical Committee of the IOSCO. P3.

<u>Internal Communication of Risks</u>

Five investment managers who accounted for 63.0 percent of the available schemes indicated that reports on the quantification of risks are submitted to directors. Oversight of risk levels by the board of trustees/directors was done on a regular basis by three of these funds. One reported that this was done on a monthly basis. Two indicated that it was done on a quarterly basis and two indicated that it was done as per request. Nevertheless four indicated that there was no mandatory obligation to report risk levels.

7.5 Identification of Risk

<u>Risk disclosure in the prospectus</u>

All investment managers save one made an effort in their prospectus to disclose the types of risks for each fund. Generally risks were identified in terms of fluctuations in price variables that ultimately impact on the market value of securities. The risks for the various fund types were collectively noted as follows.

- <u>Money market fund</u>: interest rate risk, changes in fund expenses, security gains and losses, and default risk.
- <u>Equity fund</u>: risk of fluctuations in capital value of equity and fixed income securities, exchange rate risk, liquidity risk, interest rate risk, adverse political and economic developments, the imposition of restrictive laws and in a few cases, risks intrinsic to the fund type such as for real estate.
- <u>Growth and income fund</u>: risk of fluctuations in market value of securities, default risk and interest rate risk.
- <u>Pension/annuity</u>: fluctuations in market value of investments

The disclosures of risks in the prospectus were limited in many respects including:

1. The indication of how risks would be monitored or the level of risk tolerance pertaining to the fund;
2. The general and non-specific identification of risks;
3. The absence of a framework with categorisation to show how the fund will treat with the various risk types;
4. The inconsistency of disclosure within the same class of funds across different investment managers, even where investments were identical.

The disclosure pattern in the prospectuses therefore reflected the absence of common standards with regard to risk and the absence of a standardised framework for the disclosure of risks by funds.

Sources of Market Risk

Investment managers provided information on the major sources of market and liquidity risks. The objective was to explore where the development of the information infrastructure needs to be targeted. To facilitate analysis, funds were separated according to type and the total scores of the risk ranking assigned by risk managers were aggregated and summarised as shown in Table 39 below.

Table 39: Aggregate of Risk Ranking of Funds by Investment Manager

Fund Type	Currency Risk	Equity risk	Interest rate risk	Operational risk	Credit Default Risk	Other Risks
Money Market	18	2	37	25	20	10
Equity Fund	20	29	18	11	0	15
Growth and Income	10	23	18	10	5	9
Bond	14	11	26	13	0	12
Pension/Annuity	9	23	16	14	5	15
Aggregate rankings	71	88	115	73	30	61

Source: Survey Results

Note: The higher the ranking the greater the risk exposure as perceived by the fund manager. Other risks include commodity risk, volatility risk, economic and political risk and counterparty risk.

On aggregate, price risks were ranked higher than credit and macroeconomic risks. The results suggest that the managers perceive interest rate and equity risks as the most significant risk categories.

Current Level of Risk Analysis

Five of the funds indicated that they already had systems in place to monitor risks. Generally, systems consisted of a combination of human resources, accounting units, and in the case of commercial banks, oversight was exercised by a sub-committee of the board of directors. The investment managers who did not apply resources to risk monitoring indicated that they were in the process of moving to that stage of operation.

The results suggest that in the absence of appropriate regulations and industry standards, there was a high degree of disparity in the allocation of resources to effect risk management. This also had implications for the costs of risk monitoring by investment managers.

The disparity was further reflected in the training of personnel, the expenditure on the number of employees devoted to risk management and the software used. Only two investment managers were able to identify the percentage of their budget devoted to training. This ranged between 5.0 and 25.0 percent. In terms of employees devoted to risk analysis, three firms identified percentages of 3.0, 7.0 and 25.0. Similarly, only three firms used specialist software for risk, and one other used excel spreadsheets.[28]

Quantification of risk

Five investment managers reported that they recently began to quantify risk. Those who were not doing so indicated that they proposed to establish systems to do so.

7.6 Risk Management Tools

The risk management tools employed by the industry varied widely. One firm adopted the VaR model, two adopted the risk-adjusted return on capital and two adopted concentration limits. Other measures adopted included internal credit risk rating model, convexity and modified duration models, and reserve requirement determination models.

Information used to conduct risk evaluation

The information used to undertake risk evaluation did not vary significantly by fund type. Each investment manager used multiple types of information to conduct risk analysis. These included sovereign risk of non-local investments, securities credit risk exposures, securities price volatility, securities price correlation, and Market index volatilities.

Benchmarks for Risk Decisions

Only two investment managers reported that they benchmarked risk. The benchmark varied within and between schemes offered by the investment managers. In the case of equity funds, the firms adopted customised indices. One firm reported that it compared its Beta values against the stock market index. The other investment managers reported that they created a blend of stock market returns and fixed income returns.

[28] Specialist software were CAMRA, Visual Fast, Sunguard EAS/EPS.

The benchmarks included:

- Bond Issue: Modified Duration
- Portfolio Standard Deviation
- Beta vs. Index Weighted stock market return & fixed income return
- US 90-day treasury bill rate
- TT 90-day treasury bill rate

In respect of the other types of funds, one investment manager reported that it used modified duration analysis for its bond market funds. With respect to the money market fund, one investment manager reported the use of the 90 day Treasury bill rate for the money market fund. At the same time, the US 90 day Treasury bill rate was used as the index for the US dollar money market fund. The other five investment managers indicated that they were evaluating the use of appropriate benchmarks.

7.7 Type and Adequacy of Information used

While two investment managers indicated their satisfaction with the available information, the others indicated that the available information was inadequate for a proper evaluation of risk. The observation of the five investment managers are as follows:

1. There is no independent body or mechanism for data capture. This includes data that are useful for the establishment of benchmarks for the local industry.
2. There is a lack of market information to construct a yield curve for Trinidad and Tobago owing to the weak presence of an actively traded secondary bond market. As a result, fixed income instruments in the market tend to be illiquid up to maturity, so that prices are unavailable to determine values and correlations.
3. The industry lacks information on daily risk and volatility indicators with respect to the regional stock exchanges.
4. There is a lack of information on default rates per industry. This impacts on the ability of funds to assess default risk of the suppliers of debt securities.

7.8 Maintenance of Seed Capital

Two investment managers indicated that they maintained a minimum level of capital. One of these revealed that they used the seed capital of $2.5 million as the minimum level of capital to be maintained in the fund. The other indicated that a minimum level of capital was maintained for its money market funds, and growth and income funds, and the weight was determined by a risk weighting. In particular it was determined as the sum of the risk weighted book values of the securities in the portfolio (including cash). Weights were assigned according to the remaining term of maturity of each security, with the limits being, securities maturing in 1 year or less having a weighting of 0.0 percent and securities maturing in 30 years or more having a weighting of 5.0 percent. Other mutual funds sold back their seed capital to the fund, once the fund became established.

8 POLICY IMPLICATIONS

The specific objectives of the study included an assessment and analysis of the legal, administrative and governance structures in place for fund management companies, as well as a review and assessment of fund management practices. In the light of the phenomenal growth of the sector, and on the evidence that has emerged from the market survey, it is clear that certain policy issues regarding the industry need to be addressed as a matter of urgency.

These issues include fund governance, risk management practices, marketing and promotional practices, and reporting by fund managers and trustees. They are important issues and should be addressed immediately by the regulatory body in order to protect investors, ensure fairness and efficiency in the market and to minimize the potential risks to the system.

The evidence of the survey is compelling enough to warrant an immediate policy response in terms of the establishment and implementation of measures to facilitate the smooth and sustained operations of the industry. A key recommended intervention is in the form of a regulatory framework that should consist of two limbs, namely moral suasion and legislation.

A complementary measure to the regulatory framework is the production of a current and up to date market watch monitoring system for mutual funds. This market watch system when fully developed, should contain current public information on all registered funds and on certain aspects of the operations of foreign funds in Trinidad and Tobago through registered representatives. This system will facilitate peer comparisons among fund and fund managers. It will also provide up to date data on fund operations and will facilitate a range of key statistical analyses on different aspects of such fund operations and performance.

The monitor will be a repository of sensitive and vital information in a highly competitive industry. As such it will be required to have certain characteristics and conform to certain high industry standards to maintain its integrity and value as a viable and effective regulatory instrument. These characteristics will include but need not be limited to:

- Continuous reporting of fund operations by fund managers;
- A basis for managing necessary access to the system while ensuring confidentiality; and
- Procedures for its adequate maintenance.

The ideal situation is to implement this package of measures through a new and comprehensive securities industry legislation that will address the entire ranges of issues affecting the industry.

Such an approach however is likely to be a protracted process. As an interim and practical measure therefore, these specific measures can be introduced through guidelines as provided for under section 6(b) of the Securities Industry Act. The SEC is the regulatory body authorized under the Act to issue those guidelines.

Specifically, the guidelines should reflect a mixed “disclosure and substantive regulation” approach which is consistent with practice in Canada and the United States. Additionally, they should be of general application and apply to any organization that establishes a CIS. This would include the UTC.

As a word of caution, it is important that in the introduction of the guidelines, cognizance is given to the fact that the industry is a going concern. For practical reasons therefore, the guidelines and any other contemplated measures, even those that may result in change in the status quo, should be such as not to affect unnecessarily the smooth operation of the industry. Every effort must be made therefore to ensure that as far as possible, the introduction of these guidelines into an ongoing, unregulated market do not result in unintended consequences such as a decrease in activity.

COLLECTIVE INVESTMENT VEHICLES SCHEME INDUSTRY

OF

TRINIDAD AND TOBAGO

BASELINE STUDY

PART 2: APPENDICIES

APPENDIX 1

TRENDS IN THE GLOBAL MUTUAL FUNDS INDUSTRY 1999-2004

Over the period 1999 to 2004 the Mutual Funds industry grew from $USD 11,295 billion to $USD 15,595 billion, as shown in Table 1.

Table 1: Change in Total Net Assets of Mutual Funds by Region
(Billions of U.S. Dollars as at 2004)

Region	Years						Change 1999 - 2004	Overall Percentage Change
	1999	2000	2001	2002	2003	2004		
Americas	7,168.0	7,287.0	7,242.0	6,527.0	7,517.0	8,325.0	1,156.0	16%
Europe	3,203.0	3,296.0	3,168.0	3,463.0	4,683.0	5,538.0	2,335.0	73%
Asia and Pacific	905.0	1,134.0	1,039.0	1,064.0	1,361.0	1,678.0	773.0	85%
Africa	18.0	17.0	15.0	21.0	34.0	54.0	36.0	196%
Total	**11,295.0**	**11,734.0**	**11,464.0**	**11,075.0**	**13,596.0**	**15,595.0**	**4,300.0**	**38%**

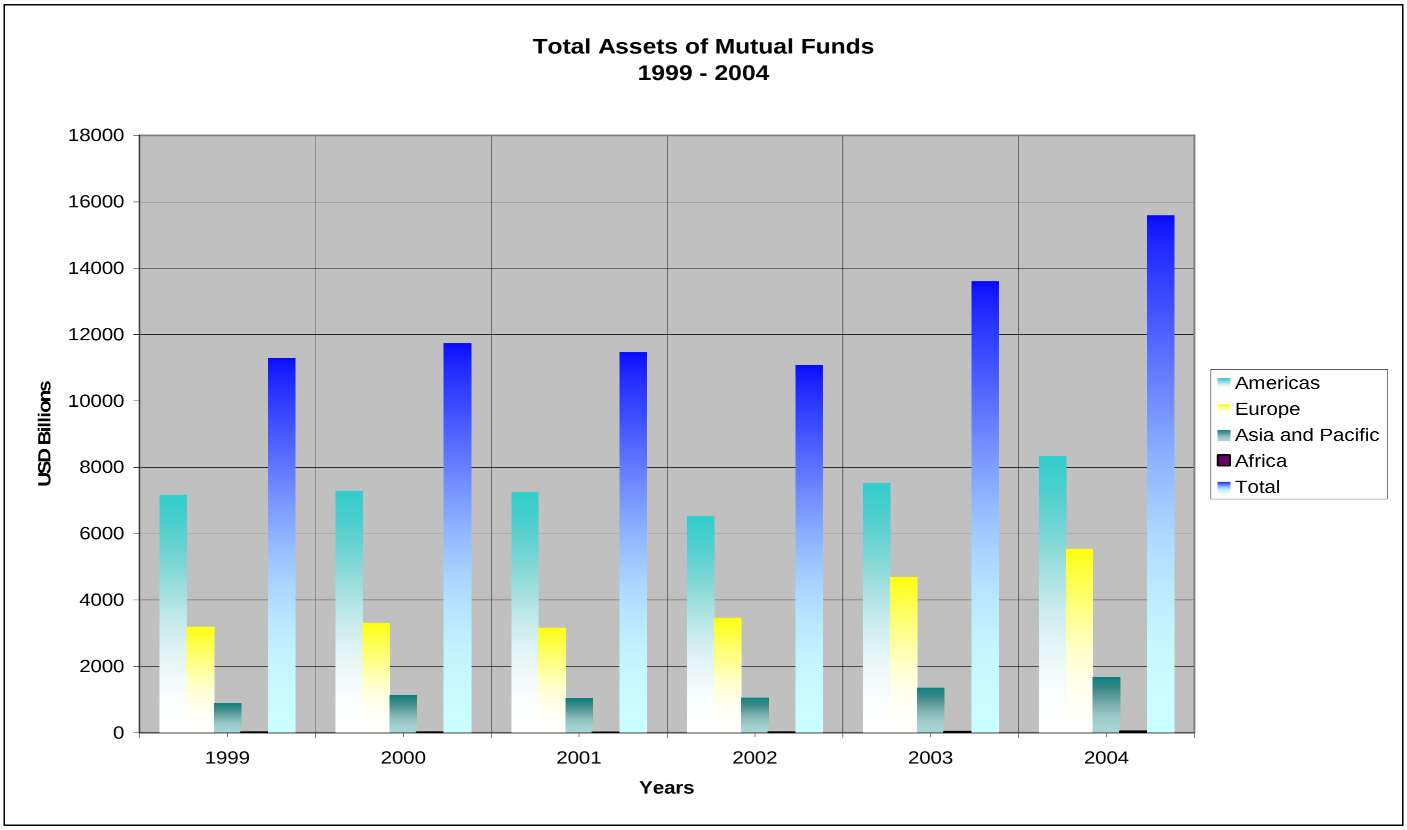
At the regional levels, the value of net assets in the Americas region grew by 16.0 % from $USD 7,168 billion in 1999 to $USD 8,325 billion by 2004. In comparison, percentage increases for Africa, Asia, the Pacific and Europe were 196.0%, 85.0% and 73.0% respectively.

Table 2: Total Net Assets of Mutual Funds by Region
(Billions of U.S. Dollars, end of period)

Region	Years											
	1999		2000		2001		2002		2003		2004	
	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total
Americas	7,168.0	63.5	7,287.0	62.1	7,242.0	63.2	6,527.0	58.9	7,517.0	55.3	8,325.0	53.4
Europe	3,203.0	28.4	3,296.0	28.1	3,168.0	27.6	3,463.0	31.3	4,683.0	34.4	5,538.0	35.5
Asia and Pacific	905.0	8.0	1,134.0	9.7	1,039.0	9.1	1,064.0	9.6	1,361.0	10.0	1,678.0	10.8
Africa	18.0	0.2	17.0	0.1	15.0	0.1	21.0	0.2	34.0	0.3	54.0	0.3
Total	**11,295.0**	**100.0**	**11,734.0**	**100.0**	**11,464.0**	**100.0**	**11,075.0**	**100.0**	**13,596.0**	**100.0**	**15,595.0**	**100.0**

Compiled from the published statistics Investment Company Institute, Various National Mutual Fund Associations and the Fédération Européenne des Fonds et Sociétés d'Investissement

Chart 1: Total Assets of Mutual Funds by Regions, 1999 to 2004



As a consequence of the greater growth in the regions of Africa, Asia and Pacific, and Europe relative to the Americas, there was a significant change in the distribution of the value of assets of the worldwide mutual fund industry. In 1999, the Americas accounted for 63.5% of the net assets while Africa, Asia the Pacific and Europe accounted for 0.2%, 8.0% and 28.4% respectively. At the end of 2004, the contribution from Africa, Asia the Pacific and Europe increased to 0.3%, 10.8% and 35.5% respectively, culminating in a decline in the Americas of 53.4%.

Chart 2: Percent of Worldwide Mutual Fund Assets by Region as at 1999

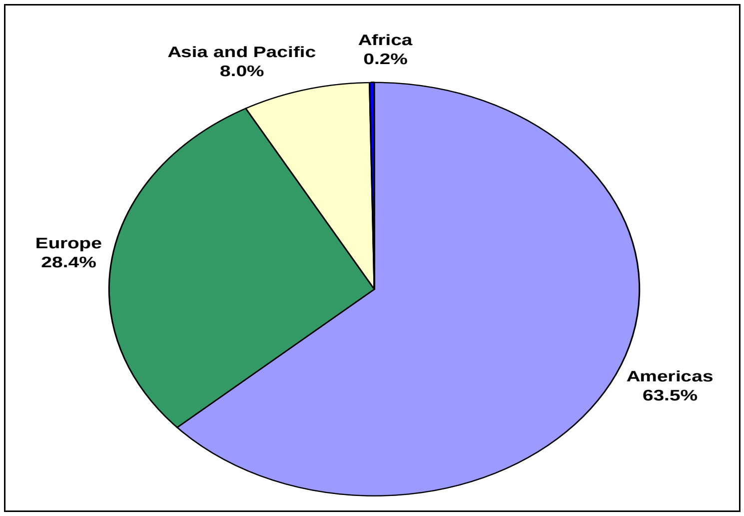
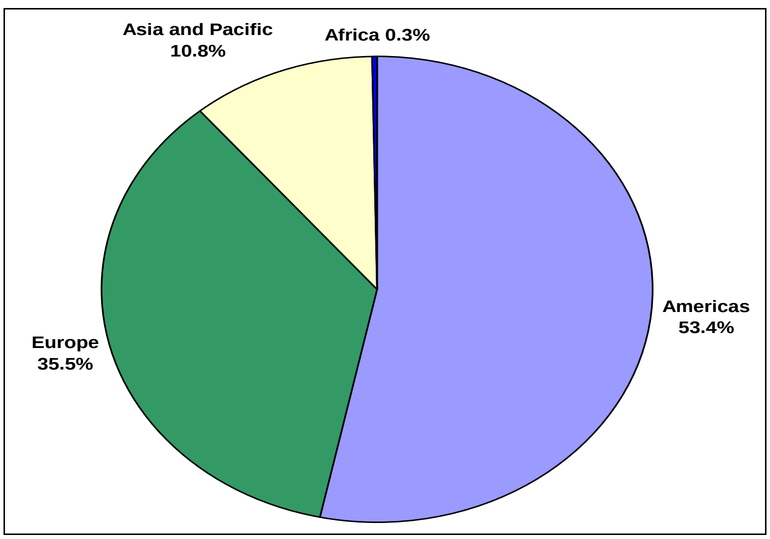


Chart 3: Percent of Worldwide Mutual Fund Assets by Region as at 2004



This change may be partly attributed to the greater maturity of the economies and industry of the Americas region relative to those of the other regions. As a result, the rate of industry growth was greater in those emerging markets.

At the end of 2004, of the major fund types, equity based funds accounted for 46.0% of the worldwide mutual fund industry. Bond based funds and the money market funds accounted for 21.1% and 21.3% respectively, while the balanced/mixed funds accounted for 9.2%. This is shown in Table 3.

In terms of fund growth, the traditional equity based funds grew by 22.0% over the period. Bond-based funds grew by 56.0%, money market funds by 45.0%, and balanced/mixed funds by 47.0%.

Table 3: Total Assets by Type of Mutual Funds, 1999 to 2004

(Billions of U.S Dollars)

Type of Mutual Funds	1999	2000	2001	2002	2003	2004	Percentage of Total	Overall Percentage Change
Equity	5,878	5,962	5,134	4,204	5,882	7,172	46.0%	22%
Bond	2,104	2,077	2,212	2,529	3,010	3,287	21.1%	56%
Money Market	2,287	2,483	2,986	3,190	3,205	3,321	21.3%	45%
Balanced/ Mixed	971	1,022	942	923	1,201	1,431	9.2%	47%
Other	55	190	190	229	298	384	2.5%	598%
Total	**11,295**	**11,734**	**11,464**	**11,075**	**13,596**	**15,595**	**100.0%**	**38%**

Compiled from the published statistics Investment Company Institute, Various National Mutual Fund Associations and the Fédération Européenne des Fonds et Sociétés d'Investissement

The data suggest that most of the growth in the worldwide mutual fund industry occurred outside of the Americas region and in non-traditional products. Yet, at the end of 2004 the Americas region accounted for more that 50% of the industry and the equity based products constituted the dominant product.

APPENDIX 2

SUMMARY STUDY METHODOLOGY

Units of Analysis

In order to accomplish the analysis of the various funds, each fund was treated as a separate unit for the purpose of analysis. The use of the fund as the basic unit of analysis was done in all but one section of the study, namely “Governance”. The governance practices of CIVs was analysed using categories of funds identified by fund sponsors. The rationale for this approach is that the governance structures tended to vary among sponsors whereas all funds of a sponsor tended to have similar governance structures.

Survey Methodology

<u>Sample Frame</u>

Various forms of survey techniques were used.   The sample frame consisted of the list of registered issuers of CIVs from the Trinidad and Tobago Securities and Exchange Commission (TTSEC). The TTSEC register is the most comprehensive list of issuers of CIVs which operate in Trinidad and Tobago. However, there were some major limitations associated with the use of this register:

1. It does not account for the unregistered CIVs which operate in the market;
2. It comprises operating funds as well as 'shelf registrations', or funds which are not operating but are registered;
3. the family of funds was not disaggregated in the register, only the umbrella family was being recorded; and
4. It comprises receipted prospectuses, often with one fund being receipted and registered each time the prospectus is changed, resulting in more than one entry for each fund.

In order to mitigate the possible effects of these limitations, the following steps were undertaken:

1. All duplicate entries were removed from the register of CIVs.
2. Where there were incidents of families of funds being registered to the family; these families were disaggregated into the constituent funds.

3. All the traded funds were separately identified from those which were not being actively traded as at the end of December 2004.

As a result of the treatment of the data, a clean sample frame was created. This comprised 206 funds of which 61 were being traded as at the end of December 2004. Thirty one of these were locally originated funds while the remaining thirty originated from foreign jurisdictions.

The traded CIVs are distributed by eleven distributors, namely:

1. AIC Financial Group Limited;
2. Bourse Securities Limited;
3. Colonial Life Insurance Company (Trinidad) Ltd;
4. First Caribbean International Banking and Financial Corporation;
5. First Citizens Trust and Asset Management Limited;
6. International Investment Brokerage Service Limited;
7. RBTT Trust and Asset Management Limited;
8. Republic Bank Limited;
9. Sagicor;
10. Scotia Trust and Merchant Bank Limited; and
11. Trinidad and Tobago Unit Trust Corporation.

Of these eleven distributors those which are the principal distributors of locally originated funds are:

1. Bourse Securities Limited;
2. Colonial Life Insurance Company (Trinidad) Ltd;
3. First Citizens Trust and Asset Management Limited;
4. RBTT Trust and Asset Management Limited;
5. Republic Bank Limited; and
6. Trinidad and Tobago Unit Trust Corporation
7. AIC Financial Group Ltd.

The majority of the analysis performed in this study was based on the locally originated funds and their respective Sponsors/ Investment Managers. Therefore, although all of the respective funds of the sample frame were surveyed the analysis presented in this report focuses on the practices and structures of the local funds. Reference was made to the foreign funds for the purpose of comparisons.

Survey Methods

Three survey methodologies were used. The first was desktop research which involved a survey of:

1. the TTSEC receipted prospectuses
2. the various documents and correspondences filed with TTSEC
3. the information published in Newspapers, Periodicals and the Internet and
4. the published data of the Central Bank of Trinidad and Tobago.

A corporate data sheet was used to accumulate data for the survey. The desktop survey provided detailed data for each fund as follows:

1. Name
2. Date of Registration
3. Type of Vehicle (Mutual Funds, Pension/Annuity Scheme, Real Estate Investment Fund, Other)
4. Legal Structure (Trust, Corporate Fund, Contract Fund, Other)
5. Open-Ended vs. Close Ended Fund
6. Type of Guarantee.
7. Jurisdiction of Origin
8. Denominated Currency
9. For the Trustees, Directors, Portfolio Manager/ Investment Advisers, Sponsors/ Investment Managers, Custodian, Transfer Agents and Principal Distributors the following information was collected:
    - i. Registered Business Name (if Registered)
    - ii. Name of Principals
    - iii. Business Address
    - iv. Telephone Contacts
    - v. E-mail Contacts
10. Description of Methodologies for Pricing as per Prospectuses
11. Describe Voting Rights Allowable as per the Prospectuses
12. Description and type of Charges and Fee as per Prospectuses
13. Description of Methodologies for Calculating Management Expense Ratios as per the prospectuses
14. Description of the Risk Disclosures detailed in the prospectuses

The second method used was a secret shopper survey by way of visits to the offices of the Sponsor/ Investment Managers of the CIVs. The surveyors visited as a 'secret shopper' i.e. none of the Sponsors/ Investment Managers was aware of the survey. The surveyors repeated the visits that were made by a previous surveyor. The surveyors collected samples of the point of sales disclosures (prospectuses and brochures).

The third method consisted of the use of questionnaires. These were completed by the Sponsor/ Investment Managers of the respective funds. One questionnaire was prepared for CIVs which originated from foreign jurisdictions and another for the local CIVs. The questions were close-ended and open ended, likert scale questions and ranking order questions. In the case of close-ended questions and rank order questions, the predetermined options were developed from previous research done on the CIV industry by multilateral bodies such as IOSCO, OECD and IADB.

<u>Survey Responses</u>

There were 61 responses to the questionnaires from all the funds which are being traded. However, most of the respondents did not provide all of the "off questionnaire" information that was required for the survey. Information on historical net asset values and securities lending was not forthcoming. Twenty five of the locally traded funds provided historical net asset values, while eighteen provided data on securities lending. Published data from the various funds were used to overcome this constraint. However, there was no other source of data for securities lending. It was discovered that when the data provided for the securities lending was tested against other financial data provided, the lending data was found to be inaccurate. As a result, a decision was taken to omit the analysis of the securities lending derived from that suspect data.

Below is a listing of the variables, sample frame and the questionnaires, as well as the financial and sales data required from locally originated CIVs.

Variables

Variables	**Sources**
Quantitative Variables	
Financial Data	
Total Assets	Survey
Total Funds Under Management	Survey, CBTT
Total Liabilities	Survey
Asset Allocations	Survey (Asset Schedules)
Dividend Income/ Distributions	Survey
Capital Gains/ Returns on Portfolio	Survey (Asset Schedules)
Investment Management Fees	Survey
Operational Expenses (Rent, Utilities, Administration Expenses)	Survey

Variables	Sources
Marketing Expenses (Advertising, Publications i.e. Brochures, Prospectuses etc.)	Survey
Front End Fees (Sales Fees – one time charge)	Survey
Back End Fees (Exit Fees – one time charge)	Survey
Sales	Survey
Redemptions/ Repurchases	Survey
Accounts Statistics	
Number of Units Outstanding	Survey
Number of Accounts for Individual Investors	Survey
Number of Accounts for Institutional Investors	Survey
Number of Corporate Investors	Survey
Number of Non Bank Corporate Investors	Survey
Number of Bank Corporate Investors	Survey
Number of Other Institutional Investors	Survey
Market Statistics	
CAPM Beta	Portfolio Research
Market Index Returns (Stock Index, Bond Index etc.)	Stock Exchange, UWI
Qualitative/ Descriptive Variables	
Name of Fund (Unit of Analysis)	Fund Prospectuses
Type of Investment Vehicle (Deferred Annuity, Mutual Fund etc.)	Fund Prospectuses
Applied Classification of Fund	Survey, Fund Prospectuses
Legal Structure of the Fund (Trust, Corporate, Contract, Other)	Survey, Fund Prospectuses
Date of Registration of Fund	Fund Prospectuses
Date of Inception of Operation	Survey
Open-Ended vs. Close- Ended Fund	Fund Prospectuses
Jurisdiction of Origin	Survey, Fund Prospectuses
Currency of Denomination	Fund Prospectuses
Description of Current Portfolio Manager/ Investment Adviser	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses

Variables	**Sources**
Description of Investment Manager	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses
Description of Trustees/ Board of Directors/ Principals	
Name of Individual or Firm	Survey, Fund Prospectuses
Highest Level of Academic Qualification	Survey, Fund Prospectuses
Professional Qualifications	Survey, Fund Prospectuses
Area of Professional Expertise	Survey, Fund Prospectuses
Name of Directors	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses
Description of Custodians	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses
Description of Principal Underwriter	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses
Description of Transfer Agent	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions	Survey, Fund Prospectuses

Variables	Sources
Description of Sales/ Marketing Agent or Distributor	
Registered Business Name or Name of Principal(s)	Survey, Fund Prospectuses
Business Address	Survey, Fund Prospectuses
Telephone Contact	Survey, Fund Prospectuses
E-mail Contact	Survey, Fund Prospectuses
Basis(es) of Compensation	Survey, Fund Prospectuses
Assigned Functions (choose)	Survey, Fund Prospectuses
Description of Methodologies for Valuation	
Frequency of Portfolio Valuations	Survey, Fund Prospectuses
General Valuation Methodology i.e. Discounted Cash Flow, Market Value	Survey, Fund Prospectuses
Description of Methodologies for Pricing and Returns Calculation	
Frequency of Unit Pricing	Survey, Fund Prospectuses
Items used to Calculate the price and Return	Survey, Fund Prospectuses
Type of Fees applied	Survey, Fund Prospectuses
Returns Reporting	Survey, Fund Prospectuses
Description of Methodologies to Calculate Management Expense Ratios	
Frequency of Application of management Charges	Survey, Fund Prospectuses
Items used to Calculate the price and Return	Survey, Fund Prospectuses
Description of Risk management Practices	
Resources allocated to risk management	Survey, Fund Prospectuses
Description of Risk Policy	Survey, Fund Prospectuses
Types of Risk	Survey, Fund Prospectuses
Description of Risk-Return Strategy	Survey, Fund Prospectuses
Description of Risk Disclosures	Survey, Fund Prospectuses
Description of Disclosure Applied Conventions	
Frequency of Customer Disclosures	Survey, Fund Prospectuses
Format of Customer Disclosures	Survey, Fund Prospectuses
Applied Conventions	Survey, Fund Prospectuses
Methods of Publication of Disclosures	Survey, Fund Prospectuses
Description of Governance Structures	
Type of Fund Governance	Survey, Fund Prospectuses
Compliance Policies and Procedures	Survey, Fund Prospectuses
Components of Governance Structure	Survey, Fund Prospectuses
Type of Share Issues (Voting/ Non-Voting)	Survey, Fund Prospectuses

Sample frame

Name of Fund	Actively Trading	Jurisdiction of Origin
AIC TT (US$) Income Fund	YES	Local
AIC TT Caribbean Equity Fund	YES	Local
AIC TT Income and Growth Fund	YES	Local
AIC TT Income Fund	YES	Local
AIC TT Short Term Income Fund	YES	Local
AIC Advantage 11 Corporate Class	YES	Foreign
AIC American Advantage Corporate Class	YES	Foreign
AIC American Balanced Corporate Class	YES	Foreign
AIC American Focused Corporate Class	YES	Foreign
AIC Canadian Balanced Corporate Class	YES	Foreign
AIC Canadian Focused Corporate Class	YES	Foreign
AIC Diversified Canada Corporate Class	YES	Foreign
AIC Diversified Science and Technology Corporate Class	YES	Foreign
AIC Global Advantage Corporate Class	YES	Foreign
AIC Global Diversified Corporate Class	YES	Foreign
AIC Money Market Corporate Class	YES	Foreign
AIC Value Corporate Class	YES	Foreign
AIC World Equity Corporate Class	YES	Foreign
Ansa Secured Fund	YES	Local
Bourse Capital Growth Fund	NO	Local
Bourse Money Market Fund	NO	Local
Savinvest US$ Investment Income Fund	NO	Local
CIBC Private Client Fund	YES	Foreign
Savinvest Capital Growth Fund	YES	Local
Savinvest Structured Investment Fund	YES	Local
Savinvest Group retirement Plan	YES	Local
Savinvest Individual Retirement Plan	YES	Local
Savinvest US$ Capital Growth Fund	YES	Local
Savinvest India Asia Fund	YES	Local
Colonial Life Core Fund	YES	Local
Colonial Life Power Fund	YES	Local
Colonial Life Shield Fund	YES	Local
Optimal Bond Fund	YES	Local
Emerging Markets Fixed Income Fund	YES	Foreign

Name of Fund	Actively Trading	Jurisdiction of Origin
Global Bond Fund	YES	Foreign
Global Growth Fund	YES	Foreign
U.S Aggressive Growth Fund	YES	Foreign
U.S Value Fund	YES	Foreign
U.S. High Yielding Fund	YES	Foreign
U.S. Investment Quality Bond Fund	YES	Foreign
U.S. Premier Equity Growth Fund	YES	Foreign
Barclays International Funds- (Sterling) Reserve	NO	Foreign
Barclays International Funds - European Bond	NO	Foreign
Barclays International Funds - European Equity	NO	Foreign
Barclays International Funds - International Equity	NO	Foreign
Barclays International Funds - Japanese Equity	NO	Foreign
Barclays International Funds - North American Bond	NO	Foreign
Barclays International Funds - US Dollar	NO	Foreign
Barclays Investment Funds - European Equity	NO	Foreign
Barclays Investment Funds - International Bond	NO	Foreign
Barclays Investment Funds - International Equity	NO	Foreign
Barclays Investment Funds - North American Equity	NO	Foreign
Barclays Investment Funds - Sterling Bond Fund	NO	Foreign
Barclays Euro Funds - Euro Blue Chip Fund	NO	Foreign
Barclays Euro Funds - Euro Bond Fund	NO	Foreign
Barclays Euro Funds - Euro Cash Fund	NO	Foreign
Barclays Euro Funds - Euro Convertible Bond Fund	NO	Foreign
Barclays Euro Funds - Euro Corporate Bond Fund 1-3 years	NO	Foreign
Barclays Euro Funds - Euro Long Term Bond	NO	Foreign
Barclays Euro Funds - Euro Small Caps Fund	NO	Foreign
Barclays Euro Funds - Euro Value Opportunity Fund	NO	Foreign
Barclays International Funds - North American Equity	YES	Foreign
Barclays International Funds - United Kingdom Equity	YES	Foreign
Barclays International Funds - USD Hedge Global Bond	YES	Foreign
Barclays Investment Funds - UK Equity	YES	Foreign
The Abercrombie Fund	YES	Local
FCB Retirement Provider	YES	Local
First Energy Fund	YES	Local
The Paria Fund	YES	Local

Name of Fund	Actively Trading	Jurisdiction of Origin
FCB Group Retirement Provider	NO	Local
Immortelle Income and Growth Fund	YES	Local
GK Caribbean US Equity Fund	NO	Foreign
GK Caribbean Blue Chip Fund	YES	Foreign
GK Global Industry Focus Fund	YES	Foreign
GK Global Fund	YES	Foreign
TTD Monthly Income Fund (Caribbean Series of Mutual Funds)	YES	Local
USD Monthly Income Fund (Caribbean Series of Mutual Funds)	YES	Local
The Pan Caribbean Balanced Fund (Caribbean Series of Mutual Funds)	YES	Local
The North American Equity Fund (International Series of Mutual Funds)	YES	Local
The European Equity Fund (International Series of Mutual Funds)	YES	Local
The Asia Pacific Equity Fund (International Series of Mutual Funds)	YES	Local
Managed Capital Account	YES	Foreign
Managed Pension Account	YES	Foreign
Managed Savings Account	YES	Foreign
JMMB Select Index	NO	Foreign
Roytrin Mutual Money Market Fund	NO	Local
RBTT Bank USD Group Futurecash	NO	Local
RBTT Bank USD Individual Futurecash	NO	Local
TD AmeriGrowth RSP Fund	NO	Foreign
TD Asian Growth Fund	NO	Foreign
TD Asian Growth RSP Fund	NO	Foreign
TD Balanced Fund	NO	Foreign
TD Balanced Growth Fund	NO	Foreign
TD Balanced Income Fund	NO	Foreign
TD Balanced Index Fund	NO	Foreign
TD Canadian Blue Chip Equity Fund	NO	Foreign
TD Canadian Bond Fund	NO	Foreign
TD Canadian Bond Index Fund	NO	Foreign
TD Canadian Equity Fund	NO	Foreign
TD Canadian Government Bond Index Fund	NO	Foreign
TD Canadian Index Fund	NO	Foreign
TD Canadian Money Market Fund	NO	Foreign

Name of Fund	Actively Trading	Jurisdiction of Origin
TD Canadian Small-Cap Equity Fund	NO	Foreign
TD Canadian T-Bill Fund	NO	Foreign
TD Canadian Value Fund	NO	Foreign
TD Dividend Growth Fund	NO	Foreign
TD Dividend Income Fund	NO	Foreign
TD Dow Jones Industrial Average Index Fund	NO	Foreign
TD Emerging Markets Fund	NO	Foreign
TD Emerging Markets RSP Fund	NO	Foreign
TD Energy Fund	NO	Foreign
TD Entertainment and Communications Fund	NO	Foreign
TD Entertainment and Communications RSP Fund	NO	Foreign
TD European Growth Fund	NO	Foreign
TD European Growth RSP Fund	NO	Foreign
TD European Index Fund	NO	Foreign
TD Global Asset Allocation Fund	NO	Foreign
TD Global RSP Bond Fund	NO	Foreign
TD Global Select Fund	NO	Foreign
TD Global Select RSP Fund	NO	Foreign
TD Health Sciences RSP Fund	NO	Foreign
TD Health Services Fund	NO	Foreign
TD High Yield Income Fund	NO	Foreign
TD Income Advantage Portfolio	NO	Foreign
TD International Equity Fund	NO	Foreign
TD International Growth Fund	NO	Foreign
TD International Index Fund	NO	Foreign
TD International RSP Index Fund	NO	Foreign
TD Japanese Growth Fund	NO	Foreign
TD Japanese Index Fund	NO	Foreign
TD Latin American Growth Fund	NO	Foreign
TD Monthly Income Fund	NO	Foreign
TD Mortgage Fund	NO	Foreign
TD Nasdaq RSP Index Fund	NO	Foreign
TD Precious Metals Fund	NO	Foreign
TD Premium Money Market Fund	NO	Foreign
TD Real Return Bond Fund	NO	Foreign

Name of Fund	Actively Trading	Jurisdiction of Origin
TD Resource Fund	NO	Foreign
TD Science and Technology Fund	NO	Foreign
TD Science and Technology RSP Fund	NO	Foreign
TD Short Term Bond Fund	NO	Foreign
TD US Blue Chip Equity Fund	NO	Foreign
TD US Blue Chip Equity RSP Fund	NO	Foreign
TD US Equity Advantage Portfolio	NO	Foreign
TD US Equity Fund	NO	Foreign
TD US Large Cap Value Fund	NO	Foreign
TD US Mid-Cap Equity Fund	NO	Foreign
TD US Money Market Fund	NO	Foreign
TD US Index Fund	NO	Foreign
TD US RSP Index Fund	NO	Foreign
TD US Small-Cap Equity Fund	NO	Foreign
RBTT Bank TTD Individual Futurecash	YES	Local
Roytrin Mutual TTD Income and Growth Fund	YES	Local
RBTT Bank TTD Group Futurecash	YES	Local
Roytrin Mutual TTD Money Market Fund	YES	Local
Roytrin Mutual US$ Money Market Fund	YES	Local
Roytrin Mutual US$ Income and Growth Fund	YES	Local
Praetorian Property Mutual Fund	YES	Local
DB&G Money Market Fund	YES	Foreign
DB&G Premium Growth Fund	YES	Foreign
Republic Income Fund	NO	Local
Republic Long Term Investor Income Fund	NO	Local
Republic US$ Money Market Fund	NO	Local
Republic Global Equity Fund	YES	Foreign
Republic Money Market Fund	YES	Local
Republic Caribbean Equity Fund	YES	Local
Sagicor Global Balanced Fund	YES	Foreign
Scotia Canadian Growth Fund	YES	Foreign
Scotia Global Growth Fund	YES	Foreign
Scotia Money Market Fund	YES	Foreign
Scotia US Growth Fund	YES	Foreign
Scotia USD Bond Fund	YES	Foreign

Name of Fund	Actively Trading	Jurisdiction of Origin
First Unit Scheme	YES	Local
Second Unit Scheme	YES	Local
Universal Retirement Fund	YES	Local
US Dollar Money Market Fund	YES	Local
Chaconia Income and Growth Fund	YES	Foreign
Fortress Caribbean Property Fund	NO	Foreign
Franklin Aggressive Growth Fund	NO	Foreign
Franklin Biotec Discovery Fund	NO	Foreign
Franklin Euro Growth Fund	NO	Foreign
Franklin Euro Small- Mid Cap Growth Fund	NO	Foreign
Franklin Global Growth Fund	NO	Foreign
Franklin Global Small- Mid Cap Growth Fund	NO	Foreign
Franklin High Yield Fund	NO	Foreign
Franklin High Yield Fund	NO	Foreign
Franklin Income Fund	NO	Foreign
Franklin Mutual Beacon Fund	NO	Foreign
Franklin Mutual European Fund	NO	Foreign
Franklin Technology Fund	NO	Foreign
Franklin Templeton Global Growth and Value	NO	Foreign
Franklin Templeton Japan Fund	NO	Foreign
Franklin US Equity Fund	NO	Foreign
Franklin US Government Fund	NO	Foreign
Franklin US Growth Fund	NO	Foreign
Franklin US S/T Bond Fund	NO	Foreign
Franklin US Smaller Companies Fund	NO	Foreign
Franklin US Total Return Fund	NO	Foreign
Templeton Asian Growth Fund	NO	Foreign
Templeton China Fund	NO	Foreign
Templeton Eastern Europe Fund	NO	Foreign
Templeton Emerging Markets Bond Fund	NO	Foreign
Templeton Emerging Markets Fund	NO	Foreign
Templeton Euro Liquid Reserve Fund	NO	Foreign
Templeton Euroland Bond Fund	NO	Foreign
Templeton Euroland Fund	NO	Foreign
Templeton European Fund	NO	Foreign

Name of Fund	Actively Trading	Jurisdiction of Origin
Templeton European Total Return Fund	NO	Foreign
Templeton Global (Euro) Fund	NO	Foreign
Templeton Global Balance Fund	NO	Foreign
Templeton Global Bond Euro Fund	NO	Foreign
Templeton Global Bond Fund	NO	Foreign
Templeton Global Fund	NO	Foreign
Templeton Global Smaller Companies Fund	NO	Foreign
Templeton Global Total Return Fund	NO	Foreign
Templeton Growth Euro Fund	NO	Foreign
Templeton Japan Fund	NO	Foreign
Templeton Korea Fund	NO	Foreign
Templeton Latin American Fund	NO	Foreign
Templeton Liquid Reserve Fund	NO	Foreign
Templeton Thailand Fund	NO	Foreign
Templeton US Value Fund	NO	Foreign

Questionnaire for Foreign CIVs

Survey Questionnaire - Foreign Funds
Collective Investment Schemes Survey
(Schemes From Foreign Jurisdictions)

1 (a) Name of Scheme ....

Reg. No. ________
(for official use only)

1 (b) Date first issued in Trinidad and Tobago ....

1 (c) Jurisdiction of Origin ....

1 (d) Corporate Name of Service Agent ....

1 (e) Address of Service Agent ....

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1 (f) Denominational currency the fund's price is quoted in. ________ and ________
(Please Choose From Attached List of Currency Codes) (XXX) (XXX)

2 (a) From the activities 1 -20 below please indicate those which are performed by the Service Agent of the fund.

<u>Duties performed by Service Agent in Trinidad and Tobago</u>

1. Oversees the fund and has fiduciary responsibility to the unit or shareholders.
2. Provides Custodianship of Assets
3. Hires local sales agents
4. Evaluates local sales agents performance
5. Establishes local sales agents compensation
6. Handles local investor complaints
7. Maintains the register of all local investors
8. Markets and/ or Distributes the Fund
9. Collects funds from sales of units
10. Make Distributions on behalf of the fund
11. Ensures Compliance with local Regulations

Desribe other Duties of the Local Service Agent of the Fund

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2 (b) Using the Matrix below, please indicate those reports regularly provided to the foreign principal of the fund

Matter Address	**Frequency reports are prepared** *(Tick the one which is appropriate)*
Sales Agents Performance	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other ....
Sales Reports	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other ________

2 (b) cont'd

Compliance Report	Daily	[ ]
	Monthly	[ ]
	Quarterly	[ ]
	Annually	[ ]
	Other	....

(Please provide a copy of the respective report (s) provided to the principal of the Fund)

2 (c) Please indicate what accounting convention is used to prepare the financial statements of the fund.

- [ ] International Financial Reporting Standards (IFRS)
- [ ] US Generally Accepted Accounting Principles (GAAP)
- [ ] Canadian GAAP
- [ ] UK GAAP
- [ ] Other, describe ....

2 (d) Please indicate what performance presentation standard is used to present fund performance.

- [ ] Global Investment Performance Standards (GIPS)
- [ ] Association of Investment Management Research-Performance Presentation Standards (AIMR-PPS)
- [ ] GIPS and AIMR-PPS
- [ ] Other, describe ....

2 (e) How frequently are audited financial statements prepared? *(Tick all of those which are appropriate)*

- [ ] Quarterly
- [ ] Annually
- [ ] Semi Annually
- [ ] Other, describe ....

2 (f) How frequently are performance/ account statements provided to customers? *(Tick all of those which are appropriate)*

- [ ] Monthly
- [ ] Quarterly
- [ ] Annually
- [ ] Bimonthly
- [ ] Semi Annually
- [ ] Other, describe ....

(Please provide copies of the last two performance/ account statements)

END OF QUESTIONNAIRE

For Official Use: Not Part Of Questionnaire

Name of Interviewer:	
Name Of Reviewer:	
Date Of Interview	
Name of Interviewee:	
Signature of Interviewee	
Company	
Functionary In Management of Fund	
Telephone Contact	
Email Contact	

Questionnaire for Local CIVs

Survey Questionnaire - Domestic Funds
Collective Investment Schemes Survey
(Schemes From Trinidad and Tobago)

1 (a) Name of Scheme .... **Reg. No.** ______ *(for official use only)*

1 (b) Date first issued in Trinidad and Tobago ....

1 (c) Corporate Name of Investment Manager ....

1 (d) Address of Investment Manager ....

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1 (e) Denominational currency the fund's price is quoted in. ______ (XXX) and ______ (XXX)
(Please Choose From Attached List of Currency Codes)

B FUND MANAGEMENT PRACTICES

2 Assets Valuation

2 (a) What are the reasons for choosing the particular denominational currency? *(Tick all of those which are appropriate)*

- ☐ Marketing
- ☐ Geographic dispersion of fund's assets
- ☐ Class of Assets
- ☐ Currency used for portfolio transactions
- ☐ Other, describe ....

....

2 (b) Please indicate the frequency of portfolio valuation. *(Tick the **one** which is most appropriate)*

- ☐ Daily
- ☐ Quarterly
- ☐ Weekly
- ☐ Semi-Annually
- ☐ Monthly
- ☐ Annually
- ☐ Other, describe ....

....

2 (c) In the table provided please indicate the methodology used for valuing those portfolio assets whether traded or not traded publicly. Briefly state the reasons for the chosen methodologies.

Publicly Traded.
i.e. traded across an organised market (e.g. Securities Exchange or Organised over the counter exchange)

(Tick all of those which are appropriate)

- ☐ Book Value
- ☐ Discounted Cashflow
- ☐ Marked to Market
- ☐ Other, describe ....

State reasons for the chosen methodologies.

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2 (c) cont'd **Not Publicly Traded.**
i.e. not traded across an organised market (e.g. shares for a non-publicly listed firm)

(Tick all of those which are appropriate)

☐ Book Value ☐ Discounted Cashflow ☐ Marked to Market

☐ Other, describe ....

State reasons for the chosen methodologies.

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2 (d) Please, briefly describe how impaired assets of the investment portfolio are determined and valued.

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2 (e) For those assets which comprise the investment portfolio, please indicate the foreign exchange quotation that is used and the market in which it is quoted. *(If the space provided for the responses is insufficient, please provide information on an additional page in same format)*

		(Tick one)			*(Tick one)*	
Currency *(Use attached codes) e.g. United States Dollars (USD)*	Forex Market e.g. *New York, London*	Buying	Selling	Median	Spot	Forward
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐
		☐	☐	☐	☐	☐

2 (f) Please, state the reason (s) for using the particular quotation (s) 2 (e). ....

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3 Fund Expenses

3 (c) cont'd

Trading Expenses	☐ Daily	☐ Weekly	☐ Monthly
	☐ Quarterly	☐ Annually	☐ Other, describe ....
Custodial Expenses	☐ Daily	☐ Weekly	☐ Monthly
	☐ Quarterly	☐ Annually	☐ Other, describe ....
Other Expenses 1, describe	☐ Daily	☐ Weekly	☐ Monthly
	☐ Quarterly	☐ Annually	☐ Other, describe ....
Other Expenses 2, describe	☐ Daily	☐ Weekly	☐ Monthly
	☐ Quarterly	☐ Annually	☐ Other, describe ....

4 Returns Calculation

4 (a) Please indicate the various components used in the calculation of gross returns of the fund by ticking the appropriate box in the table below.

Balance Sheet Items

Total Assets	☐	Total Liabilities	☐	Distribution Payable	☐
Investments	☐	Investment Fees	☐		
Cash and Other Liquid Assets	☐	Other Payables describe, ...	☐		
Income Receivables	☐	....			
Other Receivables	☐	....			
Other............		....			

Income Items		**Expenses Items**			
Capital Gains	☐	Management Fees	☐	Advertising Expenses	☐
Dividend Income	☐	Trading Exp.(Equities Tr.)	☐	Custodial Expenses	☐
Accrued Interest	☐	Investment Fees	☐	Trustee Fees	☐
Other, describe............	☐	Operational Expenses	☐	Accrued Taxes	☐
....		Other, describe	☐		
....		....			

4 (b) Please outline the formulae used to calculate gross returns in the box provided below.

4 (c) Please illustrate, using an example, the calculation of gross returns (including standards adhered to and other quality controls, common evaluation periods, consistent definition of assets, income and expenses).

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4 (d) Please indicate the various components used in calculation of net returns by ticking the appropriate box in table below.

Balance Sheet Items					
Total Assets	☐	Total Liabilities	☐	Distribution Payable	☐
Investments	☐	Investment Fees	☐		
Cash and Other Liquid Assets	☐	Other Payables describe,	☐		
Income Receivables	☐	....			
Other Receivables	☐	....			
Other………………………………		....			

Income Items		**Expenses Items**			
Capital Gains	☐	Management Fees	☐	Advertising Expenses	☐
Dividend Income	☐	Trading Exp.(Equities Tr.)	☐	Custodial Expenses	☐
Accrued Interest	☐	Investment Fees	☐	Trustee Fees	☐
Other, describe………………	☐	Operational Expenses	☐	Accrued Taxes	☐
....		Other, describe	☐		
....		....			
....		....			

4 (e) Please outline the formulae used to calculate net returns in the box provided below.

6 (j) If the answer to 6 (i) is Yes, please state what is this policy?

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6 (k) Briefly describe how this minimum capital is estimated.

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6 (l) Please rank the following, from 1 to 8, in order of having the most influence on the determination of the minimum level of capital of the fund.

(Rank from 1 to 8, with 8 being the highest degree of influence and 1 being the lowest degree of influence)

- [ ] Currency Risk
- [ ] Equity Risk
- [ ] Interest Rate Risk
- [ ] Commodity risk
- [ ] Portfolio Liquidity
- [ ] Sales/ Redemption of Units
- [ ] Default risk from securities loans or repos
- [ ] Other, describe ....

6 (m) What types of information are used to do risk evaluation?

(Tick all of those which are appropriate)

- [ ] Securities' Price Volatility
- [ ] Market Index Volatilities
- [ ] Securities' Price Correlations
- [ ] Securities Credit Risk Exposures
- [ ] Other, identify
- [ ] Sovereign risk of non-local investments

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6 (n) Are the available sets of information adequate for quantifying risk?

- [ ] Yes
- [ ] No

6 (o) If the answer to 6 (n) is No, please describe some of the deficiencies?

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6 (p) Is the quantification of risks communicated to the trustees/ directors of the fund?

- [ ] Yes
- [ ] No

6 (q) If Yes to 6 (p) how frequently?

(Tick all of those which are appropriate)

- [ ] Daily
- [ ] Semi-Annually
- [ ] Weekly
- [ ] Annually
- [ ] Monthly
- [ ] Other, describe ....
- [ ] Quarterly

....

5 Accounting Conventions and Performance Presentation Standards

(Provide the last five years' audited financial statements)

5 (a) Please indicate what accounting convention is used to prepare the financial statements of the fund.

- [ ] International Financial Reporting Standards (IFRS)
- [ ] US Generally Accepted Accounting Principles (GAAP)
- [ ] Canadian GAAP
- [ ] UK GAAP
- [ ] Other, describe ....

5 (b) Please indicate what performance presentation standard is used to present fund performance.

- [ ] Global Investment Performance Standards (GIPS)
- [ ] Association of Investment Management Research-Performance Presentation Standards (AIMR-PPS)
- [ ] GIPS and AIMR-PPS
- [ ] Other, describe ....

5 (c) How frequently are audited financial statements prepared? *(Tick all of those which are appropriate)*

- [ ] Quarterly
- [ ] Annually
- [ ] Semi Annually
- [ ] Other, describe ....

5 (d) How frequently are performance/ account statements provided to customers? *(Tick all of those which are appropriate)*

- [ ] Monthly
- [ ] Quarterly
- [ ] Annually
- [ ] Bimonthly
- [ ] Semi Annually
- [ ] Other, describe ....

(Please provide copies of the last two performance/ account statements)

5 (e) Does the fund use a benchmark to evaluate performance?

- [ ] Yes
- [ ] No

5 (f) If Yes to 5 (e), please state or describe what benchmark is used?

....

5 (g) Returns are presented as … *(Tick the one which is most appropriate)*

- [ ] Gross Returns
- [ ] Net Returns

5 (h) Returns are presented as … *(Tick the one which is most appropriate)*

- [ ] Annualised
- [ ] For the Current Period

6 Risk Management

6 (a) Does the firm have a stated, board-approved risk management policy?

☐ Yes ☐ No

(If Yes, please provide a copy of the said document.)

6 (b) Indicate relevant personnel/ officer (s) assigned to oversee risk management.

(Tick all of those which are appropriate), (Use the description for officers provided below)

☐ Risk Manager (does not report to directors/ trustees)
☐ Audit Committee
☐ Chief Risk Officer (reports only to directors/ trustees)
☐ Internal Auditor
☐ Public Accounting Firm
☐ Other, describe ……………………

6 (c) Indicate the level and type of resources assigned to risk management. *(Tick all of those which are appropriate)*

☐ Training in Risk Management (please give average % of annual training budget)

……………… %

☐ Number of Employees (please give as a % of the total number of employees employed by the Investment Manager

……………… %

☐ Software (please describe the relevant software package (s))

……………………

6 (d) Rank the following sources of market risk in order of degree of influence on the portfolio's risk.

(Rank from 1 to 6, with 6 being the highest degree of influence and 1 being the lowest degree of influence)

☐ Currency Risk
☐ Equity Risk
☐ Interest Rate Risk
☐ Commodity risk
☐ Operational Risk
☐ Other, describe ……………………

6 (e) Rank the following in order of degree of influence on liquidity risk of the fund.

(Rank from 1 to 4, with 4 being the highest degree of influence and 1 being the lowest degree of influence)

☐ Asset Class
☐ Sales/ Redemption of Units
☐ Marketability of Assets
☐ Other, describe ……………………

6 (f) Does the fund assess portfolio risk?

☐ Yes ☐ No

6 (g) Are risks of the individual securities of the asset portfolio quantified?

☐ Yes ☐ No

6 (h) Please indicate those risk management tool (s) employed by the funds manager.

☐ Value At Risk
☐ Risk-adjusted Return on Capital
☐ Risk Budgeting
☐ Other, describe ……………………

6 (i) Does the fund have a policy with respect to the maintenance of a minimum level of capital?

☐ Yes ☐ No

6 (j) If the answer to 6 (i) is Yes, please state what is this policy?

....

6 (k) Briefly describe how this minimum capital is estimated.

....

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....

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....

6 (l) Please rank the following, from 1 to 8, in order of having the most influence on the determination of the minimum level of capital of the fund.

(Rank from 1 to 8, with 8 being the highest degree of influence and 1 being the lowest degree of influence)

- [ ] Currency Risk
- [ ] Equity Risk
- [ ] Interest Rate Risk
- [ ] Commodity risk
- [ ] Portfolio Liquidity
- [ ] Sales/ Redemption of Units
- [ ] Default risk from securities loans or repos
- [ ] Other, describe ....

6 (m) What types of information are used to do risk evaluation?

(Tick all of those which are appropriate)

- [ ] Securities' Price Volatility
- [ ] Market Index Volatilities
- [ ] Securities' Price Correlations
- [ ] Securities Credit Risk Exposures
- [ ] Other, identify
- [ ] Sovereign risk of non-local investments

....

....

....

6 (n) Are the available sets of information adequate for quantifying risk?

- [ ] Yes
- [ ] No

6 (o) If the answer to 6 (n) is No, please describe some of the deficiencies? ....

....

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....

6 (p) Is the quantification of risks communicated to the trustees/ directors of the fund?

- [ ] Yes
- [ ] No

6 (q) If Yes to 6 (p) how frequently?

(Tick all of those which are appropriate)

- [ ] Daily
- [ ] Semi-Annually
- [ ] Weekly
- [ ] Annually
- [ ] Monthly
- [ ] Other, describe ....
- [ ] Quarterly ....

6 (r) Which of the following should provide information on the risk of securities to the market? *(Tick the one which is most appropriate)*

- ☐ Cooperative arrangements amongst industry players
- ☐ CBTT
- ☐ Fund Managers
- ☐ A Public Sector Agency
- ☐ Information Vendors
- ☐ TTSEC
- ☐ Other, describe ....

6 (s) Is the fund willing to pay for information on risk and performance benchmarks?

☐ Yes ☐ No

6 (t) Does the fund have a stated policy regarding managing the return-risk trade-off of the portfolio?

☐ Yes ☐ No

6 (u) If Yes to 6 (t), then please identify the stated risk-return policy. *(Tick all of those which are appropriate)*

- ☐ Targeted Beta (Capital Asset Pricing Model)
- ☐ Arbitrage Pricing
- ☐ Fund's total return and risk
- ☐ Other, describe ....
- ☐ Risk adjusted Performance measurement

6 (v) Choose any one risk and one return description which best describes the fund's core investment strategy.

RISK STRATEGY	RETURNS STRATEGY
☐ Higher than market risk	☐ Higher than market return
☐ Lower than market risk	☐ Lower than market return
☐ Market equivalent risk	☐ Market equivalent return

6 (w) Does the fund use a benchmark to evaluate risk?

☐ Yes ☐ No

6 (x) If Yes to 6 (w), please state and describe which benchmark is used?

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C CORPORATE AND GOVERNANCE STRUCTURES

7 (a) From the activities 1 -20 below please indicate those which are performed by the fund's functionaries A- G below.

A. Current Portfolio Manager/ Investment Adviser ....

B. Operator/ Investment Manager ....

C. Custodian/ Depository ....

D. Principal Underwriter/ Principal Distributor ....

E. Transfer Agent ....

F. Sponsor ....

G. Board of Trustees, Board of Directors, or Principal Partners ....

Primary Activities Performed by Functionaries of the Fund

1. Oversees the fund and has fiduciary responsibility to the unit or shareholders.
2. Provides Custodianship of Assets
3. Establishes investment objectives
4. Ensures investment objectives are followed
5. Establishes compliance procedures and Internal Controls
6. Supervises compliance procedures and Internal Controls
7. Hires sales agents
8. Evaluates sales agents performance
9. Establishes sales agents compensation
10. Establishes the borrowing limits of the Funds
11. Evaluates Fund Manager's/ Investment Adviser's performance
12. Manages the portfolio of assets
13. Ensures compliance with lending limits
14. Handles investor complaints
15. Maintains the register of all investors
16. Manages administrative operations
17. Markets and/ or Distributes the Fund
18. Recommends price for units or shares of the fund
19. Approves price of units or shares of the fund
20. Valuates Assets

7 (b) Using the Matrix below, please indicate whether the Trustee or Directors regularly reviews the reports, and the typical frequency the reports are prepared. Also indicate which of the fund's officers from 7(a) prepares and who authenticates the said reports

Matter Address	Frequency reports are prepared *(Tick the one which is appropriate)*	Who from 7 (a) prepares report	Who from 7(a) authenticates report (signs off)
Fund Manager/ Investment Adviser's Performance ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		
Portfolio Transactions ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other ________		
Statement of Income and Expenses ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other ________		
Sales and Redemptions of Units ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		
Statement of Net Assets ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		
Valuation of Portfolio of Securities ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		

7 (b) cont'd				
	Compliance Report ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		
	Risk Management Report ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		
	Internal Audit Report ☐ *(Tick if the report is regularly reviewed by Trustees/ Directors)*	Daily ☐ Monthly ☐ Quarterly ☐ Annually ☐ Other		

7 (c) Which of the following best describes the type of governance in place for the fund? *(Tick one which is most appropriate)*

☐ **Advisory Board Model** - Board is appointed by a trustee/ manager to undertake governance of the fund

☐ **Individual Trustee Model** - Trustees may or may not be independent of the Investment Manager

☐ **Active Corporate Trustee Model** - A registered trust/ company is active in governance of the fund

☐ **Public Company Model** - A committee of the Board of Directors of the Investment Manager is charged with monitoring the relationship between the manager and the funds.

☐ Other, please describe ....

....

....

....

7 (d) What has the fund established to ensure that the articles of the various agreements, by-laws, jurisdictional laws and regulations, and organisational policies are adhered to? *(Tick all of those which are appropriate)*

☐ Compliance Officer

☐ Compliance Manuals *(please provide a copy)*

☐ Audit Committee

☐ Internal Audits

☐ Compliance Reports for the Board

☐ Other, describe ....

☐ Compliance Reviews

....

....

....

....

7 (e) Which of the following does the fund have stated policies for? *(Tick all of those which are appropriate)* *(Please provide a copy of the relevant policies)*

☐ Sales Practices

☐ Dispute Resolution for Customers

☐ Fund Manager Evaluation

☐ Codes of Conduct for Board Members (Trustees)

☐ Administrative Practices

☐ Codes of Conduct for Investment Managers

☐ Other, describe ....

....

....

7 (f) Are the fund's directors/ trustees appointed or elected by shareholders/ unit holders? ***(Tick one which is appropriate)***

- [ ] Appointed
- [ ] Elected by Shareholders

7 (g) If the answer to 7 (f) is Appointed, please describe the bases used to appoint the director?
(Tick all of those which are appropriate)

- [ ] Educational Qualifications
- [ ] Representative of a related company
- [ ] Experience
- [ ] Familial Connections
- [ ] Proportion of units owned
- [ ] Other, describe ....

7 (h) Identify those activities which are usually performed by a firm other than the Investment Manager.
(Tick all of those which are appropriate)

- [ ] Transfer Agent
- [ ] Custodianship of Assets
- [ ] Underwriting/ Distribution
- [ ] Fund Compliance
- [ ] Portfolio Management
- [ ] Other, describe ....

7 (i) Is there any reporting between the outsourced service provider and the Investment Manager?

- [ ] Yes
- [ ] No

7 (j) If Yes to 7 (i), how frequently are such reports provided? *(Tick all of those which are appropriate)*

- [ ] Daily
- [ ] Quarterly
- [ ] Other, describe ....
- [ ] Weekly
- [ ] Semi Annually
- [ ] Monthly
- [ ] Annually

7 (k) How frequently are portfolio managers evaluated? *(Tick all of those which are appropriate)*

- [ ] Daily
- [ ] Quarterly
- [ ] Other, describe ....
- [ ] Weekly
- [ ] Semi Annually
- [ ] Monthly
- [ ] Annually

7 (l) Which basis is most influential in evaluating the performance of the portfolio manager?
(Rank from 1 to 4, with 4 being the highest degree of influence and 1 being the lowest degree of influence)

- [ ] Total Portfolio Return
- [ ] Risk Adjusted Portfolio Return
- [ ] Achievement of Investment Objectives
- [ ] Other, describe ....

7 (m) Describe the penalties which are in place for poor management of the funds by the portfolio manager?

....

7 (n) Which of the following should be given the greatest degree of consideration in the improvement of the governance structures and practices of Collective Investment Schemes in Trinidad and Tobago?

(Rank from 1 to 5, with 5 being the highest degree of influence and 1 being the lowest degree of influence)

- [ ] Independent Directorates
- [ ] Enhanced voting powers for unit holders
- [ ] Established Audit Committees
- [ ] Enhanced Risk Disclosures
- [ ] Securities Regulator's Rules
- [ ] Enhanced compliance disclosures
- [ ] Independent Auditors
- [ ] Industry imposed regulation, e.g. through codes of conduct developed by trade associations
- [ ] Self Regulation
- [ ] Governance Unit for each family of funds
- [ ] Other, describe ....

For Official Use: Not Part Of Questionnaire

Name of Interviewer:	
Name Of Reviewer:	
Date Of Interview	
Name of Interviewee:	
Signature of Interviewee:	
Company	
Functionary In Management of Fund	
Telephone Contact	
Email Contact	

Financial and Sales Data Required from Local CIVs

Items	***Periodicity/ Currency***
FINANCIAL STATEMENTS DATA	
Balance Sheet Data	
Total Assets	Quarterly
Total Liabilities	Quarterly
Income Data	
Dividend/ Interest Income	Quarterly
Capital Gains	Quarterly
Other Types of Income	Quarterly
Total Income	Quarterly
Expenses	
Management Charges	
Investment Manager/ Sponsor Charges	Quarterly
Trustee Charges	Quarterly
Other Management Charges	Quarterly
Total Management Charges	Quarterly
Marketing Expense	Quarterly
Portfolio Management Charges	Quarterly
Custodial Charges	Quarterly
Other Administrative Expenses	Quarterly
Commissions Paid	Quarterly

Items	***Periodicity/ Currency***
Total Expenses	Quarterly
SALES AND REDEMPTIONS DATA	
Sales	
Value of Sales 'In House'	Quarterly
Value of Sales by Agents	Quarterly
Value of Sales to Corporate/ Institutional Investors	Quarterly
Value of Sales to Individual Investors	Quarterly
Redemptions	
Value of Redemptions	Quarterly
ACCOUNTS TRANSACTION DATA	
Number of Units Sold	Quarterly
Number of Units Redeemed	Quarterly
Number of Units as at End of Period	Quarterly
ASSET ALLOCATIONS DATA	
Name of Security	Quarterly
Term to Maturity (If applicable)	Quarterly
Value of Security	Quarterly
Estimated Yield	Quarterly
FUNDS DATA	
Value of Funds Under Management	Quarterly
Value of Portfolio Securities Bought	Quarterly

Items	***Periodicity/ Currency***
Value of Portfolio Securities Sold	Quarterly
SECURITIES LENDING DATA	
Value of REPOS Sold	Quarterly
Value of REPOS Purchased	Quarterly
Value of Securities Loaned	Quarterly
Value of Securities Borrowed	Quarterly

APPENDIX 3

RELEVANT INTERNATIONAL ACCOUNTING STANDARDS

IAS 32: Financial Instruments: Disclosure and Presentation

Presentation

With respect to IAS 32, financial instruments or their component parts are classified on initial recognition, from the perspective of the issuer, as financial assets, financial liabilities and equity instruments. Compound financial instruments may contain both a liability and an equity component. Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability, are recognized as income or expense in profit or loss. Distributions to holders of equity instruments are debited directly to equity, net of any related income tax benefit. Financial assets and financial liabilities are offset and the net amount presented in the Balance Sheet when, and only when there is a legally enforceable right to set off the recognized amounts and the entity intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Disclosure

IAS 32 requires disclosure about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies[29] and methods adopted by those instruments, including the criteria for recognition and the basis of measurement applied. It also requires disclosure about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them, and management's policies for controlling those risks. This standard does not prescribe either the format of the information required to be disclosed or its location within the financial statements. Disclosure may include a combination or narrative description and quantified data, as appropriate to the nature of the instrument and their relative significance to the entity.

[29] As part of the disclosure of an entity's accounting policies, an entity shall disclose, for each category of financial assets, whether the regular way purchases and sale of financial assets are accounted for at trade date or at settlement date (see IAS 39 paragraph 38).

IAS 39: Financial Instruments: Recognition and Measurement.

Initial Recognition and De-recognition

A financial asset or a financial liability is recognized when, and only when, the entity becomes a party to the instrument contract. A financial liability is derecognized when the liability is extinguished. A financial asset is derecognized when and only when:

(a) the contractual rights to the cash flows from the financial asset expire; or
(b) the entity transfers substantially all the risks and rewards of ownership of the asset; or
(c) the entity transfers the asset, while retaining some of the risks and rewards of ownership, but no longer has control of the asset (i.e. the transferee has the ability to sell the asset). The risks and rewards retained are recognized as an asset.

A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting.

Measurement

Financial assets and financial liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Subsequent measurement depends on how the financial instrument is categorized (see Table 1).

Amortised Cost using the Effective Interest Method is used with respect to:

- Financial assets that are classified as held-to-maturity investments: non-derivative financial assets with fixed or determinable payments and maturity that the entity has the positive intention and ability to hold to maturity.

- Financial assets classified as loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Financial liabilities that are not held for trading and not designated at fair value through profit or loss.

Fair value measurement is used with respect to:

- Financial assets or financial liabilities valued at fair value through profit or loss: A financial asset or liability that is classified as held for trading is a derivative or has been designated by the entity at inception as at fair value through profit or loss.

- Available-for-sale financial assets: Non-derivative financial assets that do not fall within any of the other categories. The unrealised movements in fair value are recognized in equity until disposal or sale, at which time, those unrealized movements from prior periods are recognized in profit or loss.

Cost measurement is used with respect to:

- Investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted measurements.

Gains and losses arising from a change in the fair value of a financial asset or a financial liability that is not part of a hedging relationship shall be recognized as follows:

- For a financial instrument classified as at fair value through the profit or loss, gains or losses shall be recognized in the profit and loss.

- For an available-for sale financial asset, gains or losses shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains or losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in the profit or loss.
- For financial instruments carried at amortized cost, a gain or loss is recognized in profit or loss when the financial instrument is derecognized or impaired, and through the amortization process.

Impairment. If there is objective evidence that a financial asset is impaired, the carrying amount of the asset is reduced and an impairment loss is recognized in the profit and loss account. A financial asset carried at amortized cost is not carried at more than the present value of estimated future cash flows. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit and loss even though the financial asset has not been derecognized.

Table 1

Classification of financial instruments	Initial Measurement	Subsequent Measurement	Recognition of Gains and Losses
Loans and receivables	Fair Value	Amortised cost using the effective interest method	Recognize in profit or loss when the financial instrument is derecognized or impaired, and through the amortization process.
Held-to-maturity investment	Fair Value		
Available-for-sale	Fair Value	Fair Value*	Recognised directly in equity, except for impairment losses and foreign exchange gains or losses, until the financial asset is derecognized.
Held for trading	Fair Value	Fair Value	Recognize immediately in the profit and loss

- Equity instruments that do not have a quoted market price in an active market are measured at cost.

Canadian Generally Accepted Accounting Principles

In January 2002, the Canadian Accounting Standards Board (CASB) approved a project proposal to develop standards for recognition and measurement of financial instruments to be harmonized with standards issued by the US Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB). The CASB used the existing U.S. FASB standards and IFRS, taking into account the latest improvements that have been made to those pronouncements to facilitate the development of the Canadian standards.

The proposed Canadian standards comprise three new handbook sections and were issued on March 31, 2003. These standards have an effective implementation date for annual and interim periods in the fiscal years beginning on or after October 1, 2006 although earlier application is allowed. The new sections: Financial Instruments-Recognition and Measurement, Section 3855; Hedges Section 3865 and Comprehensive Income, Section 1530 address recognition, measurement and some aspects of disclosure of financial instruments.

<u>IAS 39 and Section 3855 Compared</u>

A comparison of Section 3855, "Financial Instruments Recognition and Measurement" and IAS 39, "Financial Instruments: Recognition and Measurement" reveals that the two are converged, except that IAS 39 requires:

(i) quoted loans to be measured at fair value through profit or loss, whereas Section 3855 classifies these as loans and receivables, and accounts for them at amortized cost (other than debt securities, which may be classified as held for trading, held to maturity or available for sale);
(ii) all available-for-sale securities to be measured at fair value unless fair value is not reliably determinable, whereas Section 3855 requires non-quoted equity instruments classified as available-for-sale to be measured at cost;
(iii) foreign exchange gains and losses on available-for-sale financial assets to be recognized immediately in net income;
(iv) does not allow a choice of accounting policy for transaction costs;
(v) does not address financial instruments exchanged or issued in related party transactions; and
(vi) requires reversal of impairment losses.

<u>IAS 32 and Section 3861 Compared</u>
Equally, Section 3861 and IAS 32 are converged, except that IAS 32:

(i) does not apply to insurance contracts;
(ii) addresses the presentation of derivatives on an entity's own equity; and
(iii) does not allow for initial measurement of a compound financial instrument using the relative fair value method

United Kingdom Generally Accepted Accounting Principles

Financial Reporting Standards (FRS) 25 and 26 have the effect of implementing IAS 32 and the measurement and hedge accounting provisions of IAS 39. FRS 26 implements the provisions of IAS 39 as published by the International Accounting Standards Board (IASB). However, entities applying FRS 26 will still be subject to the provisions of the Companies Act, which restricts the use of fair value measurement for liabilities. These entities will not, as a result, be able to take full advantage of the fair value option in FRS 26. FRS 26 includes guidance on the circumstances in which a true and fair override may be appropriate.

The provisions of IAS 39 relating to recognition and derecognition have not been implemented in FRS 26, but the ASB in April 2005 issued an exposure draft proposing extension of the scope of FRS 26 and the implementation of the material in IAS 39 dealing with recognition and de-recognition.

The provisions of FRS 26 and IAS 39 also differ in that FRS 26 requires all loans and receivables held as assets and all financial assets that are being held to maturity by the reporting entity to be measured at cost-based amounts

The presentation requirements of FRS 25 will apply to all entities for accounting periods beginning on or after 1 January 2005 although earlier application is allowed.

The disclosure requirements of FRS 25 will apply from the time entities apply the FRS 26 requirements, which will be from either accounting periods beginning on or after 1 January 2005 or 1 January 2006.

APPENDIX 4

SUMMARY OF RESPONSES FOR DISCLOSURE OF FINANCIAL RESULTS

Institution Surveyed	Name of Fund Managed	Financial Statements Published in Newspapers	Financial Statements Mailed to Individual Investors
AIC Financial Group	AIC TT Caribbean Equity Fund		X
	AIC TT Income Fund		X
	AIC TT (US$) Income Fund		X
	AIC TT Income and Growth Fund		X
	AIC TT Short Term Income Fund		X
Colonial Life Insurance Company Limited	Optimal Bond Fund		
	Colonial Life Core Fund		
	Colonial Life Power Fund		
	Colonial Life Shield Fund		
First Citizens Trust and Asset Management	First Energy Fund	X	
	FCB Group Retirement Provider		
	FCB Retirement Provider		
	The Abercrombie Fund	X	
	The Paria Fund	X	
RBTT Trust and Asset Management	Roytrin Mutual TTD Income and Growth Fund	X	X
	Roytrin Mutual TTD Money Market Fund	X	X
	Roytrin Mutual US$ Income and Growth Fund	X	X
	Roytrin Mutual US$ Money Market Fund	X	X
	RBTT Bank TTD Group Future cash		
	RBTT Bank TTD Individual Future cash		
Republic Bank Limited	Republic Caribbean Equity Fund	X	
	Republic Money Market Fund	X	
Bourse Securities Limited	Savinvest Capital Growth Fund	X	
	Savinvest Group Retirement Plan		
	Savinvest Individual Retirement Plan		
	Savinvest Structured Investment Fund	X	

Institution Surveyed	Name of Fund Managed	Financial Statements Published in Newspapers	Financial Statements Mailed to Individual Investors
The Trinidad and Tobago Unit Trust Corporation	First Unit Scheme	**X**	
	Second Unit Scheme	**X**	
	U.S. Dollar Money Market Fund	**X**	
	Universal Retirement Fund	**X**	

Source: Investment Managers

APPENDIX 5

CONTENT OF WEBSITES

CONTENT OF WEBSITES	Number of Funds containing the listed information	Percentage (%)
Potential Market/Investor Appeal	17	71
Investment Objectives	16	67
Interest Calculation Methodology and Distribution/Payment frequency	14	58
Minimum Investment and Subsequent Investment required	14	58
Benefits	12	50
Charges/ Expenses applicable to the fund	10	42
Definition of Asset Composition of the Fund	9	38
Present Net Asset Value (NAV) per unit	7	29
Inception information on the fund	6	25
Annualized Return: Inception to date	6	25
Key Personnel of the Fund	5	21
Risk	5	21
Annualized Return (Year-to-Date)	4	17
Entire Prospectus	4	17
Classification- Open vs. Closed Ended Fund	3	13
Historical Net Asset Value per unit	3	13
3 Years Rate of Return	3	13
5 Year Rate of Return	2	8
Monthly Effective Annualized Yield	2	8
Historical Financial Statement on the fund	1	4
Jurisdiction of Origin	--	0

Source: Sponsors' websites

APPENDIX 6

RISK DISCLOSURE IN PROSPECTUS

(a) Money Market Fund

Investment Manager	Title of Fund	Risk Disclosure	Remarks
AIC	**AIC TT Short Term Income Fund**	Equity Risk. Interest Rate Risk. Credit Risk. Foreign Security Risk. Foreign Currency Risk. Liquidity Risk. Regulatory Risk. Derivative Risk. Securities Lending, Repurchase and Reverse Repurchase Risk. Class Risk.	General for all classes of funds
FCB	**The Paria Fund**	The Return of the fund may vary depending upon interest Rates, the current market value of the securities held in the fund's portfolio, changes in currency exchange rates and changes in the fund's expenses.	Specific to class of fund
RBTT	**Roytrin Mutual TTD Money Market Fund**	Investments are subject to fluctuations in the market value of the underlying assets and payments of capital and interest are entirely dependent on the gains and losses derived from the securities and other assets comprising the fund.	Specific to class of fund
RBTT	**Roytrin Mutual US $ Money Market Fund**	The main risk associated with investing in the fund is associated with its debt obligations. All debt obligations are subject to two types of risks: default risk and interest rate risk.	Specific to class of fund
UTC	**Money Market**	The value of the fund is related to the	Specific to class

	Fund (Second Unit Scheme)	market value of the underlying investments and as such payment of principal and interest would reflect investment performance.	of fund
UTC	**U.S. Dollar Money Market Fund**	Exchange Rate Risk. The value of the USD may fall in relation to the Trinidad and Tobago Dollar.	Specific to class of fund

(b) Equity Fund

Investment Manager	**Title of Fund**	**Risk Disclosure**	**Remarks**
AIC Financial Group	**AIC TT Caribbean Equity Fund**	Equity Risk. Interest Rate Risk. Credit Risk. Foreign Security Risk. Foreign Currency Risk. Liquidity Risk. Regulatory Risk.	General for all classes of funds
Bourse Securities	**Savinvest Capital Growth Fund**	The assets of the fund will be invested in securities and contracts the portfolio of which will be subject to the risk of fluctuations in capital and financial instruments.	Specific to class of fund
	Savinvest US$ Capital Growth Fund	Equity Risk. Fixed Income Risk. Foreign Security Risk. Foreign Currency Risk. Liquidity Risk. Economic Risk. Regulatory Risk.	Specific to class of fund
CLICO	**Colonial Life Core Fund**	**Exchange Rate Risk**. Changes in the foreign currency exchange rates will affect the value of units. **Interest Rate Risk**. The value of fixed income securities held by the Fund generally will vary inversely with changes in the interest rates and such variation may affect the value of	Specific to class of fund

		units accordingly. **Real estate.** These risks include the cyclical nature of real estate values; risk related to general and local economic conditions; overbuilding and increased competition, increases in property taxes and operating expenses, environmental risks.	
RBL	**Republic Caribbean Equity Fund**	The portfolio will be subject to the **risks of fluctuations in capital value**. Investments on an international basis involve certain risks, including fluctuations in foreign exchange rates, future political and economic developments and the possible imposition of exchange control or other government laws or restrictions.	Specific to class of fund

(c) Growth and Income Fund

Investment Manager	**Title of Fund**	**Risk Disclosure**	**Remarks**
AIC Financial Group	**AIC TT Income and Growth Fund**	Equity Risk. Interest Rate Risk. Credit Risk. Foreign Security Risk. Foreign Currency Risk. Liquidity Risk. Regulatory Risk.	General for all classes of funds
RBTT	**Roytrin Mutual TTD Income and Growth Fund**	Investments are subject to fluctuations in the market value of the underlying assets and payments of capital and interest are entirely dependent on the gains and losses derived from the securities and other assets comprising the fund.	Specific to class of fund
RBTT	**Roytrin Mutual US $ Income and Growth Fund**	The main risk associated with investing in the fund is associated with its equity investments. Equities expose your capital to **market risk**. Other risks of investing in the fund are associated with its debt obligation investments. All debt obligations are subject to two types of	Specific to class of fund

		risks: **default risk and interest rate risk.**	
UTC	**First Unit Scheme**	The value of the fund is related to the **market value of the underlying investments and therefore may go up or down.**	Specific to class of fund
	Chaconia Income and Growth Fund		

(d) Pension/Annuity

Investment Manager	**Title of Fund**	**Risk Disclosure**	**Remarks**
FCB	**FCB Retirement Provider**	The value of the contributions may appreciate or depreciate depending on the performance of the investments.	Specific to class of fund
RBTT	**RBTT Bank TTD Group Future Cash**	Investment is at the sole risk of the employer.	Specific to class of fund
	RBTT Bank TTD Individual Future Cash	Investment is at the sole risk of the employer.	Specific to class of fund
Bourse Securities	**Savinvest Group retirement Plan**	Accumulations are subject to fluctuations in the market value of the Plan's underlying assets.	Specific to class of fund

Bourse Securities	**Savinvest Individual Retirement Plan**	Accumulations are subject to fluctuations in the market value of the Plan's underlying assets.	Specific to class of fund
UTC	**Universal Retirement Fund**	The value of the fund is related to the **market value of the underlying investments and therefore may go up or down.**	Specific to class of fund

APPENDIX 7

RISK CLASSIFICATION FOR PROSPECTUSES OF OVERSEAS REGISTERED MUTUAL FUNDS OPERATING IN TRINIDAD AND TOBAGO

Broad Risk Type	**Details in prospectus**
Risk that one or more companies in the portfolio may fail	Risk may increase with company size. Smaller companies may be unable to generate new funds for growth and development, may lack depth in management, may be developing products in new and uncertain markets
Currency Fluctuations	Exchange Risk
The Potential for Unusual Market Volatility	This also occurs with investments in growth stock
Government involvement in the private sector	
Limited Investor Information and less stringent investor disclosure requirements	
Low liquidity of securities that causes the fund to be unable to sell certain securities at desirable prices	This can also occur with small companies
Adverse Social and Political Developments	
Adverse Government restrictions such as exchange rate controls, Withholding tax, restrictions on foreign investments, restrictions on repatriations of funds	Investment and fund repatriation

Adverse effects on deflation and inflation	
Legal Risk	Limited legal recourse for the fund

Broad Risk Type	**Details in prospectus**
Credit risk	This is particularly the case for fixed income securities. Issuer may fail to make principal and interest payments when due. Issuers with higher credit risk often offer higher credit risks. Higher risk fixed income securities are corporate securities compared to government, IPOs.
Interest Rate Risk	
Commodity Risk	Adverse movement in commodity prices. Declines in commodity prices negatively impacts on companies.
Concentration Risk	
Derivative risk	
Equity Risk	Returns may fluctuate with movements in the economy
Securities lending risk	Securities may exceed the value of collateral
Geographic specialisation risk	Returns are sensitive to developments in a particular industry or geographic region
Adverse macroeconomic growth Performance	
Adverse Balance of payments outcome	

Broad Risk Type	**Details in prospectus**
Foreign Investment Expense Risk	Foreign securities tend to be more expensive than US securities in terms of transaction, advisory and custodial fees.
Real Estate Risk	Cyclical nature of real estate values, risk related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in zoning laws, casualty or condemnation losses, environmental risk,

	regulatory limitations on rents, changes in neighbourhood values, related party risks, changes in the appeal of properties to tenants, and increases in interest rates and other real estate capital market influences

APPENDIX 8

METHODOLOGY FOR VALUATION, PRICING AND PERFORMANCE EVALUATION

The methodology adopted for valuation, pricing and performance evaluation of CIVs involved the comparison of the practices in Trinidad and Tobago with international best practices in these areas. The latter practices are adapted from the International Organisation of Securities Commissions (IOSCO), the Centre for Financial Market Integrity (CFA Institute) and the International Valuation Standards Committee as promulgated in its International Valuations Standards (IVSC) Seventh Edition (2005). These are used as benchmarks to get a measure of the actual practices and the degree of uniformity in valuation, pricing and performance evaluation practices in the local industry. In addition, there are certain fundamental best practices that are central to the development of the industry in Trinidad and Tobago and these are used to measure the development in these areas.

The validity of the analysis was dependent on the degree of response to the survey instrument. This did not pose a major challenge. The actual performance measurement of select CIVs was undertaken using daily data on net asset values (net of all fees and expenses) for the selected funds and the performance measurement methods used included the Sharpe and Jensen measures. The benchmark utilized in the Jensen measure was the Composite Index of the Trinidad and Tobago Stock Exchange.

Valuation and Pricing

International Best Practices

The valuation and pricing of CIV interests has attracted the interest of the International Organization of Securities Commissions (IOSCO), as well as the Centre for Financial Market Integrity (CFA Institute). The International Valuation Standards Committee has also promulgated valuation standards in its International Valuations Standards (IVSC) Seventh Edition (2005), which has in many ways provided the basis for the standards sponsored by IOSCO and the CFA Institute.

Two reports prepared by IOSCO's Technical Committee Working Group on Investment Management speak to standards for the valuation and pricing of CIV interests. The reports are entitled "The Principle for the Regulation of Collective Investment Schemes" and "The Principles for the Supervision of Operators of Collective Investment Schemes". Principle 7 of the first report states that:
"The regulatory regime must provide a system for valuation of CIV assets, pricing of interests and procedures for entry and exit from a CIV which are fair to existing investors as well as to investors seeking to purchase or redeem interests. It is a fundamental principle that the price of interests in a CIV be calculated according to the net asset value of the CIV which must be determined on a regular basis in accordance with accepted accounting practices used on a consistent basis."

Principle 3 of the second report states that:
"Supervision of an operator should seek to ensure that all the property of a CIV is fairly and accurately valued and that the net asset value of the CIV is correctly calculated."

A third report from IOSCO entitled "Regulatory Approaches to the Valuation and Pricing of Collective Investment Schemes" was completed in May 1999. This report did not seek to get consensus on the best valuation approaches but rather to identify and understand differences among jurisdictions. The report identified some broad guiding principles for the valuation and pricing of CIV interests. These include:

1. CIV valuation should be determined in good faith;
2. CIV should be valued on a per share basis based on the scheme's asset value, net of allowable fees and expenses previously disclosed to investors, divided by the number of outstanding shares;
3. New, current and past investors should be treated equitably such that purchases and redemptions of CIV interests are effected on a non-discriminatory basis;
4. CIV should be valued regularly at intervals appropriate to the particular scheme;
5. The valuation methodology should be disclosed in its constitutive and offering documents and the CIV should be valued in accordance with these documents;
6. The valuation methodology should be consistently applied, unless change is desirable in the interest of investors.

The CFA Institute has developed more specific standards for the valuation and pricing of CIV interests. Under the rubric of the CFA Institute's Global Investment Performance Standards (GIPS) there are a number of standards with respect to valuation and pricing which are considered the best practice in these areas in the investment management business. The GIPS standards flow from the sections of the Report on Input Data Requirements, Equity Valuation

Principles and Real Estate Input Data Requirements. In summary, the specific standards with respect to the valuation and pricing of CIV interests are:

1. The valuation of CIV interests should be based on market rather than book value;
2. CIV Portfolios should be valued at least monthly but in the case of real estate assets these must be valued once yearly at market value by a licensed commercial property valuator;
3. Valuations must use trade date accounting, now defined to be recognizing the asset or liability within 3 days of the actual transaction;
4. Accrual accounting must be used for all securities that accrue interest so market value include accrued income;
5. Valuations must specify all assumptions used, the valuation methodology, data used and market analysis performed;
6. The valuator should have a level of independence;
7. The valuation should meet or exceed International Financial Reporting Standards (IFRS).

A summary set of best practices in CIV valuation and pricing could therefore be:

1. CIV valuation should be determined in good faith;
2. The valuation methodology should be disclosed in its constitutive and offering documents and the CIV should be valued consistently in accordance with these documents, unless change is desirable in the interest of investors. Valuations must specify all assumptions used, the valuation methodology, data used and market analysis performed;
3. CIV should be valued on a per share basis based on the schemes asset value, net of allowable fees and expenses previously disclosed to investors, divided by the number of outstanding shares;
4. New, current and past investors should be treated equitably such that purchases and redemptions of CIV interests are effected on a non-discriminatory basis. Valuations must therefore use trade date accounting, now defined to be recognizing the asset or liability within 3 days of the actual transaction;
5. CIV should be valued regularly at intervals appropriate to the particular scheme. CIV Portfolios should be valued at least monthly but in the case of real estate assets these must be valued once yearly at market value by a licensed commercial property valuator;
6. The valuation of CIV interests should be based on market rather than book value. In cases where market value cannot be used, the fund must disclose the reason for this situation and explain the rationale of the method actually used to determine value. In these situations, methods should be used which minimizes subjective assumptions;

7. Accrual accounting must be used for all securities that accrue interest so market value include accrued income;
8. The valuator should have a level of independence;
9. The valuation should meet or exceed International Financial Reporting Standards (IFRS).

Another noteworthy development with respect to valuation is the move to "fair value" accounting. This has been gaining momentum recently but the consensus seems to be that there needs to be a greater degree of consensus before this becomes part of the valuation standards, since there are practical problems and issues still to be resolved to effect "fair value" accounting, especially in the banking and asset management business[30].

International Experience

The international experience with respect to the valuation and pricing of CIV interests shows that there is a considerable degree of convergence in practices but there still remains a fair degree of differences. The international experience with respect to the valuation and pricing of CIV interests has been evaluated in two IOSCO reports 'Regulatory Approaches to the Valuation and Pricing of Collective Investment Schemes" prepared and published in May 1999 by the Technical Committee (TC) of IOSCO whose members comprise developed market economies and "CIV Unit Pricing" prepared and published in May 1999 by the Emerging Markets Committee (EMC) of IOSCO whose members are emerging market economies[31].

The experience indicates that most jurisdictions required listed securities to be valued at market prices, 100% in developed markets and 78% in emerging markets. In terms of fixed income securities, 61% in developed economies and 39% in emerging economies valued at market prices. In terms of the party responsible for choosing the valuation criteria, the securities regulator was responsible in the majority (60%) of jurisdictions in emerging economies while the CIV was *primarily* responsible in most developed market jurisdictions, with the regulator having *secondary* responsibility in some cases.

The frequency at which CIV are required to calculate/publish the unit price was daily in 44% of emerging market jurisdictions and 58% in developed market jurisdictions. In most cases the CIV was required to publish the unit value at least monthly in developed market (95%), as well as emerging markets (67%) jurisdictions. A significant number of emerging market jurisdictions (25%) had no requirements for the frequency of CIV valuation. Moreover, in the case of

[30] See The Basel Committee on Banking Supervision's comments on the draft standards and basis for conclusion issued by the International Accounting Standards Committee, September 2001.

[31] The EMC report was based on a survey which had a 60% response while the TC report was based on a survey which had a 90% response rate.

emerging market economies, 26.8% of jurisdictions valued *net worth* on a daily basis while 44% of jurisdictions valued *unit prices* on a daily basis. Given that unit prices should be calculated based on net worth these two frequencies should be the same. This difference implies that the unit prices in many emerging markets were calculated on stale asset values.

The price to be used in purchases and redemptions was the historical price (P-1) in 9.5% of jurisdictions in emerging markets and some developed market jurisdictions did allow historical pricing but never without the stipulation that forward pricing also be used. Forward pricing (P+1) is the preferred option to prevent market timing abuses but this was practiced in only 9.5% of emerging market jurisdictions with the majority (40.4%) using the price on the day of the transaction (P+0) to execute transactions. A significant amount (36.6%) of emerging market jurisdictions had no regulation in this area and it was left to the discretion of the CIV manager. In developed market jurisdictions 22% used forward pricing while 65% allowed both historical and forward pricing.

The valuation methodology must be disclosed in 61% of emerging market jurisdictions compared to 89% in developed market jurisdictions. In most cases these disclosures were effected either through the prospectus, scheme rules or both.

Best Practices in the Disclosure of Fees and Expenses

Another IOSCO report[32] identified international best practices in the structure of fees and expenses in CIV. These best practices represent areas of consensus among regulators from among the members of IOSCO's Technical Committee. These standards were not meant to be binding or exhaustive and are likely to change as the environment changes and as new challenges emerge. They serve, however, as a useful benchmark against which the local practices with respect to fees and expenses of CIV can be evaluated. These best practices are outlined below:

1. **Disclosure of Fees and Expenses to Investors:** In particular, fees and expenses should be disclosed to both prospective and current investors. The information should allow investors to compare fees across funds and clearly discern the totality of fees and expenses, preferably using a standardized fee table. The information should also disclose the total expense ratio. Investors should be clear from the disclosure about those fees that are directly deducted from them and those deducted from the fund's assets. The disclosure on fees and expenses should enable investors to understand the impact of the specifics of the fund's fees and expenses on performance, possibly through the use of an

[32] Final Report on Elements of International Regulatory Standards on Fees and Expenses of Investment Funds, The Technical Committee of IOSCO, November 2004.

example. The information should also describe the fees and expenses actually paid on a historical basis;

2. **Conditions of Remuneration of the Investment Manager:** The manager's fee must be transparent. It should be structured to avoid conflict of interest by aligning the interest of the manager with that of investors. Where managers are remunerated through a performance fee this should not create incentives for the managers to take excessive risks to maximize their fee income which could happen if the management fee is set too low to cover actual management costs. A performance fee should also be consistent with the fund's investment objective. The calculation of the performance fee should also be verifiable and not easily manipulated, for example, by having it benchmarked against net assets;

3. **Transactions Costs:** Transactions costs are difficult to quantify and forecast and are usually excluded from the total expense ratio. Actual historical transaction costs information that is available should be disclosed to investors (Annual Reports);

4. **Hard and Soft Commissions on Transactions:** Soft commissions can create conflict of interests. Standards should either prohibit soft commissions or place restrictions on the types of services that can be obtained through soft commissions, requiring that fund managers disclose the amount of soft commissions charged to the fund and the values of goods and services received in return and require managers to rebate the value of goods and services received to the fund. The general principle is that all benefits from hard or soft commissions should be paid directly to the fund;

5. **CIV Investments in other Funds (Funds of Funds):** This type of fund usually involves a double fee structure, which creates a conflict of interest if the bottom and top tier funds are operated by the same or affiliated parties. The best practice in this regard is for funds to disclose the double fee structure, whether both top and bottom tiers are managed by affiliated parties and demonstrate how this impacts on performance. To minimize conflict of interest, fee sharing agreements should benefit exclusively the top tier fund and entry and exit fees should be waived;

6. **Multi-class Funds:** In these cases, the existence of different class funds should be disclosed in the prospectus. Investors in the same class should bear the same fees and expenses and differences in fees should be based on objective criteria disclosed in the prospectus;

7. **Changes in the Fund's Operating Conditions:** Best practices are based on the assumption that the funds investment objectives and policies, investment manager and cost structure have not changed significantly. If this happens this should be disclosed to current and prospective investors in the form of a new total expense ratio in the prospectus and/or routine reports. If the new cost structure is significantly higher, current investors should be allowed to redeem their share free of charge or allow them to vote against the changes.

The CFA Institute's Global Investment Performance Standards (GIPS) relate mainly to how fees and expenses are disclosed in performance presentations and do include some best practices for the disclosure of fees and expenses. Virtually all of these are, however, already covered by IOSCO's best practices.

International Experience

A report of the Technical Committee of IOSCO released in 2003 entitled "Fees and Expenses within the CIV and Asset Management Sector: Summary of Answers to Questionnaire" highlights the considerable heterogeneity across countries, albeit focused almost exclusively on developed countries. The current practices in terms of fees and expenses highlighted in that Report can be evaluated under the broad categories of disclosure vehicles, type and structure of information disclosed, level of detail and excluded costs.

In terms of disclosure vehicle, the prospectus was the primary means of disclosing information on fees and expenses to prospective investors, with additional ongoing disclosure in this area being effected through other periodic regulatory and management reports in all jurisdictions. In terms of the kind of information disclosed, all jurisdictions require maximum prospective fees to be disclosed except transactions costs, which is difficult to forecast. All jurisdictions also require disclosures of actual fees and expenses since these are likely to differ from the prospective benchmarks. Most jurisdictions require that the prospective fees be disclosed in the prospectus while the actual fees and expenses are detailed in periodic reports. Some jurisdictions (3 of 19 in survey) do, however, require that available actual fees and expenses be disclosed in the prospectus. All jurisdictions expect the information to be the main categories of fees (investment management fees, entry fee and exit fee), 2 out of 19 jurisdictions require standardized fee tables, 11 out of 19 jurisdictions require some sort of total expense ratio be disclosed and 4 out of 19 jurisdictions require that CIV demonstrate the impact of fees on performance through an example. In terms of level of detail, most jurisdictions seek to get a balance between the level of detail and the simplicity and comparability of the information. Some opt for maximum detail while others require less detail to make prospectuses easier to understand. Some jurisdictions allow an all in one fee to be charged by the investment manager out of which all fund expenses are met; in these cases there is no need for details of fee structure in the prospectus. In terms of excluded costs, 11 out of 19 either prohibit specific costs being charged to the fund or lists fees which could be charged to the fund with the rest of the expenses being met out of the management fee.

Performance Evaluation

Best Practices

Performance evaluation in practice entails a precise calculation of returns followed by further assessments of risks and performance relative to various benchmarks. There are a host of issues at the back end of return calculation related to accurate valuation and disclosure of fund expenses. This process is full of conceptual and practical problems outlined below. The process of performance evaluation is therefore potentially fraught with problems of inaccurate valuations, non-disclosures on fees and inaccurate and biased reporting (window dressing) of performance results.

Some organizations have therefore developed standards to help make performance measures more accurate, consistent and comparable. The CFA Institute has developed the Global Investment Performance Standards (GIPS) and IOSCO has surveyed its membership to determine the scope and type of performance presentations standards used by members, which was used to suggest best practice standards for the presentation of CIV performance. The thrust of these standards is that the firm is not allowed to present selected information which is biased or inaccurate. They ensure complete, consistent and accurate reports are presented. For example, firms must disclose returns for all years and common periods rather than disclosing returns for periods or years when the firm did well, masking the true overall performance of the fund. They should also provide an index against which the fund could reasonably be compared. The firm is also encouraged to provide risk measures to make risk return trade-offs easier to evaluate.

The GIPS of the CFA Institute is summarized below. These best practices are not an exhaustive set of the GIPS standards but they represent the standards required by GIPS for effective compliance that are central to ensuring accuracy, consistency and comparability of performance. There are recommended GIPS standards that do not affect GIPS compliance and are not included. The best practices include:

1. Total return, including realized and unrealized gains and losses must be used;

2. Time weighted rates of return that are linked geometrically and that adjusts for external cash flows must be used;

3. All returns must be calculated after the deduction of actual trading expenses – estimated trading expenses are not permitted;

4. If actual trading expenses cannot be separated from a bundled fee then the **gross of fee** returns must be reduced by the entire bundled fee or the portion of the bundled fee that contain trading expenses. Net of fee returns must be reduced by the entire bundled fee or the portion of the bundled fee that includes actual trading expenses plus the investment management fee;

5. Firms must disclose the types of fees included in the bundled fee;

6. When presenting either gross of fees or net of fees returns, firms must disclose the specific fees and expenses deducted;

7. Firms must clearly label returns as either gross of fee or net of fees;

8. Firms must disclose the currency used to express performance;

9. Firms must disclose the fee schedule for each CIV;

10. Firms must disclose all significant events which help investors to assess performance;

11. Returns for periods of less than one year are not to be annualized;

12. The performance track record of past firm or affiliation must be linked to or used to represent the historical record of the new firm;

13. The total return of the benchmarks that reflect the investment strategy of particular CIV must be disclosed for each annual period and if the benchmark changes the firm should give reasons for the change.

IOSCO's Technical Committee also developed best practices for performance evaluation and presentation and are based on three basic principles. Firstly, CIV performance disclosures should not include untrue statements or facts or omit relevant information. Secondly, performance presentations should be calculated and presented from the viewpoint of the typical investor in the CIV. Thirdly, CIV should perform calculations and present results of performance evaluation in a similar manner to ensure comparability. IOSCO's best practice standards are outlined below:

1. CIV advertised performance should not contain any untrue statements or omit information that misleads investors;

2. CIV performance should be calculated and presented from the viewpoint of the typical investor therefore it should reflect all fees and expenses indirectly paid by all investors, as well as fees paid by particular investors;

3. CIV should calculate and present their performance according to standardized formulas which are used consistently over time. If the formula is changed, the particulars of the change, as well as the effect of the change on performance presentations should be disclosed;

4. CIV performance should be presented for standardized time periods;

5. CIV performance information should be accompanied by relevant benchmarks permitting relevant performance comparisons to be made by investors;

6. CIV performance information should be accompanied by a prominent disclaimer that CIV performance changes over time and that past performance is not indicative of future results;

7. CIV should provide additional relevant information relating to its performance upon the request of any investor.

An appropriate set of best practices for performance evaluation and presentation standards was developed for the two separate sets of best practice standards. These are:

1. Total return, including realized and unrealized gains and losses must be used;

2. Time weighted rates of return that are linked geometrically and that adjusts for external cash flows must be used;

3. All returns must be calculated after the deduction of actual trading expenses – estimated trading expenses are not permitted;

4. If actual trading expenses cannot be separated from a bundled fee then the **gross of fee** returns must be reduced by the entire bundled fee or the portion of the bundled fee that contain trading expenses. Net of fee returns must be reduced by the entire bundled fee or the portion of the bundled fee that includes actual trading expenses plus the investment management fee;

5. Firms must disclose the types of fees included in the bundled fee;

6. When presenting either gross of fees or net of fees returns, firms must disclose the specific fees and expenses deducted;

7. Firms must clearly label returns as either gross of fee or net of fees;

8. Firms must disclose the currency used to express performance;

9. Firms must disclose the fee schedule for each CIV;

10. Firms must disclose all significant events which help investors to assess performance;

11. Returns for periods of less than one year are not to be annualized;

12. The performance track record of past firm or affiliation must be linked to or used to represent the historical record of the new firm;

13. The total return of the benchmarks that reflect the investment strategy of particular CIV must be disclosed for each annual period and if the benchmark changes the firm should give reasons for the change.

14. CIV should calculate and present their performance according to standardized formulas which are used consistently over time. If the formula is changed, the particulars of the change, as well as the effect of the change on performance presentations should be disclosed;

15. CIV performance should be presented for standardized time periods;

16. CIV performance information should be accompanied by a prominent disclaimer that CIV performance changes over time and that past performance is not indicative of future results;

17. CIV should provide additional relevant information relating to its performance upon the request of any investor.

International Experience

The international experience with respect to best practices in performance presentations has been the focus of two IOSCO reports on the matter. The reports in question, Performance Presentation Standards for Collective Investment Schemes, Emerging Markets Committee, December 2000 and Performance Presentation Standards for Collective Investment Schemes, Technical Committee IOSCO, May 2002, went a long way in highlighting the trends and degree of adoption of Performance Presentation Standards (PPS) among the members of IOSCO. The survey results[33] from these reports indicate that performance presentation standards (PPS) exist in most jurisdictions surveyed (between 59-67%). The regulator was most often (53%) responsible for setting PPS in emerging markets relative to developed markets (33%). A standardized period (or periods) for performance presentations is mandated in a majority of jurisdictions, 78% in developed markets and 59% in emerging markets. Most jurisdictions did not require performance benchmarks to be included in performance presentations as only 28% in developed markets and 24% in emerging markets had this requirement. CIV were required to disclose fees and expenses in almost all jurisdictions, 100% in developed markets and 96% in emerging markets. Similarly, almost all jurisdictions require a disclaimer to the effect that "past performance does not necessarily predict future performance" to be used in performance presentations, 100% for developed markets and 82% in emerging markets.

These results indicate that a growing number of jurisdictions, especially developed markets have PPS in place. The Emerging Market Committee interpreted the fact that the non-response from the majority of members indicated that the majority of them did not have PPS in their jurisdictions. The emerging market countries that did respond were generally the larger more developed members, which indicate that larger more developed markets generally adopt PPS more frequently. The specific number and scope of standards also differ across jurisdictions depending on local conditions and level of development of the CIV sector.

[33] All the Technical Committee's members responded while only 24% of the Emerging Market Committee's members responded to the questionnaire.

Measurement Metrics

<u>Performance Measurement Measures</u>[34]

The central issue in the measurement of the performance of mutual funds is the determination of the value added by the mutual funds. That is, if investors can achieve a better risk-adjusted return by investing in a set of assets equivalent to that of the mutual fund's portfolio, then the mutual funds add little value. In this context, the starting point for all mutual funds from which performance can be evaluated is the average risk adjusted return on its benchmark portfolio. The fund must either equal or surpass this benchmark to be considered a worthy investment alternative.

The simplest way of adjusting returns for risks is to benchmark the returns of a fund with that of the returns of similar funds, that is, funds in a similar risk class. The ranking that is generated by this benchmarking can, however, be misleading since the determination of the class of funds against which to compare the fund in question is difficult because of the complexities related to accurately classifying the style of funds. A more precise means to adjust returns for risks is therefore needed. Methods of performance evaluation based on asset pricing models soon emerged to meet this need. These performance evaluation methods all have some appeal but all suffer from some weaknesses[35]. This situation has spurned numerous studies over the years geared to making refinements and improvements on these models.

The traditional risk adjusted performance evaluation methods include the Sharpe, Treynor and Jensen measures. The Sharpe measure is calculated as the ratio of the average portfolio excess returns to the standard deviation of portfolio returns over a particular period of time. It therefore measures excess returns per unit of **total** risk. The Treynor measure is the ratio of excess returns to beta and therefore measures excess returns per unit of systematic risk. The Treynor measure is appropriate when the fund is part of a larger investment portfolio. Most studies using the Sharpe and Treynor ratios to rank fund performance generate the same ranking because the measures of risks used in these two measures are highly correlated.

While the Sharpe ratio is very popular among professional asset managers because it is an appropriate risk adjusted measure for overall portfolios[36] and it utilizes easily available data

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34 See Seerattan (2005) for a review of these measures.

35 All performance measurement measures based on the asset pricing framework suffer from the intrinsic problems related to this framework such as the fact that the assumptions underlying the framework may often be inappropriate or inaccurate.

36 The appropriate measure of portfolio performance depends critically on whether a particular portfolio is part of or the entire investment holding of the investor.

inputs, it is difficult for some investors to interpret in a relative sense since it is not easily conceptualized as a rate of return. That is, if one portfolio is 0.5 higher than an alternative we know that it has a higher risk adjusted performance but what does this mean precisely in terms of returns. The M^2 ratio, which is the difference between the Sharpe ratios for the portfolio and the market scaled by the standard deviation of the market return, corrects this problem because it can be easily interpreted as a differential return relative to a benchmark portfolio.

A problem that affects both the Sharpe and the M^2 ratios, however, is that the standard deviation is used as the measure of total risk and this is not the best measure of risk when the return distribution of the portfolio is skewed. Moreover, the standard deviation treats both positive and negative returns the same way implying increasing returns are risky which is counterintuitive. This is not a problem if the distribution of the returns is normal but it is if the returns are abnormal or if the investor has a target return that is different to the mean portfolio return. One way of dealing with the potential problem of not focusing on the negative returns or the downside risks (the risks managers are concerned about) is to use downside risk instead of total risks in the risk adjusted performance measure. The Sortino ratio accomplishes this by replacing the total risk used in the Sharpe ratio with downside risk, which provides an appropriate measure for managers primarily concerned with downside risks.

The Sharpe ratio is also inadequate if the investment manager has an active strategy designed to exceed the benchmark return. In this case the important factor is the returns to the portfolio over the benchmark return, relative to the benchmark risks taken, as measured by the tracking error. The Information Ratio (also called the Appraisal Ratio) does this by providing a measure that tracks incremental return over the benchmark given the benchmark relevant return taken to earn it. The Information Ratio therefore measures above average return per unit of risk that can be diversified away by holding a market portfolio. The information ratio is often used as a measure of the ability of the active manager. The M^2 , Sortino and Information ratios are all derived from the Sharpe ratio but all seek to correct some weakness in this risk adjusted performance ratio.

The Jensen measure (alpha) is another popular performance measure. This measure is the difference between the excess return of a portfolio and the excess return of the market. If the fund outperformed the market the Jensen alpha would be positive and it would be negative if the market outperformed the fund. The Jensen measure essentially uses the CAPM to isolate the difference in performance between the fund and the market. In terms of the Jensen alpha, it provides an easily interpreted performance measure (excess returns in percentage terms) and it can also be easily estimated from a CAPM equation that can be evaluated by the full range of statistical tests. The Jensen measure is, however, subject to a number of potentially serious problems. It is subject to the criticisms levelled against asset pricing models such as inappropriate assumptions[37], its reliability is dependent on the benchmark relevance to a particular portfolio and problems such as the timing ability of asset managers can make performance evaluation difficult because it violates the condition of constant mean and variance of asset returns.

Performance Measurement Challenges[38]

In addition to the performance measures outlined above, there is a range of issues related to performance evaluation that impact on the accuracy of this process. One of the most serious issues in mutual fund performance evaluation is the notion of the statistical significance of the performance evaluation measures. The first issue in this regard is the adequacy of the historical data on returns. If the series on returns is short we are less confident of the validity of the results, or to put it another way we cannot make statistical inference confidently because the information is inadequate. In the investment management business the high variance of returns also compounds this problem of statistical significance in the face of short data series.

Moreover, in most cases we assume that returns are distributed with constant mean and variance. In the context of mutual funds, it may be reasonable to assume that the return distribution in funds where managers pursue a passive strategy have constant mean and variance. In funds where the manager has an active strategy and return distributions change by design, the assumption of constant mean and variance would be inappropriate and could lead to substantial errors in performance measurement and evaluation. The assumption of constant mean and variance is also inappropriate when investment managers can time the market. Market timing involves shifting funds between a safe asset like treasury bills and a market portfolio depending on when the market is expected to outperform the safe asset. In these cases, the traditional mean variance performance measures without enhancements are inadequate because they cannot capture the dynamic of changing portfolios and could produce erroneous and misleading inferences. Methodologies to mitigate these challenges have been developed, which can fit in the asset-pricing framework and especially in the context of the Jensen method.

The results from the empirical literature on mutual fund performance have been largely negative. In most cases, studies have indicated that funds under-performed or mirrored the performance of the market benchmark. Gruber (1996) in a study of the US mutual fund industry shows that funds under-performed the market index by between 65 and 194 basis points depending on the index. Daniel et al. (1997) found that active managers even if they earned returns above the passive (market) benchmark could not cover their expenses with this excess. In other words,

[37] The assumption include that all asset returns are normally distributed and investors care only about mean and variance of returns, implying that investors give equal weight to upside and downside risks.

[38] See Seerattan (2005).

they under-performed the market when returns were evaluated net of expenses. Bogle (1998) also found a negative relationship between fund performance and expense ratios. Kathari and Warner (2001) further argue that the results may be inaccurate because standard performance measures depend on the ability of the benchmark to mimic the fund investment style. Benchmarks must therefore be chosen carefully to avoid problems with the evaluation of performance.

These problems are much more intense in developing countries such as Trinidad and Tobago where return data is likely to be short and its quality and consistency suspect. Quality is likely to be suspect because there generally are no standards with respect to information disclosures on returns, valuations and fees. These markets tend also to be more volatile than developed markets, compounding the problem of short data sets. Very important also is the fact that there is a paucity of benchmarks that can be used in performance evaluation, which is a serious problem since many performance measurement methods depend on the availability of suitable benchmarks that closely mimic the return distribution of CIV.

Performance measurement in Trinidad and Tobago

A combination of all the performance measurement challenges mentioned above makes the measurement of CIV performance a very difficult undertaking, especially in countries such as Trinidad and Tobago. In this section the performance of select CIV in Trinidad and Tobago is measured on a total return as well as a risk adjusted basis to help demonstrate the challenges inherent in CIV performance evaluation in Trinidad and Tobago. The CIV chosen are all growth and income funds that have the longest track record in the industry. They also are the dominant funds in this segment of the market, accounting for over 90% of the market share in this segment of the CIV sector. These funds also tend to have net asset values readily available for performance measurement when compared to the fixed income securities funds.

The greater total returns normally generated by growth and income funds (equity based funds) together with their greater risk of capital loss, also increases the importance of analyzing the *risk-adjusted* rather than the simple total return performance of these funds. In this sense also it is a good vehicle to demonstrate the challenges and pitfalls in measuring CIV performance.

The data used comprise daily data for three growth and income mutual funds in Trinidad and Tobago covering the period June 1, 2001 to June 8, 2005. The daily net asset value (NAV) of these funds was used to derive their daily return[39] using $NAV_t - NAV_{t-1}/NAV_{t-1}$. Daily data is

[39] The return was calculated assuming that all dividends are reinvested and that fund expenses are deducted from the NAV.

used because at this frequency the issue of adequate data and the validity and consistency of the performance measurements is less of a concern. The risk free rate was proxied by the weighted average Treasury bill rate and the rate of return on the risk free asset was calculated similarly to that of the fund return. The excess fund return was simply the fund return minus the return on the risk free rate.

The Composite Index[40] of the Trinidad and Tobago Stock Exchange was used as the benchmark index since this is a broader index that includes non-Trinidad and Tobago cross-listed stocks and the fund under study all have assets from across the Region.

The descriptive statistics in Table 1 show that the variables display many of the idiosyncratic features of financial time series such as skewness and volatility clustering. The Jaque-Bera statistic and its probability have also been calculated for each fund and the benchmark. This statistic indicates that the distribution of all fund returns, as well as that of the market index are approximately non-normal. This is important because Dybvig (1985) and Grinblatt and Titman (1989) have shown that Jensen measure may be biased if the fund and benchmark returns are non-normal.

The data shows that the market index outperformed the 3 funds on a total return basis but of course the table also shows that higher returns were also associated with higher standard deviations which imply that on a risk adjusted basis this may not be so. It also highlights the importance of risk adjusted performance measures, especially for active investors. This observation is vindicated by the Sharpe ratios calculated. These ratios indicate that fund 2 has the highest risk adjusted performance whereas the comparison of the simple total returns indicates that Fund 2 had the lowest return. If one was to make decisions based on the simple comparisons of total returns we would have incorrectly concluded that Fund 1 was the best alternative among the funds. The benchmark portfolio's advantage is also much reduced when compared to the total return performance but it still out-performs the selected funds suggesting that it may have been better to invest in a passive benchmark portfolio[41]. The mistakes made by comparing the total return measures have obvious implications for the market share of the funds and the choice between an actively managed fund and a passive benchmark fund.

[40] The All Trinidad and Tobago Stock Index was also available but was not used in the study because the growth and income funds typically have an asset portfolio comprised mostly of Trinidad and Tobago Stocks but include stocks from the rest of the region. This Index would therefore be less appropriate as a benchmark.

[41] This of course abstracts from different investors' risk tolerance, some investors may accept a smaller risk adjusted return because they are not comfortable with a riskier portfolio such as one comprised only of equities.

Table 1

1.1 Descriptive Statistics for Growth and Income Funds in Trinidad and Tobago

Variables	Descriptive Statistics				
	Mean	Std. Dev.	Skewness	Kurtosis	Jarque-Bera
ROR Risk Free Rate	0.0142	0.0031	2.58	9.58	2897.7 (0.00)
ROR Fund 1	3.6152	23.0543	-0.99	161.53	1040089.0 (0.00)
ROR Fund 2	0.1182	0.5837	0.85	27.44	24829.4 (0.00)
ROR Fund 3	0.7603	4.6393	-3.08	54.11	109654.7 (0.00)
ROR Market Index	76.7523	261.5728	4.86	52.02	103318.5 (0.00)
EROR Fund 1	3.6011	23.0544	-0.99	161.53	1040062.0 0.00
EROR Fund 2	0.1041	0.5840	0.85	27.43	24807.0 (0.00)
EROR Fund 3	0.7462	4.6396	-3.09	54.10	109618.7 (0.00)
EROR Market Index	76.7381	261.5730	4.87	52.19	103318.1 (0.00)

Source: The investment managers of the 3 growth and income funds.

Notes: 1. Sample size is 994.
2. ROR=Rate of Return
3. EROR=Excess Rate of Return

Table 2: Mutual Funds and Benchmark Sharpe Ratios

Portfolio	*Statistics*		
	Mean Excess Return	**Portfolio Standard Deviation**	*Sharpe Ratio*
Fund 1	3.6011	23.0544	0.1562
Fund 2	0.1041	0.5840	0.1783
Fund 3	0.7462	4.6396	0.1608
Market	76.7381	261.5730	0.2934

Source: Author's calculation.

In terms of Jensen's alpha, we estimate this from the following single index model outlined in equation 1.

(1) $$R_{pt} - R_{ft} = \alpha + \beta\left(R_{mt} - R_{ft}\right) + e_t$$

We also estimate a single index model using equation 2, which is augmented to include an enhancement to capture the impact of market timing based on the Treynor and Mazuy (1966) approach.

(2) $$R_{pt} - R_{ft} = \alpha + \beta\left(R_{mt} - R_{ft}\right) + \delta\left(R_{mt} - R_{ft}\right)^2 + e_t$$

R_{pt}, R_{ft} and R_{mt} are the returns on day t of the fund, the risk free rate return and the benchmark return respectively. α and β are the Jensen alpha and a measure of the systematic risk of funds while e_t is a white noise error term. Both equations are estimated by OLS but we use Newey-West corrected standard errors to account for potential serial correlation and heteroscedasticity. The results of the estimations are presented in Tables 3 and 4.

Table 3: Estimated Coefficients for model 1

Portfolio	**Coefficients**	
	α	β
Fund 1	3.30* (3.99)	0.39 (1.48)
Fund 2	0.02 (0.76)	0.11* (4.11)
Fund 3	0.70* (3.84)	0.66 (1.34)

Notes: 1. Figures in parentheses are t statistics
2. * Significant at 1% level
3. $^{+}$ Significant at 5% level
4. ^{o} Significant at 10% level

The results of Table 3 indicate that fund 1 was the best performer followed by fund 3 with Fund 2 last. This virtually mirrors the ranking on the basis of total returns. The alpha of Fund 2 is also not significantly different from zero, which implies that this fund did not have differential returns in excess of the benchmark. The beta coefficients are positive, however, the beta of fund 1 and 3 are insignificant. The small and/or insignificant beta values may be indicative of the fact that the funds' returns do not vary closely enough with the market returns, a situation which brings into question the suitability of the benchmark. The results from this simple model can also be distorted by market timing activities. We therefore use the Treynor and Mazuy (1966) approach to correct for market timing ability on the part of fund managers.

When we account for the potential of market timing in Table 4 the results are broadly similar to Table 3. Funds 1 and 3 have significant alphas but the alpha of Fund 2 although positive is not statistically significant. The betas of the funds are also similarly small and positive, except Fund 1, which has a beta closer to one. Interestingly, the coefficient of the timing variable is significant for Funds 2 and 3 but very small and negative. This indicates that these funds do not time the market and if they do they have negative timing, that is, they increase their holding of the market portfolio in bear markets. The coefficients are so small, however, we can reasonably conclude that the funds do not time the market.

Table 4: Estimated Coefficients for Model 2

Portfolio	Coefficients		
	α	β	δ
Fund 1	3.24* (3.95)	0.62^{+} (2.17)	-0.02 (-1.58)
Fund 2	7.12(E-05) (0.38)	0.16* (8.74)	-3.08(E-05)* (-2.59)
Fund 3	0.69* (3.82)	0.10^{+} (2.08)	$-2.70(E\text{-}05)^{o}$ (-1.83)

Notes: 1. Figures in parentheses are t statistics
2. * Significant at 1% level
3. $^{+}$ Significant at 5% level
4. ^{o} Significant at 10% level

The most significant result, however, is the variability in ranking produced by the risk adjusted performance measures. The ranking produced by the Sharpe ratio is very different from that produced by the Jensen alpha. The results in Tables 3 and 4 point to one possible reason for this situation. The betas though positive are all small in absolute value indicating that the returns of the various funds do not vary closely enough with the benchmark returns, signalling perhaps that the benchmark used was inappropriate. The reliability of the Jensen approach depends on the suitability of the benchmark chosen. In particular, this performance measure depends on the benchmark's ability to mimic the fund style (Kothari and Warner 2001). In Trinidad and Tobago, the only benchmarks easily available are the All Trinidad and Tobago Index and the Composite Index. These indices can serve as benchmarks since a substantial part of the asset portfolio of these funds are invested in stocks on these markets. The growth and income funds being studied do, however, invest substantially in fixed income securities in Trinidad and Tobago, throughout the region and internationally, which do not form part of these benchmarks. The benchmarks appear to be useful as a guide but apparently not for practical performance measurement because many of the risk-adjusted performance measures' practical usefulness is heavily dependent on the return distribution of the benchmark mimicking the return distribution of the funds being evaluated.

3.5 CONCLUSIONS AND RECOMMENDATIONS

3.5.1 Conclusions

The review of performance evaluation processes in the CIV sector internationally and in Trinidad yielded many useful conclusions and policy implications. It revealed that internationally many jurisdictions are increasingly recognizing the importance of setting standards for valuation and pricing, disclosures of fees and expenses and performance presentation because they have a critical impact on the accuracy, consistency and comparability of performance across the CIV sector. This is particularly important to this sector where the growth and development of the sector is heavily dependent on accurate and timely disclosures that can be compared and evaluated for return and risk.

In terms of valuation and pricing, the prospectuses and survey information seem to indicate that CIV in Trinidad and Tobago did have a significant degree of adherence to international best practices. The degree of adherence to best practices was as expected lower than that in developed market jurisdictions but closely mirrored that of emerging market jurisdictions in comparable areas. The factors that hampered the development of these best practices seemed to be a lack of legally enforceable standards in many areas such as minimum common standards for the preparation of prospectuses and minimum standards for valuation and pricing. Other factors that seem to constrain the adoption of best practice in valuation and pricing of CIV interests include under-developed information management systems in many funds and inadequate human resources.

In terms of disclosures on fees and expenses, the summary information from the prospectuses seems to indicate that funds did not generally meet the range of best practices. Although the non-adherence to the majority of best practice areas is a problem, the areas in which the majority of funds met or partially met the standards were in some of the most fundamental areas for fund evaluation such as remuneration for the investment manager and disclosure of fees to investors. One area which is critical to fund evaluation and which was not dealt with in any of the funds' prospectuses is the standard on disclosure of material changes in funds' operating conditions. This is a serious omission.
For fees other than the investment management fee and the trustee fee, the relative absence of disclosures and a lack of clarity clouded inferences that could be made. Standardized fee tables would also have helped evaluations tremendously.

In the area of performance presentations, the CIV sector in Trinidad and Tobago seems to have the least amount of adherence to international best practice. The majority of funds indicated that they followed some standard when in fact they only partially met the standard's requirements. Compliance with these standards requires that funds meet **all** the components of the standard. This generally made performance evaluation and comparison relatively difficult.

These results from the performance of select funds also highlight the challenges and pitfalls for performance evaluation in the CIV sector. These results have many practical implications. Data sets for performance evaluation for instance have to be sufficiently long and preferably on a daily basis, benchmarks used in performance measurement have to closely mimic the funds for them to be useful, there is a need locally for specialist providers of information services that focus on the performance evaluation of CIV and, very importantly, there has to be standards set for the disclosure of information on funds both in prospectuses and other periodic reports, which promotes accuracy, consistency and comparability.

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GLOSSARY

Active Investment Strategy	*This is an investing strategy that seeks returns in excess of a specified benchmark. It is an investment strategy that usually aims to beat the market.*
AIMR	*Association of Investment Management Research currently known as the CFA Institute.*
AIMR-PPS	*This is the AIMR Performance Presentation Standards which is a U.S. specific standard aimed at establishing standards for the ethical presentation of fund performance. Currently the CFA Institute has transformed the AIMR-PPS into the GIPS and dropped the AIMR-PPS brand. Source: CFA Institute.*
Annual Maintenance Fee	*This fee may be charged by some funds, for example, to cover the costs of providing services to low-balance accounts.*
Back End Charge	*This is a charge paid by the customer at the point the scheme repurchases the units or shares of the scheme.*
Board of Directors	*Those individuals who are voted in a corporate fund to provide oversight of the fund's operations.*
Bond Funds	*These are funds which seek income from investment in a portfolio comprising medium- to long-term fixed income securities.*
CAPM	*Capital Asset Pricing Model. This is the model of the relationship between risk and expected return; it is used in the pricing of risky securities.*
CBTT	*Central Bank of Trinidad and Tobago*
Close End Fund	*This type of fund issue a limited number of units in the fund and the assets may be limited to a specific quantum. Price of the fund is established through trading of the fund on the market.*
Collective Investment Scheme or Collective Investment Vehicle	*This is an instrument that a) invests in transferable securities b) is publicly marketed and c) is open-ended or close-ended. (IOSCO, OECD and ICI)*

Contract Fund	*This is where the scheme or fund is a contract under which the investment manager invests funds on behalf of the final investor.*
Corporate Fund	*This is where the scheme or fund is a separate corporate entity and the investors are shareholders.*
Custodian/ Depository	*This is the firm who holds the assets and performs some monitoring functions.*
Distribution Fee	*This fee, if charged, is deducted from fund assets to compensate sales professionals for providing services to mutual fund shareholders in connection with the purchase and sale of shares or the maintenance of accounts, and to pay fund marketing and advertising expenses.*
Equity Funds	*These are funds which seek income from investment in a portfolio which comprises a majority of equity securities.*
Exchange Fee	*This fee may be charged when an investor transfers money from one fund to another within the same fund family.*
Front End Charge	*This is a charge paid by the customer at the point of sale of the units or shares of the scheme*
Fund Nomenclature	*This refers to the naming system used for different classes of funds.*
Global Investment Performance Standards (GIPS)	*This is a set of ethical principles that establish a standardized, industry-wide approach to how investment firms should calculate and report their investment results to prospective clients in a way that ensures fair representation and full disclosure. The GIPS standards were based on and preceded in North America by AIMR Performance Presentation Standards. Source: CFA Institute*
Growth and Income Funds	*These funds attempt to combine long-term capital growth with steady income dividends. These funds pursue this goal by investing primarily in fixed income securities and common stocks of longstanding, established companies with the potential for both growth and good dividends.*
Hard Commissions	*These are dollar commissions which are paid by a CIV to an investment adviser for a specific brokerage transaction.*

Hybrid Funds	*These funds seek a return by investing in a mix of assets such as equities, fixed-income securities, money market instruments and other collective investment schemes.*
IAS	*International Accounting Standards which are statements of accounting standards issued by the Board of the International Accounting Standards Committee (IASC) between 1973 and 2001. Source: IASB*
ICI	*Investment Company Institute*
IFRS	*International Financial Reporting Standards which are statements of accounting standards issued by the Board of the International Accounting Standards Board (IASB) after April 2001. The IFRS also include IAS issued prior to April 2001. Source: IASB*
Information Ratio	*This is a measure of portfolio's performance against risk and return relative to a benchmark.*
Investment Adviser	*This is the firm or individual who manages the fund's assets in accordance with the fund's investment objectives and policies as stated in the registration statement it files with the TTSEC. The Operator or Investment Manager delegates the responsibility for the management of the portfolio to the Investment Adviser.*
IOSCO	*International Organisation of Securities Commissions*
IMF	*International Monetary Fund*
IVSC	*International Valuation Standards Committee*
Jensen's Measure or Jensen's Alpha	*This represents the average return on a portfolio over and above that predicted by the CAPM, given the portfolio's beta and the average market return. This is the portfolio's alpha.*
Jurisdiction of Origin	*The jurisdiction under which the original security is registered.*
Management Fee	*This is a fee charged by a fund's investment adviser for managing the fund's portfolio of securities and providing related services.*

Money Market Funds	*These are funds which seek income from a combination of securities which have a term to maturity of less than one year*
Mutual Fund	*This is a general term for a unit trust, corporate fund or contract fund. It does not refer to CIV such as Pension Plans, Deferred Annuities and Insurance Schemes.*
Net Asset Value or NAV	*This is the value of all the fund's securities, less expenses, and divided by the total number of shares or units which are outstanding. The rise or fall in the value of the fund's securities is reflected in a rise or fall in the fund's NAV.*
OECD	*Organisation for Economic Cooperation and Development*
OLS	*Ordinary Least Squares method used to generate linear regression models.*
Open Ended Fund	*This type of fund continually issues new units in the fund purchase by the public depending on the number and value of new investments entering the fund. A fund's unit price can change from day to day, depending on the daily value of the underlying securities held by the fund. The price of a unit is the net asset value of the unit and is calculated simply by dividing the total value of the fund's investments at any given time, less expenses by the number of units issued.*
Operator/ Investment Manager	*This is person or firm responsible for the functioning of the fund and formulates and executes the investment strategy. Final responsibility for operating the fund in accord with the laws and regulations of the jurisdiction and the rules of the fund usually lies with the operator of the fund.*
Passive Investment Strategy	*This is an investment strategy that mirrors a market index and does not attempt to beat the market*
Pension/ Life Assurance/ Annuity Scheme	*These are schemes which may be structured such that they may be notionally divided into units and usually there may be a life policy attached by a life assurance company.*
Principal Underwriter/ Principal Distributor	*This is the firm or individual who contracts with the fund to purchase and then resell fund shares (units) to the public.*

RAROC	*Risk Adjusted Return on Capital. This is a method for accounting for changes in the profile of the investment, by discounting risky cashflows against less risky cashflows.*
Real Estate (Property) Investment Trust/ Fund	*This is a fund dedicated to property related assets, whether with or without other transferable securities.*
Redemption Fee	*This fee is paid to a fund to cover the costs, other than sales costs, involved with redemption.*
Sharpe Ratio	*This is calculated by subtracting the risk-free rate from the rate of return for a portfolio (average portfolio return) and dividing the result by the standard deviation of the portfolio returns.*
Soft Commissions	*These are arrangements under which products or services other than execution of securities transactions are obtained by an investment adviser from or through a broker-dealer in exchange for the adviser directing business to the respective broker-dealer.*
Sortino Ratio	*This is similar to the Sharpe Ratio, except it uses downside deviation in the denominator instead of standard deviation as used in the Sharpe Ratio.*
Sponsor/ Promoter	*This is the firms or individual who initiates the formation of the fund. As the Funds are launched the Sponsor is transformed into being the Investment Manager.*
Transactions Costs	*These are costs related to buying and selling of the securities which comprise the CIV portfolio.*
Transfer Agent	*This is the individual or firm who maintains records of shareholder accounts, calculate and disburse dividends and capital gains, and prepare and mail shareholder account statements, income tax information, and other shareholder notices. Some transfer agents also prepare and mail statements confirming on shareholder transactions and account balances, and maintain customer service departments to respond to shareholder inquiries.*

Treynor Ratio	*This measures returns earned in excess of that which could have been earned on a riskless investment per each unit of market risk. It is calculated as: (Average Return of the Portfolio - Average Return of the Risk-Free Rate) / Beta of the Portfolio*
Trust	*The trust type uses the trust mechanism based in the English common law. The investment manager is responsible for managing the portfolio while independent trustees perform a significant oversight role.*
Trustees	*Those individuals in the trust type fund who provide oversight of the fund's operations and posses the ultimate fiduciary responsibility in the fund. They are detailed in the trust deed of the fund.*
TTSEC	*Trinidad and Tobago Securities and Exchange Commission*
VaR Model	*Value at Risk Model. This is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities*