# APPENDIX 1

## Risk Factors for Takafulink Funds

1) Market Risk
   Market risk refers to potential losses that may arise from adverse changes in market conditions. Market conditions are generally affected by, among others, economic and political stability. If the market in which the fund invests in suffers a downturn or instability due to adverse economic or political conditions, this may adversely impact the market prices of the investments of the fund.

2) Liquidity Risk
   Liquidity risk refers to the ease of converting an investment into cash without incurring an overly significant loss in value. This depends on supply and demand as well as the security's volume or amount traded in the market. This may cause the fund to dispose the investment at an unfavourable price in the market and may adversely affect the value of the fund.

3) Interest Rate Risk
   This risk is crucial for funds that invest in Sukuk and Islamic money market instruments. When interest rates rise, Sukuk and Islamic money market instruments prices may decline, and thus may lower the market value of the fund's investment in Sukuk and Islamic money market instruments. This risk will be mitigated by managing the fund's duration and diversifying the tenures of Sukuk investments based on the fund manager's view on the future interest rate direction.

   Please note that although Sukuk is a non-interest-bearing instrument, its price movement is correlated to the movement in interest rates. As a result, investment in Sukuk will have an exposure to the movement of interest rates.

4) Security Risk
   Security risk refers to the risk that the price of a particular Shariah-compliant security may fluctuate in response to the circumstances affecting individual companies. This risk includes but is not limited to changes in consumer tastes and demand, legal suits, competitive operating environments, changing industry conditions and management omissions and errors.

5) Country Risk
   Country risk refers to changes and developments in regulations, politics and the economy of the country. The investments may be affected by uncertainties in the investing country, such as domestic political developments, restrictions on foreign investment and currency repatriation, changes in governmental policies, changes in taxation and other developments in the laws and regulations.

6) Risk of Non-Compliance
   Non-adherence with laws, rules, regulations, Shariah resolutions, prescribed practices, internal policies and procedures may result in regulatory censure, a tarnished reputation and reduced expansion potential for the fund. Investment goals may also be affected due to non-adherence to the investment mandate.

## Risk Factors for Takafulink Funds

7) Shariah Status Reclassification Risk

Shariah status reclassification risk refers to the risk that the Shariah-compliant equity securities currently held in the fund may be reclassified as Shariah non-compliant in the periodic review of the securities by the Shariah Advisory Council of the Securities Commission or the Shariah Adviser. If this occurs, necessary steps will be taken to dispose of such securities.

Opportunity loss could occur due to the restriction on the fund's ability to retain the excess capital gains derived from the disposal of the reclassified Shariah non-compliant securities. In such an event, the fund is required:

i. to dispose of such securities with immediate effect or within one (1) calendar month if the value of the securities exceeds or is equal to the investment cost on the effective date of reclassification of the list of Shariah-compliant securities ("Reclassification") by the Shariah Advisory Council of the Securities Commission or date of review ("Review") by the Shariah Adviser. The fund is allowed to keep dividends received up to the effective date of Reclassification or Review and capital gains arising from the disposal of the securities on the effective date of Reclassification or Review. However, any dividends received and excess capital gains from the disposal of the securities after the effective date of Reclassification or Review should be channeled to *baitulmal* and/or charitable bodies as advised by the Shariah Adviser;

ii. to hold such securities if their value is below the investment cost on the effective date of Reclassification or Review until the total subsequent dividends received (if any) and the market price of the securities is equal to the cost of investment at which time disposal has to take place within one (1) calendar month, excess capital gains (if any) from the disposal of the securities should be channeled to *baitulmal* and/or charitable bodies as advised by the Shariah Adviser; or

iii. to dispose of such securities at a price lower than the investment cost, which will result in a decrease in the fund's value.

8) Concentration Risk

Concentration risk refers to the risk that the fund invests a substantial portion of its assets in a particular sector or geographical area which may cause the fund to be more susceptible to adverse economic events affecting that industry or region.

9) Management Company Risk

The performance of the fund depends on the experience, expertise and knowledge of the management company. Should there be lack of any of the above qualities by the management company, it may adversely affect the performance of the fund.

10) Inflation Risk

Inflation risk refers to the risk when participants' investment in the fund may not grow or generate income at a rate that keeps pace with inflation, thus resulting in the participants' decreasing purchasing power even though the investment in monetary terms may have increased.

## Risk Factors for Takafulink Funds

11) Investment Managers' Risk
Poor management of the fund due to a lack of experience, knowledge and poor management techniques would have an adverse impact on the performance of the fund. This may result in investors suffering losses on their investment in the fund.

12) Credit / Default Risk
Credit risk refers to the inability of the issuer of an Islamic money market instruments or/and sukuk held by the fund to make timely payment of profit and/or principal when due. Any adverse situations faced by the issuer or counterparties may impact the value as well as liquidity of the investments. This risk is mitigated by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of the issuer.

13) Currency Risk
This risk is associated with investments denominated in foreign currencies. Changes in exchange rates may cause the value of the units in the fund's base currency to go up or down.

14) Islamic Derivatives Risk
This risk refers to funds that may invest in Islamic derivatives for hedging and efficient portfolio management purposes. Islamic derivatives' market values may be subject to wide fluctuations and expose the fund to potential gains or losses due to mark-to-market value.

15) Emerging and Developing Markets Risk (for equity fund category only)
In comparison with investments in the developed markets, investments in emerging and developing markets may involve a higher degree of risk due to the greater possibility of political or economic instability and societal tensions. Emerging and developing markets are markets that are, by definition, "in a state of transition" and are therefore exposed to rapid political change and economic declines. Shariah-compliant securities in the emerging and developing markets may face a higher risk of price drops, while the exchange rates in these markets are generally more volatile than those of developed markets.

16) Sustainable Fund Status Reclassification Risk
Specific for fund that is labelled as ESG or Sustainable Responsible Investment. Sustainable fund status reclassification risk refers to the risk that results from increased regulatory focus on sustainable investing or other factors that has led asset managers to be more conservative when they present their ESG credentials and have resulted in the reclassification of sustainable funds to non-sustainable funds. If this occurs, the fund manager may take the necessary steps to dispose of such securities.

# APPENDIX 1

## Risk Factors for Takafulink Funds

17) Smaller Companies Risk (for equity fund category only)
The fund which invests in smaller companies may fluctuate more in value than investments in larger companies. Smaller companies may offer greater opportunities for capital appreciation than larger companies but may also involve certain special risks. They are more likely than larger companies, to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may, especially during periods where markets are falling, become less liquid and experience short-term price volatility and wide spreads between dealing prices. Also, there may be less publicly available information about smaller companies or less market interest in the securities and it may take longer for the prices of the securities to reflect the full value of the issuer's earning potential or asset.

*Note: The above is not an exhaustive list of the risks which participants should consider before investing in the fund. Participants should be aware that an investment in the fund may be exposed to other risks from time to time. Participants should consult a professional adviser for a better understanding of the risks.*

# APPENDIX 1

## Risk Management Strategies

The risk management strategies employed by the fund manager include the following:

- Monitoring market and economic conditions;
- Monitoring adherence to the fund's objectives and investment restrictions and limitations;
- Monitoring the performance of the fund;
- Taking temporary defensive positions, when required; and
- Escalating and reporting investment matters to the investment committee, senior management team, audit committee, Shariah committee and board of directors.

PRUDENTIAL BSN
TAKAFUL

# TAKAFUL
## For All. For Life

Prudential BSN Takaful Berhad is a registered Takaful Operator under
the Islamic Financial Services Act 2013 and is regulated by Bank Negara Malaysia.

**Prudential BSN Takaful Berhad** 200601020898 (740651-H)
Level 13, Menara Prudential, Persiaran TRX Barat, 55188 Tun Razak Exchange, Kuala Lumpur.

Customer Service: +603 2775 7188
E-mail: customer@prubsn.com.my

**www.prubsn.com.my**

MEMBER / AHLI
成 员 / உறுப்பினர்
PIDM
Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

*All information is correct at the time of publication.*
*Published May 2025.*