UNIT TRUST INVESTMENT : THE MALAYSIAN CASE

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Thesis Submitted in partial Fulfillment of the Requirement for the

MASTER OF BUSINESS ADMINISTRATION

Open University Malaysia

June 2008

ABSTRACT

The purpose of this paper is to get a better understanding on how unit trust as a saving instrument that is affordable, liquid, safe and convenient and yet can give a higher return than fixed deposits over the long term. Generally, unit trusts are all about investing as they are a great way for most of us to invest for future wealth. In addition, there are so many unit trust funds in the market so this is a kind of guidance to the investors to make their choice to fulfil their wealth objectives and goals. In this paper, I am using two funds houses, Public Mutual and Prudential Fund Management to compare with the KLCI. By doing some analysis and test, in terms of their performance especially and in to what stocks or how much portion do they allocate per their investment generally. Furthermore, in the test, we could see how the funds react when the KLCI goes up and down. The results seem to show that a fund which allocates their portion of investments in more equities that is 75 percent to 90 percent will react very fast according to the market volatility. Meanwhile, those funds which allocate more in fixed income, short term bonds and repos would not affected by the market volatility at all. In conclusion, an investor must determine his or her own risk profile so that they will select the right funds in which it will meet their goals.

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Chapter 1

INTRODUCTION

Background of the study

Background of this paper is to gain an understanding of applicable and profitable approaches of investing in domestic unit trust arena. From investor's point of view, it serves as a savings instrument that is affordable, liquid, safe and convenient and yet can produce a significant higher return than fixed deposits over the long term. Unit trusts are all about investing as they are a great way for most of us to invest for future wealth. A unit trust fund is a professionally managed, collective investment scheme that pools unit holders' monies and invest it toward a specific goal as declared by the investment objective of the scheme. Such a scheme usually aims to provide above average returns in the form of income distribution ands capital growth with reasonable risks through investing in a broadly diversified portfolio of stocks and bonds, or other specialized instruments.

The unit trust industry in Malaysia has grown and developed tremendously for the past years with having a good government regulatory bodies ensuring proper practice, transparency and self-regulation are maintained. Based on Securities Commission's report, as at 29th February 2008, the total Net Asset Value (NAV) of funds in Malaysia has reached RM169.617 billion, which is 16.49 percent of Net Asset Value (NAV) to Bursa Market Capitalization. (See Appendix 1) This figure has been increased for the past one year aggressively.(See Appendix 2 and 3) This development has been paralleled with the growth of global fund assets. (See Appendix 4)

Research Problems

There are a number of myths about the unit trust spreading around such as buy the fund that has made the highest rate of return in the past. Fortunately, past returns made by funds could be very impressive but it is not a promise of future gains. In reality, a fund's future returns depend on the financial strength of its portfolio and market conditions at

the time of investment. Secondly, buy the fund with the lower unit price. It is inaccurate to compare a fund with a unit price of RM1.50 and a fund with a NAV of 50 sen and conclude that the former is more expensive. Thirdly, invest in newly launched funds. However, new funds are not the best buys as the new funds are generally launched after the market has rallied in order to attract the investors who believe the market will continue to perform.

Fourthly, the best time to invest in a fund is just before the fund management company declares dividends or bonus units. Obviously, this is not an instant way of making profits. Bonus units effectively increase the total number of units hold. Although, there are free units of a fund but yet not translate into additionally returns. Finally, all funds are different so that every funds are invested in different assets or regions. Unfortunately, even the funds are given different monikers, they could still invest in the same market and could possibly be holding the same securities. According to John Bogle in *Common Sense on Mutual Funds*, investing in a large number of unit trusts would result in a portfolio that closely resembles the broad market. However, return of this portfolio would be less than the returns made by the market's benchmark index due to a higher cost of investing associated with actively managed funds.

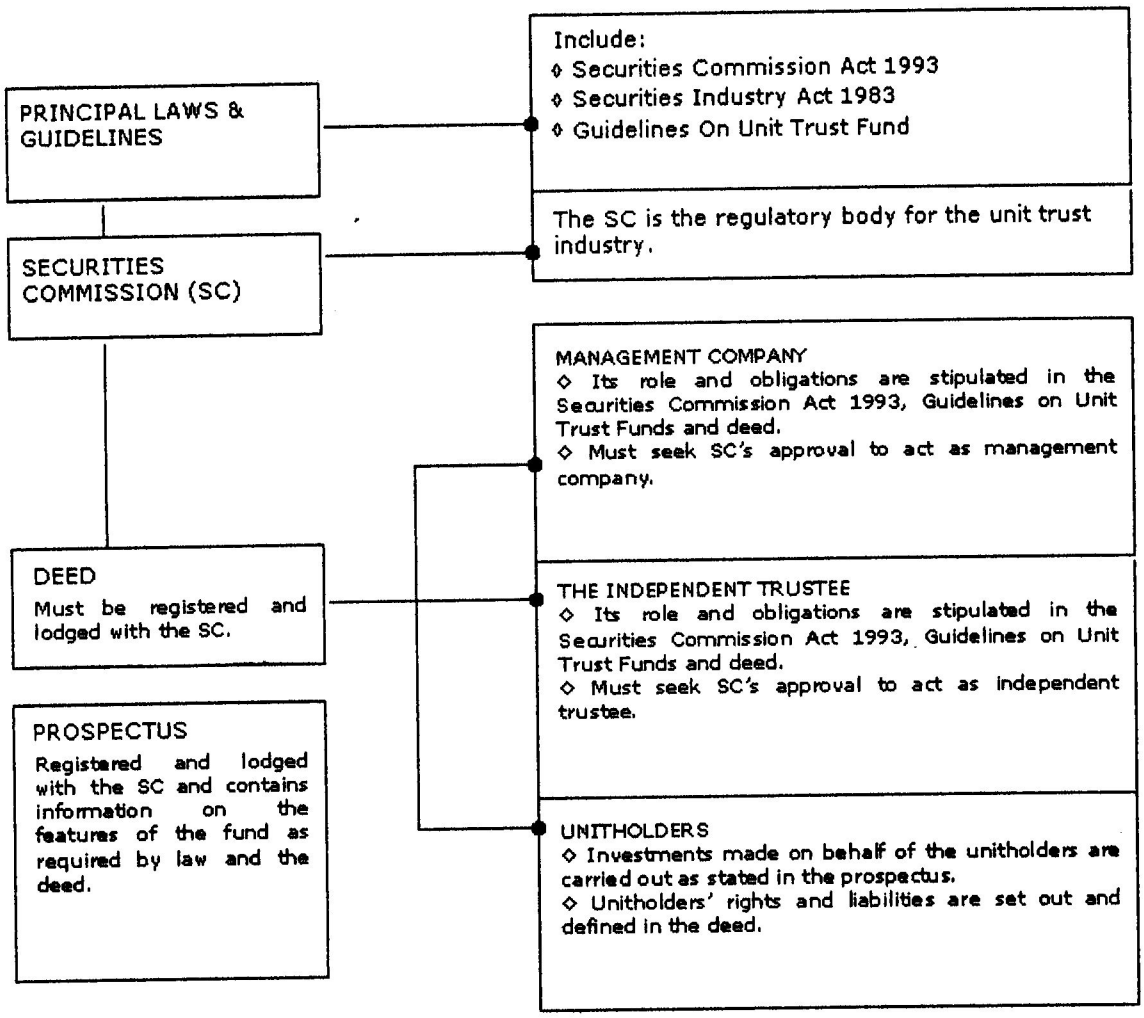
Objectives of The Study

To Understand the Basic Structure Scheme of Unit Trust

The operation of a unit trust may be best explained by outlining its similarities with the operation of a bank, with which most individuals are familiar. Many individuals deposit money in the banks, for which they receive interest. These individuals expect complete liquidity where they must be able to withdraw their deposits in cash at any time. The banks employ professional managers to look after the deposits where the deposits are invested. Then, these managers lend the deposits to other individuals requiring funds and a host of other profit generating facilities of the banks.

As for unit trust holders, they also wish to put their money to generate higher returns. Generally, the goal of all investments is to make money more productive, either through

producing income or growth. Unit trust holders have liquidity because their units can be readily converted into cash at any time. By investing in unit trusts, it allows them to engage professional fund managers at a low cost to the individual investors. Finally, the managers diversify the investible funds in many different securities and other approved channels to spread the risk.



As per diagram shown above, the unit trust is constituted through a document known as a deed which brings together and binds the various parties to the deed :

The **trustee**, who holds the assets of the trusts on behalf of the unit holders.

The **manager,** who is the promoter of the scheme and provides investment and administrative expertise and markets units to the public