

By **GANESHWARAN KANA**
ganeswaran@thestar.com.my

THE Malaysian unit trust industry has never been larger.

Assets under management (AUM) crossed the RM600bil mark earlier this year – an all-time high, expanding faster than Malaysia's real economy and the capital market over the past decade.

The industry, dominated by Amanah Saham Nasional Bhd (ASNB) and Public Mutual Bhd, now oversees assets equivalent to more than a quarter of the entire value of companies listed on Bursa Malaysia.

But behind the impressive figures lies a far less flattering reality. Critics say too many unit trust funds fail to justify their higher fees, sales charges and the risks investors are asked to bear, although some funds have performed well.

Ng Zhu Hann, the chief executive officer of Tradeview Capital, estimates that about 60% of unit trust funds in Malaysia typically outperform benchmarks but often underperform absolute returns or the hurdle rate over a period of time.

A hurdle rate is the minimum acceptable rate of return that investors expect an investment to achieve over a given period.

"It is relatively easy to outperform a benchmark. For example, if FBM KLCI is down by 10% in a particular year, a fund that delivers a negative return of 5% is also considered to have outperformed the benchmark," Ng tells *StarBiz* 7.

The FBM KLCI posted negative annual returns in six out of the 10 years between 2016 and 2025.

"Therefore, it is more important to benchmark against the hurdle rate. If a fund sets a hurdle rate of 7%, the fund manager must strive to achieve a return of at least 7% regardless of how key benchmarks like FBM KLCI perform.

"A hurdle rate is basically a commitment by the fund manager," he adds.

A unit trust pools money from a group of investors into a single fund, which is then managed by a professional fund manager.

The manager invests the pooled funds in assets such as stocks, bonds, money market instruments and other securities based on the fund's investment objectives.

In theory, this is useful. Not every retail investor has the time, knowledge or confidence to build a portfolio.

Also, unit trusts come in a wide range of categories to suit different risk appetites and investment goals.

These range from lower-risk money market and bond funds to higher-risk equity and sector-specific funds, allowing investors to choose a fund that matches their preferred level of risk and return.

Yet many investors do not fully understand what they are buying into, despite the information provided by the unit trust companies.

Many investors look at past returns, listen to an agent or pick a fund based on branding.

Some buy a fund after a strong run, only to find performance weakening later.

Others are not aware how much fees can reduce returns over time.

Strong demand

As at end-2025, the unit trust industry's AUM stood at RM580.17bil, up from RM346.41bil in 2015.

This means that unit trusts' AUM has swelled by about 5.3% on a compounded annual growth rate basis.

Malaysia's real economy, by comparison, grew at close to 4% annually over the same period. Meanwhile, the domestic capital market expanded by about 4.3% to RM4.3 trillion.

Unit trusts also remained the biggest pool of capital within the overall fund management industry, contributing 50.43% of total AUM in 2025.

The government-linked ASNB alone manages nearly RM299bil in funds at end-2025 and the largest private unit trust company Public Mutual oversees more than RM100bil in net asset value.

Based on data by the Securities Commission (SC), there were 39 approved unit trust management companies in Malaysia, with a total of 767 launched funds as at end-March 2026.

The unit trust industry in Malaysia is built around a distribution network, consisting of over 56,000 licensed unit trust consultants operating across the country. These consultants earn commissions on sales.

■ Unit trust funds fail to justify their higher fees, sales charges and the risks investors bear

■ Churning – switching from one fund to another – is unhealthy when done too frequently

■ Critics claim some unit trust agents have been overselling products

The upfront sales charge in Malaysia can reach as high as 5% of the investment amount.

Assuming 5% on a RM10,000 investment, an investor immediately loses RM500 before a single trade is executed.

Then, there is something called the total expense ratio (TER), which represents the annual cost of operating a unit trust fund, including management, trustee and administrative expenses, expressed as a percentage of the fund's average net asset value.

A higher TER can erode investors' returns over time, making fees an important consideration when evaluating a fund's performance.

A financial adviser tells *StarBiz* 7 that for Malaysian equity unit trusts, TERs often range from roughly 1.5% to 2.5% annually.

As at end-2025, the net asset value of equity unit trusts in Malaysia stood at RM116.82bil.

Assuming a TER of 1.5% to 2.5%, this means investors would have collectively paid about RM1.7bil to RM2.9bil in fees alone for 2025.

Beyond upfront sales charges and TER, there is also the switching fee, which unit trusts may charge when investors rotate from one fund to another, even if they're both under the same manager.

However, Ng cautions such

"churning" – switching from one fund to another – is unhealthy when done too soon or too frequently.

"Some stocks that you invest in may take time to mature. When you churn too fast, you risk losing the actual growth potential," according to him.

Expense ratio

Malaysia is not an isolated case when it comes to concerns about unit trust performance.

In the United States (US), over a 20-year period, only 7% of large-cap active equity fund managers have outperformed the S&P 500 index, net of fees.

This is despite charging significantly more than index mutual funds and exchange-traded funds.

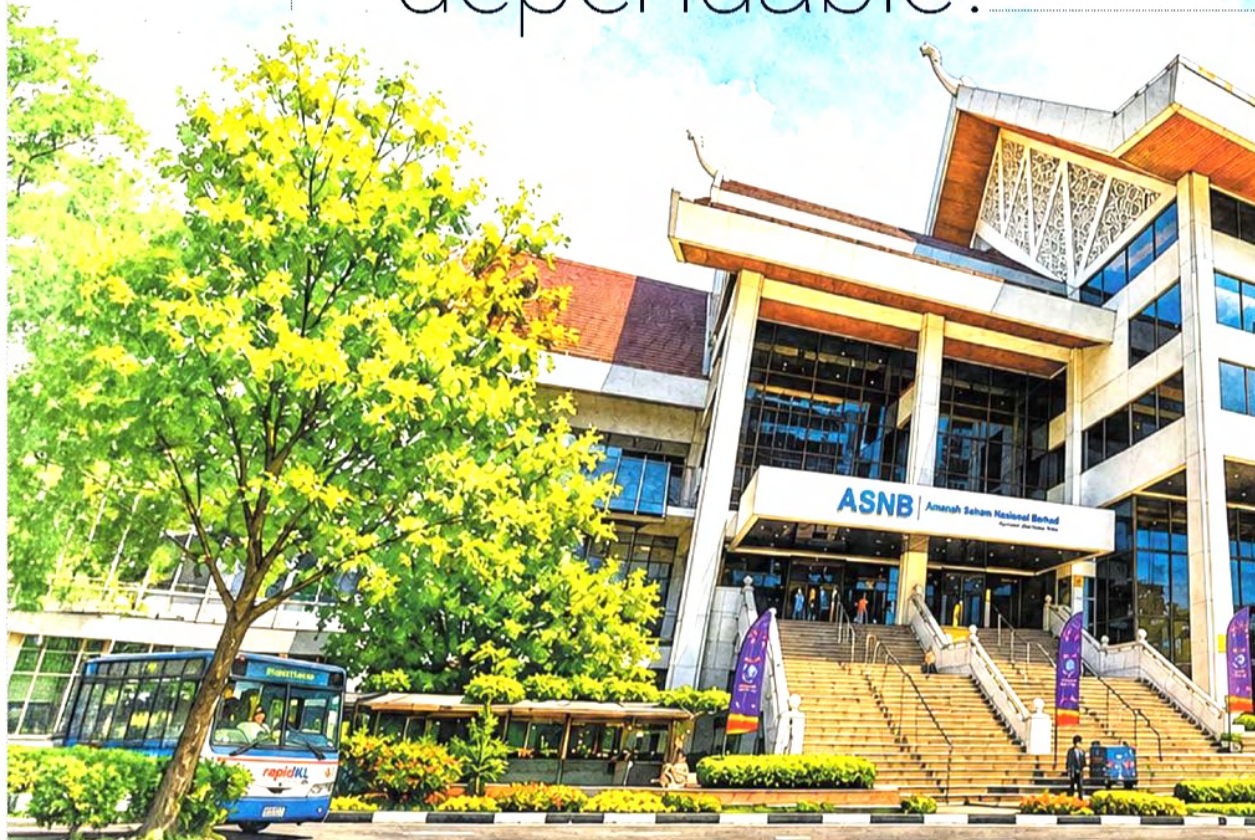
For example, in 2024, the average expense ratio for actively managed unit trust funds in the US was 0.64%.

That said, the expense ratio in the US is notably much lower than in Malaysia.

Despite the higher fees ratio, the performance of local funds has not been stellar. In fact, they have underperformed FBM KLCI in general.

Morningstar data as at May 20 shows that Malaysian, non-ASNB licensed equity fund managers with more than RM500mil in

Are unit trusts dependable?



AUM delivered median returns of 5% over five years and 7% over 10 years.

This trailed the FBM KLCI, which returned about 6% and 8% over the same periods.

More importantly, those unit trust returns do not factor in upfront sales charges. Once these costs are included, investors' actual returns would be lower.

Scrutiny of unit trust returns is especially important because these funds are not just sold directly to retail investors.

They are also offered through the Employees Provident Fund's (EPF) Members Investment Scheme (MIS), where retirement savings are at stake.

This scheme allows members below the age of 55 to transfer up to a maximum of 30% of the amount above the Basic Savings in Akaun Persaraan for investment through appointed fund management institutions (FMIs), including unit trust management companies and asset management companies.

The fees for investing in unit trusts through EPF's MIS is lower

than investing in unit trusts through a sales agent or bank.

Investments made online via EPF's i-Akaun portal are subject to a sales fee of up to 0.5%, while investments made through an FMI's agent or counter can attract charges of up to 3%.

A financial adviser says that while the intention of the MIS is to give EPF members greater flexibility to grow their retirement savings, many of the funds available under the scheme have struggled to beat EPI's own returns.

This is despite the funds having higher risks compared to the capital-guaranteed EPF.

"Under the scheme, over 180 funds are available for members. But, to be fair, not all funds are directly comparable to EPI as the provident fund invests in fixed income, real estate, infrastructure and others.

"That said, some funds do provide better returns than EPI, allowing the members to grow their savings faster," according to the financial adviser.

Tradeview's Ng is of the opinion that unit trusts are a good hedge against inflation.

"But if your goal is to grow

your wealth or save for retirement, this may not be the right instrument," he notes.

Sharing the pain

The underperformance of many unit trust funds, despite the higher risks and fees investors are asked to bear, raises an uncomfortable question: should fund managers also share the pain by cutting their fees?

In a reply to *StarBiz 7*, the Federation of Investment Managers Malaysia (FIMM) says imposing a broad fee cap based solely on performance may not necessarily reflect the diversity of investment strategies or the long-term nature of investing.

"The focus should remain on ensuring investors receive clear disclosures, appropriate advice and access to products aligned with their financial goals and risk tolerance.

"In Malaysia, fees and charges are subject to disclosure requirements under the regulatory framework established by the SC, enabling investors to make informed decisions with transparency on costs involved."

Referring to a 2021 research it conducted on unit trust fees and charges, FIMM says actual sales charges are much lower than the maximum sales charges stated in prospectus.

It also points out a downward trend for both average sales charges and total cost of investing in Malaysia.

Meanwhile, in a separate response, the SC says that sales charges and fund-level fees should be determined by market forces, but within a framework that ensures transparency and protects investor interests.

"While the SC does not impose a maximum sales charge, we require unit trust management

companies to disclose all fees and charges clearly in the prospectus, product highlights sheet (PHIS) and marketing materials, so that investors can compare costs across funds before making decisions.

"Online and direct channels typically carry lower front-end charges, while consultant-based channels reflect the cost of personalised advice and ongoing client servicing. Investors can choose the model that best suits their needs, risk profile and preference for advice," the SC says.

The regulator adds that it will continue to review the unit trust ecosystem, including fee transparency and the value delivered to investors.

Beyond the fee issue, critics also claim that some unit trust agents have been overselling products to clients or pushing existing clients to switch to new funds.

In response to this, the SC says unit trust management companies, as principals, are accountable for the conduct of their consultants and are expected to maintain effective supervisory, training and surveillance arrangements.

FIMM, working alongside the SC, oversees the registration and ongoing professional conduct of consultants, and engages regularly with unit trust management companies to uphold industry standards.

"Where investors have concerns, these can be raised through the unit trust management companies, FIMM, or directly with the SC.

"Distributors are required to conduct a suitability assessment before recommending any unit trust product; provide investors with the relevant disclosure documents, including the prospectus and PHIS; disclose fees, charges; and to ensure that any recommendation to switch funds is grounded in the investor's interests rather than commission generation."

FIMM notes that regulatory and industry requirements are already in place to safeguard investors. These include know-your-client processes, risk profiling and suitability assessments.

At the same time, investor education remains equally important and is a key focus point in FIMM's investor education programmes.

"FIMM monitors the conduct of both consultants and distributors through its supervisory, complaint handling and enforcement functions," it says.

"Where there are indications of misconduct, including unsuitable recommendations, misrepresentation by consultant / distributors or other breaches of FIMM's rules, FIMM will carry out necessary investigations and, where appropriate, impose disciplinary actions."

To put it into perspective, between 2020 to 2025, a total of 589 complaints were received by FIMM, while only 10 misconduct findings relating to misrepresentation by consultants were recorded and sanctioned by FIMM's Disciplinary Committee.

This represents about 1.7% of the total complaints received during the same period or less than 1% if compared against the total number of consultants.

"This suggests that while allegations of misrepresentation may be raised by investors, only a rel-

atively small proportion of cases ultimately resulted in disciplinary findings for misrepresentation after investigation and assessment of the available evidence," according to the FIMM.

Exchange-traded funds

For individuals who want to invest but lack the time, skill or confidence to pick stocks on their own, unit trusts are not the only option. Exchange-traded funds, or ETFs, also offer a simple way to gain market exposure at generally lower cost.

An ETF is like a basket of investments that an investor can buy and sell on the stock market.

For example, instead of buying individual shares such as Malayan Banking Bhd, Tenaga Nasional Bhd, CIMB Group Holdings Bhd and Public Bank Bhd separately, an investor can buy an ETF that tracks the FBM KLCI.

The ETF would hold a basket of stocks that broadly mirrors the index. As a result, when the FBM KLCI rises, the value of the ETF would generally move higher. When the index falls, the ETF would usually decline as well.

Despite the advantages, ETFs in Malaysia are not as popular as unit trusts.

With the delisting of three EITs in 2025, the total number of ETFs listed on the Main Market of Bursa Malaysia as at end-Dec 2025 fell to 13, with a total market capitalisation of RM2.85bil.

For comparison, the EIT market capitalisation has grown from RM2.21bil since end-2023.

Notably, while Islamic EITs have grown in market capitalisation, conventional funds have shrunk.

Ng of Tradeview believes that the popularity of EITs will grow in future as more investors, especially the younger investors, embrace the instrument.

"For ETFs to gain real traction, low cost alone is not enough.

"The underlying basket must also offer investors exposure to companies with regional or global growth prospects. This is one reason EITs have gained stronger momentum in markets such as South Korea and Taiwan."

"In addition, Malaysia must also attract global investors' interest into our ETFs. This will increase the demand," says Ng.

The SC notes that ETFs offer a lower entry point than unit trusts because of the difference in distribution models.

"Unit trust funds are typically distributed by a unit trust consultant who may be in a bank and will provide advice on unit trust selection prior to execution.

"ETFs, on the other hand, being exchange-traded products, require the investor to have a CDS (Central Depository System) account and to buy via stockbrokers. Stockbrokers, especially online brokerages, offer extremely low commissions.

"Compared to unit trust funds, ETFs require more self-direction by the investor as the investor may have to decide himself which ETF to buy and may also have to buy the ETF without assistance."

"This, according to the SC, underscores the need for stronger investor education and a more active role from the financial planning industry in building ETF literacy and guiding suitable investors toward these products.



5%

of investment becomes sales charge

This visual is human created. AI-aided