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Room for unit trust sector to grow further

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WHILE pushing for an enterprising Malaysian society, the Government has also sought to redress racial and regional financial disparity by establishing more unit trust funds.

Several measures to promote the unit trust industry have been implemented, among these, the passing of the Securities Commission (Unit Trust Scheme) Regulation 1996.

Also, in December 1996, the Employees' Provident Fund liberalised its withdrawal schemes by allowing members to invest in approved unit trust funds. In the same month too, 10 joint venture foreign fund management companies were allowed for the first time to manage local unit trust funds.

The latest boost for the unit trust sector came in the 1997 Budget - it was announced that overseas income of local fund managers would be taxed at only 10 per cent.

The Government had also decided to open up the unit trust fund sector due to retail investors' growing acceptance of unit trusts as an efficient savings instrument.

The local unit trust industry came into being when the first fund was launched in 1959. From 1959 to 1970, only three fund management companies were operational.

Since then, the number of approved unit trust funds rose from 39 in 1992 to 74 by September 30 last year, with total net asset value rising from RM15.7 billion to RM56.1 billion in the period.

Elsewhere, on the Kuala Lumpur Stock Exchange (KLSE), 18 unit trusts performed better than the KLSE Composite Index between December 1 1995 and December 2 1996.

According to a statement from the Federation of Malaysian Unit Trust Managers, the KLSE's Composite Index improved by 28.88 per cent. (The federation is a trade association representing Malaysian unit trust management companies.)

Topping the list was Asian Unit Trust Malaysia Progress which recorded a 69.67 per cent improvement in its performance, followed by Asia Unit Trust Malaysia Equity (43.93 per cent) and Asia Unit Trust Tabung Kumpulan Modal (Mara) Bumiputera Yang Ketiga (37.76 per cent.)

Encouraging the public to invest in the unit trust fund will not only guarantee them better returns - most of the funds are government-guaranteed - but will boost the national savings rate too.

According to economists, the positive habit of investing in the unit trust industry will help national savings rise to 41.2 per cent of gross national product (GNP) this year compared with 38.8 per cent of GNP in 1996.

Although Malaysia's savings rate was high in 1996, the level of investment was higher at 45.1 per cent of GNP.

Therefore, there is a need to further promote a higher level of national savings in order to minimise the recourse to foreign savings, especially external borrowings to finance national investment.

This will reduce the nation's long-term external liabilities as well as the outflow of investment income, including interest payments.

By the year 2020, the Government expects unit trust funds to account for about 40 per cent of the Kuala Lumpur Stock Exchange's market capitalisation and to register 30 per cent growth.

Currently, the unit trust industry, including funds managed by Permodalan Nasional Bhd (PNB), accounts for only 7.5 per cent of the KLSE market capitalisation compared with 30 per cent and above in developed markets.

Excluding PNB, the share of the private sector-managed unit trust funds accounts for only 1.4 per cent of stock market capitalisation.

The formation of a cabinet committee and the recent launch of the savings campaign by Prime Minister Datuk Seri Dr Mahathir Mohamad will also further boost national savings.

The development of the domestic fund management industry has been given priority in the Seventh Malaysia Plan, partly to develop Malaysia into a regional fund management centre.

Industry observers forecast the domestic unit trust industry will maintain its momentum. Currently, 75 per cent of local savings is with banks compared with only 25 per cent in the US.

The performance of Malaysia's unit trust funds is a good way of measuring the trust's performance, since investors can at least compare prices. However, investment decisions should not solely be based on this as the risk aspect has not been factored in.

Though competition among fund managers for the same money exists in the short term, the local unit trust industry is not fully developed. There is room for everybody to manoeuvre but there is even more room for further growth in the sector.

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