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Getting Bumis to invest EPF money in ASN2

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ON Wednesday, Prime Minister Datuk Seri Datuk Mahathir Mohamad launched a fourth unit trust scheme of Permodalan Nasional Bhd - Amanah Saham Nasional 2.

The other three are the original ASN, launched in April 20, 1981; Amanah Saham Bumiputera (January 1991); and Amanah Saham Wawasan 2020 (Aug 16, 1996).

All three had similar objectives, but the nature of the products differed. The overriding aim was to mobilise Bumiputera funds, in the case of ASN and ASB, and the savings of all Malaysians between the ages of 12 and 18, in the case of ASW 2020.

The first ASN was a fixed-price fund. The savings were safe and unit holders can redeem any and all amounts at their will and pleasure. On their investments, PNB annually paid out units in the form of dividend and bonus. In the initial years the returns were handsome: a total of 20 per cent in 1981 and 18 in 1982.

And so millions and millions of Bumiputeras saved with the ASN. The consequence was quite a few investors breached the initial caps on savings of RM50,000 and RM100,000. Today's ceiling is RM200,000.

Realising the popularity of the fund, PNB recognised the need to address the preferences of short- and medium-term investors who might be willing to take an element of risk. And so it came out with another unit trust scheme - Amanah Saham Bumiputera.

But PNB was not exactly sure about the response to the new trust scheme. And so it came up with the idea of offering investors the option of participating in two differing unit funds: one, a fixed price scheme, now called ASB, or a variable price fund, the metamorphosed ASN. The latter scheme has inherent benefits and risks. Benefits are in the form of price appreciation of the units if the stock market is buoyant. The icing on the cake comes in the form of annual bonus units.

Conversely, the risks are real. If the stock market slumps, the price of units will decrease. Consider the current price of a unit of ASN. At close of trading on Thursday, the manager's buying quote was 63 sen; selling, 68 sen.

Once Bumiputeras had read the risk elements in a variable price fund, the majority of them chose the safe road of a fixed price fund that ASB had become. And so that had been the big picture of the two main unit trust schemes of PNB. As at April 30, 1999, ASB has funds totalling RM25.7 billion mobilised from 5.01 million unitholders. At the same time, ASN has only garnered RM2.4 billion in savings from 1.3 million investors.

Clearly then the question arises: if ASN, with its element of risks, is comparatively not attractive to Bumiputeras, why launch another similar fund? Surely you cannot launch a brand new car of a model first brought out ten years.

ASN2 has also a benefit. That is the death benefit scheme. If you are unitholder for three years and have at least RM10,000 in your account, your beneficiaries will receive an immediate cash payment of RM200 and later, RM1,800 when you die. But that benefit is common to all the other three unit trusts managed by PNB, though it is not widely known.

So two features have been added to ASN2. One, you don't have to pay a service charge when you buy units; you only pay a maximum of ten per cent when you sell. Two, you can invest as much as RM500,000 while the two

other schemes place ceiling of RM200,000.

To attract investors, PNB is offering incentives: 20 free units for every 1,000 during the introductory period between June 30 and Sept 30. A gift of two per cent might not be handsome, but it will nevertheless swell the mandatory minimum investment of 1,000 units to 1,020.

Moreover the offerer will maintain the price of each unit at a ringgit until Dec 31 after which the price will be calibrated by the net asset value of all the fund's investments. No investor can transact any redemption until the new year. After which he would fidget and fret as he tracks the daily price movements. If it is higher than a ringgit he would be singing; if it is lower, he would be moaning.

And payday, in terms of bonus, would not come until after June 30, 2000 which would be the end of ASN2's financial year.

Now given these features of ASN2, which are more or less similar to those of the first ASN, what is the rationale of ASN2? PNB group chief executive, Hamad Kama Piah Che Othman, offers a clue. He cited three objectives last Wednesday. One, to heed the Government's call to mobilise more savings from Bumiputeras. Two, to enable the fund managers to take advantage of the relatively buoyant stock market and pick attractive stocks at reasonable prices.

But the third objective, revealed by Hamad Kama, is more interesting. The fund would allow contributors to the Employees' Provident Fund to invest in ASN2. This statement is a volte face. For when in November 1996, the EPF introduced a benefit to enable contributors to invest in a unit trust scheme of their choice but acceptable to the fund, PNB did not rush to join the queue.

Nobody wanted to reveal the reason why PNB refrained from being registered in EPF's list of unit trusts. Sources in EPF have said they had tried and tried.

The contention appears to centre on the fees EPF would charge on the returns on unit trust investment which is about 0.25 per cent. But the tussle appears to have been resolved now. Though at the moment, EPF has not technically agreed to allow its members to withdraw to invest in ASN2. But word all round is that EPF members will be allowed to participate in ASN2.

Which brings us to the question what makes PNB target Bumiputeras among EPF contributors as the main investors in ASN2? One, the relatively widespread discontent among EPF members over the lower dividend yields on their savings over the past several years. Which is the basic reason why EPF worked out the investment withdrawal scheme. Two, the huge savings many contributors have in their accounts.

The latest EPF report is not available. But the 1997 report is. Statistics in that report show more than 165,000 members have more than RM100,000 in their accounts. Which means they can withdraw at least RM10,000 through the investment benefit scheme. Many can withdraw higher amounts. Almost a thousand have a million ringgit and more. They can withdraw as much as RM200,000. And among them would be at least a few hundred Bumiputeras. It is this lot and those who are eligible to withdraw lesser sums that PNB wants to net.

But will it succeed? Only time and the good fortune of the stock market will tell. The Bumiputera EPF investor, especially those with substantial savings in their accounts, will be nearing the end of their career. They have only the nest egg they have built up in the EPF to comfort them in the twilight years.

They will consider deeply the Prospectus of the ASN2 which PNB has thoughtfully published on Thursday. The statistics of ASN in that document show that the years before 1998 were good; dividends were higher than 10

per cent; and the price of units were priced as high as RM1.55.

But last year's figures were bleak. Price of units plunged to 0.64 sen, a capital depreciation of more than 36 per cent.

Except for the rise in prices in the stock market, little would perforce the Bumiputera to prise his savings in EPF to invest in a variable price unit trust. He would desire more security in returns.

That is there in the ASB scheme. In good times as well as bad times it has never failed to return more than 10 per cent in annual dividend and bonus units. It is secure for the capital value of investment is constant. Bumiputera investors would prefer that option. So PNB should consider implementing innovations to the ASB scheme. One, raise the limit of savings to RM500,000 and more. This would easily prod Bumiputeras among EPF contributors to place their money in that scheme. Moreover it might even have retirees to desposit their entire EPF withdrawals in ASB.

What more does PNB want? Does it not desire to mobilise the savings of Bumiputeras. Here are huge savings of the retired and ASB assures them an annual return, far, far higher than any other financial institution, at least in the next few years.

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