

UITFS HIT P123 B MARK ON ITS ROOKIE YEAR

Unit Investment Trust Funds, more commonly known as UITFs, reached an astonishing level of P122.9B on its rookie year in 2005. With the implementation by the Bangko Sentral ng Pilipinas (BSP) of Circular 447 effective October 1, 2004, a total of 72 UITFs are currently being offered in the market by 18 trust institutions. The majority of these UITFs were introduced in the second quarter of 2005.

UITF regulations were implemented by the BSP to align the operation of pooled funds under management by trust entities with international best practices and to ensure differentiation from bank deposits and other direct liabilities of the financial institution. Sound operations of pooled funds are expected to enhance the credibility with retail investors and enable them to evolve as major institutional investors who can support the deepening of the domestic capital markets.

A UITF is an open-ended pooled trust fund denominated in pesos or any acceptable currency, which is operated and administered by a trust entity and made available by participation. Each UITF product is governed by a Declaration of Trust (or Plan Rules) which contains the mechanics for investing, operating and administering the fund. UITF products differ in terms of type of investments, portfolio mix, minimum investment amount, minimum holding period, settlement period and charges. For example, some UITFs are invested purely in fixed income securities or mainly in equities while others may have a mix of investments in equities or stocks. Some are denominated in Philippine currency while others are US dollar denominated.

The client can invest in any or a combination of the UITFs available in the market. When choosing a UITF, the investor should identify his needs and goals and match them against the investment parameters of the product. To determine the clients' suitability to a fund, the client must consider his investment capacity (amount available for investment), investment horizon (how long the client can stay in the fund), risk profile (how much risk the client is willing to take) and investment objective (whether client wants income or capital growth).

BSP regulations limit UITF assets to bank deposits and tradable securities. A financial instrument is considered tradable if quoted two way prices are readily and regularly available from the market. This will ensure that investors (while generally advised to stay invested in the UITF for a longer period of time) may opt to redeem their units of participation at any time without any difficulty on the part of the trust entity as the fund's assets are readily tradable. Furthermore, the BSP regulation limiting the exposure of the UITFs in a single entity and its related parties to 15% of the market value of the fund (except government securities), also supports liquidity and at the same time also promotes diversification of assets.

Assets of UITFs are marked to market. The fund's NAVPU may fluctuate depending on the volatility of the market. As such, indicative rates cannot be quoted by the trustee. Yields are variable and cannot be guaranteed. Historical performance of the fund may

provide clients with an indication of how well the trustee has managed the fund but this is not a guarantee of the fund's future performance. The marked-to-market valuation provides the investor with a more accurate and fair value of his investments at any given time. It ensures that no participant in the fund is put at a disadvantage as a consequence of new investors coming in or of existing investors getting out of the fund. The marked-to-market methodology is in accordance with international best practices.

Transparency is an important component of the BSP regulations governing UITFs. As such, trust entities are required to publish the UITF NAVPUs at least weekly. This not only allows investors to see how their investments are doing but also permits them to compare investment performance of the various fund managers - however, investors are advised to compare performance of products with similar investment parameters for a more objective evaluation. In line with promoting transparency, each UITF must also make available to its investors a quarterly listing of prospective and outstanding investment outlets as well as a separate annual audit report done by an independent auditor acceptable to the BSP. BSP further makes it a must to have a third party custodian for all the UITFs with the role of holding its securities and making the marked-to market valuation for the funds. All these measures for transparency are aimed at protecting the investors as well as globalizing the UITFs.

The significant growth of the UITFs on its rookie year is partly attributed to the good performance of both fixed income and equity markets in 2005, allowing the funds to outperform the set benchmarks and other investment vehicles. It also helped that the new regulations exempt UITFs from reserve requirements imposed on bank deposits, thereby allowing the funds to be fully invested without having a portion dragged by the low yielding returns given to securities eligible for reserve requirements. The efforts of trust entities to educate their marketing personnel and clients about UITFs are also credited for the growth.

To ensure the sustained growth of UITFs in terms of product depth, distribution channels and best practices, the Trust Officers Association of the Philippines (TOAP) spearheaded a UITF Planning Conference during the last quarter of 2005. This was participated in by industry players, representatives of Bangko Sentral ng Pilipinas and invited resource persons operating similar overseas pooled funds. As a result of this conference, the TOAP has created the Council for UITF Development and Promotion whose goal is to craft and help implement a Medium Term Plan for the UITFs. With the Trust Industry coordinating closely with the BSP, this plan should further streamline and enhance UITF products and operations for the benefit of the investing public. Ultimately, the joint undertaking between the Trust Industry and BSP will also redound to the further development of the Philippine capital market.