



## Analysing the Impact of COVID-19 on Mutual Funds

Most countries are currently preoccupied with the impact of the Covid-19 virus on the lives of their citizens and economies. This pandemic has led to state imposed self-isolation, driven energy prices down, disrupted supply chains and created uncertainty in many financial markets. The Trinidad and Tobago Securities and Exchange Commission (TTSEC) is currently monitoring the impact of COVID 19 on the securities market of Trinidad and Tobago (T&T) and in particular, its impact on Collective Investment Schemes (CIS).

Collective Investment Schemes or CIS, which are more commonly known as mutual funds, are investment vehicles that allow for the pooling of investor resources, to create a more diversified portfolio; thereby taking advantage of the benefits of large-scale investment opportunities. Investors effectively own portions of the overall pool through units/shares, which are proportional to their contributions. The mutual fund manager, the entity responsible for managing the fund, utilises the pool of money to invest in securities in line with the fund's investment strategy. Investors can earn returns through distributions or capital appreciation dependent on the fund's performance.

### Assets under Management (AUM)

AUM represents the total assets managed by a mutual fund. After reviewing the changes in AUM for the entire mutual fund industry of T&T it was observed that the overall AUM reduced by 4% from February 2020 to March 2020. The major mutual fund type that was impacted included equity funds, which predominantly invest in local and foreign equities i.e. shares of companies listed on a stock exchange. **Table 1** displays the changes in AUM between the months of February and March 2020 for the various types of Mutual Funds in T&T.

*Table 1 Mutual Fund AUM*

Assets Under Management			
Mutual Fund Type	February 2020	March 2020	Change
Balanced Funds	12,231,140,931	11,532,813,255	-6%
Equity Funds	7,455,396,233	6,684,858,407	-12%
Fixed Income Funds	36,135,809,446	35,297,574,402	-2%
Others	464,795,329	465,439,852	0%
<b>Total</b>	<b>56,287,141,939</b>	<b>53,980,685,915</b>	<b>-4%</b>

### Subscriptions and Redemptions

When an investor deposits money with a mutual fund it is considered to be a subscription. When an investor withdraws money, it is referred to as a redemption. The TTSEC has been monitoring the level of subscriptions and redemptions in the local mutual fund market; and accordingly observed significant redemptions in the month of March 2020 compared to the previous month. Overall, investors withdrew

approximately TTD\$2.6 Billion within the month of March 2020. **Table 2** provides more details on redemptions and subscriptions for the months of February and March 2020.

*Table 2 - Subscriptions and Redemptions*

	<b>February 2020</b>	<b>March 2020</b>
Subscriptions	1,532,666,299	1,891,811,039
Redemptions	1,319,869,801	2,648,854,995
Net Sales/Redemptions	212,796,498	- 757,043,955

### **Fixed and Floating NAV Mutual Funds**

For Fixed NAV mutual funds, as the name suggests, the Net Asset Value (NAV) remains constant. It is usually the responsibility of the mutual fund manager to maintain the value of a unit for both subscriptions and redemptions.

**Are they Vulnerable?** – Managers of Fixed NAV mutual funds will have more difficulty in maintaining their commitment to ensure the NAV is constant while the portfolio of securities fluctuate in value.

For Floating NAV mutual funds, the value of a unit changes, based on the performance of the pool of securities. Therefore, the mutual fund manager must ensure the floating NAV correctly reflects the value of securities within the mutual funds' portfolio.

Fixed NAV mutual funds are predominantly invested in local or foreign fixed income securities or bonds. While Floating NAV mutual funds typically invest in local and foreign equities/shares.

Based on **Table 3**, it is clear that the AUM of Floating NAV mutual funds were more impacted than Fixed NAV mutual funds due to fluctuating security prices as a result of the current environment.

*Table 3 - Fixed and Floating NAV*

<b>NAV Type</b>	<b>February 2020</b>	<b>March 2020</b>	<b>Change</b>
Fixed NAV	32,249,543,846	32,027,766,998	-1%
Floating NAV	23,945,951,423	21,861,087,049	-10%
Other	91,646,671	91,831,869	0%
<b>Total</b>	<b>56,287,141,939</b>	<b>53,980,685,915</b>	<b>-4%</b>

The decision by the Monetary Policy Committee, of the Central Bank of Trinidad and Tobago, to reduce the repo rate by 150 basis points to 3.5 percent (March 2020) may have a positive impact on the value of investments in fixed income securities/bonds since interest rates and bond prices are inversely related. This will also be applicable to foreign fixed income securities/bonds since the US Federal Reserve has also reduced interest rates.

The mutual fund market plays an integral role in the composition of the local securities industry; and it provides just one of many investment opportunities available to individuals, to make the most of their earnings. The TTSEC continues to monitor the performance of the mutual fund market to ensure investors are protected and there is confidence in the securities market. If you are considering investing

in the mutual fund market, it is important to ensure that the mutual fund and its manager are registered with the TTSEC.

In next week's issue of Express Business, we will conclude our two-part instalment entitled 'Investment Advisors versus Broker-dealers', which we began in the April 22<sup>nd</sup> edition of the supplement.

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