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Mutual funds … the Door to the World of Investment

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Compared to the past, more investment options are offered these days, ranging from "low-risk" to "high-risk" financial products, such as fixed deposits, bank drafts, promissory notes, government bonds, debentures, stocks, commodities and real estate. Each asset class, which yields different "returns" and has different a "risk level", is currently considered as the investors' tools.

Different asset classes can be invested in two ways:

1

Direct investment

For example, the purchase of stocks or savings bonds by individual investors these days is considered to be a direct investment, which does not depend on "financial intermediaries." It directly transfers money from the people with a savings surplus to the ones in need (for money).

2

Investment through financial intermediaries

The financial intermediaries, such as commercial banks, insurance companies and mutual funds, will raise the fund from the people with a savings surplus and transfer it to the ones in need for money. These intermediaries will invest the capital in different asset classes.

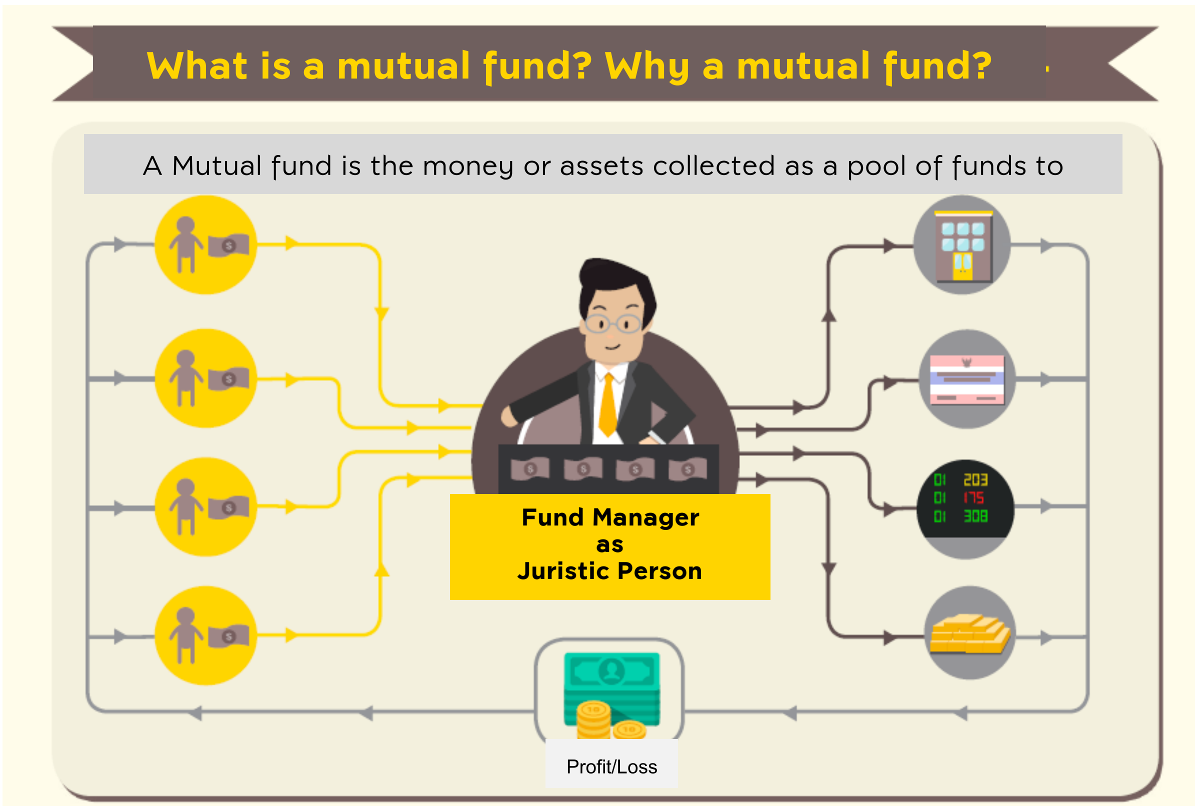
However, direct investment can be inconvenient sometimes because the investors need quite a large sum of money and experience. Some investors do not have enough time to keep track of their investments because they have a full-time job to do. They also lack information and have a limited understanding of investing. For example, investing in real estate requires money to buy or lease buildings or land, which of course takes a lot of money and a long time to gain a return on investment. Furthermore, these assets are hard to re-sell, which is known as a low-liquidity asset. If they choose the wrong location, the investors may suffer a loss because they do not know or understand the assets they hold.

"A mutual fund … is, therefore, the perfect tool for the investor who would like to invest in different assets indicated in the fund's policy, such as bonds or stocks. Moreover, it is the right tool for the investor who sets clear objective, aims for middle to long-term investment, and would like to diversify the investment more effectively than a direct investment. He/she can, therefore, choose a "mutual fund" to answer their investment needs."

As a result, the investment via financial intermediaries, especially a mutual fund, is a good choice for individual investors.

What is a mutual fund? Why a mutual fund?

A mutual fund gathers the money from individual investors into a pool of funds, which will be invested in different assets, such as bonds, stocks, gold and real estate, to yield a return. The profit or loss (either is possible) will be accumulated in the mutual fund in the form of a "Net Asset Value (NAV)", which will then be proportionately paid back to the investor.



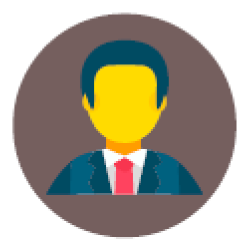
To establish the mutual fund, the asset management companies, also known as AMC, start with the need-based funds that are suitable for the market condition and serve the investor's needs. The asset management companies then ask for the permission of the Securities and Exchange Commission, also known as SEC. The fund has "professional fund manager" to manage the fund's investment money in compliance with "the policy in the prospectus."

Many investors may never read or may be unfamiliar with a "prospectus", inside of which displays the project details, investment objectives, investment policy, fee and expenses on fund management and others regulated by law. After the investment project or mutual fund under the management of these companies is permitted by the SEC, the fund manager will invest the money he/she raised in different asset classes, as indicated in the fund's policy. He/she will also manage the fund to meet its objectives in the prospectus proposed to the public and must strictly follow the criteria and conditions announced by the SEC and as issued in accordance with the law on securities and the stock market.

A "mutual fund" has the status of a **"juristic person"**, separated from the **"AMC"**

We believe that many investors may feel concerned about losing their money if anything goes wrong with AMC. However, there is no need to worry about this because a "mutual fund" has the status of a "juristic person", separated from the "AMC". The fund raised from the sale of unit trusts will be registered with the SEC. Hence, the assets of the mutual fund are separated from the assets of AMC from the start.

Therefore, if AMC's status of a juristic person is terminated in any case, such as going bankrupt or out of business, the mutual fund and the fund's assets will not be impacted at all. The mutual fund once managed by the defunct AMC will be transferred to another AMC to further manage the fund.



Making an investment with a small amount of money and receiving professional help

A mutual fund has many advantages over a direct investment. For example, it requires a very low capital cost. The mutual fund, "not being a tax unit", is not subject to income tax and it can fully transfer the benefits to the unit holders.

For the mutual fund, the professional fund manager makes an investment decision to ensure that the investment has high negotiation power and more investment opportunities. That is because the institute investors or fund can better diversify the risks. A large amount of money can be better allocated to different assets than a direct investment can. It can also choose the pattern and policy to better serve the purpose.

One mutual fund can buy various assets. If some assets do not yield the expected return, they will not affect the total return. For example, if the price of stock "A" goes down, other stocks in the fund may not be affected. That is why the fund we still hold high yields and a satisfactory return. Still, it has some risks. If the whole stock market does not show a good sign, the value of a fund with only stocks will definitely decline.

Nonetheless, we can still find the funds that hold other asset classes, such as bonds, gold and real estate, to diversify the investment. "The key benefit" the investors will earn from holding many mutual funds includes the fund manager, who closely and systematically manages the investment. He or she can properly manage risks and effectively make an investment decision. That is due to the fact that the fund manager can access not only in-depth information faster, but also any type and size of investment products. Then, he/she can offer various options at an appropriate risk level to best serve the needs of each investor.

How important is each type of fund?

As mentioned earlier, the mutual fund can choose various investment options at different risk levels, while the investor can choose the option that suits the individual's needs.

The mutual funds in Thailand increasingly vary in pattern and type. Many may wonder how many types of fund there are, what they look like, how to distinguish each fund, and at which risk level they are. First, we would like to explain about an open-ended and close-ended fund because the fund pattern will affect how we choose the fund and the liquidity in our pocket.

If divided by how "the unit trusts are redeemed",
the "mutual fund" has two major types, as shown below:

Types of Fund

	Close-ended fund	Open-ended fund
1. Number of unit trusts	Fixed	Flexible
2. Fund duration	Fixed	Evergreen
3. Unit purchase	The unit trusts are only open for reservation once when the project starts. If the investor wishes to purchase more units later, he/she must buy them in the secondary market (in case that the company registers the unit trusts) or declare the intention to the market maker appointed by the company.	The investor can purchase more unit trusts with the asset management companies directly or via appointed brokers, both individual and juristic persons, such as banks or securities companies, which send the purchase order to the asset management companies.

4. Unit Redemption	The asset management companies do not redeem the unit trusts until the project ends. If the investor needs the money, he/she must sell his/her unit trusts to the buyers in the secondary market.	The asset management companies redeem the unit trusts in the period indicated in the prospectus (daily, weekly, monthly) at the equal price to NAV, deducted with the fee (if any).
5. Fund registration	The fund is registered in the secondary market, such as Stock Exchange of Thailand.	The unit trusts are not often registered in the secondary market because they can be traded by selling agents.

Close-Ended Fund	**Open-Ended Fund**
• Fixed trading period • Bought only once at the start • The value is announced weekly • Registered in the secondary market to increase the liquidity	• Evergreen duration • Additional unit trusts can be bought • The value is announced every day when the trade takes place • The liquidity depends on the beginning of the transaction date

After learning about open-ended and close-ended fund, the next thing the investor needs to know about is the types of funds, which have different risk levels. However, it can be difficult for the investor to find the right type of fund for his/her risk appetite. To develop the business of "mutual funds" based on international guidelines since "July 1, 2011", the SEC announced that the unit seller must ask the investor to "fill out a questionnaire". The seller can then suggest the "suitable" funds for the customer and help the investor be aware of his/her own risk profile, which will help him/her to choose the suitable fund.

As an exception, the "money market fund", which is subject to a policy to domestically invest only, does not request the investor to fill out the questionnaire. If the investor refuses to give the information or provide incomplete information, the unit seller must not give him/her suggestions, nor sell the unit trusts."

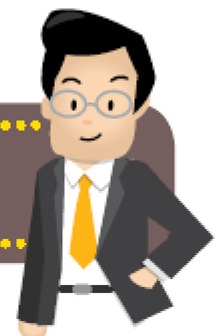
Risk Spectrum of Mutual Funds

Risk Level		Types	Type of Assets Invested in
Low	1	Money market fund that invests in Thailand only	Has a policy to specifically invest domestically in deposit/bonds/other securities as indicated by the SEC. The liabilities are payable on demand when the fund reaches the maturity date, or when the term of contract is less than a year. The portfolio duration at a certain period is shorter than three months.
Medium to low	2	Money market fund	Has a policy to partially invest overseas in deposit/bonds/other securities indicated by the SEC, but no more than 50% of NAV. The liabilities are payable on demand when the fund reaches the maturity date, or when the term of contract is less than 397 days. The portfolio duration at a certain period is shorter than three months.
	3	Government bond fund	Has a policy to invest in government bonds at least 80% of NAV on average in each accounting period.
	4	Fixed income fund	Has policy to invest in general bonds.
Medium to high	5	Balanced fund	Has a policy to invest in equity instruments and bonds
High	6	Equity fund	Has a policy to mainly invest in equity instruments at least 65% of NAV on average in each accounting period.
	7	Sector fund	Has a policy to invest in some specific sectors at least 80% of NAV on average in each accounting period.
Very high	8	Alternative fund	Has a policy to invest in alternative assets or assets with complicated and incomprehensible structure, such as commodities, gold fund, oil fund and non-hedging derivatives. This includes structured notes without principle protection.

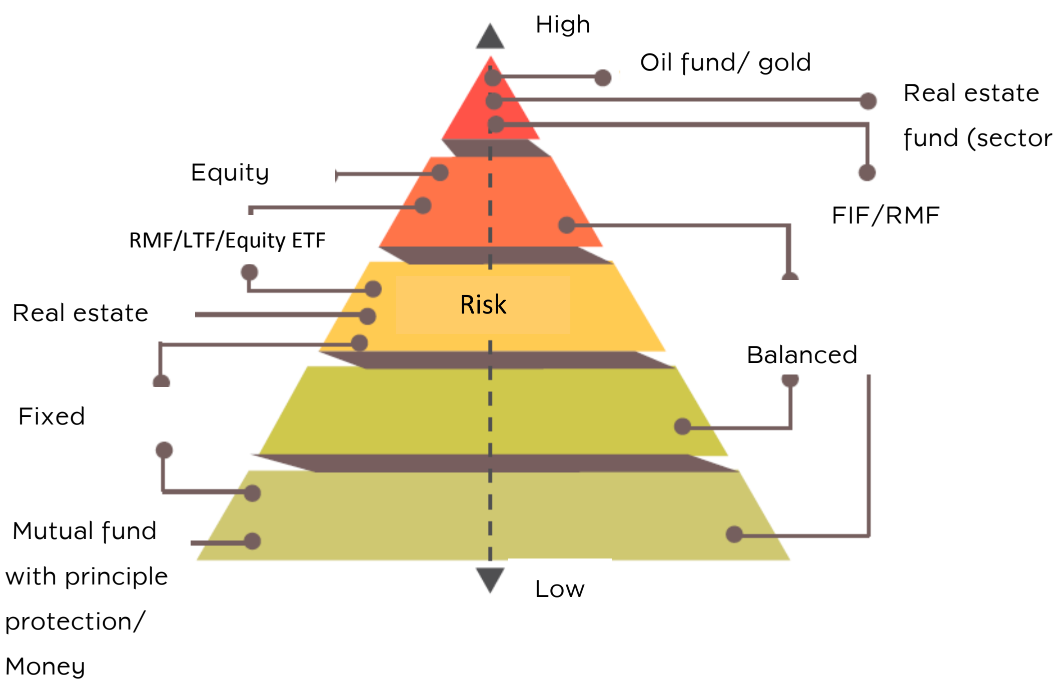
Remark: *Property funds has risk levels 4-8

The questionnaire consists of 11 questions. 10 key questions test the investor's risk appetite and yield the scores. A low risk appetite will receive low scores, while a high risk appetite will get high scores. These 10 questions review the investor's different aspects, which can be summarized into scores. One more question, which does not have a score, is about the risk appetite on currency exchange in case that the fund invests overseas. This questionnaire helps the investor learn about himself/herself at a certain level, which helps him/her choose the right fund.

Investment Risks

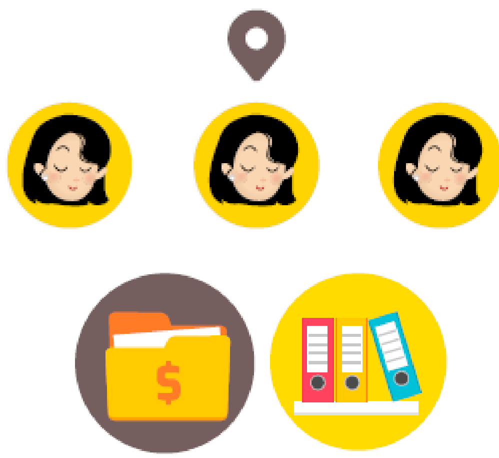


Mutual Funds



Once learning "what type of investor" they are (based on a scale of five that indicates their risk appetite), the investor needs to "pick the mutual funds" that suit his/her type. The mutual funds are divided into eight risk levels by using the risk spectrum in the prospectus to inform the investor about the risks. If the investor would like to invest in the fund with a higher risk than he/she can take, he/she must sign the consent form to declare that he/she is aware of the fund's risk. Normally, we recommend the investor to choose the right fund for his/her risk appetite."

"Pick the mutual fund" that suits your type

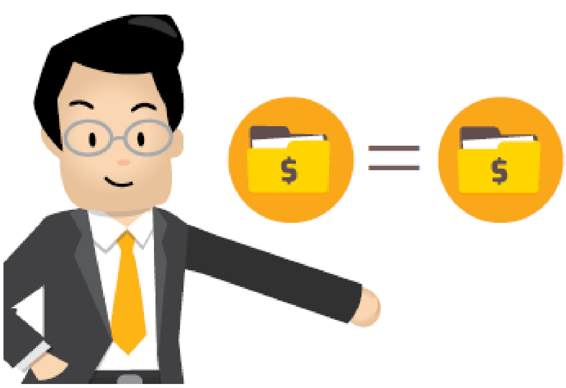


Score Summary of Risk Profile to find the right fund

Scores	Risk Level	Type of Fund
< 15	(1) 1	Money Market Fund (MM) that invests domestically
15 – 21	(2) 1 – 4	(1) + MM, government bond fund and equity fund
22 – 29	(3) 1 – 5	(2) + fixed income fund that invests in structured notes, balanced funds
30 – 36	(4) 1 – 7	(3) + equity fund, sector fund
> = 37	(5) 1 - 8	(4) + alternative fund

Source: The Securities and Exchange Commission (SEC) at www.sec.co.th

Besides the different risk levels for each fund, the individual investor, if interested, can compare the return of his/her direct investment with the return of the mutual fund. However, he/she should compare "oranges" with "oranges". That means the funds should have the same policy. For his/her own sake, the investor should be aware of the investment process, which has different policies and flexibility for both types of investor.

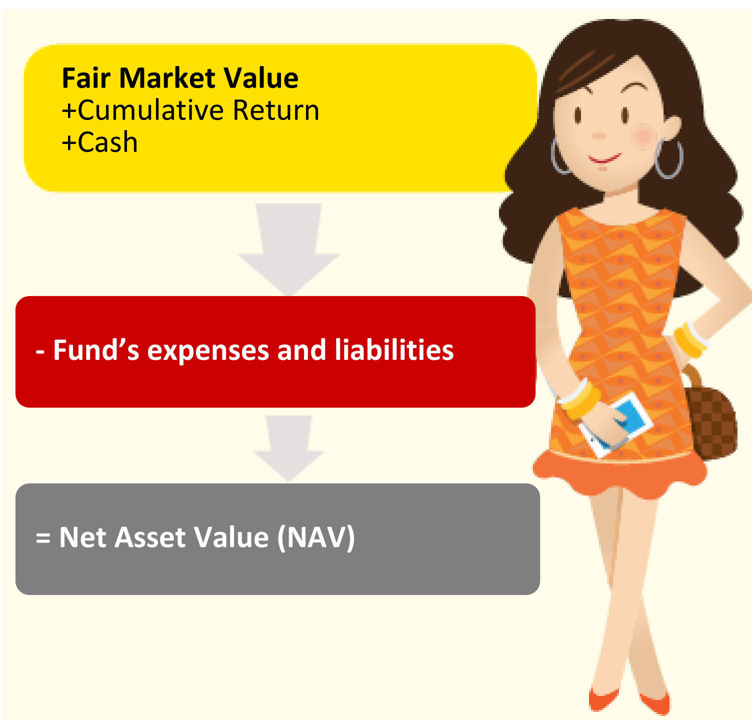


Investors should compare the funds with the same investment policy.

Learn how to read NAV

Before we talk about how to choose a fund, let's examine what NAV is and how the fund charges the fee. That is because NAV and fees are important. Some investors still misunderstand and sometimes trade their funds like stocks or other assets without considering the fees involved. In the long term, they may lose instead of gaining their benefits from the investment.

To provide a clearer picture of **Net Asset Value (NAV)**, a day after the fund makes an investment (excluding the funds invested overseas), it conducts a NAV valuation. Let's say the price of stock "ABC" goes up today. The fund assets will also increase. On the other hand, if the stock price goes down, it means the assets of our fund will decrease. We call this method a mark-to-market calculation. To calculate NAV, we need to deduct it with the fund's expenses and liabilities.



The investor needs to trade the fund in unit trusts first. For example, the fund has NAV of one million baht and 100,000 unit trusts are sold to the investor. Therefore, NAV per unit = 1 million THB/100,000 units = 10THB/unit.

$$\textbf{NAV per unit} = \frac{\textbf{NAV}}{\textbf{Unit}}$$

NAV per unit is the fund's trading price. When NAV increases, the fund will gain more assets. However, an increasing or decreasing NAV does not indicate that the fund yields a high or low return. Below is an example.

"Fund A has 10 THB of NAV per unit, while Fund B has 20 THB of NAV per unit. We cannot tell that Fund A is more attractive or tends to yield a higher return than Fund B because its assets cost less." A further example of this is described below.

NAV per unit of Fund A has remained at 10 THB for three months. Later, the stock market performs well but the fund manager picks the wrong stocks. So, the value of most stocks in the fund decreases, which goes in the opposite direction of the market and reduces the NAV of Fund A to 5 THB.

The NAV per unit of Fund B has remained 20 THB for three months. Later, the stock market performs well and the fund manager picks the right stocks. Therefore, the stocks in the fund increase in line with the stock market and the NAV of Fund B costs 25 THB.

From this example, the fund with low NAV does not indicate high quality. It may mean bad management. On the other hand, a high NAV can increase further if the fund manager picks the stocks well. So, we hardly compare NAVs, but would rather see their growth trend.

A point of caution for the investor-- the NAV of some funds may go up, down and up again as a cycle. It does not mean that the fund manager does not do a good job. The fund only pays the dividend (, which causes NAV to decrease). As a result, when seeing the NAV of some funds remain the same despite good management, the investor needs to check first if the fund pays the dividend.

We need to know what NAV is because it is the fund's trading price. Mostly, it is divided into two parts, as shown below.

1 Bid

Bid is the price that the fund will offer to the investor.

Calculation => NAV + 0.0001 + fee

2 Offer

Offer is the price that the fund will buy from the investor.

Calculation => NAV - fee

Now, let's see the fee or expense we need to pay when buying mutual funds. It is divided into two parts, as shown below:

1. **Fee deducted directly from the unit holders (during trading)** is the portion we need to pay to the asset management company and selling agents. The investor needs to pay the fees, just like the commission paid to the brokerage firms in stock trading, including fund switching. When you are about to buy the fund, the marketing officers will normally tell you the expenses in detail again.

2. **Fee collected from the fund** mostly looks at the total expense (collected from the fund). However, we normally do not see this portion of the expense because it is collected after we hold the unit trusts. It is included in the fund's daily expenses used to calculate NAV.

For the fee calculation, 1.8% (figure made up as the expense collected from the fund) is divided by the number of operating days within a year. This fee, in percentage per day, is multiplied with the fund's NAV, which will be collected as the daily expense.