

FN312 Investment Lecture 3

Mutual funds and other investment companies

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Outline

- Types of Investment Companies
- Mutual funds:
 - Functions
 - Investment styles and policies
 - Investment costs
 - Performance
 - Sources of information

Reading:
Chapter 4

Types of Investment Companies

Investment Companies

- Pool funds of individual investors and invest in a wide range of securities or other assets
- Services provided:
 - Record keeping and administration
 - Diversification and divisibility
 - Professional management
 - Lower transaction costs

Net Asset Value

- Net Asset Value (NAV):

= the value of each share in the investment company

- Calculation:

$$\frac{\text{Market Value of Assets - Liabilities}}{\text{Shares Outstanding}}$$

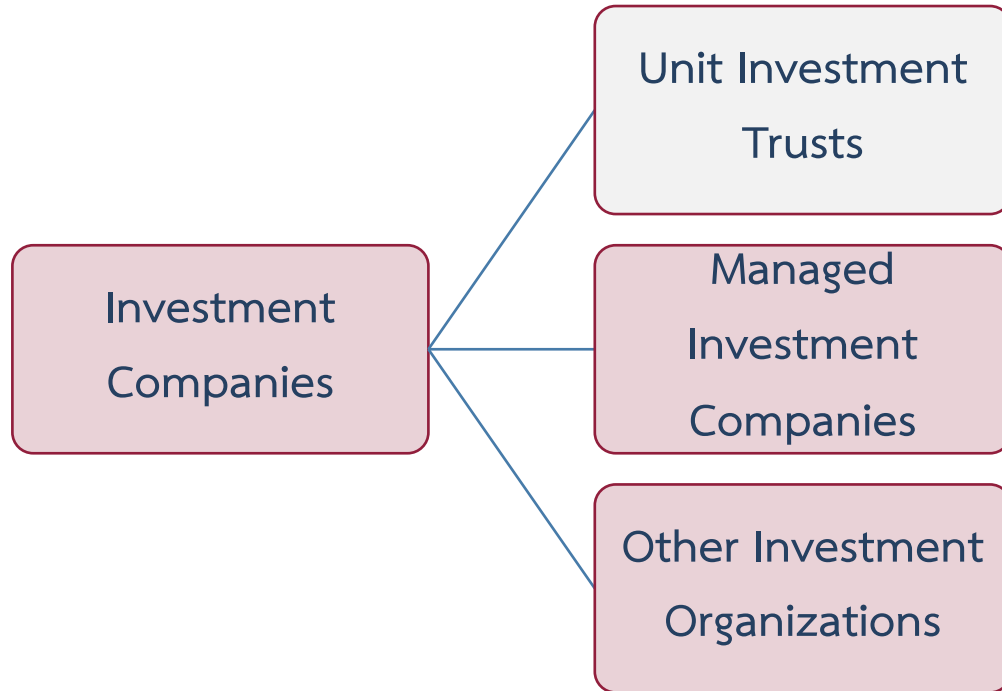
Example

9. The composition of the Fingroup Fund portfolio is as follows:

Stock	Shares	Price
A	200,000	\$35
B	300,000	40
C	400,000	20
D	600,000	25

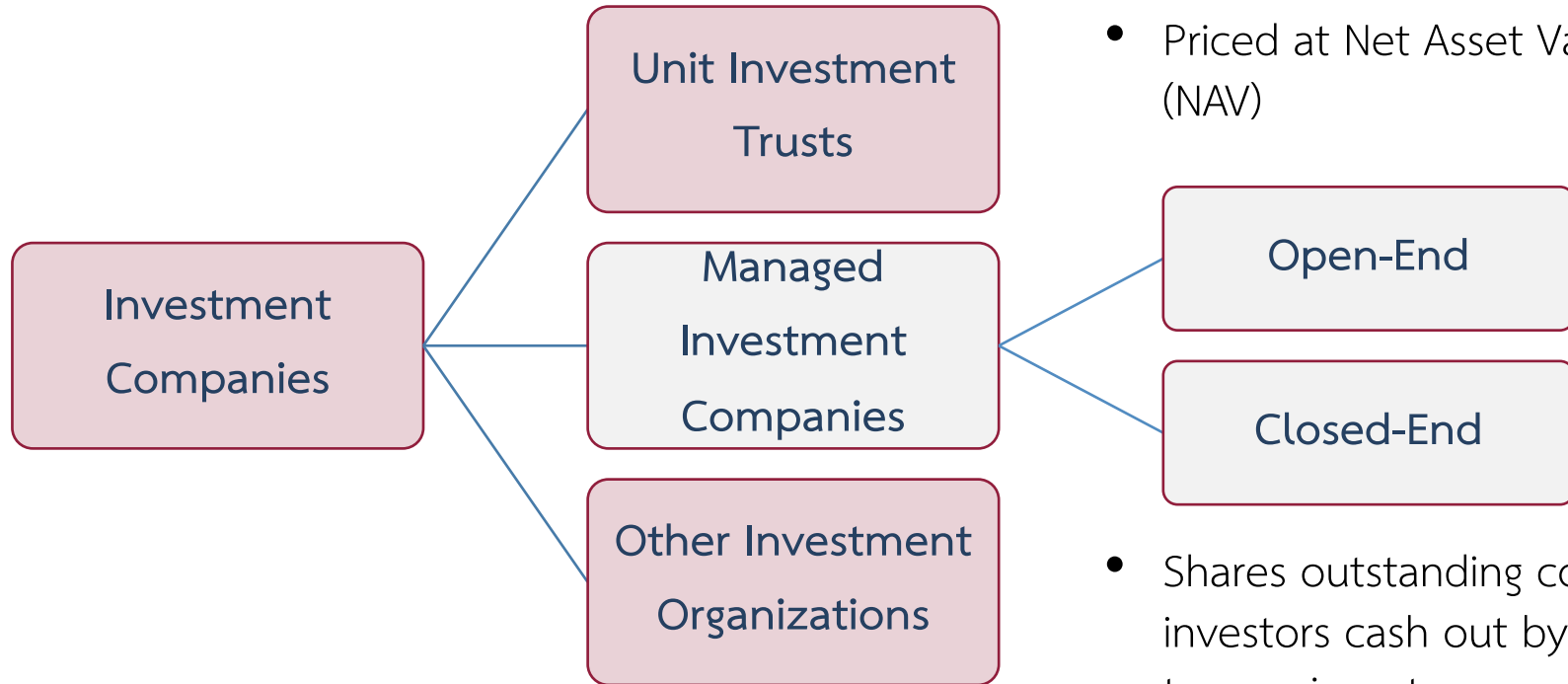
The fund has not borrowed any funds, but its accrued management fee with the portfolio manager currently totals \$30,000. There are 4 million shares outstanding. What is the net asset value of the fund?

Investment Companies



- Fixed portfolio of uniform assets
- Unmanaged
- Declined from \$105 billion (1990) to \$94 billion (2016)

Investment Companies



- Issues shares when investors buy; redeems shares when investors cash out

- Priced at Net Asset Value (NAV)

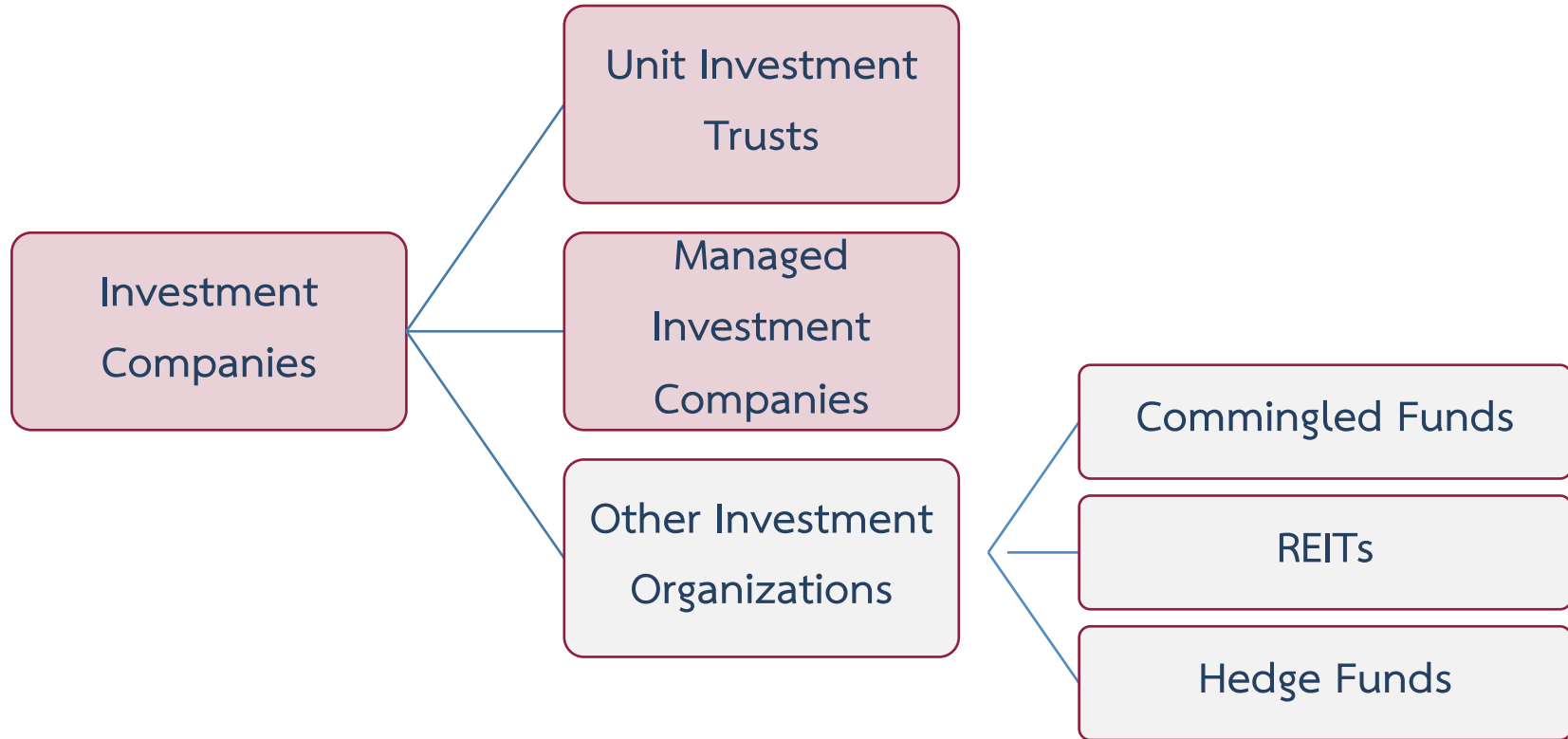
- Shares outstanding constant; investors cash out by selling to new investors

- Priced at premium or discount to NAV ... why?

Example

11. The Closed Fund is a closed-end investment company with a portfolio currently worth \$200 million. It has liabilities of \$3 million and 5 million shares outstanding.
 - a. What is the NAV of the fund?
 - b. If the fund sells for \$36 per share, what is its premium or discount as a percent of net asset value?

Investment Companies: Other Investment Organizations



Investment Companies

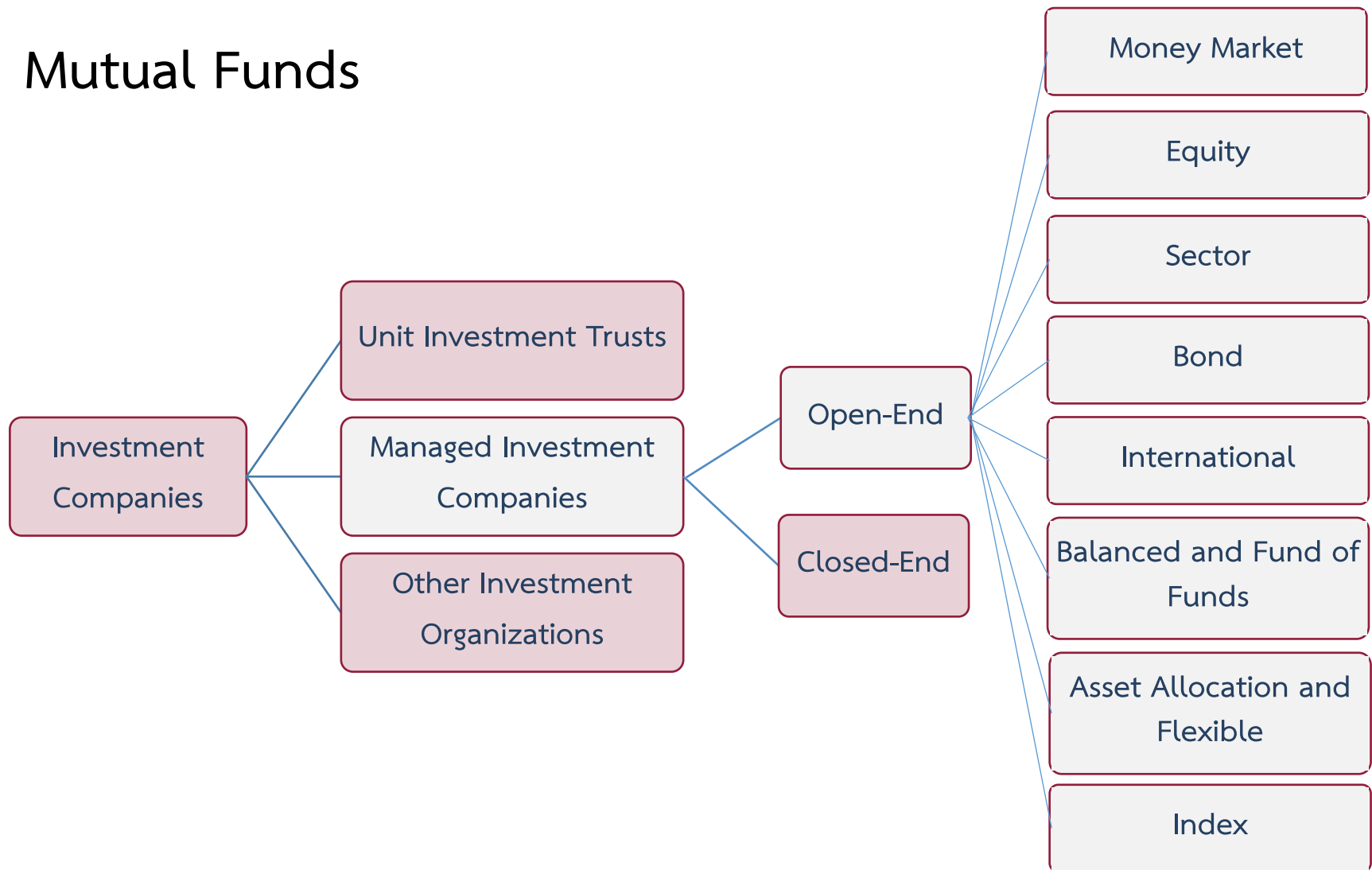
- ***Commingled funds:*** partnerships of investors that pool funds.
- ***REITS:*** A Real Estate Investment Trust (REIT) is similar to a closed-end fund. REITs invest in real estate or loans secured by real estate. Most of them are highly leveraged, with a typical debt ratio of 70%.
- ***Hedge Funds:*** Commonly structured as private partnerships (and thus subject to only minimal SEC regulation), hedge funds allow private investors to pool assets to be invested by a fund manager.



Warren Buffett (L) and Berkshire-Hathaway partner Charlie Munger

Eric Francis | Getty Images

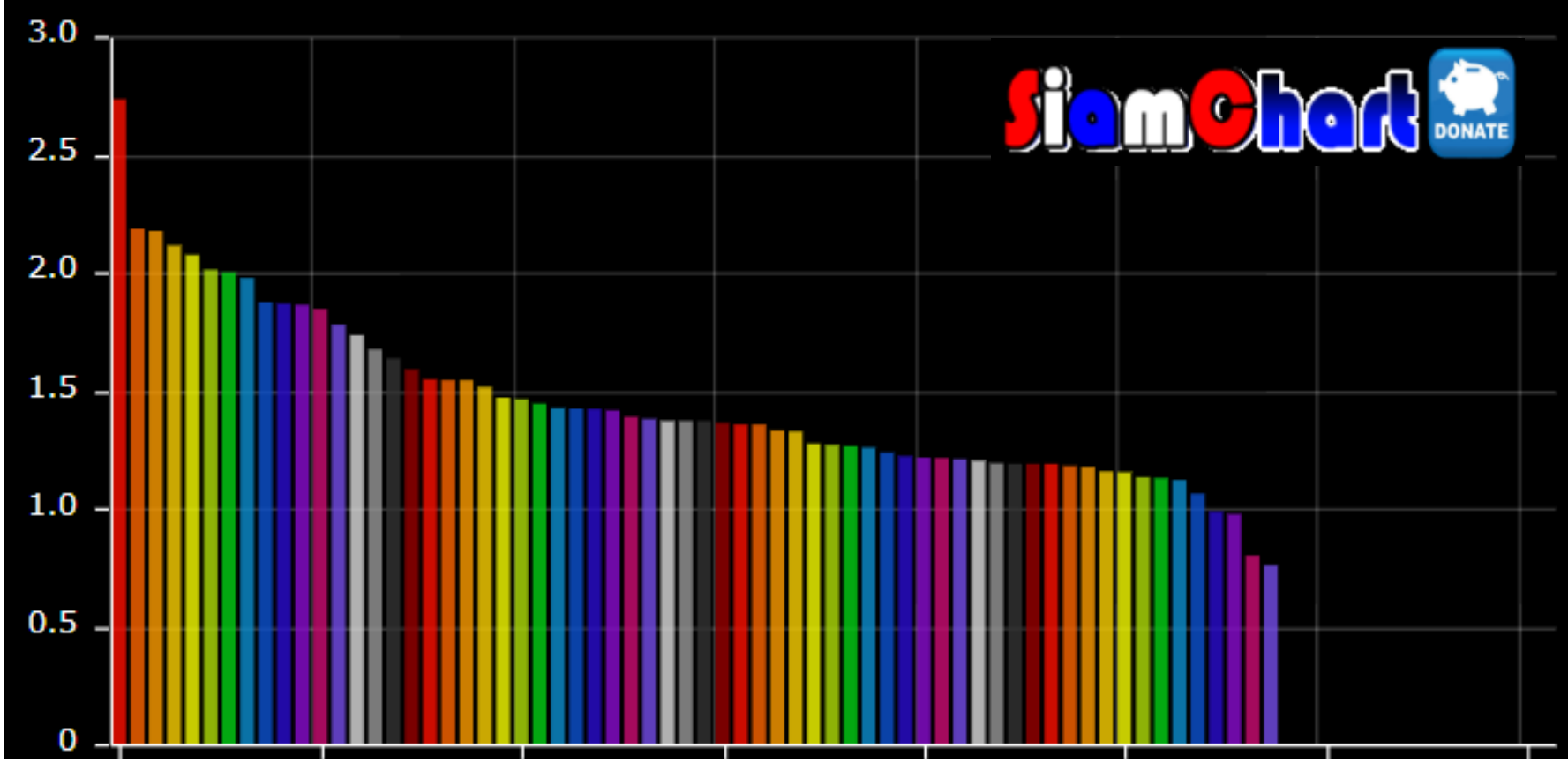
Mutual Funds



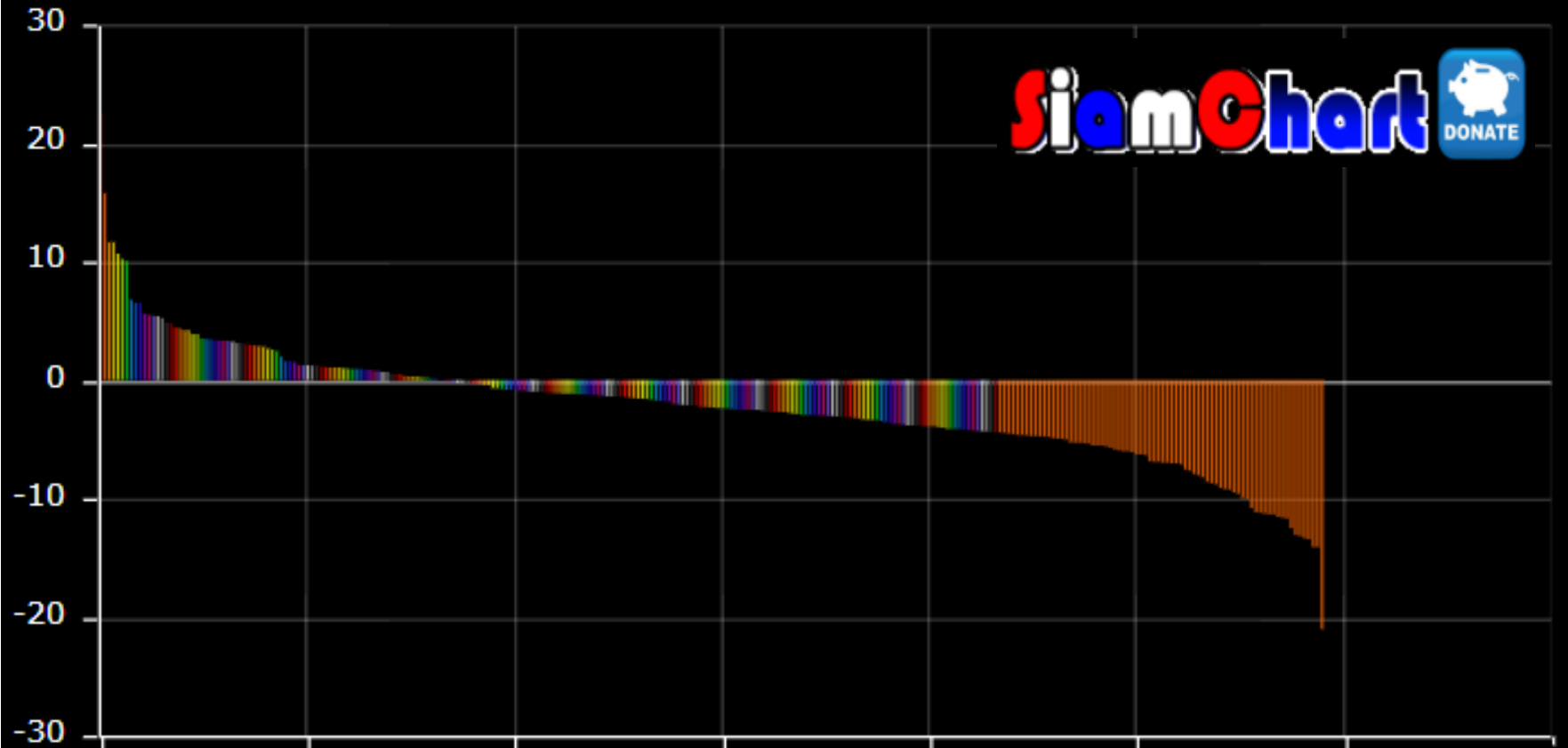
Mutual Funds: Investment Policies

- ***Money Market:*** These funds invest in money market securities such as commercial paper, repurchase agreements, or certificates of deposit
- ***Equity:*** Equity funds invest primarily in stock
- ***Sector:*** Equity funds that concentrate on a particular industry.
- ***Bond:*** Concentrate in the fixed-income sector.

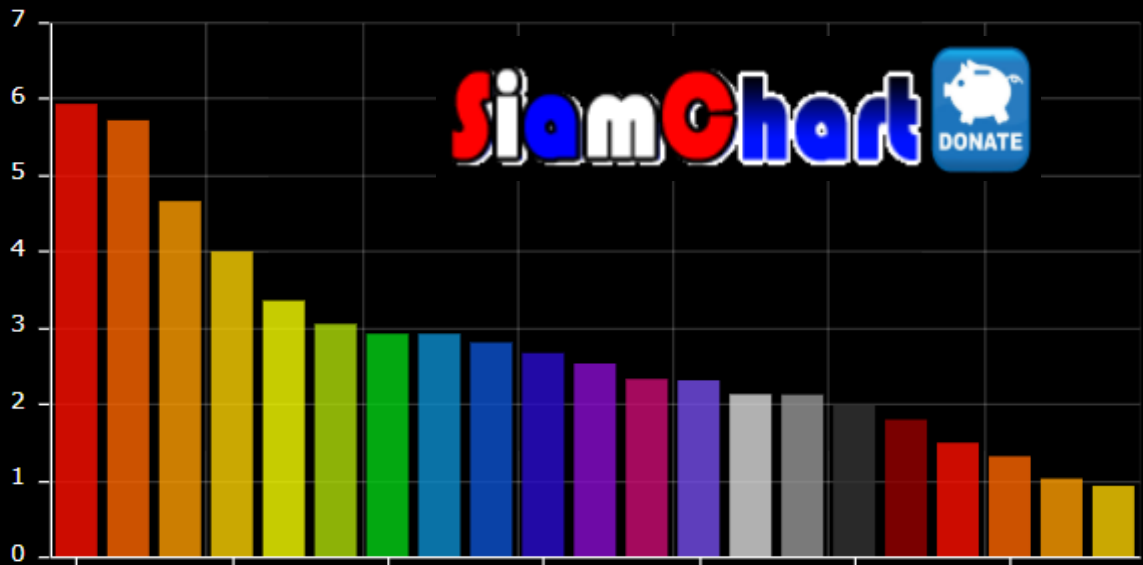
Money Market Fund (MMF) - Performance Chart (+ dividend) sort by 1 Year



Thai Equity Fund - Performance Chart (+ dividend) sort by 1 Year



RMF Fixed Income Fund - Performance Chart (+ dividend) sort by 1 Year



- RMF Fixed Income Fund
- MMF & FIX Fund
- Fixed Income Fund (FIX)
- Thai Fixed Income Fund
- Foreign Investment Fund (FIF)
- FIF Fixed Income Fund
- FIF Equity Fund
- FIF Gold Fund
- FIF Oil Fund
- Equity Fund (EQ)
- Thai Equity Fund
- Thai Equity Fund with DIV
- EQ & FIX Mix Fund
- Property Fund (PROP)
- Long term Equity Fund (LTF)
- LTF 70/30
- LTF Equity Fund
- LTF with DIV
- Retirement Mutual Fund (RMF)
- RMF Money Market Fund
- RMF Fixed Income Fund

Mutual Funds: Investment Policies

- ***International Funds:***

- *Global funds* invest in securities worldwide, including the United States
- *International funds* invest in securities of firms located outside the United States
- *Regional funds* concentrate on a particular part of the world
- *Emerging market funds* invest in companies of developing nations

- ***Balanced Funds:***

- *Life-cycle funds* are balanced funds in which the asset mix can range from aggressive (primarily marketed to younger investors) to conservative (directed at older investors)
- *Targeted-maturity funds* gradually become more conservative as the investor ages

- ***Funds of funds:*** Mutual funds that primarily invest in shares of other mutual funds.

- ***Asset Allocation:*** May dramatically vary the proportions allocated to each market in accord with the portfolio manager's forecast of the relative performance of each sector

- ***Index:*** Tries to match the performance of a broad market index

Mutual Funds by Investment Classification



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สมัครสมาชิก

เข้า

เปรียบเทียบกองทุน
 เอกชเรย์กองทุน
 ยกเลิกการเลือก

Name	Fund Code	Morningstar Rating Overall	Last Close	Last Price Date
<input type="checkbox"/> กรุงศรีโกรทอัคริตี-สะสมมูลค่า	KFGROWTH-A	-	7.5253	05/09/2562
<input type="checkbox"/> กองทุนทรัพย์สมบูรณ์	SSB	★★★	127.4842	05/09/2562

- ประเภทกองทุนแบ่งตาม Morningstar
- ประเภทกองทุนแบ่งตาม Morningstar
- Aggressive Allocation
- ASEAN Equity
- Asia Pacific ex-Japan Equity
- Bond Fix Term
- Capital Protected
- China Equity
- Commodities Energy
- Commodities Precious Metals
- Conservative Allocation
- Country Focus Equity
- Emerging Market Bond
- Emerging Market Equity
- Equity Fix Term
- Equity Large-Cap
- Equity Small/Mid-Cap
- Europe Equity
- Foreign Investment Bond Fix Term
- Foreign Investment Equity Fix Term

Mutual Funds: How Funds Are Sold

- How Funds Are Sold
 - Direct-marketed funds
 - Sales-force distributed
 - Revenue sharing on sales force distributed
 - Potential conflicts of interest
 - Financial supermarkets

Costs of Investing in Mutual Funds

- Fee Structure:

1. Operating expenses

= cost of money to run mutual fund

2. Front-end load / Cost of the initial purchase

3. Back-end load / Surrender charge / Redemption fee

4. 12 b-1 charge / Service fee / Distribution fee

= for marketing of the funds

- Fees must be disclosed in the prospectus

- Share classes with different fee combinations

Fees for Various Classes

Example 4.2 Fees for Various Classes

The table below lists fees for different classes of the Dreyfus High Yield Fund in 2016. Notice the trade-off between the front-end loads versus 12b-1 charges in the choice between Class A and Class C shares. Class I shares are sold only to institutional investors and carry lower fees.

	Class A	Class C	Class I
Front-end load	0–4.5% ^a	0	0
Back-end load	0	0–1% ^b	0% ^b
12b-1 fees ^c	0.25%	1.0%	0%
Expense ratio	0.7%	0.7%	0.7%

^aDepending on size of investment.

^bDepending on years until holdings are sold.

^cIncluding service fee.

Example

7. An open-end fund has a net asset value of \$10.70 per share. It is sold with a front-end load of 6%. What is the offering price?
8. If the offering price of an open-end fund is \$12.30 per share and the fund is sold with a front-end load of 5%, what is its net asset value?

Fees and Mutual Fund Returns

$$R = \frac{\text{NAV}_1 - \text{NAV}_0 + \text{Income} + \text{Capital Gain}}{\text{NAV}_0}$$

- Example:

- Initial NAV = \$20
- Income distributions of \$.15
- Capital gain distributions of \$.05
- Ending NAV = \$20.10

Example

18. You purchased 1,000 shares of the New Fund at a price of \$20 per share at the beginning of the year. You paid a front-end load of 4%. The securities in which the fund invests increase in value by 12% during the year. The fund's expense ratio is 1.2%. What is your rate of return on the fund if you sell your shares at the end of the year?
21. The Investments Fund sells Class A shares with a front-end load of 6% and Class B shares with 12b-1 fees of .5% annually as well as back-end load fees that start at 5% and fall by 1% for each full year the investor holds the portfolio (until the fifth year). Assume the portfolio rate of return net of operating expenses is 10% annually. If you plan to sell the fund after 4 years, are Class A or Class B shares the better choice for you? What if you plan to sell after 15 years?

Impacts of Costs on Investment Performance

	Cumulative Proceeds (All Dividends Reinvested)		
	Fund A	Fund B	Fund C
Initial investment*	\$10,000	\$10,000	\$ 9,200
5 years	17,234	16,474	15,502
10 years	29,699	27,141	26,123
15 years	51,183	44,713	44,018
20 years	88,206	73,662	74,173

Table 4.2

Impact of costs on investment performance

*After front-end load, if any.

Notes:

1. Fund A is no-load with .5% expense ratio.
2. Fund B is no-load with 1.5% expense ratio.
3. Fund C has an 8% load on purchases and a 1% expense ratio.
4. Gross return on all funds is 12% per year before expenses.

Question?