



## **Wise Investor Series:** Types of Unit Trust Funds in Malaysia

## About InvestSmart®

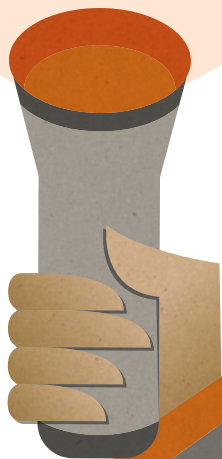


InvestSmart® is a comprehensive investment awareness and literacy campaign under the Securities Commission Malaysia's investor empowerment initiative. It aims to:

- (a) enable more confident and informed retail participation in the capital market.
- (b) provide the public, particularly the next generation of investors, with valuable investment information, presented in a simplified format through new technology and multimedia platforms, supplementing existing investor education channels.

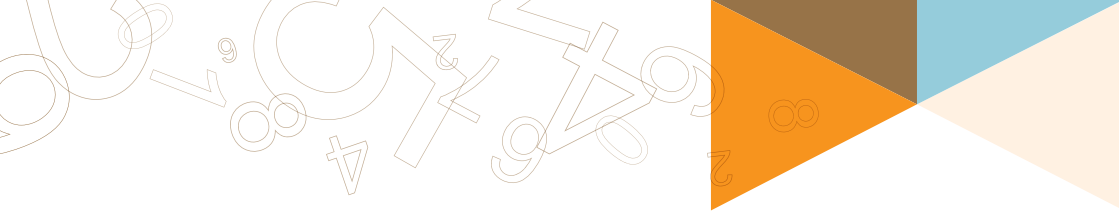
The InvestSmart® approach is guided by three main principles:

- **Comprehensiveness:**  
To target all segments of the Malaysian investing population to educate them with fundamentals of making sound investment decisions.
- **Simplicity:**  
To demystify investing by using plain language and employing impactful methods.
- **Multiple modalities:**  
To carry out our efforts through multiple channels: both traditional and new media, as well as face-to-face engagements.



For more information, visit [www.investsmartsc.my](http://www.investsmartsc.my) or download our InvestSmart® app from





## Wise Investor Series: Types of Unit Trust Funds in Malaysia

Unit trust funds provide retail investors with the opportunity to diversify their investments into various financial assets. With unit trust funds, the money collected is invested by the fund manager in different types of stocks, bonds, or other securities depending upon the objective of the fund. You can make an initial investment with as little as RM10 to RM100 (depending on the type of fund) and buy additional units when you have more money, or invest a fixed amount on a regular monthly basis. Hence, unit trust is one of the investment products for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio.

There are many types of funds that can satisfy the needs of different investors. In this leaflet, we will take a look at the various types of unit trust funds available in Malaysia. Upon reading this leaflet, you will be able to identify the different types of unit trust funds in Malaysia and consider which of them would suit you better.



## Equity Unit Trust Funds (Equity Funds)

An equity fund invests mainly in the stocks of listed companies, and is the most common type of unit trust fund available to investors in Malaysia. People who would like to put their capital into listed companies can choose to invest in this type of fund. This also means that in general, the performance of Malaysian equity funds tend to move in line with that of Bursa Malaysia's. For example, if the market rises, the value of the unit increases, and vice versa.

## Balanced Funds

The investment holding for this type of fund combines higher risk equities, lower risk fixed income securities and cash in order to maintain a balance of both capital growth and regular income for investors. This type of fund usually provides better shelter during a market downturn but on the flip side, may lag behind during a bull run.





## Bond / Fixed Income Funds

These funds invest mainly in Malaysian Government Securities, corporate bonds, and debt instruments, such as mortgage-backed securities. This type of fund focuses on providing regular income to the investors, with less emphasis on providing capital growth. Therefore, the prices of the funds are usually more stable compared to equity funds. However, during times of volatile interest rates, the fluctuation may be significant as fixed income securities are sensitive to movement in interest rates.

## Money Market Funds

These funds invest in low-risk but highly liquid investments, such as short-term debentures, short-term money market instruments and placements in short-term deposits. In general, money market funds tend to carry the lowest risk. You will usually be spared from unpleasant “surprises” when you invest in money market funds, but do not expect high returns either. In the long run, returns from money market funds may not be able to catch up with erosion in value of the investment or capital due to inflation.

## Capital Guaranteed Funds

A capital guaranteed fund or CGF is a unit trust fund with a limited lifespan, usually between three to five years, that is structured to guarantee investors of their investment capital at maturity. The main element of the CGF is its capital preservation feature. A CGF is guaranteed by guarantors and normally they are licensed financial institutions such as banks or merchant banks with good credit ratings. These banks will receive guarantor fees in exchange of their guarantees. These fees will be borne by the investors of the CGF.

Even though the SC’s Guidelines on Unit Trusts requires the guarantor to have a good credit rating from either a domestic or global rating agency, there is always the risk of default by the guarantor.



## Other Types Of Unit Trust Funds

### Islamic Unit Trust/ Shariah Funds

Shariah funds are almost similar to conventional unit trust funds, with the difference being the portfolios of these funds are invested based on Islamic principles, which means the investments can only be made in Shariah-compliant securities that are not involved in non-halal businesses such as gambling, alcoholic beverages and the production of non-halal products. In addition, the fund also excludes shares of companies that are involved in conventional banking, insurance or financial services. The returns offered by an Islamic unit trust will avoid the incidence of 'riba' (usury interest) through the process of cleansing or purification by the removal of such amount representing the interest element, which is then normally donated to charities.

### Real Estate Investment Trusts (REITs)

REITs invest in real properties, usually prominent commercial properties and provide the investor with an opportunity to participate in the property market in a way which is normally impossible to the small time investor. REITs also provide an easy way for investors to obtain real estate without the headache of being actual property owners.





REITs invest mainly in real estate and derive stream of income from the rental of the properties. According to the guidelines set by the SC, a REIT must have at least 50% of the fund's total asset invested in real estate and single-purpose companies, which are unlisted companies with real estate as principal assets.

### **Exchange Traded Funds (ETF)**

An ETF is a unit trust scheme that is listed and traded on a stock exchange. An open-ended fund with no expiry date, it usually tracks or replicates the performance of a benchmark index. This means that ETF investors hold units of a fund that invests in a number of securities.

ETFs offer investors a cheaper and easier way to gain exposure to a basket of securities represented in an index through a single transaction. The basket of securities could consist of either stocks, bonds, commodities or other instruments.

Investors can buy or sell units of the ETFs on the stock exchange through any remisier, just like how they buy or sell stocks. They are required to have a Central Depository System (CDS) account and a trading account - that they use for trading stocks - to trade ETFs. In Malaysia, a single trading lot for ETF consists of 100 units. This means investors can buy or sell a minimum of 100 units for each lot.

# Types of Unit Trust

Type of Fund	Description	Objective
<b>Equity / Growth Fund</b>	Invests primarily in stocks. Targeted at aggressive-risk investors. Offers higher volatility and risk-return rewards	To provide capital appreciation over the medium to long term
<b>Income / Bond Fund</b>	Up to 90% of its NAV is from corporate or government bonds and debentures. Targeted at conservative-risk investors as it offers low volatility	To provide a regular and steady income
<b>Balanced Fund</b>	Invests in both stocks and bonds. Medium volatility due to smaller exposure to stocks	To provide both growth* and regular income to the investors  *growth: an investment style that looks for stocks with strong earnings and/or revenue growth or growth potential.
<b>Money Market Fund</b>	Makes short-term investments (usually less than 365 days), meant to temporarily "park" the liquid funds while waiting for other opportunities to invest or to sit out a volatile market	Aims to provide easy liquidity, preservation of capital and moderate income for conservative investors
<b>Capital Guaranteed Fund</b>	Your capital is preserved even in negative or bearish market conditions since it is guaranteed	Requires you to invest for a period of 3 or 5 years. At the end of the period, your capital is guaranteed




# Funds in Malaysia

Additional Information	Suitability	Risk
<p>Up to 95% of its Net Asset Value (NAV) comes from stocks and shares of companies listed or unlisted in Bursa Malaysia</p>	<p>This fund is ideal for investors who have a long term outlook of the market and are seeking growth over a period of time</p>	<p>Can be very volatile due to the high exposure of its assets in stocks and shares trading</p>
<p>This scheme generally invests in fixed income securities such as bonds, corporate debentures and Government securities</p>	<p>Ideal for capital stability and those seeking a regular income</p>	<p>Defaults by the bond issuer</p>
<p>Generally invests in stocks and shares of companies listed or unlisted in Bursa Malaysia. The rest of its NAV goes into cash deposits or fixed-interest securities like bonds, government securities and etc</p>	<p>For investors seeking earning distribution. Suitable for moderate-risk investors</p>	<p>The risk exposure is reduced in the event of an adverse share-market correction since only up to 60% of its NAV is exposed to stocks and shares</p>
<p>These funds generally invest in short-term instruments such as treasury bills, certificates of deposits, commercial papers and inter-bank call money market*</p> <p>*inter-bank call money market: A short-term money market, which allows for large financial institutions, such as banks, mutual funds and corporations to borrow and lend money at interbank rates. The loans in the call money market are very short, usually lasting no longer than a week and are often used to help banks meet reserve requirements</p>	<p>Ideal as a means to place surplus funds for short periods. There is no service charge nor redemption cost applicable</p>	<p>Returns on these funds fluctuates depending upon the prevailing interest rates in the market</p>
<p>Returns are potentially higher than interest or dividend from a savings account</p>	<p>For investors seeking preservation of capital</p>	<p>Unless the fund issuer/guarantor defaults, the capital is preserved</p>



## Conclusion : Making Your Selection



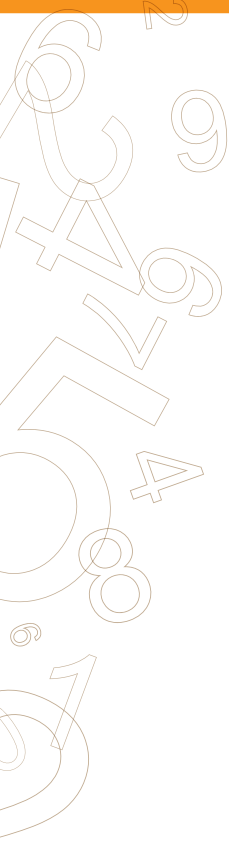
There are a wide variety of choices on offer when it comes to types of unit trust funds available to Malaysian investors. In order to determine the most suitable fund for you, always remember the following basic guidelines:

- Investors have specific individual needs and objectives - For example, are you investing as part of your retirement planning? Or are you investing because you are preparing an education fund for your child? Aligning your specific needs and objectives with your own risk profile will help you to arrive at a clear decision when selecting the unit trust fund.
- Determine your risk profile - You should always assess your risk profile and determine exactly how much of risk you can take or accept. In short, how much money are you prepared to lose if the investment does not give distributions? Different funds bring different degrees of risk, so choose carefully.



- Do your homework first - Before committing to the investment, obtain all the relevant and crucial sources of information on the fund by reading the prospectus, annual report, business sections in the newspaper and more.
- Past performance does not guarantee future success - Although a fund's historical results is not a guaranteed reflection of its future performance, the long-term track record of a unit trust fund will reflect the fund manager's ability to negotiate the fund through different market cycles. Since a unit trust fund investment is meant for the long term, focus on long-term performance when comparing different unit trust funds to make an informed investment decision.
- Monitor your investment from time to time - Always ensure that your unit trust fund investment is meeting your investment objectives. Monitor its performance, the current value of your investment as well as its distributions. You should review your investment at least once a year or if your financial situation has changed.

**Be a wise investor,  
*be informed!***



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