

UNIT TRUST: AN INVESTMENT INSTRUMENT FOR ALL

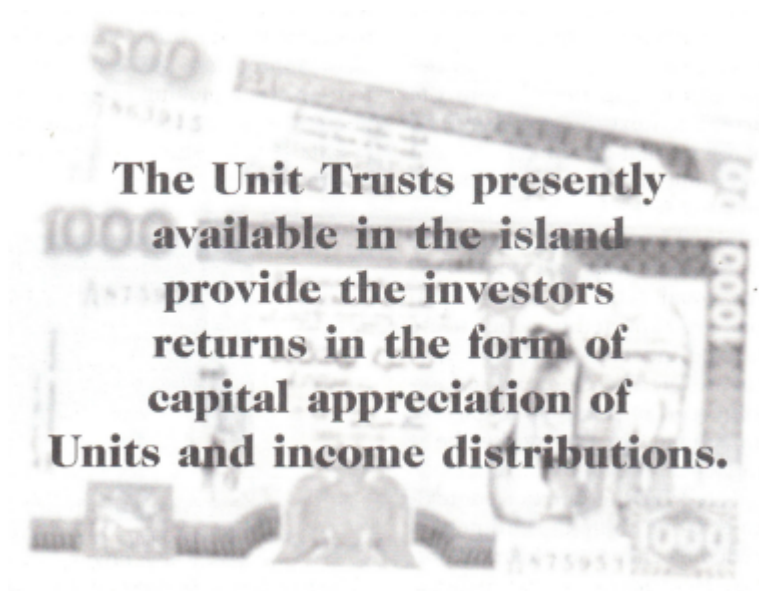


Unit Trust can be described as a pool of money mobilised from small and large investors, which in turn is invested in securities by professional Fund Managers.

In the September issue of “Business Today” we published an introduction to the concept of Unit Trusts including some main characteristics of the instrument. Unit Trust was launched in Sri Lanka in the last quarter of 1991/92 and it is encouraging to note that almost 25,000 investors contributed substantial sums of monies into Unit Trusts to make it an attractive investment instrument.

As in any other case, having an objective and a plan are essential elements of carrying out a successful investment if the available instruments are analysed and plans are drawn up accordingly to invest their savings and wealth in order to achieve the ultimate objective. Today, it is a known fact that there are a number of investment instruments in the market, however, different instruments are suitable to achieve different objectives.

Some of the main factors to be considered while making investments are:



i. What are your objectives?

ii. What sort of real return (after adjusting for inflation) is expected from the investment?

iii. Quantum of the risk exposure of the investment, including safety and liquidity.

iv. Characteristics of different instruments such as tax status and frequency of distribution of income.

Based on the pre-determined objectives, decisions must be made as to how much and on which instrument the investment is to be made.

The objectives of the Unit Trust may vary depending on the Trust. It is important to be clear about the investment objectives of the Unit Trust too, before making an investment. Even though there are a variety of Unit Trusts available in developed and highly industrialised countries, presently in Sri Lanka the investors find only open-ended Trusts which offer Units to investors on a continuing basis, with no upper limit set by the Manager on the total number. of units to be issued to the public. These Unit Trusts encourage investors to look at money put into Unit Trusts in the medium to long term perspective, which will assist the investor to beat inflation in the medium to long term.

The Unit Trusts presently available in the island provide the investors returns in the form of capital appreciation of Units and income distributions. They do not provide a regular stream of fixed income. Further, the investors enjoy the option of reinvesting their distribution on additional units, without having to pay the frontend fee, which provides compounded benefits to investors in the medium to long term.



It should be noted that the Fund Managers of the Unit Trusts do not make speculative investments as they identify their investments based on intensive research and the risk is minimised due to the diversification of the portfolio amongst instruments like Treasury Bills, Capital Market instruments and Short Term Call Money Market.

Another important element that should be analysed is the real rate of return from an investment. That's the return adjusted for inflation. The net return generated from an investment will be the return adjusted for inflation in the country, after paying of taxes. The real return becomes more important when the investment is for long term.

When investing, the average investor is advised to segment the portion of savings into different sub-sets like:

- i. How much of money is required to meet short-term commitments?*
- ii. Amount required to generate a monthly income.*

iii. Amount to be invested expecting a medium to long term growth in capital and income.

Only the portion of savings that can be invested with the medium to long term perspective category (iii), should be diverted as investments in the Unit Trusts.

The Unit Trust industry notes with encouragement the decision taken by the Government to extend tax benefits to investors in Unit Trusts. The investors continue to enjoy tax benefits on capital appreciation of Units and Dividends Distribution. This option is very attractive to those who anticipate profits out of the disposal of units, with an annual income falling into higher tax brackets.

The Sri Lankan Unit Trusts provide the opportunity to investors to buy Units with a minimum investment of Rs 1,000/-. This clearly displays the encouragement extended to small investors to make use of the instrument. The small investors can invest their medium to long term savings in Unit Trusts at regular intervals either monthly, once in two months, quarterly or half-yearly etc. These investments will provide them the opportunity to meet their anticipated commitments in the future, like income at retirement and to meet obligations towards their children. It can be mentioned that the Unit Trust is an attractive investment instrument for minors too, due to the long term perspective and the low minimum investment requirement.