MARC RATING METHODOLOGY

INVESTMENT MANAGER RATING CRITERIA

OVERVIEW

This methodology applies to investment or fund managers providing investment management services to clients in return for compensation. It covers a wide variety of investment management firm structures and business models, including smaller boutique portfolio management companies, larger fund management companies which exhibit greater scale and diversity in terms of asset classes managed, and Shariah-compliant fund managers.

Investment Manager Ratings provide a relative assessment as to the quality of the investment or fund management company and its vulnerability to financial and operational failure. MARC's evaluation is performed in the context of the investment manager's size and complexity of its investment management activities. As such, the assigned rating will not be strictly comparable with the rating of an investment manager belonging to a different peer group.

The Investment Manager Rating is a composite rating based on the evaluation of five essential components of the entity's business, operational and financial profile. The rating takes into account the investment manager's standing and reputation in the industry, the depth of its investment expertise, the robustness of its portfolio management and risk management infrastructure processes, track record and governance arrangements. Each of these components and sub-factors are described in detail in the methodology.

MARC's Investment Manager Ratings are not credit ratings and are expressed on a different scale. They should not be construed as opinions on the investment manager's relative creditworthiness or its ability to fulfill its financial obligations.

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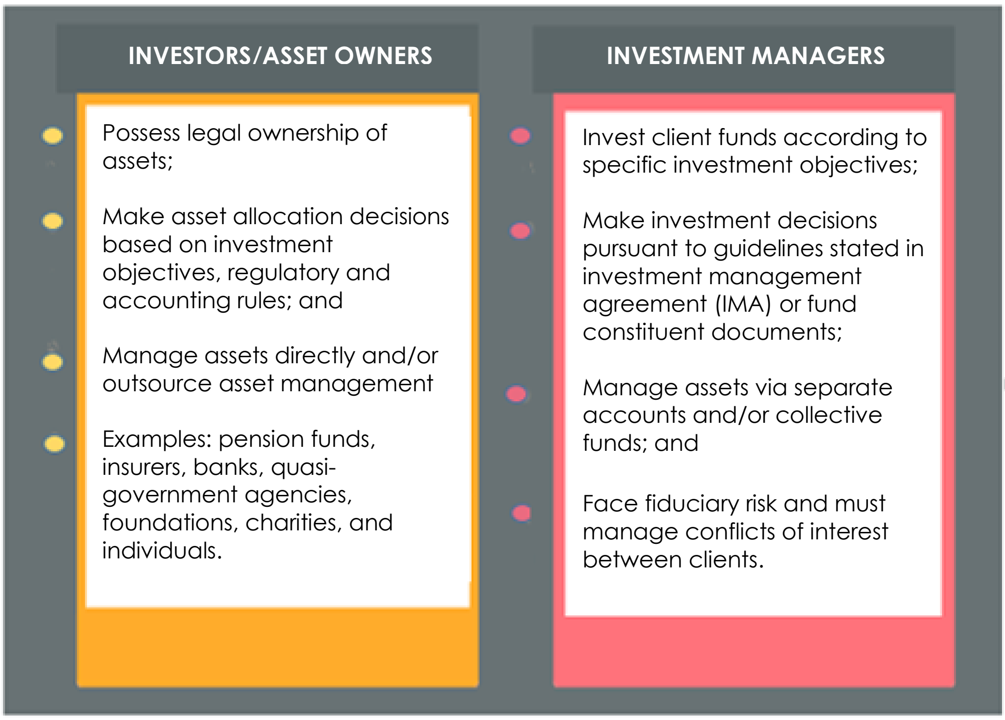
Domestic Fund Management Landscape

The Malaysian fund management industry facilitates investment for a broad cross-section of individual and institutional investors, and in doing so plays a key role in capital formation and credit intermediation. Investment managers are a major participant in the primary (initial public offerings and private placements) and secondary capital markets, providing equity and debt capital. The term 'fund management' encompasses the manufacturing and management of collective investment schemes and the management of individual client accounts or investment mandates, particularly for institutional clients. Investment managers are responsible for implementing investing strategies and making investment decisions in accordance with stated investment objectives. Investment managers operate as agents of their clients and do not risk their own balance sheets.

Investment managers transact on behalf of institutional and individual investors and typically generate revenue from fixed basis point fees on client assets under management (AUM). Sources of AUM include, but are not limited to, unit trust funds, corporate bodies, the Employees' Provident Fund (EPF), private pension funds and charitable bodies. Investment managers also serve other financial intermediaries such as pension funds and insurance companies in addition to individuals/households, corporates, governments, private trusts and charitable bodies. Each of these asset owners has a choice of managing their assets directly, outsourcing to investment managers, or using a combination of direct management and outsourcing.

Exhibit 1: Characteristics of Asset Owners and Investment Managers



Investment mandates can be differentiated on the basis of the portfolio manager's decision-making autonomy. In the case of client-directed asset allocation portfolios, the fund manager has no discretion to make active asset allocation decisions. In contrast, investment managers managing discretionary mandates can make buy or sell decisions within investment limits set out in the investment policy agreed upon with the client without referring to the latter for every transaction.

The institutional investment business is concerned with providing investment services to institutional clients. Investment managers that provide outsourced portfolio management for institutional clients are ordinarily selected for individual investment mandates based on their expertise and performance record in an asset class, sector or investment style. Different investment managers may be selected for the same or similar mandate to diversify performance risks. The terms of these separate account relationships, including the investment guidelines, are defined in an investment management agreement (IMA), which is a contractual document between the investment management company and its client. The investment strategy and the investment guidelines to be followed are set out in the IMA. Investment policy considerations can vary widely from one institution to another due to differing business and regulatory environments. Accounting rules further dictate their investment portfolios.

In Malaysia, fund management services are provided by investment managers which are licensed by the Securities Commission (SC). The definition of fund management under the Capital Markets and Services Act 2007 (CMSA) extends to the management of assets in a unit trust scheme by an investment manager. Capital Markets Services Licence (CMSL) holders for fund management include Shariah-compliant traditional fund managers, Shariah-compliant alternative investment fund managers (private equity and real estate), private equity fund managers and real estate investment trust (REIT) managers.

Participants in the domestic fund management industry include:

> *Investment managers that are part of large financial groups or subsidiaries of banks, insurers or stockbroking houses.* A significant number of banks often have asset management divisions through which investment funds and/or investment or wealth management services are offered. Insurers also have asset management divisions that offer investment management services and investment funds, the activities of which are kept distinct from their on-balance-sheet insurance activities.

> *Dedicated investment managers that are not integrated divisions of banks or insurers.* The dedicated or independent investment manager that has no ties to a bank, insurer or stockbroking house but whose main business is asset management. The investment manager may be a subsidiary of a foreign fund manager or a domestic-owned entity that is privately owned.

> *Federal or state government-linked investment managers*. Permodalan Nasional Berhad, one of the country's largest fund managers by total AUM, is a federal government-linked investment company.

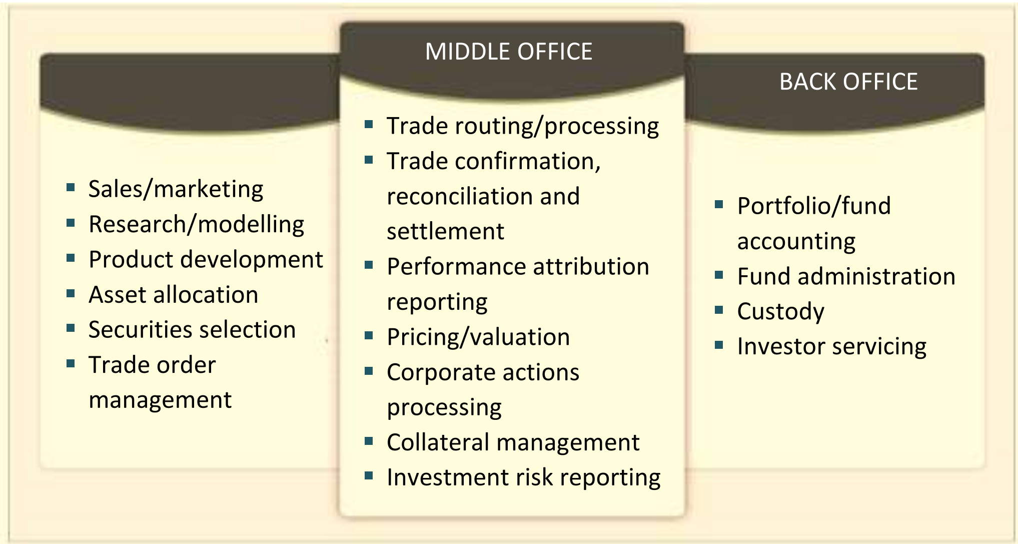
> *REIT managers that may be an independent or wholly or partly owned subsidiary of a property developer.* Most REIT managers in Malaysia are owned by property developers who dispose investment properties to their own sponsored REITs.

Investment Manager Operational and Firm Structures

In an investment management company, marketing, sales and development of new products, asset allocation, portfolio management, research and trade execution are typically front-office functions, while customer service support, investment restrictions monitoring, portfolio pricing and valuation, reporting and documentation functions are typically middle-office functions, and general administration (including performance measurement and analytics and financial statement preparation) and systems are back-office functions.

Depending on the size and complexity of the organisation, responsibilities may be divided between front, middle and back office or, alternatively, front and back office only. Independent verification of trade details, valuations and so on are accomplished through adequate segregation of investment and support functions.

Exhibit 2: Investment Management Activities



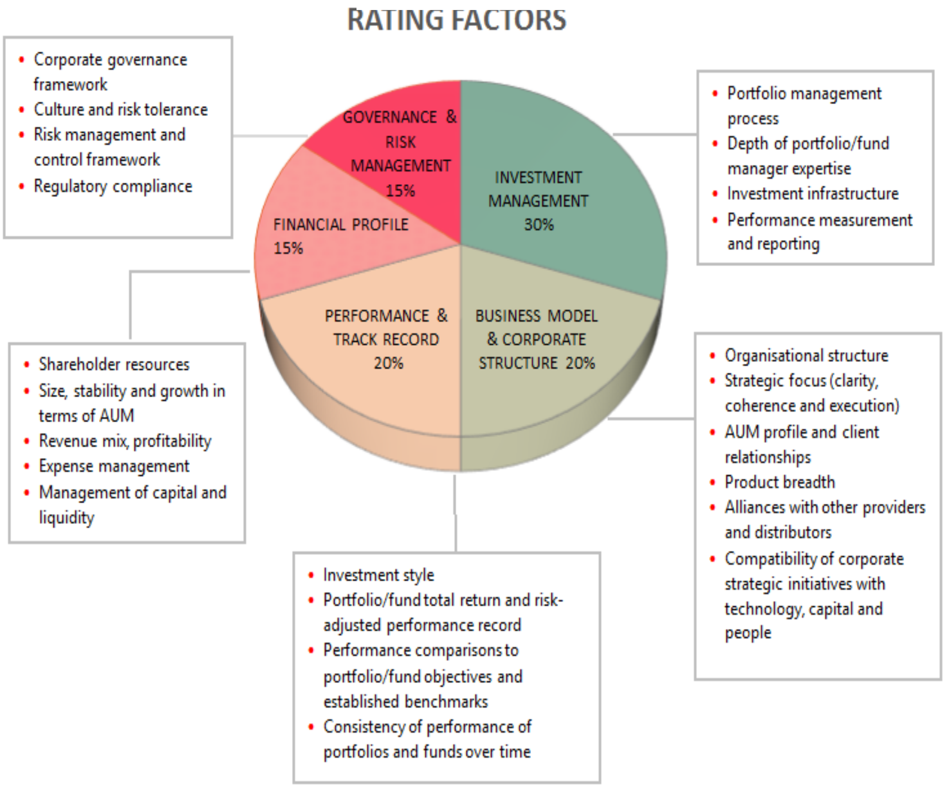
The fund management industry outsources a number of critical activities to service providers which are part of banking groups: the valuation function for a portfolio or specific instruments, registrar and transfer agency functions (opening of accounts, financial transaction processing, reconciliation processing, corporate actions, reporting to investors and regulators), certain fund administration activities (net asset value or NAV calculation and performance measurement, amongst others) and the custodian role (safekeeping assets, trade settlement management, corporate actions notification and processing, securities holding and cash flow reporting, and income collection and processing). The outsourced activities are typically middle- and back-office activities. Of interest to MARC will be the extent to which risks of outsourcing are managed.

Investment managers exhibit a wide variety of firm structures. Many investment managers are part of a much larger financial services group in which linkages between the fund management activities and other business activities of the parent/group entities can create the potential for conflicts of interest. Others are privately held or even government-linked.

The business models of investment managers also differ significantly from one entity to another. They range from smaller boutique fund managers that focus on a single asset class or niche clientele to large players that offer a broad array of investment options across all major asset classes and cover multiple investment strategies and geographies through collective investment schemes (e.g. unit trusts, exchange-traded funds and REITs) and tailored investment mandates.

ANALYTICAL FRAMEWORK

Exhibit 3: Broad Rating Factors



The five broad rating factors used to assess an investment manager are its (i) business model and corporate structure; (ii) governance and risk management practices; (iii) investment management process; (iv) performance and track record; and (v) financial profile. The investment manager will be assigned a score ranging from 1 (highest) to 5 (lowest) for each of the broad rating factors. The composite rating is not derived by computing an arithmetic average of the component scores. Some components or rating factors are given more weight than others as shown in the above exhibit.

MARC's analysis of a Shariah-compliant investment manager would also be driven by an evaluation of the same rating factors, but with appropriate adaptations to incorporate commonly accepted components of sound Shariah governance and best practices.

Rating Factor 1: Business Model and Corporate Structure

The investment manager's business model represents the first area of analysis. The business model analysis identifies an investment manager's overall strategy (which clients to target, what products to offer, which markets it will address, and what structure to adopt), key success factors, and whether the investment manager's business model is backed by an appropriate organisational structure, resources and/or alliances with other providers and distributors. This review will comprise an analysis of the investment manager's overall business and external environment and its future strategy.

MARC seeks to gain an understanding of the investment manager's organisational structure, business plan and corporate strategic initiatives through discussions with management and information provided by the investment manager. This analysis informs MARC about the stability of the investment manager's business model, whether there are current risks that may threaten the ongoing viability of the investment manager's operations, as well as its prospects for organic growth and market gains. Decisions taken on the market dimension to increase AUM will require a strategic response in the structural dimension of its business model and may, in certain circumstances, be incompatible with the firm's organisational structure (existing level of vertical integration, resources, etc). Understanding a business model's risks helps MARC to identify risks that can emerge from changes to the broader macroeconomic environment, as well as regulatory, technological, social and cultural changes.

A variety of business strategies and operating models can be observed in the domestic and global fund management industry in terms of size (large scale, relatively small), client mix (retail, institutional, or a mix of both) and geography (local, regional or global). The business models of investment managers are not static, and will respond to evolving competitive market dynamics and unstable markets. Business models may have to evolve to support mergers, acquisitions, divestitures, organic growth and partnerships, and to control costs.

Some investment managers which operate as part of financial services groups, banks or insurance companies leverage on the distribution networks of the latter to acquire customers. A transition from being an in-house unit to a standalone business in the case of such investment managers could potentially lead to customer defections to other investment managers in the absence of appropriate actions to review the investment manager's product and solution range and strengthen sales and marketing support. The industry convergence in financial services is also breaking down functional barriers between the investment managers and banks, at both the wholesale and retail end of the finance business, prompting some banks to integrate their asset management subsidiaries into in-house wealth management units.

Key areas of focus in this analysis are:
- The AUM profile (by client type, asset class);
- Distribution channels;
- Organisational structure and positioning along the asset management value chain; and
- Strategic plans.

MARC examines the nature and drivers of the investment manager's AUM inflows/exits. A broad expertise in a wide range of asset classes and investment strategies across asset classes allows an investment manager to manage multi-class mandates and/or funds which helps mitigate the loss of AUM during periods when a certain asset class, type of fund or strategy is less favoured by the market (wealth preservation versus capital appreciation, for instance) or certain portfolio managers depart.

The departure of certain portfolios managers can also trigger customer outflows. A sharp-run in interest rates, for instance, would produce performance challenges across most fixed income sectors.

A greater scale could provide an edge over smaller domestic peers in terms of breadth of product offering, costs and margins, and as such MARC believes that economies of scale will continue to be a catalyst for sector consolidation. The larger investment managers typically maintain a broad range of competencies in-house and are able to leverage this, along with relatively robust franchises and/or strong distribution channels, to offer a wide range of products to a wider client base (institutional investors, high net worth individuals and retail investors). They are also better placed to develop and roll out new product offerings and expand their investment capabilities. For smaller niche players, their credibility and track record around specific funds, type of fund or investment style will be especially important. Over the long run, a sustainable business model is essential for investment managers to ensure the maintenance of satisfactory levels of financial strength.

Strengths or weaknesses in the following areas will have implications for an investment manager's business sustainability:

- Diversification by product, geography and client;
- Franchise value, positioning and brand name recognition;
- Distribution channels and alliances with other providers and distributors;
- Compatibility of people, technology and capital resources allocation with strategic initiatives; and
- Past performance in offering new products and services.

Strategic priorities and specific areas of focus vary across small, medium and large investment managers. The ability of investment managers to tap into specific opportunities for growth and value creation afforded by macro-economic developments and demographic trends will be critical to maintaining and growing their AUM over the long run. The investment manager's plans and strategies to grow and defend its client and asset base, and senior management's track record of effectively executing strategy provide insight into its ability to adapt its business model to challenges such as increased competition, rising cross-asset correlations, market turbulence, uptrend in operating costs and talent shortages seen throughout the financial services industry.

MARC also assesses the implications of ownership on a rating, paying particular attention to the fund manager's relationship with its owners/parent, interconnections and dependencies, the historical support provided to the investment manager and its clients and future plans for the fund manager's corporate structure. To the extent that changes in ownership and executive leadership can impact the investment manager's business and strategic focus, MARC will evaluate the potential impact of any such changes.

Rating Factor 2: Governance and Risk Management

MARC's review of the governance and risk management of the investment manager generally focuses on the following key areas:

- Management and organisation;
- Culture and risk tolerance;
- Risk management and control framework; and
- Regulatory compliance.

The review focuses on the level and quality of oversight of all entity activities by the board of directors and management; the adequacy of the investment manager's risk management processes and controls in addressing the operations and risks of significant activities; and the appropriateness of management information and risk-monitoring arrangements for the investment manager's size, complexity and risk profile. MARC's focus will be on the risks associated with all the services/products offered by the investment manager. The risks include, but are not limited to operational, market, liquidity, fiduciary and legal/regulatory risks. The ability of management to respond to changing circumstances and to address risks that may arise from changes in business conditions, regulations, investment climate and market volatility or the initiation of new activities or products/services is an important factor in this area of review.

The risk tolerance of management and the board of directors, retention strategies for individual members of the senior management team and management depth will also be considered along with the overall performance of the investment manager in MARC's assessment of management quality. Active risk supervision by the board and senior management, risk functions and committees is a characteristic of an effective risk management system along with sound processes for risk assessment, control and monitoring.

One of the keys to effective risk management is a risk governance structure that provides appropriate senior-level oversight, segregation of functions, and organisational checks and balances within a general culture of risk management at all levels. The structure of the investment manager's risk management system should be tailored to its own needs and circumstances. Strong risk management practices and risk cultures inspire confidence among clients, prospective customers and regulators. Conversely, an operational failure or exposure of poor risk management practices at an investment manager could aggravate risks across the funds and accounts that it manages. Investors' concerns about a collective investment vehicle can quickly spread to similar or related funds, or to the sponsor of the fund(s). Likewise, distress at the parent could increase the likelihood and magnitude of redemptions from the managed assets of its asset management subsidiary.

The investment management business is exposed to potential conflicts of interest and self-dealing. Conflicts of interest are inherently likely to arise when the investment manager is a member of a financial group which has investment banking activity or when different client accounts are managed, whose interests may diverge from each other. If not managed effectively, investment decisions may be taken that put customer outcomes at risk. The systems, controls and procedures of the fund manager should facilitate the identification, monitoring, management and resolution of conflicts of interest.

Where an investment manager outsources critical or important functions to third-party service providers, MARC will review its approach to managing the key risks inherent in outsourcing these functions, including regulatory risk, service failure risk and security risk. To avoid undue operational risk, it is essential that investment managers select third-party service providers that are experienced, capable, have sufficient resources and are of sufficiently good repute.

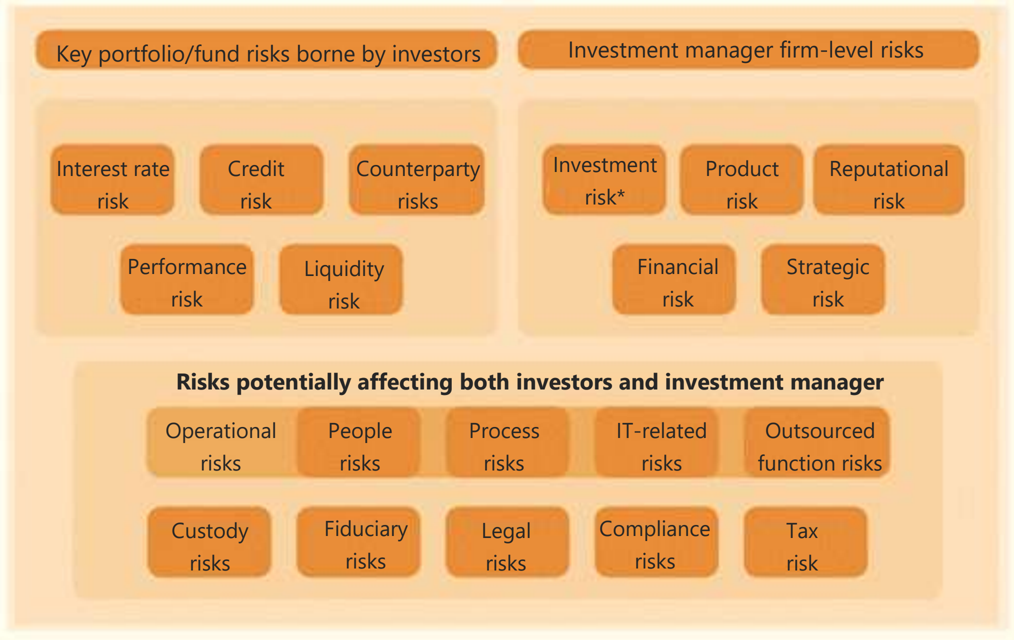
In assessing the risk management framework, MARC will consider the processes in place to identify, measure, monitor and report on key risks and specific accountabilities as follows:

Exhibit 4: Risk Management Framework: Areas of Focus

Risk identification	Responsibility for risk identification; assigned ownership of risks; process for risk identification; regularity of review in identifying new risks
Risk measurement	Frequency of risk measurement; data sources; adequacy of risk measurement tools; validation of measurement tools
Risk monitoring	Approach to monitoring identified risks; frequency, timeliness and completeness of reporting; adequacy of reporting variances to risk tolerance levels
Risk control	Independence of risk control process; experience of personnel within the risk control function; reporting lines to senior management; actions to ensure key risks are maintained within established limits

MARC will also consider the responsibility and reporting lines of the investment manager's audit and compliance functions, including their independence, and the links between internal audit and compliance, its compliance record and the general approach to compliance. MARC favours a cross-functional and centralised approach to compliance. Compared to a check-the-box monitoring approach, this allows for a more collaborative and proactive approach to compliance and better protection from reputational and financial damage arising from high-profile compliance failures. Any past judgements against the investment manager, current litigation and regulatory actions will be pertinent to our analysis.

Exhibit 5: Risk Distribution: Investors and Investment Managers



**own investment risk*

Investment risk can arise from market-wide risk factors (e.g. equity prices, interest rates, foreign exchange rates, commodity prices and credit spreads) or from idiosyncratic risks or asset-specific risks. While investment risk is borne by investors, the fund manager is ultimately responsible for measuring and managing investment risk that may arise due to the investment strategy.

Fund- and firm-level investment risk management is intended to ensure that investments conform to investment mandates and that investment concentrations across funds and accounts as well as volatility are adequately addressed. Investment risk management arrangements should be commensurate with the size, business mix and complexity of the investments of the investment manager and its investment options.

MARC's review of investment risk management considers the arrangements in place (structures, policies and processes for investment risk and performance measurement, assessment and reporting) used by the board and management for ongoing management of investment risk exposures. MARC favours automated investment compliance monitoring. Investment compliance issues should be identified, reported and escalated when they occur so that remediation measures can be undertaken, if required. To facilitate the monitoring of investment risks, information such as value at risk (VaR) measures, stress testing, exceptions to investment and asset class risk limits, and the performance of external managers and business partners should be reported to senior management and the board on a timely basis. Risk limits for investment instruments, individual portfolios and aggregate portfolios should be meaningful in the current portfolio and market environment.

Collective investment schemes (CIS) are more vulnerable to redemption risk in a stressed market. Inasmuch as liquidity risk is a particular concern for open-ended CIS, MARC evaluates the adequacy, appropriateness and relevance of a unit trust fund manager's liquidity risk management process to the circumstances of the funds (such as the nature of the fund's portfolio assets and its investor base).

MARC favours independent oversight processes for risk management methodologies, assumptions, models, and systems. Results of any back-testing to validate the continued effectiveness and applicability of the investment manager's risk measurement methodologies and the assumptions included in its risk measurement models should be communicated to the board of directors.

Rating Factor 3: Investment Management Process

MARC's review of the investment manager's investment management operations will focus on the following areas:

- Portfolio management processes;
- Depth of portfolio/fund manager expertise;
- Investment infrastructure scalability; and
- Performance measurement and reporting.

This is a key area of analysis in MARC's rating methodology for investment managers. It is weighted more heavily than the other components of our analysis given that strong investment management operations are essential to the fund manager's effectiveness in discharging its investment management services. In managing investment portfolios, an investment manager must execute and account for a significant volume of transactions which may involve a variety of investable asset classes and investment styles. MARC's evaluation of the investment manager's portfolio management processes focuses on the process by which the investment manager establishes and implements portfolio investment policies, and monitors the portfolio. MARC favours portfolio management processes that are responsive to changes in client needs and capital market conditions.

MARC also considers the process by which new asset classes, products or services are introduced and whether the investment manager has ensured that it has the investment infrastructure to efficiently provide the new investment solutions without diluting its standard of performance. The investment manager's ability to absorb increased volumes and product complexity will also be examined. The review and approval processes to introduce new investment products and new investment activities should provide for a systematic assessment of whether these activities introduce new or additional risk exposures that were not originally contemplated.

The rating agency considers a well-developed investment policy as fundamental to portfolio management risk control and disciplined investment management. The investment policy determines the asset classes that can be represented in the portfolio, the basic allocation among asset categories and the rebalancing limits for the allocation. It also specifies any constraints and restrictions on assets, such as liquidity and marketability requirements, and diversification concentrations. The process of creating an investment policy typically includes understanding client characteristics and investment needs, identifying investment objectives, developing asset allocation guidelines and establishing appropriate performance measurement benchmarks. The written investment policy should be a living or active document that is reviewed and modified as needed.

A portfolio's investment objectives should articulate its risk tolerance, return requirements over a specified time frame and investment constraints imposed by the client. A well-constructed and maintained portfolio allows for the maximisation of the return objective based on a given level of risk as determined by its risk objective. The investment strategy's return objective provides a point of reference against which investment performance may be evaluated while the target level of risk exposure considers the potential risks to which an investment option may be exposed and the level and sources of risk that the fund/portfolio manager intends to accept in order to achieve targeted investment returns.

MARC's evaluation of the effectiveness of the investment manager's investment management process considers its order execution process, the staffing and the organisation of the portfolio management function, as well as the adequacy of its investment infrastructure. Where the investment manager's ability to assess various investments and/or subsequently execute and manage these investments is somewhat dependent on third-party service providers, MARC will also consider the adequacy of the investment manager's guidelines and procedures for the selection and monitoring of these third-party service providers, examples of which include third-party investment managers or advisors, external research providers and securities brokers.

MARC's review of the investment manager's investment infrastructure will typically focus on its investment processes (including portfolio construction), asset class-specific investment research and analytic capabilities, the technology platform supporting investment activities, the quality of its portfolio management and securities trading systems, the timeliness and reliability of valuation processes, systems security and the availability of disaster contingency plans. MARC considers the extent to which the investment manager's information management systems are appropriate to the nature and complexity of its activities and support business continuity. System and data integrity and availability are crucial to ensuring operational effectiveness.

Investment managers are expected to monitor and rebalance portfolios according to the investment policy and asset allocation guidelines in the investment policy. Asset categories can become over- or under-weighted in relation to asset allocation guidelines over time as a result of varying returns on individual asset categories.

Performance and risk management reports help investment managers to evaluate their success in achieving the goals and objectives of their investment portfolios, manage market and investment risks, and monitor style drift. As part of its assessment, MARC will evaluate the investment manager's performance monitoring procedures and reporting systems, including exception tracking processes (departures from expected investment risk exposure tolerances). An investment manager would be expected to monitor its investment exposures with greater frequency and intensity in times of heightened market volatility or increased idiosyncratic risk (e.g. asset or investment manager-specific shocks) commensurate with the complexity of the investment and appropriate to the severity of the particular circumstances.

The reporting and disclosure provided by investment managers to investors should include an appropriate level of detail for them to assess whether their interests have been protected.

Rating Factor 4: Performance and Track Record

Performance remains one of the most important factors when investors choose a fund or investment manager. The investment manager's performance and track record provides insight into its ability to deliver a consistent and repeatable performance. MARC believes that the investment manager's ability to maintain competitive fund performance vis-à-vis its peers would heavily influence its ability to grow AUM. Investment managers with strong demonstrated investment performance are best able to preserve and grow their AUM, particularly in the institutional market. Over the long run, for high levels of credit strength to be maintained, the investment manager must have a robust track record of investment performance.

MARC will examine the investment performance results achieved by the investment manager's portfolios/funds relative to established performance benchmarks which have similar portfolio objectives and risk tolerance standards to gauge the success of the investment manager's investment strategies and processes over different time horizons and in a wide range of market conditions. The consistency of performance of portfolios and funds over time will also be reviewed. MARC will consider the following measures in reaching conclusions about the investment manager's investment performance and expertise in particular asset markets and investment strategies or styles:

- Portfolio rates of total return over relevant time periods (one-, three- and five-year average return);
- Portfolio total return breakdown and attribution;
- Achievement of portfolio/fund objectives and performance comparisons with designated benchmarks; and
- Portfolio risk-adjusted returns.

The investment manager's previous performance record is an important consideration in assessing the investment manager's expected future performance. Risk-adjusted returns and performance attribution analyses provide greater insight into the relative performance of investment portfolios and their managers. MARC may also consider the ability of the investment manager to generate alpha or investment performance in excess of expected returns, widely considered a measure of active management skill. These measures are compared to peers, appropriate benchmarks and earlier period investment results. This area of analysis is also informed by information on the experience of investment managers by investment product and style as well as the experience of analysts.

In order for this area of analysis to have prospective value, MARC will also seek to identify any challenges or changes in investment approaches, policies, processes, personnel and control systems that might potentially have a meaningful impact on portfolio/fund performance, going forward. MARC considers the extent to which the tenure and experience of the investment manager's investment professionals appropriately address the diversity and complexity of clients and investment management services provided. MARC will also look at the breadth and depth of the investment manager's team of analysts and portfolio managers and stability among key staff.

Rating Factor 5: Financial Profile

The investment manager's financial profile informs MARC of its ability to maintain adequate capital levels and financial strength to remain well-resourced, support business growth and adapt to changes necessitated by its operating environment and/or regulatory requirements.

MARC's review of the investment manager's financial profile will focus on the following areas:

- Shareholder resources;
- Size, stability and growth in terms of AUM;
- Revenue mix and profitability;
- Expense management; and
- Management of capital and liquidity.

A financially sound parent/shareholder would be better placed to provide direct or indirect support to funds and separately managed accounts of an investment manager subsidiary/venture in times of stress. Although not contractually required to provide support, the parent might still be obliged to do so on account of competitive pressures or reputational considerations. Any sign of erosion in the parent's ability and propensity to support might lead to a high demand for redemptions by investors who expect their investments to be protected by explicit or implicit backstops.

The size, stability and growth in AUM (including concentrations by client and product) is also an area of focus since they facilitate forward-looking assessments regarding the capital adequacy and financial health of the investment manager. MARC considers the investment manager's one- and three-year compound AUM annual growth rates and one- and three-year CAGR revenue growth. Strong AUM growth should support corresponding revenue growth and contribute to margins and returns.

Profitability or recurrent losses have the potential to increase or decrease an investment manager's capital levels. In assessing the investment manager's profitability, MARC examines the following: revenue and expense trends, one- and three-year operating margins, one- and three-year return on equity and one- and three-year return on AUM (operating profit/AUM). MARC evaluates the cost efficiency of the investment manager in terms of its one- and three-year cost/income ratio.

Regulatory capital requirements for investment managers are relatively low in comparison to regulated financial service providers like banks as a result of their lower risk profile. Effective July 8, 2015, an investment manager that is licensed as a boutique portfolio manager under the CMSL is only required to have a minimum paid-up capital and shareholders' funds of RM500,000 at all times. Previously, fund management companies were required to maintain a minimum paid-up capital and shareholders' funds of RM2 million at all times. (Boutique portfolio managers can manage assets up to RM750 million with a clientele of not more than 50 investors.) Unit trust fund managers, on the other hand, are required by the SC's Guidelines on Unit Trust Funds to have a higher shareholders' funds of RM10 million at all times to protect the interests of the investing public.

MARC will examine the capital buffers carried by the investment manager over and above the regulatory minimums. MARC will also review the investment manager's cash flow generation and available liquidity, including external funding sources such as committed bank facilities.

APPENDIX A: INVESTMENT MANAGER RATING SCALE

RATING	DEFINITION
IMR-1	Investment managers in this group exhibit superior investment processes and risk management practices relative to the size and complexity of its investment management activities, and very low vulnerability to financial or operational failure.
IMR-2	Investment managers in this group exhibit very good investment processes and risk management practices relative to the size and complexity of its investment management activities, and low vulnerability to financial or operational failure.
IMR-3	Investment managers in this group exhibit good investment processes and risk management practices relative to the size and complexity of its investment management activities, and moderately low vulnerability to financial or operational failure.
IMR-4	Investment managers in this group exhibit currently adequate investment processes and risk management practices relative to the size and complexity of its investment management activities, and moderate vulnerability to financial or operational failure.
IMR-5	Investment managers in this group exhibit inadequate investment processes and risk management practices relative to the size and complexity of its investment management activities, and high vulnerability to financial or operational failure.

APPENDIX B: Key Regulations Affecting Domestic Investment Managers

Regulations affecting domestic fund managers include:

- Capital Market Services Act 2007;
- Guidelines on Islamic Fund Management;
- Guidelines on Compliance Function for Fund Managers;
- Guidelines on the Establishment of Foreign Fund Management Companies;
- Guidelines on Private Retirement Scheme;
- Guidelines on Unit Trust Funds.

Minimum standards for investment managers' conduct of business are monitored by the SC. Fund managers that operate collective investment schemes are required to comply with additional regulation which include conduct-of-business rules, minimum capital requirements and investment policy rules in the form of quantitative portfolio restrictions.

Current prudential capital regulation for these institutions provide some assurance of financial soundness for unit trust investors; the SC's Guidelines on Unit Trust Funds require the fund management company to maintain a shareholders' fund of RM10 million at minimum.

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