UNDERSTANDING UNIT TRUST
CUTE Tutorial

We operate as John Hancock in the United States, and Manulife in other parts of the world.
### General Information About the Examination

<table>
<thead>
<tr>
<th>Duration</th>
<th>Two (2) Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Format</td>
<td>Sixty (60) Multiple Choice Questions</td>
</tr>
<tr>
<td>Languages</td>
<td>English, Bahasa Malaysia &amp; Mandarin</td>
</tr>
<tr>
<td>Number of Re-sit</td>
<td>No limit to the number of exam re-sits.</td>
</tr>
</tbody>
</table>

Candidate required to bring along:
- Sufficient 2B pencils
- Soft eraser
- Calculator (Programmable calculator is not allowed)
- Identity Card (IC)

You should have the following readily available before taking the examination:
- **Examination No.**
- **Father’s Full Name**

**NOTE:** Arrive 30 minutes earlier. Candidate is not allowed to enter the Examination Centre 15 minutes after the exam started.
CUTE Navigational Guide

For the system to correctly identify a candidate, it is necessary for the candidate to input the examination no. and identification no. After doing so, candidates must click on the “Sign In” button to proceed to the next screen. Should candidates have any difficulty logging into the system, please seek assistance from the Examination Site Coordinator.

To correctly confirm a candidate’s identity, the candidate must input specific verification details. This is done by entering his or her father’s name in the space provided on the screen. Once this is completed, click on ‘Verify’ button to have your verification details validated.
Upon successful verification, the candidate will be prompted by the language selection screen. Candidates must select the preferred examination language at this stage. Please note that the examination language cannot be changed after completing the selection process. Click on the ‘Start’ button to proceed to the next page/screen.

Candidates will find the date and time of the registered examination. Candidates must read the instructions on the screen before commencing the examination. Failure to abide by the instructions may result in immediate disqualification from the examination.

When the ‘Begin’ button is clicked, a message will appear prompting the candidate to confirm the start of the examination. Click “OK” when you are ready to begin the examination.
CUTE Navigational Guide

Answering Questions:

A. Question Navigational Section

B. Examination Status Section

C. Examination Question Section

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Source: FiMM Study Guide – Dealing in Unit Trusts
A. **Question Navigation** allows candidates to navigate from one question to another in a non-sequential order. Also displayed information about exam session (date, time & centre) and the finish button.

B. **The Examination Status** highlights various status of the examination in progress. For example, the status of a particular question, the level of completion for current examination, remaining time available for this examination, temporary log off, finishing the examination and help (for quick online assistance).

C. **The Examination Question** displays the question that a candidate is currently attempting. Candidates must remember to click on the “Save & Next” button to ensure that attempted questions are recorded by the system. Clicking on the “Previous” button will take the candidate to the previous question without registering any attempt made by the candidate.

D. **Temporary Log Off**

The “temporary logoff” facility is to be used by candidates who wish to leave the examination room temporarily. Candidates must remember to get the permission from the Examination Site Coordinator should they wish to leave the examination room. Candidates are advised that the examination time will not be suspended for the duration of the temporary log off.
CUTE Navigational Guide

E. **Help**

Explanation on the various navigation buttons within the examination pages.

F. **Finish**

Upon completion of the examination questions, the candidate must click on “Finish” button to end the examination session. Candidates will be asked to confirm if he or she has finished the examination by clicking on the “OK” button.

A confirmation screen will be displayed as a final line before the candidate completes the examination. If the candidate is certain that he/she has completed the examination, he or she should click on “Yes! Finish the examination and process the results now”.

![Confirmation Screen](image)
CUTE Navigational Guide

Candidates will now be able to view their result slip immediately. Candidates who have passed the examination will have their FiMM Number printed on the result slip.

Once completed the examination, candidates will be able to view their results immediately. Candidates must remember to print the result slip and collect it from the Examination Site Coordinator. Candidates are reminded to sign on the Candidate List as acknowledgement of receiving the result slip.

Please be reminded that the results are subject to finalization by the FiMM. The final examination result will be made available on the 3rd working day after each examination session.
UNIT TRUST EXAM
for Unit Trust Consultants (UTC)
Objectives

- That the delegates shall:
  - Understand the basic concepts and in the Unit Trust industry.
  - Understand how to do the necessary calculations.
  - Be aware of the format of the exam questions.
  - Be able to answer the past years’ sample questions.
### PROGRAMME OUTLINE

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>Understanding Unit Trust</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Regulation of The Unit Trust Industry</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>Servicing Clients and Marketing Unit Trusts</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Industry Code of Ethics and Standards of Professional Conduct</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Personal Financial Planning</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>Operations of Syariah-Based UTS</td>
</tr>
<tr>
<td>Chapter 7</td>
<td>Glossary</td>
</tr>
</tbody>
</table>
Common pitfalls

In answering CUTE examination questions, the following are common mistakes made by participants:

1. Not understanding what the question wants. Pay close attention to words/phrases like “EXCEPT”, “Which are false”, “NOT” and etc. Questions may not always ask you for the right answers!

2. Choosing a few right options from a list of options given eg. Choose the right answer A. I, II and III, B II and IV etc.
CHAPTER 1
Understanding Unit Trust
Structure of UTS

UTMC
Administers the operations of the UTS

Trustee
Safeguards the Assets of the UTS

UTS
Money pooled from investor

Possible Distribution
Capital Appreciation / Depreciation

Possible Capital Gain/ Income

Invest

Authorized Investments

e.g Shares(equity), Fixed Income (bond), Real Estate, etc
What is Unit Trust Scheme (UTS)?

A collective investment from the investors with similar objectives to pool their savings which allowed the investment professionals to invest in a portfolio of securities or other assets.

Unit holders

- Supply $$ to invest in UTMC
- Purchase & hold units in circulation
- Not the shareholder but beneficiary

Unit Trust Management Company (UTMC) / The Manager

- Keep accounting record of UTS
- Promote, distribute & buy back units
- Calculate NAV & amount of distributions
- Maintain unit holders account
- Report to trustee regarding UTS investments

UTS

UTMC

Administers the operations of the UTS
Structure of UTS

Trustee

- Maintain custody/safeguard of UTS asset
- Ensure fund invested in follow with the Trust Deed
- Ensure UTMC follow the objectives & interest of unit holders are protected
- Remove whoever fails to follow accordance with the Deed
- Approves, monitors all financial transaction & collect all income entitlement

The DEED

- A legal agreement governing UT operations - between the UTMC, Trustee & Unit holders
- Spells out:
  - UTMC rights & duties
  - where UTS can be invested
  - valuations of units & circulations of prices
  - collection & distribution of income
  - changes – must get unit holders’ approval (usually via voting)
Why Invest in UT?

Benefits of UT

- Equity
- Bond
- Balanced Trust
- Real Estate
- Islamic Trust

Diversification

Risk ↓ via Portfolio Effect

Ready Access to Funds / Liquidity
Within 10 days of receiving the repurchase request
Why Invest in UT?

**Benefits of UT**

**Investment Exposure**
various type of asset classes

**Professional Management**
by experienced Fund Managers

**Lower Investment Cost**
economy of scale apply via UTMC

For Internal Circulation and Training Purposes Only
Source: FiMM Study Guide – Dealing in Unit Trusts
Disadvantages of UT

Risk
Any investment involves risk. UTS risk is reduced through diversification

Loss of Control
Cannot direct how the savings are invested

Fees & Charges
Impact on unit holders’ returns

Opportunity Cost
Chances to get a better return if investing directly in the share markets
# Types of UT

<table>
<thead>
<tr>
<th>Criteria</th>
<th>LISTED (Close-ended)</th>
<th>UNLISTED (Open-ended)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed &amp; Traded</td>
<td>Listed on stock exchange</td>
<td>Not listed</td>
</tr>
<tr>
<td>Unit Prices</td>
<td>Demand &amp; supply</td>
<td>NAV of the fund</td>
</tr>
<tr>
<td>Price change</td>
<td>Fluctuate throughout the day &amp; from time to time</td>
<td>Unchanged within the same trading day</td>
</tr>
<tr>
<td>No. of units to sell</td>
<td>Limited (closed ended)</td>
<td>No limit (open ended)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>up to the max. approved fund size can apply to increase with SC</td>
</tr>
<tr>
<td>Transaction</td>
<td>Via stockbroker after initial public offering</td>
<td>Via UTMC &amp; usually through UTC</td>
</tr>
<tr>
<td>Fund size</td>
<td>Remain unchanged till next public issue</td>
<td>Creation of units↑; cancellation of units ↓</td>
</tr>
<tr>
<td>Redemption</td>
<td>When there is demand</td>
<td>Anytime</td>
</tr>
<tr>
<td>Selling Price</td>
<td>Determined by buyers &amp; sellers, usually trade ‘at a discount’.</td>
<td>Stated clearly in prospectus</td>
</tr>
<tr>
<td>Example</td>
<td>REITs, ETF</td>
<td>Manulife Funds</td>
</tr>
</tbody>
</table>
Classifications of UTS

Money Market UTS
Government-sponsored UTS
Real Estate Investment Trusts
Syariah UTS
Fixed Income UTS
Balanced UTS
Exchange Traded Funds
Equity UTS

RETURN

RISK
Classifications of UTS

1. Money Market UTS
   - Operate similar to a bank account
   - Invest in low risk instrument e.g. short-term deposit (loan) to banks & financial institutions / short-term government securities
   - No sales charge / exit fee
   - High liquidity & ideal for ‘parking place’
   - Regular income distributions

2. Fixed Income UTS
   - Mainly invest in Malaysia Government Securities (MGS), corporate bonds & money market instrument
   - Provides a regular income, less emphasis on capital growth
   - Generally lower risk & return compare to equity UTS
Classifications of UTS

3 Balanced UTS

- Mixed portfolio – Equities + Fixed Income + Cash & Property (e.g. listed REIT)
- Objective – preserve capital with regular income
- Its return is higher than money market UTS, saving accounts & fixed deposits

4 Exchange Traded Funds

- Like a listed index – objective to achieve the same return of a market index
- Transaction via stockbroker
Classifications of UTS

5 Equity UTS

- Invest into shares eg Maybank Share
- Performance are closely linked to the performance of Bursa Malaysia
- Generally, rising share market will result in an increase in value of units, and vice versa
- Types of equity UTS:
  - i) Aggressive growth UTS
  - ii) Index or Tracker UTS
  - iii) Income Objective Equity UTS
  - iv) International Equity UTS

6 Real Estate Investment Trusts

- Invests in Retail and Commercial office property eg Axis REIT
- Return - rental income + value of the property over the period
- Performance - property market trends
- Valuation includes rental and vacancy rates, management expenses, location and physical attributes of the property
- Illiquid, indivisible, majority closed-end & listed on a stock exchange
- Transaction via stockbrokers
Classifications of UTS

7 Syariah UTS

- Syariah compliance / halal investment
- Exclude gambling, alcoholic beverages, financial, non-halal food products etc
- Avoid ‘riba’ (interest)

8 Government-sponsored UTS

- Represent the bulk of UTS (by value) managed by the unit trust industry in Malaysia
- Generally invest on a balanced portfolio
- Mobilize the savings of Bumiputra and to invest in Malaysian companies under the New Economic Policy
- E.g Skim Amanah Saham Nasional (ASN) by Permodalan Nasional Berhad (PNB)
Method of Investing

Lump Sum Purchase
- One time investment.
- Time horizon – capital gains – the longer, the better chances to reap greater return

Reinvestment of Income
- Compounding effect

Regular Savings (Dollar Cost Averaging)

<table>
<thead>
<tr>
<th>Investment amount</th>
<th>Unit price</th>
<th>Unit hold</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM 1,000</td>
<td>RM 1.00</td>
<td>1,000</td>
</tr>
<tr>
<td>RM 1,000</td>
<td>RM 0.75</td>
<td>1,333</td>
</tr>
<tr>
<td>RM 1,000</td>
<td>RM 0.50</td>
<td>2,000</td>
</tr>
<tr>
<td>RM 1,000</td>
<td>RM 0.80</td>
<td>1,250</td>
</tr>
<tr>
<td>RM 1,000</td>
<td>RM 1.10</td>
<td>909</td>
</tr>
</tbody>
</table>

Average cost:
RM 5,000 / 6,492 units = RM0.77

Current value:
6,492 units x RM1.10 = RM7141.20

* Assuming the current NAV is RM1.10
Method of Investing

**Borrowing to invest**
- Borrow from Financial institution
- **Leveraging / gearing** – ensure return higher exceed than borrowing cost
- Transaction between unitholder and financial institution
- Eligible age: 18 to < 55 years
- No projection of returns
- **Risk Disclosure Statement** – investor must sign
- **Risks**
  - Interest rate fluctuation
  - Default in repayment
  - Premature Repayment of loan
  - Margin call

**Calculate Loan-to-valuation ratio**
Total investment RM100,000
Max. loan-to-valuation = 67%
( 67% X RM100,000 = RM67,000 )
Balance from own pocket money = 33%
( 33% X RM100k = RM33,000 )

Not encouraging
Measuring Return

**Raw Return**
- Total return achieved by holding an investment over a particular period
- Show the % difference between buying and selling price

\[
\text{Raw Return} = \frac{\text{Sold} - \text{Bought}}{\text{Bought}} \times 100
\]

<table>
<thead>
<tr>
<th>Year 1990</th>
<th>Bought</th>
<th>RM2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1998</td>
<td>Sold</td>
<td>RM5</td>
</tr>
</tbody>
</table>

\[
\text{Raw Return} = 150\% \quad \left( \frac{\text{RM3}}{\text{RM2}} \right) \times 100
\]

- Problem: **No TIME dimension**. E.g. 150% return over 5 years is better than over 8 years

**Annualized Return**
- The average annual return achieved by the investment holding period

\[
\text{Annualized Return} = \frac{\text{Raw Return}}{\text{Time Period}}
\]

Raw Return = 150% over 8 years
Annualized Return = 150/8 = 18.75% per annum

**Performance Table**
- Total return over a time frame
- Ranking & Quartile
- Benchmark
- Risk Measures
- E.g Lipper, Standard & Poor / Morning Star
## Effective Rate of Return & Compounding Factor

### The effect of charges on investment returns:
Assume an investor invested RM100,000 in a UTS that has initial entry cost of 7% with an MER of 2% for 5 years and 12% of return every year.

<table>
<thead>
<tr>
<th>“Working Money”</th>
<th>RM100K</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM100K, 1+7%</td>
<td></td>
</tr>
<tr>
<td>RM100K, 1+0.07</td>
<td></td>
</tr>
<tr>
<td>RM100K, 1.07</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MER</th>
<th>2% p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of Return</td>
<td>12% p.a.</td>
</tr>
</tbody>
</table>

**Effective Rate of Return** = 12% - 2% = 10%

**Compounding Factor For Lump Sum Investment:**

Formula: \[ FV = PV (1+i)^n \]

Where:
- \( i \) = rate of return
- \( n \) = no. of years

<table>
<thead>
<tr>
<th>Compounding Factor</th>
<th>FV = RM93,457.94 (1+10%)^5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>= RM93,457.94 (1+0.1)^5</td>
</tr>
<tr>
<td></td>
<td>= RM93,457.94 (1.1)^5</td>
</tr>
<tr>
<td></td>
<td>= RM93,457.94(1.6105)</td>
</tr>
<tr>
<td></td>
<td>= RM93,457.94 x 1.6105 = RM150,514.01</td>
</tr>
</tbody>
</table>
What is NAV?

- Net Asset Value (NAV) – Buy / Sell
- True price of the fund
- Calculated every Business Day
- **Single-pricing regime**, starting 1st July 2007
- Published daily in at least 1 national BM & English newspaper respectively

**Transaction Cost Factor (TCF)**

- Fund investment bought / sold will incur TCF e.g. brokers’ commissions
- To be added to NAV to determine the unit prices

**Forward / Historical Pricing**

- **Forward Pricing** – transaction done based on the price which will be determined at the end of the business day
- **Historical Pricing** – transaction done based on the price which was determined yesterday

```
<table>
<thead>
<tr>
<th>Yesterday</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical $</td>
<td>Forward $</td>
</tr>
</tbody>
</table>
```
Calculate NAV

**NAV per unit** = \( \frac{\text{Fund NAV}}{\text{Units in circulation}} \)

**Example** - NAV of ABC Growth Fund = **RM24,000,000** with **12,000,000** units in circulation.

Assuming no transaction cost factor applies as it is not material.

\[
\text{NAV per unit} = \frac{\text{RM24mil}}{12\text{mil}} = \text{RM2.00}
\]
Income Distribution

**Cum-D**
- NAV = RM 180 million
- UIC = 100 million
- NAV per unit = \( \frac{180,000,000}{100,000,000} = RM 1.80 \)

**Ex-D**
- NAV = RM 170 million
- UIC = 100 million
- NAV per unit = RM 1.70
- D = RM 0.10
## Income Distribution

- NAV fall by exactly NAV of UTS fall by exactly the same amount as the distribution paid
- Payment of a distribution is not a ‘bonus

### Example

**Distribute: 8 cent**

<table>
<thead>
<tr>
<th>Before Distribute</th>
<th>After Distribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV Fund Size cd  =</td>
<td>RM8,000,000</td>
</tr>
<tr>
<td>Units in circulation =</td>
<td>10,000,000 units</td>
</tr>
<tr>
<td>NAV cd (before distribution) =</td>
<td>RM0.80</td>
</tr>
</tbody>
</table>

| Income Distribution = | RM0.08 |
| NAV xd (after distribution) = | RM0.72 |
| NAV Fund Size xd = | RM0.72 x 10,000,000 units |
| = | RM7,200,000 |

| Income Received = | RM0.08 x 10,000,000 units |
| = | RM800,000 |
| NAV Fund Size xd = | RM7,200,000 + RM800,000 |
| = | RM8,000,000 |

### With distributions reinvested

If Market h, Value of Fund h
Unit Split Distribution

Pre U.S.

Unit Split 1:4

Post U.S.

NAV = RM 300 million
UIC = 200 million units
NAV p.u. = \( \frac{RM 300}{200m} \) = RM 1.50

NAV = RM 300 million
UIC = \( \frac{5}{4} \times 200 \) million units
= 250 million units
NAV p.u. = \( \frac{RM 300}{250m} \) = RM 1.20

For Internal Circulation and Training Purposes Only
Source: FiMM Study Guide – Dealing in Unit Trusts
Unit Split Distribution

- Single unit in UTS ➔ two or more units e.g. Unit split of 1:5 – 1 additional unit for every 5 units
- Sometime mistakenly referred as ‘bonus’ issue of units
- Does not add value to the unitholding
- Why split? To lower unit $ and attract new investors

| NAV Fund Size = RM8,000,000 |
| Units in circulation = 10,000,000 units |
| NAV \( cb \) (before unit split) = RM0.80 |

Unit Split Distribution = 1:5

\[ \text{Total units entitled} = \frac{6}{5} \times 10,000,000 \text{ units} \]

\[ = 12,000,000 \text{ units} \]

| NAV Fund Size \( xb \) (after unit split) = RM8,000,000 |
| 12,000,000 units |

\[ \therefore \text{NAV} \ \text{xb} = \text{RM0.67} \]

\[ \text{NAV} \downarrow , \text{Units} \uparrow \]

If Market \( \uparrow \), Value of Fund \( \uparrow \)
# Distributions & Unit Splits

<table>
<thead>
<tr>
<th></th>
<th>Distribution</th>
<th>Unit Split</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV</td>
<td>Drop</td>
<td>Same</td>
</tr>
<tr>
<td>Unit in Circulation</td>
<td>Same</td>
<td>Increase</td>
</tr>
<tr>
<td>NAV per unit</td>
<td>Drop</td>
<td>Drop</td>
</tr>
</tbody>
</table>
A legal & financial document for potential / existing investors with all necessary information to make informed investment decision

Knowing the Prospectus

- Cover page
- **Key Data Section** (max. rate of initial service fee & exit fee to be disclosed)
- UTMC, Fund Manager & Trustee Details
- Risks
- Sales & Purchase of Units
- **Portfolio Turnover Ratio (PTR)**
- Account’s Report
- Etc…

- A summary of Trust Deed
- **Must be approved by SC**
- No sale of units can be made without a prospectus / expired prospectus
- Must update / renew every 12 mths

Supplementary Prospectus
Calculate PTR

**Portfolio Turnover Ratio (PTR)**

- How **frequently** the fund managers **buy** and **sell** the assets.

\[
\text{PTR} = \frac{1}{2} \times \left( \frac{\text{Total Investment Acquisitions} + \text{Total Investment Disposals}}{\text{Average Fund Size}} \right)
\]

- **Example:**
  ABC Growth Fund sold investments with gross proceeds of RM1,159,206 & purchased additional investments as a gross cost of RM921,458. Average fund size is RM3,122,250

\[
\text{PTR} = \frac{1}{2} \times \left( \frac{\text{RM921,458} + \text{RM1,159,206}}{\text{RM3,122,250}} \right) = 0.33 \text{ times} / 33\%
\]

On average, the portfolio of the fund will be completely turnover/replaced about once in every 3 years

- **PTR** _h_ = Portfolio bought & sold fast / investment activities _h_
- **PTR** _n_ = Portfolio completely turned over
- **PTR** _i_ = More conservative managed (buy & hold)
Cost & Charges

Initial Service Charge
• Front-end load fund / Sales Charges
• To cover the cost of marketing, advertising & distribution

Annual Management Fee
• To cover the management expenses incurred by the Manager (maintenance of unitholder’s register, proper records)

Annual Trustee Fee
• To cover the custodial management & admin. Of Fund’s assets (transaction settlement, custody)

Management Expense Ratio (MER)
• Measure of various operating costs

\[
\text{MER} = \frac{\text{Total Expenses of Fund}}{\text{Average Fund Size}} \times 100\%
\]

* Total Expenses of Fund = Fees + Recovered Expenses

For Internal Circulation and Training Purposes Only
Source: FIMM Study Guide – Dealing in Unit Trusts
## Calculate MER

<table>
<thead>
<tr>
<th>Fees &amp; Charges</th>
<th>Amount (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Fee</td>
<td>31,764</td>
</tr>
<tr>
<td>Trustee Fee</td>
<td>6,078</td>
</tr>
<tr>
<td>Auditor’s Fee</td>
<td>1,200</td>
</tr>
<tr>
<td>Bank Charges &amp; others</td>
<td>2,482</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>41,524</strong></td>
</tr>
</tbody>
</table>

Average Fund Size: RM3,122,250

\[
\text{MER} = \frac{41,524}{3,122,250} \times 100 = 1.33\%
\]

\[\downarrow \text{MER} = \uparrow \text{efficiency of the Fund Manager}\]

Refer to fees to be borne by the unit holders or fund
# History of UTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund</th>
<th>Fund Name</th>
<th>UTMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>First Unit Trust</td>
<td>First Malayan Fund</td>
<td>Malayan Unit Trust Limited</td>
</tr>
<tr>
<td>1966</td>
<td>First totally Malaysia unit trust fund</td>
<td>Malaysia Investment Fund</td>
<td>Asia Unit Trust Bhd</td>
</tr>
<tr>
<td>1967</td>
<td>First Bumiputra fund</td>
<td>First Mara Bumiputra fund</td>
<td>Amanah Saham Mara Bhd</td>
</tr>
<tr>
<td>1974</td>
<td>First stated-owned fund</td>
<td>Amanah Saham Pahang</td>
<td>Amanah Saham Pahang Bhd</td>
</tr>
<tr>
<td>1981</td>
<td>First National Bumiputra unit trust fund</td>
<td>Amanah Saham Nasional</td>
<td>PNB</td>
</tr>
<tr>
<td>1990</td>
<td>Second national Bumiputra fund</td>
<td>Amanah Saham Bumiputra</td>
<td>PNB</td>
</tr>
<tr>
<td>1996</td>
<td>EPF Scheme approved as investment in UT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>First Islamic Bond Fund</td>
<td>RHB Islamic Bond Fund</td>
<td>RHB</td>
</tr>
<tr>
<td>2001</td>
<td>The Malaysia Capital Market Masterplan is announced by the SC, highlighting significant opportunities for growth in the unit trust industry over the next 10 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Question 1:

<table>
<thead>
<tr>
<th>NAV</th>
<th>AMOUNT INVESTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.50</td>
<td>RM1500.00</td>
</tr>
<tr>
<td>0.60</td>
<td>RM1500.00</td>
</tr>
<tr>
<td>0.70</td>
<td>RM1500.00</td>
</tr>
</tbody>
</table>

Calculate the average unit cost for the above investment.
A. RM0.59   B. RM0.95   C. RM0.78   D. RM0.64
Question 2:

Initial investment = RM80,000.00
Rate of return = 10%
Ongoing management fee = 1.5%
Service charge = 5%

2a) What is the return of the investment after 3 years? (Use 4 decimal points for your calculation)

A. RM97,074.80  
B. RM97,318.10  
C. RM97,174.80  
D. RM101,156.00

2b) Assume that the ongoing management fee is 1% instead of 1.5%, what is the value of investment after 3 years? (Use 4 decimal points for your calculation)

A. RM98,666.67  
B. RM98,420.00  
C. RM90,516.00  
D. RM95,280.00
Question 3:

NAV cum-distribution for a unit trust fund is RM200 million. Unit in circulation is 380 million units and the fund manager is charging a 5% initial service charge. (Please use 3 decimals for calculation purpose)

a) If the distribution declared is 3.5 cents per unit, how much is the NAV price per unit ex-distribution?

A. RM0.49  
B. RM0.52  
C. RM1.86  
D. RM1.96
Question 3:

b) Based on the above answer and assume that a client invested RM10,000 ex-distribution, how many units will she get for her investment?

A. 20,408.16 units  
B. 19,436.34 units  
C. 5,120.33 units  
D. 5,102.04 units

c) If the initial service charge is reduced from 5% to 3% and based on the selling price ex-distribution, how much savings can the client get, given the same investment amount in previous question?

A. RM326.53  
B. RM184.93  
C. RM327.95  
D. RM200.00
Question 4:

Number of units held before unit split: 18,000 units
Total value of investment before unit split: RM6,000.
Unit split ratio: 1 : 3

4a) How many units will the investor hold after the unit split exercise?

A. 24,000 units  C. 16,000 units
B. 18,000 units  D. 6,000 units

4b) What is her total investment value after the unit split exercise?

A. RM2,000  C. RM8,000
B. RM6,000  D. None of the above
For the Financial Year Ended 30 Dec 200X, the financial statement of ABC Fund shows that the following expenses were incurred:

- Management Fees: RM 1,340,999
- Trustee Fees: RM 730,173
- Auditors Fee: RM 172,641
- Bank charges & other expenses: RM 361,594

The average Fund Size for ABC fund during the year was RM 250,492,853. Calculate the MER of the fund for the year ended 30 Dec 200X.

A. 1.07%  
B. 1.03%  
C. 1.08%  
D. 1.04%
Answer:

1) A

Total amount invested = **RM4500.00**

Total units invested
= \((1500/0.50) + (1500/0.60) + (1500.00/0.70)\)
= 3000 + 2500 + 2142.86
= **7642.86 units**

Average unit cost
= \(\text{RM4500.00}/7642.86\)
= **RM0.59**
2a) B

Initial investment = RM80,000.00

Working money = RM80,000/(1+5%)
   = RM76,190.48

Value end of year 3 = working money x (1 + i)^n
   = RM76,190.48 x (1 + [10% - 1.5%])^3
   = RM76,190.48 x (1 + 0.085)^3
   = RM76,190.48 x (1.085)^3
   = RM76,190.48 x 1.2773
   = RM97,318.10

Answer:

Answer: RM97,318.10
Answer:

2b) A

Value end of year 3 = working money \( x (1 + i)^n \)
\[ = RM76,190.48 \times (1 + [10\% - 1\%])^3 \]
\[ = RM76,190.48 \times (1.09)^3 \]
\[ = RM76,190.48 \times 1.2950 \]
\[ = RM98,666.67 \]
Answer:

3a) A

NAV per unit cum-Distribution = RM200million/380million units
= RM0.526

NAV per unit ex-Distribution = RM0.526 – RM0.035
= RM0.491

3b) B

Amount invested
= RM10,000/(1+5%)
= RM10,000/(1.05)
= RM9523.810

Number of units ex-distribution
= Amount invested/NAV per unit ex-Distribution
= RM9523.810/0.49
= 19,436.35 units
3c) B

Difference between:
Working money (with 5% service charge) and Working money (with 3% service charge)
= \[\frac{RM10,000}{1+5\%}\] – \[\frac{RM10,000}{1+3\%}\]
= RM9523.810 – RM9708.738
= **RM184.93**

4a) A

<table>
<thead>
<tr>
<th>Pre US</th>
<th>Post US</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>18000 units</td>
<td>4/3 x 18000 units = 24000 units</td>
</tr>
</tbody>
</table>

4b) B
Answer:

5) Answer D

$$\text{MER} = \frac{\text{Total Expenses}}{\text{Average fund size}} \times 100$$

$$= \frac{\text{RM 2,605,407}}{250,492,853} \times 100$$

$$= 1.04\%$$
CHAPTER 2
Regulation of the Unit Trust Industry
Regulations of the Unit Trust Industry

Why regulatory?
• proper disclosure to investor
• control over market participants (restriction on person involved)
• prevent improper market practices

Main Objective:
Protect the interest of prospective investors & existing unit holders

SC: Securities Commissions
UTMC: Unit Trust Management Company

Other Government Regulators:
MoF: Minister of Finance
BMB: Bursa Malaysia Bhd
BMSM: Bursa Malaysia Securities Bhd
The Securities Commission

- Securities Commission Act, 1993
- Capital Markets and Services Act (CMSA) 2007 (‘the Act’)
- the Act empowers SC to regulate the UT industry

**Mission:**
- Promote & maintain fair, efficient, secure & transparent securities & futures markets
- Facilitate the orderly development of an innovative & competitive capital markets
The Securities Commission

**SC functions:**

- Advise the Minister of Finance on matters relating to the securities & futures industries
- Regulate all matters relating to UT industry & securities & futures contracts
- Ensure that the provisions of the securities laws are complied with
- Encourage & promote self-regulation
- Licensing & supervising all licensed persons & registered persons.
- Ensuring proper conduct of market institutions, licensed persons & registered persons
- Supervising exchange, clearing house & central depository
- Regulate take-overs & mergers of companies
- Approving authority for corporate bond issues & equity issues

**Role of FiMM**

- Approved by SC as a registering body for all UT distributors & management companies
- Promotes self-regulation for the UT industry
- Formulates sound & ethical business practices
Laws & Regulations

- Guidelines on UT Funds
- Prospectus Guidelines for Collective Investment Schemes
- Guidelines on Marketing & Distribution of UT Funds
- Guideline on UT Fund Advertisement & Promotional Materials
- **Guidelines** for Registration of Institutional Advisers for the Marketing & Distribution of UT (IUTA)
- **Guidelines** for Registration of Corporate Unit Trust Advisers for the Marketing & Distribution of UT (CUTA)
Regulations of the UTMC

Overview:
• Requirements & responsibilities of UTMC
• Approval of UTS
• Prospectus of UTS
• Advertising of UTS
• General Characteristics of UTS investment

Requirements of UTMC
• be a license holder under CMSA
• appoint an Investment Committee / Syariah Committee to oversee the prudent and efficient investment of each UTS
• Board of Directors (at least 2 independent members), CEO must be full time
• Appointed Shareholders & Directors & CEO must not have been:
  ➢ Subjected to bankruptcy, inquiry/investigation by government/statutory authority
  ➢ Convicted for fraud or dishonesty or punishable with imprisonment of one year or more
• Have adequate resources & system
Regulations of the UTMC

Responsibilities of UTMC

- Safeguard unit holders’ interest
- Manage & administer in accordance with deed & laws
- Ensure assets of UTS are clearly identified & properly segregated
- Keep proper records of a UTS
- Ensure information acquired is not improperly used
- Provide UTS reports – Interim & Annual
- Call for unit holders meeting
- Keep the registration of unit holders
Regulations of the UTMC

Approval of UTS

• Establishment of new UTS must be approved by SC
• Registration for the appointment of UTMC’s directors, key personnel, members of UTS investment committee, syariah committee & panel of advisers
• Registration of deed
• Post vetting & registration of prospectus
• Increase in fund size
• Investment in foreign markets
Regulations of the UTMC

Prospectus of UTS

• Important legal document & must be authorized by the directors of UTMC
• Contains information that is reasonable expected / require by investors/advisers
• Must not contain false/misleading information/material omission
• Must be registered with SC
• No sales can be made - without prospectus / expired prospectus
• Supplementary / Replacement Prospectus – significant changes, material information is misleading or false, material omission of information

Advertising of UTS

• Advertisement must be accurate & honest
• Reference to risk involved in investing in UTS
• Display warning statement
• A & P must be approved by UTMC & registered with SC
Regulations of the Trustee

- Appointment approved / registered by SC
- Independent of UTMC & UTS
- Responsibilities by Trustee:
  - Act honestly in accordance with deed & law
  - Safeguard the interest of unit holders
  - Acts as Custodian of assets in UTS
  - Holds assets for physical safekeeping
  - Ensure UTMC properly manages & administers the UTS
  - Notify SC of any irregularity
  - Ensure all provisions of the deed is followed
  - Call for unit holders meeting
  - Investment policies are sound and in the interest of unit holders
Regulations of Marketing & Distribution of UT

Designated Distributors

- **UTMC** - Staff / Agents
- **IUTA**
  - IUTA staff / banker (min. 2 UTCs)
  - CUTA – 3rd party distributor (min. 2 FPR licensed Financial Planning Representative)

Dealing in UT

UTMC, IUTA & CUTA are responsible for ensuring that all persons involved in the marketing & distribution of UT are UTC registered with FiMM. UTC must be:

- At least 21 years old
- Min academic qualification: SPM
- PASS – UT Exam
- Honest & good personalities
Regulations of Marketing & Distribution of UT

Authorisation Card
• UTC must show the card issued by FiMM when meeting up with prospective investor
• UTC must ensure the card is Valid & Renewed before it expires

Agency Structure
• Agency tier:
  1) Group Agency Manager
  2) Agency Manager
  3) Agency Supervisor
  4) Agent
• Must be no more than 4 tiers
• A unit must not exceed 50 persons
• Agent not allowed to recruit agent
Question 1:

What is one of the functions of FiMM (FMUTM)?

A. Reviews all materials prior to release to the public
B. Generates all the guidelines that unit trust companies comply to and to report to the Compliance Authority if non-compliance is found
C. Provides a common platform for unit trust companies to discuss issues in the industry
D. A governing body which regulates the investment made by the unit trust management Company
Question 2:

Below are the minimum requirements for registration of UTC as outlined by FiMM (FMUTM), except:

A. Had not been convicted with a criminal offence
B. Must poses at least Grade 3 in Sijil Pelajaran Malaysia (SPM) (or its equivalent as determined by FiMM)
C. Must be at least 18 years old at the point of registration to become the UTC.
D. Must not be found by a court to have acted fraudulently or dishonestly.
Question 3:

Which is not true regarding the role of FiMM (FMUTM)?

A. To provide self-regulation for the UT industry
B. Appointed by the SC to conduct unit trust examinations for persons wishing to become UTC
C. To advise the Minister of Finance
D. To work closely with the SC in the development and growth of the unit trust industry
Question 4:

It is important for the UT industry to be regulated in order to protect clients’ investments. Which of the following is not an authority involved in UTS regulation?

A. Ministry of Finance
B. Bank Negara Malaysia
C. Institute Bank-Bank Malaysia
D. Securities Commission
Answer:

1) C
2) C
3) C
4) C
CHAPTER 3
Servicing Clients & Marketing UTS
Buy, Switch & Sell*

**Unit holders’ execution**

**BUY**
- Cooling-off right
- Buy notice
- Statement
  - No. of units, Total Amount, Sales Charge & etc

**SWITCH**
- Interim (half year) & Annual Report (1 year)
  - Interim and annual reports should have receive within 2 mths after the end of financial period
- Disposal of units and reinvest to another UTS under same UTMC
- Change Market & Portfolio
- Sales Charge
- Switching Fee
- Income Distribution
  - $”

**SELL**
- 10 calendar days to liquidate
- Sell notice
- Statement
  - No. of units, Total Amount, balance, exit fee & etc

**UTMC’s execution**

**UTMC**
- Coordinating & controlling various stages in the process, account maintenance.

**Trustee**
- Supervise the purchase & sales of units = watchdog, ensure process in accordance to the deed & regulatory requirements

**Bank**
- Maintain the trust bank a/c, receives funds & honor cheques

**Fund Manager**
- Keep an eye on cash flow in and out of the fund, ensure funds is fully invested as regulations & prudent investment policy dictates

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* Sell = Repurchase

For Internal Circulation and Training Purposes Only
Source: FIMM Study Guide – Dealing in Unit Trusts
Cooling-off Rights

• Safeguard for investor who may have purchase units without fully understanding.
• Exercise within **6 business day** with **FULL Refund** in:
  - NAV/unit for the purchase day
  - Service charge/unit imposed for the purchased day
• Only applicable for **First Time** investing with the respective UTMC
• Not applicable to:
  - Corporate / Institutional investors
  - Staff of UTMC
  - Unit Trust Consultant (UTC) of UTMC
Cooling-off Period

Exercises:

Mr. A invested RM1,000 in ABC Fund on Monday (1 June XX). Assuming that the Manager observes the minimum cooling-off period as stipulated in the Guidelines, when is the last day for him to exercise his cooling off rights? _____

How much will Mr. A get back? _____
Cooling-off Period

Based on the question given:

Mr. A’s last day of exercising his cooling-off right is on 8 June XX,

2. ABC Fund on 1 June XX:

   NAV per unit = RM 0.95,
   Purchase Price = RM 1.00,
   Service Charge = RM 0.05,
   Total unit credited = RM 1,000/RM 1.00
                     = 1,000 units
Cooling-off Period

Hence, The amount to be refunded

= ( NAV per unit on 1 June XX +
    Service charge on 1 June XX) x units
    credited on 1 June XX

= (RM 0.95 + RM 0.05) x 1,000 units

= RM1,000
Cooling-off Period

Quick Quiz:

Assume that the Manager observes the minimum cooling-off period as stipulated in the Guidelines.

Mr. Z invested RM1,000 in DEF Fund on 11 July YYYY, Tuesday.

Q: Can Mr. Z exercise his cooling-off rights? How much is he going to get back?

<table>
<thead>
<tr>
<th>Date</th>
<th>NAV</th>
<th>NAV+ISC</th>
<th>ISC</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 July YYYY</td>
<td>0.95</td>
<td>1.00</td>
<td>0.05</td>
<td></td>
</tr>
<tr>
<td>i) 14 July YYYY</td>
<td>0.96</td>
<td>1.01</td>
<td>0.05</td>
<td>Yes, RM1,000</td>
</tr>
<tr>
<td>ii) 18 July YYYY</td>
<td>0.94</td>
<td>0.99</td>
<td>0.05</td>
<td>Yes, RM1,000</td>
</tr>
<tr>
<td>iii) 19 July YYYY</td>
<td>0.94</td>
<td>0.99</td>
<td>0.05</td>
<td>No, RM940</td>
</tr>
<tr>
<td>iv) 29 July YYYY</td>
<td>0.97</td>
<td>1.02</td>
<td>0.05</td>
<td>No, RM970</td>
</tr>
</tbody>
</table>
**EPF Transfers**

Effective 1 January 2007, Account 3 no longer exist.

- **Account 1**: 70%
- **Account 2**: 30%

### Conditions

<table>
<thead>
<tr>
<th>Condition</th>
<th>Effective 1&lt;sup&gt;st&lt;/sup&gt; Feb. 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min. amount in A/C 1</td>
<td>Min. mandatory retained amount in A/C 1</td>
</tr>
<tr>
<td>Min. investable amount</td>
<td>RM1,000</td>
</tr>
<tr>
<td>Max. investable amount</td>
<td>20% after deducted min. mandatory retained amount in A/C 1</td>
</tr>
<tr>
<td>Period</td>
<td>3 months from disbursement date</td>
</tr>
</tbody>
</table>

**Step 1**: EPF A/C 1 balance  
**Step 2**: Investor Age – refer to Min. mandatory retained amount = Y  
**Step 3**: Y x 20% = Investable amount
### Withdrawal Conditions from EPF

<table>
<thead>
<tr>
<th>AGE (YEAR)</th>
<th>BASIC SAVINGS (RM)</th>
<th>AGE (YEAR)</th>
<th>BASIC SAVINGS (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>1,000</td>
<td>37</td>
<td>54,000</td>
</tr>
<tr>
<td>19</td>
<td>2,000</td>
<td>38</td>
<td>59,000</td>
</tr>
<tr>
<td>20</td>
<td>4,000</td>
<td>39</td>
<td>64,000</td>
</tr>
<tr>
<td>21</td>
<td>5,000</td>
<td>40</td>
<td>69,000</td>
</tr>
<tr>
<td>22</td>
<td>7,000</td>
<td>41</td>
<td>76,000</td>
</tr>
<tr>
<td>23</td>
<td>9,000</td>
<td>42</td>
<td>81,000</td>
</tr>
<tr>
<td>24</td>
<td>11,000</td>
<td>43</td>
<td>88,000</td>
</tr>
<tr>
<td>25</td>
<td>13,000</td>
<td>44</td>
<td>95,000</td>
</tr>
<tr>
<td>26</td>
<td>15,000</td>
<td>45</td>
<td>102,000</td>
</tr>
<tr>
<td>27</td>
<td>18,000</td>
<td>46</td>
<td>109,000</td>
</tr>
<tr>
<td>28</td>
<td>21,000</td>
<td>47</td>
<td>117,000</td>
</tr>
<tr>
<td>29</td>
<td>24,000</td>
<td>48</td>
<td>125,000</td>
</tr>
<tr>
<td>30</td>
<td>27,000</td>
<td>49</td>
<td>134,000</td>
</tr>
<tr>
<td>31</td>
<td>30,000</td>
<td>50</td>
<td>143,000</td>
</tr>
<tr>
<td>32</td>
<td>34,000</td>
<td>51</td>
<td>153,000</td>
</tr>
<tr>
<td>33</td>
<td>37,000</td>
<td>52</td>
<td>163,000</td>
</tr>
<tr>
<td>34</td>
<td>41,000</td>
<td>53</td>
<td>174,000</td>
</tr>
<tr>
<td>35</td>
<td>46,000</td>
<td>54</td>
<td>185,000</td>
</tr>
<tr>
<td>36</td>
<td>50,000</td>
<td>55</td>
<td>196,800</td>
</tr>
</tbody>
</table>
## Withdrawal Conditions from EPF

<table>
<thead>
<tr>
<th>Member</th>
<th>Age</th>
<th>A/C 1 Balance (a)</th>
<th>Min. mandatory retained amount in A/C 1 (b)</th>
<th>Computation: ((a - b) \times 20%)</th>
<th>Member’s Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>22</td>
<td>4,000</td>
<td>7,000</td>
<td>-</td>
<td>Not Qualified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Saving &lt; min. mandatory amount</td>
</tr>
<tr>
<td>B</td>
<td>22</td>
<td>8,000</td>
<td>7,000</td>
<td>((8,000 - 7,000) \times 20%) = RM200</td>
<td>Not Qualified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Min. investable amount = RM1,000</td>
</tr>
<tr>
<td>C</td>
<td>22</td>
<td>20,000</td>
<td>7,000</td>
<td>((20,000 - 7,000) \times 20%) = RM2600</td>
<td>Qualified</td>
</tr>
</tbody>
</table>

### Documents required

- KWSP Form 9N (AHL)
- Certified True Copy of photocopy I/C
- Left and right thumbprint affixed on the above photocopy
Distribution Equalization

Distribution Equalization

A portion of money set aside from investments to equalize unit holders’ distribution income

\[
\text{Distribution equalization} = \frac{\text{Undistributed income}}{\text{Net Asset Value of Fund}}
\]

\[
\text{Eg. Undistributed income} = \text{RM}100,000
\]

\[
\text{NAV} = \text{RM}40,000,000
\]

\[
\text{Distribution equalization} = \frac{\text{RM}100,000}{\text{RM}40,000,000} = \text{RM}0.0025 \text{ sen/unit}
\]

Note: For every unit sold, RM0.0025 will be set aside to equalize the earlier unit holders’ distribution income.

Assuming there’s 1,000 units,

\[
\text{Distribution Equalization} = 1,000 \text{ units} \times \text{RM}0.0025 = \text{RM}2.50
\]
## Distribution Warrant

<table>
<thead>
<tr>
<th>Warrant no.</th>
<th>No. of units</th>
<th>Year ended</th>
<th>Distribution No.</th>
<th>Payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>47638</td>
<td>1,000</td>
<td>31 May 200X</td>
<td>67</td>
<td>7 July 200X</td>
</tr>
</tbody>
</table>

### Net payable calculation

Net payable = Taxable income – Malaysian tax – Non allowable expenses + Non taxable + Distribution equalization

= 50 – 14 – 60 + 450 + 2.50

= 428.50
Basic Principles of Marketing UTS - Why fail?

- Product Awareness
- “Not for me”
- UTS performance
- Risk elements
- Previous bad experience
- Other investment alternatives (substitute)
  - Cash & FD
  - Direct Shares Investment
  - Direct Investment in Property
  - Offshore investment
  - Other financial derivative products
Question 1:

Which is the term used for an investor who opts receive their income distribution in the form of units instead of cash?

A. Repurchase Price
B. Distribution Reinvestment
C. Distribution
D. Cash Distribution
Question 2:

UTMC must publish at least how many reports in one financial year?

A. One
B. Two
C. Three
D. Four
Question 3:

Which of the following is (are) investment alternative(s) to unit trusts?

A. All of the optional answers are correct
B. Fixed deposits
C. Property
D. Direct shares investment
Question 4:

The alternative investments besides unit trust are:

I. Cash & Fixed Deposits  
II. Direct Share investments  
III. Direct property investments  
IV. Financial derivatives products  
V. Offshore investments

A. None of the above  
B. All of the above  
C. I, II, III, IV  
D. I, II, III
Answer:

1) B
2) B
3) A
4) B
CHAPTER 4
Industry Code of Ethics & Standards of Professional Conduct
Basic Principles of Compliance

- UT Industry mobilize the saving the savings of average, small investor by funneling these savings into areas where capital is required

- In all investment-related industries, investor need to have confidence in the product.

What is Compliance?

- Discipline of ensuring the laws, regulations, codes of conduct, internal procedures & rules within an organization, its officers & UTC operate are complied with

- Regulators (e.g. SC) promoting the value of compliance in order to protect investors in the capital market.
How UTC benefit from Compliance?

- Reduction in client complaints & cost of restitution
- Reduced risk of litigation by clients
- Enhanced reputation
- The assurance of a continuing career in the fast-growing unit trust industry
What is ‘Ethics’?

- Government regulators are developing some of their regulatory responsibility to industry participants.
- A principle or process known as ‘Self-regulations’.
- Represent a system of moral principles by which the action of UTC may be judged good or bad; right or wrong.

The FiMM Code

- Part A - For ordinary members of FiMM = UTMC
- Part B - For IUTA
- Part C - For UTC

UTC should familiar with Part A & B so that can appreciate the importance of the internal rules imposed.

There are similarities & different requirement under Part A & B, which are:

- A Code of Ethic
- Standard of Professional Conduct
Code of Ethics & Standard of Prof. Conduct

UTMC & IUTA - Code of Ethics

1. Professionalism – knowledge in all areas and aspects of UT industry
2. Integrity – honest, “with the best interest of investor in mind
3. Confidentiality – disclosure of client details
4. Dignity – damage the reputation of other competitors
5. Conflict of Interest – personal dealing & investment & gift or benefit from clients

UTMC & IUTA - Standards of Professional Conduct

1. Compliance with laws
2. Breach of laws
Code of Ethics & Standard of Prof. Conduct

UTC - Code of Ethics
- Honesty, Dignity & Integrity
- Fair Dealing
- Good Faith
- Competence
- Confidentiality
- Professionalism
- Acting with due care, skill and diligence
- Prompt, efficient and continuous service

UTC - Standards of Professional Conduct
- Compliance with laws
- Use of authorization card
- Appropriate designation or title
- Marketing and distribution with prospectus
- Adequate explanation of the nature and characteristics of a UTS
- Advertisement and promotional materials
- Appointment of qualified persons
- Duty to supervise and monitor
- Keeping abreast with the unit trust industry
- Disciplinary proceedings
COMPLAINTS
- handled by UTMC or IUTA, can go to FiMM
- Written form.

FiMM Disciplinary Proceedings

FiMM Exe. Director → Council Member (14 biz days)

Investigating Committee

Valid

Disciplinary Committee

Invalid

Dismiss

Appeal Committee

UTMC/IUTA

Suspended / Terminated

Punishment decide by SC

Refer to the manual page from 4-36 to 4-38 for details
Question 1:

An investor bought unit trust from an agent who provided incorrect information about the fund. With whom can the investor lodge a complaint?

I. Federation of Malaysian Unit Trust Managers (FMUTM)
II. Securities Commission
III. Unit Trust Management Company concerned
IV. Ministry of Finance

A. I, II & III     B. II only     C. II & IV     D. I & II
Question 2:

Which of the following forms the minimum standards of conduct expected of registered Persons Dealing in Unit Trusts (PDUT) and are intended to be a guide to ascertain whether a registered PDUT is acting in a manner which continue to satisfy the Minimum Standards for Registration?

A. None of the optional answer is correct
B. Code of Ethics and Professionalism
C. Code of Ethics and Standards of Professional Conduct for Multi-level Marketing
D. Code of Ethics and Standards of Professional Conduct
Question 3:

In order to enhance professionalism in marketing of unit trusts:

A. It is important to recommend to potential clients the best performing unit trusts regardless of the suitability of her risk profile to the fund
B. It is irrelevant what promises are made to clients with respect to investment returns
C. It is important to observe as many marketing leads as possible
D. It is important to provide superior service to clients and attend to their needs
Question 4:

UTC must not misrepresent:

A. Product past performance
B. Company he/she represented
C. His qualification
D. All of the above
Answer:

1) A
2) D
3) D
4) D
CHAPTER 5
Personal Financial Planning
What is ‘Personal Financial Planning’?

- Analyze individual current financial situation
- Identify actions to be taken to achieve their needs & objectives as well as future goals

**Areas in Financial Planning:**

- Cash Management
- Risk Management & Insurance Planning
- Investment Planning
- Tax Planning
- Retirement & Estate Planning
Why Financial Planning?

- Help fight inflation
- Ensure an adequate income when it is needed
- Provide a roadmap of a client’s objectives for the medium and long term
- Improve present and future lifestyles
- Peace of mind with regard to financial situation
Taxation & Inflation

How does it impact Income Return?

- Impact of Tax & Inflation on EFFECTIVE RATE OF RETURNS (ERR)

| Tax Rate (t): 20% | Returns (r): 10% | Inflation Rate (i): 5% |

\[
ERR = r - i - (r \times t)
\]

\[
ERR = 10\% - 5\% - (10\% \times 20\%)
\]
\[
= 0.10 - 0.05 - (0.10 \times 0.20)
\]
\[
= 0.10 - 0.05 - 0.02
\]
\[
= 0.03 \text{ or } 3\%
\]

- Returns from Investment eroded by inflation & tax
- Ensure the returns from Investment is greater than the inflation rate
The Rule of 72

Used for 2 main purposes

★ Determining how long it would take to **HALVE** the value of a given amount of funds at a specific **inflation rate**

♫ To establish how long it would take to **DOUBLE** a given sum of money at a given **interest rate**

Number of years = \[ \frac{72}{\text{given interest / inflation rate}} \]

**Example:**

How long would it take to halve the value of RM 100,000 at 5% inflation rate?

\[ \frac{72}{5} = 14.4 \text{ years for the value to become RM50,000} \]
Personal Financial Planning

Skill Required – Financial Planner

- Technical Skills, understand people skills, read body language skills
- Build Trust, clients ‘clues’ on their thoughts & fears.

UTC’s Role in Investment Planning

- To meet goals within a certain time frame
- Explain on strategies & benefits
- Discuss on different investment classes or specific investments
- Develop the client’s investment profile
- Explain the risk & return characteristic on the investment
- Get agreement & document
- Ongoing service & regular updates

Difference between UTC & Financial Planner

<table>
<thead>
<tr>
<th>UTC</th>
<th>Financial Planner</th>
</tr>
</thead>
<tbody>
<tr>
<td>UT License</td>
<td>UT &amp; IA License</td>
</tr>
<tr>
<td>Does basic investment planning</td>
<td>Does comprehensive financial planning</td>
</tr>
</tbody>
</table>
## Client Types

<table>
<thead>
<tr>
<th>Stage</th>
<th>Status</th>
<th>Saving Capacity</th>
<th>Risk Tolerance</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 21 – 30</td>
<td>Single or newly married</td>
<td>Low</td>
<td>High</td>
<td>Focuses on returns over 20-25 years</td>
</tr>
<tr>
<td><strong>Stage 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 31 – 44</td>
<td>Married with young children</td>
<td>Average</td>
<td>High</td>
<td>Invests in high-risk funds over the long term</td>
</tr>
<tr>
<td><strong>Stage 3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 45 – 60</td>
<td>Children are schooling</td>
<td>High – investing for retirement</td>
<td>Moderate</td>
<td>More conservative funds, e.g.: Income fund/ Balanced fund</td>
</tr>
<tr>
<td><strong>Stage 4</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 61 and above</td>
<td>Children grown up / retirement</td>
<td>Income stream decreased</td>
<td>Low</td>
<td>Income fund - protect income stream</td>
</tr>
</tbody>
</table>
A family spent RM 25,000 on goods and services last year and RM 26,125 this year. Assume that the pattern, value of consumption and the inflation rate remain unchanged.

1a) How much money will the family need next year to maintain the same living standard as this year?
(A) None of the optional answer is correct
(B) RM 27,301
(C) RM 26,125
(D) RM 27,250

1b) Based on the above inflation rate, if an investor earns a 5% return for his investment, his marginal tax is 20%, what is his effective return after tax and inflation?
(A) -0.3%  (B) 15%  (C) -0.5%  (D) -15%
Question 2:

2a) Investor A & Investor B started investing with RM64,000 with the rate of return of 8.5% p.a for investor A. A few year later, both of them received RM128,000 each. However investor B received the returns faster by 1.27 years. When did investor B receive her/his return?

A. 8.47 years  
B. 9.77 years  
C. 7.20 years  
D. 10.0 years

2b) If both investor A & investor B invested RM64,000 and take same number of years as investor B to double their money. What is the rate of return p.a for both investors?

A. 8.47%  
B. 10%  
C. 12%  
D. None of the above option is correct
Question 3:

3) In year 1995, En. Jamal put RM50,000 in an investment that earned him 9% per annum. Supposing the investment is able to deliver the above yearly return for the past as well as the coming year, when will his money double?

A. Year 2000  C. Year 2005
B. Year 2003  D. Year 2007
Question 4:

Generally, a unit trust that has 80% of its assets invested in growth stocks would be the most appropriate type of investment for the preparation of:

A. None of the optional answer is correct  
B. A college fund for an 18-year-old  
C. An income-producing savings for an 86-year-old  
D. An individual retirement fund for a 52-year-old
Answer:

1a) B

Present value = RM 25,000.00, Future Value = RM26,125.00

Calculate the compounding rate p.a.

\[ FV = PV \left(1 + i\right)^1 \]
\[ RM26,125 = RM25,000 \left(1 + i\right)^1 \]
\[ 1.045 = 1 + i \]
\[ 0.045 = i \]
\[ 4.5\% = i \]

Money needed next year = RM26,125 + 4.5%

= **RM27,300.63**

1b) C

Effective rate of return = return - inflation rate – (return x tax rate)

= 5\% - 4.5\% - (5\% x 20\%) = 0.5\% - 1\% = **-0.5\%**
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2a) C

Investor A:
No of years = 72/ Given rate of return= 72/8.5 = 8.47 years
Investor B = 8.47 – 1.27 = 7.20 years

2b) B

No of years = \( \frac{72}{i} \)

\[ \text{7.2 years} = \frac{72}{i} \]

\[ i = 10\% \]

3) B

4) A
CHAPTER 6
Operations of Syariah-based UTS
What is Syariah-based UTS?

- Similar to the conventional UTS, pools the saving of investors with similar objectives in a special fund managed by professional fund managers.
- Similar with above except that all the above activities must comply with Syariah requirements.
- The main difference between conventional & syariah would be:
  - Objective of the fund
  - Investment strategy
  - Operations & management of the fund
  - Documentation
  - Investment avenues and activities
  - Accounts and reporting
What is Syariah-based UTS?

- Syariah non-compliant securities:
  - Riba (interest)
  - Gambling
  - Conventional Insurance
  - Stockbrocking or share trading in Syariah non-compliant securities
  - Non-halal Products / Manufacturing related
  - Tobacco Based
  - Entertainment Activities
## Relationship between Parties

Syariah Contracts reflects the type of obligation & responsibilities of the parties

<table>
<thead>
<tr>
<th>Parties</th>
<th>Syariah Contacts</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Among Unit holders</td>
<td>Musyarakah</td>
<td>Profit will be shared among / profit-sharing ratio</td>
</tr>
<tr>
<td>Unit holders &amp; UTMC</td>
<td>Wakalah (agency) Bai</td>
<td>- UTMC is managing the UTS on behalf</td>
</tr>
<tr>
<td></td>
<td>Wadiah Yad-Dhamanah (guaranteed custody)</td>
<td>- Contact of sale &amp; purchase executed. Usually on cash payment basis.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prior to the creation of units.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Owner = unitholder ; Custodian = UTMC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Contract exists once UTMC receives payment for investment</td>
</tr>
<tr>
<td>Unitholder &amp; Trustee</td>
<td>Wakalah (agency)</td>
<td>-Trustee safeguard the interest of unit holders</td>
</tr>
<tr>
<td></td>
<td>Wadiah Yad-Dhamanah</td>
<td>-After the units are created</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Owner = unitholder ; Custodian = Trustee.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Units are all the assets of the fund in the form of monies &amp; other forms of investments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Contact exists once the unit holders purchase the units &amp; depositing of investment by UTMC with the Trustee</td>
</tr>
<tr>
<td>UTMC &amp; Trustee</td>
<td>No Contract exist</td>
<td>-No direct relationship.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Both are agents of the unit holders</td>
</tr>
</tbody>
</table>

For Internal Circulation and Training Purposes Only
Source: FiMM Study Guide – Dealing in Unit Trusts
Potential Risks

- Similar to conventional UTS in terms of the risks involved:

<table>
<thead>
<tr>
<th>Returns are not guaranteed</th>
<th>Manager’s / Management risk</th>
<th>Financing / loan/ borrowing risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency risk</td>
<td>Country risk</td>
<td>Market risk</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Credit / default risk</td>
<td>Inflation risk</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Except:**

**Non-compliance risk / Syariah Specific Risk**
- Syariah-compliant security is reclassified as a Syariah non-compliant security.
- Affect the performance of the fund & fund manager has to ‘**cleanse &/or purify**’ the fund by disposing all such investment.
- The fund may make a lower return or a loss in the process of ‘cleansing / purifying’ and eventually affect the total NAV.
Appointment of the Syariah Committee/Syariah Adviser

The Syariah Committee Members / Adviser must:

- Consist of at least 3 members who are individuals
- Be independent of the management company
- Be registered with the SC

Roles, Powers & Duties

- Ensure the fund is managed & administered in accordance with Syariah principles with guidance in deed, prospectus, structure, investment process and operations
- Consult SC if there is any uncertainty
- Act with due care, skill & diligence
- Scrutinizing the fund’s compliance report from the compliance officer
- Investment transaction reports approved by trustee to ensure the fund’s investment are in line with Syariah principles.
- Must prepare a report to be included in the fund’s interim & annual report certify it has been managed & administered in accordance with Syariah principles for the period concerned
Disposal of Syariah Non-compliant Securities

“Compliant Securities” to “Non-Compliant Securities”

• To liquidate when value of securities exceeds original investment cost
• Capital gain at the time of announcement – can be kept by the investors
• Capital gain after announcement day should be channeled to charitable bodies
• Investors are allowed to hold investments if Market Price < Investment cost until dividends received and market value equals original cost

Capital : RM1000
1 ) Market Price > RM1000 → Liquidate
2 ) Gain on announcement date – gain can be kept
3 ) Gain after announcement date – to charitable bodies
4 ) Market Price < RM1000 → reserve till capital +
distribution = RM1000
“Halal” stocks do not invest in companies involved in activities, products or services related to the following:

I. Conventional banking
II. Telecommunication
III. Gambling
IV. Alcoholic beverages

A. I, II, III & IV  B. II only  C. I, III & IV  D. III & IV
Question 2:

Which of the following NOT the Syariah contracts that are used in Syariah-based funds?

A. Wahabah  B. Musyarakah  C. Bai  D. Wadiah Yad-Dhamanah
Question 3:

Which of the following fund is best described by this statement?

“The unit trust fund is managed in accordance with Syariah Principles and aims to maximise capital returns over medium to long-term by investing mainly in equities listed on the Bursa Malaysia”

A. Fixed-Income Fund  C. Balanced Fund
B. Property Fund      D. Islamic Fund
Question 4:

Islamic fund **CANNOT** invest in the followings:-

I. Conventional banking stock  
II. Gambling stock  
III. Alcohol stock  
IV. IT stock

A. I, II, III, IV  
B. II, III  
C. II, III, IV  
D. I, II, III
Answer:

1) C
2) A
3) D
4) D
Key Points
Chapter 1a: Understanding Unit Trust

UTMC
Administers the operations of the UTS

UTS

Unit holders
Money pooled from investor

Trustee
Safeguards the Assets of the UTS

Possible Distribution
Capital Appreciation / Depreciation

Possible Capital Gain/Income
Invest

Authorized Investments
e.g Shares(equity), Fixed Income (bond), Real Estate, etc
Chapter 1b: Understanding Unit Trust (Classifications of UTS)

- Money Market UTS
- Fixed Income UTS
- Balanced UTS
- Exchange Traded Funds
- Equity UTS
- Syariah UTS
- Government-sponsored UTS
- Real Estate Investment Trusts
Chapter 1c: Understanding Unit Trust (Calculation)

1) Dollar Cost Averaging Principle
Average = Total cost / Total Investment Amount
unit cost          Total No. of units

2) Effective Rate of Return & Compounding Factor
i. Working money = Initial investment
   1 + Sales Charge
ii. Effective Rate of Return (ERR)
ii. FV = PV (1+i)^n

3) Calculate NAV
NAV per unit = Fund NAV
             Units in circulation

4) Income Distribution (Refer Slide 32)

5) Unit Split Distribution (Refer Slide 32)

6) Management Expenses Ratio (MER)
MER = Total Expenses of fund X 100
     Average fund size
Chapter 2: Regulation of The Unit Trust Industry

UT Industry
FiMM

Marketing and Distribution

Regulation

Trustee

UTMC
Chapter 3: Servicing Clients and Marketing Unit Trusts

Cooling off right

Type of report: Interim & Annual

Barriers of Marketing UT

Investment Alternatives
Chapter 4: Industry Code of Ethics and Standards of Professional Conduct

FiMM Code

Code of Ethic

Standard of Professional Conduct
Chapter 5: Personal Financial Planning

Client Types

Taxation & Inflation
\[ ERR = r - i - (r \times t) \]

The Rules of 72
\[ \text{No of Years} = \frac{72}{\text{Interest or Inflation rate}} \]
### Chapter 6: Operations of Syariah-Based UTS

#### Syariah Based UTS

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>The Principle</th>
<th>The Contracts</th>
</tr>
</thead>
</table>

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Source: FiMM Study Guide – Dealing in Unit Trusts
CONGRATULATIONS!

You have successfully completed the CUTE tutorial!
REMINDER!

One week before the exam!

- Confirm venue and date with Adviser Service

On exam day!

- Have a light meal
- Arrive 30 minutes earlier
- Bring Email Notice from UT Support
- Bring a calculator (No Financial or Scientific calculator)
- Bring I.C. / Driving License
Thank you