

FACTORS AFFECTING UNIT TRUST PERFORMANCE IN MALAYSIA : A CROSS-SECTIONAL STUDY

D HARYANI BINTI ABD AZIS



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UNIVERSITI MALAYSIA SABAH

**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTANCY**

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IJAZAH: MASTER IN BUSINESS ADMINISTRATION

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FACTORS AFFECTING UNIT TRUST PERFORMANCE IN MALAYSIA : A CROSS-SECTIONAL STUDY

D. HARYANI BINTI ABD AZIS

**THESIS SUBMITTED IN PARTIAL
FULFILMENT FOR THE DEGREE OF MASTER
IN BUSINESS ADMINISTRATION**



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DECLARATION

I hereby declare that the material in this thesis is my own expect for quotations, excerpts, equations, summaries and references, which have been duly acknowledged.

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ABSTRACT

Malaysian unit trust industry has been growing tremendously since its introduction through Amanah Saham Nasional and Amanah Saham Bumiputra in early 1980s and early 1990s respectively. The objective of the study is to analyze the overall performance of Conventional and Islamic-based unit trust funds in Malaysia in terms of the funds age, management expense ratio, total risk, market timing, selectivity and return of selected 23 funds for the 5 year evaluation period from 2011 to 2015. The hypotheses were tested using several regression to see whether all the fund characteristics of Fund Age, Management Expense Ratio, Total Risk, Market Timing and Selectivity ability have relationships with Unit Trust Fund Performance. Apart from that, in evaluating the overall performance of the unit trust funds, this study applies the most popular measures of performance such as *Sharpe* ratio, *Adjusted Sharpe* ratio, *Treynor* ratio, *Jensen Alpha* ratio. *Treynor-Mazuy* method of performance measure is used for regression to derived market timing and selectivity parameters. The overall findings suggest that unit trust funds in Malaysia are able to add value pertaining to the return for both Conventional and Islamic-based funds result. The findings show that Conventional funds gives out more return than Islamic-based funds and the higher the risk fund provides higher return. The findings also show that young funds performed better than the old ones. It is also found that unit trust fund managers have poor timing ability and unable to correctly bargain funds and to forecast price movements of the general market. Even so, Islamic-based unit trust funds have better fund managers compared to Conventional unit trust funds. Overall, the results indicate that investors should focus on young funds and select based on their own preferred risk level. Fund managers should understand the characteristics that will affect fund performance and develop strategies on how to increase their fund performance. This study could be further investigated in a bigger sample and characteristics. The findings could also be interesting if the domestic fund and international Malaysian fund performance included as a sample for comparison.

ABSTRAK

ANALISA MENGENAI FAKTOR - FAKTOR YANG MEMPENGARUHI PERKEMBANGAN DANA UNIT AMANAH DI MALAYSIA:

Sejak Amanah Saham Nasional dan Amanah Saham Bumiputera diperkenalkan pada awal tahun 1980-an dan 1990-an, Industri Unit Amanah di Malaysia telah berkembang dengan pesatnya. Objektif kajian ini ialah untuk menganalisis keseluruhan prestasi dana unit amanah konvensional dan yang berasaskan Islam di Malaysia dari aspek umur dana, nisbah perbelanjaan pengurusan, jumlah risiko, masa pasaran, pemilihan dan kadar pulangan untuk 23 dana terpilih bagi tempoh 5 tahun bermula pada 2011 sehingga ke 2015. Kesemua hipotesis telah diuji menggunakan beberapa regresi untuk melihat sama ada semua ciri dana tersebut mempunyai hubungan dengan Prestasi Dana Unit Amanah. Kajian ini menggunakan penilaian prestasi yang popular seperti "Sharpe ratio", "Adjusted Sharpe Ratio", "Treydor ratio", "Jensen Alpha Ratio". Kaedah penilaian prestasi Treynor-Mazuy digunakan mendapatkan parameter penilaian masa pasaran dan pemilihan. Kajian menunjukkan bahawa dana unit amanah di Malaysia mampu untuk menambah nilai pulangan bagi kedua-dua hasil dana konvensional dan berasaskan Islam. Hasil kajian menunjukkan bahawa dana konvensional memberikan lebih banyak pulangan daripada dana berasaskan Islam dan semakin tinggi risiko semakin tinggi pulangan dana tersebut. Kajian juga menunjukkan bahawa prestasi dana baru lebih baik daripada dana lama, pengurus dana unit amanah di Malaysia mempunyai kepercayaan menganggar masa untuk pelaburan yang lemah dan tidak berupaya menawar dana dengan tepat serta meramal pergerakan harga pasaran umum. Walaubagaimanapun, dana unit amanah berasaskan Islam mempunyai pengurus dana yang lebih baik berbanding konvensional. Secara keseluruhannya, pelabur perlu fokus kepada dana baru mengikut tahap risiko pilihan mereka sendiri. Pengurus dana perlu memahami ciri-ciri dana yang akan memberi kesan kepada prestasi dana dan membangunkan strategi untuk meningkatkan prestasi dana mereka. Kajian lanjut boleh dijalankan dengan menggunakan sampel yang lebih besar dan ciri-ciri yang lebih banyak. Kajian juga akan menjadi lebih menarik jika dana domestik dan prestasi dana antarabangsa dimasukkan sebagai sampel perbandingan.

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LIST OF ABBREVIATIONS

ADF	Augmented Dickey Fuller
APT	Arbitrage Pricing Theory
ASN	Amanah Saham Nasional
BPLM	Breusch-Pagan Lagrange Multiplier
CAPM	Capital Asset Pricing Model
CML	Capital Market Line
CMP2	Capital Market Masterplan Plan 2
EMH	Efficient Market Hypothesis
FA	Fund Age
FBM KLSI	FTSE Bursa Malaysia EMA Shariah Index
FiMM	Federation of Investment Managers Malaysia
FMB KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
GDP	Gross Domestic Product
MER	Management Expense Ratio
NAV	Net Asset Value
NTA	Net Total Asset
PP	Phillips-Perron
S	Selectivity
SC	Securities Commission
SML	Security Market Line
T-Bills	Treasury Bills
TA	Total Asset
TR	Total Risk
UTFP	Unit Trust Fund Performance
UTM	Unit Trust Managers
UTMC	Unit Trust Management Company
VIF	Variance Inflation Factors

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

In Chapter One, a research background of the study will be brief in detail followed by the scope of research and its objectives. Identification of the research problem will easily be specified, objectives will be defined accurately, propose research questions and relevant hypotheses set up can be found mostly from the stated research background and the flow of this chapter. This research presents the determinants of the most dominant factor that are affecting or influence the unit trust performance in Malaysia in terms of the fund characteristics, begin with an overview of what is unit trust, the scheme features, type and classification of unit trust funds as well as its development in Malaysia.

1.1 Research Background

In Malaysia, Mutual Fund is known as Unit Trust Fund (sometimes referred as open-ended funds) because the entitlement of ownership of the funds has been divided into units, meaning to say investors are the unit holders. First established in year 1959 by British investors with the name of Malayan Unit Trust Ltd. At first, due to the public interest the development of Unit Trust in Malaysia was very slow. The structure in Malaysia is generally more likely the same as other countries in the world. Nowadays after more than 40 years, Malaysia's unit trust has been showing a remarkable growth and is growing very fast as people now are more aware of the importance of saving for the future retirement. According to Roslina Abdul Rahman the Managing Director at Amundi Malaysia in the article titled 'Malaysia: Unit Trust Industry In Double Digit Growth Mode' (Fabrizio Zumbo, 2013) it is predicted that the growth will remain excitedly for its development in coming years. In line with the current industry growth rate, the prediction could be reality as Malaysia's

Securities Commission has also place the Capital Market Masterplan 2 (CMP2) with a prediction of Malaysia'a unit trust funds Net Asset Value (NAV) will increase up to RM827.9 billion by year 2020 (Securities Commission Malaysia, 2011).

A form of collective investment scheme that is set up under the trust deed defines unit trust. This is an investment scheme that is professionally managed by fund managers of financial institution as intermediaries of the investment management industry which can come from both bank-managed equity funds and non-bank counterparts which means government or private (Cheong Sing Tng., 2006). Trustees are the one who appoint the professional fund managers who will be responsible in investment decisions including managing and invest their investors' savings according to investors' objective. Some investors will desire to invest for growth, education, income and some will want to invest locally or across Asian countries or anywhere in the world market. The money invested from investors with same financial objectives and willing to share the risk tolerance will be pooled to be invested and diversified into a portfolio of the securities include the bonds, stocks, money market and other assets in accordance and permitted by Securities Commission (SC) Guideline on Unit Trust Funds. The pooled money invested are to buy large amounts of securities thus create a big portion in the market position for the investors. More assets are bought when more money is pooled for an investment (Fadillah Mansor and M. Ishaq Bhatti, 2011). Moreover, trustee will compute the value of the trust daily and the trading price is known as Net Asset Value (NAV) that is when the bid and offer price is given from the total market value of assets divided by number of units. The NAV will reflects the amount of funds that a fund manager has to work with. Through the long-term unit trust investment, the investors have a great chance in increasing their wealth due to the capital gain and they can even reinvest the returns or withdraw their profits according to their financial objectives. In the mean time, the growth in unit trust industry has improving the quality of life and has also helping the growth of economy as a whole (FiMM, 2016).

1.1.1 Development of Unit Trust in Malaysia

According to Azizi Yahaya, Nordin Yahaya and Rabiatal Adawiyah Binti Mohamed (2009), when the unit trust industry launched in Malaysia it was firstly because of the intention to help and improve the Bumiputera's (indigenous Malays') social-economic status. Ever since that, the growth for the industry has been a remarkable and fastest growth especially in year 1991 - 1996. It is not just the number of management companies has increased from 13 in year 1992 to more than 50 in year 2007, the number of approved funds has also increased during the same time of the year. Obviously among the factors that has been contributed to the successfully great expansion in the industry during that time was because of the strong economic, good funds performance, local stock market expansion as well as the success of the privatization companies. From the record shows the increase in the total asset value funds from RM14.72 Billion in year 1992 to RM59.95 Billion in year 1996. However, due to the Asian Financial Crisis in year 1997 there was a 50% decline in the NAV (FiMM, 2016). Even so, the industry of unit trust in Malaysia rebounded back when entering the year 2000s despite having a downturn in economic from year 1997 - 1998 the industry has actually maintained its upward trend.

According to the (Securities Commission Malaysia, 2001), the downturn economic has reflected the positivity in awareness to the people to invest in unit trust as their savings vehicle for retirement planning as there was a decline in the ratio of Employees' Provident Fund (EPF) to the total NAV of unit trust funds. The comeback of the Malaysian Unit Trust glory while entering the year 2000, there were a total of 119 number of funds in the local market and now in year 2016 as at April 30, there were 638 number of approved funds inclusive Conventional and Islamic Based funds which are now managed by 35 companies with total of NAV RM 350.82 Billion. The unit trust funds' NAV obviously has grew a total of RM307.82 Billion from the year 2000 with its NAV total RM43 Billion (Securities Commission, 2016) even there was a disrupted by the global financial crisis which began in year 2007. During that time in January 2008, Malaysian unit trust NAV has dropped to RM130 Billion. Relatively, when comparing to Bursa Malaysia Market Capitalisation the total NAV drop less severe than the fall in share prices in Bursa Malaysia due to the diverse nature of its assets (FiMM, 2016). Figure 1.1 and 1.2 below shows the growth chart or development of unit trust in Malaysia from the year 1996 to 2014

while table 1.1 below shows the summary of the unit trust statistics in Malaysia during the evaluation period year 2011-2015.

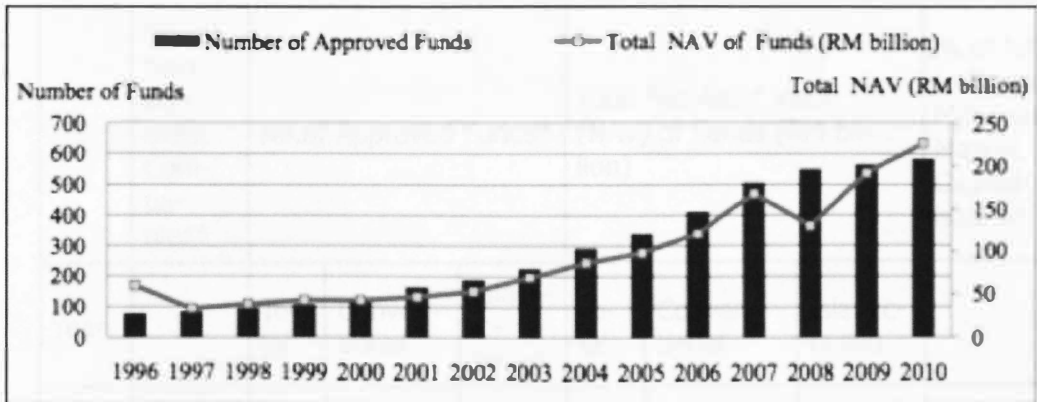


Figure 1.1: Number of approved funds and Total of NAV Malaysia's unit trust.

Source: FiMM (2016).

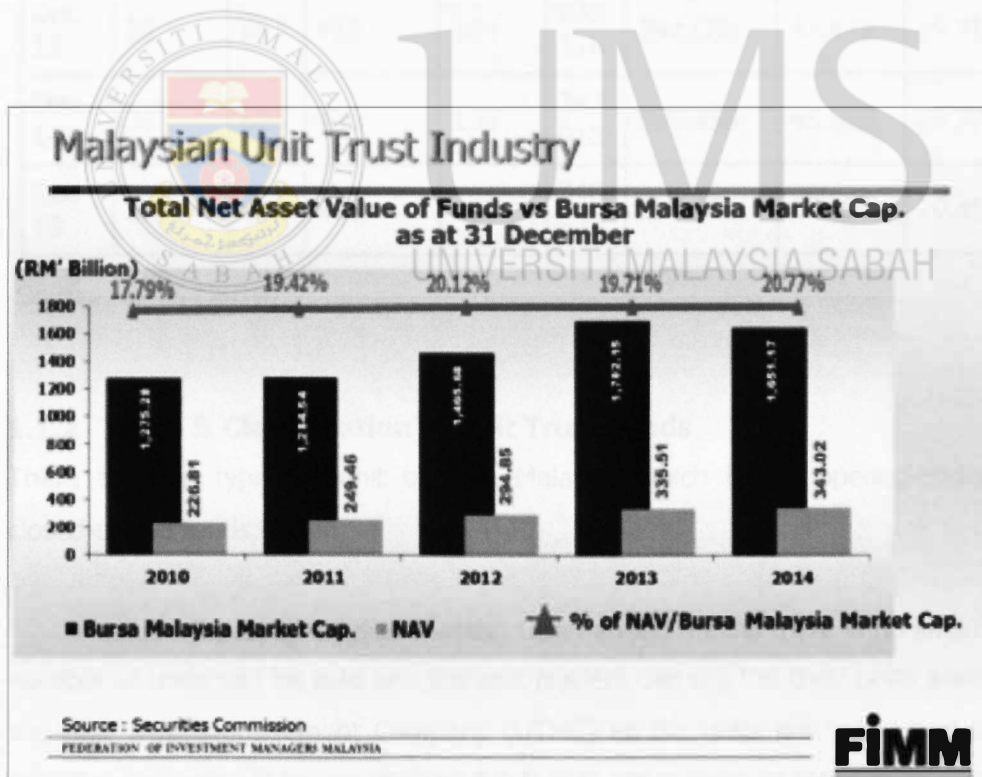


Figure 1.2.:Bursa Malaysia Market Capitalisation and Total of NAV Malaysia's unit trust.

Source: FiMM (2016).

Table 1.1: Summary of unit trust statistics in Malaysia from 2011 - 2015

Year	No. of Management Companies*	No. of Approved Funds*			Total Net Asset Value (NAV) of Funds (RM billion)			% of NAV to Bursa Malaysia Market Capitalisation
		Total	Conventional	Islamic-based	Total	Conventional	Islamic-based	
Dec 11	40	604	437	167	249.459	221.599	27.860	19.42
Dec 12	40	607	434	173	294.851	259.490	35.361	20.12
Dec 13	38	607	423	184	335.510	292.688	42.822	19.71
Dec 14	36	626	436	190	343.018	296.358	46.660	20.77
Dec 15	37	631	433	198	346.578	294.454	52.124	20.45

Source: FiMM (2016).

1.1.2 Types & Classification of Unit Trust Funds

There are two types of unit trust in Malaysia which is the opened-ended and closed-ended funds;

Opened-ended Funds: Open-ended means there is no limit for the number of units can be sold and the unit holders can sell the their units anytime to the Unit Trust Management Company (UTMC) as the units are transacted directly with the company. They are unlisted funds that are marked to the market on a daily basis, not quoted on a stock exchange. Unit trust fund managers will determined the unit price which is computed based on the underlying NAV of the funds or securities and can be bought or redeemed at the management unit trust company. Within the same day trading of funds, the prices will remain unchanged. Apart from

that, the cancellation of units will decrease the size of the funds and vice versa with the creation of units. Still, the creation of units that leads to fund size increase will need approval from the Securities Commission (SC), (Securities Commission Malaysia, 2010a).

Closed-ended Funds: Closed-ended funds are not as popular as Opened-ended funds. Unlike Opened-ended funds, Closed-ended unit funds in circulation is fixed from the time its launched. They are listed funds, their units are quoted and traded on a stock exchange. Its unit price fluctuates based on demand and supply in the market from investors from time to time throughout the day meaning to say the selling and buying activities rather than determined but the Unit Trust Management Company (UTMC), it is determined by the investors in the market.

When separated by investment objectives, Unit Trust in Malaysia is classified into 5 primary classes mainly; (a) Equity Funds, (b) Bond Funds, (c) Balanced Funds, (d) Money Market Funds and (e) Islamic-based Funds (f) Conventional Funds

Table 1.2: Classification of Unit Trust Funds.

Fund Classification	Description
Equity Funds	The most popular funds in Malaysia that offers the highest returns with high risks. Invest in companies that listed in the stock exchange. The funds however divided into groups according to the objectives; aggressive growth, growth and income, income, dividend income, index funds and international equity funds.
Balanced Funds	A combination of equity and bond funds. Invest in both equity and interest bearing securities
Money Market Funds	Invest in high quality debt securities and low risk. It holds a short term money market instruments at the very low risk and always keep NAV constant.

Table 1.2: Classification of Unit Trust Funds.

Fund Classification	Description
Bond Funds	Invest mainly in Malaysian government securities, corporate bonds and money market instruments (bankers' acceptance and fixed deposits). It has low volatility than stocks.
Islamic-based Funds	A Shari'ah-Compliant funds, invest in companies that are involved in only halal activities. Its objective is mainly to provide the investors an alternative funds who are sensitive to shari'ah requirements.
Conventional Funds	A non Shari'ah-Compliant funds, invest in companies that are involved in mix halal and non-halal activities. Basically all the fund classes of unit trust funds that have the characteristics and objectives of a non Shari'ah-Compliant is categorized as Conventional Funds.

1.2 Problem Statement

Most studies on unit trusts focussing on equity type of unit trust funds therefore the results from these studies might not applicable to all types of unit trusts in Malaysia. The study of unit trust performance in Singapore which using a secondary research data concludes that big or large funds outperformed better than the small funds even though the performance was not significant enough (Tng., 2006). A mixed findings resulted in the study of Khorana, Servaes, and Tufano, (2006) which they observed and analysed the performance of the Unit Trust in Malaysia based on the the type of fund managers. From their findings there is positive correlation between the relationship of fund managers and unit trust performance, the bigger the fund managers stake of ownership, the higher the return will be. However the mixed findings leads to unclear decision which factors specifically that will affect the performance of the unit trust in Malaysia. Apart from that, the factors of investment or marketing timing and the funds or stock selections often left aside in the research of affecting the unit trust performance in Malaysia. In the study of Rozali (2006) based on 102 unit funds of equity, he concluded that the skill of the