

APPENDIX 1

Risk Factors for Takafulink Funds										
No	Risk Factors	TD Ekuiti	TD Sukuk	TD Urus	TD Ekuiti Dinasti	TD Dinamik	TD Aktif	TD Ekuiti Global	TD Asia	TD Ekuiti Income
General Risk of Takafulink Funds										
1	Market Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
2	Liquidity Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
3	Interest Rate Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
4	Security Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
5	Country Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
6	Risk of Non-Compliance	✓	✓	✓	✓	✓	✓	✓	✓	✓
7	Shariah Status Reclassification Risk	✓		✓	✓	✓	✓	✓	✓	✓
8	Concentration Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
9	Management Company Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
10	Inflation Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
11	Investment Managers' Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
Specific risks associated with the Shariah-compliant instruments or Shariah-compliant equities in which the Funds will invest:										
12	Credit / Default Risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
13	Currency Risk				✓			✓	✓	
14	Islamic Derivatives Risk				✓			✓	✓	
15	Emerging and Developing Markets Risk							✓	✓	
16	Sustainable Fund Status Reclassification Risk									
17	Smaller Companies Risk						✓			

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No	Risk Factors	TD Ekuiti Plus	TD ESG Global	TD Simpanan
General Risk of Takafulink Funds				
1	Market Risk	✓	✓	✓
2	Liquidity Risk	✓	✓	
3	Interest Rate Risk	✓	✓	
4	Security Risk	✓	✓	
5	Country Risk	✓	✓	
6	Risk of Non-Compliance	✓	✓	✓
7	Shariah Status Reclassification Risk	✓		
8	Concentration Risk	✓	✓	
9	Management Company Risk	✓	✓	
10	Inflation Risk	✓	✓	✓
11	Investment Managers' Risk	✓	✓	✓
Specific risks associated with the Shariah-compliant instruments or Shariah-compliant equities in which the Funds will invest:				
12	Credit / Default Risk	✓	✓	✓
13	Currency Risk	✓	✓	
14	Islamic Derivatives Risk		✓	
15	Emerging and Developing Markets Risk			
16	Sustainable Fund Status Reclassification Risk		✓	
17	Smaller Companies Risk			

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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 the 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
Interest rate risk refers to the impact of interest rate changes on the valuation of Islamic money market instruments. When interest rates rise, Islamic money market instruments prices generally decline and this may lower the market value of The Fund's investment in Islamic money market instruments.

(Specific for Takafulink Dana Sukuk, Takafulink Dana Urus and Takafulink Dana Dinamik)
When interest rates rise, Sukuk and Islamic money market instruments prices generally decline and this 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 tenures of Sukuk investments based on the Fund Manager's view on the future interest rate.
- 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, tarnished reputation and reduced expansion potential for The Fund. Investment goals may also be affected due to non-adherence to the investment mandate.

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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 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 channelled 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 channelled 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 particular 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.

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11) Investment Managers' Risk

Manager risk refers to the day-to-day management of The Fund by the Fund Manager which will impact the performance of The Fund. For example, investment decisions undertaken by the Fund Manager, as a result of an incorrect view of the market or any non-compliance with internal policies, investment mandate, relevant law or guidelines due to factors such as human error or weaknesses in operational process and systems, may adversely affect the performance of The Fund.

(Specific for Takafulink Dana Urus, Takafulink Dana Ekuiti Dinasti, Takafulink Dana Dinamik, Takafulink Dana Aktif, Takafulink Dana Ekuiti Global, Takafulink Dana Asia, Takafulink Dana Ekuiti Income, Takafulink Dana Ekuiti Plus and Takafulink Dana ESG Global)

While the Fund Manager exercise due skill and care in selecting a Target Fund, it does not have control over management of the Target Fund and there is no guarantee that investment objectives will be met. The Target Fund may change its objective and become inconsistent with the objectives of The Fund. In such instances, the Fund Manager will replace the Target Fund with another Islamic collective investment scheme which the Fund Manager considers to be more appropriate in meeting the objectives of 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

(Specific for Takafulink Dana Ekuiti Dinasti, Takafulink Dana Ekuiti Global, Takafulink Dana ESG Global, Takafulink Dana Asia and Takafulink Dana Ekuiti Plus)

The Target Fund will invest in foreign markets. Hence, investments will be denominated in foreign currencies. As The Fund is denominated in Ringgit Malaysia, investments in foreign currencies will cause The Fund to be exposed to currency risk. The impact of the exchange rate movement between the base currency of The Fund and the currency of the underlying investments of the Target Fund may result in a depreciation of the value of the investments as expressed in the base currency of The Fund.

14) Islamic Derivatives Risk

(Specific for Takafulink Dana Ekuiti Dinasti, Takafulink Dana Ekuiti Global, Takafulink Dana ESG Global and Takafulink Dana Asia)

The Target Fund Manager 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 Target Fund to potential gains or losses due to mark-to-market value. Islamic structured products may contain one or more embedded Islamic derivatives, including Islamic options.

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15) Emerging and Developing Markets Risk

(Specific for Takafulink Dana Ekuiti Global and Takafulink Dana Asia)

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. The Shariah-compliant securities in the emerging and developing markets may face a higher risk of price drop while the exchange rates in these emerging and developing markets are generally more volatile than those of developed markets.

16) Sustainable Fund Status Reclassification Risk

(Specific for Takafulink Dana ESG Global)

Sustainable fund status reclassification risk refers to the risk that results from increased regulatory focus on sustainable investing or other factors that has led to asset managers to be more conservative when they present their ESG credentials and has resulted in reclassifying of sustainable funds to non-sustainable funds. If this occurs, the Target Fund Manager may take the necessary steps to dispose of such securities.

17) Smaller Companies Risk

(Specific for Takafulink Dana Aktif)

The Target 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 issuers' earning potential or asset.

Note: The above should not be an exhaustive list of the risks which participants should consider before investing into 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.

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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 limits;
- 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.

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.

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