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Examination Study Guide
Asset and Funds Management
(Module 10)

[Applicable to Examination Study Guide Module 10 - First Edition 2015]

UPDATES

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(This document consists of three (3) pages including the cover page)

1. General:

- Candidates are expected to update themselves with the latest developments in this examination as all questions will be continuously updated to reflect these changes.

- All corrections are highlighted in bold and underlined.

2. Topic 11 – Understanding Islamic Investments (10.11 – page 31)

- The following is updated to reflect 4.05, Chapter 4 of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

  Section 3.6 Sukuk, Asset Pricing

  Asset Pricing
  The SAC has issued a guideline on asset pricing for Sukuk to facilitate the process of determining the purchase price to be used on the underlying asset under the Ijarah, Bai' Bithamin Ajil, Murabahah, and **Istisna'** structure.

  It was decided that if the purchase price of the underlying asset is sold at a premium, it should be at a maximum of **<u>1.51</u>** times of the market value. If the market value cannot be determined, a fair value or any other suitable value can be used through an appropriate valuation method as long as it is mutually agreed upon by the contracting parties.

3. Topic 2 – The Investment Setting (10.0 – page 7)

   Section 3.4 Translation gains or losses from International Investments

   Most return calculations are prepared in local currency terms i.e. in the currency of the listed asset or security. In our example of ABC Berhad, the returns are calculated as returns in Ringgit Malaysia (**<u>MYR</u>**). So the returns for 20X2 would be 23.27% in RM terms.

   These days where international investments are common, there is a need to account for any changes in the exchange rate of the home base of the investor and the invested currency of the asset or security. Any movement in the exchange rate would have an impact on the net return of the overseas investor.

   Let us calculate the returns of a USD-based investor who invested in ABC Berhad shares in 20X2:

<u>MYR</u>/USD exchange rate (per **<u>MYR</u>**)	
Rate on 1 January 20X2	**0.31696 (USD 3.1550)**
Rate on 31 December 20X2	**0.33306 (USD 3.0025)**
Net change in 20X2 for **<u>MYR</u>**	**5.079% (MYR appreciation)**

The total returns to the USD-based investor in 20X2 will be the local currency returns plus any gains or losses from investing in **MYR** relative to the USD. The **MYR appreciated by 5.079% against the USD** in 20X2 so the USD investor would gain because in USD terms the investment is worth more.

Returns in local currency **(MYR)**	=	23.27% (calculated previously)
Returns in USD	=	**1.2327 x 1.05079 (MYR appreciation) - 1**
	=	**29.53%**

4. Topic 5 – Modern Portfolio Theory (10.5 – page 26)

Review Questions
Q2. Which of the following does not affect the volatility of a portfolio?

The answer should be:

(A) The volatility of the individual securities in the portfolio.