



## Funds Analysis

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Nil  
Tuesday, 23 June, 2009

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The recommendations herein are made by the FAR based on their professional knowledge in the industry and their understanding of your financial status, investment objective and risk tolerance.

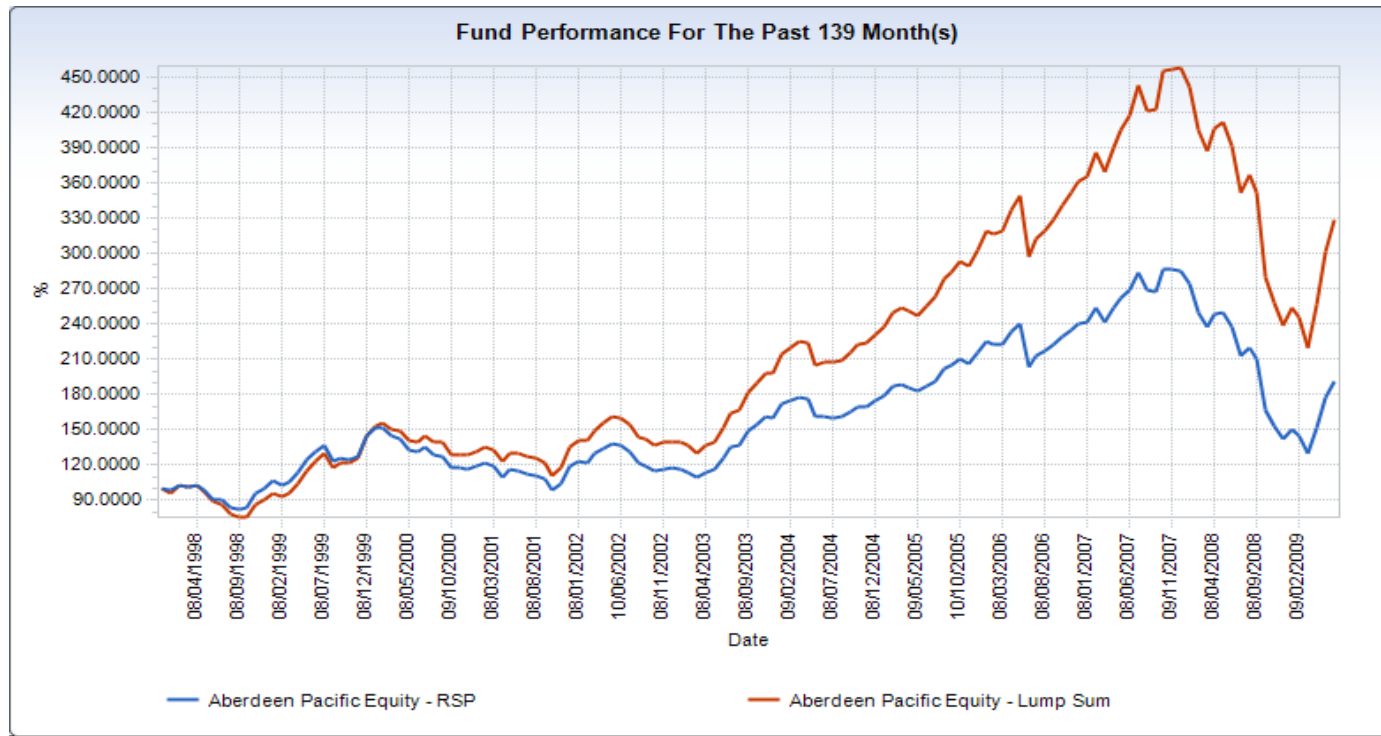
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## Fund Performance (RSP vs Lump Sum)



Fund Name	Annualized Return (%)	Absolute Return (%)	3yr Risk Return Ratio	Sharpe Ratio	Expense Ratio	3 Year Annualized Volatility	Specialist Sector	Geographical Sector
Aberdeen Pacific Equity - RSP	10.8403	91.6764	0.0557	0.09	1.9	25.66	General	Asia excluding Japan
Aberdeen Pacific Equity - Lump Sum	10.8079	228.3053	0.0557	0.09	1.9	25.66	General	Asia excluding Japan

Last Update On Monday, 22 June, 2009  
 Source: iFast Financial Pte Ltd

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## Sharpe Ratio and Risk Return Ratio

Many a time, investors always focus on performance when deciding on what fund to buy. However, we believe it is important for investors to not only look at the potential returns of a particular investment to decide on which fund to purchase. Looking at the Sharpe Ratio or Risk Return Ratio of the funds is important as well.

### What is a Sharpe Ratio?

The Sharpe Ratio is the measurement of the excess return per unit of risk. The excess return defined as the portfolio or fund return in excess of a risk free asset return (for example a bank deposit). We also define volatility (standard deviation) as the measurement of risk.

$$\text{Sharpe Ratio} = \frac{\text{Portfolio Return} - \text{Risk Free Rate}}{\text{Volatility}}$$

### The Use of Sharpe Ratio

Sharpe Ratio can be used as a parameter to rank the performance of a portfolio or fund manager. The fundamental implication of Sharpe Ratio is the excess return received per unit of risk. When it applies to rank the performance of a fund manager, Sharpe Ratio means that how much excess return that he can deliver to investor per unit of risk he took.

Hence, it should be the higher the Sharpe ratio, the better the performance of the fund manager. You would have to of course compare funds with similar investment objectives and investing into the same geographical areas. For example, from the many China equity funds available, you can compare the Sharpe ratios of these funds to choose a fund manager that's able to provide better risk adjusted returns.

### What is a Risk Return Ratio?

It is a simpler version of the Sharpe ratio that we discussed above. It is the measurement of the return per unit of risk. It is not looking at excess returns, or the returns above the risk-free instrument, it is simply taking into account the returns per unit of risk that the fund is getting. The return defined as the portfolio (fund) return and the volatility (standard deviation) act as a proxy to measure the level of risk.

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## Sharpe Ratio and Risk Return Ratio

$$\text{Risk Return Ratio} = \frac{\text{Portfolio Return}}{\text{Volatility}}$$

Generally speaking, Risk Return ratio is similar to Sharpe ratio. Both of them are used to measure the return of a fund for every unit of risk that investor is bearing. Within the same asset class and geographical allocation, the investor can compare the two ratios with its peers. When these two ratios are higher in comparison to peers, the fund gives a better return for a given unit of risk.

### Conclusion

Sharpe Ratio and Risk Return Ratio are ratios that commonly used in the portfolio management industry. They are the proxy for comparing the performance of the portfolio and the way that the fund manager manages risks and performance, after adjusting for the risk borne by the fund during the process of obtaining the return. We believe that a good fund manager should be able to deliver good returns but not without managing the volatility of the fund at the same time. In other words, a good fund should have a better than average Sharpe ratio or risk return ratios.

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## Expense Ratio

### What is an Expense Ratio?

Expense ratio is the various expenses that the fund incurs all the time expressed on an annual basis and as a percentage of the fund's net asset value. For example, if a fund incurs 1.5 million dollars in expenses over one year, and the fund had a net asset value of 100 million dollars, then the fund has an expense ratio of 1.5% (1.5 million over 100 million).

Typically, a large part of a fund's expense ratio will consist of its annual management fee. But other fees and expenses are also included. So, do not make the mistake of separately adding annual management fees to a fund's expense ratio. The fund's expense ratio is a broad gauge of the overall costs that a fund incurs. The expense ratio of a fund includes the following expenses:

- 1) **Management Fee**
- 2) **Trustee and Administration fee**
- 3) **Accounting and valuation fee**
- 4) **Custodian fee**
- 5) **Registrar fees**
- 6) **Legal and professional fees**
- 7) **Printing and distribution costs**
- 8) **Audit fee**
- 9) **Amortised expenses**
- 10) **GST on expenses (where applicable)**

While it may look like a long list, the main portion of the expense ratio comes from the annual management fees. These annual management fees range from 0.5% for bond funds to 1.5% for equity funds. All the rest of the expenses are usually quite small. Combined together, the rest of the expenses (excluding annual management fees) usually make up less than 1% of the fund's net asset value. As you can see, all of the most important expenses that a fund incurs are factored in already including that of annual management fees. So, when you look at the expense ratio of a fund, you will get a good idea of how much the fund incurs to keep it running on a yearly basis.

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