The Ceybank Century Growth Fund

Contrary to current belief, there are still those in the commercial sector who view the capital market and the investment climate as having a strong potential for growth. And it is with this positive outlook that Ceybank Century Growth Fund, the first of its kind in the country, will be launched in December 1996.

“The Ceybank Century Growth Fund is not a lucky gamble, the capital market and money market have been closely monitored. And based on the trends observed, it is possible to make a scientific calculation as to the growth patterns which will occur”, explained Dheerendra Abeyaratna, Fund Manager of the Unit Trust Management Co., (Pvt) Ltd., who will be managing the new Trust Fund.

The Ceybank Century Growth Fund will open its share issue in December 1996, offering its shares at Rs 10 per share. The share issue will be open for a period of two months, and the shares will be valued daily. The Trustee of the Growth Fund is the Bank of Ceylon.

In general, a Unit Trust is “a pooled investment plan in which the capital contributions of investors are combined into a legally formed trust fund. The money is then invested by professional fund managers, acting on behalf of the investors, in a portfolio of marketable securities. In return for their investments, the investors receive ‘units’ (shares) of the invested funds based on the net asset value and in proportion to the amount of money they have contributed. The income derived by the fund by way of dividends, interests and capital gains from sale of investments is normally divided among the unit holders in proportion to their investments”, (Questions and Answers on Unit Trusts by The Unit Trust Association of Sri Lanka).

The benefits of investing in Unit Trusts and Growth Funds is that the investor has access to professional fund managers, backed by researched data and investment advice from their share holding institutions, who study the market daily and select the best investments. Also, funds are invested over a wide range of carefully selected shares, securities and money market instruments, reducing the risks inherent in a single investment.

The investment portfolio of these conventional Income and Growth Funds or Unit Trusts are divided more or less equally be tween steady income investments and growth-oriented investments. Steady income investments comprises Debentures, Commercial papers, Central Bank Securities. and Treasury Bills bringing in a fixed income interest and cash equivalent investments such as Repurchase agreements, bank deposits and cash. The growth-oriented investments are the capital gains from Equity investment. Currently, there are four Unit Trusts in operation in Sri Lanka: Ceybank (Managed by the Unit Trust Management Co.(Pvt.) Ltd.); Pyramid (Managed by the CKN Fund Management Co.(Pvt.) Ltd.); Comtrust (Managed by the Commercial Fund Management Co. (Pvt.) Ltd); and NEF (Managed by National Asset Management Limited). It is estimated that over Rs 3 billion is currently invested with these companies.

In contrast to these conventional modes of investment, the Ceybank Century Growth Fund will concentrate totally on growth-oriented investments. To the uninitiated, this would seem an unwise move in the face of the downward spiral of the equity market in the country. The Colombo Stock Exchange has hit an all-time low during the last 24 months, the market coming down by 35%. This has resulted in lacklustre trading and a general lack of investor confidence in the equity market. How ever, experts disagree. “It is an observed trend that a market which is depressed has to and will eventually recover. And specific research and monitoring of the local equity market has shown that, since its inception in 1985, the Colombo Stock Exchange has had its times of depression but has always recovered, bringing a higher return in its wake”, said Abeyaratna. “An investor who invests in the equity market during its current depressed state, will reap higher returns in the next 2-3 years when the market begins its upward trend. And it is at this point at which the investor can expect to gain a higher than conventional return”, he added.

It is necessary to understand the volatile nature of the equity market to retain faith in its ability to produce results. “Historically, the market has shown a very high volatility as could be presently seen and it will continue to do so. in the future as well. This is the very reason why the equity market and investments such as Unit Trusts, which ride on such volatility, often in the long run, tend to show higher returns than a conventional savings product. However, if an investor is to reap the fruits of such markets, it is necessary that they not get perturbed and over-react to such market excesses, but to view Unit Trust as a long term investment. If an investor could take such opportunities departing from the popular investment stance, he will no doubt be rewarded adequately in the long run”. (Ceybank Unit

Trust Annual Report, March 31st 1996).

The Ceybank Century Growth Fund seeks to draw investors who are willing to make a long-term commitment. “There are primary saving needs which meet the immediate financial needs of an individual. These needs can be met by fixed income investments, allowing immediate withdrawal at a time of need. However, investment. in Unit Trusts and Growth Funds. need to be for events in life, such as education of children, building a second house or extending at present house, a supplementary income after retirement etc. This will concentrate totally on growth-oriented investments. To the uninitiated, this would seem an unwise move in the face of the down- ward spiral of the equity market in the country. The Colombo Stock Exchange has hit an all-time low during the last 24 months, the market coming down by 35%. This has resulted in lacklustre trading and a general lack of investor confidence in the equity market. How ever, experts disagree. “It is an observed trend that a market which is depressed has to and will eventually recover. And specific research and monitoring of the local equity market has shown that, since its inception in 1985, the Colombo Stock Exchange has had its times of depression but has always recovered, bringing a higher return in its wake”, said allows a longer time period for a higher, far more substantial return on their investment”, explained Abeyaratna. At the very minimum, an investor would need to be willing to wait 4-5 years to receive substantial returns from his investment. Although Unit Trusts, unlike finance companies and other investment companies, do not offer a fixed return figure, each Unit Trust company has a figure which they work to obtain for their clients. In general, most Unit Trusts would seek to give investors a 25%- 30% return on their investment. This estimated figure would fluctuate depending on the equity market, but would certainly give a higher return than conventional investments.

Long-term investment in a Growth Fund will ensure not only a return on the investment but also a growth of the investment, as investments of this nature are able to withstand fluctuations in the market as well as keep up with rising inflation. “Growth Funds are ideal for those who want a larger long-term return from their investment, and it also provides an opportunity for people to invest when the market is depressed and receive a higher return which is not possible even from a conventional income and Growth Fund (Unit Trusts)”, said Abeyaratna.

Still lurking in the memory of many investors is the collapse of finance companies in the late 1980’s and the enormous losses. suffered by the individual investor. In order to prevent similar debacles in the future, the Securities and Exchange

Commission (SEC), created by an Act of Parliament, closely monitors the financial transactions of all investment companies, including that of Income and Growth Funds, and will also closely monitor the Ceybank Century Growth Fund once launched. The SEC, entrusted with the responsibility of protecting the interests of the investors, has formulated regulations for the operation of Unit Trusts and has the power to ensure the proper conduct of the business of Unit Trusts.

Another benefit for investors in Unit Trusts, and in the new growth fund will be the tax exemptions. As per the Inland Revenue Amendment Act, the income of Unit Trusts are exempt from Corporate Tax up to the last year of assessment 1997/1998. Thus, the income derived from dividends, interest, underwriting fee and others are exempt from tax. The capital gain derived from listed equities are also exempt from tax, as well as the capital gain arising from the sale of Unit Trust investment, as long as the investment has been held for more than a year. The front-end fee of 5%, usually included in the selling price of a unit (share), which is charged by all Unit Trusts will not be charged by the Growth Fund. Only a management fee of 1.5% will be charged from investors.

Bringing in a positive outlook on the investment climate, and offering investors an exciting new investment opportunity, the Ceybank Century Growth Fund is certain to cause a sensation in the investment market.