

Investing in unit trusts assignment

Business



INTRODUCTION Unit trust funds are investment schemes structured to allow investors with similar investment objectives to participate in the money, debt, equity and derivative markets. Professional investment managers, who channel their efforts towards achieving investment objectives ranging from regular income to capital growth, will manage funds collected from the schemes. Unit trusts are excellent vehicles for individual and corporate financial planning due to their affordability, liquidity and relative. It is a great opportunity to earn unlimited income because according to the

Securities Commission, in December 2007, the Malaysian unit trusts boasted 15.32%. In a period in 15 years since 1992, the amount managed by private unit trust companies grew significantly from aRM400 million to RM71.005 billion in 28 January 2008. The Malaysian Private Unit Trust Industry's Growth Rate from 1992-2007 UNIT TRUST SCHEME A unit trust is a professionally managed, collective investment scheme that pools unit holders' money and invest it toward a specific goal as declared by the investment objective of the scheme.

Such as scheme usually aims to provide above-average returns in the form of income distribution and capital growth with reasonable risk, to medium- to long-term investors through investing in a broadly diversified portfolio of stocks and bonds, or other specialized instrument. A unit trust scheme may be illustrated as a tripartite relationship between the manager, the trustee and unit holder governed by a legally binding deed registered with the Securities Commission. The Securities Commission regulates the industry as well as the operation and administration of unit trust scheme through the Securities Commission Act 1993.

HISTORY OF UNIT TRUSTS Malaysia introduced the unit trust concept relatively early compared to its Asian neighbours, when, in 1959, a unit trust was first established by a company called Malayan Unit Trust Ltd. The unit trust industry in Malaysia has therefore a history of chronological order as follows: **The Formative Years: 1959-1979** The first two decades in the history of the unit trust industry were characterized by slow growth in the sales of units and a lack of public interest in the new investment product.

Only five unit trust management companies were established, with a total of 8 funds introduced over that period. The industry was regulated by several parties including the Registrar of Companies, The Public Trustee of Malaysia, Bank Negara Malaysia and the Ministry of Domestic Trade and Consumer Affairs. The 1970s also witnessed the emergence of state government sponsored unit trusts, in response to the Federal Government's call to mobilize domestic household savings.

The Period from 1980 to 1990 This period marks the entry of government participation in the Unit Trust Industry and the formation of a Committee to regulate the unit trust industry, called the Informal Committee for Unit Trust Funds, comprising representatives from the Registrar of Companies (ROC), the Public Trustee of Malaysia, Bank Negara Malaysia (BNM) and the Capital Issues Committee (CIC). The 1980s marked a significant development in the history of the industry when the Skim Amanah Saham Nasional (ASN) was launched by Permodalan Nasional Berhad (PNB) in 1981.

Despite only 11 funds being launched during this period, the total units subscribed by the public swelled to an unprecedented level because of the

overwhelming response to ASN. The 1980s also witnessed the emergence of more unit trust management companies, which were subsidiaries of financial institutions. Their participation facilitated the marketing and distribution of unit trusts through bank's branch network which widened investor reach.

The Period from 1991 to 1999 This period witnessed the fastest growth of the unit trust industry in terms of the number of new management companies established, and funds under management. The centralization of industry regulation, with the establishment of the Securities Commission on 1 March 1993, coupled with the implementation of the Securities Commission (Unit Trust Scheme) Regulations in 1996 and extensive marketing strategies adopted by the ASN and ASB (Amanah Saham Bumiputera), played key roles in making unit trusts household products in Malaysia.

Consequently, the total asset value of funds under management grew more than threefold from RMI 5.72 billion at the end of 1992 to RM59.95 billion at the end of 1996. The period also saw greater product innovation and deregulation of the industry. Although the pace of growth of local unit trust funds has moderated since the financial crisis of 1997-1998, it has nevertheless maintained its upward trend. The Period from 2000 to current In 2006 the unit trust industry experienced another year of strong growth which saw the net asset value of managed funds capitalizing 14. % of Bursa Malaysia's market at RM98.5 billion at the end of 2006. Further, the liberalization of overseas investment rules (such as the increase in overseas investment limit from 10% to 30%) by Bank Negara Malaysia has seen unit trust management companies launching numerous offshore funds or

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realigning investment strategies of domestic funds to invest offshore up to the permitted limit which resulted in the launch of 10 offshore funds with an intended overseas investment exposure of more than 50%.

As at the third quarter of 2007 the number of offshore funds with an intended overseas interest by the investing public for a better slice of the overseas market. BENEFITS OF INVESTING IN UNIT TRUSTS Besides the potential for capital growth over the long term period, unit trusts also provide other recognized benefits that make them attractive relative to other investment avenues. Among them are as follow: 1 . Diversification

Diversification involves the process spreading risk over the broad portfolio of stocks and bonds in different companies, sectors, countries and region.

This can be only done with substantial amounts of money to buy a wide area of stocks. Unit trust facilitate the diversification process through providing small investors with an avenue to pool their savings for the purchase of a diversified portfolio of stocks and bonds that will bring returns at lower risks to unit holders compared with investing directly in stock markets. .

Professional Management Unit trusts either engages maintain in house professional fund manager with the expertise and recourses to manage the assets of the fund.

The investors thus benefits from this professional fund management of their investment in the fund at an affordable cost. 3. Liquidity Unit holder may redeem all or part of their units on any business day and have their proceed mailed to them within 10 days. 4. Ease of Transaction Unit trusts do not require cumbersome administrative or paperwork on the part unit holder in

managing his investments. 5. Capital Gains Through participation in securities, unit trusts investments provide the opportunity to collect capital gain as part of the return on a unit holder's investment.

UNIT TRUST INDUSTRY GETTING STRONGER The unit trust industry expanded further during the first five months of the year with the launch of new funds and an increase in the number of units in circulation. The growth was attributed to sustained investor interest in unit trusts as a viable investment instrument. During the period, 45 new funds were launched to reach a total of 435 funds as at end-May (end-2007: 392 funds). Units in circulation rose 8. % to 167. 4 billion (end-December, 2007: 10. 5%; 154. 1 billion).

The Islamic unit trust segment continued to expand with 12 new funds bringing the total to 106 as at end- May 2008 (end-2007: 95 funds). The net asset value (NAV) of the unit trust industry rose 18% to RM143. 7billion and accounted for 13. 5% of the market capitalization of Bursa Malaysia (end-2007: 23. 6%; RM121. 8bil; 14. 4%). The number of new unit trust funds launched that invested in foreign markets and funds already investing abroad reached 128 funds as of end-May, with investment totaling RM10. 8bil.

There has been positive response to the Government's efforts to promote the development of Real Estate Investment Trusts (REITs) in the capital market. The first half of 2007 saw four new REITs listed on Bursa Malaysia bringing the total to 13 REITs. Market capitalization of REITs rose strongly by 73. 5% to RM4. 98bil as at end-June (end-2007: to access the property market.

CONCLUSION As conclusion unit trusts is the great opportunity to earn

unlimited income based on the benefit such as diversification, capital gains, liquidity and so on. Besides that the expansion of unit trusts industry in Malaysia that increase by year to year.