

Set 4 Questions & Answers 010808

Set 4

1. It is important for the UT industry to be regulated in order to protect clients' investments. Which of the following is not an authority involved in UTS regulation?

- A. Ministry of Finance C. Institut Bank-Bank Malaysia
B. Bank Negara Malaysia D. Securities Commission

Answer C

2. _____ is a sales charge or entry fee levied by a UTMC on the initial purchase of UTS. The charge is sometimes called a 'load', 'front end load', or sales or entry charge. The charge can be expressed either as a fixed amount or calculated as a percentage of the NAV of a unit.

- A. Initial Load Charge C. Initial Service Charge
B. Initial Sales Charge D. Initial Interest Charge

Answer C

3. Fixed-income funds are generally said to have lower risks than equity funds. Hence, what can be expected from the returns of these funds?

- A. Usually higher than equity funds
B. Usually lower than equity funds
C. Consistently higher than equity funds
D. None of the optional answers are correct

Answer B

Fixed income securities are usually more secure, especially if held to maturity. It is therefore expected that the returns offered by fixed income UTS will be lower than equity UTS over the long term.

4. What is the name of the regulatory body for UTS in

Malaysia?

- A. Bank Negara Malaysia C. FMUTM
B. Registrar of Companies D. Securities Commission

Answer D

The regulation of the unit trust industry has been entrusted to the SC under the Securities Commission Act, 1993 as amended.

5. What type of investment would you most expect to find in an aggressive growth fund?

- A. Investment in capital guaranteed life insurance products
B. Cash
C. Investment in properties with regular income
D. Shares of technology-company recently listed on the stock exchange

Answer D

Aggressive growth UTS invest in blue chips (large and well-capitalized companies whose shares are listed on a stock exchange)

6. If NAV of a fund is RM1.00, the fund manager declared a distribution of RM0.12, how much would an investor receive if he redeems 10,000 units after distribution?

- A. RM10,500.00 C. RM9,800.00
B. RM 8,800.00 D. RM10,800.00

Answer B

NAV/unit ex-D = RM1.00 – RM0.12 = RM0.88

Redemption amount = number of units x NAV/unit ex-D
= 10,000 x RM0.88
= RM8,800.00

7. Assume that the investment return is 10%, tax rate is 20% and the inflation rate is 5%, what is the effective rate of

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return?

- A. 5% B. 4% C. 3% D. 2%

Answer C

Return after tax

= Investment return - (Investment return x Tax rate)

= 10% - (10% x 20%)

= 10% - 2%

= 8%

Effective rate of return

= return after tax - inflation rate

= 8% - 5%

= 3%

8. The best way to help investors go through the prospectus is to begin with:

- A. Members of the Investment Committee
B. Fees & Charges
C. Key Data Section
D. Profile of the Board of Directors and Key Management Staff

Answer C

This section provides the executive summary of the prospectus. It allows investors and UTC to make a quick comparison of the different UTS issued by the UTMC.

9. The main objective of the Acts that regulate the unit trust industry is to safeguard the benefits of the:

- A. Unitholder C. Trustee
B. UTMC D. Securities Commission

Answer A

The main objective of all regulations of the unit trust industry must be to protect the interest of prospective investors and existing unitholders.

10. An index UTS:

- A. Invest primarily in all of the securities of a representative sample of the securities that are included in a selected market index.
B. Invest primarily in overseas share markets.
C. Invest in real property, usually prominent commercial properties.
D. Invest in a range of companies that closely match companies comprising a particular index.

Answer D

11. In general, which of the following category of unit trust is likely to depreciate most when the overall stock market falls?

- A. Property trust C. Equity trust
B. Fixed-income trust D. Money market trust

Answer C

The risk profile for an equity trust is aggressive in comparison with property, fixed income and money market trust. Therefore if the overall stock market falls, the equity trust will depreciate the most.

12. Generally prospectus of a unit must be renewed _____

- A. Every two years C. Every month
B. Every six months D. Every year

Answer D

The UTS prospectuses are very important documents. It must be updated at least once every 12 months.

13. The maximum margin on unit trust financing is fixed at:

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A. 85% B. 67% C. 50% D. 79%

Answer B

14. Mr. X wants to invest RM 200,000.00 in a unit trust fund. What is the maximum amount can he borrow from a financial institution for the investment?

A. RM134,000.00 C. RM120,000.00
B. RM66,000.00 D. RM80,000.00

Answer A

Maximum loan to valuation = 67% x RM200,000.00
= RM134,000.00

15. Which are the parties involved in the unit trust industry?

- I. UTMC
- II. Trustee
- III. Investment Manager
- IV. Unitholder

A. I and II C. I, II and IV
B. I, II and III D. All of the above

Answer D

All of them are involved in the unit trust industry. However, the investment managers are not parties to the deed.

16. Which are the key requirements of a trustee?

- I. Must be a trust company registered under The Trust Company Act, 1949
 - II. Must be independent of the UTMC and UTS
 - III. Must be registered with the SC
 - IV. Act as a custodian by holding all the assets belonging to a UTS
- A. I and II C. IV only

B. III only

D. All of the above

Answer D

17. Assume an investor has invested a lump sum of RM 25,000.00. 2 years later the total returns were RM27,300.00. Calculate the compounded return from this investment.

A. 5.5% B. 4.5% C. 6.5% D. 7.5%

Answer B

Present value = RM 25,000.00, n = 2, Future Value = RM27,300.00

Calculate the compounding rate p.a.

$$FV = PV (1 + i)^2$$

$$RM27,300 = RM25,000.00 (1 + i)^2$$

$$1.045 = (1 + i)^2$$

$$1.045 = 1 + i$$

$$0.045 = i$$

$$4.5\% = i$$

18. Arrange the sequence of the category of funds from the highest to the lowest risk.

- I. Money Market Fund
- II. Balanced Fund
- III. Bond Fund
- IV. Equity Fund

A. I, II, III and IV
B. IV, III, II and I

C. IV, II, III and I
D. IV, I, III and II

Answer C

19. Which of the below are parts of the prospectus?

- I. Investment Objectives
- II. Authorized investments

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- III. Fees & charges
- IV. Trust expenses

- A. I, II, III
- B. IV only
- C. I and III
- D. All of the above

Answer D

20. What will be received by the investors generally after they have invested in UTS?

- I. Confirmation that the investor's application amount has been received.
- II. Confirmation of the number of units acquired in the UTS, and the NAV of a unit on the date of allotment of units.
- III. Confirmation on the rate of initial service charge imposed both in percentage form and actual value as well as the net amount invested net of service charge
- IV. Confirmation of the rate of exit fee imposed both in percentage form and actual value as well as the total amount repurchased
- V. A certificate for the number of units issued

- A. I, II, and III
- B. I only
- C. I, II, III, and V
- D. I, II, III, and IV

Answer C

21. What is the platform for UTMC to discuss issues relating to the unit trust industry?

- A. Ministry of Finance
- B. Institut Bank-Bank Malaysia
- C. Securities Commission
- D. FMUTM

Answer D

22. When did RHB Unit Trust Management Berhad introduced the first Islamic bond fund?

- A. 2000 B. 2001 C. 2002 D. 2004

Answer A

23. Which of the following is/are the risk(s) of borrowing to invest in UTS?

- I. Interest rate fluctuations
- II. Default in repayment of loan
- III. Premature repayment of loan
- IV. Margin call

- A. I and II
- B. I and III
- C. II and III
- D. All of the above

Answer D

24. Which of the below is/are NOT part of the Code of Ethics?

- I. Fair dealing
- II. Competence
- III. Use of authorisation card
- IV. Acting with due care, skill and diligence
- V. Compliance with law

- A. III and V
- B. I, II, IV
- C. III only
- D. None of the above

Answer A

III and V are part of the Standards of Professional Conduct.

25. Dollar cost averaging is:

- A. A strategy whereby investors buy more units when prices are high

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- B. A strategy whereby investors buy less units when prices are low
- C. A systematic and regular investment of a fixed amount of money
- D. A strategy for customers to invest all their capital at one time rather than on a regular basis

Answer C

DCA is a systematic and regular investment of a fixed amount of money, irrespective of the price level of the investment at the time the investment is made. This can reduce the average cost of the investments acquired to below the average price of those investments during the period.

26. What is unit trust scheme?

- A. Form of collective investments that allow investors with similar objectives to pool their savings
- B. An investment portfolio which only contains one type of asset
- C. Form of collective investments whereby the unitholders are the shareholders of the company they have invested in
- D. An investment portfolio whereby the investors of the particular UTS will purchase the securities in the portfolio directly

Answer A

The pools of savings are then invested in a portfolio of securities or other assets managed by investment professionals.

27. For the Financial Year Ended 30 Dec 200X, the financial statement of ABC Fund shows that the following expenses were incurred:

Management Fees - RM1, 340,999

Trustee Fees - RM 730, 173

Auditors Fee - RM 172, 641

Bank charges & other expenses - RM 361, 594

The average Fund Size for ABC fund during the year was RM 250, 492, 853. Calculate the MER of the fund for they

year ended 30 Dec 200X.

- A. 1.07%
- B. 1.03%
- C. 1.08%
- D. 1.04%

Answer D

$$\begin{aligned} \text{MER} &= \frac{[\text{fees} + \text{recovered expenses}]}{\text{Average fund size}} \times 100 \\ &= \frac{\text{RM } 2,605, 407}{250,492,853} \times 100 \\ &= 1.04\% \end{aligned}$$

28. What does a gradually decreasing MER over a period of several years indicate?

- A. UTMC is not managing its operating cost well
- B. UTMC is managing its operating cost efficiently for its fund size
- C. That all newly launched UTS will have MER
- D. UTMC is managing its operating cost efficiently

Answer B

The fund size is an important factor for MER. UTS with a larger fund size should generally have a lower MER than smaller UTS.

29. How do investors overcome the impact of inflation?

- A. By reducing the tax rate
- B. Investors need to preserve the purchasing power of the original investment
- C. Hope to earn a return that is less than the inflation rate
- D. None of the optional answers are correct

Answer B

To overcome the impact of inflation the investors need to preserve the purchasing power of the original investment and be earning a rate of return that beats the inflation rate. In periods of high inflation, the purchasing power of financial assets decreases.

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30. What is the term used if Mrs. Z wants to reinvest her distribution in UTS?

- A. Distribution Reinvestment C. Suspension
 B. Buying Distribution D. Distribution Equalization

Answer A

31. How many reports must be issued during the period in which units in UTS are held?

- A. At least 1 report C. At least 3 reports
 B. At least 2 reports D. At least 4 reports

Answer B

There are at least 2 reports which are the Annual Report and the Interim Report.

For Questions 32 & 33

32. Initial investment = RM80,000.00
 Rate of return = 10%
 On going management fee = 1.5%
 Service charge = 5%

What is the return of the investment after 3 years? (Use 4 decimal points for your calculation)

- A. RM97074.80 C. RM97,074.80
 B. RM97,318.10 D. RM101,156.00

Answer B

$$\begin{aligned} \text{Initial investment} &= \text{RM}80,000.00 \\ \text{Working money} &= \text{RM}80,000 / (1 + 5\%) \\ &= \text{RM}76,190.48 \\ \text{Value end of year 3} &= \text{working money} \times (1 + i)^n \\ &= \text{RM}76,190.48 \times (1 + [10\% - 1.5\%])^3 \end{aligned}$$

$$\begin{aligned} &= \text{RM}76,190.48 \times (1 + 0.085)^3 \\ &= \text{RM}76,190.48 \times (1.085)^3 \\ &= \text{RM}76,190.48 \times 1.2773 \\ &= \text{RM}97,318.10 \end{aligned}$$

33. Assume that the ongoing management fee is 1% instead of 1.5%, what is the value of investment after 3 years? (Use 4 decimal points for your calculation)

- A. RM98,666.67 C. RM90,516.00
 B. RM98,420.00 D. RM95,280.00

Answer A

$$\begin{aligned} \text{Value end of year 3} &= \text{working money} \times (1 + i)^n \\ &= \text{RM}76,190.48 \times (1 + [10\% - 1\%])^3 \\ &= \text{RM}76,190.48 \times (1.09)^3 \\ &= \text{RM}76,190.48 \times 1.2950 \\ &= \text{RM}98,666.67 \end{aligned}$$

34. Which of the following is NOT true about the agency structure?

- A. The standard structure comprises a Group Agency Manager, an Agency Manager, and Agency Supervisor and an Agent.
 B. There must be more than 4 tiers.
 C. The unit must not exceed 50 persons in total at all times.
 D. An agent is not allowed to recruit other agents.

Answer B

The structure should not exceed 4 tiers. The SC encourages UTMC to have agencies with fewer tiers to ensure that proper supervision is applied to each agent.

35. What is the most important element an investor should have before deciding to invest in UTS?

- A. Confidence C. Intelligence

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- B. Risk
- D. Professionalism

Answer B

All investors should understand that investing in the UTS has its own risk.

36. What do you understand about unit split?

- A. It affects the NAV of the UTS
- B. It affects the value of a unitholder's investment
- C. It does not affect the NAV of the UTS or the value of a unitholder's investment.
- D. None of the optional answers are correct

Answer C

A unit split is the division of a single unit in UTS into two or more units. The effect of unit split does not affect NAV of UTS nor the value of a unitholders investment. The objective of unit split is to attract new investors by lowering the unit price.

37. Investor A & Investor B started investing with RM64,000.00 with the rate of return of 8.5% p.a for investor A. A few years later, both of them received RM128,000.00 each. However Investor B received the returns faster by 1.27 years. When did Investor B receive his/her return?

- A. 8.47 years
- B. 7.20 years
- C. 6.41 years
- D. 5.94 years

Answer B

Investor A:

$$\frac{72}{\text{Given rate of return}} = \frac{72}{8.5} = 8.47 \text{ years}$$

$$\text{Investor B} = 8.47 - 1.27 = 7.20 \text{ years}$$

38. Mr A says, "Oh! XYZ fund is really good. I shall invest in this fund to get a high return in 3 years time!" Upon hearing this, A UTC should advise Mr A which of the following?

- A. The fees & services for the particular fund
- B. The possible risk involved
- C. To go through the prospectus
- D. All of the above is correct

Answer D

UTC must ensure that (1) investors understand that the services provided by UTMF are not without cost, (2) investors are given explanation of risk when investing in UTS and (3) investors read through and understand the prospectus of the particular fund

39. A buyer is not sure if should invest in UTS. An agent should:

- A. Advise the buyer to contact the agent once has made decision
- B. To go through the prospectus together and leave the prospectus with the buyer to decide
- C. Should ignore the buyer as this is a waste of time for the agent
- D. Show the buyer some brochures and to take it back after that to be used for the next appointment with a different prospect

Answer B

UTC should provide all their prospects with an in depth-explanation of the prospectus before an application is made.

40. A UTC should not say:

- A. Investing in UTS has no risk
- B. If do not have enough money to invest, investors should apply for a loan

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- C. Returns are guaranteed when investing in UTS
 D. All of the above

Answer D

41. A complaint can be referred to:

- A. UTC
 B. UTMIC
 C. FMUTM & SC
 D. All of the above

Answer D

42. For a Syariah based UTS, where can the excess cash or liquid assets be kept/invested?

- A. Investment accounts
 B. Current accounts
 C. Syariah-based instruments
 D. None of the above

Answer C

Any excess cash and/or liquid assets are to be kept/invested in Syariah-based instruments e.g. Islamic current account or investment account.

43. Below are the list of a unitholder's rights and liabilities. Which of the following is not part of the list?

- A. To call for meetings of unitholders
 B. To receive UTS annual and interim reports
 C. To receive a distribution from UTS
 D. To choose which type of shares to be included in their investment portfolio

Answer D

One of the disadvantage of investing in UTS is investors lose their rights to direct how their savings are invested.

44.

NAV	Amount Invested
0.50	RM1500.00
0.60	RM1500.00
0.70	RM1500.00

Calculate the average unit cost for the above investment.

- A. RM0.59 B. RM0.95 C. RM0.78 D. RM0.64

Answer A

Total amount invested = RM4500.00

Total units invested

$$= (1500/0.50) + (1500/0.60) + (1500.00/0.70)$$

$$= 3000 + 2500 + 2142.86$$

$$= 7642.86$$

$$\text{Average unit cost} = \text{RM}4500.00/7642.86$$

$$= \text{RM}0.5887$$

$$= \text{RM}0.59$$

45. Which is not true about management fee?

- A. The annual management fee is calculated on the Gross NAV of UTS
 B. The average annual management fee is 1.5%
 C. The management fee is to cover the cost of managing UTS
 D. The fee is an optional requirement to be included in the prospectus

Answer D

The annual management fee must be included in the prospectus.

46. There are many potential risks that are related to investing in UTS. Listed below are a few types of risk. Which of the following has an incorrect description?

- A. Market risk – stock value does not fluctuate in response to the activities of individual companies and general market or

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economic conditions

- B. Liquidity risk – defined as the ease with which a security can be sold at or near its fair value depending on the market
- C. Inflation risk –the risk of high inflation will affect the real return from investment
- D. Risk of non-compliance – risk that specifically occurs when a Syariah compliant security is reclassified as a Syariah-non compliant Sekuriti.

Answer A

The stock value does fluctuate in response to the activities of individual companies, general market or economic conditions.

47. Investor X has decided to change from high risk to a low risk category of investment. Which of the following is an option for investor X?

- A. Bond Fund to Equity Fund
- B. Equity Fund to Bond Fund
- C. Money Market Fund to Balanced Fund
- D. Bond Fund to Balanced Fund

Answer B

The Equity Fund has a higher risk than Bond Fund.

48. What does liquidity means in the context of UTS?

- A. Units can be bought easily
- B. Average cost of investment acquired to below the average price
- C. Investors can sell their investments at any time
- D. Payment of income to unitholders

Answer C

Investment can easily be bought and sold readily through UTMC, IUTA and UTC.

49. One of the advantage of investing in UTS is that the funds are managed by professional management. Why is this so?

- A. They have experience investing more than RM500million
- B. They have years of knowledge and experience in the unit trust industry
- C. They ensure the funds are structured according to their own principles
- D. None of the above is correct

Answer B

50. Net Asset Value = RM250,000.00
Units in circulation = 300,000.00
Distribution of income = 3.5¢
Unit split = 1:5

Calculate the NAV per unit ex distribution. (3 decimal points for calculation)

- A. RM0.73 B. RM0.80 C. RM0.70 D. RM0.76

Answer B

- NAV/unit cum-D = $\text{RM}250,000.00 / 300,000.00 = \text{RM}0.833$
NAV/unit Ex-D = $\text{RM}0.833 - \text{RM}0.035$
= RM0.798
= RM0.80

51. Calculate the NAV per unit ex distribution assuming post unit split. (use 3 decimal points for calculation)

- A. RM0.63 B. RM0.60 C. RM0.67 D. RM0.69

Answer C

- NAV/unit post unit split = $\text{RM}0.80 \times \frac{5}{6}$
= RM0.67

52. Given that the NAV per unit at the beginning of the day is

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RM0.65, and the NAV per unit at the end of the day is RM0.66. Investor Z decides to redeem 10,000 units. Based on Forward Pricing, how much will it cost?

- A. RM6,500.00
- B. RM6,000.00
- C. RM6,600.00
- D. RM10,000.00

Answer C

Number of units x NAV/unit end of day
= 10,000.00 x RM0.66
= RM6,600.00

53. Which is not true regarding the role of FMUTM?

- A. To provide self-regulation for the UT industry
- B. Appointed by the SC to conduct unit trust examinations for Persons wishing to become UTC
- C. To advise the Minister of Finance
- D. To work closely with the SC in the development and growth of the unit trust industry

Answer C

To advise the Minister of Finance is one of the SC's role

54. Which is not true about a UTC?

- A. UTC should introduce himself as a unit trust agent
- B. UTC does a need analysis for his client
- C. UTC needs an IA and UTC license
- D. UTC recommends a unit trust product

Answer C

A UTC does not need an IA license

55.

X	Y
70% Equity	20% Equity
30% Money Market	80% Money Market

Which of the following is true?

- A. If the market falls, Y will be more negatively affected than X
- B. If the market falls, X will be more negatively affected than Y
- C. If the market rises, both X and Y will be negatively affected
- D. None of the above is correct

Answer B

Portfolio X is at a higher risk than Y.

56. How do we calculate redemption price?

- A. NAV plus Transaction Cost Factor
- B. NAV less Transaction Cost Factor
- C. NAV plus an exit fee
- D. NAV less an exit fee

Answer D

57. What does a register contain?

- A. The category of funds each investor has invested in
- B. The total of investments each investor has in each fund category
- C. Personal data relating to each investor
- D. None of the above

Answer C

The Register contains a large amount of personal data of each investor. Clients can update their data from time to time such as change of address, new IC number and change of name.

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58. Which of the parties below has been established to investigate any complaints from customers?

- A. Appealing Committee
- B. Investigating Committee
- C. Disciplinary Committee
- D. Investment Committee

Answer B

This committee has been established to investigate complaints and also look into disciplinary action that will be taken against any UTC who breach the FMUTM Code of Ethics.

59. Given an inflation rate of 5%, how much will education fees of RM80,000.00 cost in 10 years time? (Use 4 decimal points for your calculation)

- A. RM146,601.00
- B. RM130,000.00
- C. RM130,312.00
- D. RM114,023.00

Answer C

$$\begin{aligned}\text{Compounding factor} &= (1 + i)^n \\ &= (1 + 5\%)^{10} \\ &= (1 + 0.05)^{10} \\ &= 1.6289\end{aligned}$$

$$\begin{aligned}\text{Cost for education after 10 years} &= 1.6289 \times \text{RM}80,000.00 \\ &= \text{RM}130,312.00.\end{aligned}$$

60. Islamic finance in Malaysia began to develop with the establishment of:

- A. Shell MDS Sdn Bhd
- B. The Islamic Capital Market Unit
- C. Bank Islam Malaysia Berhad
- D. Malaysia Capital Market Masterplan

Answer C

Bank Islam Malaysia Berhad was established in 1983.