

16/03/1997

Trustworthy treats

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ONCE A MONTH, 39-year old 'Mat Bond' makes a trip to a Bank Bumiputera branch close to his workplace where he forks out RM200 to buy units in Amanah Saham Nasional (ASN). These monthly expeditions have been a routine for over 10 years and 'Mat' doesn't plan to stop anytime soon.

Nonetheless, despite having most of his life savings in a government-run trust fund, he insists that he has never invested money in unit trusts and sees no reason why he should.

This is, unfortunately, the common opinion among Malaysians, much to the disappointment of commercial unit trust operators whose well-laid plans are not attracting as many of the small-time investors - the likes of 'Mat' and his ilk - as they had hoped. 'Mat' of course refers to the band of bumiputera investors attracted in droves to invest in the government-run ASN, Amanah Saham Bumiputera (ASB) and Amanah Saham Wawasan 2020 (ASW 2020) but who shy away from venturing further afield. 'Mat' and gang are some of the people commercial unit trust managers are trying hard to convince that there is life outside ASN, ASB and ASW 2020.

'A lot of people don't understand or have misconceptions on what unit trusts are all about, and many are not aware that unit trusts operate much along the same lines as ASN and ASW', says Nathan Balakrishnan, general manager of Southern Unit Trust, formerly known as SBB Unit Trust Management Bhd. 'Thus, you have people with big investments in ASN but who are very reluctant to invest in a commercial unit trust where the returns can be higher'. Nathan says the key to the industry's future lies in educating the public on the long-term financial advantages of investing in unit trusts.

A unit trust is merely an investment scheme which pools money from many investors who have the same financial objectives, such as obtaining a steady income or high capital appreciation. A full-time fund manager then invests the pooled money in shares or other authorised securities and for a commission, attempts to meet the financial goals of unit holders. Ignorance or misunderstanding among the general public is one of the main reasons why the unit trust industry yet again recorded marginal growth in 1996. Growth was estimated at only 0.8 per cent throughout 1995 according to BHLB Pacific Trust Management Bhd, but net asset value increased substantially - due to higher share prices - from RM44.1 billion to RM56 billion.

To the dismay of industry people like Nathan, many unit trust investors also appear to have a short time frame on their investments. 'Many treat it like a savings account and after the bonus and dividends, they take their money out', he says, adding that in 1996, 'redemptions were very high'.

In Malaysia, government-run Perbadanan Nasional Bhd (PNB) has always been the leader in the unit trust industry. Three of its funds - ASB, ASN and ASW 2020 - with 26.4 billion units in circulation account for 80 per cent of the industry's net asset value.

Trailing PNB are 29 other unit trust operators, nine of whom are also government sponsored while the rest are privately run. The government-backed firms (excluding PNB) manage RM4 billion in 24 funds while the privately-run firms have a total net asset value of RM6.7 billion in 29 funds.

Hong-Kong based Micropal Asia Ltd, an independent rating agency which

tracks the performances of Malaysian unit trust funds, ranked the Malaysia Progress Fund (MPF) as the best performing equity-based fund from Jan 1992 to Jan 1997. It earned investors total returns of 251.37 per cent over the five-year period. Managed by Asia Unit Trusts Bhd, 'MPF's winning strategy in 1996 was its emphasis on the banking, infrastructure and consumer sectors', says general manager Zulkefli Yahya. Although 1996 was not a busy year in terms of customer volume, unit trust managers didn't complain too much, as some long awaited measures to boost the long-term vigour of their industry were finally implemented.

With the vocal support of government leaders - both Prime Minister Datuk Seri Dr Mahathir Mohamad and his deputy, Datuk Seri Anwar Ibrahim, are encouraging new investment tools to increase the national savings rate - several measures to promote the unit trust industry were implemented in 1996.

The government's game plan is to get the industry to increase its share of the KLSE's market capitalisation. Currently, it accounts for a lowly 7.5 per cent of the local bourse - a far cry from the 30 to 40 per cent often owned by unit trusts in developed countries. If PNB's stake is excluded, privately-run unit trust funds account for a minuscule 1.5 per cent of KLSE's market capitalisation. The target is to increase the unit trust industry's share of the KLSE to 15 per cent by 2005, and thereon to 40 per cent by the year 2020.

The 1997 Budget laid a lot of groundwork towards achieving this target. Finance Minister Anwar, who is also the deputy prime minister, announced that Employees Provident Fund (EPF) contributors who had more than RM50,000 in their Account 1 could withdraw 20 per cent of the excess to invest in any of the 25 unit trust operators approved by EPF. (In Nov 1994, the EPF introduced three accounts for all members. Account 1 constitutes 60 per cent of their entire savings which can only be withdrawn upon retirement. Account 2 (30 per cent) is for matters pertaining to purchase of a house while the remaining 10 per cent (Account 3) is for medical coverage.) Some 200,000 contributors are believed to be immediately eligible and may pour more than a billion ringgit into the industry.

The budget also announced that foreign fund management companies will be allowed to manage unit trust funds in Malaysia through joint-ventures. To qualify, at least 30 per cent of the joint-venture company should be held by local parties and foreign fund management companies also need to be managing at least US\$ 100 million in funds sourced from outside Malaysia. Previously, foreigners could only manage local institutional funds. Ten joint-ventures have already been approved and others are in the pipeline. Further benefits to the unit trust industry are in store. Anwar also announced a drastic cut in tax on income derived from the management of funds sourced from outside Malaysia by local unit trust funds. The previous rate of 30 per cent was slashed to 10 per cent. This is a much welcomed move according to Rohani Mohd Shahir, chief executive officer of Abrar Global Asset Managers Sdn Bhd. Her fund's client base is 50 per cent foreign and such a move will enable her to entice more funds to be parked locally.

Another vital development for the industry occurred earlier in the year. The Securities Commission (SC) became the central regulatory authority for the unit trust industry following the coming into law of the SC (Unit Trust Scheme) Regulations (SCR) 1996 on Aug 30, 1996.

The SCR seeks to protect investors by way of establishing standards of relevant disclosure in unit trust prospectuses. In addition, it requires unit trust operators to issue a supplementary prospectus should a new matter arise if there is significant change in a matter disclosed in the

first prospectus. In early Feb 1997, the SC announced several guidelines for the unit trust industry in line with the disclosure-based SCR. These included measures to improve the content and disclosure quality of prospectuses, and the streamlining of what's allowed in advertising and promotional materials. The SCR also established a regulatory framework for the marketing and distribution of unit trust products.

To police its guidelines, the SC intends to vet all advertisements and promotional materials for unit trust products before they can be released. All marketing staff of unit trust operators are also required to register with and pass an examination set by the Federation of Malaysian Unit Trust Managers before they can market or distribute unit trust products.

The positive effects of the 1997 Budget on the unit trust industry are already becoming apparent, say industry players. With the government showing great seriousness about developing the industry, unit trust fund managers believe the outlook for the next few years is rosy barring a market crash. 'From the EPF contributors alone, we were able to attract some RM15 million worth of investments', says BHLB Pacific Trust Management Bhd's executive director Mark Toh. BHLB Pacific Trust is one of the 25 approved unit trust operators EPF contributors can invest with. According to Toh, the company plans to launch two new unit trust funds this year. Currently it operates four funds in which investors have put RM800 million. Several other unit trust operators have also applied to the SC to launch new funds while a number of securities companies have also expressed interest in entering into the unit trust business.

A lot depends on the performance of the KLSE. A bullish market will encourage new operators and new funds and advertising budgets are also bound to be enlarged. Unit trust funds, especially the equity-based funds, will be able to handsomely reward investors and to advertise this fact to the public. With their analysts and computer screens and hundreds of millions of ringgit, fund managers generally perform far better than non-professional stockmarket punters.

Looking at figures put out by the Malaysian Investors Association, share prices on the KLSE are expected to move upwards this year. The association estimates that corporate earnings in 1997 is expected to improve by 18 to 20 per cent, with the main gainers being the manufacturing, construction and services sectors. The 621 companies listed on the KLSE's two boards reported a total pre-tax profit of RM41.53 billion for the fiscal year 1995/1996, compared with RM33.71 billion in 1994/1995.

'The outlook is very bright for unit trusts in Malaysia', says Nathan. 'Our investors have been slow to pick up on the advantages of putting their money to work in unit trust schemes. But as more and more people come to know about it, the industry can only expect to grow. There has to be greater education of the masses on the subject. Although we have a lot of catching up to do, it is not an impossible task.'

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