

# **TRUST BASICS and Practical Applications Unit Investment Trust Funds**

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Resource Speaker



## UITF – Unit Investment Trust Funds

- ✓ Unit Investment Trust Funds – are open-ended pooled trust funds in any acceptable currency, operated by a trust entity and made available by participation
- ✓ Are synonymous to common trust funds (CTFs) but main difference lies in NAVPU and MTM Valuation Methodology



## Characteristics of a UITF

- ✓ Daily solicitation of funds from the public
- ✓ Investment of funds is purely for return, or income
- ✓ Participation in the total fund
- ✓ Operations and disposition of asset is based on Net Asset Value (NAV)
- ✓ Uses MTM valuation methodology in computation of NAVPU

# Investment Objectives of a UITF Fund Manager

- ✓ Capital Preservation
- ✓ Risk – return optimization
- ✓ Outperform relevant indicators
- ✓ Assurance of sufficient liquidity
- ✓ Strict compliance with legal and regulatory requirements



## Types of UITF

✓ **FIXED INCOME FUND**

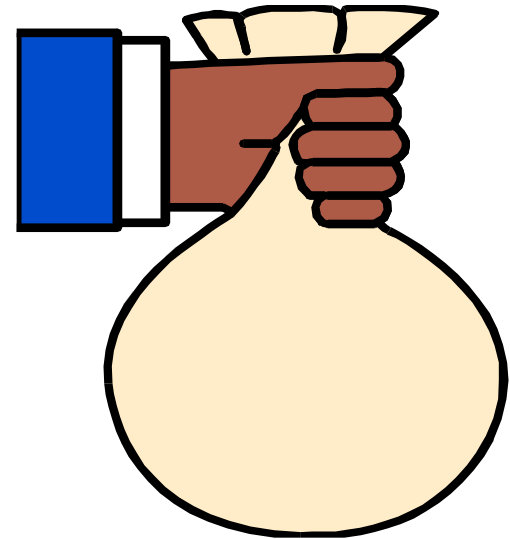
✓ **EQUITY**

✓ **BALANCED FUND**



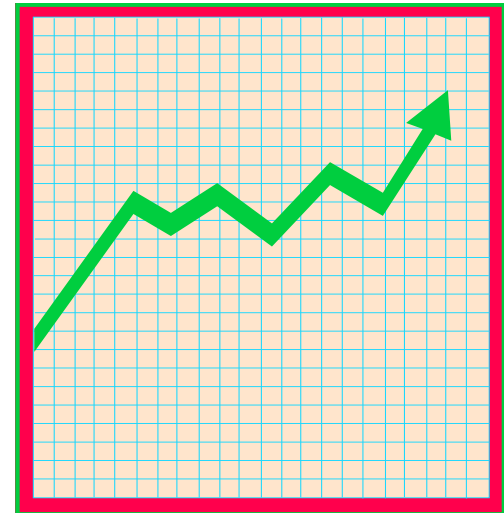
## FIXED INCOME FUND

✓ Investments are primarily in fixed income instruments such as T/Bills, FXTN, bank deposits and other types of financial instruments offering regular income at prevailing interest rates (i.e. Money Market UITF, Income Oriented UITF)



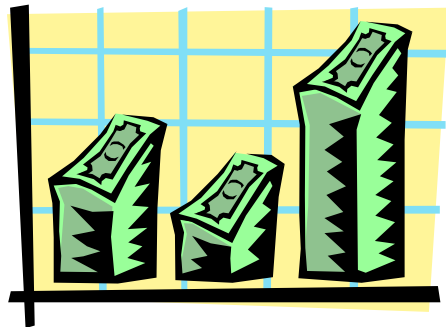
## EQUITY FUND

✓ Investments are mainly in stock issues. Often referred to as “GROWTH” fund and is usually more risky (i.e. Higher Price Volatility) than fixed income or balanced funds



## BALANCED FUND

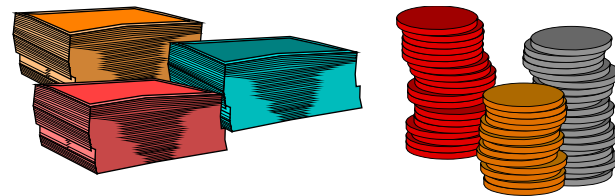
✓ INVESTMENTS ARE MADE BOTH IN FIXED INCOME INSTRUMENTS AND EQUITIES (i.e. Income and Growth Oriented UITF)





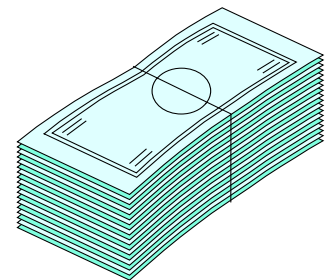
## UITF – Allowable Investments

- ✓ Bank deposits
- ✓ Exchange-listed securities
- ✓ Securities issued or guaranteed by the Phil. Govt., BSP, BTr, etc.
- ✓ Tradable securities issued by govt. of a foreign country any political subdivision of a foreign country or any supernatural entity
- ✓ Marketable securities traded in an organized exchange



## UITF – Allowed Investments (Continued)

- ✓ Loans traded in an organized market
- ✓ Such other tradable investment outlets/categories as BSP may allow
- ✓ Appropriate hedging derivative instruments or investment outlets for purely hedging derivative instruments or investment and risk diversification, provided it is in accordance with the trust entity's risk management and hedging policy approved by its Trust Committee



## Exposure limit of UITFs to Single Person/Entity

- ✓ Should not exceed 15% of the market value of the UITF Fund
- ✓ However, limit does not apply to non-risk assets as defined by BSP
- ✓ When limit is breached due to M-to-M or extraordinary circumstances, trustee is given 30 days to correct the same

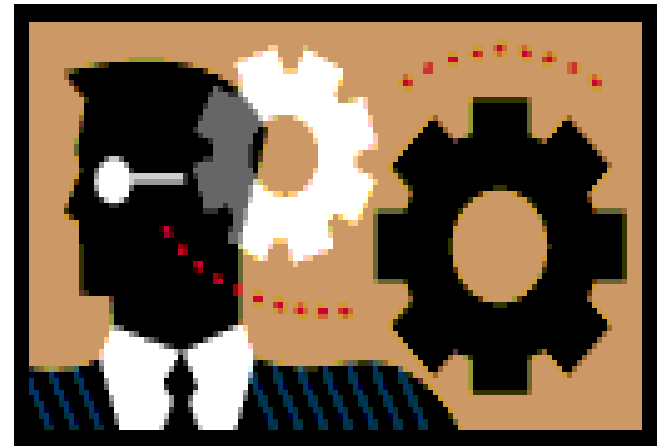
## **Advantages of Investing in the UITF**

- ✓ **Diversification**
- ✓ **Professional Mgt.**
- ✓ **Liquidity**
- ✓ **Access to Financial Market**
- ✓ **Ease of Administrative Burden**
- ✓ **Cost Reduction**
- ✓ **Research**



## Diversification

✓ You will be able to spread out inherent risks much better than YOU could otherwise achieve if your portfolio is self-managed.



## Professional Management

✓ YOU benefit from professional portfolio management = experienced full-time experts who manage your money for YOU.



## Liquidity

✓ Subject to a minimum holding period, your investment in the UITF is redeemable practically anytime making it a highly liquid and marketable form of investment.



## Access to Financial Market

✓ Through a UITF, YOU can tap various investment instruments in different markets, not usually available to you, with greater investment leverage





## Ease of Administrative Burden

✓ The paperwork of managing an individual portfolio of various securities and keeping adequate records is greatly reduced.



## Cost Reduction

✓ Because of the pooled nature of funds, substantial savings are made on fees, commissions, and other transactional costs.



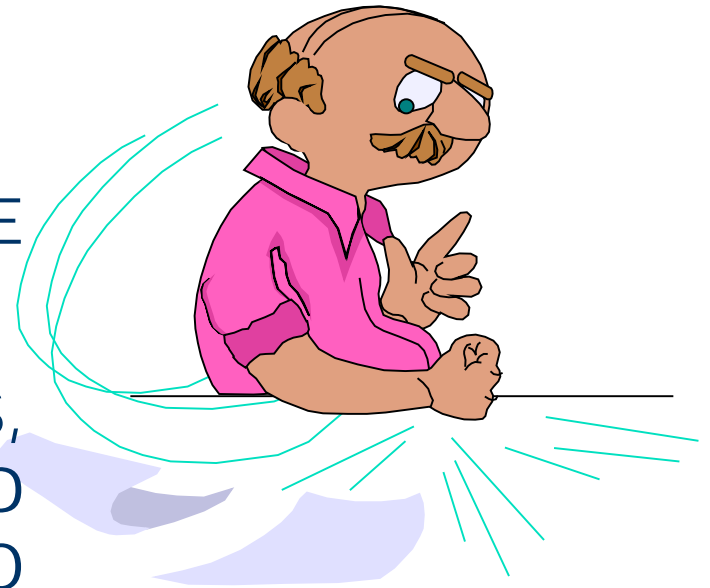
## Research

✓Your investment will reap the advantages of up to date and in depth research as gathered by an extensive network of stock market analysts and investment specialists



## Other Considerations

- ✓ NO PDIC COVERAGE
- ✓ NO GUARANTEED YIELDS
- ✓ SAME YIELD IRRESPECTIVE OF AMOUNT
- ✓ NOT SUBJECT TO RESERVES, SBL, & DOSRI; BUT COVERED BY 15% EXPOSURE LIMIT TO SINGLE PERSON/ENTITY



## UITF

## VERSUS

## DEPOSITS

✓ NOT SUBJECT TO RESERVE REQUIREMENT

✓ OFF BOOKS

✓ NOT INSURED WITH PDIC

✓ CERTIFICATE OF PARTICIPATION OR COP/TRUST AGREEMENT



✓ RESERVE REQUIREMENT OF 19%

✓ ON BOOKS

✓ PDIC COVERAGE OF PHP250,000

✓ CERTIFICATE OF TD/SA/PASSBOOK

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**UITF**

**VERSUS**

**DEPOSITS**

✓ TRUSTOR-TRUSTEE  
RELATIONSHIP

✓ EARNINGS BASED ON  
ACTUAL PERFORMANCE OF  
FUND, NO GUARANTEED  
YIELDS



✓ CREDITOR-DEBTOR  
RELATIONSHIP

✓ GUARANTEED RETURNS



## I. NAVPU Valuation Methodology

- ✓ *Basis for admission and redemption of participation*
- ✓ *Determines the beneficial interest of each participation unit*

**NAVPU** is computed by dividing the fund's total Net Asset Value (NAV) by the total outstanding units.

**Formula:**

$$\frac{\text{Net Asset Value (NAV)}}{\text{Total Outstanding No. of Units}}$$



## I. NAVPU Valuation Methodology

**NAV** is a summation of the market value of each investment less fees, taxes, and other qualified expenses.

*(Subsection UX410.5/U4410Q.5 D of the Circular)*

**Formula:**

**Aggregate Market Value of Individual Investments – (Fees, Taxes, Qualified Expenses)**

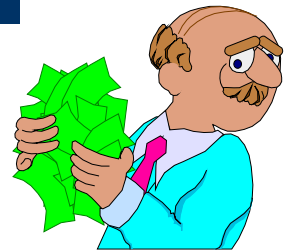
## II. NAVPU Valuation Methodology

✓ *Application:*

	8/23/2004
Total Assets	Php104,750,000
Total Deductibles*	10,475,000
NAV	94,275,000
Outstanding Units **	90,000,000
NAVPU	1.0475
* assume 10% of Total Assets (consisting of fees, taxes, and qualified expenses)	
** assume 90 Million Units	

# I. Benefits and Risk of Mark-to-Market Valuation for Investors

✓ *Ability to participate in the fund at the correct valuation.*



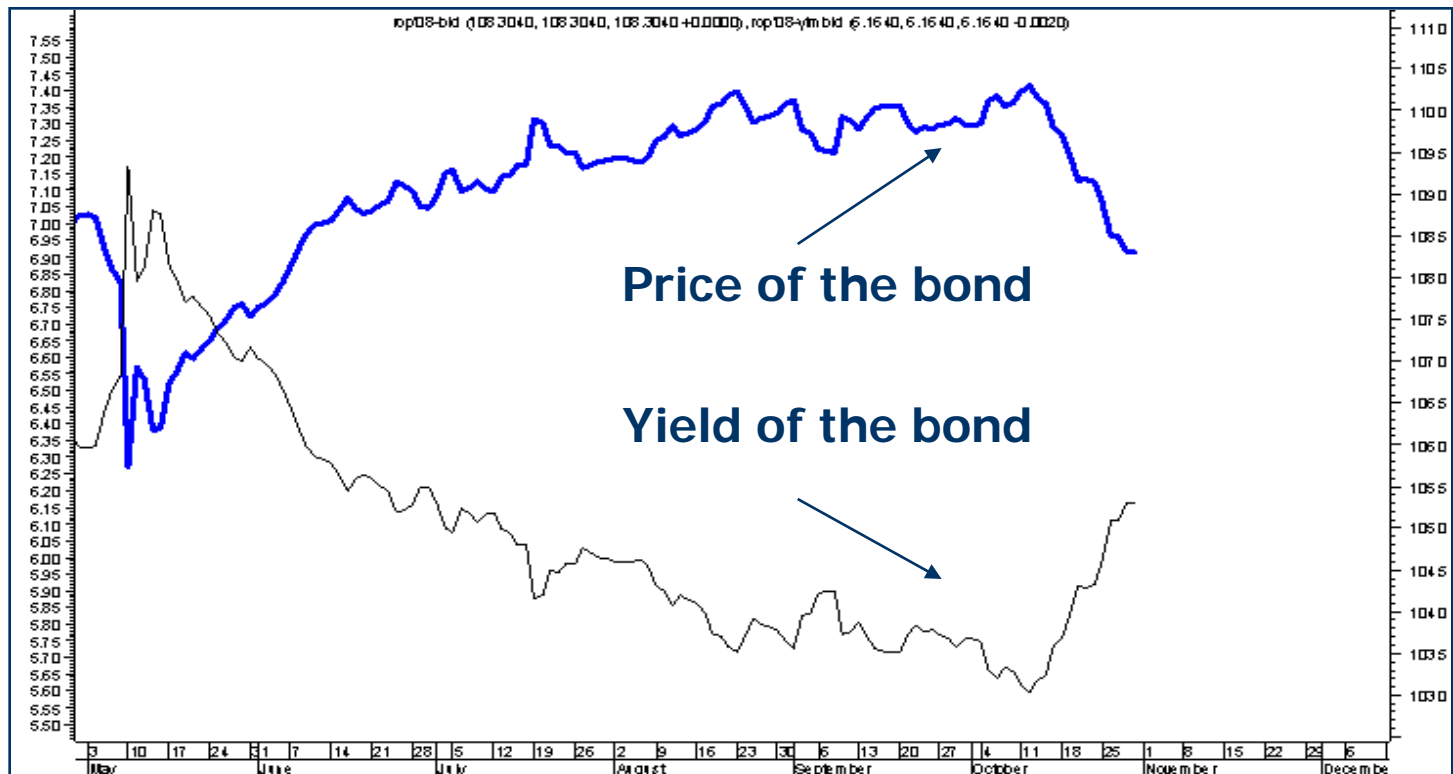
✓ *Opportunity to have higher return because the re-valuation can result in capital gains on top of the accrued income.*

✓ *Exposure to fairly liquid assets since the fund will only be invested in tradable securities.*

✓ *Exposure to market fluctuations. However, the actual loss, if any, will only be realized upon withdrawal.*

## IV. Market Value : The dynamics of Price and Interest Rate

- ✓ The price of an investment is inversely correlated to the interest rate



## V. Impact of Mark-to-Market Method on the Value of an Investment

- ✓ Under mark-to-market method, the value of the investment is constantly adjusted based on market rates.

