

Code of good conduct on the presentation of performance records and the classification of investment funds

I. Introduction

Presentation of performance records, their comparisons and investment funds classifications have a great influence on the way the investment fund sector is perceived by the general public. They also form an important criterion of investment decision making.

Rules for presenting records and classifying investment funds should be honestly presented to the general public, in particular due to the growing competition of this sector and due to rankings, awards and other distinctions granted to fund management companies, funds and fund managers.

Not all investors have sufficient knowledge to assess the quality of fund management and its market performance. The awards granted to particular funds can be of unclear and ambiguous nature, leading to improper conclusions as to the quality of the product in question.

The presentation of funds has an educational dimension, shaping and deepening the knowledge on the entire sector, with media playing a crucial role in shaping the investor opinion. That is why the Chamber of Fund and Asset Managers (IZFiA) calls on all those concerned with investment funds to accept the present Code as a framework for their proper presentation .

It is IZFiA's intention to undertake activities aimed at improving the quality of information on investment funds presented to the general public and to standardize the format of presentation of performance records. If achieved, these aims should facilitate the comparison of funds, as well as lead to clear criteria of award-granting.

IZFiA strongly believes that Code of Good Conduct recommended herein will be accepted by all fund management companies and will improve professional ethics of the sector.

II. Requirements applicable to fund managers

1. Any presentation of fund performance records produced by a fund management company for advertisement or information purposes as well as any information published by the management of a fund on any award won by the fund management company, a fund or fund managers, should be supplemented by the following standard disclosure note: "The performance results presented are based on past performance of the fund and are not necessarily a guide to the future performance results. The individual rate of return depends on the date of sale and the date of repurchase of participation units by the Fund, as well as the amount of fees charged. All information required by law is to be found in the informational prospectus of the Fund available at the fund management company and the distributors."

2. The above mentioned text should be published in all advertisement & promotion materials and offers of the fund management companies. If the advertisement does not include the performance records, it should include at least a standard information stating that "All information required by law is to be found in the informational prospectus of the Fund available at the fund management company and the distributors."

3. Once a sufficient historical performance record is available on a given investment fund, the performance presented must be calculated for a period which is either equal to or longer than the investment term indicated by the fund's investment policy and investors' time horizon, i.e. 1,2, 3,4 or 5 years except for money market funds.

4. The period of the performance presented must be clearly defined by determining the date of net asset value per share pricing. When presenting the net asset value per share in calendar years, the daily net asset value per share based on securities of the date of the last net asset value in that calendar year is used.

5. With the exception of money market funds, performance for periods of less than one year must not be annualised. Similarly, performance must not be extrapolated. Presenting the profitability of money markets funds for a period shorter than 1 year is possible, based on the rules described in Annex 1, with information whether the current or effective profitability is being presented. For the fixed income funds, it is possible to present annual performance, based on conditions mentioned in Annex 1.

6. The performance of a sole or selected investment funds may not intentionally be used, to represent other products or the whole investment funds range of the promoting group without full disclosure of other funds under management.

7. The fund management company should ensure the providers of performance measurement services have access to information on investment funds for the purpose of performance comparisons. Such information would include details of the investment objectives to be met by the manager, the investment policy of the investment funds, the data of net asset valuation related issues and redemptions, amount of management and subscription/redemption fees, and details of any extraordinary events eg a merger, take-over, etc.

8. The manager should make sure that each investment fund is correctly classified to reflect its investment policy and that it is included in the appropriate investment fund category or peer group to provide investors with fair comparative information.

9. A fund which has changed its classification is obliged to present performance records from the moment of the change of classification.

III. Recommendations applicable to fund managers

10. Apart from money market investment funds, the fund management companies should disclose sufficient information to indicate the degree of risk associated with the investment of the investment funds. Therefore, the fund management company should present a history of annual performance results for each of the last five years. The fund management company should show, or make available on request, the asset allocation breakdown and the underlying markets exposure for each business year-end of the annual returns presented.

11. An appropriate benchmark should be selected on an ex-ante basis for each investment fund.

IV. Requirements applicable to performance measurement services

Note: These are Requirements" to which performance measurement services should commit, even though IZFiA does not have specific authority over them.

12. It is the responsibility of the performance measurement services to check periodically with the fund manager or any other person officially in charge the quality of its database and the reliability of the Net Asset Value and other information.

13. The performance measurement services should periodically confirm with the fund management company the appropriateness of the classification of each investment fund to belong to the given

investment fund category. If the fund management company decides that the investment policy for an investment fund has been changed the performance measurement services should consider the proper way to assess the past performance record of the fund. In the case of fund mergers, the performance measurement services should pay attention to the size of the funds as well as to the investment objective of the newly-created fund and to the fund management company.

14. The definition of the categories chosen by the performance measurement services should be set out clearly in writing, should not conflict with the IZFiA classification scheme definitions and take full account of the various investment market sectors.

15. The performance measurement service should disclose a full description of the methodology used to rank investment funds within a category and provide an appropriate guidance on how to interpret it correctly.

16. All investment funds meeting the above mentioned criteria should be taken into account.

V. Recommendations concerning the Media and other commentators

17. Rules of granting awards on the performance of investment funds should be communicated in advance to fund management companies, at least before a new edition of the contest opens (rules for granting prizes for achievements in a calendar year should be announced before the year begins).

18. An award should represent one homogeneous classification of investment funds and include a sufficient number of similar investment funds to justify the significance of the award.

19. Any publication of the results of an award should be accompanied by a disclosure giving details of the award's characteristics, its calculation methodology and any other significant elements, in order to help investors interpret correctly the results presented.. Additionally, the publication should include the standard information mentioned in point 1.

20. Vocabulary used in describing an award should be suited to its nature as well as ensure that the targeted investors will understand it readily and interpret its significance correctly. The appropriate terminology should not mislead the future investors and result in improper interpretation of the meaning of the prize.

21. The objective behind promotion of any award should be to ensure that investors in general are fully and fairly informed. The basic purpose of this code of good conduct is to protect the interests of investors concerned and any comments, advertisements and awards should be promoted with this purpose in mind on all occasions.

The general rule is that the performance records of funds cannot be approximated to a future period.

A proposal of presentation standard of 28 day profitability for the money market fund has been accepted.

Money market funds. The money market investment fund presents its performance records, whenever possible, calculated according to the following rules:

Current profitability. Based on a 28-day period, ending on the day when the most current financial statement has been made, the net return per 1 share is calculated (the difference in the value of 1 share at the end of the period and the value of 1 share at the beginning of the period, divided by the

value of 1 share at the beginning of the period), which is then multiplied by $(365/28)$. Effective profitability. Based on a 28-day period, ending on the day, when the most current financial statement has been made, the net return per 1 share is calculated (the difference in the value of 1 share at the end of the period and the value of 1 share at the beginning of the period, divided by the value of 1 share at the beginning of the period), increased by one, raised to the power of $(365/28)$ and decreased by one, according to the formula below:

$$\text{EFFECTIVE PROFITABILITY} = [(\text{RETURN IN THE BASIC PERIOD} + 1)^{365/28}] - 1$$

The final result should be presented in percentage, with the accuracy to at least the second decimal point.

Every commercial presentation of performance data should be accompanied by a disclosure of length and date of the last day of the basic period used for calculating the profitability as well as a description of the method used for calculations. Note: While calculating the current and effective profitability, all additionally purchased shares for dividends or paid out dividend amounts in the basic period and all fees, that debit the investor's account, proportionally to the basic period. Additionally, all costs debiting the investor's account that have not been included while calculating the profitability presented must be disclosed. The current and effective profitability should be presented together. In the case only one profitability can be presented, the choice should be the current profitability.

A proposal of presenting the rate of return of equity funds has been accepted. Whenever possible, an investment fund, other than money market fund or debt instruments fund, presents its performance records calculated according to the following rules:

Average annual rate of return

For 1,2,3,4 and 5 year periods, ending on the day when the daily net asset value was presented, the average annual rate of return is calculated by finding such a rate of return that fulfills the following equation:

$$P(1+r)^n = WO,$$

where:

P - is a hypothetical initial payment of 1 000 PLN,

WO - is the value at the end of the period,

N - is the number of years,

R - is the requested average annual rate of return.

A standard has been accepted for 1, 2, 3, 4 and 5 years. If a fund exists for a period shorter than one year it is possible to present the performance records for the fund for the last period. When presenting positions dating from the beginning of existence of the fund, a rule has been accepted to give its starting date in order to avoid multi-annual comparison with a shorter period. The starting date for the current calendar year is the date of the last daily presentation of net asset value based on securities from the last day of the calendar year.