CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

Unit trust is an open ended and cost-effective trust fund which pools financial resources of numerous investors so that investments can be made on an economic scale in the permitted investments. Investors in a unit trust can be individuals, companies or institutions. Unit trusts have a huge amount of funds available at their disposal to invest, they can afford the transaction and information costs of many financial assets. Thus, unit trust can afford to offer diversified portfolios of stocks, government and corporate securities and money market instruments such as certificate of deposits and treasury bills.

Unit trust are classified into three categories:-

a) Fixed unit trust which offer certificates of proportional part of their portfolio. The portfolio is selected by the manager and remains virtually intact.
b) Open-ended unit trust constantly offer to sell new shares up to the limit of the approved size.
c) Closed-ended unit trust issues a limited number of shares of common shares, which are traded in financial markets.

Both Open-ended and Closed-ended of investment companies sell shares for cash, commingle the funds, and seek investments that conform to some pre-stated investment objective. Some closed-end funds pursue the same investment objectives as the open-end investment companies, but many of them seek riskier goals than the mutual funds. One big difference between the open-end and the closed-end investment companies is that the law forbids the closed-end portfolios from ever selling more shares after their initial public offering is completed. Another difference is that the law requires open ended mutual funds to sell and redeem shares at their net asset value per share. In contrast, the shares in closed-end investment companies can only be bought and sold in a secondary market where their prices are determined by supply and demand (and usually deviate from their net asset value per share).

Unit trust funds in Malaysia are generally open-ended (recently, there are one closed-end fund being launched, there is Wawasan 2020 Fund) whereby the manager of the unit trust can sell as many units as there are purchases up to the limit of the approved size or the limit stipulated in the trust deed. The manager is also obliged to repurchase the units from unitholders who may wish to withdraw from the trust. There are two prices quoted for any unit trust fund namely the offer/selling price at which investors buy the units from the management, and the bid/buying price at which management buy the units from the investors. As a result, a unit trust fund does not have a fixed investment base but rather one which fluctuates depending on the number of interested investors, the size of their individual investment and the consequent market value of the securities purchased. The unit price of a unit trust fund is thus calculated daily based on the net asset value of the portfolio of investment in the fund and not on the supply and demand of its units.

The spread between the two prices is usually 5% which constitute various expenses and charges levied by the management company. The method of computation of the two prices is laid down in the Guidelines by the Securities Commission. These prices are published daily in our local newspaper.

The unique feature of unit trust is that it establishes a tripartite relationship between three parties namely the investors (unit holders), the investment manager and the trustee. This unique relationship is governed by the trust deed which spells out the rights, duties and responsibilities of each party. The investors may be individuals, companies or institutions which invest funds in the trust with the hope of generating returns in the form of dividends and/or capital gains. The investment manager is usually a public company which is responsible for the daily investment operation. It administers and manages the portfolio of investment and maintains a market for the units. The trustees are affiliated to major banks or insurance companies. It grants approval for the purchase of securities and hold the purchased securities. The trustee monitors the fund managers, maintains a register of unit holders and ensures that all the terms of the trust deed are strictly adhered to.

1.2 TYPE OF UNIT TRUST FUND

By law, open-end investment companies are required to publish a one-or-two paragraph statement of the fund's investment objectives. These objectives can be grouped into the following main categories. Type of unit trust funds include:-

1. **<u>Growth funds</u>**: These funds tend to invest heavily in "emerging companies" i.e. those common stock and plan to assume significant risks to obtain stocks that are expected to provide substantial prices appreciation, or give promise of showing steadily rising earnings records that encourage large price-earning ratios.

2. **Income funds**: Investment in common stock, preferred stocks and bonds that pay good cash dividends, and coupon interest is the objectives of income funds. Risky stocks offering higher potential capital gains tend to be avoided in favor of "blue-chip stocks. Although they are somewhat out of favor with common stock investors, they have become more popular with persons seeking current income - generally the retired or well-to-do without salaries or wages. This group has turned to bonds and debentures, which give substantially greater returns.

3. **Balanced funds**: These funds divide their holdings between fixed-income securities and low-risk common stocks in order to avoid the risk of loss due to the future is hardly predictable. Balanced funds seek to maintain certain levels of speculative and conservative common stocks and different classes of fixed-income securities. If the stock market goes up, the common stock part of the portfolio will rise with it. If the market goes down, the "defensive" part of the portfolio, the bonds and preferred stock, will produce income and shield shareholders against serious losses. These highly risk-averse funds have low rates of return.

4. **Savings funds**: These funds is to achieve steady growth in income over medium to long term investment in the strong economic growth of the country. For example, monthly deduction scheme from individual saving account to invest in this fund.

5. **Bond funds**: Bond funds are investment trusts with the objective of lending money to industries, utilities, and states, cities, or other public bodies. Some such funds try to invest in issues that permit conversion into common stock; if the latter rises, they get not only reasonably assured income but also capital gains as their holdings rise with the common stock. These funds invest in the bonds of business corporation that have low bond quality rating to earn interest rates. These are inclusive of the tax exempt benefit currently granted on incomes received from fixed income securities.

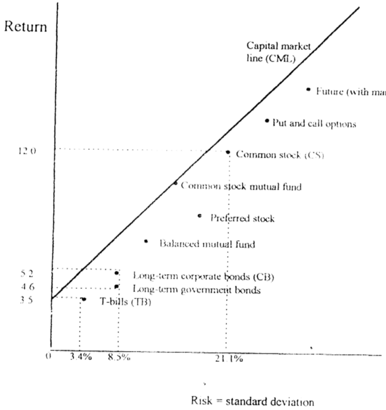
6. **Islamic funds**: These funds invest in a portfolio of equities and debt securities which comply with the principles of Syariah in order to provide a balanced mix of income and potential for capital growth. A major portion of the portfolio will be in Malaysian equities and Islamic debt securities with a maximum exposure of 10% of the Net Asset Value of the Fund in foreign equities. The fund will be managed strictly in accordance with Syariah Principles under the advice of the Syariah Panel which has also established principles for deducting income derived from activities not in compliance with Syariah. Such amounts will be donated to charities specified by the Syariah Panel.

7. **Diversified common stock funds** assume that the "best way to make your money grow" is by placing your bets on the growth of the economy. They keep most of their assets in common stocks at all times. Most emphasize long-term capital growth. Some also try to provide a fair dividend return.

1.3 RISK-RETURN RELATIONSHIP OF VARIOUS INVESTMENT

Figure 1.1 depicts a formal risk-return relationship that is called the **Capital Market Line (CML)**. The dots that lie below the CML represent individual stock, bonds, commodity futures, puts calls, and other investments.

Figure 1.1 The capital market line (CML) and other investment opportunities.



Source : The Edge Personal Magazine

The CML was always be positively sloped because investors are risk-averse. Investors are risk-averse because they dislike sleepless nights, professional investment managers fear losing their jobs if they make imprudent investments, and investors are scared by the occasional suicides that are reported after some unfortunate investor suffers traumatic losses.

The CML traces out what is called the "efficient frontier". The efficient frontier is the locus of investments graphed in risk-return space which have (1) the maximum expected rate of return in their risk class or (2) the minimum risk at whatever rate of return is selected. Any vertical line drawn in Figure 1.1 delineates a risk class. The efficient investments are called **efficient portfolios** because individual assets are dominated and will not be able to attain the efficient frontier.

Note that the CML dominates every individual asset in Figure 1.1. The risk reducing power of diversification is needed to reach a position in risk-return space that is on or near the CML. Only efficiently diversified portfolios can attain the CML.

1.4 ADVANTAGES OF UNIT TRUST FUND

A unit trust fund offers investors a number of benefits. A unit trust combines the capital of many investors to employ experienced management in purchasing securities of many companies.. The professional fund managers devote their full time to maximize the wealth of the unit holders. These managers are experienced, knowledgeable and possess the necessary expertise to invest and monitor the performance of the trusts' portfolio. With time and expertise to their advantage, investment managers are in far more better position to take advantage of opportunities than individual investors.

Investors with small capital outlay can enjoy an important benefit which is diversification: Investors in unit trust can access a broader range of securities than they could invest on their own. A diversified portfolio reduces risk should some of the investment drop in value and at the same time increases the chance of picking up good stocks. In addition, their investment is liquid; investors can sell some or all of their investment any time. Investment manager is obliged to repurchase units at the prevailing buying price on the following day after receipt of the repurchase form. Thus, unit trusts are readily marketable and highly liquid.

A unit trust has the potential to earn money for unitholders in two ways: growth and dividend income. Investors are given the option to reinvest the dividend income received from the original investment into the total accumulated investment where the returns will be compounded through time. The longer the period of time, the greater the growth of returns. Each unit in the fund represents a slice or share of the fund's underlying portfolio of securities. The value of a unit is essentially the total market value of the fund (the net asset value) divided by the number of units in circulation.

Therefore, if the value of the portfolio goes up, so does the value of each unit This is called growth or capital appreciation. If you sell the units at a higher price than you paid for them, you realise a profit. If the value of the portfolio falls, the value for each unit falls too. You will lose a portion of your investment if you sell the units for less than you bought them for. Whatever income that is received by the fund may be passed on to unitholders as dividends. However, dividends are not guaranteed; if the fund makes little or no profit it may not pay any dividends.

Moreover, a fund which concentrates on achieving capital growth may have a policy of paying very little or no dividend at all. To obtain cash, you have to sell some or all of your units. It is therefore important to read the prospectus to find out the type of fund being offered and whether it matches your personal objectives.

Unit trust relieve their investors from the administrative chores associated with holding securities such as right and bonus issues, collection of dividend, share receipts etc. Besides that investors will receive interim report and annual report regarding the performance of portfolios of funds.

1.5 DISADVANTAGES OF UNIT TRUST FUNDS

Some of the disadvantages of unit trust funds are shown below :

(a) Investors have to pay management cost for 5% upfront when they buy the unit trust funds. The price difference between the buying price and selling price in Malaysia is about 5% which is the management cost to the unit trust companies These management cost may "eat up" the returns of the investors.

(b) Unit trust funds are medium to long term investment, i.e. about three to five years investment before you realise the returns. So, if you want to liquidate your money in one year period, you may end up making a loss in your investment.

(c) Most of the unit trust funds cannot beat the naïve buy and hold strategy (market return) as shown in my study.

(d) Fraudulent act of the fund manager.

1.6 EVOLUTION OF UNIT TRUST IN MALAYSIA

In Malaysia, unit trust are divided into two distinct groups - the private sector unit trust and public sector trusts. The unit trust industry had a relatively late start with debut only in 1959 with the establishment of the first unit trust company, Malayan Unit Trust Limited which categorize under the former group. Its unit trust was transferred to the South East Asia Development Corporation in 1963. Hence it was split into Singapore Unit Trust Ltd based in Singapore and Asia Unit Trust Bhd in Malaysia. In Malaysia, The growth of the industry had been lethargic. In fact, the industry remained insignificant until the end of 1980 with only five managing companies managing twenty one unit trust funds totaling 75.9 million units value at RM162 million.

At the end of 1980, five unit trust managers operated 21 units trusts with funds under management of RM162 million. However, unit trusts started to become much more significant when the National Unit Trust Corporation (ASNB) and its parent, the National Equity Corporation (Permodalan Nasional Bhd or PNB), commenced operations in 1981. The public sector unit trusts dated back to 1979 when the government decided to use unit trust as a vehicle by which the shares of Malaysian enterprises were distributed to bumiputras to accomplish one of its New Economic Policy goals, that is to increase bumiputra shareholdings up to 30% by 1990. PNB was established in 1978 as a wholly-owned subsidiary of the Bumiputra Investment Fund (Yayasan Pelaburan Bumiputra).

In April 1981, the industry was given a boost with the setting up of the National Unit Trust (Amanah Saham Nasional or ASN) scheme which has been managed by Amanah Saham Nasional Berhad. This trust fund with an initial issuance of 540 million units and government backing, not only show the overall size of the other existing funds, but also expanded rapidly to become the nation's premier unit trust fund, with a size of 11 billion units value at RM10.8 billion at the end of 1990. This represented 93% of the total fund size of the industry. The ASN units were transacted under a fixed-price scheme, irrespective of the market value of shares held by ASN. Such an arrangement expired on December 31, 1990. In order to provide a continuing opportunity for Bumiputra individuals who still preferred a fixed price, and hence a less risky scheme akin to ASN, the Amanah Saham Bumiputra (ASB) unit trust fund was established in October 1989. The ASB scheme became operational on January 1, 1990 and investors were allowed the option to transfer their ASN units to the ASB. Both Bumiputra funds constitute 90% of the total funds in the industry as at June 30, 1994.

In 1995, state-sponsored funds became more significant following the enormous success of the public sector trust. According to the Federation of Malaysian Unit Trust Managers (FMUTM), the total net asset value (NAV) of funds under management in the industry (both public and private sectors) amounted to RM52.181 billion as at June 30, 1996. Unit trusts represented 7.39% of the total KLSE market capitalisation.

Public sector trust accounted for the vast majority of funds under management with the balance represented by private sector trust. However, the growth rate in funds under management in the private sector was much greater. While all investors in public sector trusts are retail investors (individual investors), the private sector trusts are owned 81% by retail and 19% by institutional (wholesale or corporate) investors. The average unitholding per account in private sector trusts is 5,000 units for retail investors and about 250,000 units for institutional investors.

This pattern of growth is likely to continue in the coming decade since the level of market penetration of unit trust in Malaysia is still quite low compared with countries such as the US, Japan and Australia. This provides a very healthy outlook for the Malaysian industry as it starts to approach international levels of market awareness and investment.

The unit trust industry (particularly public sector trusts) has had a substantial impact on the investment and savings strategies of thousands of individuals. They represent, through their equity funds, an important source of longer term investment in the domestic equities market and an important source of funds for government borrowings. Unit trusts in Malaysia have in the early years been heavily oriented towards investment in equities (or shares) of KLSE listed companies. In more recent years, investors have been offered a greater choice with trust investing (at least in part) in government fixed interest securities, overseas equities (shares listed on overseas stock markets) and in real property.

Table 1.1 show the summary of statistics of unit trust funds in Malaysia. The number of Management Company increased from 13 in Dec 1992 to 30 in Jun 1996. On average, the number of Management Company increased by 4 unit for the past four years. On the same period, the number of Approved Fund increased by 34 funds from 39 in Dec 1992 to 73 in Jun 1996 i.e. increased of 87% for the past four years. Beside that, the total net asset value of funds increased by 232% from RM15.72 billion in Dec 1992 to RM52.181 billion in Jun 1996. On average, the total net asset value increased by 58% per year.

From Table 1.1, the number of private funds and government funds almost equally i.e. 20 and 19 funds respectively in Dec 1992. But 4 years later , the number of private funds increase more than 100% to 47 funds compare to 26 funds for government funds. The net asset value for private funds increased tremendously from RM0.386 billion in Dec 1992 to RM6.348 billion in Jun 1996 i.e. on average increased by 386% per year compare to government funds which only increased by 50% per year. The unit of circulation for government funds increase 25% from 13.918 billion units in Dec 1992 to 28.138 billion units in Jun 1996. For the same period, the unit of circulation for private funds increase 353% from 0.437 billion units in Dec 1992 to 6.605 billion units in Jun 1996.

Table 1.2 until Table 1.5 and Figure 1.2 until Figure 1.5 show the bar chart of the summary of statistics in Malaysia from Dec 1992 to Jun 1996.

TABLE 1.1 : SUMMARY OF STATISTICS OF UNIT TRUST MALAYSIA

(Including Permodalan Nasional Berhad)

	31-Dec-92	31-Dec-93	31-Dec-94	31-Dec-95	30-Jun-96
No. of Management Companies	13	16	20	27	30
No. of Approved Funds*	39	44	52	67	73
Total Approved Fund Size*	15.827 billion units	18.672 billion units	28.814 billion units	37.363 billion units	41.185 billion units
Units in Circulation	14.356 billion units	25.121 billion units	25.121 billion units	31.937 billion units	34.743 billion units
No. of Accounts	4,872,830	5,278,060	6,197,049	6,849,521	7,019,993
Total Net Asset Value (NAV) of Funds	RM15.720 billion	RM28.134 billion	RM35.716 billion	RM44.134 billion	RM52.181 billion
KLSE Market Captalization	RM246.000 billion	RM619.700 billion	RM508.850 billion	RM565.630 billion	RM705.760 billion
% of NAV to KLSE Market Capitalization	6.39%	4.54%	7.02%	7.80%	7.39%
Goverment-sponsored Funds*:					
No. of Approved Funds*	19	20	24	26	26
Units in Circulation	13.918 billion units	15.923 billion units	21.008 billion units	25.658 billion units	28.138 billion units
NAV	RM15.334 billion	RM26.699 billion	RM31.678 billion	RM38.506 billion	RM45.833 billion
Private Funds*:					
No. of Approved Funds*	20	24	28	41	47
Units in Circulation	0.437 billion units	1.106 billion units	4.114 billion units	6.280 billion units	6.605 billion units
NAV	RM0.386 billion	RM1.435 billion	RM4.038 billion	RM5.628 billion	RM6.348 billion
	1992	**1993**	**1994**	**1995**	**1996-6 months**
Total Gross Sales	4,755.601 million units RM4,760.692 million	6,252.021 million units RM6,389.875 million	13,098.499 million units RM13,588.811 million	10,434.095 million units RM10,492.636 million	5,082.623 million units RM5,170.575 million
Total Repurchases	4,172.776 million units RM4,207.054 million	4,904.522 million units RM4,949.247 million	6,177.509 million units RM6,277.743 million	6,004.498 million units RM6,023.811 million	5,017.089 million units RM5,048.874 million
Net Sales / Repurchases	582.826 million units RM553.639 million	1,347.500 million units RM1,440.628 million	6,920.991 million units RM7,311.068 million	4,429.598 million units RM4,468.825 million	65.533 million units RM121.701 million
Sales by Distribution Channels:					
Direct Sales	N/A	N/A	N/A	RM1,984.090 million	RM683.393 million
Financial Institutions	N/A	N/A	N/A	RM5,472.187 million	RM3,004.920 million
Sales Force	N/A	N/A	N/A	RM1,345.563 million	RM404.178 million
Others	N/A	N/A	N/A	RM1,690.795 million	RM1,078.081 million

*Including funds approved but not yet launched
N/A - Not Available
Source : Federal of Unit Trust Malaysia

TABLE 1.2 : NO. OF MANAGEMENT COMPANIES AND APPROVED FUNDS FOR UNIT TRUST IN MALAYSIA

YEAR	NO. OF MANAGEMENT COMPANIES	NO. OF APPROVED FUNDS
Dec-92	13	39
Dec-93	16	44
Dec-94	20	52
Dec-95	27	67
Jun-96	30	73

FIGURE 1.2 :
SUMMARY OF STATISTICS FOR MANAGEMENT COMPANIES SIZE AND APPROVED FUNDS SIZE IN MALAYSIA

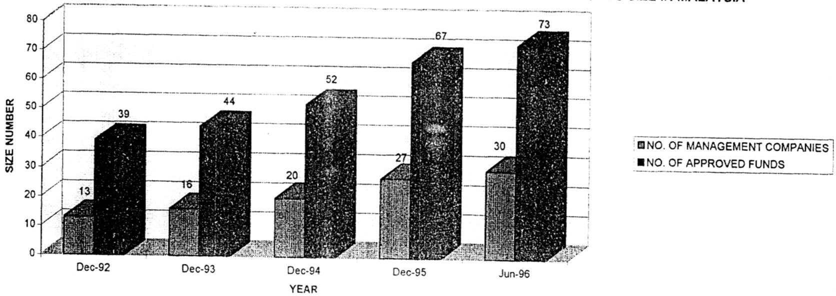


TABLE 1.3 : TOTAL APPROVED FUND SIZE AND UNIT IN CIRCULATION OF UNIT TRUST IN MALAYSIA

YEAR	TOTAL APPROVED FUND SIZE (billion units)	UNIT IN CIRCULATION (billion units)
Dec-92	15.827	14.356
Dec-93	18.672	25.121
Dec-94	28.814	25.121
Dec-95	37.363	31.937
Jun-96	41.185	34.743

FIGURE 1.3 :
STATISTICS FOR TOTAL APPROVED FUND SIZE AND UNITS IN CIRCULATION FOR UNIT TRUST IN MALAYSIA FROM DEC92 TO JUN96

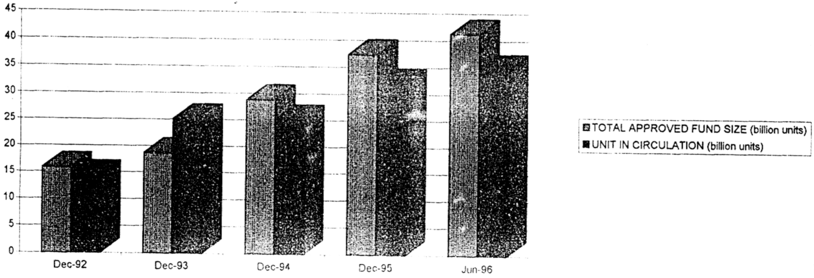


TABLE 1.4 : NO. OF ACCOUNTS OF UNIT TRUST IN MALAYSIA

YEAR	NO. OF ACCOUNTS
Dec-92	4,872,830
Dec-93	5,278,060
Dec-94	6,197,049
Dec-95	6,849,521
Jun-96	7,019,993

FIGURE 1.4 :
STATISTICS OF NO. OF ACCOUNTS FOR UNIT TRUST IN MALAYSIA FOR DEC92 TO JUN96

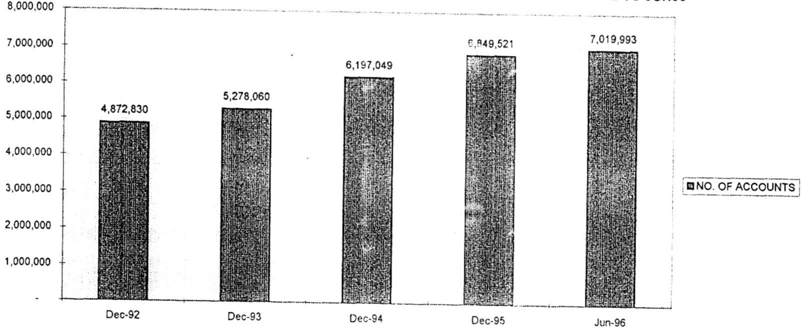
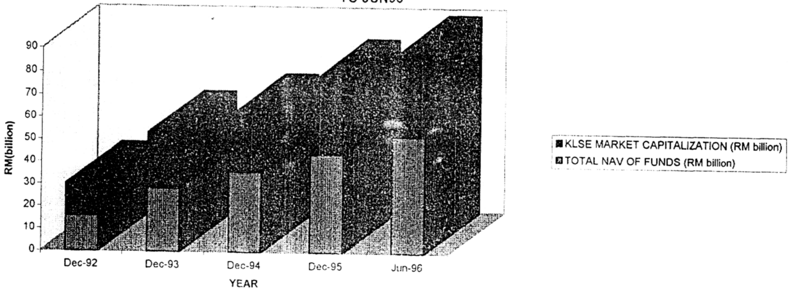


TABLE 1.5 : TOTAL APPROVED FUND SIZE AND UNIT IN CIRCULATION OF UNIT TRUST IN MALAYSIA

YEAR	TOTAL NAV OF FUNDS (RM billion)	KLSE MARKET CAPITALIZATION (RM billion)
Dec-92	15.72	14.356
Dec-93	28.134	25.121
Dec-94	35.716	25.121
Dec-95	44.134	31.937
Jun-96	52.181	34.743

FIGURE 1.5 :
STATISTICS OF NET ASSET VALUE OF FUNDS VERSUS KLSE MARKET CAPITALIZATION FROM DEC92 TO JUN96



1.7 FACTORS TO CONSIDER IN INVESTMENT OF UNIT TRUST FUND

Trust funds are not all alike. Here is a guide on the differences and other aspects that potential investors need to know before committing their money. In choosing a unit trust fund to invest in, a lot of factors need to be taken into consideration, not just measuring performance of a particular fund against the overall performance of the Kuala Lumpur Stock Exchange Composite Index (KLSE CI). One also has to measure it against the needs of the individual investor and the objectives of the fund.

The needs of the individual investor must be taken into consideration in measuring the performance of each fund because if a person comes in and wants an income fund, you must measure the performance of the income fund against other like funds. And if a person comes in for a growth fund, you must measure it against other growth funds. Unit trust managers, should not tell investors equity trusts are the best because even though they are the best performers over the longer term. This is because a person might not want to invest in this type of unit trust.

If you are tailoring your portfolio for pensioners in their olden age, they don't want you to give them growth because they are not willing to take the risk and lose all their money. What they are interested in is to obtain a regular and steady income. If people in the 25 to 35 age group who are working and have a steady income in terms of monthly salary, they don't need an income fund. They want growth and would be willing to take the risk.

Past performance of funds could to a certain extent act as a guide. Track records of fund managers, the dividend policy, unit split (also called bonus units) and capital appreciation are critical factors that could help potential new investors decide which funds they want to go into. But the bottom line is that they must measure the performance of an individual fund against its own peers rather than another basket.

Performance is also viewed based on the different objectives of each fund whether it is growth, in which case it would go into areas of investment in the capital market that will generate hefty capital gains rather than income; income, which more or less guarantees a fixed income with little capital appreciation such as bond funds, and balanced-structure, which tries to strike a balance between growth and income.

Performance of unit trusts will also depend on the guidelines imposed by the Securities Commission (SC). The regulatory body states that not more than 55% of a unit trust fund manager's portfolio can be invested in non-trustee stocks. By that it means fund manager can actually invest in any stock that will give growth. At least 45% of his portfolio must be invested in trustee stocks which are the blue chips. These stock move very slowly but they act as a cushion to your portfolio. And at least 10% must be in liquid assets.

Under the current guidelines, the SC allows, with its approval, unit trust managers to invest at least 10% of their resources overseas. However, in Malaysia, not many fund managers are actually taking this opportunity because they realise that the opportunities are still better investing in Malaysia because we are the fourth largest bourse in Asia.

The integrity and professionalism of the fund managers also play an important part. There are a lot of new unit trust funds coming in and the federation is facing problems of staff pinching. The day a new unit trust fund management company comes into the picture, it has to get people, either from the merchant banks or other units trusts to manage its fund. Not many of the funds have been here for a long time and have the expertise to manage the funds.

Lately, a lot of unit trust management companies have turned over their funds to professional asset management companies to manage. Stock market scenario also play an important part in the performance of a fund. One can't take 1993 which is a bull year to say that one fund is the best. One must take a period of three to five years. Therefore, an investor has to make a decision on the performance of a fund. He looks, if possible, at the tract record and determine whether the manager of that particular fund can maintain that performance for the next three to five years, bearing in mind, that past performance is not a guarantee for future performance.

Investment in unit trust also involves risk, so one has to measure the risks against the returns. However, in unit trusts, the risk is minimised because each will have a portfolio of at least 20 stocks, meaning the risks are spread out. An investor gets the benefit of the whole spectrum of the portfolio since this 1,000 units will be packed against a total fund value of RM200-RM500 million. Risk is minimised for all unit trust and that is being ensured by the Securities Commission which has come up with a guideline stipulation no unit trust can unnecessarily take risks. When risk in a unit trust is minimised compared to the stock market, naturally the returns would also be lower compared to the stock market. But if fund can generate a return of anything above 10%, including capital appreciation, then the manager has performed.

The unit trust by its own nature and history is tailored for the medium to low income group that's what unit trusts and mutual funds are all about, enabling a group of people to pool their resources in a fund and allowing a professional manager to invest the money.

1.8 LEGISLATION

In Malaysia, the regulation of unit trust schemes has now been vested in the Securities Commission (SC) by Parliament via Securities Commission Act 1993. The Securities Commission has issued a set of comprehensive guidelines on unit trust funds dated 10^{th} March 1994 for all those intending to set up unit trust companies and for those managing unit trust funds. These guideline supersedes all previous informal guidelines pertaining to unit trust schemes. The cooperation between the Registrar of Companies (ROC) and the Securities Commission is evident in the guideline as all the applications involving unit trusts are channeled to the Securities Commission, even those that require the approval of the Registrar of Companies as required under the Companies Act 1965. The Securities Commission acts as the main secretariat for all approvals relating to unit trusts and in this manner makes it convenient for industry practitioners. The following is a brief summary of the Securities Commission guidelines on unit trust funds:

1. The size of a unit trust fund shall not be more than 500 million units. Where the existing size of the fund is less than 500 million units, the prior approval of the SC is required for subsequent increase. The initial issue price shall be at RM1.00 per unit during the launching and offer period which shall not exceed 30 days.
2. A unit trust fund can only invest in authorised assets which are defined as follows:
    - Securities of Companies listed on Kuala Lumpur Stock Exchange (KLSE)
    - Securities listed on a foreign stock exchange
    - Unlisted securities that have been approved by the Securities Commission
    - Malaysian Government Securities Treasury Bills, Bank Negara Malaysia Certificates and Government Investment Certificates

- Malaysian currency balances in hand, Malaysia currency deposits with commercial banks, finance companies and merchant banks and placements of money at call with discount houses
- Cagamas bonds, banker's acceptances, unlisted loan stocks and corporate bonds and private debt securities that have an equivalent rating by RAM

3. A unit trust fund is permitted to invest up to 10% of the net asset value of the fund in securities listed on a foreign stock exchange. In this regard, the prior specific approval of the SC must be obtained before undertaking such investments.
4. A unit trust fund shall not invest more than 50% of the net asset value of the fund in non-trustee securities
5. Investment by a unit trust fund in the securities of any company shall not exceed 10% of the net asset value of the fund, or 10% of the issued capital of the company, whichever is lower.
6. Investment by a unit trust fund in any group of companies shall not exceed 15% of the net asset value of the fund.
7. Compliance with the guidelines on permitted investments are considered at the point of purchase, based on the cost of the assets when the assets re included into the composition of the fund.
8. A unit trust fund must appoint a management company which must be approved by the Securities Commission. The management company should be a subsidiary of a financial institution under the jurisdiction of Bank Negara Malaysia.
9. The level of liquid assets in a unit trust fund shall be at least 10% of the net asset value of the fund.

10. A unit trust is not allowed to borrow to finance its activities.

1.9 OBJECTIVE OF STUDY

The objectives of this study are :

- To evaluate the historical performance (from 1984 to 1996) of a sample of private unit trust funds in Malaysia and to rank their performance based on performance of KLSE Index Composite and KLSE Emas Index.
- Sensitivity of the unit trust ranking performance between two benchmarks above.
- To study and comment with the Micropal, i.e. independent body in charge to evaluate the unit trust ranking performance in Malaysia.
- To evaluate the degree of risk diversification of the funds.
- To determine if the funds adhere to their stated objectives.
- To determine if the investment managers have the ability to predict security prices.
- To determine factor to consider before investing unit trust funds

1.10 SOURCES OF DATA

The secondary data used in this study are derived from the sources listed below :

- Investors Digest published by the KLSE, 90 days Treasury bill rate from Bank Negara and KLSE Composite Index, Emas Index from KLSE Library
- Prospectus and annual reports of the various funds, summary statistics of unit trust in Malaysia from Federation of Unit Trust Association and price records of the various unit trust funds obtained from the management companies and local newspaper, The Edge Magazine, Smart Investor Magazine and Asia Wall Street Journal

1.11 SCOPE OF STUDY

As of 30th June 1996, there is a total of thirty management companies managing a total of seventy three funds (include both public and bumiputra funds). Appendix A provides the list of the management companies and the funds that they managed. The total net asset value of the unit trust funds as at 30th June 1996 stood at RM52.18 billion. Out of which RM45.83 billion is accounted for by Government Sponsored Funds and the balance of RM6.35 billion is accounted for by Private funds. Malaysia unit trust industry is still at its infancy and is quite small and accounted for only 7.39% of the KLSE market capitalisation as at 30th June 1996.

This study concentrate on the private unit trust funds in Malaysia and covers thirteen years period from January 1984 to December 1996 for some earlier launched funds mostly from Asia Unit Trust Berhad and Kuala Lumpur Mutual Fund Berhad. This thirteen years period is chosen so that it is sufficiently long to cover the various bull and bear market in the Malaysia capital market and would therefore provide better insight into the performance of the unit trust funds. For this study, a sample of thirty two private unit trust funds from nine management companies is chosen for analysis. The sampling size are more than 68% from the total of 47 private unit trust funds. The main reason for choosing these nine management companies is because they are affiliated to financial institutions. The sample of unit trust funds are shown in Table 1.6.

1.12 LIMITATIONS OF STUDY

Due to confidentiality of certain issues and policies, the fund managers really did not disclose how the selection of portfolio was carried out. Most of the private unit trust funds in the sample are less than ten years old. As the periods covered are rather short for most of the funds, it would be inappropriate to draw any general conclusions on the performance of the unit trust industry. My study only concentrates on private funds, since the private funds only constitute 12.17% of the total net asset value of unit trust industry in Malaysia as at 30th June 1996, the conclusions drawn may not be appropriate for the whole unit trust industry in Malaysia.

Table 1.6 : List of Unit Trust Funds in the sample

NAME OF MANAGEMENT COMPANY	NAME OF FUND
Asia Unit Trust Berhad	Malaysia Investment Fund
	Malaysia Progress Fund
	Tabung Amanah Bakti Fund
	Malaysia Berjaya Fund
	Malaysia Equity Fund
	Malaysia Commerce Fund
Kuala Lumpur Mutual Berhad	Kuala Lumpur Savings Fund
	Kuala Lumpur Growth Fund
	Kuala Lumpur Index Fund
	Kuala Lumpur Industry Fund
	Kuala Lumpur Regular Saving Fund
	Kuala Lumpur Aggressive Growth Fund
	Kuala Lumpur Balanced Fund
	Kuala Lumpur Bond Fund
BHLB Pacific Trust Management Berhad	BHLB Pacific Double Growth Fund
	Emerging Company Growth Fund
	BHLB Pacific Savings Fund
	BHLB Pacific High Growth Fund
DCB-RHB Unit Trust Management Berhad	DCB_RHB Dynamic Fund
	DCB_RHB Capital Fund
	DCB_RHB Mudarabah Fund
Mayban Management Berhad	Mayban Income Trust Fund
	Mayban Balanced Trust Fund
Arab Malaysia Unit Trust Berhad	Arab Malaysia First Fund
	Arab Malaysia Tabung Ittikal Fund
	Arab Malaysia Capital Growth Fund
BBMB Unit Trust Management Berhad	BBMB Unit Trust Fund
	BBMB Prime Fund
	BBMB Dana Putra Fund
SBB Unit Trust Management Berhad	SBB Premium Capital Fund
MBF Unit Trust Management Berhad	MBF First Fund
	MBF Growth Fund

1.13 ORGANISATION OF THE REPORT

This report consist of five chapters. Chapter I provides a brief introduction to the unit trust funds in Malaysia, type of unit trust fund, risk-return relationship of various investment, advantages and disadvantages of unit trust fund, evolution of unit trust in Malaysia, factors to consider in investment of unit trust fund, legislation of unit trust funds, objective of study, sources of data, scope of study and limitations of study.

Chapter II highlights some studies done in the mutual funds industry in the West specifically the United States, United Kingdom and the unit trust industry in Singapore and Malaysia. Empirical findings and method of analysis of such studies are presented as well.

In Chapter III, the methodology of study is presented. In this chapter, various method, formulae and tools of analysis used in the study are described and explained.

Chapter IV provides a concise summary of the empirical findings with regards to the investment performance of the unit trust funds and how well they perform when compared to two different market benchmark i.e. KLSE Composite Index and Emas Index. In addition, the sample fund's risks characteristics and diversification, how well the various types of funds performed, whether funds are adhere to their stated objectives and forecasting ability of investment managers are presented.

Chapter V summarises the research findings and attempts to draw some conclusions and implications from the study. In the final section, suggestions for future studies in the area are highlighted.