

# **PERFORMANCE OF MALAYSIAN EQUITY UNIT TRUST: SELECTIVITY**

**Thesis submitted to the Faculty of Finance and Banking,  
Universiti Utara Malaysia  
in partial fulfillment for the requirements for the degree  
Master of Science (Finance)  
Universiti Utara Malaysia**

**by  
Raphy bin Md. Radzi**



Fakulti Kewangan dan Perbankan  
(Faculty of Finance and Banking)  
Universiti Utara Malaysia

**PERAKUAN KERJA TESIS**  
(Certification of Thesis Work)

Kami, yang bertandatangan di bawah, memperakukan bahawa  
*We, the undersigned, certify that*

RAPHY BIN MD. RADZI (MATRIC NO: 84961)

(nama penuh/full name)

calon untuk ijazah

*candidate for the degree of* MASTER OF SCIENCE (FINANCE)

telah mengemukakan tesisnya yang bertajuk

*has presented his/her thesis with the following title:*

**PERFORMANCE OF MALAYSIAN EQUITY UNIT TRUST: SELECTIVITY**

(seperti yang tercatat di muka surat tajuk dan kulit tesis)

*as it appears on the title page and front cover of thesis*

dan tesis tersebut boleh diterima dari segi bentuk serta kandungan, dan meliputi bidang ilmu dengan memuaskan.

*the thesis is acceptable in form and content, and that a satisfactory knowledge of the field is covered.*

AJK Tesis/Thesis Committee

(i) Nama/Name : ASSOC. PROF. DR. NUR ADIANA HIAU  
(Penyelia Utama/Principal Supervisor)

Tandatangan  
Signature: \_\_\_\_\_

(ii) Nama/Name : \_\_\_\_\_

Tandatangan  
Signature: \_\_\_\_\_

(iii) Nama/Name : \_\_\_\_\_

Tandatangan  
Signature: \_\_\_\_\_

Tarikh/Date: 5 MAY 2005

## **PERMISSION TO USE**

In presenting this thesis in partial fulfillment for the requirements of a postgraduate degree from Universiti Utara Malaysia, I hereby agree that the University Library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in their absence, by Dean, Faculty of Finance and Banking. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Requests for permission to copy or to make other use of materials in this thesis, in whole or in part, should be addressed to:

Dean  
Faculty of Finance and Banking  
Universiti Utara Malaysia  
06010 Sintok  
Kedah Darul Aman

## **ABSTRAK (BAHASA MALAYSIA)**

Kajian ini menguji prestasi saham amanah di Malaysia dengan memfokuskan kepada keupayaan memilih pengurus dana di dalam usaha mereka untuk memberikan keuntungan kepada para pelabur. Sebanyak 41 dana saham amanah berasaskan ekuiti telah digunakan sebagai sampel untuk 120 bulan iaitu dari tahun 1995 sehingga 2004. Kajian ini juga mengambil kira masalah heteroskedastisiti yang berlaku dan rentetan daripada itu, kajian ini terbahagi kepada dua bahagian iaitu sebelum dan selepas masalah heteroskedastisiti dilaraskan. Keupayaan pemilihan negatif telah didapati daripada sepuluh dana sebelum pelarasan terhadap masalah heteroskedastisiti dibuat manakala selepas masalah heteroskedastisiti dilaraskan, terdapat sebelas dana menunjukkan keupayaan pemilihan yang negatif. Dapatan kajian menunjukkan bahawa saham amanah di Malaysia masih tidak dapat memberikan pulangan yang baik kepada para pelabur. Sebahagian daripada pengurus dana tidak mempunyai keupayaan untuk bertindak lebih baik daripada pengurus yang menggunakan strategi beli dan pegang yang naif. Dapatan kajian ini konsisten dengan Shamsheer *dll.* (2000), Firth (1997), Chang dan Lewellen (1985), Hendriksson (1984) yang menyatakan bahawa kebanyakan pengurus dana tidak mempunyai keupayaan memilih sekuriti yang dapat memberikan pulangan melebihi pulangan pasaran.

## **ABSTRACT (ENGLISH)**

This study measures the performance of unit trusts in Malaysia by focusing on the selection abilities of fund managers in their effort to give better return to the investors. There were 41 equity unit trusts funds used as a sample for 120 months that is from 1995 until 2004. This study considers heteroscedasticity problems and therefore, the findings had been separated into two parts that is before and after correcting for heteroscedasticity problem. Negative selectivities are observed in ten funds before the adjustment of heteroscedasticity whereas when this problem has been corrected, there are eleven funds that show negative selectivities. The findings give an indication that the unit trusts funds in Malaysia are not able to give a better return to investors. Some of the fund managers do not have an ability to do better than those managers that are using the naïve buy and hold strategy. This result is consistent to Shamsheer *et al* (2000), Firth (1997), Chang and Lewellen (1985) and Henriksson (1984), who conclude that the fund managers did not have an ability to select securities that can provide returns that are more than the market returns.

## **ACKNOWLEDGEMENTS**

Alhamdulillah,

Thanks to Allah s.w.t for providing me the guidance and blessing to succeed in completing this thesis. It was prepared to fulfill the requirement of Master of Science (Finance) Universiti Utara Malaysia.

First and foremost, I wish to express my gratitude to all the people in my life that have helped me directly and indirectly to complete my thesis. My special gratitude goes to Assoc. Prof. Dr. Nur Adiana Hiau Abdullah, my supervisor who has helped me a lot to finish off this thesis. In addition, I would also like to thank Dr. Kamarun Nisham Taufil Mohd who has given a lot of guidance upon the completion of this thesis. They have provided continual guidance, counsel, wisdom and encouragement. Their commitment of substantial time and effort to this thesis is sincerely appreciated.

My appreciation also goes to Miss Norehan Othman, Miss Nurul Hizan Subhi, Mrs. Dessy Jamaluddin and Mrs. Marisa Ahmat for their cooperation in providing all the data on unit trust. Other than that, special thanks to Mr. Rohami Shafie, Mr. Azeez Ikhwan Morad, Miss Wan Mursyidah Wan Ismail, Mrs. Rosni Aup and other friends that have provided insights, constructive comments, reviews and suggestions to improve this thesis. Their efforts in completing this thesis have been as great as my own.

Thank you.

## **DEDICATION**

I dedicate this  
effort of mine to

My Loving Parents,  
Md. Radzi Ismail and Sharifah Zabidah S. Yusoff

My Loving Brothers,

Rizal, Razif, Rizam;

My Loving Sister,

Rahayu

Brother-in-laws & Sister-in-laws,

Nor Intan Adha Hafit, Abdul Rahman Saidee Mohd. Afkar  
friends.

for their continuing support,

endless encouragement

and prayers...

## TABLE OF CONTENTS

	<b>Page</b>
<b>PERMISSION TO USE</b>	<b>i</b>
<b>ABSTRAK (BAHASA MALAYSIA)</b>	<b>ii</b>
<b>ABSTRACT (ENGLISH)</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS</b>	<b>iv</b>
<b>DEDICATION</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>viii</b>
<b>LIST OF FIGURES</b>	<b>viii</b>
<b>LIST OF APPENDICES</b>	<b>viii</b>
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1 Introduction	1
1.2 Historical Development of Unit Trust Industry in Malaysia	2
1.3 Understanding Unit Trust	5
1.3.1 Operations and Structure of Unit Trusts	6
1.4 Classification and Objectives of Unit Trust	9
1.4.1 Close-End Unit Trusts Funds	9
1.4.2 Open-End Unit Trust Funds	10
1.4.3 Categories of Unit Trust	11
1.5 Categories of Equity Unit Trust in Malaysia	13
1.5.1 Growth and Income Funds	14
1.5.2 Growth Funds	15
1.5.3 Balanced Funds	15
1.5.4 Aggressive Growth Funds	16
1.5.5 Sector Funds	16
1.5.6 Index Funds	16
1.5.7 Blue Chip Funds	17
1.6 Problem Statements	17
1.7 Objective of the Study	18
1.8 Significance of the Study	18
1.9 Scope of the Study	18
1.10 Limitation of the Study	19



1.11 Organization of Thesis	19
1.12 Summary of the Chapter	19
 <b>CHAPTER TWO: THEORETICAL FOUNDATION AND EMPIRICAL EVIDENCE ON SELECTIVITY</b>	
2.1 Introduction	20
2.2 Theoretical Foundation	20
2.3 Empirical Evidence on Selectivity	21
2.3.1 U.S and U.K Evidence	21
2.3.2 Singapore and Malaysia Evidence	25
2.4 Summary of the Chapter	29
 <b>CHAPTER THREE: METHODOLOGY</b>	
3.1 Data Collection	31
3.2 Data Selection	31
3.3 Selectivity Model	33
 <b>CHAPTER FOUR: FINDINGS</b>	
4.1 Introduction	35
4.2 Analysis of Results Base on the Types of Funds	40
 <b>CHAPTER FIVE: SUMMARY AND CONCLUSION</b>	
5.1 Introduction	46
5.2 Summary of the Study	46
5.3 Implication of the Study	47
5.4 Recommendation for Further Research	47
 <b>LIST OF REFERENCES</b>	 48
<b>APPENDICES</b>	50

## **LIST OF TABLES**

Table 1.1 : Statistic on Malaysian Unit Trust Industry	5
Table 3.1 : Composition of Sample Data	32
Table 4.1 : Estimated Parameters for Individual Unit Trusts Funds	36
Table 4.2 : Result of Unit Trusts Outperform Market Before Correcting Heteroscedasticity	38
Table 4.3 : Result of Unit Trusts Outperform Market After Correcting Heteroscedasticity	39
Table 4.4 : Result of Growth-Income Funds	41
Table 4.5 : Result of Growth Funds	42
Table 4.6 : Result of Aggressive Growth Funds	44
Table 4.7 : Result of Sector Funds	44

## **LIST OF FIGURES**

Figure 1.1 : Structures of Unit Trust in Malaysia	8
Figure 1.2 : Net Asset Value by Types of Funds as at 31 December 2003	11

## **LIST OF APPENDICES**

Appendix 1: Unit Trust Scheme
Appendix 2: MSEB Composite Index and Malaysia 90 days Treasury Bills
Appendix 3: Result of Equity Unit Trust Funds

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

Almost all studies on unit trust performance focus on the ability of the fund managers to outperform the market. Most of the previous studies concentrate on the developed countries and a few on emerging countries.

This paper explores the performance of Malaysian's equity unit trust funds by looking into selection abilities of fund managers. These various types of equity unit trust provide an avenue for us to examine whether the fund managers of equity unit trust in Malaysia are able to include quality securities in their portfolio. Although some of the observations come from the same companies, the different types of funds might lead to different outcomes in terms of selection abilities of fund managers.

#### **1.2 Historical Development of Unit Trust Industry in Malaysia**

Malaysia is one of the pioneers in introducing unit trust as an investment tools in Asia as compared to other Asian countries. Although unit trust industry in Malaysia has existed for almost 50 years, it is relatively still a new industry. At present, other government bodies and the banking and finance companies have created healthy competitions by creating and launching relevant products that best meet the requirements and needs of investors.

The contents of  
the thesis is for  
internal user  
only

## LIST OF REFERENCES

- Annuar, M. N., Shamsheer M. and Ngu M. H. (1997). "Selectivity and Timing: Evidence from the Performance of Malaysian Unit Trusts", *Pertanika Vol.5 No.1*, pp. 1-6.
- Ariff, M. and L.W. Johnson (1990). "Securities Markets and Stock Pricing" *Longman Singapore(Pte ) Ltd". 1<sup>st</sup> Edition*, pp. 353-362.
- Chen, C. R., Cheng F. L., Shafiqur Rahman. and A. Chan (1992). "A Cross Sectional Analysis of Mutual Funds' Market Timing and Security Selection Skill", *Journal Of Business Finance and Accounting Vol 19(5)*, pp. 659-673.
- Cheng, F. L. and Shafiqur Rahman (1990). Market Timing, Selectivity and Mutual Fund Performance: An Empirical Investigation, *Journal Of Business*, 63, pp. 261-278.
- Choong, D. (2001). *Investor's Guide To Malaysian Unit Trusts*. 2<sup>nd</sup> edition. Sage Information Services.
- Chua, C. P. (1985). "The Investment Performance of Unit Trusts in Malaysia", *Unpublished MBA Dissertation*, Universiti Malaya, Kuala Lumpur.
- Cumby, R. E. And J. D. Glen. (1990). "Evaluating the Performance of International Mutual Funds", *Journal Of Finance 45 (2)*, pp. 497-522.
- Evan, J. L. and Archer, S. H. (1968). Diversification and the Reduction of Dispersion: An Empirical Analysis. *Journal Of Finance 23 No 5*, pp. 761-767.
- Ewe, S. J. (1994). "The Performance of Malayan Unit Trust In The Period 1988-1992", *Unpublished MBA Thesis*, School of Management, University Sains Malaysia, Penang.
- Fauziah, M. T., S. Suhaimi. & Lee H.L. (2002). "Malaysian Unit Trust Fund Performance", *Proceedings for the Fourth Annual Malaysian Finance Association Symposium*, Penang.
- Grinblatt, M. and Titman, S. (1989). "Mutual Fund Performance: An Analysis of Quarterly Portfolio Holdings". *Journal Of Business 62, No 3*, pp. 393-416.
- Kon, S. J. and Jen F. C. (1979). "The Investment Performance of Mutual Funds: An Empirical Investigation of Timing, Selectivity and Market Efficiency", *Journal of Business*, 52(2), pp. 263-289.
- Phang, L. F. (1998), "The Performance of Private Unit Trusts In Malaysia". *Unpublished Master Thesis*, Graduate School Of Management, UPM, Serdang.

- Treynor, J. L. and Mazuy, K. K. (1966). "Can Mutual Funds Outguess the Market?" *Harvard Business Review* July, pp. 131-136.
- Sharpe, W. F. (1966). "Mutual Fund Performance", *Journal Of Business* 39, No.1, Part 2, pp. 119-138.
- Coggin, T. D., Fabozzi, F. J. and Shafiqur Rahman (1993). "The Investment Performance of U.S Equity Pension Fund Managers: An Empirical Investigation", *Journal Of Finance*. Vol XLVII No. 3, pp. 1039-1054.

### **Webpages**

- Bank Negara Malaysia. To gather statistic on Malaysia Stock Exchange Berhad Composite Index (MSEB CI) and Malaysia 90-days Treasury Bills. <http://www.bnm.gov.my>. Accessed on 8 January 2005.
- Federation of Malaysian Unit Trust Managers. To gather data on the statistical information on the unit trust industry in Malaysia. <http://www.fmutm.com.my>. Accessed on 3 April 2005.
- Securities Commision. The statistic on unit trust industry and list of management companies in Malaysia. <http://www.sc.com.my>. Accessed on 1 February, 2005.