Set 3 Questions & Answers 201912

Set 3

1. Which of the following benchmark below cannot be used as a fund performance benchmark?

A. KL Inter-Bank Offer Rate C. Current account as a percentage of GDP
B. KLCI D. 5 year bond rate

Answer C
The gross domestic product (GDP) is one of the measures of national income and output for a given country's economy. GDP is defined as the total market value of all final goods and services produced within the country in a given period of time (usually a calendar year).

Question 2 & 3

2. The price of the fund in Year 1 is RM0.80 per unit. In Year 2, Mr. K bought another 20,000 units at the same price. He repurchased the investment in Year 3 at RM0.90 per unit with a total amount of RM93,375. What is the total investment amount for Mr. K in Year 1?

A. RM99,719 C. RM67,000
B. RM96,719 D. RM63,000

Answer C
Total number of units in Year 3
= RM93, 375/RM0.90
= 103,750 units
Total number of units in Year 1
= 103,750 units – 20,000 units
= 83,750 units
Investment Amount
= 83, 750 units X RM0.80
= RM67, 000

3. What are the total units received for Year 1?

A. 73,750 units C. 83,750 units
B. 80,750 units D. 90,750 units

Answer C
Total number of units in Year 3
= RM93, 375/RM0.90
= 103,750 units
Total number of units in Year 1
= 103,750 units – 20,000 units
= 83,750 units

4. In a hurry to close a sale, Unit Trust Consultants are prone to give information that is not supposed to be said. Under the Code of Ethics for UTC: Honesty, Dignity & Integrity, a UTC should not say the following except:

A. This investment is guaranteed to make profit in middle to long term.
B. The fund managers will at their best ability provide the possible return for middle to long term investment.
C. Unit trust is as safe as fixed deposits.
D. This fund will always yield at 10%.

Answer B

Fund X	Fund Y
Equity 10%	Equity 90%
Money Market 90%	Money Market 10%

5. Which statement(s) is/are true?

I. If interest rate rises, it will give an adverse effect on Fund Y.
II. If interest rate rises, it will give a positive effect on Fund X.
III. If stock market performed well, it will give a positive effect on Fund X.
IV. If stock market performed well, it will give an adverse effect on Fund Y.

A. I, II C. II, III, IV
B. III, IV D. I, II, III, IV

Answer A
When the interest rate rises, money market instruments will be in demand. Therefore the fund that has higher money market exposure will gain (Fund X). For the fund that has higher exposure in equity (Fund Y) will have negative impact.

6. Prices of listed closed-end funds are determined in the following manner:

A. The total value of the assets is divided by the number of units in circulations
B. Prices are determined by the demand and supply in the market such as Bursa Malaysia where the trust is listed
C. The UTMC computes the daily price upon close of business day
D. The investment committee sets the daily prices

Answer B

7. Which of the following best defines collective investment scheme?

A. A pool of investment that can be raised by anyone, something like a charitable donation.
B. Large amount of money invested in an instrument to churn more proceeds.
C. In other words something like a trust fund.
D. Pool of cash that is later used to invest in a variety of investment instruments to multiply the initial figure.

Answer D
Collective investment scheme allows investors with similar objectives to pool their savings, which are then invested in a portfolio of securities or other assets managed by investment professionals. (Chapter 1, page 1-2)

8. What choices does an investor have when a distribution is handed out?

I. Reinvest by purchasing more units in the same fund.
II. Take the money and spend it on oneself.
III. Reinvest by purchasing shares of the UTMC's counter in Bursa Saham.

A. All of the above
B. I and II
C. I and III
D. None of the above

Answer B
The investor has a choice to reinvest or spend the money. The investor is however not allowed to reinvest and buy shares, unless he/she chooses to redeem the investment and use the proceeds to buy shares.

9. Which of the following statement a UTC should not say to an investor?

A. Unit Trust investment has no risk.
B. Don't worry because the returns are guaranteed.
C. It's ok not to have money to invest because you can always apply for a loan.
D. All the statements above.

Answer D

10. What do usually financiers do when assessing a loan application for an investor?

A. The types of credit card that an investor has.
B. The amount that needs to be top up when an investment falls under the security level.
C. The credit worthiness of an applicant.
D. The investment that the investor has made before.

Answer C

11. Generally, a unit trust that has 80% of its assets invested in growth stocks would be most appropriate type of investment for the preparation of:

A. A college fund for an 18 year old
B. An individual retirement fund for a 52 year old
C. An income producing savings for an 86 year old
D. None of the optional answer is correct

Answer D

12. Which of the following is correct?

A. When interest rate decreases, bond value will increase.
B. When interest rate decreases, bond value will decrease.
C. There is no relationship between interest rate and stock market.
D. There is not relationship between interest rate and bonds.

Answer A
Generally, bond prices move in the opposite direction of interest rates.

<u>Question 13 and 14</u>
Initial investment: RM80, 000
Term of investment: 3 years
Expected Investment Return before Fees & Expenses: 10% p.a.
On-going management fee: 1.5% p.a.
Initial service charge: 5%

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13. What is the expected value of the investment after 3 years?

A. RM97,317
B. RM101,156
C. RM102,183
D. RM106,480

Answer A

Working money = RM80, 000/(1+5%)
= RM80, 000/(1.05)
= RM76, 190.48

Effective return = 10% - 1.5%
= 8.5%

Investment value after 3 years

FV = PV $(1 + i)^n$
= RM76, 190.48 $(1+8.5\%)^3$
= RM76, 190.48 $(1.085)^3$
= RM97, 317.27

14. How long does it take approximately take for the expected value of the initial investment to reach RM160, 000?

A. 7.2 years
B. 8.5 years
C. 14.4 years
D. 20.6 years

Answer B

Use Rule of 72
72/8.5 = 8.5 years

15. Assuming that the on-going management fee is 1.0% instead 1.5%, what is the expected value of the investment at the end of third year?

A. RM98,669
B. RM101,156
C. RM103,602
D. RM106,480

Answer A

Working money = RM80, 000/(1+5%)
= RM80, 000/(1.05)
= RM76, 190.48

Effective return = 10% - 1.0%
= 9.0%

Investment value after 3 years

FV = PV $(1 + i)^n$
= RM76, 190.48 $(1+9.0\%)^3$
= RM76, 190.48 $(1.09)^3$
= RM98, 668.88

16. Maximum Initial Service Charge is disclosed in:-

A. Deed
B. Prospectus
C. Marketing Materials
D. All of the above

Answer D

SC requires all UTMCs to publish service charges in the prospectus and marketing materials for public awareness. As for the deed, is it the legal agreement between 3 main parties – UTMC, Trustee and unit holders. The agreement must state the service charges as well.

<u>Question 17 & 18</u>

An investor had invested a lump sum of money in a unit trust fund at RM0.80 per unit in the first year and subsequent purchase another 20,000 units in second year. At the end of third year he decided to redeem all his investment at Buying Price of RM0.90 per unit and total proceed was RM79, 200.

17. How many units was he entitled for the investment he made in the first year?

A. 68,000 units
B. 79,200 units
C. 88,000 units
D. None of the above

Answer A

Total number of units in Year 3
= RM79, 200/RM0.90
= 88,000 units
Total number of units in Year 1
= 88, 000 units – 20, 000 units
= 68, 000 units

18. How much did he invest in the first year? (Assume no initial sales charge applied)

A. RM16,000
B. RM54,400
C. RM70,400
D. None of the above

Answer B

Amount invested in Year 1

= 68, 000 units X RM0.80
=RM54,400

19. What is your understanding of "Margin Call"?

    A. It is the amount an investor might have to pay his/her financier if the credit exposure of unit trust loan falls beneath a certain level.
    B. It is a type of processing fee imposed by financier to finance unit trust investment.
    C. It is a financier's marked up margin imposed on top of base lending rate applicable.
    D. It is charges imposed on future contracts.

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Answer A
Lenders may find that the value of the units in UTS that are held as security for the loan provides them with insufficient margin over the amount of the outstanding loan. The lender will then ask that the borrower 'top up' the level of security - a margin call will be made on the borrower. (Chapter 1, page 1-8)

<u>Question 20, 21 & 22</u>
NAV cum-distribution for a unit trust fund is RM200million. Unit in circulation is 380million units and the fund manager is charging a 5% initial service charge. (Please use 3 decimals for calculation purpose)

20. If the distribution declared is 3.5 cents per unit, how much is the selling price per ex-distribution?

    A. RM0.49 C. RM1.86
    B. RM0.52 D. RM1.96

Answer A
NAV per unit cum-Distribution
= RM200million/380million units
= RM0.526
NAV per unit ex-Distribution
= RM0.526 – RM0.035
= RM0.491

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21. Based on the above answer and assume that a client invested RM10, 000 ex-distribution, how many units will she get for her investment?

    A. 20,408.16 units C. 5,120.33 units
    B. 19, 436.35 units D. 5,102.04 units

Answer B
Amount invested
= RM10,000/(1+5%)
= RM10,000/(1.05)
= RM9523.810
Number of units ex-distribution
= Amount invested/NAV per unit ex-Distribution
= RM9523.810/0.49
= 19,436.35 units

22. If the initial service charge is reduced from 5% to 3% and based on the selling price ex-distribution, how much savings can the client get, given the same investment amount in previous question?

    A. RM326.53 C. RM327.95
    B. RM184.93 D. RM200.00

Answer B
Difference between:
Working money (with 5% service charge) and Working money (with 3% service charge)
= [RM10,000/(1+5%)] – [RM10,000/(1+3%)]
= RM9523.810 – RM9708.738
= RM184.93

23. Daily NAV of UTS are available through

    A. UT pricing tables published in the major newspapers
    B. Call UTMC
    C. Visit UTMC and branches
    D. All of the above

Answer D

24. In year 1995, En. Jamal put RM50,000 in an investment that earned him 9% per annum. Supposing the investment is able to deliver the above yearly return for the past as well as the coming year, when will his money double?

A. Year 2000
B. Year 2003
C. Year 2005
D. Year 2007

Answer B
Use Rule of 72
72/9 = 8 years
1995 + 8 years = 2003

<u>Question 25 & 26</u>
Number of units held before unit split: 18,000 units
Total value of investment before unit split : RM6,000
Unit split ratio : 1 : 3

25. How many units will the investor hold after the unit split exercise?

A. 24,000 units
B. 18,000 units
C. 16,000 units
D. 6,000 units

Answer A
Number of units after unit split
18, 000 x (4/3) = 24, 000 units

26. What is her total investment value after the unit split exercise?

A. RM2,000
B. RM6,000
C. RM8,000
D. None of the above

Answer B
NAV per unit before unit splt
= RM6, 000/18, 000units
= RM0.33
NAV per unit after unit split
= RM0.33 x (3/4)
= RM0.25
Total Investment Value
= RM0.25 x 24,000 units
= RM6, 000

27. Based on the latest performance table, Mei Ling enthusiastically tells you "Look! The OMG Small Cap Fund was up to 36% last month, I think this fund may be best for me to invest." Knowing that choosing a fund merely based on best record in the previous month is not in her best interest, what other aspect would you advise her to look into before investing in the fund?

I. Consistency of the fund's performance in medium and long term.
II. Her own financial goal and decide how much risks she can afford to take.
III. Suitability of fund investment objectives and risks with her own investment goal and risk profile.
IV. Total fees and charges imposed by the fund and service level provided.

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

Answer D

28. In order to increase the return of a fund investment, the fund is to borrow and invest in another stock.

A. This sentence is true as this is the nature of investment.
B. This sentence is wrong as borrowing is not allowed in UTS.
C. This sentence is true because borrowing and invest, in order to generate.
D. None of the above is correct.

Answer B
Investor is allowed to borrow money to invest but the fund itself is not allowed.

29. After discussing to a potential investor, the UTC finds out that the investor can accept high risk, is looking for long-term capital gain and short term income. Which of the fund stated below is suitable for this investor?

A. Growth Fund
B. Balanced Fund
C. Income Fund
D. Bond Fund

Answer A
The expectation of both UTMC and investors is that these UTS could produce high returns based on increase in the price of shares held in the portfolio, rather than from dividend income received by UTS. (Chapter 1, page 1-13)

30. Sheila wants to be a millionaire. If she has RM500,000,.00 and can earn 8% per annum, how long would it take to achieve her goal?

A. 8 years

B. 9 years
C. 10 years
D. 11 years

Answer B
Rule of 72 = 72/8 = 9 years

31. What forms of return do investors get through unit trust investments?

A. Distribution and Capital Growth
B. Distributions
C. Capital Growth
D. Interest

Answer A
The return on investment for unit holders in UTS is usually a combination of a regular income payment and capital appreciation. (Chapter 1, page 1-3)

32. Which of the following type of fund is most risky?

A. Capital Growth Fund
B. Capital Protected Fund
C. Money Market Fund
D. Fixed Income Fund

Answer A

33. What is an index tracking fund?

A. A fund invested in companies with higher capital growth potential.
B. A fund invested in range of companies that closely match companies comprising a particular index.
C. A fund that invest in companies that are expected to pay significant dividends.
D. A fund invested in overseas share markets.

Answer B
(Chapter 1, page 1-13)

34. What are the primary objectives of FIMM (Old term: FMUTM)?

i. Improve the regulatory, fiscal and legal environment of unit trust.
ii. Improve sound and ethical business practices.
iii. Provide information, assistance and other services to its members.
iv. Promote public awareness of the benefits and risk of investing in unit trust.

A. i, ii and iii
B. ii, iii and iv
C. i, iii and iv
D. All of the above

Answer D

35. Raw return is:

A. The best measure of unit trust returns
B. A form of measure which is superior to the annualized return
C. A measure that shows the total return achieved by holding the investment over the entire period between buying and selling
D. The only return measure that accounts for the value of time

Answer C

36. When a distribution is declared, the:

A. Investment value of the unitholder is not affected
B. Investment value of the unitholder falls relative to the distribution paid
C. Distribution must be reinvested
D. Investment value of the unitholder increases relative to the distribution paid

Answer B
A unit holder in UTS, after receiving a distribution, would find that the NAV of his or her investment falls by the amount of that distribution. (Chapter 1, page 1-45)

37. Which one of the following stated below is the most likely benefit you will get with a diversified portfolio that includes stocks, bonds and money market funds?

A. Higher returns that you get with a portfolio that is not diversified
B. The ability to balance both risk and return in achieving your financial goals.

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C. A guarantee that your portfolio will not suffer if the stock market falls.
D. All of the above.

Answer B
Balanced UTS exhibit lower volatility than most single asset class UTS but offer some prospect of returns higher than those available from money market UTS, savings accounts and fixed deposits. (Chapter 1, page 1-15)

38. Which of the following affects the effective rate of return?

A. Gearing
B. Taxation
C. Inflation
D. All of the above

Answer D
Tax and inflation are two factors that can impact investment returns. Gearing is an added risk for the investor who borrows to take part in the investment. (Chapter 1, page 1-6, Chapter 5, page 5-11)

39. Fixed interest investments have a high negative correlation with equities meaning:

A. When the equity market is down, the fixed interest investment market will be up.
B. When the equity market is up, the return from fixed interest investment will supersede the return from equity market.
C. The risk element of fixed-income fund is higher than equities.
D. The returns from equities are always greater than fixed interest investments regardless of the market situation.

Answer A

40. What is NAV per unit?

A. Total value of the investment after deducting service charge.
B. Ratio of the investment in fixed-income securities.
C. NAV of the investment divided by the number of units in issue.
D. Total units held by the scheme multiplied with the repurchase price.

Answer C
It's the total NAV of the fund divided with the number of units in circulation. (Chapter 1, page 1-10)

41. An investor buys or disposes the units in UTS based on the unit price quoted by UTMC which is determined at the close of business day. The above statement is referring to the practice of

A. Forward Pricing
B. Historic Pricing
C. Today's Pricing
D. Future Pricing

Answer A
The above statement reflects the practice of forward pricing. (Chapter 1, page 1-43)

42. Which will increase the overall risk?

A. Shifting from bonds to stocks
B. Shifting from stocks to bonds
C. Shifting from stocks to money market
D. Shifting from stocks to FD

Answer A

<u>Question 43, 44 and 45</u>
NAV pre unit split: RM100,000,000
Units in circulation pre unit split: 250,000,000 units
Unit split: 1:10

43. Calculate the NAV per unit for pre unit split.

A. RM0.33 C. RM0.35
B. RM0.40 D. RM0.39

Answer B
NAV per unit pre unit split
= NAV/units in circulation
= RM100,000,000/250,000,000
= RM0.40

44. Calculate the NAV per unit for post unit split.

A. RM0.31 C. RM0.32
B. RM0.36 D. RM0.05

Answer B
NAV per unit pre unit split = RM0.40
RM0.40 x $\frac{10}{11}$ = RM0.36

45. Assume Mr. D has 8,500 units before unit split declaration. Calculate his total units after the declaration.

A. 7,727.27units C. 9,350 units
B. 8,500 units D. 85,000 units

Answer C
After unit split
8500 X $\frac{11}{10}$ = 9,350 units

46. Azmi, Bakar and Charles invested one full financial year in Fund XYZ which financial period ended 31 July, and they will be entitled for full distribution amount e.g. 5 sen/unit. David, Eva, Farid and George came in the middle of the financial year in Fund XYZ, and they are still entitled for the same full distribution amount. When there are many new investors, the distribution amount will be reduced and this is unfair to earlier investor. What is the practice to ensure a more equitable income distribution to all investors?

A. "Buying" a distribution
B. Distribution Equalisation
C. Split
D. Distribution

Answer B
Distribution Equalisation is a portion of money set aside from investments to equalise unitholders' distribution income. (Chapter 3, page 3-14)

47. Institutional Unit Trust Advisors (IUTA) and Corporate Unit Trust Advisors (CUTA) must ensure that a minimum of____Unit Trust Consultant(s) (UTC) are stationed at each Distribution Point at all times.

A. One C. Three
B. Two D. Four

Answer B
An IUTA and CUTA must ensure that a minimum of two UTCs are stationed at each Distribution Point at all times. (Chapter 2, page 2-18).

48. Customer A invests in a one off investment of RM10,000. Customer B invests RM300 every month. The above ways of investment are called:

A. Lump sum investment
B. One stop investment
C. Regular Savings
D. Lump sum and regular savings investment

Answer D
(Chapter 1, page 1-5 & 1-6)

49. What are the characteristics of high returns funds?

A. Potentially high risk
B. The higher the return, the lower the risk
C. Generally suitable for empty nesters
D. Do not invest in equities

Answer A
High return funds are always associated with high risk. (Chapter 1, page 1-12)

50. Ms. Rafidah had invested a lump sum of money into a UTS and she wishes to minimize her initial service charge exposure. As a UTC (Old term: PDUT), what is the best recommendation to her?

A. Recommend Ms. Rafidah to invest in growth fund that seeks for higher potential return which would cover her initial service charge.
B. Advise Ms. Rafidah to invest her money as regular as possible to lower down her cost.
C. Advise Ms. Rafidah to apply "buy & hold" strategy as seeking for a long term investment goal.
D. Invest in Islamic fund which comply with Syariah principles.

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Answer C

Questions 51, 52 & 53
An investor had invested a single amount of money in a unit trust fund at RM0.50 per unit in the first year and subsequently purchased another 10,000 units at RM0.52 per unit in second year. At the end of third year, he decided to redeem his investment at buying price RM0.60 per unit and the total proceeds was RM15,000.

51. How many units was he entitled for the investment he made in the first year?

    A. 15,000 units
    B. 25,000 units
    C. 35,000 units
    D. None of the above is correct

Answer A
Number of units 3rd year = RM15,000/RM0.60 = 25,000 units
Number of units 1st year = 25,000 units – 10,000 units = 15,000 units

52. What is the total amount of money he had invested in the first and second year?

    A. RM7,500 C. RM12,700
    B. RM5,200 D. None of the above is correct

Answer C
1st year investment = 15,000 units x RM0.50 = RM7,500
2nd year investment = 10,000 units x RM0.52 = RM5,200
Total = RM7500 + RM5,200 = RM12,700

53. Upon redemption in the 3rd year, calculate the raw return of the investment that he made in the 1st year. (Assume no distribution was paid during the period).

    A. 15%
    B. 18%
    C. 20%
    D. 100%

Answer C
1st year investment = RM7,500
Redemption of 1st year investment
= 15,000 units x RM0.60 = RM9,000
Raw return
= (RM9,000-RM7,500)/RM7,500 = 20%

Question 54, 55, 56 & 57
The NAV cum-distribution of Fund B is RM292,500,000 and units in circulation is 195,000,000. The fund declared distribution of 15 cents per unit, and the manager is charging 5% service charge.

54. What is the NAV per unit cum-distribution?

    A. RM1.50 C. RM1.45
    B. RM1.35 D. RM1.60

Answer A
NAV per unit cum-Distribution
= NAV/Number of units
= RM292,500,000/195,000,000
= RM1.50

55. What is the NAV per unit ex-distribution?

    A. RM1.50 C. RM1.45
    B. RM1.35 D. RM1.60

Answer B
NAV per unit ex-distribution
= NAV per unit cum-distribution – distribution
= RM1.50 – RM0.15
= RM1.35

56. What is the investment value of Mr. Samuel before the declaration of distribution, if he is holding 60,000 units?

    A. RM93,000 C. RM90,000
    B. RM92,000 D. RM91,500

Answer C
Investment value cum-distribution
= NAV per unit cum-distribution X number of units

= RM1.50 X 60,000
= RM90,000

57. Assuming no tax, what is the investment value of Mr. Samuel after the declaration of distribution, if he is holding 60,000 units and the distribution is to reinvest the NAV per unit?

A. RM93,000 C. RM90,000
B. RM92,000 D. RM91,500

Answer C
Investment value ex-distribution
= NAV per unit ex-distribution X number of units
= RM1.35 X 60,000 units
= RM81,000
Amount reinvested
= Distribution X Number of units
= RM0.15 X 60,000
= RM9,000
Total amount
= RM81,000 + RM9,000
= RM90,000

58. NAV of equity trust fund

A. Will fluctuate in respect to changes in the prices of equity index component stocks
B. Will fluctuate in respect to changes in interest rate only
C. Will not change at all to the ups and downs of the stock market
D. None is correct

Answer A

59. A listed company is known as:

A. Open-end fund
B. Universal Trust
C. Closed-end fund
D. Regional Trust

Answer C

60. Computation of NAV:

A. Value of equity invested in the unit trust scheme
B. Trustee Fee
C. Auditor Fee
D. All of the above

Answer D

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