



PUBLIC PERCEPTION OF ISLAMIC UNIT TRUST
FUND IN MALAYSIA: A QUANTITATIVE INQUIRY

BY

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ABSTRACT

This research sought to identify the public perception of Islamic unit trust fund in Malaysia which inclusive of investors and non-investors' perspective based on three aspects i.e. general knowledge on Islamic unit trust fund, knowledge on fund manager and knowledge on the regulatory body and stock screening. The motivations of investing in this scheme were also studied. A total of 200 questionnaires were distributed through a simple random sampling. The methods adopted in analysing the data are descriptive, reliability test and cross tabulation. The value of Pearson's chi-square was calculated to analyse the influence of demographic profile of respondents namely gender, age, religion, education level, occupation and income towards respondents' investment in Islamic unit trust fund. The findings indicated that the respondents were aware of the existence of Islamic unit trust fund, knowing there was a contrast between conventional and Islamic fund, though the familiarity with the investment in unit trust, in particular, was only on average level. The knowledge on fund manager was considered good as the awareness in selecting a skilful fund manager was high. The knowledge on the regulatory body and stock screening basically were satisfactory, with a slight misconception on the benchmark of stock screening adopted by the SC. According to the results, people inclined to invest in the Islamic unit trust fund primarily for the retirement, education and other planning, secondly as an investment diversification, thirdly due to the investment return which is higher than fixed deposit rate and lastly for the purpose of maintaining current lifestyles. Moreover, the chi-square value revealed out of all the respondents' demographic factors, income was significantly related to the status of their investment in the Islamic unit trust fund. It was perceived the higher the income, the more likely they will invest in the unit trust fund. This study contributed towards a better understanding of the public perception hence aiding the relevant authorities to draw effective measures to attract people into investing in the Islamic unit trust fund.

خلاصة البحث

هذا البحث تطرق للتعرف عن تصور العامة حول الصناديق الاستثمارية المتوافقة مع الشريعة في ماليزيا حيث تضمن البحث وجهة نظر المستثمرين وغير المستثمرين حول ثلاثة جوانب: المعلومات العامة حول هذه الصناديق، مدى معرفتهم عن مدير الصندوق واخيراً مدى معرفتهم حول الهيئة التنظيمية وفحص الأسهم (stock screening). أيضاً البحث تطرق حول الدوافع للاستثمار في هذه الوسيلة الاستثمارية. حيث تم توزيع ٢٠٠ استبانة بشكل عشوائي وتم استخدام عدة طرق لتحليل البيانات مثل تحليل وصفي، اختبار الموثوقية واخيراً الجدولة (cross tabulation). تم حساب قيمة (Pearson's chi-square) لمعرفة مدى تأثير ديمغرافية المشاركين مثل الجنس، العمر، الديانة، مستوى التعليم، الوظيفة والدخل على الاستثمار في الصناديق الاستثمارية الاسلامية. فوجدنا ان المشاركين يعلمون بشكل متوسط بوجود هذه الصناديق ويعلمون أيضاً وجود فرق بين هذه الصناديق والصناديق التقليدية. ومن ناحية معرفة المشاركين عن مدير الصندوق فالنتيجة كانت جيدة بوجود وعي عالي لدى المشاركين في هذه النقطة واخيراً النتيجة كانت مرضية بخصوص معرفتهم عن الهيئة التنظيمية وفحص الأسهم واخيراً النتيجة كانت مرضية بخصوص معرفتهم عن الهيئة التنظيمية وفحص الأسهم مع وجود سوء الفهم تجاه المؤشر في عملية فحص الأسهم، المعتمد لدى هيئة الاسواق المالية. النتائج بينت ان الناس يميلون للاستثمار في الصناديق الاستثمارية الاسلامية أولاً من اجل التقاعد والتعليم وخطط اخرى. ثانياً من اجل التنوع الاستثماري وثالثاً من اجل العائد على الاستثمار حيث يعتبر اعلى من الودائع الثابتة واخيراً من اجل المحافظة على المستوى المعيشي الحالي. بالاضافة فقيمة (chi-square value) بينت ان عامل الدخل يعتبر عامل مهم ومؤثر في الاستثمار في هذه الصناديق حيث كلما زاد الدخل، زادت الاحتمالية للاستثمار في الصناديق. هذا البحث حث على فهم التصور العام عن الصناديق الاستثمارية الاسلامية مما قد يساعد السلطات المعنية لعمل إجراءات فعالة لجذب الناس في الاستثمار في الصناديق الاستثمارية الاسلامية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance)

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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In the name of Allah, with Him is the knowledge of the Hour, whose knowledge Allah alone has kept for himself and no one else knows them unless Allah tells him about them. All praise and thanks be to Allah. May the peace and blessings of Allah be upon Prophet Muhammad, his family and his companions.

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CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

Mutual fund or generally known in Malaysia as unit trust, due to the fact that the ownership is divided into units of entitlement (Md. Taib & Isa, 2007), is one of the segments in capital market and it has been growing tremendously since decades. Basically, unit trust is defined as an investment scheme by way of collective pool of funds invested by individuals, who share the same investment and financial objectives, and is managed and operated by qualified fund manager (Rosly, 2004). Individual investors usually distinguish in their risk preferences, however they still choose to invest in the mutual fund for liquidity reason, portfolio diversification and investment expertise (Abdullah, Hassan & Mohamad, 2007). Unit trust is considered as one of the most common investment vehicles to generate capital among investors and Muslims in particular, would choose Islamic unit trust fund for their investment since it is not contravening with Islamic principles. Islamic unit trust funds differ from the conventional funds in the sense that these funds are invested in a portfolio of *Shariah* approved financial assets such as *Shariah*-approved equities, Islamic bonds (*sukuk*), Islamic deposits and Islamic money market instruments (AAOIFI, 2010).

Initially, the development of unit trust sector in Malaysia was pioneered by British investors in 1959 with a company called Malayan Unit Trust Limited (Voon Choong, Kok Thim, Yong Gun Fie & Huang Ng, 2012) and in 1960s and 1970s, the sector were led by two players i.e. Amanah Saham Mara Unit Trust Management and Asia Unit Trusts Berhad both owned by Majlis Amanah Rakyat Malaysia (MARA) (Md. Saad et al., 2010). The first Islamic unit trust funds had been introduced in the

mid-nineties through the establishment of *Tabung Amanah Bakti* (Bakti Amanah Fund), launched in May 1971 and managed by Asia Unit Trust Berhad, due to the growing demand from Muslim investors (Salleh, 2011). As of today, there are 198 Islamic-based launched funds (Securities Commission Malaysia, 2016).

Practically, Islamic capital market is driven by permitted economic and commerce activity following the principles outlined by the Quranic revelation and the practices of the Prophet Muhammad p.b.u.h. and his companions. The fundamental features are the prohibition of *riba* (interest), *gharar* (uncertainty) and *maysir* (gambling). Besides that, the practice is in line with the *Shariah* principles and some examples of contracts used in Islamic finance are *Murabahah*, *Mudharabah*, *Musyarakah*, *Istisna'*, *Wakalah* and etc. Essentially, the whole purpose of the system is aimed to meet the *Maqasid* (objectives) of *Shariah*. One of the *Maqasid* in Islamic economic system is the preservation of wealth. The concept as explained by Muslim jurists covers the encouragement of generating, accumulating, preserving and also distributing the wealth in a just and fair manner. Therefore, in Islamic unit trust fund investors have the opportunities to generate, accumulate and preserve their wealth with a *Shariah*-compliance investment.

In July 2016, Securities Commission Malaysia (SC) has declared latest initiatives to 'enhance the competitiveness and improve efficiency' of the Malaysian unit trust industry. Among the highlighted points are the need to amend the existing guidelines on the approval process for non-complex retail unit trust funds to reduce time-to-market and to remove the renewal of prospectuses on annual basis. This shows that Malaysian government is trying to improve the current practices of the industry. There are several guidelines related to Islamic unit trust namely Guidelines on Unit Trust Funds, Prospectus Guidelines for Collective Investment Schemes and

Guidelines on Sales Practices of Unlisted Capital Market Products (Securities Commission Malaysia, 2016). Indeed, Malaysia has its own regulatory body to govern the activities in the capital market for the soundness and stability of the market.

1.2 PROBLEM STATEMENT

Although Islamic unit trust has been introduced in Malaysian capital market for quite some time, the unfamiliarity level regarding it is still undoubtedly high (Salleh, 2011). One unpublished paper has studied on the investors perception towards Islamic unit trust in Malaysia and the result concluded that all ethnic groups still lacked information and consequently has choose conventional unit trust as their key investment (Mohd Ibrahim, n.d.). It is beneficial and practical to study the public perception of Islamic unit trust based on the fact that Malaysia is known to be among one of the sturdiest proponents in Islamic capital market.

It is commonly understood that the extent of penetration in an economy mirrors the degree of development of its sector. With the gap between Islamic unit trust fund and conventional fund is relatively high in Malaysia as recorded by Securities Commission in 2015, the net asset value (NAV) to market capitalization of Islamic mutual fund is only 2.88 percent in contrast to the outstanding conventional achievement of 18.34 percent (Amin, Rizal, & Supinah, 2015). Moreover, as at 30th June 2016 the total net asset value (NAV) of Islamic unit trust fund is only RM 54.46 billion, whilst its counterpart is RM 295.02 billion (Securities Commission Malaysia, 2016). Reflecting at this situation, the researcher feels the need to conduct a study in order to understand the public perception or knowledge level of Islamic unit trust fund in Malaysia which indirectly influenced the penetration rate. Besides, the researcher believes that it is essential to find out certain other important elements in Islamic unit

trust namely the knowledge level on fund managers, regulatory body and stock screening process. The selection of fund managers is essential to ensure the investment portfolio is managed well and this helps investors to generate worth amount of return based on the risk faced. Besides, it is important for the investors and the fund managers to be aware and follow the regulation outlined by the Securities Commission Malaysia (SC). The main difference between Islamic and conventional unit trust funds is the investment avenues, i.e. places where the pooled money is invested. In the Islamic unit trust funds investment, the portfolio of securities and other assets must comply with the *Shariah* principles, which in Malaysian jurisdiction is approved by the Shariah Advisory Council of SC. This, hence, addresses the issue of public knowledge level on the regulatory body and stock screening process on how the Shariah Advisory Council approved the stock to be considered as *Shariah* compliant.

1.3 RESEARCH OBJECTIVES

It is mentioned above that the achievement of Islamic unit trust in Malaysia is remarkably low compared to the conventional unit trust. The main objective of this paper is to study the public perception of Islamic unit trust fund in Malaysia. Hence, the objectives of this research are:

1. To study the level of understanding on Islamic unit trust fund hold by the public in Malaysia; and
2. To find out the motivations of investing in Islamic unit trust; and
3. To provide relevant recommendation or suggestion to increase the awareness level of Islamic unit trust fund in Malaysia.

1.4 RESEARCH QUESTIONS

1. What is the public level of understanding towards Islamic unit trust fund in Malaysia?
2. What are the motivations to invest in Islamic unit trust?
3. What can be done to enhance the awareness level of Islamic unit trust fund in Malaysia?

1.5 RESEARCH SIGNIFICANCE

This research seeks to study on public awareness of Islamic unit trust fund specifically in Malaysia which is to include the perspective of both investors and non-investors. Generally, analysing the public perception helps the management company of unit trust to understand the knowledge level of Malaysians toward the Islamic collective investment. The higher the awareness level, the better it would be for the operators since more people are inclined to subscribe to it. However, if the situation is vice versa the operators might think of the future appropriate expansion plans for the benefit of the company.

Next, for the relevant authorities and regulators in the industry they are able to provide corrective measures and act accordingly to reasonably increase the knowledge and public awareness on Islamic unit trust investment like organising seminars and conferences to educate people on the advantages of investing in it. General investors, on the other hand, can benefited from this study by reading the written literature review, hence increasing their knowledge in the topic particularly.

For academicians, most of the study in public perception were reflected around Islamic banking and finance areas and the public perception on Islamic unit trust in contrast has received little research attention. Previous research conducted are usually

focusing on the characteristics and performances of fund e.g. *Shariah*-compliant vs non *Shariah*-compliant. Therefore, this study corresponds to the lack of research on the public perception topic.

1.6 RESEARCH LIMITATION

The study conducted focused on Islamic unit trust in Malaysia. Generally, the discussion on the public perception is done towards the banking services and products acceptance rather than in unit trust area. Though, most of the literature available frequently discuss on the performance between Islamic and conventional unit trust in Malaysia. This, therefore, limits the researcher to find literatures specifically on public perception of Islamic unit trust. Another limitation in this study is the collection of data which caters only an approximation of the undivided population. For that reason, the analysis and interpretation of the data may or may not be accurate representation of the entire population in Malaysia.

1.7 RESEARCH ORGANIZATION

This paper is divided into five chapters. The **First Chapter** is an introduction of the research elaborating on the background, problem statement, objectives, research questions, significance and limitations of the research respectively. Next, the paper discusses the conceptual framework of Islamic unit trust in **Chapter Two**. Whilst in **Chapter Three**, the methodology used in conducting the research is explained in detail and the discussion on the result and data collected is elucidated in **Chapter Four**. Finally, conclusion and recommendation is discussed thoroughly in **Chapter Five**.

CHAPTER TWO

CONCEPTUAL FRAMEWORK OF ISLAMIC UNIT TRUST FUND

2.1 INTRODUCTION

This chapter discusses on the meaning of unit trust and its structure. Next, it explains on the advantages of investing in unit trust and the type of funds briefly. After that, the distinctive features of Islamic unit trust fund is elaborated exhaustively followed by the *Shariah* principles used in Islamic fund management. Afterward, it deliberates on the development of the unit trust industry in Malaysia. Last but not least, the chapter shows how the Islamic unit trust contributes towards the social well-being of the society.

2.2 WHAT IS UNIT TRUST?

Unit trust is one of investment vehicles which is collectively pooled and professionally managed by someone referred as ‘fund manager’ of a particular investment management company. It is set up under a trust deed. The money of the pooled trust fund comes from investors who have similar investment objectives and it is used to buy large amounts of securities of a diversified portfolio ranging from stocks, bonds, short-term money market instruments, properties and other assets, hence creating a larger market position for all of the investors. In this situation, small investors are benefitting from risk reduction of purchasing various securities with lower transaction costs (Choong et al., 2012). Each trust fund has its own investment objectives and the investment decision is made by the qualified fund manager. In return, the fund manager will charge an annual fee for the service. The decision

includes selecting portfolios for the diversification of monies which can be fixed either for growth and/or income and the investment could be set up in Malaysia only, across Asian countries, or any part of the world's market. Generally, the assets portfolio is a number of proportion known as 'unit', therefore explaining the term 'unit holder' referring to the investor.

Furthermore, unit trusts are at times denoted as open-ended funds due to its flexibility for money injection. The effect is more assets can be bought when more money is invested. In addition, the unit holders are allowed to make redemption through the management companies without the hassle of entering into a secondary market and the companies have no option but to buyback the outstanding units at the trading value. The price of the trading is termed as net asset value (NAV) computed on daily basis by the trustee. The Malaysian unit trust practices a single price of 'bid and offer price' with declaration of separate sales charge. The calculation of bid and offer price involves the total market value of the assets divide by the number of units in issue.

2.3 STRUCTURE OF UNIT TRUST

The structure of unit trust consists of management company (or fund manager), investors or unit holders, trustee and trust deed. First of all, the investors will choose an investment company to put their monies and subsequently, a professional fund manager which is appointed by the management company will select the portfolios according to the unit holders' investment objectives. Trustee, on the other hand, is a party who is appointed as a custodian for all the asset of the funds and to safeguard the interest of the unit holders. All of these parties are executed based on the trust deed (constitutive document for a fund). A detailed explanation is as follows:

(a) Management Company

A management company is approved by Securities Commission Malaysia (SC), and usually is a subsidiary of financial institutions like insurance companies or banks which are under the supervision of Central Bank of Malaysia (BNM). The company will manage funds' operation of the unit trust scheme with the aim of making profits. Trust deed governs the relationship of the management company with the investors or unit holders and at least one-third of the directors must be independent directors. It is important for the company to act on the unit holders' interest. Among its roles are to in charge for the start-ups, to run research, services on portfolio management including making decisions based on the objectives of the fund, to offer management and regulatory oversight, maintaining and holding portfolio cash and securities in safekeeping. In addition to that, the management company also provide marketing and advertising of funds as well as units redemption.

(b) Unit Holders

The unit holders invest in the fund based on the prospectus of the fund and legally they have the rights over the trust assets. A complete information about the fund is written in the prospectus and all rights and liabilities of the unit holders are defined accordingly in the deed. Nevertheless, unit holders are not allowed to involve in the unit trust management decisions yet any amendment of the trust deed requires an approval from the unit holders.

(c) Trustee

Acting as a trustee of the fund requires an approval from the Securities Commission Malaysia (SC) because the trust deed will only be executed upon approval. The

responsibilities of trustee include protecting the unit holders' interest, distributing the income and ensuring that the manager acts accordingly to the objective of the funds. Moreover, the assets of the fund which cover the income generated from the assets are held in the reserve of the trustee before distribution.

(d) Trust Deed

Trust deed is a legal document that must be registered with the Securities Commission Malaysia (SC) prepared for the purpose of managing the trust. It describes the obligations of trustee and fund manager toward unit holders and the rights of unit holders over the fund's asset. Basically, the document is provided by the fund manager.

2.4 ADVANTAGES OF INVESTING IN UNIT TRUST

(a) Investment Diversification

A portfolio in unit trust carries hundreds of assets mixing from various industries and/or regions with different classes of risk, making it convenient and easy for investors to diversify their investment. The risk of poor performance of any particular asset would be substantially decreased through the diversification regardless of the size of the investment because each unit consists of a various securities. In other words, the bigger the spread of investments the less volatile the investment returns will be. Unit trust investors are also able to minimise unsystematic risks and also to be selective in the type of funds in portfolios according to their investment objectives.

(b) Professional Management

The management of unit trust fund is done by a group of approved professionals who monitors the portfolios by looking at the market and economic trends with real time and extensive information resources. Basically, they work full time and will be paid an annual charges for the service given to the unit holders. The information gathered is used for the purpose of making sound decisions on buying, holding or selling securities, together with enhancing the returns of the portfolio. Indeed, the fund managers will study and select the most appropriate investment which yield the greatest returns for the funds in long term.

(c) Liquidity

Liquidity is one of the advantages for investing in unit trust due to the fact that unit holders are able to sell their units and turn it into cash easily. The fund managers are responsible in ensuring the process of issuing additional units and redeeming sold units from investors is done efficiently. It is required by law for the managers to reserve some cash for unit redemption purposes.

(d) Comfort of Regulation

The governance of unit trust industry in Malaysia is under the Securities Commission Malaysia (SC). It acts as a regulator of the capital market by ensuring that the industry works in a systematic and efficient manner. The main legislations referred to are Securities Industry Act 1983, Securities Commission Malaysia Act 1993 and Guidelines on Unit Trust Fund. Having all these regulations assure the investors a conducive and safe environment in putting their monies in the market. The importance of the legislations is to protect the investing public and to state the manager and the

trustee's roles and responsibilities; in which their appointments must be approved by the SC, and ensuring fair policies are applied by the unit trust fund manager.

2.5 TYPES OF FUNDS

There are several type of unit trust funds. This includes equity funds, balanced funds, bond or fixed income funds, money market funds and others. The explanation of the funds' types is as follow:

(a) Equity Funds

Most of the fund usually involves investments in the listed companies' stocks in Bursa Malaysia. It is the most popular type of unit trust fund among investors. Equity funds can further specified based on its objectives namely aggressive growth, long term growth, dividend income and growth and income funds.

Aggressive Growth Fund

The nature of aggressive growth fund is to invest in securities that are potentially good to grow rapidly in value (high volatility) for instance companies ranging between mid-cap to small-cap i.e. the expectation towards the share prices is to surge rapidly during the up market. Though the prices usually plunge in a bearish market. The aim of the fund basically is to generate high returns over long term investment.

Growth Fund

Growth fund is aimed in stock investment of fast growing companies specifically those that have great reputation known as blue chip companies. The performance of the growth fund is not as volatile as the aggressive growth fund. The price

appreciation is not high as its peers during the up market, yet the fund performance during the down market is slightly better.

Income Fund

It is a long term with steady growth fund targeting for consistent income. The investment involves stocks of income-producing and securities of dividend-paying like bonds and convertible assets.

Growth and Income Funds

The difference between the income fund and growth and income fund is the volatility. The latter is less volatile yet the capital appreciation is more than the former. Usually the investment involves rapid growing stocks.

(b) Balanced Funds

The balanced funds hold a combined investment of higher risk equities, lower risk fixed income securities and also cash in maintaining the growth of the capital and a regular income for investors. It gives good return during bearish market yet may lag behind in a bull market.

(c) Bond or Fixed Income Funds

The investment of bond funds is focusing on providing investors a regular income rather than capital growth. It mainly comprises of government securities, corporate bond and debt instruments. Compared with equity funds, the prices are commonly more stable. The volatility in general is lower than stocks and able to give higher profit than money market funds.