

CHAPTER 4

RESEARCH RESULTS

There are in total 108 funds under study, which represent 94% of the whole population. All the 108 funds are grouped into 7 different categories, based on the nature of the funds. In order to be consistent with the industry, this study followed the category grouping of Lipper International. Lipper International grouped all the funds in Malaysia into 9 categories. The two categories which are not included in this study are Balanced Income and Growth Income category. Balanced Income is grouped together with Balanced category, where growth income category is grouped under growth category. Growth fund category is the most popular category, which made up of more than 50% of the total funds under study.

Table 1 : Number of Funds for Each Category as at 31 Dec 2000

| Fund Categories | Funds Under Study | Population | % |
|------------------------|--------------------------|-------------------|------------|
| Balanced Funds | 12 | 12 | 100% |
| Growth Funds | 57 | 58 | 98% |
| Income Funds | 8 | 10 | 80% |
| State Funds | 4 | 8 | 50% |
| Islamic Funds | 13 | 13 | 100% |
| Small Cap Funds | 8 | 8 | 100% |
| Index Tracking Funds | 6 | 6 | 100% |
| Total | 108 | 115 | 94% |

Table 1 shows the number of funds under study for each category as compare to the total population in the industry as of 31 December 2001.

4.3 Year on Year (YoY) Analysis

4.3.1 Analysis on YoY NAV Returns for the last 10 years

Figure 2 : YoY Average NAV Return for 108 funds Vs KLCI and Emas

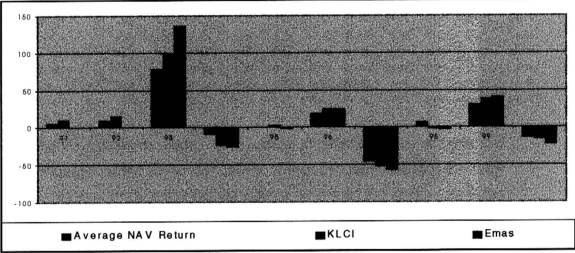


Figure 2 shows the yearly average NAV return for unit trust funds in Malaysia as compared to the KLCI and Emas returns. On average, for the past 10 years, unit trust funds outperformed the KLCI during the bear market years in 1994, 1997, 1998 and 2000. When the KLCI registered positive returns for example in 1992,1993,1996 and 1999 the average unit trust funds did not outperformed the KLCI. For year 1991 and 1992, all categories underperformed the KLCI.

Table 2 – Yearly Average NAV Return for Malaysian Unit Trust Funds

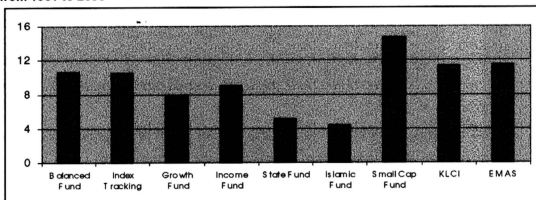
| Fund Category | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Avg |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Balanced Fund | 8.53 | 11.31 | 78.34 | -14.67 | 7.63 | 17.55 | -35.67 | 11.56 | 31.38 | -9.36 | 10.66 |
| Index Tracking Fund | N/a | N/a | 99.02 | -11.60 | 3.02 | 13.62 | -35.63 | 14.39 | 35.17 | -12.73 | 10.53 |
| Growth Fund | 8.09 | 10.90 | 76.11 | -9.73 | -0.31 | 17.55 | -51.08 | 9.60 | 34.27 | -16.13 | 7.93 |
| Income Fund | 3.70 | -3.57 | 56.93 | -10.53 | 5.88 | 12.65 | -0.77 | 10.56 | 9.07 | 6.28 | 9.02 |
| State Fund | N/a | N/a | 105.64 | -19.18 | 13.13 | 28.87 | -52.50 | -19.95 | 7.60 | -22.05 | 5.19 |
| Islamic Fund | 1.90 | 10.52 | 60.59 | -13.30 | -2.78 | 16.72 | -52.56 | 4.46 | 29.43 | -11.21 | 4.38 |
| Small Cap Fund | 5.56 | 7.06 | 80.37 | 5.63 | -0.15 | 37.35 | -47.24 | 17.91 | 53.40 | -13.04 | 14.68 |
| Average Return | 7.07 | 10 | 78.89 | -9.65 | 0.45 | 19.06 | -45.93 | 8.14 | 31.56 | -13.07 | 8.65 |
| KLCI Return | 9.94 | 15.77 | 98.04 | -9.65 | 0.45 | 19.06 | -45.93 | 8.14 | 31.56 | -13.07 | 11.43 |
| EMAS Return | N/a | N/a | 136.77 | -26.08 | -1.48 | 24.4 | -56.51 | -2.82 | 40.46 | -22.59 | 11.52 |

Table 2 shows yearly average NAV return for different category of funds and the average for all the seven categories. Small cap funds on average have 14.68% returns, which is the highest returns among all the seven categories and the only category that have higher than KLCI ten years' average.

Index tracking funds should track the performance of the underlying index and not to outperform the index. However, the result shows the index tracking funds are not tracking the index as per the name of the fund suggested. If those funds track the underlying KLCI index, they should not have outperformed the KLCI in 1994 by almost 10%, 16.35% in 1997 and 15.79% in 1998. Income funds, are rather consistent with their objectives and managed to out-perform the benchmark during bear market.

From 1993 until 1996, those state funds under study performed extremely well as compared to the benchmark KLCI. This could be due to the special privilege that those funds enjoy such as being able to have the privilege in purchasing shares through Initial Public Offers (IPOs). However, from 1997 to 2000, state funds under-performed the benchmark KLCI, as most IPO did not perform well for the past few years since the financial crisis.

Figure 3: Average YoY NAV Return for Each Category Vs KLCI and EMAS for the period from 1991 to 2000



The figure above shows that over the past 10 years, the average yearly NAV return for Small Cap fund category is better than KLCI as well as Emas. While all the other categories under-performed both benchmark.

Table 3 – Percentage of Funds Outperformed KLCI in Each Category

| Fund Category | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------|------|------|------|------|------|------|------|------|------|------|
| Balanced Fund | 0% | 0% | 0% | 100% | 50% | 25% | 80% | 100% | 44% | 100% |
| Index Tracking Fund | n/a | n/a | 100% | 100% | 100% | 0% | 100% | 100% | 50% | 33% |
| Growth Fund | 33% | 16% | 24% | 93% | 34% | 27% | 68% | 93% | 39% | 50% |
| Income Fund | 0% | 0% | 0% | 100% | 100% | 0% | 100% | 100% | 0% | 100% |
| State Fund | n/a | n/a | 100% | 100% | 100% | 75% | 25% | 25% | 0% | 0% |
| Islamic Fund | 0% | 0% | 0% | 100% | 40% | 0% | 63% | 89% | 8% | 78% |
| Small Cap Fund | 0% | 0% | 0% | 100% | 67% | 100% | 67% | 100% | 100% | 40% |

Although, figure 4 showed that only small cap category out-performed the benchmark, in fact there are still a number of funds in other categories that out-performed the benchmark as shown in the table above. This means, there are quality funds that outperformed the index in both good and bad time. The following funds with at least 2 years old had been registering better NAV returns than KLCI every year since inceptions: SBB Retirement Balanced Fund, Multi-purpose First Fund, TA Balanced Fund, Utama SSSB Premier, Pacific Pearl Fund and OSK-UOB Small Cap Opportunity Fund. (Please refer to Appendix 2-8 for detail list.)

Almost all growth funds outperformed the benchmark KLCI in year 1994 and 1998. In the Income fund category, either all funds in that category outperformed or under-performed the benchmark in one calendar year. All state funds outperformed the market in 1993 until 1996, and the percentage of out-performance decreased over the years from 1997 until 2000.

Small cap funds as a whole on the other hand are able to generate better results from 1994 until 1999, with more than 60% of the funds outperformed the KLCI. 78% of Islamic funds out-performed the benchmark KLCI in year 2000 as compared to only 50% out-performance for growth fund category. This could be due to the share of companies which are involved in gaming activities were sold down heavily (at least 60%) by investors in year 2000. Islamic funds had been shielded from this erosion as these funds are not allowed to invest in gaming companies.

4.3.2 Analysis On YoY Actual Returns for the Past 10 years

Figure 4: YoY Average Actual Returns for 108 funds Vs KLCI and Emas

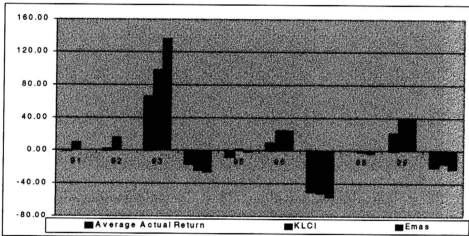


Figure 4 above showed the average actual returns for all the funds as compared to KLCI and EMAS yearly. After deducting all the cost of investing, the average equity fund did not out-perform the benchmark KLCI for the past 10 years, except in 1994, 1997 and 1998. While in 1993, the gap between the average actual return and KLCI is the largest.

Table 4 – YoY Average Actual Return For Malaysian Unit Trust Funds

| Fund Category | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Avg |
|---------------------|-------|-------|--------|--------|--------|-------|--------|--------|-------|--------|-------|
| Balanced Fund | 0.41 | 3.01 | 65.13 | -20.95 | -5.70 | 9.24 | -40.44 | 4.58 | 23.57 | -15.60 | 2.32 |
| Index Tracking Fund | | | 83.84 | -18.33 | -4.77 | 5.11 | -40.34 | 4.35 | 22.94 | -19.14 | 4.21 |
| Growth Fund | 1.10 | 3.09 | 65.76 | -16.54 | -7.70 | 8.51 | -54.83 | 1.49 | 24.27 | -22.41 | 0.27 |
| Income Fund | -0.95 | -1.89 | 5.68 | -2.78 | -0.67 | 1.46 | -3.69 | 3.80 | 2.81 | 2.22 | 0.60 |
| State Fund | | | 95.29 | -21.44 | 5.34 | 20.51 | -55.85 | -28.35 | -7.16 | -38.64 | -3.79 |
| Islamic Fund | -4.50 | 3.69 | 50.46 | -20.10 | -10.58 | 6.85 | -67.14 | -3.68 | 19.42 | -17.50 | -4.31 |
| Small Cap Fund | -3.99 | -2.22 | 64.79 | -3.42 | -9.21 | 23.85 | -52.11 | 7.79 | 39.77 | -20.83 | 4.44 |
| Average Return | -0.32 | 2.06 | 65.40 | -16.50 | -7.31 | 9.86 | -49.99 | 0.14 | 21.59 | -19.36 | 0.56 |
| KLCI Return | 9.94 | 15.77 | 98.04 | -23.85 | 2.47 | 24.40 | -51.98 | -1.40 | 38.59 | -15.15 | 11.43 |
| EMAS Return | | | 136.77 | -26.08 | -1.48 | 24.40 | -56.51 | -2.82 | 40.46 | -22.59 | 11.52 |

Those highlighted in blue are funds outperformed the KLCI

The table above showed only in year 1994, all categories of fund outperformed the benchmark after deducting effective cost of investing. In 1991,1992,1993 and 1996 all categories average return were lower than the KLCI. Whereas in 1995 and 1999 only one category outperformed the KLCI.

Figure 4: YoY Average NAV Vs Actual Returns from 1991 - 2000

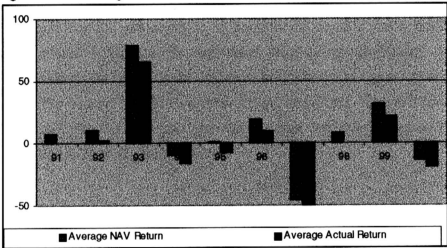


Table 5 – Percentage of funds outperformed the KLCI (Actual Return)

| Fund Category | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Balanced Fund | 0% | 0% | 0% | 100% | 0% | 0% | 80% | 83% | 11% | 36% |
| Index Tracking Fd | n/a | n/a | 0% | 0% | 0% | 0% | 0% | 100% | 0% | 33% |
| Growth Fund | 0% | 0% | 8% | 78% | 7% | 5% | 34% | 81% | 18% | 10% |
| Income Fund | 0% | 100% | 0% | 100% | 0% | 0% | 100% | 80% | 0% | 100% |
| State Fund | n/a | n/a | 0% | 100% | 100% | 50% | 25% | 0% | 0% | 0% |
| Islamic Fund | 0% | 0% | 0% | 67% | 0% | 0% | 38% | 56% | 0% | 40% |
| Small Cap Fund | 0% | 0% | 0% | 0% | 0% | 33% | 67% | 100% | 40% | 20% |

Table 5 above shows the percentage of funds' actual return out-performed the benchmark KLCI for different category. In year 2000, 36% of Balanced funds out-performed KLCI as compared to 100% when using NAV return. After deducting fees, Index tracking funds did not out-perform the benchmark in most of the years under study. In 1993, 1994, 1995, 1997 and 1999 NAV returns showed 100% out-performance but actual returns shows 100% under-performance. The percentage of out-performance for growth funds category has also dropped substantially as compared to the NAV returns.

It is clear that the actual return an investor received is much lower than the NAV return published by the fund house, rating agency or media. Nonetheless, there are funds that out-perform the KLCI even after netting off fees. For example, SBB Retirement Balanced Fund, Utama SSSB Premier, OSK-UOB Small Cap Fund are the few that still out-performed KLCI after deduction of fees since Inception.

Figure 6: Categories 10 years YoY Average NAV Vs Actual Returns

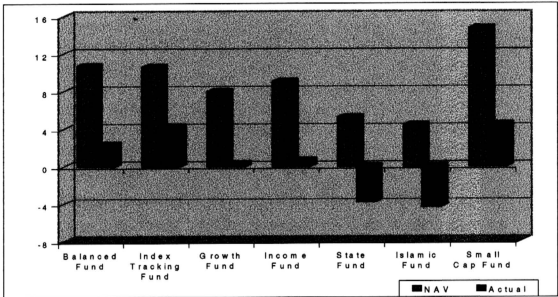


Figure 6 above shows the average NAV returns versus the average actual returns (for the past ten years) for all seven categories of funds under study. Both State funds and Islamic Funds categories' NAV returns are positive, however the actual return after deducting fees shows a negative returns. The chart above clearly shows that the published NAV return differ substantially from the actual returns investors received from investing in unit trust funds in Malaysia.

1.5.2 Effective Cost of Investing

Effective Cost of Investing is the different between the Actual Returns and NAV Returns. This cost is due mainly to the different initial charge, which would later be compounded when dividend or bonus (unit split) is declared. If an investor holds the investment for longer period, the effective cost of investing would be higher.

Table 6: Funds with more than 10% effective cost of investing for year 2000

| | Name (Equity Fund) | NAV Return | Actual Return | 2000 |
|---|------------------------|------------|---------------|--------|
| 1 | BHLB PacDana Al-Ihsan | -13.76 | -22.39 | -16.13 |
| 2 | PJB Amanah Saham Johor | -27.44 | -40.39 | -12.95 |
| 3 | Mayban Income Trust | 4.21 | -6.77 | -10.98 |
| 4 | PJB Dana Johor | -39.13 | -50.00 | -10.87 |
| 5 | OSK-UOB Sm Cap Opp | -1.31 | -11.59 | -10.28 |
| 6 | HLB Penny Stock Fund | 1.34 | -8.80 | -10.14 |
| 7 | OSK-UOB KidSave Tr | -6.45 | -16.48 | -10.03 |

The tables above shows funds with more than 10% ECI. There are 7 funds with more than 10% cost of investing in year 2000. While in 1999, there are 38 funds with more than 10% ECI (please refer to appendix for more details).

Table 7: Yearly Effective Cost of Investing for all Category of Funds From 1991 to 2000

| Fund Category | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Avg |
|---------------------|--------|-------|--------|-------|--------|--------|-------|--------|--------|--------|--------|
| Balanced Fund | -8.12 | -8.30 | -13.21 | -6.28 | -9.52 | -8.31 | -4.76 | -6.99 | -7.81 | -6.24 | -7.95 |
| Index Tracking Fund | | 0.00 | -15.18 | -6.73 | -7.79 | -8.51 | -4.71 | -10.04 | -12.24 | -6.41 | -8.95 |
| Growth Fund | -7.00 | -7.80 | -13.53 | -6.80 | -7.40 | -9.04 | -3.75 | -8.11 | -10.00 | -6.28 | -7.97 |
| Income Fund | -10.37 | -9.64 | -17.15 | -8.94 | -10.59 | -7.55 | -5.68 | -5.24 | -5.14 | -4.05 | -8.44 |
| State Fund | | | -10.35 | -2.26 | -7.79 | -8.36 | -3.35 | -8.40 | -14.76 | -16.60 | -8.98 |
| Islamic Fund | -6.40 | -6.83 | -10.14 | -6.79 | -7.80 | -9.87 | -4.36 | -8.14 | -10.01 | -6.29 | -7.66 |
| Small Cap Fund | -9.55 | -9.27 | -15.58 | -9.04 | -9.06 | -13.50 | -4.87 | -10.12 | -13.63 | -7.79 | -10.24 |
| Yearly Average | -7.39 | -7.94 | -13.49 | -6.85 | -7.76 | -9.20 | -4.06 | -8.00 | -9.97 | -6.29 | |

The table above shows yearly average ECI for the past 10 years ranges from 4.06% to 13.49%, with the lowest in 1997 and highest in 1993. There is no clear trend that ECI is reducing over the years except for state funds which showed increase in ECI from 1997 to 2000.

From 1996 onwards the effective cost of investing for income funds on average declined gradually. The decline could be due to new entrants to the market which did not charge any front load for income funds. BHLB Bond Fund, KL Bond Fund, RHB Bond Fund and Mayban Bond Fund are examples of no load funds. Therefore, it is clear that the main contributor to the Effective Cost of Investing is the front load.

Effective Cost of Investing in 1997 is the smallest among all the years, while 1993 and 1999 Effective Cost of Investing is the highest. Most of the funds prior to 1996 price their bid price above NAV, hence the spread between the sell and bid is smaller. In 1997, most funds shifted their pricing policy to peg their bid price at NAV. SC required the UTMC to publish the NAV price in local newspapers which ultimately mark the first step in fees awareness. That is when most of the UTMC started to lower their initial charges with newly launched funds started the league.

The exception high effective cost of investing for 1993 is mainly caused by the exceptional performance of the KLSE with 98% increase in KLCI and 136% increase in Emas and the compounding effects on the front load.

Table 8: Compare the different between the front-end load Vs Average ECI

| Fund Categories | Avg Front-end Load as per Prospectus | Avg ECI | % Difference |
|------------------------|---|----------------|---------------------|
| Balanced Funds | 7.42 | 7.95 | 7% |
| Growth Funds | 7.78 | 8.95 | 15% |
| Income Funds | 3.63 | 7.97 | 120% |
| State Funds | 8.75 | 8.44 | -4% |
| Islamic Funds | 7.08 | 8.98 | 27% |
| Small Cap Funds | 8.25 | 7.66 | -7% |
| Index Tracking Funds | 5.50 | 10.24 | 86% |

Table 8 shows the different between the average published front-end load (as at 31 December 2000) for each category versus the average ECI from the study. This confirmed H_1 is true, where the difference between the NAV returns and actual returns will not be equal to the loads of the funds.

4.4 Analysis on Cumulative Return

4.4.1 Different Holding Period Cumulative NAV Return – 1991 until 2000

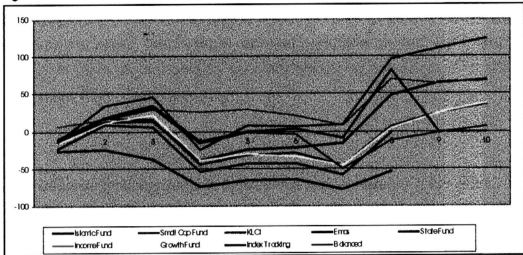
Table 9: Cumulative NAV Return for Different Holding Period

| Fund Category | 1Y | 2Y | 3Y | 4Y | 5Y | 6Y | 7Y | 8Y | 9Y | 10Y |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Balanced Fund | -9.36 | 18.83 | 32.06 | -16.44 | -2.13 | -3.77 | -50.75 | -12.17 | -2.24 | 6.11 |
| Index Tracking Fund | -12.73 | 16.20 | 33.78 | -13.07 | -0.11 | 2.91 | -9.03 | 81.05 | N/A | N/A |
| Growth Fund | -16.37 | 11.60 | 22.49 | -38.26 | -30.08 | -34.19 | -45.07 | 3.88 | 24.22 | 37.37 |
| Income Fund | 6.28 | 16.63 | 28.97 | 26.03 | 29.25 | 20.59 | 7.89 | 69.31 | 63.27 | 69.31 |
| State Fund | -26.51 | -23.65 | -37.72 | -74.32 | -65.64 | -64.43 | -77.62 | -53.98 | N/A | N/A |
| Islamic Fund | -13.11 | 12.42 | 14.13 | -38.67 | -24.02 | -21.39 | -15.64 | 48.59 | 64.47 | 68.60 |
| Small Cap Fund | -13.04 | 33.69 | 45.67 | -24.31 | 7.56 | 6.74 | 8.99 | 97.22 | 111.41 | 123.85 |
| Average Return | -13.07 | 13.09 | 23.07 | -31.9 | -23.35 | -25.08 | -34.6 | 14.94 | 33.7 | 48.46 |
| KLCI Return | -15.15 | 17.59 | 15.95 | -44.32 | -30.74 | -29.03 | -45.95 | 7.03 | 23.92 | 36.24 |
| EMAS Return | -22.59 | 8.73 | 5.66 | -54.05 | -42.83 | -43.68 | -58.36 | -1.42 | N/A | N/A |

* Y = Year/ Years

The table above shows the ten different holding periods' cumulative returns for all the seven categories of funds under study. For three years holding period and longer, the average NAV returns are higher than both indices. This shows that unit trust funds in general are able to perform better than market portfolio. Therefore, it would be beneficial for investor to invest in unit trust than to invest in market portfolio.

Figure 7: Cumulative NAV Returns



The graph above shows the cumulative NAV returns for all the seven categories of funds versus the benchmark indices. Most categories of funds are able to generate better returns than the benchmark, except the state funds category. Islamic, Income and Small Cap category are able to register more than 50% returns for the ten years holding period as compared to KLCI which only registered 36% returns.

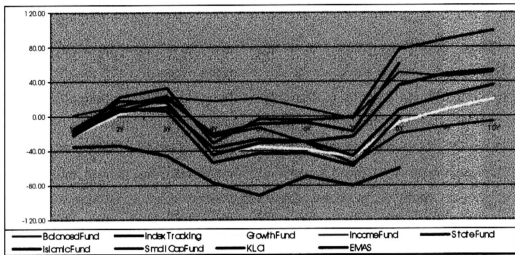
As for the Index Tracking category, they did not track the return of KLCI. This shows that Index Tracking funds in Malaysia did not track the performance of the benchmark indices. Growth funds on the other hand had been tracking the return of KLCI closely for the past ten years. (Refer to the blue and yellow line above) This could be due to the fact that growth funds generally invest in larger index component companies.

Income funds category is able to provide positive returns for all the 10 different holding periods. Income funds on average under performed the market for the 2 years holding period only. This is mainly because 1999 was a good year for equities based investment which KLCI surged 38% while EMAS surged 40%. That is the reason why income funds on average under-performed both the market proxy.

Small cap funds category showed a tremendous out-performance as compared to the benchmark as well as their fund peers for holding period with eight years or more. This finding is consistent with other studies, where small cap funds generally are able to generate higher returns because smaller companies; have greater growth.

4.4.2 Different Holding Periods Cumulative Actual Return – 1991 until 2000

Figure 8: Cumulative Actual Return



The graph above shows the average actual returns for all seven categories of funds versus the benchmark indices. The returns for most categories are quite similar to the trend of the indices. However, Income and State funds category are the only two exceptions.

Table 10: Actual Returns for Different Holding Periods

| Fund Category | 1Y | 2Y | 3Y | 4Y | 5Y | 6Y | 7Y | 8Y | 9Y | 10Y |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Balanced Fund | -15.60 | 11.51 | 23.44 | -23.36 | -13.57 | -30.63 | -55.41 | -20.82 | -12.30 | -5.31 |
| Index Tracking Fund | -19.14 | 5.59 | 21.19 | -20.56 | -9.21 | -7.03 | -18.35 | 61.40 | N/A | N/A |
| Growth Fund | -22.71 | 2.63 | 13.07 | -43.53 | -35.72 | -38.26 | -47.54 | -7.64 | 8.06 | 19.93 |
| Income Fund | 2.22 | 11.18 | 22.79 | 18.37 | 20.84 | 8.53 | -2.89 | 50.81 | 45.43 | 50.81 |
| State Fund | -35.50 | -33.51 | -45.55 | -76.74 | -92.27 | -68.99 | -80.27 | -60.46 | N/A | N/A |
| Islamic Fund | -17.51 | 5.69 | 10.79 | -37.20 | -27.35 | -29.18 | -24.07 | 35.38 | 49.50 | 52.78 |
| Small Cap Fund | -20.83 | 21.59 | 33.06 | -31.39 | -3.63 | -4.44 | -1.99 | 77.03 | 89.37 | 99.39 |
| Average Return | -19.36 | 4.53 | 13.50 | -37.46 | -30.14 | -32.31 | -40.99 | 3.19 | 20.03 | 32.93 |
| KLCI Return | -15.15 | 17.59 | 15.95 | -44.32 | -30.74 | -29.03 | -45.95 | 7.03 | 23.92 | 36.24 |
| EMAS Return | -22.59 | 8.73 | 5.66 | -54.05 | -42.83 | -43.68 | -58.36 | -1.42 | N/A | N/A |

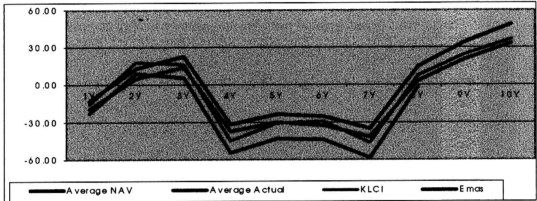
* Y = Year/Years

The above table shows the actual average returns for the ten different holding periods for all the different categories of funds under study. For the 10 different holding periods under study, the actual returns for equity funds (Balanced Fund, Growth Fund, State Fund and Small Cap Fund) on average out-performed KLCI as well as EMAS. Islamic funds only under-performed EMAS index for two years holding period. Income funds on average generate positive returns for all the ten different holding periods under study, except for seven years holding period, which is consistent with these funds' objective.

State funds on the other hand registered negative returns for all the eight different holding periods. Index tracking funds' return for the eight years holding period shows 61% return, while the KLCI only registered a mere 7% increase. This shows that index funds in Malaysia for the past eight years did not track the KLCI.

Small cap funds' registered the highest return for the ten years holding period with 99% return, which is equal to 8.3% annualized return. On average, small cap funds generate above average returns as compared to other categories funds, this is consistent with the nature of the small cap funds.

Figure 9: Comparison on Average NAV and Actual Returns Vs Indices



The line graph above shows the returns (NAV and actual) for different holding periods for unit trust funds as compared to benchmark indexes (KLCI and Emas). For more than three years holding period, both NAV and actual returns showed that average unit trust is able to perform better than both indices. However, when the holding period increases to more than seven years, only average NAV return is higher than KLCI. (Note: There is no Emas index return for nine and ten years holding periods as Emas index was launched only in 1992.)

This indicates that average unit trust funds is capable of generating better returns than market portfolios for more than 3 years holding period. Nevertheless, in order to capture better than market performance, investors must be careful in choosing the funds with less or no load to invest.

1.5.3 Effective Cost of Investing for Different Holding Period

Figure 10: Effective Cost of Investing for Different Holding Period (1991-2000)

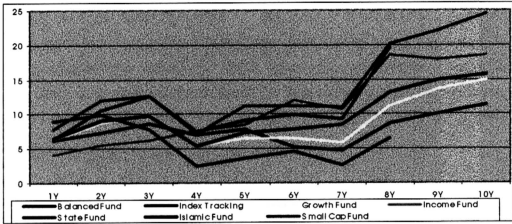


Table 11: Effective Cost of Investing for Different Holding Period

| Fund Category | 1Y | 2Y | 3Y | 4Y | 5Y | 6Y | 7Y | 8Y | 9Y | 10Y |
|------------------------|------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| Balanced Fund | 6.24 | 7.32 | 8.61 | 6.92 | 7.72 | 5.26 | 4.66 | 8.65 | 10.06 | 11.42 |
| Index Tracking Fund | 6.41 | 10.62 | 12.59 | 7.49 | 9.10 | 9.94 | 9.32 | 19.65 | | |
| Growth Fund | 6.35 | 8.70 | 9.96 | 5.28 | 6.44 | 6.43 | 5.81 | 11.20 | 13.62 | 14.95 |
| Income Fund | 4.05 | 5.44 | 6.18 | 7.66 | 8.41 | 12.06 | 10.78 | 18.50 | 17.84 | 18.50 |
| State Fund | 8.99 | 9.86 | 7.83 | 2.42 | 3.57 | 4.56 | 2.65 | 6.48 | | |
| Islamic Fund | 6.57 | 9.08 | 9.71 | 5.41 | 7.30 | 7.78 | 8.43 | 13.21 | 14.97 | 15.82 |
| Small Cap Fund | 7.79 | 12.09 | 12.61 | 7.08 | 11.19 | 11.19 | 10.98 | 20.19 | 22.05 | 24.46 |
| Average Effective Cost | 6.29 | 8.56 | 9.57 | 5.56 | 6.79 | 7.23 | 6.39 | 11.75 | 13.67 | 15.53 |

The table and graph above shows the difference between the NAV returns and the actual returns (actual returns being the effective cost of investing for all the seven categories of funds under study). It clearly shows that as the holding period increases the effective cost of investing also increases. This increase is mainly due to the compounding effects of funds returns over the cumulative years.

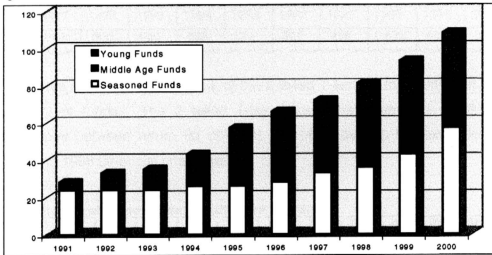
Small Cap funds register the highest ECI (24.46%) compared to the other categories. Although, Small Cap funds have the highest ECI, their actual average return (99.39%) is still the highest among all the seven categories. This means that investors would still be able to obtain better than market returns by investing in small cap funds.

Index Tracking funds on average charged the 2nd highest ECI (19.65%). In developed countries like U.S.A, Canada and Australia, Index Tracking funds are the cheapest funds to invest in. As most of the funds in developed countries do not charge front-end load, the main fees investors pay are MER. For one year holding period (year 2000), income fund charged the lowest ECI, while State funds charged the highest ECI. State funds are the only category which show a reverse trend for ECI with 2.65% for their seven years holding period.

This shows that H_1 hypothesis is true, where the effective cost of investing will not remain the same for different investing period.

4.5 Age of the fund

Figure 11: Number of funds for different age group from 1991 to 2000



The graph above shows the number of funds increased for different age group each year. Funds with 2 years old or less are grouped under young funds category. While funds between 2 to 5 years old are grouped under middle age category and finally those funds with more than 5 years old is considered as seasoned funds. In 1995 14 new funds were launched, representing a 33% increase in number of funds. Prior to 1995 there were less than 50 funds in the industry. Five years later, in 2000, there are more than 100 funds available for the public to invest in. From 1995 to 2000, the industry experienced more than 100% increase in the number of funds available for investment in the market.

For this section, the study is aimed to determine whether there is any significant difference between the returns and the age of the funds.

Table 12: T-Test Summary

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----|------|------|------|------|------|------|------|-------|------|------|
| Sig | .000 | .000 | .000 | .033 | .000 | .000 | .858 | 0.572 | .000 | .000 |

The above table shows the result of the 2 tailed T-test for the 3 different age category of funds. The 2 tailed T-test shows that there are significant differences between return for different age of funds with the exception in 1997 and 1998 (financial crisis year).

Table 13: Mean of Excess Return for Different Age Group

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Average |
|------------------|------------|------------|------------|------|------------|------------|-------|------|------------|-------|---------|
| Young Funds | N/A | -2.44 | - 29.35 | 3.06 | -8.96 | - 17.75 | 13.97 | 3.48 | - 10.41 | 1.91 | -0.32 |
| Middle Age Funds | - 17.89 | - 16.85 | - 20.77 | 6.16 | - 11.30 | - 16.71 | 5.04 | 0.90 | - 14.16 | 0.11 | -5.71 |
| Seasoned Funds | -9.88 | - 13.53 | - 35.42 | 8.17 | -9.41 | - 11.78 | -3.49 | 1.75 | - 20.30 | -7.53 | -10.14 |

The results of this study show that from 1997 onwards, younger funds on average would be able to generate better returns than both middle-aged funds and seasoned funds. In 1997, the mean of excess return for younger funds is 14% as compared to 5% and -3.5% for middle age funds and seasoned funds respectively in 1997. Younger funds outperformed seasoned funds 7 out of 10 years under study. This indicates that younger funds are able to generate better returns than the other two categories of aged funds.

The age of the fund may be an important factor to consider when choosing a fund to invest in. However, this study is unable to conclude that younger funds are capable of generating better returns as compared to its funds peers. The superior performance could be due to increase competition, better trained fund managers or lesser front-end load.

4.6 Persistence Performance

Over the years, investors would like to know which is the best strategy in choosing a fund. Many had turned to the simplest way in choosing a fund, which is to choose last year's best performing funds and hope that this fund would remain the best for the rest of the years.

Under this section, this study attempts to determine whether past performance is a good indicator for future performance. If past performance is a good indicator, the top performing funds should remain at the top of the list for the subsequent years consecutively. Hence, whether buying last year's best performing fund is a good investment strategy.

4.6.1 One Year Performance Persistence (Short Term Horizons)

Table 14: 1991 YoY Top 10 Equity Funds

| Name | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| ASM KMBY Kelapan | 1 | 3 | 11 | 14 | 16 | 23 | 25 | 42 | 33 | 63 |
| ASM Premier Fd | 2 | 4 | 18 | 30 | 27 | 20 | 40 | 20 | 24 | 64 |
| ASM KMBY Kesepuluh | 3 | 13 | 10 | 31 | 23 | 12 | 41 | 25 | 28 | 46 |
| ASM KMBY Keenam | 4 | 16 | 17 | 10 | 11 | 16 | 29 | 14 | 49 | 49 |
| ASM KMBY Kesebelas | 5 | 7 | 15 | 20 | 32 | 48 | 15 | 24 | 16 | 60 |
| ASM KMBY Ketujuh Inc | 6 | 12 | 13 | 7 | 24 | 3 | 45 | 23 | 45 | 52 |
| ASM KMBY Keempat | 7 | 17 | 12 | 25 | 6 | 13 | 39 | 2 | 52 | 45 |
| Malaysian Investment | 8 | 15 | 26 | 5 | 3 | 22 | 27 | 45 | 4 | 14 |
| ASM KMPY Ketiga | 9 | 11 | 9 | 24 | 10 | 7 | 33 | 4 | 54 | 70 |
| ASM Tanjong Piai Bai | 10 | 10 | 14 | 21 | 25 | 8 | 37 | 48 | 53 | 20 |

Under this section, all Balanced, Index Tracking, Growth, State and Small Cap are combined into one big category - Equity funds (As there are insufficient number of funds in each category to test the persistent performance). The table above shows the top ten ranking of all equities funds under study in 1991. Among the top ten funds in 1991, none make it to the top ten list ten years later. Most of them were among the bottom 2 quartiles. The top ten funds studied in 1996 were also not within the top ten list in year 2000. This shows that superior performance occurs merely by chance and is very difficult for the superior performance to repeat itself. Nonetheless, SBB Retirement Balanced fund, Utama SSSB Premier and OSK-UOB Small Cap funds are able to position themselves in the top ten list since inception. All the funds in the top ten list for year 2000 are less than five years old.

4.6.2 Three Year Performance Persistence (Medium Term Horizons)

Table 15: 1991-1993 Top 10 Equity Funds (3 Years Returns)

| Name | 91-93 | 92-94 | 93-95 | 94-96 | 95-97 | 96-98 | 97-99 | 98-00 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| BBMB Unit Trust | 1 | 2 | 7 | 28 | 33 | 37 | 38 | 21 |
| KL Growth | 2 | 5 | 3 | 19 | 7 | 14 | 13 | 28 |
| KL Savings | 3 | 4 | 4 | 13 | 5 | 7 | 9 | 25 |
| ASM Premier Fd | 4 | 19 | 27 | 27 | 29 | 34 | 32 | 31 |
| ASM KMBY Kelapan | 5 | 10 | 19 | 22 | 19 | 29 | 30 | 45 |
| ASM KMBY Kesepuluh | 6 | 20 | 25 | 25 | 28 | 36 | 41 | 32 |
| ASM KMBY Kesebelas | 7 | 15 | 26 | 31 | 25 | 26 | 16 | 34 |
| ASM Tanjong Piai Bal | 8 | 13 | 20 | 15 | 24 | 33 | 45 | 44 |
| ASM KMBY Ketujuh | 9 | 7 | 16 | 6 | 26 | 32 | 44 | 42 |
| Inc | | | | | | | | |
| Malaysia Progress | 10 | 3 | 2 | 2 | 4 | 5 | 18 | 14 |

Results for medium term horizons analysis also shows a similar result with the short-term horizons. None of the top ten funds in 91-93 repeat their superior performance in 98-2000 results. Nonetheless, BHLB Pacific Emerging Company Growth fund Utama SSSB, Multi-purpose First are able to make it the 3 years top ten since inception.

Both short-term and medium-term horizons analysis shows that there is no persistence in performance. However, when scrutinized closely some of the better fund managers are still able to consistently generating better performance. Therefore, when choosing a fund to invest, investors should consider a few years consistent superior returns instead of just one year.

This shows that H_0 is true, where superior returns will not repeat.