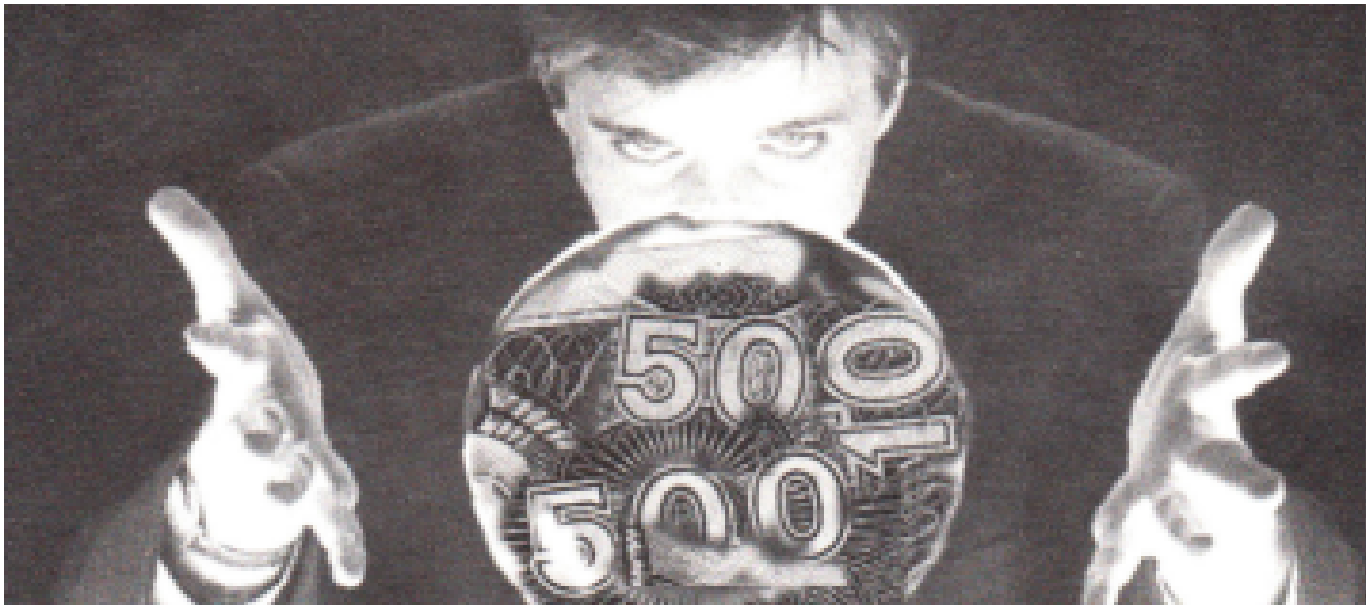


Advantages for Unit Trust Investors



In the two previous issues of “Business Today” we presented an introduction to the concept of Unit Trusts and some guidelines to plan investments/savings for a better return to meet your objectives. In this issue we will list in detail the advantages an investor could enjoy by investing in a Unit Trust, in comparison to the other available instruments.

Some of the major advantages that could be enjoyed by the Unit Trust investors are described in detail below:

□□ Unit Trust investments are carefully chosen by the Fund Manager. The Trusts' Funds are spread over Fixed Income Securities including Company and Government bonds and shares of a variety of companies, thus spreading the risk component amongst various securities. Further, when the Fund Managers invest in the Stock Market they are not permitted to invest in more than 10% of the size of the Unit Trust in one company and therefore, portfolio is diversified amongst the best available investments to spread the risk. This spread ensures that the investment is protected from any unexpected movement in the value of any one investment.

□□ Investors enjoy the benefit of the entire return generated by the Fund Managers, by investing funds in the Stock Market, Treasury Bills, Short Term Call Money Market and Corporate Bonds. This is possible due to the absence of an intermediary. When the Managers calculate the Net Asset Value of the Trust in order to determine the daily selling and buying prices of Units, the Fund Manager updates the value of stocks and interest receivable, thus passing the entire return to the investor.

□□ When money is invested in Unit Trust this money will in turn be invested by Professional Fund Managers. These individuals have undergone extensive, formal and on-the-job training in portfolio management, asset valuation, economics and allied subjects. Every investment decision they make will be based on detailed information drawn from in-house and independent research. Therefore, irrespective of the amount invested, the investors have access to professional fund management when investing in a Unit Trust. For professionals and large scale investors who have limited or no time to carry out research, the Unit Trusts provide a highly advantageous and professional service in order to manage their wealth.

□□ Unit Trust investment can begin with as little as Rs 1,000/-. The low minimum investment requirement provides the opportunity for small investors as well to buy Units in a Unit Trust, diverting their long-term savings.

□□ In the event of the investor wanting to redeem the full investment or part of it, the Fund Manager is obliged to buy back the Units. The investors would receive the proceeds of the sale at the earliest, within a few days and certainly not later than 21 working days after the manager has received the endorsed certificate.

It is mandatory for the Fund Manager to have a minimum of 10% of the Assets of the Trust in the form of cash or near cash in order to meet redemption requests of investors. This displays that investments in Unit Trusts are highly liquid.

□□ It is mandatory for the sponsoring companies of a Unit Trust to invest a minimum sum of Rs 100 million in the Unit Trust. The Unit Trusts therefore consist of not only investments from the public but also from the sponsoring companies. This requirement provides extra safety to investors as the Unit Trust consists of a minimum sum of Rs 100 million invested by sponsoring companies.

□□ Unit Certificates could be used as collateral in order to advance money from some recognised banks in Sri Lanka. This provides financial assistance for emergency situations.

□□ As discussed in the previous articles the most important aspect of the return from your investment/savings is the inflation rate. Your return from an investment/ savings should be sufficient to offset inflation. As a result of inflation “eating into” your savings/investment, the purchasing power will erode with time. Therefore, the return from a savings/investment should be adequate to offset inflation.

The real rate of return from an investment is the return adjusted for inflation and after paying taxes. It is expected that the Unit Trust. investments will generate a higher return in the long term, beating the rate of inflation in Sri Lanka.



□□ The investors of Unit Trusts are benefitted by the following safety measures:

1. All the assets of a Unit Trust are held by the Trustee Bank on behalf of Unitholders and the Trust Deed clearly specifies the investments the management company is permitted to carry out. The Trustee safeguards the assets of the Unit Trust.

2. The Securities and Exchange Commission of Sri Lanka regulates the activities of a Unit Trust, in order to ensure that the Unit Trust operates in accordance with the provisions of the Trust Deed, Unit Trust Code and any other guidelines issued by the Commission from time to time.

□□ Unit Trust investors are entitled to enjoy the following Tax benefits:

1. The investors could enjoy tax exemption on the dividends declared out of tax exempt profits of the Unit Trust.

2. . If the investor has possessed the units for a minimum period of one year, Capital Gains arising from the sale of such Units are also exempt from tax.

The above are some of the major advantages that could be attributed to an investor of a Unit Trust. It is emphasised that the investors could invest their long term savings in Unit Trusts as they could buy units at a very low and attractive price which will provide them a long term capital appreciation and a regular income.

It is prudent to invest in Unit Trusts in the current Sri Lankan market conditions, as the investments in assets such as Treasury Bills act as a buffer in a declining market and through intensive research, the Managers of Unit Trusts are in a position to buy stocks which are bargains. Thus, a Unit Trust may provide investors an ideal opportunity to benefit from the future growth of the Capital Market in Sri Lanka.



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