

FIMM 2021 RESEARCH ON UNIT TRUST SCHEMES' FEES AND CHARGES

December 2021

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List of Abbreviations

CUTA	Corporate Unit Trust Adviser	MER	Management Expense Ratio
DIY	Do-it-Yourself	NAV	Net Asset Value
EPF	Employees Provident Fund	NWS	FIMM Nationwide Survey 2019
EPF-MIS	EPF-Members Investment Scheme	PRS	Private Retirement Schemes
FIMM	Federation of Investment Managers Malaysia	UTS	Unit Trust Schemes
IUTA	Institutional Unit Trust Adviser	UTMC	Unit Trust Management Company

Chapter 1

Introduction

01

Research Objectives

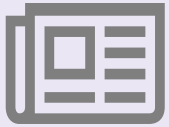
02

Industry Participation

03

Research/Data Limitation

Research Objectives



Noting the significant evolution in the investment and investors' landscape over the years, FIMM conducted the Nationwide Survey (NWS) in 2019 to identify the current investment pulse of the nation.

One of the **findings from the NWS** was on **fees and charges, where:**

- **36%** of investors cited **high fees and sales charges** as their main deterrent in investing in Unit Trust Schemes (UTS)/Private Retirement Schemes (PRS); and
- **23%** of **investors quoted fees and charges** as their main cause of dissatisfaction.



This research **aims** to:



Educate investors on **UTS fees and charges**

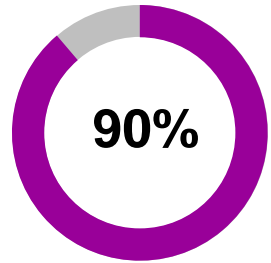


Utilise research findings for **investor education and awareness activities;** and

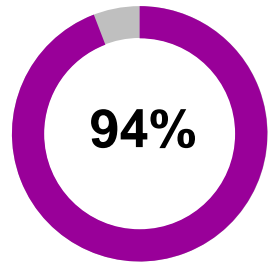


Provide recommendations on **good practices for fees and charges.**

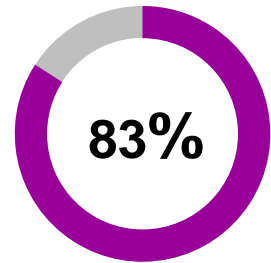
Industry Participation



36
Unit Trust Management Company (UTMC)



51
Institutional Unit Trust Adviser (IUTA)



15
Corporate Unit Trust Adviser (CUTA)

91%

*Members & Distributors participated and **submitted complete information** for this research*

Research / Data Limitation



Incompatibility of Members/Distributors' data that was handled by external vendors, with FIMM's requirements



Members/Distributors unable to provide reconcilable data for historical/old information (up to 7 years) required for the research



Most of the points in this research can only be elaborated to the extent of information provided by Members/Distributors



Consequently, some of the statistics shared will not reconcile with information published on FIMM's website or the Securities Commission Malaysia's (SC) website

Chapter 2

Executive Summary

Executive Summary

Fees and Charges

- **Actual sales charges are much lower** than the maximum sales charges stated in prospectus.
- **Downward trend** for both **average sales charges** and **total cost of investing**.
- **Funds/Schemes** that have **achieved economies of scale** will subsequently drive down its expense ratio.

Level of Services

- **More services** are provided to investors who opt for the **UTS Consultant route** compared to the DIY approach.
- An area of focus is the provision of **goal-based investing advisory by UTS Consultants**, as we observed that only **38%** of UTMCS and **63%** of IUTAs emphasise this form of service.
- **CUTAs/financial planners** are providing services aimed at helping investors **achieve financial freedom/goals**.

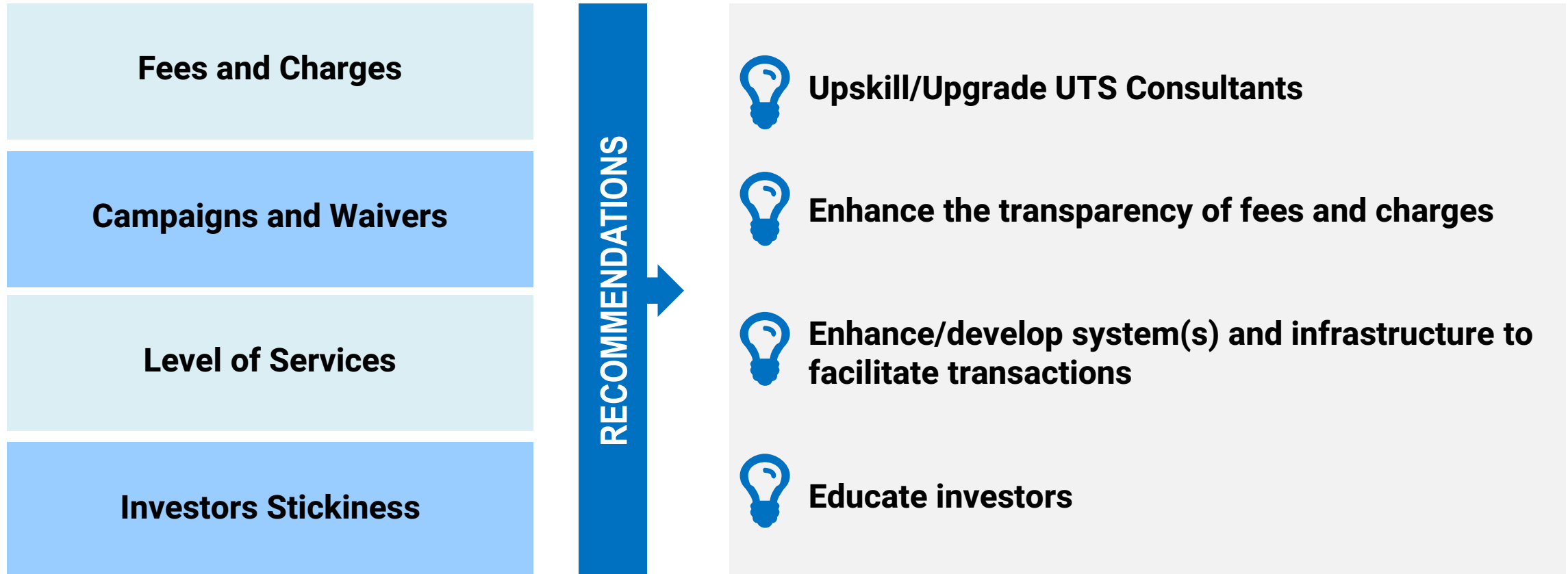
Campaigns and Waivers

- UTMCS, IUTAs and CUTAs implement **various campaigns** and provide waivers on fees and charges, **especially on initial sales charge**.
- Investors have the flexibility to buy from the **channel that offers the best price**.

Investors Stickiness

- **50%** of the accounts **remained active for at least five (5) years**.
- UTS is a long term investment, hence, **the longer investors hold on to their investments, the lower the average fees and charges paid**.

Executive Summary (cont'd)



Chapter 3

Fees and Charges

01 Average Sales Charge

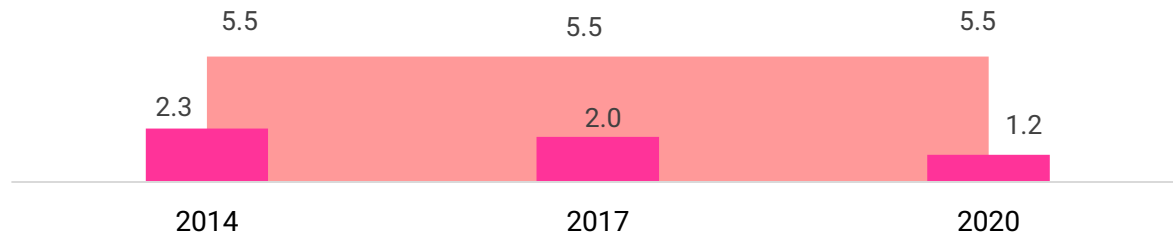
02 Average Management Expense Ratio (MER)

03 Total Cost of Investing

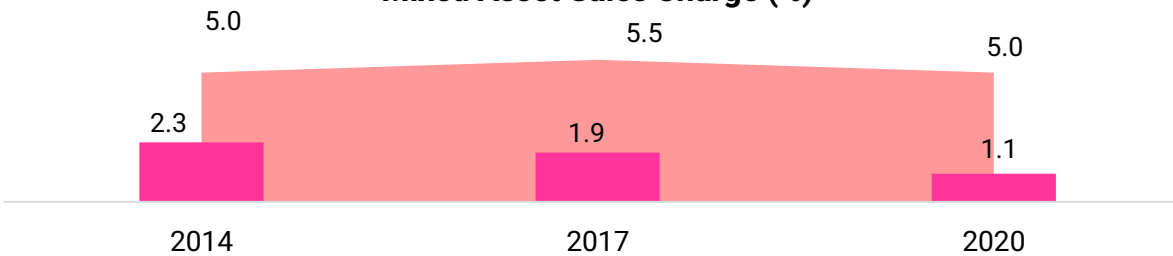
Downward Trend in Average Sales Charge

Figure 1: Investors' Source of Investment Funds (EPF & Cash)

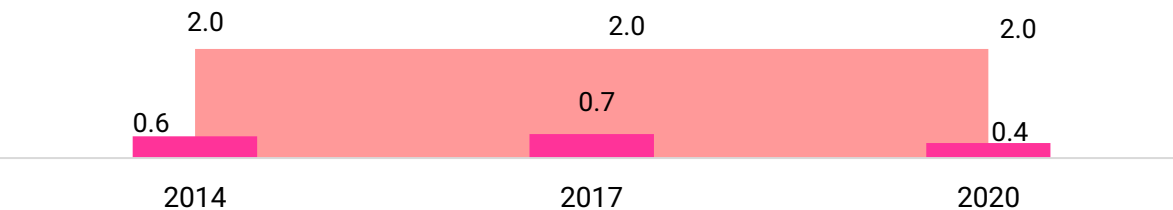
Equity Sales Charge (%)



Mixed Asset Sales Charge (%)



Bond Sales Charge (%)



■ Maximum Sales Charge (Median) - As per prospectus
■ Average Sales Charge (Median)

The study has found that the **actual sales charges imposed for most UTS are much lower than the maximum sales charges** reflected in their respective prospectuses.

Average sales charges have shown downward trends across asset classes – refer to **Figure 1**, more evident between 2017 and 2020:

- Equity Funds: From 2.0% (2017) to 1.2% (2020)
- Mix Asset Funds: From 1.9% (2017) to 1.1% (2020)
- Bond Funds: From 0.7% (2017) to 0.4% (2020)

Lower charges were dominantly seen on the Employees Provident Fund - Members Investment Scheme (EPF-MIS) investments – refer to **Figure 2 and Figure 3**. This started with the capping of sales charge at 3%. Subsequently, EPF further introduced the fully automated *i-Invest (DIY/Online Portal)* initiative in 2019, which witnessed a further reduction between 0% - 0.5% in sales charge.

Stark decreases were seen on EPF-MIS sale charges in 2020 as EPF reduced the charges from 1 May 2020 to 30 April 2021:

- UTS Consultant Channel : From maximum 3% to 1.5%
- *i-Invest (DIY/Online Portal)* : From maximum 0.5% to 0%

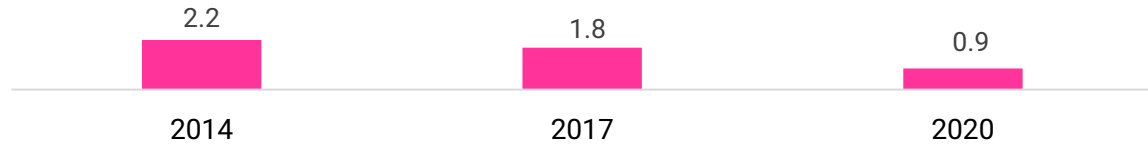
Such efforts by EPF had **significantly reduced the overall sales charges in 2020**.

We expect developments in the EPF-MIS front as well as market forces to continue to drive the sales charge down.

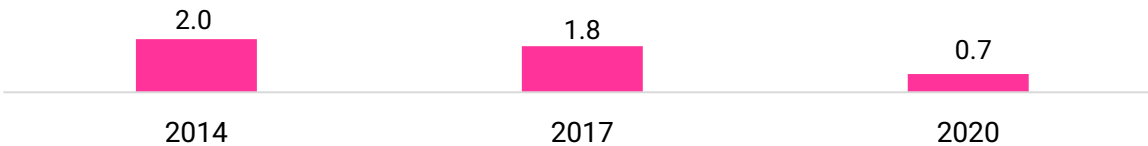
Downward Trend in Average Sales Charge (cont'd)

Figure 2: Investors' Source of Investment Funds (EPF) for EPF-MIS

Equity Sales Charge (%)



Mixed Asset Sales Charge (%)



Bond Sales Charge (%)

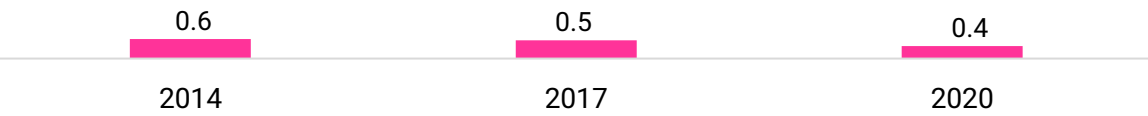
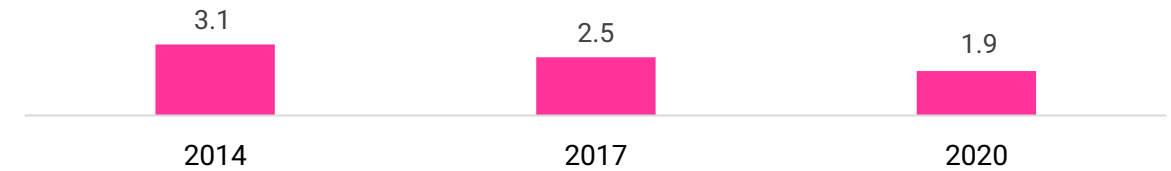
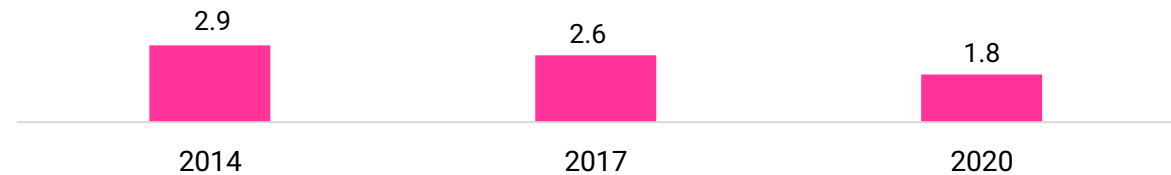


Figure 3: Investors' Source of Investment Funds (Cash)

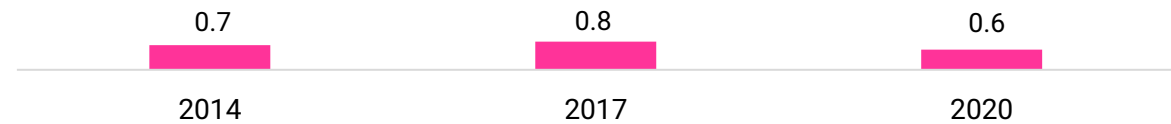
Equity Sales Charge (%)



Mixed Asset Sales Charge (%)



Bond Sales Charge (%)



■ Average Sales Charge (Median)

Economies of Scale

Figure 4: Average MER (%) by Asset Classes

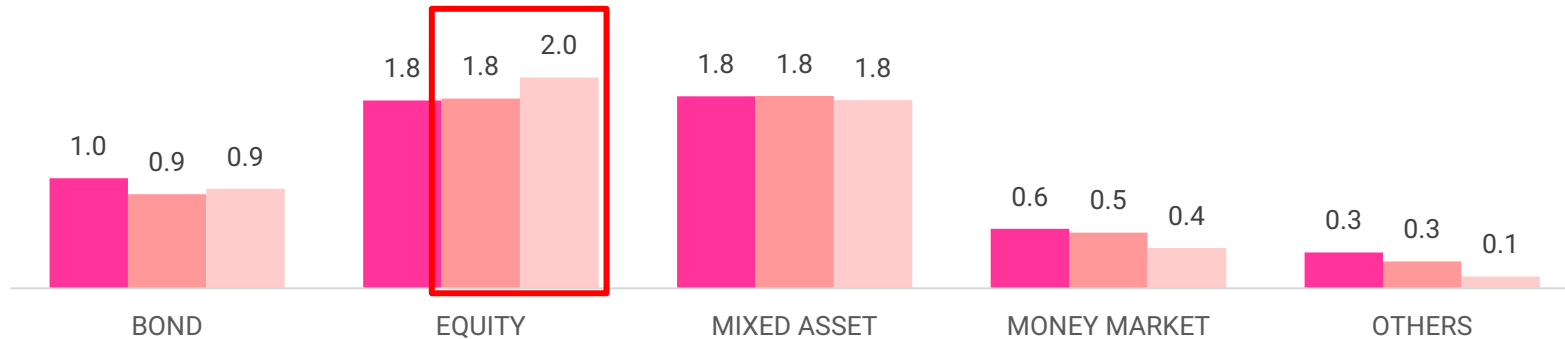
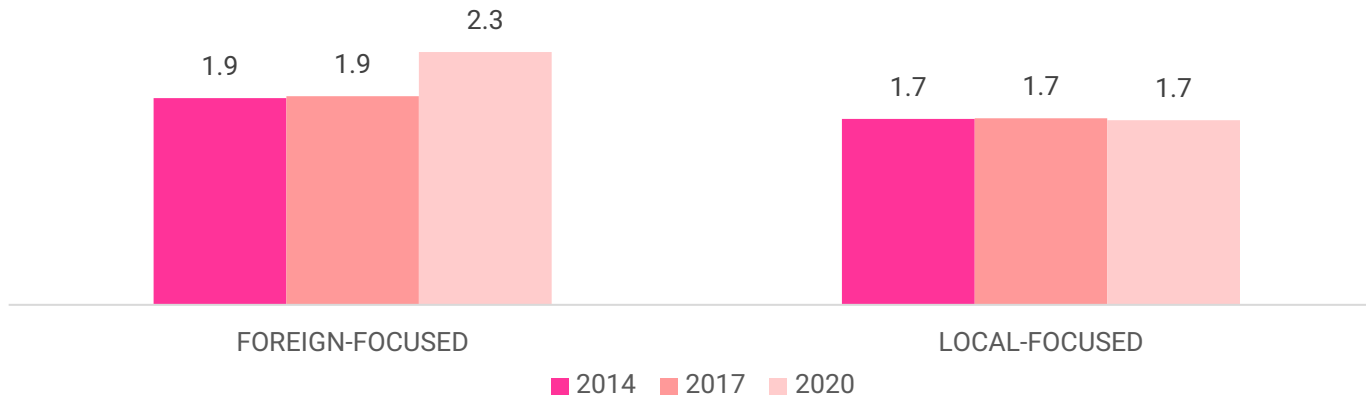


Figure 5: Average MER by Foreign/Local Focused (Equity)



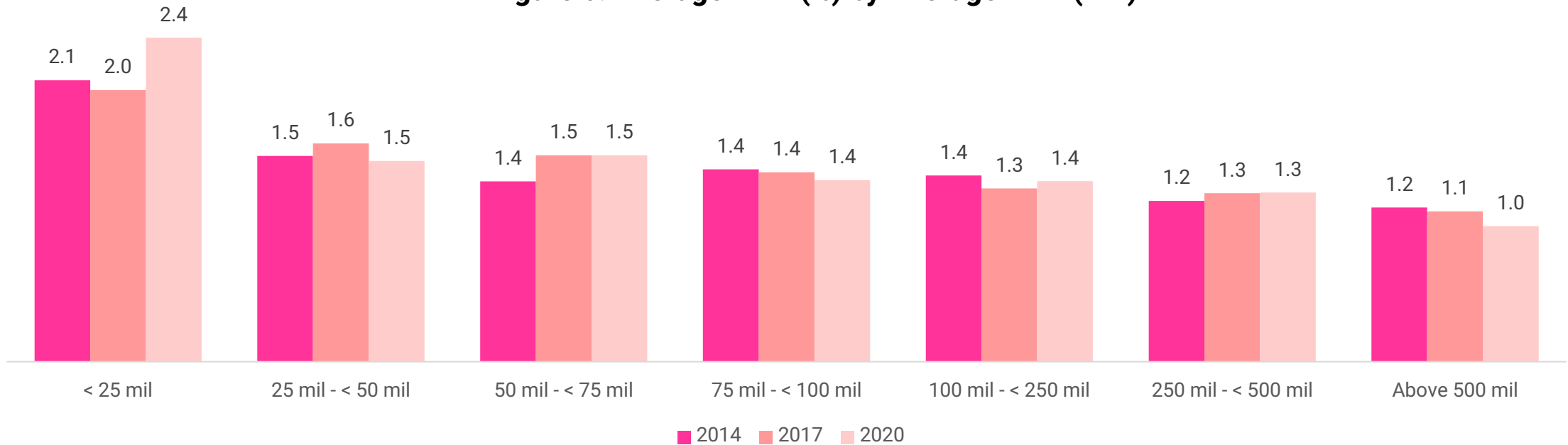
In general, **UTS expense ratios for most fund-type have gradually declined over the years** – refer to **Figure 4**, except for Equity Funds that registered an increase of 0.2% to 2.0% in 2020. The increase is due to Equity Funds with foreign exposure, which charges a higher management fee – refer to **Figure 5**.

Note: Excluded fixed price funds

Source for Asset Classes: Lipper as at 31 December 2020

Economies of Scale (cont'd)

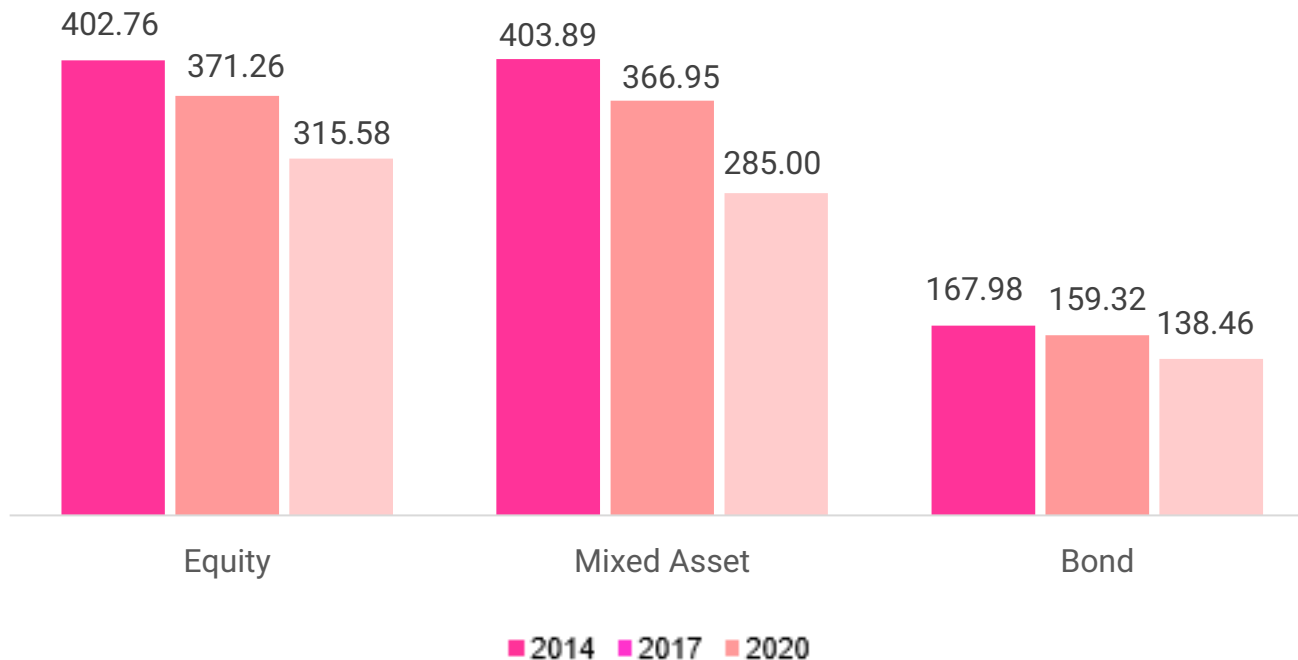
Figure 6: Average MER (%) by Average NAV (RM)



The inverse relationship between average MER and average NAV shows that **many funds have achieved economies of scale**. For funds that continuously grow larger in size, the inherent costs (trustee/custodian fee, auditor fee, tax agent fee, etc.) correspondingly decrease and contribute lesser to the expense ratios.

Decline in Total Cost of Investing (First time investment purchase)

**Figure 7: Cost of Investing (RM)
by Asset Class (Median)**



The cost of investing has been declining over the years.

Increasing investor demand, competition among existing and new players, the rise of online (DIY) portals and economies of scale have helped to gradually reduce the cost of investing in UTS.

On average, Equity Funds dropped from RM402.76 in 2014 to RM315.58 in 2020 (-21.6%), Mixed Asset Funds from RM403.89 to RM285.00 (-29.4%) and Bond Funds from RM167.98 to RM138.46 (-17.6%).

Sample computation for cost of investing is in **Appendix 1**.

Chapter 4

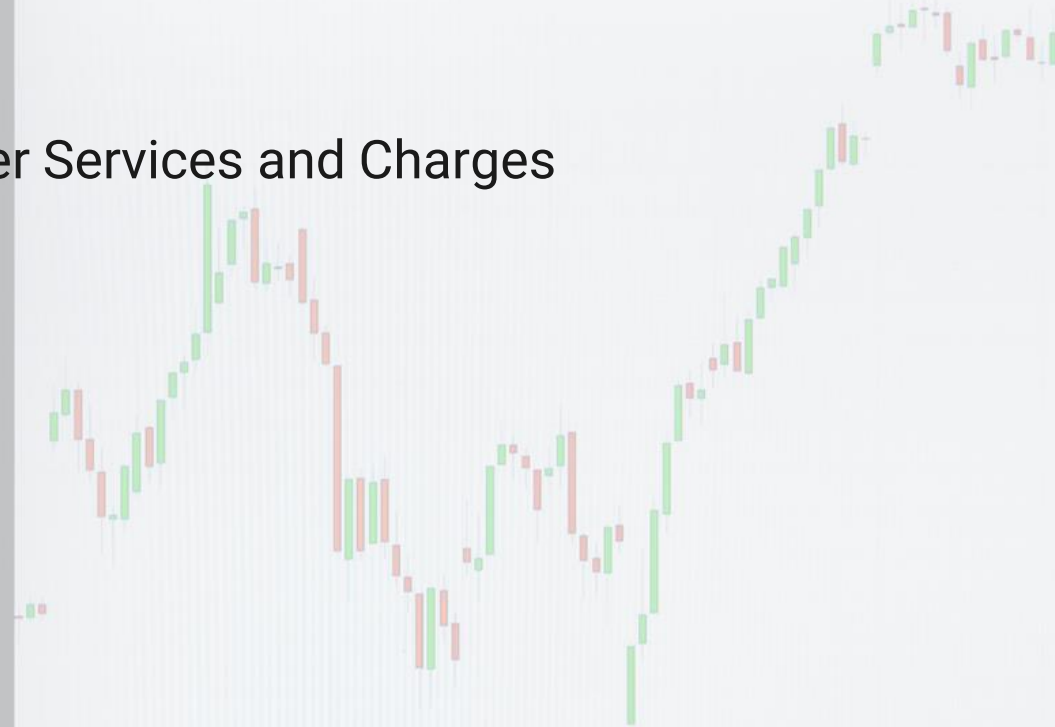
Campaigns and Waivers

01

Campaigns and Waivers

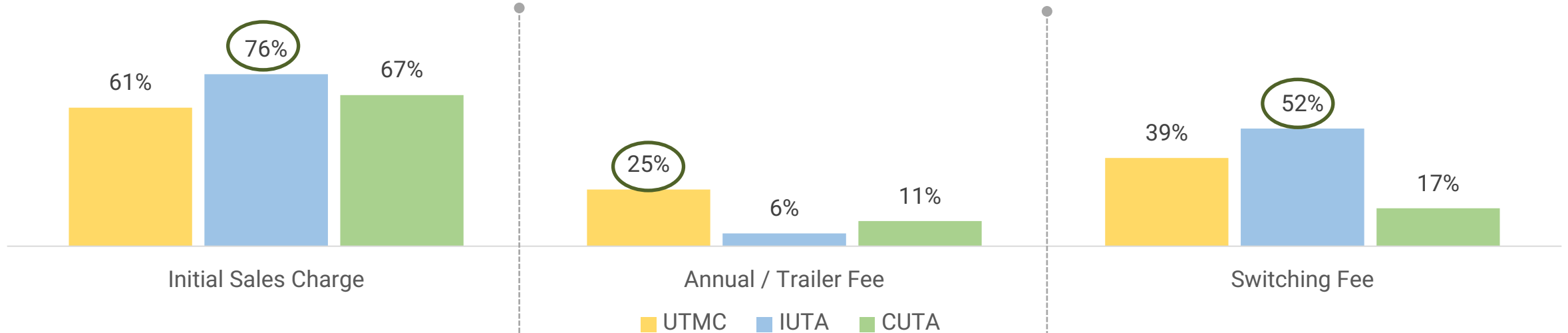
02

Other Services and Charges



Flexibility in Choosing Channel and Price

Figure 8: Number of Companies (%) that Implemented Campaigns and Waivers in 2020



Majority of the companies implement campaigns **on initial sales charge, which resulted in lowering of investment cost.**

IUTAs ranked top with 76% of the companies running various campaigns in 2020 – refer to **Figure 9**. This was followed by **CUTAs (67%)** and **UTMCs (61%)**.

The practice of giving **lower annual fee** is **not rampant** in the industry.

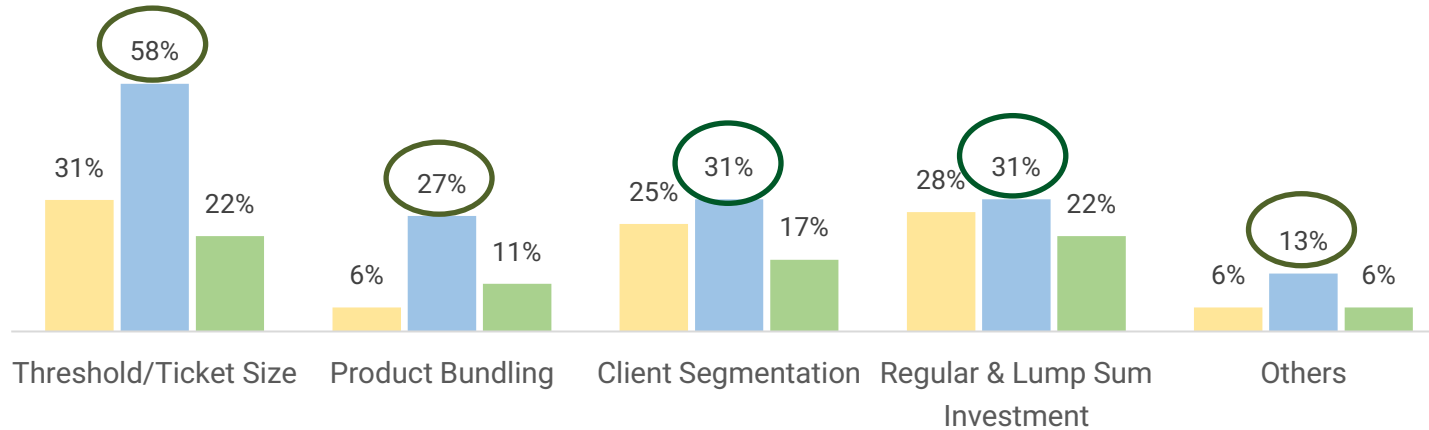
Only 25% of UTMCs, 11% of CUTAs and 6% of IUTAs practiced it in 2020.

Industry does **wave or charge lower switching fee.**

IUTAs (52%) topped the list in 2020, followed by UTMCs (39%) and CUTAs (17%).

Flexibility in Choosing Channel and Price (cont'd)

Figure 9: Number of Companies (%) by Types of Campaigns and Waivers in 2020

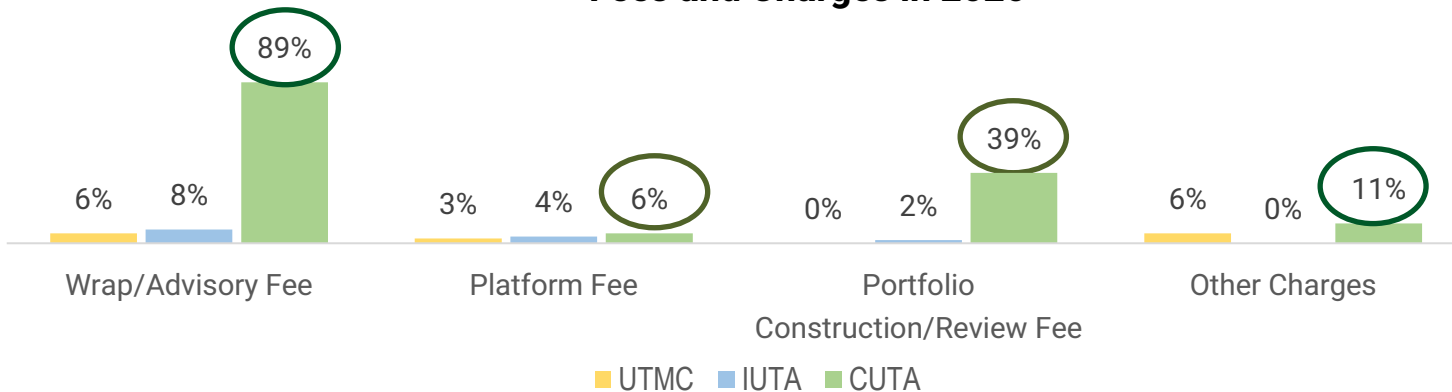


The fees and charges imposed were dependent on the types of campaign offered by Members/Distributors i.e. by ticket size, product bundling, client segmentation, regular/lump sum investment, etc.

The most common campaign in 2020 was based on threshold/ticket size. It was more prominent among IUTAs/banks, with 58% of them doing it.

Investors have the flexibility to buy from the channel that offers the best price.

Figure 10: Number of Companies (%) that Imposed Other Fees and Charges in 2020



89% of CUTAs charged wrap/advisory fee, while 39% charged portfolio construction/review fee.

Wrap/advisory fee is imposed on clients opting to leverage on wrap account platform. The wrap account functions to help clients structure a diversified portfolio and their UTS Consultants will monitor the markets and rebalance portfolio when needed*.

The fees are in line with the type of services rendered by financial planners – refer to Chapter 5 on level of services provided by CUTAs.

Note: Excluded certain companies due to inability to provide data

*Source: www.theedgemarkets.com/article/solutions-bridging-gap-financial-services

Chapter 5

Level of Services

01

UTS Consultants

02

Do-it-yourself (DIY) Portal

Value for Money

Going through **UTS Consultants** is **popular** among retail investors in Malaysia.

Many still want to be guided through their decision-making, and do not mind paying some fees to get professional services. This echoes the NWS findings which exhibited preference for human interaction in guiding investment decisions is still prevalent.

UTS Consultants and financial planners provide **various services to investors**, among others:

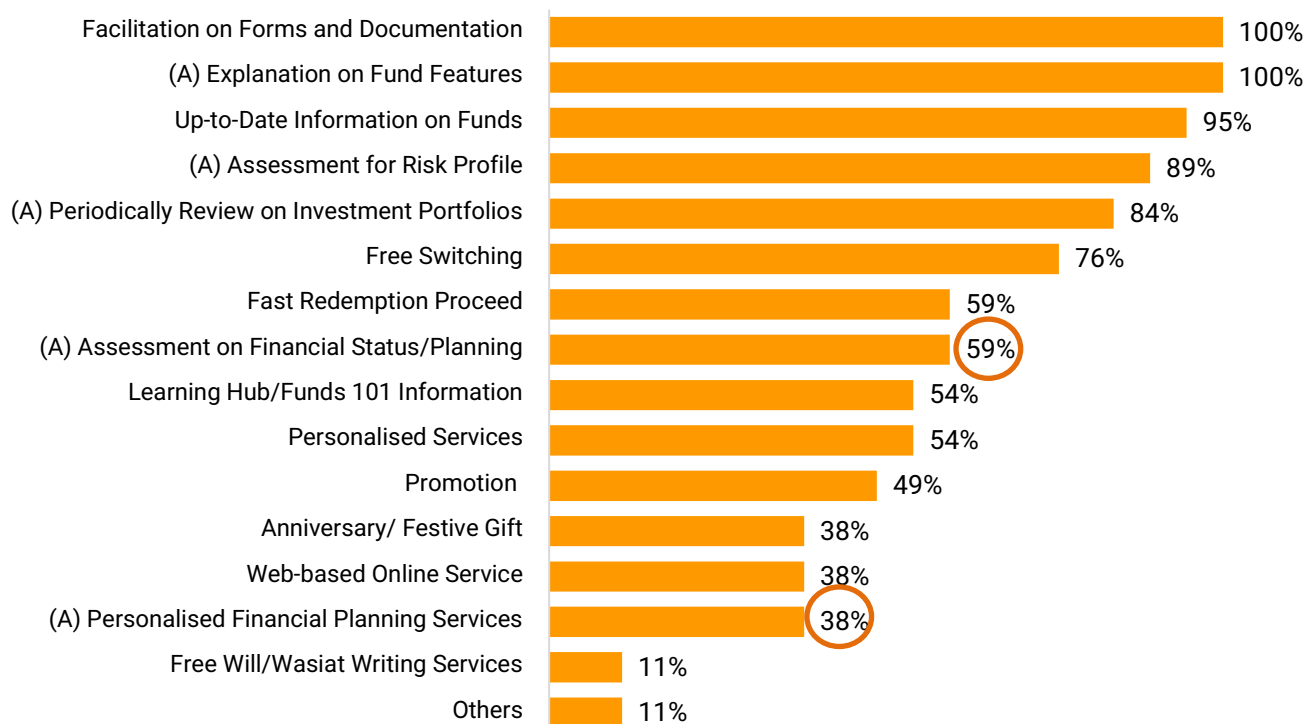
- Facilitation on forms and documentation
- Explanation on fund features
- Up-to-date information on funds
- Assessment for risk profile
- Periodically review on investment portfolio
- Assessment on financial status/planning
- Personalised financial planning services

Investors who are savvy and **do not need advice may opt for a DIY approach.**

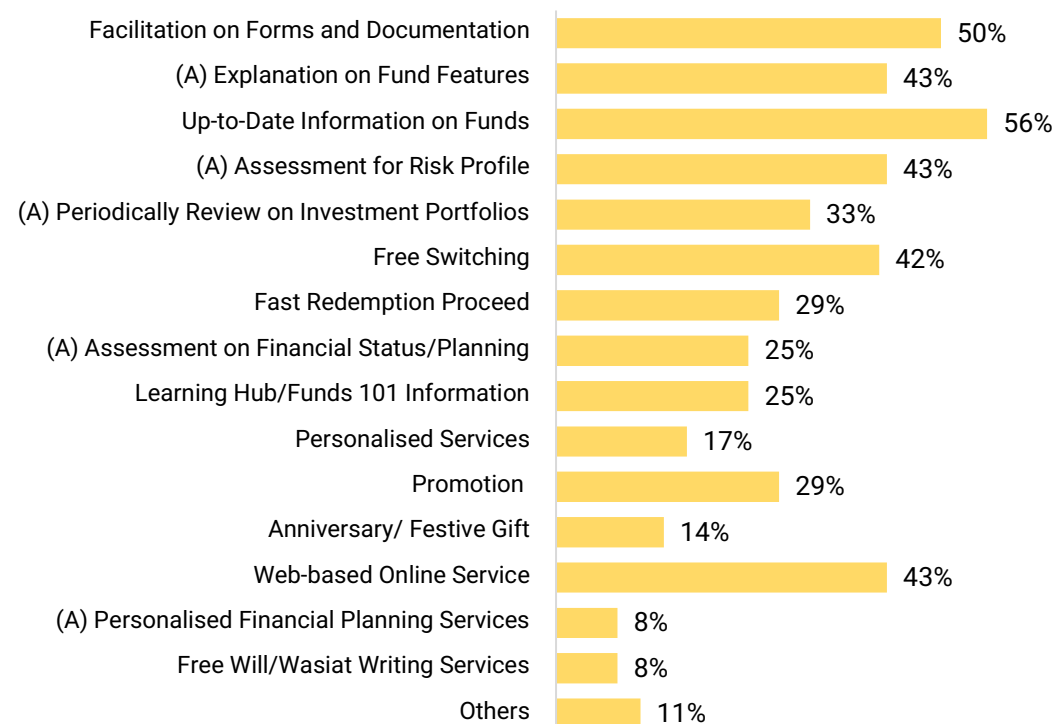


Comparison of Services (UTMC) – UTS Consultant vs DIY/Online Portal

**Figure 11: Services Provided by UTS Consultant
(number of UTMC in percentage)**



**Figure 12: Services Provided on DIY/Online Portal
(number of UTMC in percentage)**



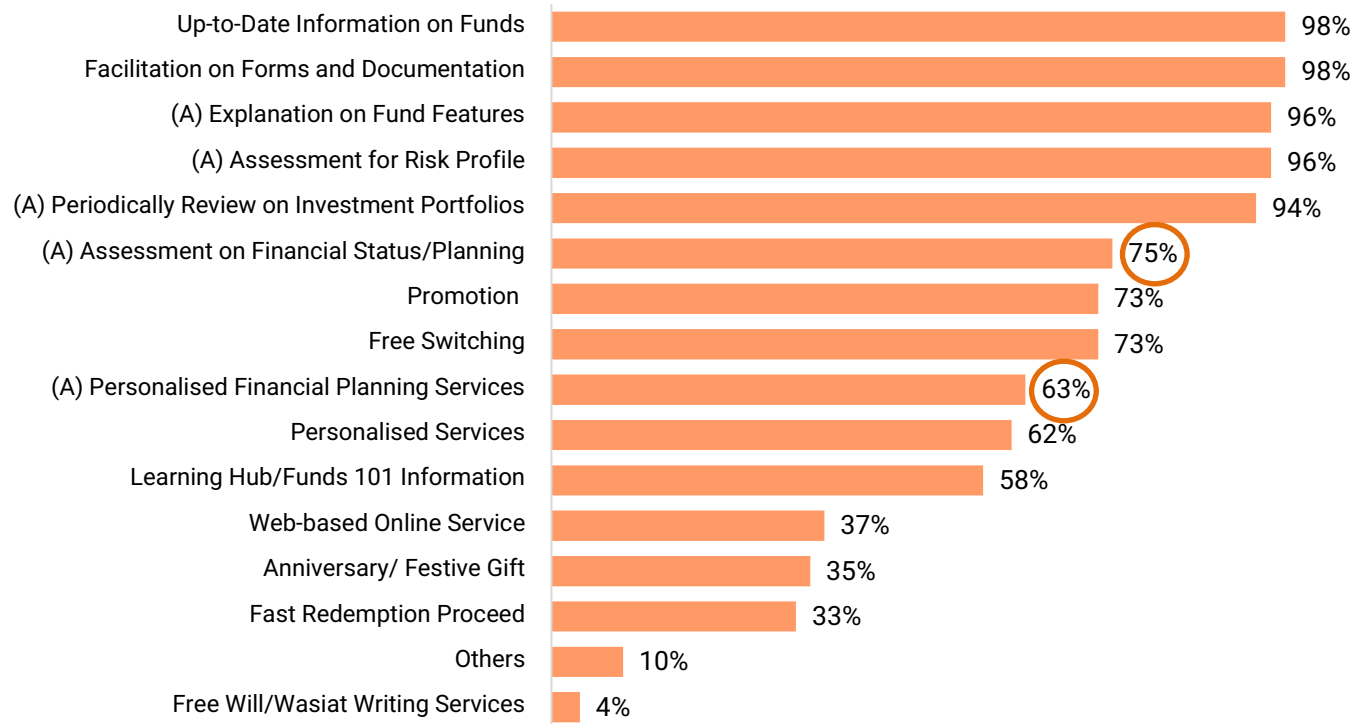
The above comparison illustrates the services received by an investor who invests via UTS Consultants and DIY approach. The study shows **many UTMCs offered a variety of services to investors through their UTS Consultants**. These services were not made available if investors opted for DIY portal.

Areas of focus that we would like to draw your attention to are:

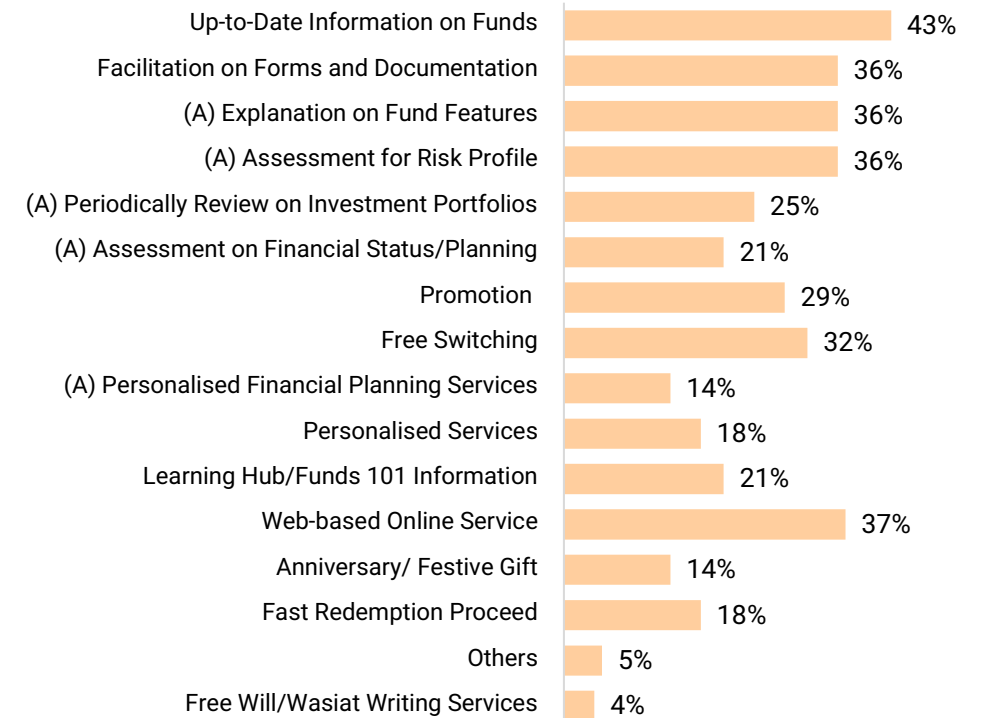
- (i) Limitation in **financial planning services offered (i.e. assessment of financial status/planning and personalised financial planning services)**. We observed that such services are only made respectively available by 59% and 38% of the UTMCs; and
- (ii) UTMCs should **inculcate goal-based investing advisory among their UTS Consultants** to bring more value to the fees paid by investors.

Comparison of Services (IUTA) – UTS Consultant vs DIY/Online Portal

**Figure 13: Services Provided by UTS Consultant
(number of IUTA in percentage)**



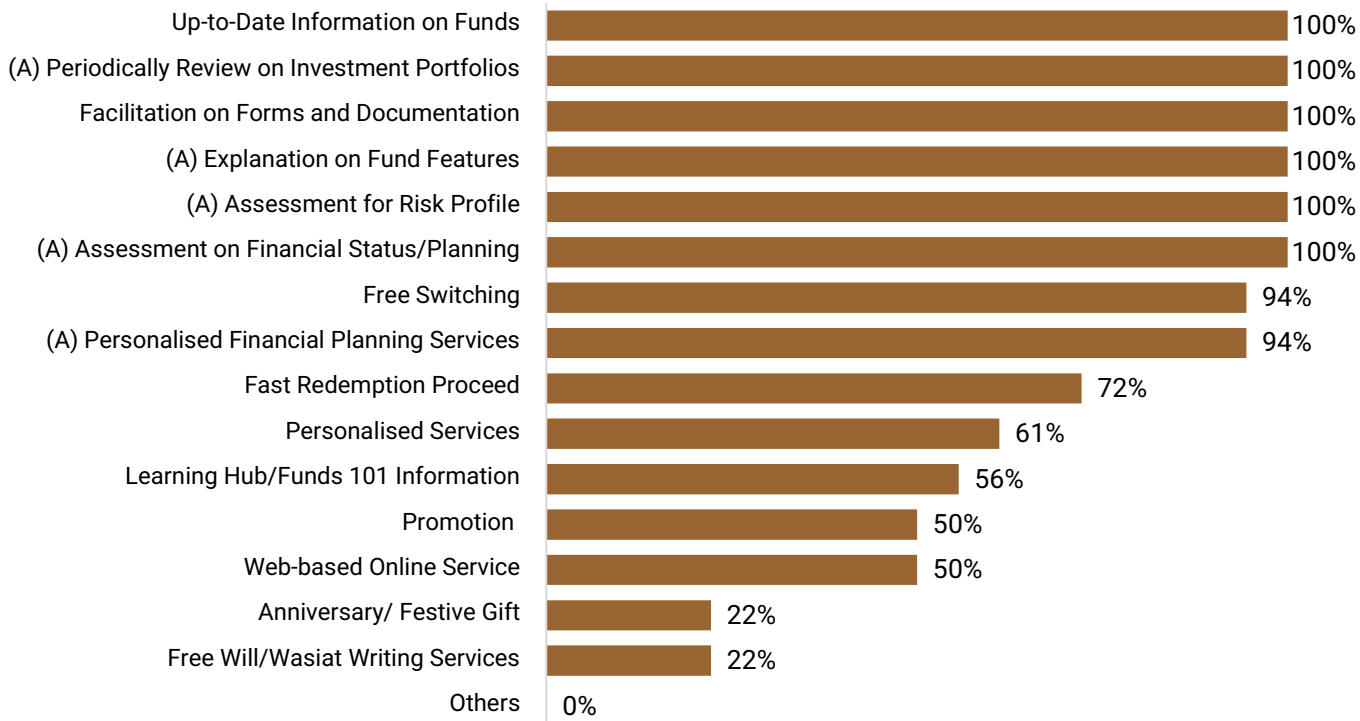
**Figure 14: Services Provided on DIY/Online Portal
(number of IUTA in percentage)**



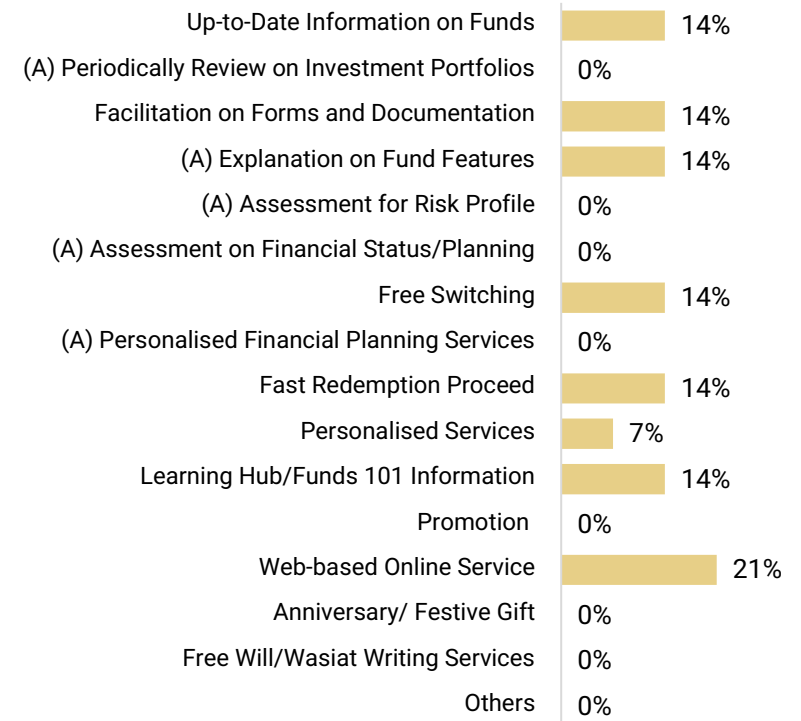
IUTAs (salaried UTS Consultants) shared similar level of services. IUTAs should also inculcate goal-based investing advisory among their UTS Consultants.

Comparison of Services (CUTA) – UTS Consultant vs DIY/Online Portal

**Figure 15: Services Provided by UTS Consultant
(number of CUTA in percentage)**



**Figure 16: Services Provided on DIY/Online Portal
(number of CUTA in percentage)**



While financial planners may charge their clients an advisory fee, the services rendered are personalised and on-going. **Clients are paying a professional fee to help them understand and achieve financial freedom/goals** – refer to **Chapter 4** on fees imposed by CUTAs.

Chapter 6

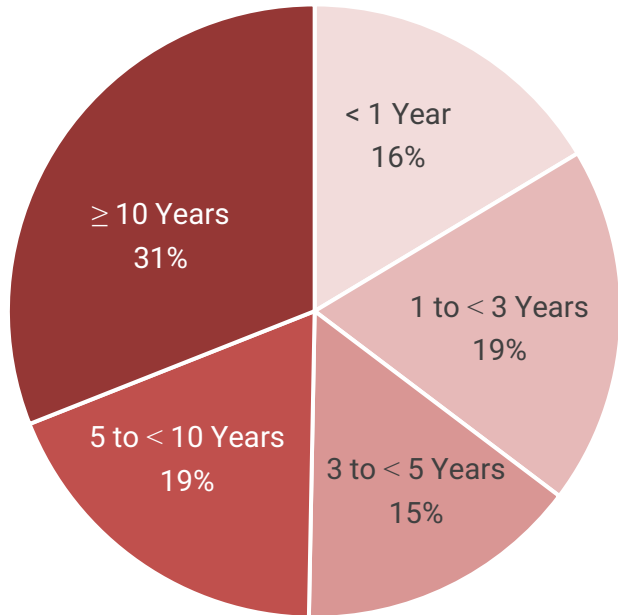
Investors Stickiness

01

Duration of Active Accounts

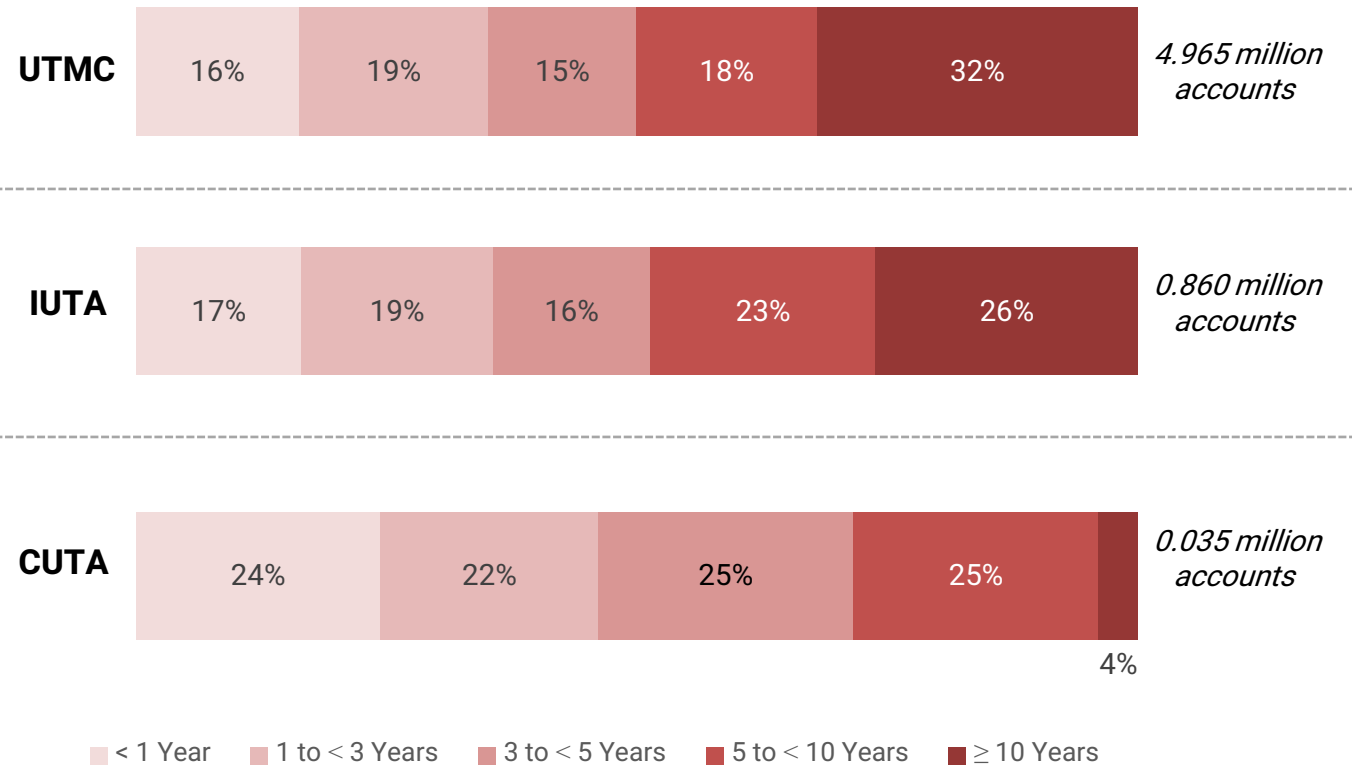
Majority Accounts Stayed Active for ≥ 5 Years

Figure 17: Duration of Active Accounts* as at 31 December 2020



50% of the accounts stayed active for at least five (5) years.

Figure 18: Active Accounts* by Channel and Duration as at 31 December 2020



***Notes:**

- Excluded certain companies due to inability to provide data
- Active Accounts – Accounts that still have units with the company as at 31 December 2020. Duration can be based on account opening or first investment date
- Some of percentages of less/more than 100% is due to rounding

Chapter 7

Recommendations

01

UTS Consultants

02

Members and Distributors

03

Investors

Recommendations

1. Upskill/Upgrade UTS Consultants

- Members/Distributors need to upgrade their UTS Consultants and equip them with personal investment planning skills (i.e. assessment of financial status/planning and personalised financial planning services)

2. Enhance the transparency of fees and charges by Members/Distributors

- Able to demonstrate to investors the level/value of services of different channels
- Highlight the value-added services from the fees and charges imposed

3. Enhance/develop system(s) and infrastructure to facilitate transactions

- Remove transactional burden from UTS Consultants
- Digitise basic functions (i.e. risk profile assessment, explanation for fund features, etc.) for investors

4. Educate investors

- Various channels of investment/fees and charges structure are available in the market to suit different investors' needs
- Different channels offer different services (i.e. based on needs, hence different charges)
- UTS are for long term - the longer investors hold on to their investments, the lower the average fees and charges paid
- Actual sales charges are much lower than the maximum sales charges stated in prospectus

Appendix

Computation for Cost of Investing in Equity (2014)

Year: **2014**

1st Investment Amount in 2014: **RM 10,000**

Average MER 2014 for **Equity** Fund: **1.7861%**

Average Sales Charge 2014 for **Equity** Fund: **2.3356%**

Year	A Sales Charge $\frac{\text{RM10,000}}{1 + 2.3356\%} \times 2.3356\%$	B Amount of available to Invest RM10,000 - A	C MER B x 1.7861%	D Investment Value B - C	E Total Fees A + C
2014	228.23	9,771.77	174.53	9,597.24	402.76

Please note that the example above is for illustration purpose only.

Acknowledgement

List of Companies

1. A. D. Financial Sdn Bhd
2. Aberdeen Standard Islamic Investments (Malaysia) Sdn Bhd
3. Affin Bank Berhad
4. Affin Hwang Asset Management Berhad
5. Affin Islamic Bank Berhad
6. AIA Pension and Asset Management Sdn Bhd
7. AIIAMAN Asset Management Sdn Bhd
8. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
9. Alliance Bank Malaysia Berhad
10. Alliance Islamic Bank Berhad
11. Alpine Advisory Sdn Bhd
12. Amanah Saham Nasional Berhad
13. Amanah Saham Sarawak Berhad
14. AmanahRaya Investment Management Sdn Bhd
15. AmBank (M) Berhad
16. AmBank Islamic Berhad
17. AmFunds Management Berhad
18. AmInvestment Bank Berhad
19. Apex Investment Services Berhad
20. Areca Capital Sdn Bhd
21. Bank Islam Malaysia Berhad
22. Bank Kerjasama Rakyat Malaysia Berhad
23. Bank Muamalat Malaysia Berhad
24. Bank of China (Malaysia) Berhad
25. Bank Simpanan Nasional
26. Bill Morrisons Wealth Management Sdn Bhd
27. BIMB Investment Management Berhad
28. Blueprint Planning Sdn Bhd
29. BOS Wealth Management Malaysia Berhad
30. CC Advisory Sdn Bhd

List of Companies (cont'd)

31. CIMB Bank Berhad
32. CIMB Investment Bank Berhad
33. CIMB Islamic Bank Berhad
34. Citibank Berhad
35. Eastspring Investments Berhad
36. Excellentte Consultancy Sdn Bhd
37. FA Advisory Sdn Bhd
38. Fin Freedom Sdn Bhd
39. Finwealth Management Sdn Bhd
40. Franklin Templeton GSC Asset Management Sdn Bhd
41. Genexus Advisory Sdn Bhd
42. Harveston Wealth Management Sdn Bhd
43. Hong Leong Asset Management Berhad
44. Hong Leong Bank Berhad
45. Hong Leong Islamic Bank Berhad
46. HSBC Amanah Malaysia Berhad
47. HSBC Bank Malaysia Berhad
48. iFAST Capital Sdn Bhd
49. Industrial and Commercial Bank of China (Malaysia) Berhad
50. Inter-Pacific Asset Management Sdn Bhd
51. KAF Investment Funds Berhad
52. Kedah Islamic Asset Management Berhad
53. Kenanga Investment Bank Berhad
54. Kenanga Investors Berhad
55. Kuwait Finance House (Malaysia) Berhad
56. Legacy Advisory Sdn Bhd
57. Libra Invest Berhad
58. Magnisave Group Sdn Bhd
59. Malayan Banking Berhad
60. Manulife Investment Management (M) Berhad

List of Companies (cont'd)

61. Maybank Asset Management Sdn Bhd
62. Maybank Islamic Berhad
63. MBSB Bank Berhad
64. MIDF Amanah Asset Management Berhad
65. Muamalat Invest Sdn Bhd
66. Nomura Asset Management Malaysia Sdn Bhd
67. Nomura Islamic Asset Management Sdn Bhd
68. OCBC Al-Amin Bank Berhad
69. OCBC Bank (Malaysia) Berhad
70. Opus Asset Management Sdn Bhd
71. Pengurusan Kumipa Berhad
72. Permodalan BSN Berhad
73. Pheim Unit Trusts Berhad
74. Phillip Mutual Berhad
75. PMB Investment Berhad
76. Principal Asset Management Berhad
77. PTB Unit Trust Berhad
78. Public Bank Berhad
79. Public Mutual Berhad
80. RHB Asset Management Sdn Bhd
81. RHB Bank Berhad
82. RHB Investment Bank Berhad
83. RHB Islamic Bank Berhad
84. RHB Islamic International Asset Management Berhad
85. Saham Sabah Berhad
86. Saturna Sdn Bhd
87. Standard Chartered Bank Malaysia Berhad
88. Standard Chartered Saadiq Berhad
89. TA Investment Management Berhad
90. United Overseas Bank (Malaysia) Berhad

List of Companies (cont'd)

91. UOB Asset Management (Malaysia) Berhad
92. UOB Kay Hian Securities (M) Sdn Bhd
93. UOB Kay Hian Wealth Advisors Sdn Bhd
94. VKA Wealth Planners Sdn Bhd
95. Wealth Vantage Advisory Sdn Bhd
96. Whitman Independent Advisors Sdn Bhd
97. YES Financial Sdn Bhd

Thank you