

**INVESTOR'S FORTUNE AND UNIT TRUST
RATINGS**

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**MASTER OF SCIENCE (FINANCE)
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BY

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KOLEJ PERNIAGAAN
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ABSTRACT

This study examines the usefulness of rating information supplied by Lipper using a sample of 68 Malaysian unit trust funds from December 2000 to November 2010. Four performance measures were used namely the Sharpe ratio, Treynor ratio, Jensen's alpha, and Fama and French 3-factor model. Overall, the study provides evidence unit trusts underperformed the market index and risk free rate in 3-year, 5-year, and 10-year investment horizons except for the highest rated funds which were able to provide positive returns. The test on performance differential between funds in each rating categories shows that the highest rated funds, second to highest and third to highest significantly outperformed the lowest rated funds especially in a longer investment horizons. This result indicated that Lipper rating system is rather useful in identifying the lowest to highest performance funds.

Keywords: Unit trusts; Rating; Performance

ABSTRAK

Penyelidikan ini bertujuan untuk menguji kegunaan maklumat penilaian yang disediakan oleh Lipper menggunakan sampel sebanyak 68 unit amanah Malaysia dari Disember 2000 hingga November 2010. Empat pengukur prestasi digunakan iaitu nisbah Sharpe, nisbah Treynor, Jensen alpha, dan Fama-French 3-faktor model. Secara keseluruhan, kajian ini memberikan bukti bahawa unit amanah tidak dapat mengatasi prestasi indeks pasaran dan pulangan bebas risiko dalam tempoh masa pelaburan selama 3 tahun, 5 tahun, dan 10 tahun kecuali unit amanah yang mendapat penilaian yang tertinggi atau dikenali sebagai ‘Lipper leaders’ yang dilihat mampu memberikan hasil yang positif. Ujian terhadap perbezaan prestasi antara saham amanah dalam setiap kategori penilaian menunjukkan bahawa unit amanah yang dinilai tertinggi, kedua tertinggi dan ketiga tertinggi secara signifikan mengatasi prestasi unit amanah nilai terendah terutama dalam jangkamasa panjang. Keputusan ini menunjukkan bahawa sistem penilaian oleh Lipper agak berguna dalam mengenalpasti prestasi unit amanah yang terendah dan tertinggi.

Kata kunci: Unit amanah; Penilaian; Prestasi

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LIST OF ABBREVIATIONS

SMB	Small minus big
HML	High minus low
REITs	Real estate investment trusts
US	United States
SC	Security Commission of Malaysia
FIMM	Federation of Investment Managers Malaysia
EPF	Employees Provident Fund
ETP	Economic Transformation Program
NKEAs	National Key Economic Areas
MPT	Modern Portfolio Theory
NAV	Net asset value
UTODAY	Unit Trust Today Magazine
BM	Bursa Malaysia
FTSE	The Financial Times and the London Stock Exchange
MSCI	Morgan Stanley Capital International
MGS	Malaysian Government Securities
S	Sharpe ratio
T	Treynor ratio
R_i	Return of fund i
R_{m_t}	Market return at period t
RFR	Risk free rate
T-stat	T-Statistics

CHAPTER 1

INTRODUCTION

1.1 **Background of the Study**

Today, unit trusts or mutual funds have become one of the popular investment alternatives that could offer attractive and promising returns to investors. There are several types of unit trust which include balanced funds, fixed income funds, equity funds, real estate investment trusts (REITs), and money market funds. Both retail and institutional investors use these alternatives as part of their portfolio composition. They will select a particular type of unit trust that serve their preferences or investment objectives. Normally, investors who are adequately informed made their selection criteria based on past, current, and expected future performance of such funds which in turn increased the need for performance evaluation. Furthermore, the growing popularity of unit trusts as an investment alternative to investors has put an additional weight on funds performance evaluation. As such, portfolio performance evaluation has become one of the dynamic academic studies that have been long documented and evolved in finance field. Consequently, there were many performance measurements have been developed, innovated, and employed in many studies conducted across the globe in order to examine funds performance.

Regardless of the studies conducted by researchers that could help investors to select the right unit trusts (profitable funds), there is another source of information that is publicly

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