UNIT TRUST GUIDEBOOK

FIMM
Federation of Investment Managers Malaysia

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INVESTING IN UNIT TRUSTS: A Practical Introduction

This guide is designed for new investors who are looking to invest in unit trusts. The contents of this guide aim to provide an overall view of unit trusts and it does not contain all advice or information on the subject matter. The examples provided in this guide are meant for illustrative purposes only and reflect the market conditions at a specified point in time, which may lapse and affect its relevance. If in doubt, you are strongly recommended to seek professional advice. For more information, please visit our website at *www.fimm.com.my*.

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SECTION 1:
What are investments?

An investment is a commitment of funds to one or more assets that will be held over some future time period, in the hope that it will generate more income. Unit trust funds are a type of investment and offer potentially lucrative returns. This guide by the Federation of Investment Managers Malaysia (FIMM) provides a clear overview of investing, particularly in unit trust investments.

The difference between savings and investments

Savings and investments are related but fundamentally different financial instruments. While **the primary aim of savings is to protect the real value of money you put away, investments aim to grow its value.** The table below highlights some of the key differences between the two.

	SAVINGS	INVESTMENTS
PROS:	• Keeps the value of money saved intact • May provide small returns as determined by interest rates • Always available when you need it • Risk is minimal and usually guaranteed by banks or by the government • Requires little financial knowledge	• Grows the value of your money • May return several times the amount of your initial investment • Helps you build a nest egg for your retirement, children's education fund, etc. • Value of investment tends to correlate to inflation
CONS:	• Little increase in value over time • Inflation may significantly diminish value • Not completely risk-free	• Risk level varies but generally higher than savings • Money usually locked in for a predetermined period of time • Requires investors to understand the product and the market
EXAMPLES:	• Savings Accounts • Fixed Deposits	• Equities (shares in company) • Bonds • Property • Unit Trusts

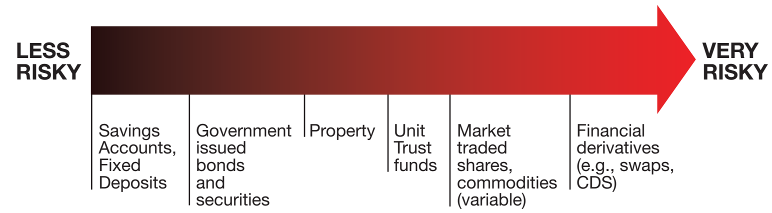
Table 1

Table 1 shows that savings and investments have different characteristics that can help you gain financial independence. Ideally, a healthy financial portfolio contains both savings and investments to support your goals at different stages in life.

For example, it is always good to have some money in savings in case of unexpected emergencies such as medical bills or repairs to your home. But you should also have some money invested to grow over time to pay off loans or in preparation for your retirement, child's education or other future expenses.

Some investments such as shares or equities are considered to be **among the riskiest assets** as they depend on a wide variety of variables, including market conditions, economic conditions, effectiveness of the company's management and government regulations. The relative risk spectrum of investment assets is given in the diagram below:

RISK OF SAVINGS AND INVESTMENT



The diagram above provides a snapshot of some of the more common investments and their relative level of risk. Although the risk profile of each individual asset may not fall neatly into the common categories above, the diagram provides a general guide for investors.

The Risk/Reward Trade-Off
Riskier investments tend to offer higher returns, but with the possibility they may fail and not provide any returns at all. Less risky investments are more dependable and predictable, but generally offer lower returns.

Be aware of your risk tolerance level and ensure that your investments are evenly distributed across various types of investment assets!

DID YOU KNOW...

- *Banks use your money to provide loans and in return distribute a portion of their profits in the form of interest on your savings?*
- *Savings schemes, including Fixed Deposits, return an interest that is only slightly higher than the forecasted rise in the cost of living—otherwise known as inflation—to ensure that the value of your savings does not diminish?*

SECTION 2: What are unit trusts?

Unit Trusts in a Nutshell
Unit Trusts are a form of collective investments that allow investors with similar investment objectives to pool their savings, which are then invested in a portfolio of shares or other assets managed by professional fund managers

Depending on the **type of fund**, the fund manager might invest in the following types of assets:

- Bonds
- Stocks
- Derivatives
- Money market instruments
- Cash

The operation of a unit trust fund is governed by a deed—a document that sets out the obligations of the trustee and Unit Trust Management Company (UTMC), including the details of how the unit trust fund is to operate.

The fund manager from the Unit Trust Management Company manages the fund by making investment decisions, while the fund trustee functions as the overseer of the Unit Trust Management Company. The trustee also acts as the custodian of the fund's assets and protects unit holders' interest by ensuring that the manager follows regulatory requirements as set out in the deed.

If all goes well, the fund's assets earn returns, which are reflected in the fund's Net Asset Value (NAV). The NAV appreciates or depreciates based on the performance of the fund.

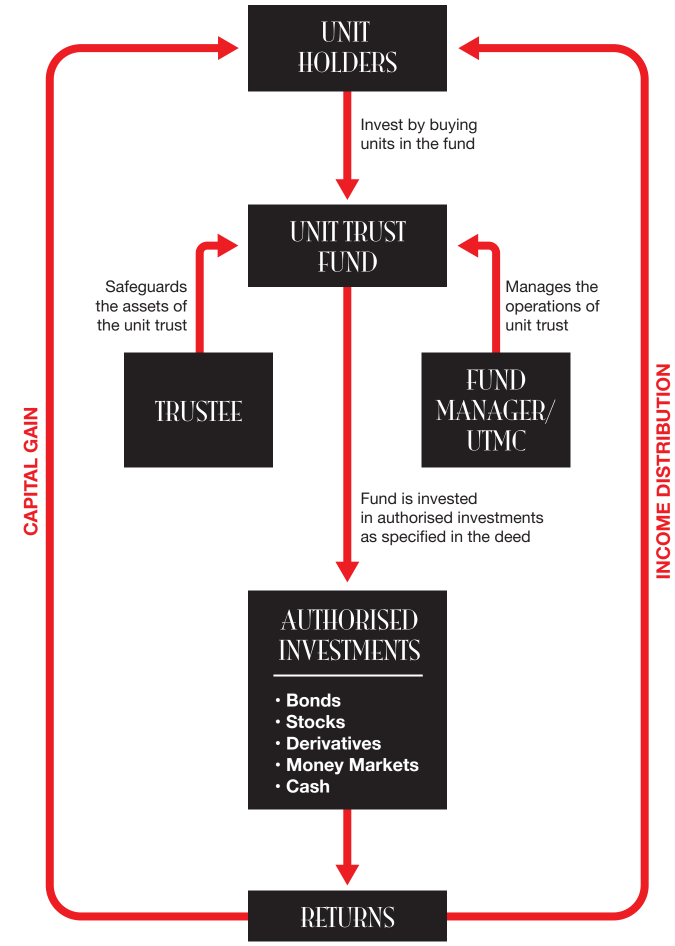


***Figure 2: How Unit Trusts Work*

Unit Trust funds are usually provided by financial institutions such as **Unit Trust Management Companies (UTMCs)**. UTMCs are authorised to issue or offer for purchase of units of a unit trust scheme as defined in Sub-section 2(1) of the Capital Markets and Services Act 2007.

UTMCs offer many types of unit trust funds, which differ from each other in terms of investment objectives, risks and rewards.

Types of funds and their profiles

EQUITY FUNDS
Equity funds are the most common type of unit trusts. Generally, a major portion of its assets is held in equities or securities of listed companies. Equity funds are popular in Malaysia as they provide investors with access to the companies listed on Bursa Malaysia. Accordingly, the performance of the units is linked to the performance of Bursa Malaysia: a rising market normally correlates to an increase in the value of the unit, and a falling market normally correlates to a decrease in its value.

FIXED-INCOME FUNDS
Fixed-Income funds are mainly invested in Malaysian Government Securities, corporate bonds, and money market instruments such as bankers' acceptance and fixed deposits. The objective of a Fixed-Income fund (or bond) is to provide regular income with less emphasis on producing capital growth. It is possible, however, for Fixed-Income funds to generate both capital gains and losses during periods of volatile interest rates.

MONEY MARKET FUNDS
Money market funds operate in a similar way to savings accounts in that the unit price is normally fixed. Money market funds invest in short-term government securities and in low-risk money market instruments that in effect operate as short-term deposits (loans) to banks and other low-risk financial institutions.

BALANCED FUNDS
Some investors may wish to invest in all the major asset classes to reduce the risks or shortcomings associated with investing in any single asset class. A balanced unit trust fund generally has a portfolio comprising equities, fixed-income securities and cash.

SHARIAH FUNDS
The main objective of Shariah or Islamic funds is to provide an alternative avenue for investors whom are sensitive to Shariah requirements. Shariah funds exclude those companies involved in activities, products or services related to conventional banking, insurance and financial services, gambling, alcoholic beverages and non-halal food products. Though Shariah funds are designed to serve Muslim investors, non-Muslim investors can also invest in Shariah funds.

Identifying types of funds

All Unit Trust Management Companies are legally required to issue a prospectus and you are advised to read the prospectus to identify the type of fund that best suits your investment goals.

A Unit Trust Prospectus is a document that describes a fund for potential investors. It tells you how and what the fund will invest in, its potential risk and other material information such as the fund's Net Asset Value (NAV). NAV is the total value of the fund. It is generally calculated daily and reflected in the per-unit price of the fund.

EXAMPLE: Importance of prospectus

XYZ Bhd is Unit Trust Management Company and has launched a fund called the “XYZ Growth Fund”. In this case, judging by its name, we may perceive it as a growth fund.

However, by viewing the “XYZ Growth Fund” prospectus, we discovered that it is an **equity fund** which invests 75% to 98% of the fund’s net asset value (NAV) in equities. In this case, the name of a fund did not give us the information to identify the fund type.

Since it is an equity fund, we should recognise that it is a riskier investment, and this is confirmed on the XYZ’s website which rates the fund’s risk level as 4 out of 5 (where 1 is low and 5 is high).

DID YOU KNOW...

- *As a unit trust holder you do not own the assets purchased by the fund directly. However, you do hold direct ownership of the fund.*
- *The return of investment in unit trust funds is usually in the form of income d istribution and capital appreciation.*
- *Each unit held returns an equal amount, so the more units you hold the more you will receive if the fund distributes income.*
- *Unit trusts offer investors access to assets otherwise not normally available to them.*
- *In the short-term, the certainty of investment returns in most unit trust funds is less than that offered by fixed deposits. However, in the medium- to long-term (i.e., 3 to 20 years), unit trust investments generally provide better returns at levels of risk acceptable to most investors.*

SECTION 3: Why invest in unit trusts?

Benefits of investing in Unit Trusts

- **Portfolio Diversification**
  Unit Trust investments allow the investor to invest in a broader range of securities than they would be able to when investing on their own. Diversification minimises exposure to any one type of risk.

- **Asset Liquidity**
  There is an ease in selling and buying units as compared with investing directly in shares of companies where prices and opportunities to transact depend on the availability of both buyers and sellers.

- **Continuous Professional Management**
  Unit trust funds are managed by professional and full-time fund managers who have the necessary skills, relevant experience and dedicated resources to maximise investments. This takes the worry out of the day-to-day decision whether to buy or sell an a financial asset – the fund manager does it all for you.

- **Access to Broader Array of Financial Assets**
  Fund managers can trade in investment products normally inaccessible to the individual investor, such as government and corporate bonds. With unit trust funds, an individual investor can enjoy the benefits of these investment products with a small capital outlay.

- **Tax Benefits**
  Capital profits are tax-free.

- **Affordability**
  Unit trust investments require only a minimal capital outlay as most funds accept both small and large investments, making it affordable for the average investor to get started.

How do I invest in Unit Trust Funds?

Investing in unit trusts is a personal process. Depending on several factors—including your risk appetite and **tolerance for risk** (known as your **risk profile**), **investment goals** and **investment timeline**—you may find that some unit trust funds are more suitable than others.

Some questions to consider before investing in Unit Trust funds:

1. What is your risk profile?
2. What are your goals in undertaking this investment?
3. Does your investment strategy align with the fund's goals?
4. What is your investment timeline?
5. Do you understand the potential risk of investing in the fund?
6. Are you aware of the types and amounts of fees such as sales charges, exit fees, switching fees and annual management charges?

Important: **Unit Trusts are not suitable for short-term investors** who are looking to cash out within a year's time. It is also not suitable for speculators looking to make quick returns.

Unit Trust investments are best suited to investors looking to **invest over the medium to long-term.** Though some financial knowledge is necessary and helpful, careful and attentive investors will be able to learn the basics of unit trust investing from their **Unit Trust Consultant.**

When you have decided to invest in unit trust funds, your unit trust consultant (UTC) will ask you a series of questions to help you make suitable and informed investment decisions.

The questions will determine your investment goals, investment horizon and risk appetite amongst others. Generally, the higher your appetite for risk, the better prepared you are to invest in riskier funds.

As an informed investor, you should also understand the types of fees involved and your rights and responsibilities as a unit holder.

Distribution channels for Unit Trust Funds

The distribution channels for the marketing and distribution of unit trust funds comprise:

1. **Unit Trust Management companies (UTMC)**
   UTMC markets and distributes its own products.

2. **Institutional Unit Trust Advisers (IUTA)**
   IUTA distributes unit trust products of multiple UTMC according to its distribution agreement.

3. **Corporate Unit Trust Advisers (CUTA)**
   CUTA distributes unit trust products of multiple UTMC according to its distribution agreement.

4. **Unit Trust Consultants (UTC)**
   Individuals who have passed Computerised Unit Trust Examination (CUTE) by FIMM and are attached to either one: UTMC, IUTA or CUTA.

All members, distributors and consultants must be registered with FIMM to be authorised to market and distribute unit trust.

FREQUENTLY ASKED QUESTIONS (FAQs)

1. Are Unit Trusts risk-free?
No. However, the risk is lower as compared with other investment instruments because unit trusts are based on diversification, and risk is reduced through the purchase of a wide array of different assets.

2. Why shouldn't I put all my money in a growth fund?
Your choice of funds depends on a number of factors:
- Your current life stage
- Your level of savings and income
- Your risk tolerance
- Your investment goals
- Your investment timeline

If you are young and do not need quick access to your money, a growth fund may be your best choice since it has time to grow and increase the value of your investment. If you generally prefer investments with lower risk, a growth fund might not be right for you as there is a chance you may panic and sell the units should the market take a turn for the worse.

3. There are so many funds out there. How do I choose the right one?
You should consider a number of factors before you decide to invest in any one fund:
- Whether the UTMC is registered with the Securities Commission Malaysia
- Whether the fund fits your risk and investment profile
- Whether the fund is approved by Securities Commission Malaysia

The list of approved funds is available at *www.fimm.com.my*. You should also review the fund's past performance before investing in the chosen fund.

Reminder: **Past performance should not be relied upon to predict the future performance of the fund.**

4. Can I change my mind after investing?
Yes, there is a six-day reconsideration period (also known as "cooling off period") for first time investors. Should you change your mind about your investment and withdraw your application within this timeframe you, are entitled to a full refund of your application money.

5. I've heard that I can invest some of my Employee Provident Fund (EPF) savings into Unit Trusts. Is this true?

Yes. Eligible EPF members with savings above the Basic Savings prescribed by EPF are allowed to participate in Members Investment Scheme and invest in unit trusts approved by EPF.

For more information about investing your EPF savings in approved unit trust funds, visit FIMM's website at *www.fimm.com.my*.

6. How do I know that my UTC is giving me the best advice possible? What are my options if I am not happy with the service I am getting?

UTC will give you the best advice by recommending investment that best suit your investment objective and risk profile. If you are dissatisfied with the service you have received from your UTC you should contact FIMM's complaints bureau.

Once a complaint is received, FIMM will conduct investigations, hold hearings and impose penalties if the need arises. The availability of a structured channel to handle complaints and safeguard investors' interests provides added confidence to the investing community.

Any complaints on the improper conduct and other irregularities involving FIMM members, distributors and UTCs should be directed to:

Legal Secretarial & Regulatory Affairs
Federation of Investment Managers Malaysia (FIMM)
19-06-1, 6th Floor, PNB Damansara, 19 Lorong Dungun
Damansara Heights, 50490 Kuala Lumpur
Tel : 03 – 2092 3800 (Direct Line to Complaints Bureau)
Fax : 03 – 2093 2700
Email : *legalcomp@fimm.com.my*

Accurate and adequate information on the nature of complaints is important to facilitate FIMM in undertaking effective proceedings and investigations.

NOTE OF CAUTION:-
Investors are NOT to make any payment in cash to the UTC or issue a cheque in the name of the UTC.

About FIMM

The Federation of Investment Managers Malaysia (FIMM) was established in 1993 to develop the unit trust industry and promote unit trusts as the preferred vehicle for investment and wealth management.

On 20 January 2011, FIMM was recognised as a Self Regulatory Organisation ("SRO") by the Securities Commission Malaysia via a gazette order. As an SRO, FIMM strives to build the highest level of trust, integrity, standards and ethics for investor security, advocate growth, educate the investing public and to preserve market integrity by upholding investor confidence towards investing in unit trusts and private retirement schemes (PRS).

As an SRO, FIMM has enhanced its corporate governance by creating a robust framework for active surveillance, enforcement and disciplinary action for breaches of rules and guidelines. One of our main tasks is to enforce guidelines and regulations pertaining to our members and unit trust consultants (UTCs).

Log on to www.fimm.com.my
for more information on the Unit Trust Investment Management Industry.