



Investing in Unit Trusts

The Financial Services Regulatory Authority (FSRA) is cognisant of the need of Swazis to invest and further grow their money. In a series of articles in the following weeks, we are going to talk about the different investment options available in the Swazi market. This week we introduce you to Unit Trusts which are a form of investment.

What Are Unit Trusts?

A unit trust pools money from many investors, which is then invested in a variety of assets in order to meet specified investment objectives. The pool is managed by a Collective Investment Scheme registered and licensed by the FSRA to protect the interests of unit holders.

How to Invest in Unit Trusts?

You invest in a unit trust by buying units in the trust or fund. The price of each unit is determined in relation to the trust's net asset value (NAV). This is the market value of the trust's net assets (investments, cash and other assets minus expenses, payables and other liabilities), divided by the number of units outstanding. The NAV is usually computed daily to reflect changes in the prices of the investments held by the fund.

Types of Unit Trusts

Unit trusts can be divided into several categories depending on their investment objectives and focus. In general, they are divided into three main categories: shares, bonds, and balanced funds that combine shares and bonds. Some funds are invested in a single country, some in specific regions and some, globally. There are funds that focus on specific sectors or industries. Given the variety of choices, it is important that you select unit trusts

that meet your investment objectives and risk tolerance.

Evaluating Unit Trusts Performance

There are three main ways of evaluating the performance of your unit trust.

1. Look at the absolute returns, taking into account both the income received and price change. Normally, these returns are annualised so that you can examine performance over a number of years and also to enable you to compare performance of one fund relative to another. However, absolute return is not a sufficient measure of a fund's performance.
2. Judge a unit trust's relative performance by comparing it against its benchmark index. The difference, called excess return, is calculated by subtracting the benchmark return from the unit trust return. Most unit trusts have a stated benchmark against which its performance is measured. If the excess return is positive, the unit trust is said to have outperformed its benchmark. If it is negative, the unit trust has underperformed.
3. Measure the performance of the unit trust relative to the risk taken. One widely used statistic is the information ratio which measures the excess return per unit of risk taken, with the latter measured by the volatility of the excess returns.

Why Invest In Unit Trusts?

Unit trusts offer several advantages;

1. You can select a fund or a combination of funds to cater to your specific investment goals and tolerance for risk. If, for example, you are nearing retirement and have low tolerance for risk, you can invest in unit trusts like

bond funds or balanced funds. On the other hand, there are unit trusts that are suitable for investors looking for higher potential return and are willing to accept higher risks.

2. Unit trusts allow you to invest in a diversified portfolio with a minimum investment of as little as E 500.00. For example, a unit trust with E 50 million in assets can hold a large number of different shares.
3. Through unit trusts you can invest in securities that you may be unable to access as an individual investor. These securities include bonds that usually require a minimum investment of E10 000. It may also be difficult for you to invest directly in overseas stocks whereas you can conveniently invest in a unit trust investing in international stock markets.
4. Funds invested in unit trusts are managed by professional fund managers and analysts. You can therefore benefit from their expertise and full time attention to investing the funds.

What to Consider When Investing in Unit Trusts

Unit trusts offer significant benefits, but you should also be aware of the following points;

1. The variety of unit trusts available can be overwhelming. If you invest indiscriminately, you could end up with an assortment of unit trusts that do not match your needs.
2. You must be clear about your investment objectives and then decide on the suitable unit trusts.

3. The fees you pay for investing in unit trusts can eat significantly into your returns. These fees may also include high transactions costs so you should avoid trading frequently.
4. You should enquire about the type and amount of fees applicable to a particular unit trust.

There are strong reasons why you should consider investing in unit trusts. Unit trusts provide diversification, enlarge your investment opportunities and allow you to tap the skills of professional fund managers. But, as with all investments, you should also make sure you are comfortable with all aspects of the product. The selection of the manager is another important consideration. You need to assess whether the fund manager has the resources, experience and skills to do a good job of managing the fund. Once the investment is made you still need to monitor the performance to see if it is meeting your expectations.

For more information and comments, please contact the FSRA at info@fsra.co.sz or call 2 406 8000.

*additional information sourced from the internet.