CHAPTER 2

UNIT TRUSTS IN MALAYSIA

Before examining the research issue, it is crucial to understand the Malaysian unit trust industry. This chapter describes the background of unit trusts and its structure. This chapter also illustrates the unit trust industry in Malaysia and its development.

2.1 INTRODUCTION TO UNIT TRUSTS

2.1.1 What Is Unit Trust?

The structure of unit trusts in Malaysia is generally the same as those in other countries. A unit trust is a form of collective investment scheme set up under a trust deed. It is an investment scheme that is managed professionally. This type of pooled fund collects money from investors who have the same investment objectives and seek the investment management of a particular company. The money is pooled together to buy large amounts of securities, creating a larger market position for all the investors. The pooled monies in the unit trust fund are invested in a diversified portfolio of securities inclusive of stocks, bonds, short-term money market instruments and other assets, in accordance with the investment objectives of unit trust fund and as permitted under Securities Commission (SC) Guideline on Unit Trust Funds. Securities are put into a pool and then investors participate in returns that reflect their nominated product. These investors' savings are invested and managed. Different trust funds have different investment objectives. Some invest for growth, some for income, some invest solely in Malaysia, some across Asian countries, some in the world market. Investment decisions are made by professional fund managers appointed by the trustees. The managers charge an annual fee in return. The portfolio of assets owned by a unit trust is divided into a quantity of identical portion called a 'unit'. Investors are the unit holders. Unit trusts are sometimes referred to as open-ended funds. When more money is invested into a fund, more assets are bought. When redemption is made by unit holders, the management companies are obliged to buyback the outstanding units at the trading value without the need to have a secondary market. The trading price is known as the net asset value (NAV). The value of the trust is computed daily by the trustee. It is the total market value of the assets, divided by the number of units in issue which give a bid and offer price. Unit trust in Malaysia has a single price. Its bid and offer price are the same under this single price regime, while the sales charge is declared separately.

Since the abundance of fund literature deals with the U.S. mutual funds, it is worth explaining the U.S. mutual funds. There is a fund manager for each fund who trades the fund's assets in accordance with the fund's investment objective. Most funds are watched over by a trustee who ensures that the fund investment advisor and the other service institutions manage the fund properly and also in the best interests of the fund's investors. The mutual funds industry in the U.S. is governed by the Investment Company Act 1940. Mutual funds are operated by registered investment companies. There are three types of funds, namely, open-end funds (mutual funds), unit investment trusts (UIT) and the closed-end funds. Basically, there is no difference between the two terms of 'mutual funds' and 'unit trusts'. In Malaysia, these two terms are used interchangeably.

2.1.2 Benefits of Investing in Unit Trusts

(a) Diversification

Unit trusts offer a convenient and easy way to diversify. Diversification involves the mixing of different investments within a portfolio. A unit trust can hold several hundred assets in its portfolio, from different industry or different region with different risk classes. Diversification substantially decreases the risk of the poor performance of any one asset. Regardless of the size of investment, each unit consists of an investment of diversified securities. Thus, unit trust investment minimizes the amount of unsystematic risk, through efficient diversification. Further, investors may include different type of funds in their portfolio to suit their investment objectives.

(b) Professional Management

Moreover, funds are managed by a team of professionals who work full time, with extensive and real time information resources. Unit trusts are actively managed funds, which mean that through an annual charge, unit holders receive the service of managers who actively monitor the portfolio of the fund. The fund managers research the market and economic trends, and then use the information they gather to make decisions about buying, holding or selling securities to enhance the portfolio returns. Hence, they are able to study and select the appropriate investment that generates the highest possible returns for the funds in long term.

(c) Liquidity

Investment in unit trusts is liquid as investors can sell their investment and turn it into cash easily within a short period of time. Unit trusts provide this benefit as managers are there to issue additional units and to redeem sold units from investors. Managers are required by regulation to set aside some cash for the purpose of unit redemption.

2.1.3 Fees

There are two different types of fees charged on the unit trusts in Malaysia; they are the transaction fees and the annual fees. The two types of transaction fee are the initial service charge and the repurchase fee, which is known as the exit fee. The annual operating fee includes the management fee. The initial service charge is the preliminary charge per unit on each investment during the purchase of unit. This includes the brokerage commissions. The one-time repurchase fee is the exit fee levied upon withdrawal, while the annual management fee represents the operating and investment analysis fees charged by the management company. Other fees that are charged annually to the fund include the auditing fees, the trustee fees, the marketing and advertising expenses of the fund.

In Malaysia, the initial service charge is included in the fund prices, range from 5 to 7 per cent. However, in the U.S. and U.K., the initial fees range from 0 to 6 per cent. The back-end fees are designed to discourage investors from exiting the funds. It normally declines for each year and it goes to the brokers. The 12b-1 fee is similar to the service charge in Malaysia. This fee pays off the financial advisor for the professional service they provide to the investors. The financial advisor in the U.S. provides after sales service to investors, such as to advise and recommend products based on the investors risk profile. Investors who do not want to use the service of an advisor can buy no load funds. No front-end or back-end load funds have no or low 12b-1 fee incurred; whereas financial service fees are incurred based on the level of services provided by the advisor. However, no-load funds are not available in Malaysia.

2.1.4 Types of Funds

The four major types of mutual funds in Malaysia, when separated by investment objectives, include equity, bond, balanced and money market funds.

Equity Funds

Equity funds invest mainly in equities. These funds may in turn be divided into more specific objectives based on the types of equities they are invested in. These objectives include: aggressive growth, long term growth, dividend income and growth and income.

Aggressive Growth Funds

Aggressive Growth funds have the potential for generating high returns over the long term, due to their nature concerning this sort of activity, the aggressive growth fund manager will focus their investment on those securities that have the potential to grow very rapidly in value. These funds invest mainly in mid cap to small cap companies whose share prices are expected to rise rapidly. They tend to generate major gains during the up market, but their prices fall when the market tumble. However, the volatility is very much higher than for any other type of fund.

Growth Funds

Like aggressive growth, growth funds also invest in stocks of fast growing companies, however, more emphasis is given to large established names known as blue chip. In bull markets, growth funds will not appreciate as high as their aggressive peers, but these funds perform slightly better in the down market.

Value Funds

Value funds invest in stocks highlighting the earnings power or asset value. Their price-to-earnings ratios or price-to-book ratios are generally low.

Income

These funds aim for reliable income while also looking for steady long-term growth. These funds invest in income-producing stocks and dividend-paying securities such as bonds or convertible assets.

Growth and Income

Growth and income funds invest in rapid growing stocks. They have the potential to provide more capital appreciation than the income funds, but are less volatile than growth funds.

Value funds, Growth and Income funds and Balance funds usually perform better than Growth funds during the down market, but do not out-perform Growth funds during the up market. Therefore, these funds suit the need of risk-averse investors who seek a current income instead of capital growth.

Balanced funds

Balanced funds invest in both equity and in interest bearing securities; for example, bonds and convertibles, in about equal portions. The investment is based upon the specified policies and investment objectives.

Bond funds

Bond funds invest in debt securities such as government and corporate bonds, thus realising their income from interest. This type of funds generally has lower volatility than stocks and has the potential to offer higher gain than the money market funds. Their main source of return is in the form of income payment.

Money Market Funds

Money Market funds hold very short term money market instruments at the lowest risk. This type of fund often tends to keep their NAV constant. They invest in low risk and high quality debt securities.

Islamic Unit Trusts

Islamic unit trust funds are getting more important lately. It provides an avenue for investment for those investors who are sensitive to Shariah compliance.

Islamic funds arise from the Shariah restriction on investment. Islamic funds have a confined pool of stocks to invest in because the investment of Islamic funds is regulated by both the capital market regulation and the Shariah principle while the conventional fund is only governed by the capital market regulation.

There are four main prohibitions in this investment. First, the prohibition of 'riba' means that interest income is not permitted. The second is the prohibition of 'gharar', that includes the restrictions on uncertainty, risk and hazard. The next is the prohibition of 'maisir', that forbids gambling and investment in business related to it. Lastly, some activities that are unhelpful to the society are banned. These include prohibited food and drinks and immoral activities. Investment of Islamic funds in stocks that relate to the above restricted business activities is not allowed.

2.2 THE STRUCTURE OF UNIT TRUSTS

The structure of unit trusts is similar to any other company. A trust sell shares to investors and has trustees. A unit trust involved a three-way relationship between a unit holder, a trustee and a manager.

2.2.1 Unitholders

Unitholders invest in the fund on the basis of the prospectus. They have the right to the trust assets. Their right and liabilities are defined in the deed and prospectus. They are given detailed information about the fund through its prospectus and annual reports. The approval of the majority of the fund's unitholders is normally needed to amend the trust deed. However, the unitholder cannot take part in the management decisions of unit trust.

2.2.2 Management Company

A unit trust scheme is managed and administered by a managerial company approved by the Security Commission, which should be a subsidiary of a financial institution supervised by Bank Negara. The role of unit trust management companies is to manage the operation of funds aiming to make a profit. The relationship between the unit trust management company and the investors is governed by the deed. The management companies act in the interest of the unit holders and at least one third of the directors are independent directors. The role played by the management companies are to be responsible for the start-ups, to provide research, portfolio management services and investment decisions consistent with fund investment objectives, to provide management and regulatory oversight, to maintain and hold portfolio cash and securities in safe keeping, to provide a wide range of shareholder services and to provide fund marketing and advertising of funds, as well as redemption of units. In many cases, these management companies are subsidiaries of insurance companies and banks.

2.2.3 Trustee

The role of trustee is to safeguard the interest of unit holders, distribute income and ensure that the manager keeps to the fund's objective. The fund's assets are held by the trustee and the trustee received all income from those assets. Trustee has to obtain approval from the Securities Commission in order to act as trustee of the fund. The trustee then executes the trust deed. The trust deed is a legal document set up to control a trust. The obligation of the trustee and the manager; and the rights of the unitholders is specified in this document. It is the constitutive document of the unit trust, prepared by the manager, and is registered with the securities commission. It set out: (1) the obligations of the trustee and manager, (2) the right and liabilities of unitholders; and (3) the term and conditions governing the management of the unit trust. The appointment of the trustee must be approved by the Securities Commission (Sections 288, 289) of the Capital Markets and Services Act 2007 (CMSA). Section 300 provides the duties of a trustee as follows: (a) take control or custody of all assets of a unit trust scheme and hold it in trust for the investors; (b) to ascertain whether the management company has committed any breach of provision of the deed; (c) ensure the management company remedies any breach; (d) notify the Securities Commission of any contravention to the deed or law.

2.2.4 Regulator

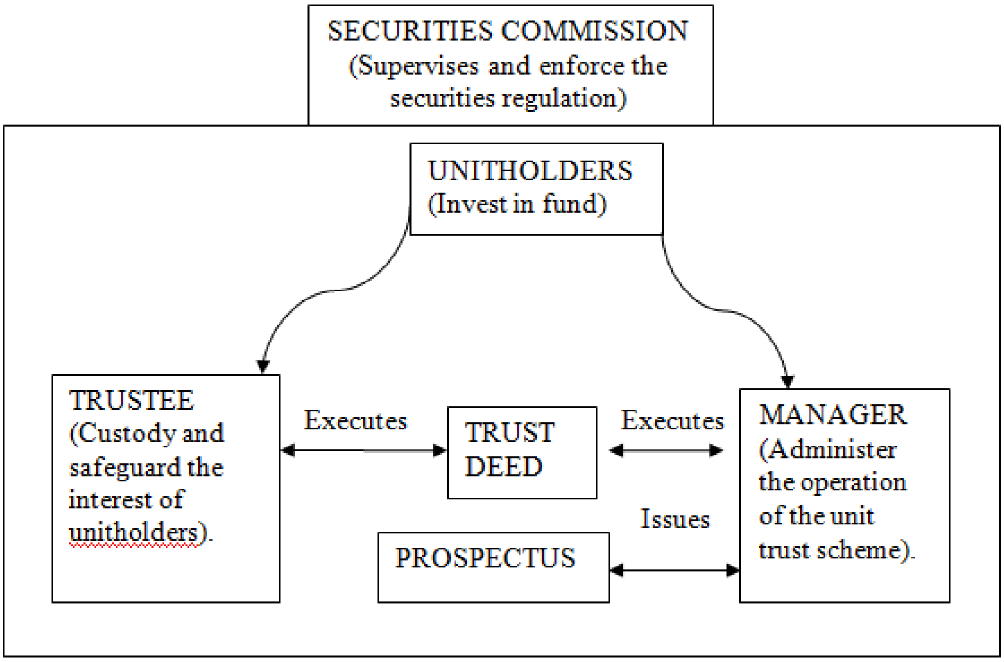
The Securities Commission regulates the unit trust industry in Malaysia. The principal legislation governing this industry is the Securities Industry Act 1983, Securities Commission Act 1993 and Guidelines on Unit Trust Funds. These legislations are formed to outline the roles and responsibilities of the manager and trustee and to protect the investing public and to ensure a fair application of policies in considering proposals by manager of unit trust funds. The appointment of the trustee and the manager must be approved by the Securities Commission. They act as the regulator and watchdog of the Malaysian capital market and ensure that the fund management industry operates in a systematic and efficient manner.

In 2000, the Securities Commission issued a directive to all institutions stating that in order to market unit trust products, institutions need to seek approval and register with the Federation of Investment Managers Malaysia (FIMM). The objectives of FIMM are to improve the regulatory environment for unit trusts; formulating sound and ethical business practices to promote the interest of the unit trust industry and provide investor protection; to provide information, assistance and other services to its Members; and to promote public awareness of the benefits and risks of investing in unit trusts.

The role and the responsibilities of all the parties is illustrated in Figure 2.1.

Figure 2.1

The Structure of Unit Trusts



2.3 THE DEVELOPMENT OF UNIT TRUSTS IN MALAYSIA

The first unit trust was established by British investors who started up the Malayan Unit Trust Ltd in 1959, while the first U.S. no-load fund came in 1928. In the Southeast Asian countries, the earliest funds were established in the Philippines in 1957. Singapore has the same origin as Malaysia. Both Thailand and Indonesia started their first fund much later in 1977. The unit trust industry in Malaysia has a history of over fifty years. The first twenty years from 1959 to 1979, which is known as the formative years, marked a slow growth period with low public interest in this new investment vehicle. By the end of 1977, there were only eighteen funds set up by five management companies.

The following decade (1980 to 1990) involved government participation in the industry. In 1981, the Amanah Saham Nasional (ASN), which is a National Unit Trust scheme was launched by Permodalan Nasional Berhad (PNB) under the nation's New Economic Policy (1971-1990). This ASN scheme was very successful. Although the main purpose is to improve the economic status of Bumiputras, it brought the popularity of unit trusts to the Malaysian community and many private management companies were attracted into this industry.

New unit trust management companies, which were related companies of financial institutions, emerged in this period. Then, the unit trust industry grew tremendously from 1991 to 1999. The enactment of the Security Commission Act 1993[1], the introduction of Islamic funds in 1994, the amended rules on the Employees Provident Fund (EPF) in 1995, allowing contributors to invest some of the balance in the retirement account into approved unit trusts, facilitated the growth in this industry.

The tempo of growth was disrupted by the 1997 Asian financial crisis, although unit trusts were still expanding. In the period from 2000, the unit trust industry in Malaysia has been very promising, both in terms of the number of funds as well as in net assets under management. The industry recorded double digit growth every year. The Net Asset Value (NAV) grew from RM43 billion in Year 2000 to RM169 billion, as at 31 December 2007. However, the growth was interrupted by the global crisis in 2008. The breaking down of the property market in the USA, which led to the banking crisis and the global credit difficulties; subsequently, the sharp falling share prices globally, which led to massive losses, bankruptcies and bailouts. Even though the industry net asset

[1] The unit trust industry is governed by the Security Commission. The laws and guidelines, amongst others, the Capital Market and Services Act 2007, the Securities Commission Act 1993, the Securities Commission's guideline, were set up to regulate and govern the development of the unit trust industry.

value (NAV) dropped by 20 per cent over the year of 2008, the industry net asset value (NAV) to Bursa Malaysia market capitalization has increased from 15 per cent to more than 20 per cent. The global financial crisis in 2008 has led to all asset classes (such as equities, commodities, bonds or even properties) to go down tremendously. The good news is that unit trust prices plunge less in magnitude, as compared to the drop in share prices in Bursa Malaysia.

As at 31 December 2008, there were 39 mutual fund management companies and 579 launched funds (410 conventional funds and 147 Islamic-based), with the total units in circulation of 241.057 billion and the total net asset value of funds of RM134.406 billion (USD38.96 billion), consists of RM117.218 billion (USD33.98 billion) of conventional funds and RM17.188 billion (USD4.98 billion) of Islamic funds. The ratio of the fund's total asset value to the market capitalisation of RM663.82 billion (USD192.41 billion) in the Bursa Malaysia is 20.25 per cent. The growth of Malaysian Shariah-funds is remarkable. Its total NAV for Islamic funds Statistics shows that in 2004, it amounted to RM6.8 billion (USD1.97 billion), which grew to RM17.0 billion (USD4.93 billion) in December 2008. Likewise, the total number of Shariah funds launched in Malaysia, has doubled, from 65 (2004) to 147 at the end of 2008. As at end of January 2010, there were 39 unit trust management companies managing 601 funds; 164 or 27.3 per cent of the total funds were Shariah compliant with a total NAV of 14.0 per cent of the industry's net asset value, while the conventional funds represented 72.7 per cent or 437 of the total industry (FIMM).

The total net asset value of Islamic unit trusts stood at RM22.45 billion (USD6.54 billion), 11.3 per cent of total net asset value of RM198.217 billion (USD58.15 billion), as at 28 February 2010. Islamic financing is becoming popular both among the Muslim and non-Muslim population. Muslim investors can be divided into two groups. The first group of investors invests solely in the Islamic products and is sensitive to Shariah principles. The next group is indifferent to Shariah compliance but looks for maximum performance. Dr Mohamad Akram Laldin, the CEO and Executive Director of International Shariah Research Academy for Islamic Finance (ISRA) stated that non-Muslims are the majority subscribers of Islamic products in Malaysia. As at 29 March 2010, 88 per cent of the securities listed on Bursa Malaysia are Shariah compliant. These securities represent two-thirds of market capitalization in Malaysia. As such, the choice of investment of securities from the securities list by the unit trust fund managers in Malaysia for Islamic funds and conventional funds may not be very different. Thus, another issue of interest in this research is whether diversification benefits can be achieved by taking into consideration this Shariah restriction on unit trust investment and the feasibility of diversifying investment in funds across the conventional and Islamic combination is examined.

Foreign funds have increased tremendously following their launch in recent years. This is a result of the liberalisation of Bank Negara Malaysia, which allowed the increase of the limit for mutual fund companies to invest in foreign currency from the previous 30 per cent of net asset value (NAV) to 50 per cent of the NAV effective from 1st April 2007.

Summary Statistics on the Development of Unit Trusts in Malaysia

The following highlights the characteristics of the Malaysian unit trust industry. The unit trust industry in emerging economies such as Malaysia has grown significantly since its launch. The choice of funds available has also increased over the years. Mutual funds contributed only approximately 20 per cent to the domestic stock market capitalization. This amount is relatively low as compared to developed markets like the U.S. and the U.K.

Table 2.1 to table 2.5 report the summary statistics of the mutual fund industry. Table 2.1 summaries the size of the Malaysian unit trust capitalization compared to the Kuala Lumpur Stock Exchange market capitalization. Column 1 presents the number of management companies. There was an increase from 13 management companies in 1992 to 39 management companies in April 2010. The number of approved funds (column 2) also shows a tremendous growth from 39 funds in 1992 to 572 funds in April 2010. Column 3 shows the number of unit in circulation. There was an increase from 14.36bil units in 1992 to 186.13 8bil units in April 2010. The total net assets value reported in the last column shows an increase from RM15.72bil in 1992 to RM227bil in end of 2010. The fraction of mutual funds total net asset value to the stock market capitalization indicates the role played by the mutual fund industry in the local capital market. A high ratio represents a well-developed mutual funds industry. The percentage trend of NAV to the total market capitalization in Malaysia is shown. There was an increase from 6.4 per cent in 1992 to 20.25 per cent at the end of 2008 and then it shrunk to 17.79 per cent, as at 31 December 2010.

Table 2.1

Descriptive Statistics on Units Trusts in Malaysia, 1992 - 2010

	No. of Management Companies	No. of Approved Funds*	Units in Circulation (billion units)	NAV to Stock Market Capitalization (%)	Market Capital (RM billion)	Total NAV (RM billion)
2010	39	572	289.366	17.79%	1,275.28	226,810
2009	39	565	273.879	19.18%	999.45	191.706
2008	39	579	241.057	20.25%	663.733	134.406
2007	39	521	208.342	15.32%	1105.836	169.414
2006	38	416	154.067	14.35%	848.516	121.762
2005	36	340	139.386	14.17%	695.025	98.485
2004	35	291	118.627	12.10%	722.19	87.385
2003	37	243	99.651	10.96%	663.622	72.733
2002	37	195	84.53	11.15%	481.614	53.7
2001	37	164	71.39	10.18%	465.029	47.34
2000	34	127	63.85	9.74%	444.559	43.3
1999	34	107	52.63	7.83%	552.49	43.26
1998	32	95	46.45	10.34%	374.565	38.73
1997	31	84	45.25	8.93%	599.888	53.57
1996	30	77	38.98	7.43%	806.999	59.96
1995	27	67	31.94	8.36%	565.431	47.27
1994	20	52	25.12	7.02%	508.832	35.72
1993	16	44	17.03	4.54%	619.604	28.13
1992	13	39	14.36	6.39%	246.009	15.72

Source: FIMM

In order to provide a general view of the value of Malaysia unit trusts and the market capital a comparison is provided to a few selected countries around the world, the majority of which are from developed countries. The information in Table 2.2 reports the Net Asset Value of Mutual Fund as a percentage of Total Market capitalization for selected countries in 2007. This report allows us to compare the size of the mutual funds market relative to the capital market in various selected countries. It shows the weight carried by the unit trust funds investment in the capital market. This implies there is room for the Malaysian unit trusts to grow and that unit trusts provide an important investment tool and make a great contribution to the Malaysian economy.

Table 2.2

Net Asset Value of Mutual Fund as a Percentage of Total Market Capitalization for Selected Countries (2007)

	Country	Market cap (USD 'billion)	Total Net Assets of Mutual Funds (USD'billion)	Market Cap to TNA (%)
1	USA	17,923	12,021	67.1
2	Japan	4,615	714	15.5
3	United Kingdom	3,722	945	25.4
4	China	3,059	434	14.2
5	France	2,653	1,990	75.0
6	Hong Kong	2,180	818	37.5
7	Germany	1,976	372	18.8
8	Canada	1,620	698	43.1
9	Switzerland	1,207	176	14.6
10	India	1,090	109	75.1
11	Malaysia	334	51.23	15.3

Note: Taken from various sources and computed for this thesis

The mutual fund industry in Malaysia appears to have experienced a significant growth as reported in Table 2.3 (the total asset value in 2004 of USD 22,994 million increases to USD 73,566 in 2010) and unit trusts become an important component in the financial market and an important alternative financial product for individual investors.

Table 2.3

Total Net Assets of Mutual Funds of Numerous Countries (USD'million)

	2010	%	2004	%
World	**24,772,208**	**100.0**	16,152,911	**100.0**
Americas	**13,586,869**		**8,780,593**	
United States	11,820,667	47.7	8,095,082	50.1
Canada	636,947	2.6	413,772	2.6
Europe	**7,902,835**		**5,640,425**	
Switzerland	261,893	1.1	94,405	0.6
Turkey	19,545	0.1	18,112	0.1
United Kingdom	854,413	3.4	492,731	3.1
Austria	94,670	0.4	103,709	0.6
Belgium	96,288	0.4	118,373	0.7
France	1,617,176	6.5	1,370,954	8.5
Ireland	1,013,549	4.1	467,620	2.9
Italy	234,313	0.9	511,733	3.2
Luxembourg	2,512,874	10.1	1,396,131	8.6
Netherlands	85,924	0.3	102,134	0.6
Spain	216,915	0.9	317,538	2.0
Sweden	205,449	0.8	107,064	0.7
Denmark	89,800	0.4	64,796	0.4
Finland	71,210	0.3	37,658	0.2
Greece	8,627	0.0	43,106	0.3
Liechtenstein	35,387	0.1	12,543	0.1
Norway	84,505	0.3	29,911	0.2
Poland	25,595	0.1	12,015	0.1
Portugal	11,004	0.0	30,514	0.2
Russia	3,917	0.0	1,347	0.0
Slovakia	4,349	0.0	2,171	0.0
Asia and Pacific	**3,140,889**	12.7	**1,701,421**	10.5
Australia	1,455,850	5.9	635,073	3.9
China	364,985	1.5	NA	
Hong Kong	NA		343,638	
India	111,421	0.4	32,846	0.2
Japan	785,504	3.2	399,462	2.5
Korea	266,495	1.1	177,417	1.1
New Zealand	19,562	0.1	11,711	0.1
Pakistan	2,290	0.0	NA	
Philipines	2,184	0.0	952	0.0
Taiwan	59,032	0.2	77,328	0.5
Malaysia	73,566	0.3	22,994	0.1
Africa				
South Africa	141,615	0.6	54,006	0.3

Source: Investment Company Institute

To provide a general relative view of the mutual funds industry of Malaysia's neighbouring countries, Table 2.4 presents the growth of total net assets of mutual funds of numerous countries. The growth of total net assets of mutual funds in Malaysia is relatively higher than other Asia Pacific countries. It is worth noting that the negative growth of total net assets of mutual funds in Malaysia in year 2008 (-24%) is lower than the other Asia Pacific countries (-44.3%). The growth rate of the Malaysia total net assets is 31.4 per cent in 2010, while it is only 13.3 per cent in the Asia Pacific region. This implies that mutual funds in Malaysia appear to have experienced a significant growth and mutual funds become an important component in the financial market.

Table 2.4

The Growth of Total Net Assets of Mutual Funds of Asia Pacific Countries, 2005 – 2010

	2005 %	**2006 %**	**2007 %**	**2,008 %**	**2009 %**	**2010 %**
Asia and Pacific	**15.5**	**26.7**	**49.7**	**(44.3)**	**33.5**	**13.3**
Australia	10.2	23.5	38.0	(29.5)	42.5	21.4
China	NA	NA	NA	(36.3)	38.0	(4.3)
Hong Kong	34.0	37.0	29.7	NA	NA	NA
India	23.4	43.6	86.5	(42.2)	107.4	(14.5)
Japan	17.7	23.2	23.3	(19.4)	14.8	18.9
Korea	12.2	26.6	31.0	(32.7)	19.2	0.7
New Zealand	(11.8)	24.8	15.8	(28.9)	66.4	10.8
Pakistan				(59.9)	12.0	3.0
Philipines	52.2	6.6	35.4	(39.6)	17.8	46.8
Taiwan	(25.9)	(3.0)	5.0	(20.9)	26.4	1.3
Malaysia	**13.3**	**32.4**	**48.5**	**(24.0)**	**43.8**	**31.4**

Source: Investment Company Institute

The Malaysian unit trust industry offers a unique dataset for this research in terms of the number of management companies. For the purpose of this study, Table 2.5 presents the descriptive statistics on unit trust management companies and the approved fund size in Malaysia, as at 30 October 2008. It shows the size of the unit trust families in Malaysia. The fund management companies were ranked and then arranged in the order of size from large too small. The cumulative fund size and the percentage are calculated and reported in column 6 and column 7.

As shown in Table 2.5, the approved fund size of the largest unit trusts family being 95,950 units, which represent 28.5 percent of the total approved fund size of 336,959 units of the 39 families. The total approved fund size of the ten largest unit trusts family being 265,050 units constitute 81.7 percent of the total approved fund size of 336,959 units of the 39 families. The concentration of the approved fund units in a few large unit trust management companies is a unique characteristic in Malaysia's unit trust industry. In this setting, the analysis of the impact of fund management company membership on investors risk and return is able to shed new light on the mutual fund literature.

Table 2.5

Descriptive Statistics on Units Trusts Families and Approved Fund Size in Malaysia, 30 October 2008.

	Fund Name	Appr.Fund Size (mil units)	%	Rank	Cum. Size	%
1	PUBLIC MUTUAL BERHAD	95,950	28.5	1	95,950	28.48
2	CIMB-PRINCIPAL ASSET MANAGEMENT	37,400	11.1	2	133,350	39.57
3	HLG UNIT TRUST BERHAD	25,120	7.45	3	158,470	47.03
4	PRUDENTIAL FUND MANAGEMENT	22,700	6.74	4	181,170	53.77
5	AMANAH SAHAM NASIONAL BERHAD	20,300	6.02	5	201,470	59.79
6	AMINVESTMENT SERVICES BERHAD	19,500	5.79	6	220,970	65.58
7	OSK-UOB UNIT TRUST MANAGEMENT	17,130	5.08	7	238,100	70.66
9	AMANAH MUTUAL BERHAD	14,300	4.24	8	252,400	74.91
10	MAAKL MUTUAL BERHAD	12,650	3.75	9	265,050	78.66
11	HWANGDBS INVESTMENT	10,300	3.06	10	275,350	81.72
12	PACIFIC MUTUAL FUND BERHAD	9,950	2.95	11	285,300	84.67
13	RHB INVESTMENT MANAGEMENT SDN	9,100	2.7	12	294,400	87.37
14	TA INVESTMENT MANAGEMENT	6,100	1.81	13	300,500	89.18
15	AVENUE INVEST BERHAD	5,900	1.75	14	306,400	90.93
16	ALLIANCE INVESTMENT MANAGEMENT	4,600	1.37	15	311,000	92.30
17	CMS TRUST MANAGEMENT BERHAD	3,700	1.1	16	314,700	93.39
18	ASM INVESTMENT SERVICES BERHAD	2,760	0.82	17	317,460	94.21
19	ARECA CAPITAL SDN BHD	2,000	0.59	18	319,460	94.81
20	ASIA UNIT TRUSTS BERHAD	1,950	0.58	19	321,410	95.39
21	AFFIN FUND MANAGEMENT BERHAD	1,800	0.53	20	323,210	95.92
22	AMANAHRAYA UNIT TRUST	1,600	0.47	21	324,810	96.39
23	APEX INVESTMENT SERVICES BERHAD	1550	0.46	22	326,360	96.85
24	BIMB UNIT TRUST MANAGEMENT	1,502	0.45	23	327,862	97.30
25	ING FUNDS BERHAD	1,200	0.36	24	329,062	97.66
26	PHILLIP MUTUAL BERHAD	1,150	0.34	25	330,212	98.00
27	INTER-PACIFIC ASSET MANAGEMENT	1,100	0.33	26	331,312	98.32
28	PELABURAN JOHOR BERHAD	900	0.27	27	332,212	98.59
29	AMANAH SAHAM SARAWAK BERHAD	750	0.22	28	332,962	98.81
30	KENANGA UNIT TRUST BERHAD	700	0.21	29	333,662	99.02
31	PHEIM UNIT TRUSTS BERHAD	700	0.21	30	334,362	99.23
32	PERMODALAN BSN BERHAD	500	0.15	31	334,862	99.38
33	PTB UNIT TRUST BERHAD	500	0.15	32	335,362	99.53
34	SAHAM SABAH BERHAD	500	0.15	33	335,862	99.67
35	KSC CAPITAL BERHAD	400	0.12	34	336,262	99.79
36	GLM REIT MANAGEMENT SDN BHD	237.5	0.07	35	336,500	99.86
37	AMANAH SAHAM KEDAH BERHAD	200	0.06	36	336,700	99.92
38	PENGURUSAN KUMIPA BERHAD	150	0.04	37	336,850	99.97
39	PELABURAN HARTANAH NASIONAL	100	0.03	38	336,950	100.00
	TOTAL	336,959	100			

Source: FIMM

Table 2.6 reports the average number of equity stocks held in funds in each fund company and the summary number of equity stocks held in funds in equity funds in Malaysia. In a mutual funds study in the U.S. by Kacperczyk, Sialm and Zheng (2005), the average number of stocks held for the period 1984 to 1999 stood at 97.12, with a minimum of 11 stocks held and a maximum of 3,439 stocks held. Apparently, the number of stocks held in Malaysia-based equity funds is very low (mean of 29.26, minimum of 23 and maximum of 40), as compared to the optimum portfolio of 481 stocks suggested by Shawky and Smith (2005). Therefore, we assume that there is still room for fund managers in Malaysia to diversify the investment in the portfolio of unit trust funds. This data explains the reason diversification is a relevant issue in unit trusts in Malaysia. The level of diversification is low in Malaysia. The average number of stocks held in funds in Malaysia uniddt trust management company as reported in Table 2.6 for the period in study is 29; while a well-diversified portfolio required a portfolio to hold at least 30 stocks.

Table 2.6

Average Number of Stocks Held (Between the Periods December 2007 to May 2008)

Fund Company	Number of Stocks Held		
PMB	37		
HLG	28	Mean	29.3
CIMP	36	Median	28
RHB	33	Min	23
MAA	40	Max	40
OSK	30	Std Dev	5.8
AMI	26		
PRU	35		
PAC	24		
ING	27		
TAI	27		
AVE	23		
HWD	25		
ALL	37		
APX	23		
Grand Average	29		

Note: This table shows the average number of equity stocks held in funds in each fund company. The stockholdings information is extracted from the fund annual reports between the period of Dec 2007 and May 2008. It represents the average of the number of stocks held in the equity and balanced funds in the fund company.

Table 2.7 reports the unit trust net asset value by type of funds in Malaysia as at April 2010. The equity category makes up the largest group of funds in the market. It is 73 per cent of the total asset value of the industry. Offshore funds make up about 7 per cent of the total asset value in the industry. These funds are excluded in this study due to the complication of macroeconomic risks.

Table 2.7

Net Assets of Value by Type of Funds in Malaysia
(April, 2010)

Category	NAV (RM'billion)	% shares	Number of Funds
Equity	161.9	73	282
Off shores	14.7	6.6	147
By sector	1.2	0.5	16
Malaysia	146	65.5	119
Bond	12.7	6	69
Money Market	25.7	12	68
Mixed Asset	7.9	4	104
Others (real estate,	13.68	6	91
Total	216.9	100	614

Source: Lipper