

An Overview of Unit Trust Funds in Malaysia

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Abstract

This paper aims to study on unit trust funds in Malaysia. It focuses on the history of the unit trust development, the performance of unit trust issuance and some benefits of investing in unit trust funds. In Malaysia, the unit trust fund was early introduced in year 1959 when it was first time established by a company called Malayan Unit Trust Ltd. Up to 31 May 2017, the total number of unit trust funds in circulation is 528,996,000 units which comprise of 392,447,000 units of conventional unit trust funds and 136,549,000 units of Islamic based funds. The total Net Asset Value (NAV) for conventional and Islamic based funds is RM407,160,000. The number of units in circulation and NAV on May 2010 was 330,409,000 units and RM272,056,000 respectively. Both figures of units in circulation and NAV indicate that the market for unit trust funds in Malaysia is positively keeps growing. It shows that the market for unit trust funds has its own demand by investors who are looking for wealth creation and consider for portfolio diversification.

Keywords: Unit Trust; Growth; Units in Circulation; NAV

1. Development of Unit Trust Funds in Malaysia

Malaysian unit trust market was emerged as early year 1959 where the pioneer of this market was established by a company called Malayan Unit Trust Ltd. On 6 May 1960, this company assumed its name to Singapore Unit Trusts Limited (SUT). SUT became a member company of the Permodalan Nasional Berhad (PNB)

Group after being acquired by PNB International Limited (Labuan) in 2000, (a wholly owned subsidiary of PNB).

PNB, the ultimate shareholder of SUT, is one of the largest asset managers in Malaysia with investors exceeding 11.6 million unit holders and total funds under management of more than RM 255 billion.

The development of unit trust funds in Malaysia has gone through into four phases that are The Formative Years 1959 – 1979, the Period from 1980 – 1990, the Period from 1991 – 1999 and the Period from Current to Present (www.islamic-invest-malaysia.com):

The Formative Years 1959 – 1999: The first two decades in the history of the unit trust industry were characterised 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 18 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 mobilise domestic household savings.

The Period from 1980 – 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 – 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 centralisation 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 RM15.72 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 2005 the unit trust industry experienced another year of strong growth which saw the net asset value of managed funds capitalising 14.2% of Bursa Malaysia's market at RM98.5 billion at the end of 2005. Further, the liberalisation 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 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 2006 the number of offshore funds with an intended overseas investment exposure of more than 50% is 38 which is clear evidence of the continued interest by the investing public for a better slice of the overseas market.

2. Definition of Unit Trust Funds

Generally, a unit trust funds can be defined as a collective investment scheme that pools investor's money, invests it with a specific objective and most importantly managed by a professional fund manager.

A Shariah-compliant fund is a collective investment fund that offers investors the opportunity to invest in a diversified portfolio of Shariah-compliant shares and fixed-income securities, as well as other Shariah-compliant money market instruments (Securities Commission of Malaysia).

3. The Performance of Unit Trust Funds in Malaysia

Up to 31 May 2017, the total number of unit trust funds in circulation is 528,996,000 units which comprise of 392,447,000 units of conventional unit trust funds and 136,549,000 units of Islamic based funds. The total Net Asset Value (NAV) for conventional and Islamic based funds is RM407,160,000. The number of units in circulation and NAV on May 2010 was 330,409,000 units and RM272,056,000 respectively. Both figures of units in circulation and NAV indicate that the market for unit trust funds in Malaysia is positively keeps growing. Table below indicates the performance of unit trust starting year 2012 until 31 May 2017 based on units in circulations and net asset value (NAV).

Table 1.1 Total Units in Circulation (in billions)

	31 May 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013	Dec 2012
Total	528.996	496.852	457.997	425.426	388.579	351.578

Source: Securities Commission, Malaysia

From the table above, the total units of unit trust funds in circulation are positively increased year to year. On December 2012, the total units in circulation are 351.578 billion units and increase to 388.579 billion units. Based on percentage, the funds are increasing at decreased rate from December 2012 until

December 2014. However, starting December 2015, the unit in circulation is increasing at an increasing rate. For the first 5 months in year 2017, the percentage increase is almost 6.49% from the previous year. The increasing number in unit in circulation is also reflecting by the number of launched funds from year to year. Table 1.2 shows the number of launched funds from December 2012 until 31 May 2017.

Table 1.2 Number of Launched Funds

	31 May 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013	Dec 2012
Total	631	627	612	612	595	589

Source: Securities Commission, Malaysia

As we can see in Table 1.2, the total number of launched funds also is increasing from December 2012 until 31 May 2017 only in year 2014 and 2015, the number is unchanged. This total number comprised of conventional funds and Shariah based funds. Figure 1.1 below represents the proportion of Shariah based funds launched compare to conventional funds.

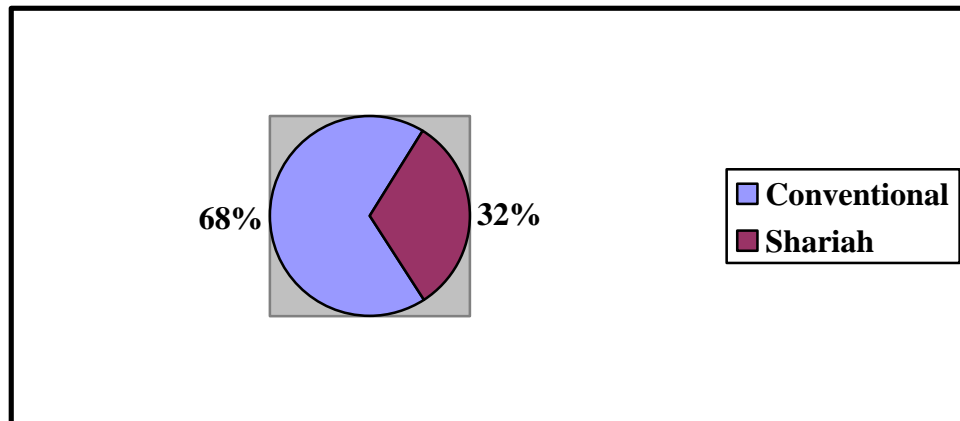


Figure 1.1 Proportion of Shariah based funds versus conventional funds

Source: Securities Commission, Malaysia

Figure 1.1 above indicates the percentage of Shariah based funds launched compare to the conventional funds. As of 31 May 2017, the number of Shariah based unit trust funds launched is 201 and conventional funds are 430. It represents 32% out of total unit trust funds launched up to the first 5 months of year 2017. If we are looking at the trends starting year 2012, the number of Shariah based launched in year 2012 is 189, then drop to 178 in year 2013. After that, the figure from year 2014 to 2016 is increased to 188, 193 and 198 respectively. The positive trend shows that there is a big market for Shariah based unit trust funds.

The increasing trends in unit in circulation and number of launched funds also contribute to the positive performance of Net Asset Value (NAV). Table 1.3 indicates the total Net Asset Value (NAV) of unit trust funds.

Table 1.3 Net Asset Value (NAV) of Unit Trust Funds (in billions)

	31 May 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013	Dec 2012
Conventional	338.817	297.556	294.454	296.358	292.688	259.490
Shariah based	68.343	60.915	52.124	46.660	42.822	35.361
Total	407.160	358.471	346.578	343.018	335.510	294.851

Source: Securities Commission, Malaysia

To measure the performance of unit trust fund, it is relevant to use Net Asset Value (NAV) as the indicator. It is because, NAV is found by taking the total market value of all assets held by the fund, less any liabilities, and dividing this amount by the number of fund shares outstanding (Gitman and Joehnk, 2002). NAV indicates the underlying value of a share of stock in a particular unit trust fund.

From the Table 1.3, the Net Asset Value (NAV) for both categories; Conventional funds and Shariah based funds shows positive trends. The values are keeping increasing year to year. This indicates that the market for both categories is kept improving. The growing number of mutual funds' shares sold and their NAV indicate that mutual funds or unit trust funds are becoming a popular alternative for investment (Yong and Ruzita, 2012).

Based on all data provided above, we can see that the funds are so demanding and fulfill the needs of the market. The performance of unit trust funds is seemed so stable from year to year. This result will encourage many new investors to invest in unit trust funds in order to gain the benefits.

4. Benefits of Investing in Unit Trust Funds

Diversification

Investopedia defines diversification as a risk management technique that mixes a wide variety of investments within a portfolio. Basically, the diversification strives to smooth out the unsystematic risk in a portfolio. So that, it must contains the varieties of securities that are uncorrelated to each other. Norma Md. Saad et al (2010) states that unit trust funds can be invested in a variety of assets or investment classes, which may not be available to an individual investor. The establishment of unit trust funds benefitted the participants in terms of diversification effect. It helps the participants to broaden their investment portfolio and diversify risk. At the same time, the varieties of securities offered in unit trust fund helps the investor to invest suits to their objective.

Liquidity

An investment in unit trust funds is highly liquid as the investor can sell their investment and turn out into cash very quickly within a very short period of time. An investment manager or familiarly called as fund manager must put aside certain amount of money to ensure that there is enough cash for the purpose of early redemption of units hold by the investors.

Professional Fund Manager

In unit trust market, the capability of fund managers to manage funds is highly important to ensure the funds keep growing and sustain in the market. A fund manager must a person who has high level of education, professional credentials and well experience in the investment managerial field. They always make research on the market and also economic trends so that they will be able to select an appropriate investment that can generate high return in future. Investors highly rely and trust the investment decision made by the professional fund managers. As of now, there are 36 management companies in Malaysia that is responsible to manage unit trust funds such as Aberdeen Islamic Asset Management Sdn Bhd, Public Mutual Berhad an etc.

5. Conclusion

The unit trust funds or mutual funds is a collective investment scheme that pools investors' money, invests it with a specific objective and most importantly managed by a professional fund manager. There are many reasons that encourage investors to invest especially because of the benefit of diversification, highly liquid and it is managed by a professional fund manager. Investors invest in unit trust funds for a long term period of time.

In terms of growth and performance of unit trust funds, it indicates that the number of units in circulations, total number of launched funds and Net Asset Value (NAV) positively increased from year to year. The demand of Shariah based unit funds also shows significant increase in trends. The current trend indicates that the market for Shariah based unit funds is getting bigger.

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