

CHAPTER V

Case Study

Malayan Unit Trusts

History and Growth

The Malayan Unit Trusts Ltd. was initially set up by the Cooper Brothers, a firm of chartered accountants. It was then a foreign company registered in Australia. In 1959 it became a local company with a paid-up capital of \$10,010 and is now increased to \$100,000 since 1963.

South East Asia Development Corporation purchased, in 1963, 100 per cent of the share capital of Malayan Unit Trusts which since then is a wholly owned subsidiary.

It was set up as a profit-making business concern though the nature of its business differs from any ordinary business enterprise. It was set up because of its operations which met the nation's requirements i.e. to give the small investors the same benefits as those which are ensured by the purchase of diversified securities by a large shareholder.¹

Since its establishment in 1959, the growth of the company has been tremendous. The share capital has increased by approximately ten times. There has also been an increasing number of investors (unit-holders) yearly. However, the units bought by individuals have not increased proportionately with

1. In an interview with Mr. Wadling, General Manager of Malayan Unit Trusts.

the increase in the numbers of investors.

Malayan Unit Trusts will invest only in those stocks with proven dividend record and potentials of good earnings. The decision of the management keeps on changing because stock capable of earning good dividends will be purchased and those that cannot earn good dividends will be disposed of in the Stock Exchange.

Nature of the Malayan Unit Trusts

Malayan Unit Trusts Ltd. is a flexible trust. It is to be differentiated from the fixed type of unit trust.²

The Trust Deed lays down the type of stock the Company must invest in and the ratio/percentage of the types of securities to be purchased is also spelt out. At this juncture a fictitious company, say, Malayan Fixed Trusts Ltd. is taken to illustrate this point.

The First Fixed Fund 19X4

	Ratio
Cold Storage Holding Ltd.	8
Malayan Tobacco Company	2
Straits Times Press Ltd.	1
Metal Box Ltd.	1
Batu Lintang Rubber Ltd.	6
Australian Amalgamated Ltd.	2
Total	<u>100%</u> 20

The environment is assumed best for the present portfolio. Now suppose that economic conditions change. The prices of

2. Refer to Diagram II page 8.

tin and rubber fall very low. Due to mismanagement of funds of the Cold Storage Holdings are embezzled. On the other hand, the Malayan Tobacco Company, Straits Times Press and Metal Box are progressing very well. The investment committee will want to invest more in the latter three companies and less of the tin and rubber companies. This cannot be done because it will not be consistent with the Trust Deed which generally spells out that stock can only be disposed of or purchased in the same ratio.

On the other hand, there are advantages such as preventing wrong investment by imprudent management if the conditions are the same as before.

With the enforcement of the Companies Act on April 16th, 1966 the Malayan Unit Trust will become a public company. If that is the case, the company has to restrict its operations such as advertising. For example, materials for advertising will have to be approved by the trustee before any advertisement can be put up. The company has some time ago attempted to adapt to this new legal environment. This will safeguard the interest of the shareholders.

Investment Policies and Practices

One of the policies of Malayan Unit Trusts is to invest safe and secured securities on the Malaysian Stock Exchange. Undoubtedly the best investment in the government securities such as defence bonds which has the least risk involved.

Malayan Unit Trusts does not invest in government securities for a number of reasons, one of which is low return.

The best income derived from investment in securities is tin shares. The dividend can rise as high as 40% per annum.³

The First, Second and Third Malayan Funds and Malaysian Commerce and Industry Fund have between 19 to 24 per cent of their investments in tin. This will earn a good income for the unit holders. There are a number of factors affecting limited percentage of funds in the shares.

In the first instance, tin is a wasting asset. As such the value of tin shares will depreciate. The dividend derived from tin shares actually comprises: (i) the recovery of the capital and (ii) net income.

Secondly the market for tin is not stable. The price is often affected by the stockpiling of tin by the United States. Since the price of tin cannot be controlled by Malaysia, but depends on the unstable demand of other countries, it can be deduced that the tin price will tend to fluctuate violently. When the price fluctuates, there is a tendency of unstable revenue from sales and hence dividends.

As far as rubber is concerned the price is fairly low - about 70 cents per pound. Income (or dividends) derived from rubber will be lower than that from tin but apparently the dividend

3. A look at the portfolio on page 47 will give a clear idea.

fluctuates between 16 to 24 per cent.⁴ This is better than the dividends derived from industrials.

However, the demand for natural rubber is much hit by the competition presented by synthetic rubber. A small amount of funds is invested in rubber (natural) shares, ranging from 7.64 to 13.11 of the funds of the First, Second and Third Malayan Funds. The Commerce and Industry Fund had investment in rubber in 1964. However, 6.074 of the C.I.F was invested in rubber in 1965 as indicated in Table I.

Table I
INVESTMENT PORTFOLIO FOR 1964 and 1965

	First Fund		Second Fund		Third Fund		M.C.I.F.	
	1964	1965	1964	1965	1964	1965	1964	1965
Industrials	67.282	66.496	69.035	71.733	58.501	57.654	69.168	58.479
Fan	19.793	20.241	19.005	19.254	24.357	22.033	27.026	26.258
Rubber	7.741	7.710	7.640	6.052	13.641	14.364	-	6.074
Properties	-	-	-	-	-	-	1.285	-
Miscellaneous:								
Short Deposit (M) Ltd.	1.812	5.356	1.239	2.598	1.835	5.105	2.194	6.137
Cash	3.372	0.197	2.481	0.363	0.644	0.614	0.327	3.052
	100%	100%	100%	100%	100%	100%	100%	100%

Source: Manager's personal file and auditor's certificates.

4. In an interview with Mr. Schulver, a Chartered Accountant of the Cooper Brothers, Ltd.

With regard to industrial shares the fluctuation in the prices of these shares is not so great as compared to those of tin and rubber shares. For this reason a good percentage is invested in industrial shares. This will ensure the safety of the capital of unit holders. The value of the unit will be ensured. Should there be a drop on the price of the unit, the drop will only be gradual and not sudden. On the other hand the value of the unit may be expected to appreciate and is quite true at the moment because of political stability and consequently favourable economic conditions.

Investment in properties is considered not good because its speculative nature! The portfolio for 1964 shows 1.285 per cent in the Malaysian Commerce and Industry Fund and it was reduced to nothing in the following year.

There is a small percentage in other forms such as short deposits and cash. This is to ensure a little supply of cash for operating use.

Other Policies and Practices

The Malayan Unit Trust does not intend to invest in foreign companies. The policy here is to help boost the Malaysian economy. In so far as it is possible, the investment committee feels it their duty to invest in local companies.

Another policy of the company is gradual Malayansation. This is not to say that there will not be any Australian or European for that matter, to manage the Company. Within their capacity and capability they try to train local personnel with view of replacing the expatriates. The process is in progress,

though gradually.

With the training of personnel, the directors hope to set up ties for trading between Malaysia and Australia on a long term basis.

Because of these policies, and the investment policies, the company is able to obtain small funds from many people. The small funds are pooled together and are injected into the economy, thus benefitting the country.

Certain factors are taken into consideration, when the investment committee decides to invest after exhaustive studies. These are directorate, management, type of business, paid-up capital, reserves, past dividend performance, future prospects, etc.. The selection of portfolio based on these factors will determine the success or failure of the unit trust.

Deed of Trust

All the unit trusts, namely, First, Second and Third Malayan Funds and Malaysian Commerce and Industry Fund, operate in accordance with the Trust Deeds. The Trust Deed is drawn up along the lines of the Trust Deed of the unit trust in Australia by the Australian Fixed Trust.

Some of the main points dealt with by the Trust Deed are as follows:

- (1) definition of the terms used in the Deed.
- (2) The powers of the managers especially in relation to investment such as the percentage of a certain types of security to be held and the allocation of

dividends or reinvestment.

- (3) The constitution of initial investment portfolio and how these portfolio should be sub-divided.
- (4) The method of adding to the trust funds.
- (5) The daily valuation of the prices of the units and the service charge.
- (6) The procedure of issuing certificates.
- (7) The distribution of dividends, when and how.
- (8) The calculation of the yield.
- (9) The approval of advertising material by the trustee.
- (10) The rights of the unit holders.⁵

There are other points such as the keeping of a register of the unit holders, the trustee's remuneration and indemnity and the provision for future management.

Functions of the Managers and Trustee

The managers of the trust are responsible for the running of the trust and are also responsible for the launching of new unit trusts such as the Malaysian Savings Fund. They must see to it that there is a fair and just price for the sale of units to the public. Provisions are made by them to meet the future expenses of the management of the company.

The managers work for the benefit of the unit holders and their work is under the control and supervision of the trustee, the Chartered Bank, which also acts as the guardian

of the interest of the unit holders. Apart from this, the Chartered Bank is responsible for the collection and distribution of dividends to the unit holders every six months. It is also the custodian of all the shares.

Sales Procedure and Daily Valuation of the Price of the Units.

Units may be bought through the Malayan Cooperative Insurance Society or direct from the managers of the company. The minimum number of units that can be purchased is 100 and thereafter in multiples of fifty.

The prices of the various units are published in the newspapers daily. The Malayan Cooperative Insurance Society is paid a commission for the sale of the units.

The managers guarantee to purchase the units from the unit holders whenever the latter wish to dispose them. The Malayan Unit Trusts quotes two prices - the seller's price and buyer's price. The buyer's price is one at which the managers purchase the units from the unit holders. The seller's price is one at which the managers sell to the prospective unit holders. It is always the case that the seller's price is higher than the buyer's price.⁶ The difference is meant to be adjustments in the price quoted for the accumulated undistributed income of the fund for brokerage, stamp duty, management fee, etc..

The aim of unit trusts is long term investment. For this purpose, the company tries its best to prevent speculation on

⁶. See Appendix II page 70

the prices of the unit. The difference between the two prices will, indirectly discourage speculation. It will be profitable only if unit holders hold their units for very long.

Section 88(a)(ii) of the Companies Act states the Trust Deed must contain covenants binding the management not to sell any interest to which the Deed relates other than at the price calculated in accordance with the provisions of the Deed and the management will, at the request of the unit holders purchase the interest at the calculated price in accordance with the provisions of the Deed.

This particular provision requires regular valuation of the portfolio to ensure that buying and selling of the units are in conformity with the Trust Deed. For this matter, daily valuation are established. The method of arriving at the buyer's and seller's prices quoted daily, is to find the value of all the investment. To this is added the cost of having all those investments transferred into the name of the trustee plus any income in the hands of the trustee. Here we have a certain total to which is added the initial service charge and the resultant is divided by the number of units of that fund, on that particular day. This gives the seller's price and is rounded to the nearest cent.

The buyer's price is the bid price made by the managers but such price may not be less than the proportionate value of the securities of the trust were they to be realised.

When the value of the trust is calculated on the basis of the market values of the securities, the net value of the trust is ascertained and the price is rounded to the nearest cent.⁷

It is possible for the unit holders to dispose of his units whenever he likes. Furthermore, the value of the units will rise or fall in the manner of the changes in the prices of the Funds investment as quoted in the Malaysian Stock Exchange.

Under normal economic situations the prices of the units remain stable. As indicated in the table of the prices of the trust fund for the month of May, 1964.⁸ However, the buyer's price dropped for the various trust funds in March, 1965, e.g. from \$2.27B of May, 2nd, 1964 to \$1.78R in March, 31st, 1965.

The table of the prices of the trust funds for the end months show generally that there has been a fall in the prices of the units.⁹ This is more clearly seen in Appendix II (1.).¹⁰

The fall in the prices of the units from May, 1964 to March, 1965 are attributed to two main factors. The first is the political disagreement between Singapore and the

7. See Appendix II for the prices of the units.

8. See Appendix II'a), page 70

9. See Appendix II, page 72

10. See page 75 for Appendix II.

Federation and, secondly, confrontation against Malaysia by Indonesia was intensified. These two primary reasons created fear in the investors and hence the fall of the value of the units. As a result many unit holders tried to get rid of their units.

However, the prices of the four unit trusts have arisen.¹¹ This is because the political atmosphere is more calm and favourable for investment. Above all, confrontation may end in the very near future with the Bangkok peace talk. Thus, it is highly possible that the units may appreciate in value apart from its dividends-earning capacity.

Malaysian Savings Fund

Unlike the other four funds, the Malaysian Savings Fund operates more or less like a saving bank in that investment is done through savings with the company. The minimum sum for the initial application is \$100/- and thereafter in minimum amounts of \$30/- (or more) per investment. The amounts invested in the Malaysian Savings Fund are used to purchase the units of the four unit trusts at the prevailing prices quoted in the newspapers. This Fund also offers expert guidance in savings through investment.

It claims to offer the investor two new ways to save:

(1) Reinvestment of the investor's dividend

(2) Insurance of the investor's investment through an

11. For example, the prices are B2.28, B1.61, B1.18 and B.93 for the First, Second, Third and M.C.I.F. respectively on August 15, 1966.

insurance protection plan.

In either, there is an excellent opportunity for capital or capital appreciation.¹²

The money is invested in the same way as the other funds managed by the Malayan Unit Trusts. The only difference is that the money is reinvested in the Malaysian Savings Fund which means that additional units of Malaysian Savings Fund are purchased and the investor will not receive the dividend cheque every six months.

This Fund has a special feature in that the investor can insure for the amount he wants over any stated period of years. It is possible to have other types of insurance and this arrangement can be done through the Malayan Unit Trusts with the Great Eastern Life Assurance Company.

If an investor plans to save \$30/- every month for 10 years (total is \$3,600/-) he can insure himself for this sum with reducing term insurance, the premium for which is deducted from the savings. This is illustrated in Appendix III.¹³

Once the unit-holder discontinues with the insurance, the protection automatically stops but he can still make periodic investments in the Malaysian Savings Fund.

With regard to the other four unit trusts, there are also safeguards for the investors, such as ready cash and maximum

12. See Prospectus of the Malaysian Savings Fund, page 76

13. See page 76 for Appendix III.

safety of investment through diversification.

The Cost of Administration

The cost of administration is fixed; it does not exceed 10% of the price paid for the units plus a half-yearly charge against the income of the trust, which shall not exceed one half of one per cent ($\frac{1}{2}\%$) of the total value of the trust six weeks prior to income distribution. This covers all the expenses of organising and managing the Trust, all office expenses, salaries, Trustee's fees, audit and legal fees.¹⁴

Distribution of Income and Taxation

Distribution of income derived from dividends is done half-yearly i.e. every six months, to unit-holders on a pro-rata basis. Due allowance is made for adjustments in the first distribution which is less than six months and is generally less than the subsequent distribution.¹⁵

Accompanying the dividend cheque by the Chartered Bank is a tax exemption voucher which discloses to the registered unit-holder^{ers} how much of the gross amount paid to them has been taxed. The Controller-General of Income Tax advises that a distribution to the unit-holder is treated for tax purposes as if it had been a dividend from a single company.

The Chartered Bank (trustee) receives all income after deduction of tax at the standard rate of 40% and merely passes

14. Manager's Personal File.

15. Refer Appendix IV page 78 for an illustration.

on to the unit-holders the right to recover the tax deducted in excess of personal liability.

Surtax is payable in the normal way on the gross income or distributions. The trustee issues the tax vouchers and these will be accepted by Inland Revenue Department as evidence of payment of tax.

Funds for Future Management.

The trustee, Chartered Bank, consents to be the trustee on the understanding that the managers place under its control a certain proportion of the initial service charges and the amount will be released to the managers from time to time.

The size of the fund is agreed upon between the managers and the trustee. The funds will ensure that there is sufficient fund for the future management of the Malayan Unit Trusts.