What do I need to know about Unit Trust investments?

The Basics

Introduction to Unit Trust - What is a Unit Trust?

A unit trust fund is a collective investment scheme which pools the savings of investors with similar investment objectives in a special "trust" fund managed by professional fund managers. The fund will then be invested in a diversified portfolio of equities, fixed income securities and other assets in accordance with the Fund's investment objectives and as permitted by the Trust Deed.

The organisation of a unit trust is a tripartite relationship between the Manager, the Trustee and the Unitholders. The obligations and rights of each of the three parties are specified in the Trust Deed, a legal document drawn up by the Manager and registered with the Securities Commission. The Trust Deed is designed to govern the operations of the trust fund and protect the Unitholders' interests. The Manager is responsible for the management and operations of the trust fund whilst the Trustee holds all the assets of the fund.

Mode of Operation

(Governed By Trust Deed)

Unitholders
to invest in the fund

Trustee
to safeguard the assets of the fund

Manager
to administer the operations of the fund

Invest
(Permitted Investments)

- Malaysian Government Securities, Government Investment Certificates, Treasury Bills
- Securities listed on the local/foreign stock exchanges
- Cagamas Bonds, Bankers' Acceptances, Unlisted Loan Stocks, Corporate Bonds
- Negotiable Certificates of Deposits, money at call, deposits with financial institutions
- Any other investments as approved by Securities Commission

Possible Capital Gains & Dividends

Regulatory Framework

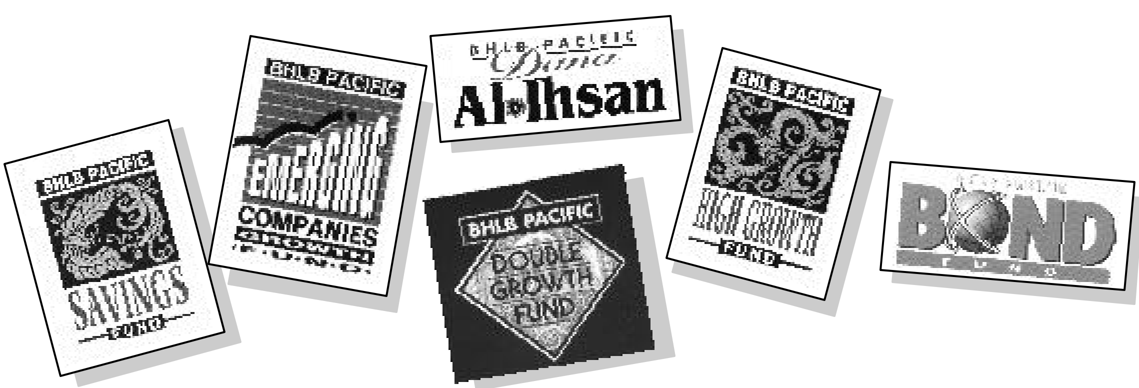
The Securities Commission is responsible for regulating all matters relating to unit trusts. It has, with the approval of the Minister of Finance, issued the Securities Commission (Unit Trust Scheme) Regulations, 1996 (the "Regulations") and formulated the Guidelines on Unit Trust Funds (the "Guidelines") to govern the operation and administration of unit trust schemes. The Regulations and the Guidelines have been established with the objective of providing a regulatory environment that would protect the interests of the investing public and facilitate the orderly development of the unit trust industry. All parties involved in unit trust schemes must comply with the Regulations and Guidelines including all relevant legislation.

The appointment of the Management Company, its Directors, Chief Executive Officer, Investment Committee members, Shariah Adviser and the Trustee must be approved by the Securities Commission.

The Benefits

How can I benefit from investing in Unit Trust?

Unit trusts provide Unitholders a simple, convenient and less time-consuming method of investing in securities compared to investing directly in the stock market. Moreover, Unitholders are able to benefit from the expertise of full-time professional fund managers and accordingly, need not have to worry about what stocks to buy or when to get in and out of the market. By investing in unit trusts, investors have the opportunity to spread their money over a diversified portfolio of assets which otherwise may not be possible on their own. There are also potential risks involved and these are itemised on page 10-11.



Why would I want to invest in Unit Trusts?

Listed below are the benefits associated with balanced/equity and non-equity funds:

1 Professional Investment Services

You have full-time professional fund managers to manage your investments for you. Investment decisions are backed by extensive research, market analysis and vigilant monitoring of the economic and market environments. Investing on your own, you could spend unlimited time on research that professional management would have a better insight on.

2 Diversification Opportunities

By investing in unit trust funds, you have the opportunity to spread your money over a diversified portfolio of assets which otherwise may not be possible on your own.

3 Minimised Risks

Unit trust funds provide you with an alternative investment option with lesser risks than investing directly in the stock market.

4 Possible Protection against Inflation

It is not how much you earn but how much you save that determines your ability to accumulate wealth. By investing your savings regularly in unit trust funds, you may achieve a measure of protection against inflation through the capital appreciation of your investment, if any.

5 Affordable

As the Minimum Initial Investment amount in most unit trusts is relatively low, they are affordable as compared to direct investment in securities, of which bonds are included.

6 Convenience

You can rid yourself of the unnecessary stress and paperwork that comes with managing your own stocks and shares or bonds portfolio, keeping track of your contract notes, share certificates, rights and bonus issues and so on. It is very easy to purchase or sell back your units at any of the Manager's offices or agents offices. On top of this, the Manager will send you the Fund's interim and annual reports to keep you informed on the performance of the Fund.

7 Liquidity

Unlike your investments in fixed assets such as land and properties, you may sell all or part of your unit holdings to the Manager on any Business Day making it easy to withdraw your money.

Specific Benefits Associated with the BOF :

1 Tax-Exemption

Interest income and capital gains accrued by the BOF are tax-exempted. Furthermore, investment instruments such as government and corporate bonds are also tax-exempt. This would effectively mean potentially better returns to you.

2 Diversification

The BOF portfolio will hold bonds from several issuers at any one time. This effectively means the effect of market factors on isolated issuers will only slightly affect you as compared to owners of individual bonds who could lose most or all of their investments.

3 Affordable Investment Amounts

Typically, usual minimum amounts for an individual direct bond investment are around RM10,000. BOF enables you to benefit from bonds with a minimal initial investment amount of just RM1,000. Additional investments may be made at any time with a minimum of RM500.

4 Liquidity

You can redeem your BOF investments at any time on any business day whenever you choose as compared to owners of individual bonds who can only trade through a brokerage account.

What kind of risks am I taking?

Any investment carries with it an element of risk. The potential risks associated with balanced/equity fund can be analysed as follows:

a) Market Risks

Any purchase of equities must represent a risk investment as unit trust fund principally invests in listed stocks, therefore, as market conditions change, the price of units may fall as well as rise, and income produced by the fund may also fluctuate. Accordingly, the manager cannot guarantee any dividend or investment returns to the unitholders. However, by investing in a wide range of shares, the manager attempts to balance this risk with the investment rewards that can be made.

b) Particular Stock Risks

Any irregular fluctuation of a particular stock may affect the unit price. This impact is however minimised because the fund invests in a wide portfolio of investments, thus spreading the element of risk.

c) Returns Not Guaranteed

As a result of the above risks, the manager is not able to guarantee the dividends and capital appreciation of the fund.

d) Loan Financing Risk

If you obtain a loan to finance your purchase of units, you need to understand that:

- borrowing increases the possibility for gains as well as losses;
- if the value of your investment falls below a certain level, you may be asked by the financial institution to top up the collateral or reduce the outstanding loan amount to the required level;
- your ability to pay your loan instalments may be affected by unforeseen circumstances in the future such as loss of employment

e) Currency Fluctuation Risk

If a percentage of the value of the fund is invested overseas, the fund's assets and income will be denominated in a number of different currencies other than Ringgit Malaysia and thus fluctuations in foreign exchange rates which are unpredictable, may have an impact on the income and the variation of the assets of the fund.

f) Business Risks of Emerging Companies

Emerging companies may be more volatile and risky compared with mature and well-established companies.

g) Business Risks of Growth Companies

Some investments are focused on shares of companies that are still in the growing stages of their business life-cycles. While these companies offer higher potential for growth, the inherent business risks of these less matured companies are also higher, even though these risks are mitigated by diversification and our filtering exercise.

Managing Risks for the Balanced/Equity Funds

The manager will take reasonable steps to ensure that the above potential risks are managed by:

a) Compounding the returns on investments over the long term period and capitalising on the market cycles to manage short term fluctuations;

b) Constructing an efficient portfolio of assets as diversification reduces the risk significantly in comparison with investing in one or two counters only.

Specific Risks Associated with the BOF

a) **Interest Rate Risk / Market Risk**
Prices of bonds move in opposite direction with interest rates. When interest rates rise, prices of bond fall. This rise in interest rate would cause the investor to face the risk of capital loss. But when interest rates fall, prices of bond would increase, therefore, investors would see capital gains.

b) **Credit / Default Risk**
This refers to the creditworthiness of the bond issuer and its expected ability to repay debt. Default happens when the issuer is not able to make timely payments of interest on the coupon payment date or principal repayment on the maturity date.

c) **Liquidity Risk**
Liquidity is the ability to convert an investment portfolio to cash without suffering a noticeable loss in value. The Malaysian bond market is not as liquid as the equity market and this may affect the price of any bond.

d) **Manager's Risk**
The performance of any unit trust fund also depends on the experience, knowledge, expertise and investment techniques adopted by the investment manager.

e) **Inflation / Purchasing Power Risk**
Inflation can be defined as increases of price level of goods and services and is commonly reported using the Consumer Price Index as a measure. Inflation is one of the major risks to investors over the long term and results in uncertainty over the future value of the investments. Inflation reduces purchasing powers of money. In an inflationary environment, fixed rate securities are exposed to higher inflation risks than inflation linked securities.

Managing Risks for BOF

The manager will take reasonable steps to ensure that the above potential risks are managed by:

a) Lengthening or shortening the fund's average maturity (within the Fund's objective) in anticipation of changing interest rates;
b) Selecting investments that are bank or government guaranteed or secured against assets to mitigate default risk, if the securities carry ratings lower than "BBB";
c) Diversifying into an array of fixed-income securities to greatly reduce the risk compared to investing in a single class of asset or a single bond;
d) Channelling profits in excess of the average annual dividend into a reserve account which will be used in times when profits are insufficient to meet the average dividend payment.

The investment manager will seek to reduce all these risks as associated with both the equity and non-equity funds by virtue of its experience, the analytical process adopted by its fund managers and by structuring a broadly diversified investment pool.