ABSTRACT

Malaysia has experienced one of the worst economic and financial crises in the history, in the second half of 1997. Many people are aware on how the crisis affected the share market, but not many know about the effects to the unit trusts industry.

This research provides an insight on how the unit trusts in Malaysia have performed during the financial crisis. To make comparisons, the period of the research has been divided into two sub-periods, the first one being prior to the financial crisis (March-95 to June-97) and the second one being during the financial crisis (July-97 to November-99). Through these sub-periods, comparisons are made as how the unit trusts have performed before and during the financial crisis. A general notion is that the unit trusts are less risky than the share market because portions of the funds are invested in risk-free assets. As such, one would expect unit trusts to perform better during crisis as compared to the share market.

The research also investigates on how the government-sponsored funds have performed as compared to their counterparts in the private sector. One would expect better performances from the former because they enjoy some privileges and advantages in term of funds investment which the latter do not possess. This will also be analysed using the two sub-periods as mentioned above.

Subsequently, the funds will be categorised according to the fund size. This is to determine whether the size of funds has any effect on the investment performance. Lastly, the research will address the issue of whether the unit trusts adhere to their stated objectives. The conclusion will be based on their past performances.

The findings revealed that the unit trusts were able to outperform the stock market before and during financial crisis. They, however, performed much 'better' during the financial crisis, although both the share market and the unit trusts suffered losses during this period. This result seems to confirm the notion that the unit trusts are less risky than the share market. The performances of government-sponsored funds were better than private funds before financial crisis. This is because the former enjoys privileges to invest in some assets which the latter does not enjoying such as IPOs. However, during the crisis, the whole situation is reversed. The private funds performed much better than the government-sponsored funds (in term of reducing losses). One of the possible reason is that the privileges that government-sponsored funds enjoy have not been able to provide advantage during the financial crisis.

The unit trusts performance, however, is not influenced by its size very significantly. This is due to the fact that there are advantages and disadvantages of having smaller or bigger size fund. Based on risk and return, the research showed that unit trusts generally did not adhere to their stated objectives.

Lastly, fund managers who could anticipate the market outlook and reduce their equity holding prior to the recessional market will provide better returns to the funds they managed.