



Mutual Funds: Fixed NAV vs Floating NAV

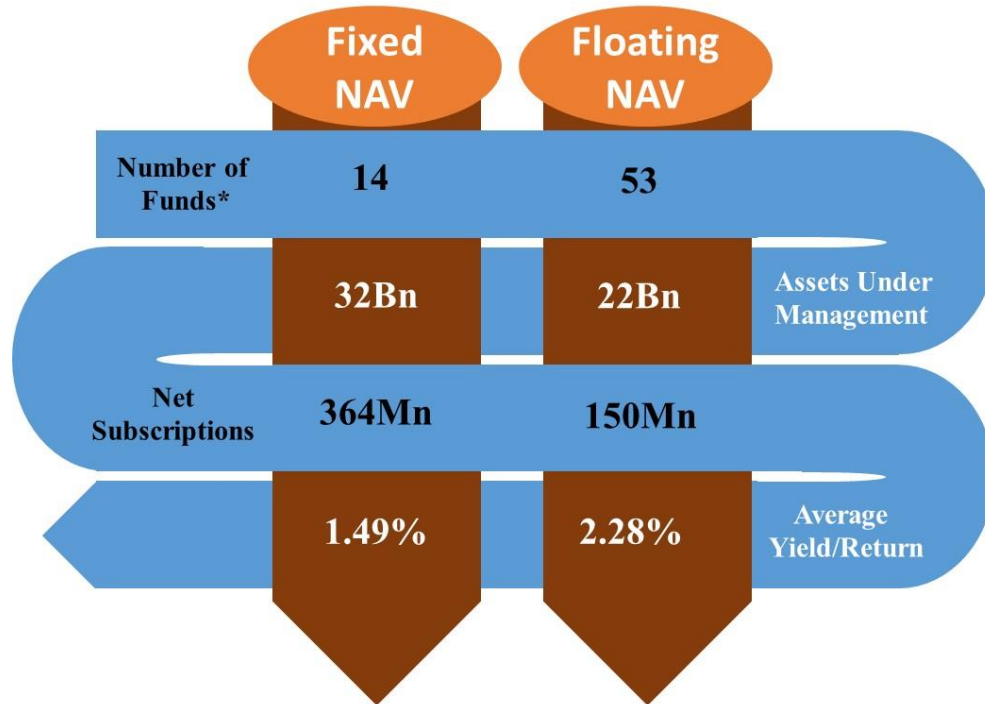
Collective Investment Schemes (“CIS”), commonly known as mutual funds are investment vehicles, which allow the pooling of investor resources to create a more diversified portfolio and take advantage of the benefits of large-scale investment opportunities. Investors effectively own portions of the overall 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 depending on the fund’s performance.

Trading in mutual funds began in 1981 with the establishment of the Trinidad and Tobago Unit Trust Corporation. The mutual fund market has grown significantly since then and now boasts 68 funds, collectively managing approximately TTD \$54.36 Billion in assets as at 30th June, 2019. Of this figure, 59% represented Fixed Net Asset Value (“NAV”) funds while the remaining 41% represented Floating NAV funds.

What is a NAV? – The Net Asset Value (NAV) of a mutual fund represents the value of the fund and takes into consideration subscriptions (i.e. when investors deposit money into their mutual fund accounts) and redemptions (occurs when investors withdraw money from their mutual fund accounts). It is normally determined by dividing the Assets Under Management (“AUM”) of the mutual fund by the number of units or shares held by investors. In most cases, this value is calculated every business day and must be done in accordance with the methodology communicated to investors in the mutual fund’s prospectus.

What is Fixed and Floating NAV? - For Fixed NAV mutual funds, as the name suggests, the 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. For Floating NAV mutual funds, the value of a unit changes, based on the performance of the pool of securities. Essentially, the value of a unit on the subscription date can differ from the value of the unit on the redemption date. Fundamentally, for an investor, dependent on whether the fund is a fixed NAV fund or a floating NAV fund, the per unit price or value of the fund will either remain constant or fluctuate on a daily basis.

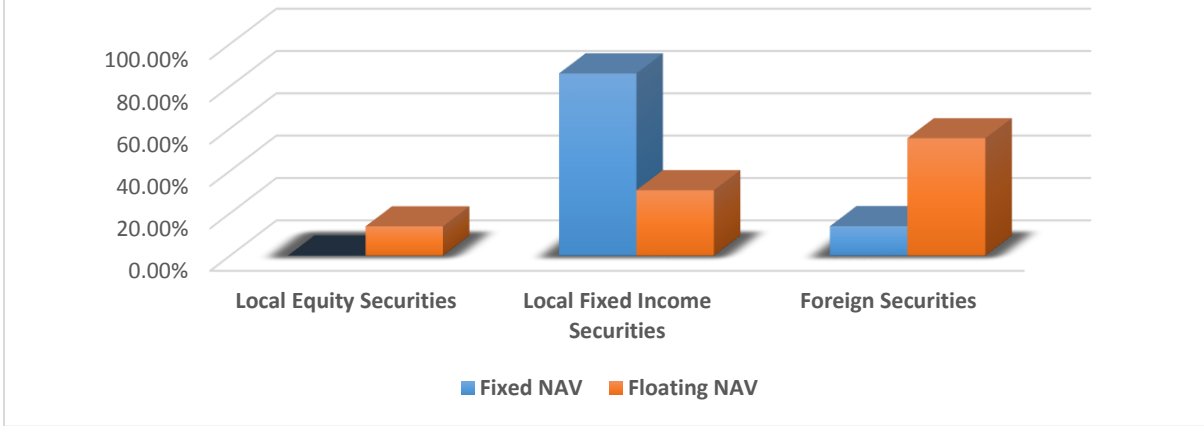
Figure 1 – Mutual Fund Industry at a Glance (30th June 2019)



* One (1) of the sixty-eight (68) mutual funds is currently not categorised as having either fixed or floating NAV

From **Figure 1** above, it can be seen that while there is a significant number of Floating NAV mutual funds operating in the industry, their assets are significantly less in comparison to those of Fixed NAV mutual funds.

Figure 2 - Fixed and Floating NAV mutual funds portfolio compositions



Based on **Figure 2** above, Fixed NAV funds are mostly composed of local Fixed Income Securities where expected returns are relatively consistent. The securities in this portfolio would typically be medium to long term Government issued Bonds, which may be classified as relatively lower risk; dependent on the Government’s ability to repay the bonds. Conversely, Floating NAV funds are generally comprised of investments in securities that are more liquid but may be classified as higher risk. This is evidenced by its composition of approximately 70% of Equity and Foreign Securities, which are easily tradeable but more prone to market swings.

Figure 3 – Industry Growth (January 2010 – January 2019)

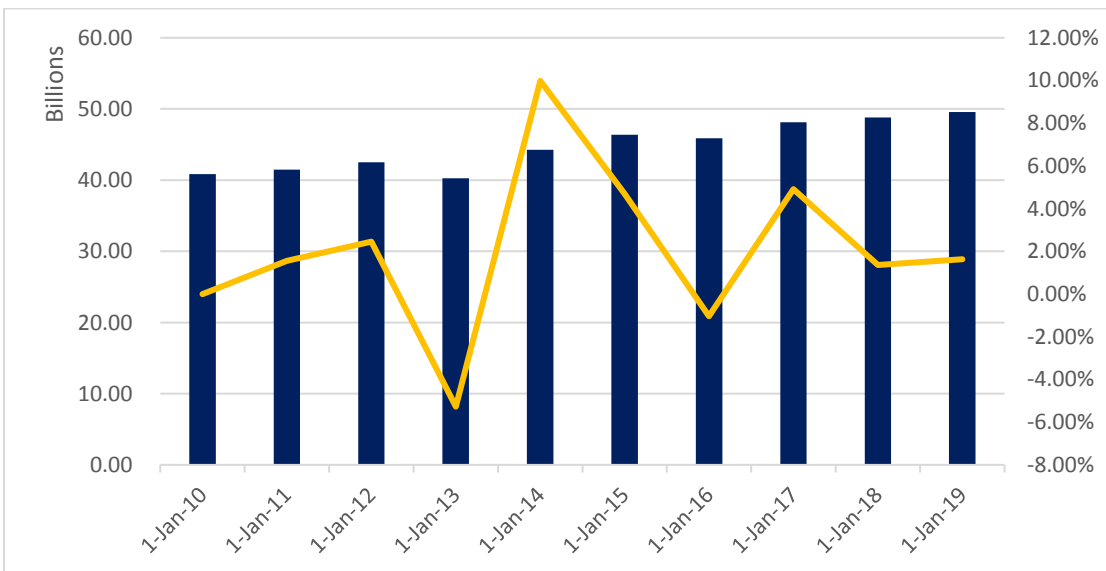


Figure 3 above shows just how much the CIS industry has grown in a 10 year period. The industry has moved from collectively managing TTD\$40.85 Billion to TTD\$49.57 Billion in assets, as at January 31st 2019, an increase of TTD \$8.73 Billion or 21.36%. This shows that CIS constitute a major component of the Securities Industry of Trinidad and Tobago.

The Collective Investment Scheme sector plays an integral role in the composition of the local securities industry and it provides just one of the many investment opportunities available to individuals to make the most of their earnings. 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 Trinidad and Tobago Securities and Exchange Commission.

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