



Understanding fund factsheets

Know how your money is managed

What are fund factsheets and why are they important?



A fund factsheet is an overview of a fund including the fund's investment objective, risk level, costs, past performance and holdings details. Factsheets are usually published on a monthly basis and available online for free, and are thus one of the most convenient and timely tools for investors to learn about a fund. When you are choosing between different funds, factsheets also provide a useful and comparable summary.

What are the most useful pieces of information to look for within a fund factsheet?



We can classify the data on a factsheet into three categories, namely (i) fund related information; (ii) performance and return; and (iii) portfolio information. Being the most important fund information, the "investment objective" tells you briefly where the fund invests in terms of geography and industry sector, as well as whether it seeks capital growth, income generation or a combination of both.

Many investors will be interested in fees which are reflected in terms of management fee or performance fee, etc. Some factsheets show "expense ratio" which measures what it costs the fund manager to operate the fund. Generally speaking, the lower the expense ratio the cheaper the cost.

Someone gives me a factsheet mentioning that the fund performed well. How could I tell if that is true?



Most factsheets provide performance figures across different time frames and compares it with the fund's benchmark or a market index. Many fund houses provide both cumulative and calendar year performance for comparison. In evaluating the performance of a fund, you should look across different time frames to see if the fund performed consistently or with drastic ups and downs. Making comparison of a fund against its benchmark or peers would also be helpful in understanding how it performs compared with the market or similar funds. Last but not least, you must always remember that while historical performance data provides reference on how the fund performed in the past, it is no guarantee of future results.

Besides the above, what else would a factsheet tell about the fund's investments?



The portfolio composition section would be useful. Depending on the nature of the fund (e.g. bond, equity, multi-asset), information regarding country and sector allocations, as well as "top 10 holdings" would tell how the fund is managed. This is especially meaningful when you compare a fund with similar nature but managed by different managers. For instance, Fund A may focus on China while Fund B on India despite both of them being "Asian equity funds". Data such as "top 10 holdings" and "number of holdings" will also give you a quick idea if the portfolio is concentrated or diversified.

5 useful statistics on a fund factsheet

Fund factsheet sometimes can be lengthy with technical terms, here we cover five essential statistics on fund factsheets. Even though fund strategies can vary significantly, these five statistics are some of the most universally accepted, making them important to virtually all types of funds. Please bear in mind that all statistics calculated from historic data are not indicative of future performance.

Modified duration

Modified duration is mainly for bond/bond funds. It measures the potential change in the price of the bond/fund in response to a change in interest rates, assuming all other things being equal. For example, if the modified duration of Fund A is 1.5, a 1% rate hike will mean a potential 1.5% price drop of the fund. In other words, the lower the figure of modified duration, the less sensitive the fund is to interest rate hikes.



Number of holdings

This represents the total number of different holdings of a fund. Thus the lower the figure, the more concentrated the fund is in a few stocks or bonds. There is no optimal number of holdings in a fund. Some investors prefer a more concentrated portfolio with a few names while others like to put their eggs in many different baskets. By reading this together with the "top 10 holdings", you could ask yourself if these are the sorts of companies you would like to invest in.

Volatility

Volatility is a measurement of risk. It indicates how much a fund's returns have varied over a given period of time. Sometimes it will be calculated in annualised terms. As a rule of thumb, the higher the fund's volatility, the more vigorously its price or return fluctuates. However, high volatility does not mean high average returns and low volatility does not mean low average returns.

Sharpe ratio

A good fund manager should be able to deliver good returns, while at the same time manage the volatility of the fund effectively. While volatility measures the change in price over a given period of time, Sharpe ratio takes into account both risk and performance of funds and represents the return per unit of risk an investor endures for holding the fund.

Cash level

This is the percentage of a fund's total assets that are currently held in cash. Most funds keep a certain level of cash at all times in order to handle the day-to-day redemption of shares. Cash level can signal a fund manager's sense of caution or optimism about the markets.

Please refer to the offering documents for further details including the risk factors. Investment involves risk and past performance is not indicative of future performance. The document has not been reviewed by the Securities and Futures Commission.

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