

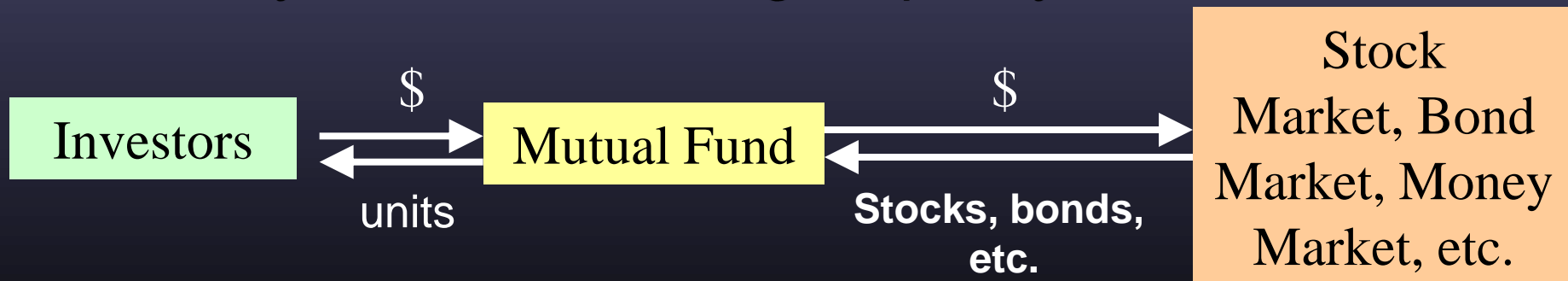
Class 7: Mutual Funds

**FN 211
Financial Markets**



Mutual Funds

- *Mutual funds* direct the savings of individual investors into bonds, stocks, and money market securities.
- A small saver who buys mutual fund shares gains opportunities for capital gains and indirect access to higher yielding securities that can be purchased only in large blocks, and yet still enjoys price stability, low risk, and high liquidity.



Mutual Funds

- Traditionally, mutual funds were set up to invest in the stock market. Today, the industry has seen many innovations – bond funds, money market funds, index funds, exchange-traded funds, global funds, venture capital funds, small/mid/large-cap mutual funds, and funds of hedge funds.
- Mutual Funds have a favorable tax situation – they pay no taxes on income generated by their security holdings, provided their earnings flow through to their customers.

Mutual Funds

- Different mutual funds have different investment objectives and plans, and so investors can choose to invest in a fund that meets their needs.
- Part of the fund's profit for each accounting period will be distributed as *dividends* to the unit holders; the remaining profit may be reinvested.
- Mutual funds offer the benefits of portfolio diversification and professional management.

Mutual Funds

- *Open-end mutual funds* buy back (redeem) their shares any time the investor wishes, and sell shares in any quantity demanded.
- The price of each open-end company share is equal to the *net asset value* of the fund – that is, the difference between the values of its assets and liabilities divided by the volume of shares issued.
- Open-end funds are not listed on the exchange; investors can buy or sell units through the investment management company's channels.

Mutual Funds

- *Closed-end mutual funds* are funds that have a fixed number of investment units that cannot be redeemed until the fund's maturity.
- Close-ended funds are usually listed on an exchange to facilitate trading of the fund's investment units.
- Most of the funds traded on exchange are illiquid. Therefore, the unit prices traded are usually discounted from the fund's *Net Asset Value*.

Type of Products

- **Fixed-income Fund** - a mutual fund which invests in debt securities only, e.g., debentures, government bonds, bank deposits, bills of exchange. It mainly earns interest revenues, and returns on investment are lower, but more stable than those of an equity fund.
- **Equity Fund** - a fund which invests basically in equity securities (such as common stocks). Equity funds are normally of higher risk, and possibly higher return, than fixed-income funds.
- **Balanced Fund** – a fund that combines stocks and bonds in a single portfolio, usually with a fixed bonds/stocks ratio such as 60/40.

Type of Products

- **Flexible Fund** - a fund that can invest in stocks, bonds and cash in whatever proportion the manager deems appropriate, providing the manager total flexibility to achieve maximum returns.
- **Money Market Fund** - seeks to maintain a stable net asset value by investing in the short-term, high-grade securities sold in the money market. These are generally the safest, most stable securities available, including Treasury bills, certificates of deposit, and commercial paper.

Type of Products

- **Fund of Funds** - fund that invests only in the shares of other open-end funds.
- **Index Fund** - a fund that invests in a collection of securities intended to match that of a broad-based index (such as SET or SET50). In general, index funds seek the same or a slightly better return than the index they mirror.
- **Property Fund** – invest in properties to generate rental income.
- **Foreign Investment Fund (FIF)** – invest in foreign securities

Type of Products

Retirement Mutual Fund (RMF)

- was created to encourage the public to start putting money away annually in the long term for retirement.
- The investors will receive tax privileges when they adhere to the following investment guidelines.
 - Investors must invest at least 3% of annual disposable income or 5,000 Baht, whichever is lower, in RMF at least once a year.
 - Investors may not invest more than 15% of annual disposable income or 500,000 Baht, whichever is greater, in RMF per year.
 - Investors can only redeem the units of RMF and get tax privileges when they have held the units for more than 5 years and are at least 55 years old.
- There is a broad range of RMF available, from money market fund, fixed-income and equity fund.

Type of Products

Long Term Equity Fund (LTF)

- Similar to RMF, LTF was created to encourage savings for retirement.
- The investors will receive tax privileges when they adhere to the following investment guidelines.
 - Investors may not invest more than 15% of annual disposable income or 500,000 Baht, whichever is greater, in LTF per year.
 - Investors can only redeem the units of LTF and get tax privileges when they have held the units for more than 5 *calendar years*.
- LTF has only one type available: equity fund.

Fees Charged

- **Front-end Load** - a fee charged on the initial purchase of fund units, and such as 1% of the purchase amount.
- **Back-end Load** - a fee charged when fund's units are sold. The amount of the fee usually varies depending on how long the investment is held-- generally the longer the time period, the smaller the fee.
- **Management Fee** - the amount a fund pays to its asset management company for its services. The rate of fee charged, normally on an annual basis, depends on types of funds, ranging from 0.50% for index funds or fixed-income funds to 2.00% for equity funds.

Example of Money Market Fund

Name	AYF Cash Management Fund (AYFCASH)
Management Company	Ayudhya Fund Management Co., Ltd.
Type	Open-ended Money Market Fund
Investments	Short-term Government Securities
Fund Size	6,640 MB
Load Fees	None
Management Fee	0.38%
Risk Level	Very Low

Example of Equity Fund

Name	AYF Star Equity Fund (AYFSEQ)
Management Company	Ayudhya Fund Management Co., Ltd.
Type	Open-ended Equity Fund
Investments	Equities
Fund Size	1,282 MB
Load Fees	Front-end: 0.50%, Back-end: 0.50%
Management Fee	2.20%
Risk Level	High

Example of Foreign Investment Fund

Name	AYF Gold Fund (AYFGOLD)
Management Company	Ayudhya Fund Management Co., Ltd.
Type	Open-ended Foreign Investment Fund
Investments	Units of SPDR Gold Trust
Fund Size	81 MB
Load Fees	None
Management Fee	1.72%
Risk Level	High

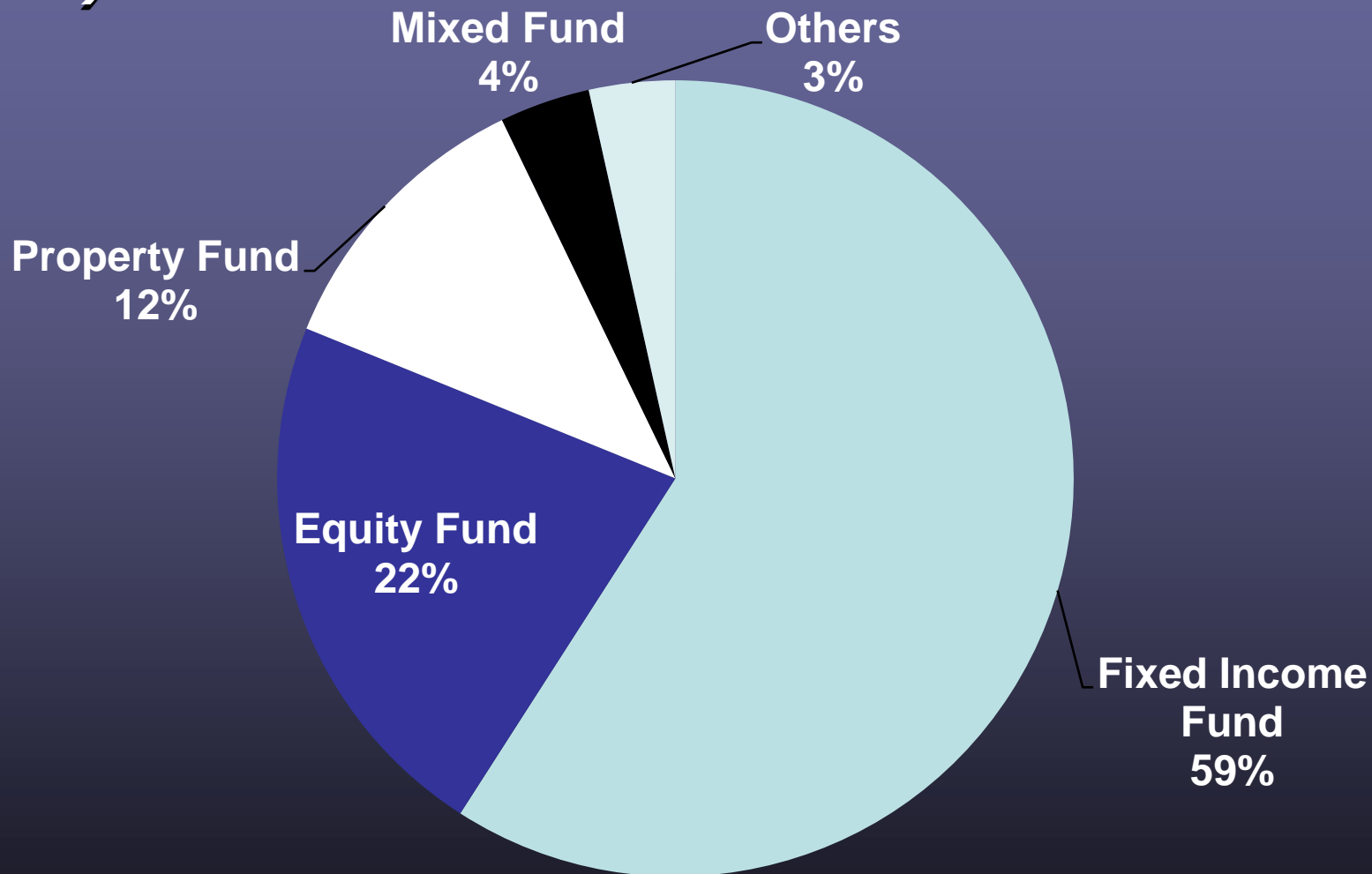
Example of Property Fund

Name	Luxury Real Estate Investment Fund (LUXF)
Management Company	TMB Asset Management Co., Ltd.
Type	Property Fund (Freehold)
Asset	Six Senses Hideaway Yao Noi, a High-end resort with 56 pool villa
Fund Size	1,915 MB
Load Fees	None
Management Fee	1.50%
Risk Level	High

Example of Property Fund



Market Share by Type of Fund (Feb 2013)



Prospectus

Important document that AMC must publicize to investors regarding particular fund which must contain:

a) Key Feature

- 1. Name, Type, investment period**
- 2. Fund size, par value, number of units and price of each fund unit**
- 3. Investment policy and objective**
- 4. Dividend policy**
- 5. IPO date**
- 6. Selling agent**
- 7. Name and contact information of custodian, registrar, auditor**
- 8. Post IPO investment/redemption period (ie.before 12pm of trading day) (Open-end fund), or redemption policy (close-end fund)**
- 9. Other information (eg. Real estate, guarantees etc.)**

Prospectus

b) Risks involved in the funds, including but not limited to:

- Credit risk/ default risk**
- Market risk**
- Liquidity risk**

c) Warning and recommendations:

“Investment in investment units is not a deposit of money and such investment may be subject to certain risks. Therefore, the amount of return to be received there from by the investors may either be more or less than that of the money in which the investors initially invested. Any potential investors should diligently study and peruse all information contained in the prospectus prior to their purchase of investment units. Besides, read the fund prospectus thoroughly before making a decision to invest, investors should pay attention to and have a clear understanding about the fund summary prospectus and fund full prospectus.”

Example prospectus

- **Aberdeen growth Fund**
- **BTS Infrastructure Fund**

Value of the Fund

- **Net Asset Value (NAV)**

**Total Asset Value + Accrued Revenue +
Cash – Liabilities**

**Asset Value for marketable securities is
determined by Mark-to-market basis**

- **NAV per unit = NAV/Total number of units**

Example

<i>Fund Name</i>	<i>Effective F</i>	<i>NAV</i>	<i>Offer</i>	<i>Bid</i>	<i>Offer (Switching)</i>	<i>Bid (Switching)</i>	<i>Asset Size (Million Baht)</i>
Type: 1. Equity Fund							
Aberdeen Growth Fund	22-Mar-2013	105.8719	105.8720	104.8132	105.8720	104.7603	6,858.28
Aberdeen Siam Leaders Fund	22-Mar-2013	41.1325	41.3383	41.0297	41.3383	41.0091	849.15
Aberdeen Small Cap Fund	22-Mar-2013	38.7442	39.1317	38.7442	39.1317	38.7442	2,348.10
Aberdeen Thai Equity Dividend Fund	22-Mar-2013	8.5559	8.6416	8.5559	8.6416	8.5559	477.68

Example

A fund invests in 20-40% debt and 50-70% in Equity. Today the fund has the following assets:

- **THB1m face value of Thai government bond with latest market price of THB1.2m**
- **10,000 stocks of XYZ Bank stock worth THB200 each and 2,000 ABC company stock worth THB50 baht each**
- **THB100,000 cash on hand**
- **No receivables nor liabilities**

This fund has a total of 1 million fund units.

Calculate the NAV and NAV per unit of this fund

NAV

- **Market value of government bond = THB1.2m**
- **Market value of stocks = THB200x10,000+ THB50x2,000=THB2.1m**
- **Cash=THB0.5m**

NAV=THB3.8m

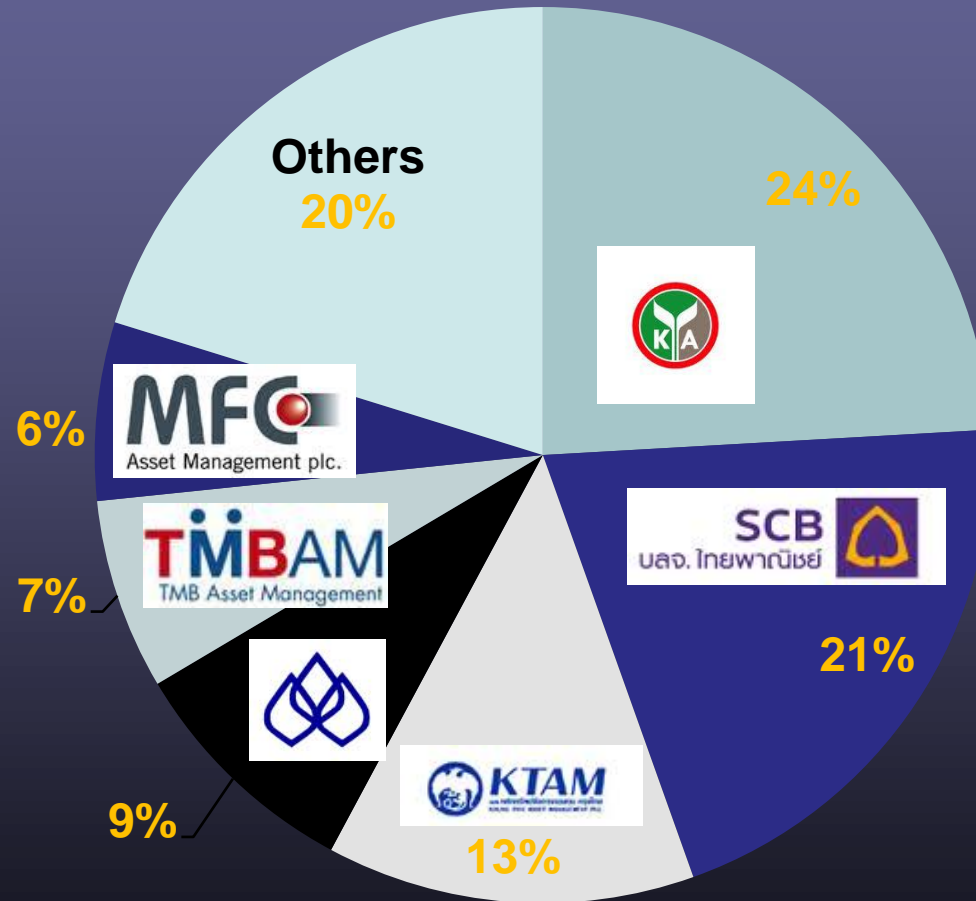
NAV/unit= THB3.8

Performance of Mutual Funds

	Effective Date	3 Months	6 Months	12 Months	3 Years	Year to Date	Since Inception
Type: 1. Equity Fund							
Aberdeen Growth Fund							
Return	22-Mar-2013	7.19%	19.54%	35.45%	134.74%	4.98%	958.72%
Benchmark		7.50%	15.16%	24.18%	91.51%	6.25%	126.36%
Aberdeen Siam Leaders Fund							
Return	22-Mar-2013	5.63%	17.77%	33.29%	131.11%	3.42%	311.35%
Benchmark		7.50%	15.16%	24.18%	91.51%	6.25%	110.75%
Aberdeen Thai Equity Dividend Fund							
Return	22-Mar-2013	5.49%	13.62%	24.19%	88.24%	4.06%	112.22%
Benchmark		7.50%	15.16%	24.18%	91.51%	6.25%	120.54%
Aberdeen Small Cap Fund							
Return	22-Mar-2013	12.48%	21.68%	44.15%	158.86%	10.55%	287.27%
Benchmark		7.50%	15.16%	24.18%	91.51%	6.25%	119.82%

Top Players (as of Feb 2013)

Total NAV THB2.78tn



The Story of Uncle Chuay



- As far as Boonchuay Kotchakit is concerned, the Government Savings Bank stinks.
- The 65-year-old man smeared human excrement over his body and then entered the Tha Muang branch to protest at the bank's "mismanagement" of his Bt580,000 mutual-fund investment.
- He closed out his account with less than Bt200,000 in it. "It was my life savings, for crying out loud," he said.

The Story of Uncle Chuay



- Earlier yesterday, Boonchuay gathered 50 people in front of the bank to express dissatisfaction that GSB had not yet returned their money, which was long overdue.
- The elderly man insisted that he and other residents had been lured into investing in the fund through a promise that they would get their money back plus interest over five years.
- However, they had not recovered a single satang even though the fund had matured, he said.

The Story of Uncle Chuay



- "Some invested Bt2 million or Bt3 million. A temple abbot lost Bt300,000. They cheated even a monk," he said.
- You may think Uncle Chuay was more vulnerable because he is a simple villager with a Prathom 4 education.
- But among the victims was the director of a Lamlookka hospital on the outskirts of Bangkok, Dr Pongsathorn Siripanupong.
- He wasn't the kind to be easily fooled. He knew what the stock and money markets were all about.
- "But the GSB official told me that the new investment units were a new product of the bank which was just a new category of long-term deposits."

The Story of Uncle Chuay



- Finance professionals, esp. fund managers and financial advisors, are required to make a reasonable inquiry into a client's financial situation, investment experience, and investment objectives before making any investment recommendations.
- They must ensure that their clients are fully aware of the investment policies, strategies, and selection procedures that apply to the investment of the clients' assets.