

## Investing in the Stock Market

### Unit Trusts

Unit Trusts were introduced to Sri Lanka in 1991 to provide an alternate investment for the people of Sri Lanka to benefit from the capital market.

The Securities and Exchange Commission of Sri Lanka (SEC) as the licensing authority has the power to permit a Fund Management Company referred as Fund Manager to launch a unit trust under the SECAct.

In real life the Fund Manager has to formulate a fund with an objective in mind before seeking an approval from the SEC. The objective of a fund can be for example growth, income and growth or income only and the strategy to achieve the objective needs to be worked out by the Fund Manager to deliver results with in the expected time frame. As the investments of the fund are focused on the specific financial instruments, the fund management company also needs to select authorised investments to suit the type of objective of a fund.

The Fund Manager needs to submit an Explanatory Memorandum (EM) and a Trust Deed to obtain the license from the SEC to launch and operate the Fund. The EM provides necessary information about the Fund offer, the Fund Manager, Trustee and other relevant investor information. The Trust Deed gives details of the formation of the trust and its deposited property, registration process of the investors, dividend distribution, areas of intended investment of the Fund's assets, appointment of auditors, covenants of the Manager and the Trustee, procedure for a unit holder meeting etc. The Trustee usually a reputed bank and provides services and acts as the beneficial owner on behalf of the investors in the fund.

There are six fund management companies operating in Sri Lanka and more are expected to be licensed. Further there are 22 funds operating in the market managed by the six Fund Managers. Now let us look the advantages for small investors to invest through a unit trust.

We assume you are an investor wanted to invest in a Growth Fund to participate in the shares listed in the Colombo Sock Exchange.

Growth Fund is a fund primarily invests in shares to achieve long term growth of capital to the investors.

There are over 240 companies listed in the Colombo Stock Exchange and it is practically difficult for small investors to research and identify good stocks with reasonable valuations. It makes it more difficult to monitor the performance of stocks they buy and hold for longer term. The unit trust managers makes it easy for the investors as they undertake the selection of shares and monitor the performance of the underlying companies over time. In addition the Managers also provide other services to the investors to make investment in shares a hassle free affair in the day to day life. The investors enjoy a host of benefits by investing through a unit trust.

They are:

- Expert professional fund management at lower cost
- Diversification of your investment in many shares ( Do not put all your eggs in one basket)
- Low minimum investment level
- Excellent long term prospect
- Protection by independent Trustees
- Easy to buy and sell or transfer
- Invest jointly with minors
- Choice of investments and transferability among funds
- Tax free income

### **How to invest in a unit Trust?**

There are many unit trusts available in Sri Lanka and investors can contact the Fund Management Company and obtain an Explanatory Memorandum and an application form to open an account and to make an initial investment. Consider charges and the performance of different unit trusts and their track records.

Shares and equity unit trusts can fall as well as rise, so you should aim to hold for at least five years.

Consider how much you can afford to invest and how often. It is prudent to keep some money in bank and short term fixed income instruments for unexpected emergencies.

You can usually choose to make your payments by cheque, direct credit to the designated bank accounts, standing order or any other means recommended by the Fund Manager.

Regularly check the statement or reports from the Fund Manager to track the progress of your investment. You can also follow the daily prices of your units in the news papers or visit the website of the Fund Manager.

When you need any help or clarification you can contact the Registrar or relevant officer who will offer advice on their range of trusts.

### **Solve your Financial Planning Needs**

You can redeem your units on any business day and receive the proceeds with in short periods. However, unit trusts works best for you as a long term investment rather than a short term punt.

You can switch between different types of funds – for example from high to low risk, or growth to income etc.

You can build up savings by re investing dividends and through regular savings.

## Types of Unit Trusts

There are different types of Unit Trusts available in the market. Let's see some of them:

- **Growth Funds:** Growth Funds are higher risk funds offer higher return prospects to the investor. These funds invest higher proportion of its money in listed shares. There are many Growth Funds operating in the fund. Some of the funds distribute dividends and others are not.
- **Balanced Funds:** Balanced Funds are moderate risk funds offer dividend and growth prospects to the investors. These funds invest around 50-60% of its money in listed shares and the balance in selected fixed income securities. These funds often distribute dividends annually based on the fund performance.
- **Income Funds:** Income Funds are low to moderate risk funds depending on the short to long term investments in debt instruments and allocation between government and corporate debt instruments. This fund pays annual or even quarterly or half yearly dividends. Often it is classified as an income fund with less prospects to grow. However at times of volatile interest rate environment these fund can offer growth prospects as well.
- **Index Funds:** Index Funds are more passive form of fund and tracks an accepted index. With negligible tracking error, these funds can offer higher upside when the underlying index rises.

There is many other specialized unit trusts are operating specializing in sectors such as money market, Sharia compliant Islamic and sub sectors of the stock market.