A SIMPLIFIED GUIDE TO UITF INVESTING
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Industry figures show that as of December 2005, there are 72 Unit Investment Trust Funds (UITFs) from 18 trust institutions that are available for the public to choose from and that there are more UITFs that are being processed for approval by the Bangko Sentral ng Pilipinas (BSP). Question now is how does an investor choose intelligently from such a wide multitude of UITFs? This article hopes to help an investor simplify the process of selecting the suitable UITF for himself.

A rational way of doing this is **to first classify the UITF, whether peso or dollar denominated, into one of the following major types of UITFs.** In this manner, an investor will be able to understand the investment objectives of the UITF, the length of time that an investor has to keep invested in order to attain such investment objectives, the varying degree of risks an investor has to take on given the investment selection of such UITF and match all these to his investment capability and particular need or stage in life. Generally, the longer the term of the portfolio of investments of the UITFs, the higher the risk, and the higher the volatility and the higher the potential total return. Alternatively, funds whose portfolios are invested for shorter periods are less risky, less volatile but yield lower returns. Therefore, an investor must determine the length of time that he can afford to keep his funds invested and the amount of risk he is willing to take in exchange for his desired returns.

The first major type of UITFs are the **Money Market Funds.** These funds aim for capital preservation and income generation from low risk investments. These funds are invested principally in short term fixed –income securities with a portfolio average weighted maturity of one year or less. (Portfolio average weighted maturity is defined as average maturity of all the securities of the fund, weighted by the size of each issue in the portfolio.) These funds are for **risk averse investors** who are looking for safe and liquid investments with yields that are relatively modest due to lower risk exposures. Being invested in short term securities, these funds are usually benchmarked against the 91 day or the 180 day Tbill rates for peso denominated funds or the average 6-month LIBOR for dollar denominated funds.

The second major type of UITFs are the Bond **Funds.** This type of funds aims for capital appreciation and higher yields over the medium term. These funds are invested in higher yielding bonds and other similar fixed-income securities with a portfolio average weighted maturity of more than one year. These funds are for **risk tolerant investors** who have a longer time horizon for investing and who are willing to take on the risk of having a more volatile portfolio in exchange for higher yields due to the longer term nature of the Fund's investments. Being invested in securities with a medium term duration, these funds are benchmarked against three or five year FXTN (for peso funds) or ROP rates (for dollar funds) depending on the target duration of the particular funds.

The third type consists of **Balanced Funds,** which targets to provide its investors with capital appreciation over the medium term through a portfolio mix consisting of equities and fixed income securities. The equity component is aimed at providing additional yields from potential gains on stock investments. The allocation of investments between equity and fixed-income securities is the call of the fund manager depending on how they see market conditions. The balanced fund is for investors who are **risk takers**. These investors should be aware that the potential for high yields from a portfolio that includes stock market investments also carries with it the risk of capital losses that equity investments can bring. Being invested in both fixed income and equities, these funds may be benchmarked against a mix of fixed income benchmark and the pertinent equity index. For example, a benchmark may consist of a combination of 60% Phisix performance and 40% yield on one year Tbills.

The fourth type of UITFs are the **Equity Funds.** The purpose of this fund is to maximize returns by going into equities or stock investments. Potentially higher returns may be derived from capital appreciation of the stock investments and dividend earnings. Clients investing in this type of fund are **risk takers** and should be willing to take the risks/volatility attached to investing in equities. A longer investment horizon is recommended in investing in an equity fund. Equity funds are usually benchmarked against the stock index, ie. the Phisix.

Inevitably, there may be investors whose needs may fall squarely in just one of the above mentioned general types of UITFs. However, there would also be more investors who have several objectives that will have to be met by investing in more than one type of UITF. To get more specific information on the type of UITFs, investors may request copies of the UITFs Declaration of Trust from the trust institution offering such UITFs.

While the type of fund is the primary consideration in the selection of the fund, there are other factors that help determine what is the most suitable UITF for a particular investor. **A second important consideration is the track record of the fund manager of the particular UITF** vs. its stated benchmark and the performance of similar type of UITFs from competing trust institutions. Certainly, an investor will feel more comfortable with a UITF that has a track record of consistently performing well over a longer period of time relative to its stated benchmark or other similar funds rather than a fund manager who performs sporadically well over a shorter period of time. While historical performance of the UITF may provide investors with an indication of how well the trustee has managed the UITFs, this is not a guarantee of the UITF's future performance.

Fortunately, for the investors, there is a requirement among UITFs to publish their prevailing NAVpus regularly as well as the year-on-year and year-to-date returns on investment in a major daily. This will allow an investor to check the performance of his funds relative to other funds. However, the investors are cautioned to exercise care that they are comparing performance of products with similar investment parameters to arrive at a more objective evaluation.

A third consideration is the transparency provided by the fund manager – the availability of information and service to the investor. The BSP regulations require the minimum ready availability of the following information to the investor: weekly publication of the NAVpu, updated quarterly listing of prospective and existing investments, an annual audit report by an independent auditor acceptable to the BSP and a third party custodian's mark-to market asset valuation. Discerning investors would be more comfortable dealing with institutions whose UITF fund managers and marketing personnel have the better capability to match investors with a suitable UITF and thereafter supply all these required data in a professional and timely manner. Is information about the funds' historical performance, portfolio composition and the fund managers' views on investments readily available? How fast are they updated and made available to investors? In what manner are they disseminated? These are some of the questions that investors may need to ask to compare how these requirements are met by the particular fund they are considering.

A fourth consideration are the features of the particular UITF. Features refer to the mechanics for investing, operating and administering the fund. These are governed by the Declaration of Trust (or Plan Rules) of the particular UITF. Coverage includes the type of investments the UITF is allowed, the minimum amount of investment, the minimum term an investment must remain with the UITF, early redemption penalties (if any), the fees that are deducted from the UITF, time at which the NAVpu is announced, time at which acceptances and redemptions are allowed, etc. For example, an investor redeeming from an equity or balanced fund may have to wait a couple of days after his notice of redemption before his request is serviced. Another example, an investor who is investing P100,000 cannot qualify to invest in a fund whose minimum investment requirement is P1.0 million.

Ultimately, with the UITFs, the investor is king and judge. There is a broad choice of investment products/horizons open to investors and data on these are available from the branches and the website of the different trust institutions and even in a major daily. It is up to the investor to choose what best pleases him given the selection process he undertook. And being chosen is the much coveted prize that the different trust institutions and fund managers would like to win.

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