



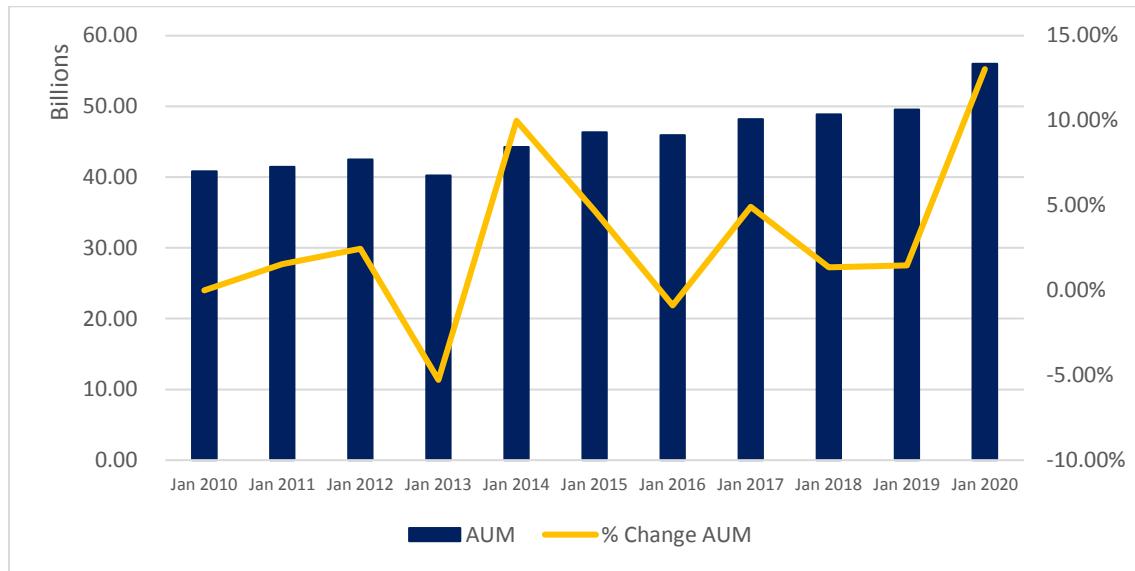
Mutual Funds: Fixed NAV vs Floating NAV

As we embark on another new year, one of the more common resolutions is not only to increase our level of savings, but also to develop additional sources of wealth and revenue generation. The securities market presents many different options for individuals to achieve these goals with products such as equities, bonds and Collective Investment Schemes (CIS), the latter of which is the focus of this week's article. CISs, which are generally known to the public as mutual funds, are investment vehicles, which allow for the pooling of investor resources to create a more diversified portfolio while taking advantage of the benefits of large-scale investment opportunities. In mutual funds, investors effectively own portions of the overall pool through units/shares, which are proportional to their contributions. The mutual fund manager utilises this pool of money to invest in securities congruent with the fund's investment strategy. Investors can earn returns through distributions or capital appreciation depending on the fund's performance.

The mutual fund market has grown significantly since the Trinidad and Tobago Unit Trust Corporation was established, in 1981 . On this point, **as at November 30, 2020 the market boasts of 69 mutual funds, collectively managing approximately TT\$58.92 Billion in assets.**

Figure 1 shows the growth of the CIS market from January 2010 - January 2020, which moved from TT\$40.85 Billion in assets under management (AUM) to TT\$56.03 Billion, as at January 31, 2020, a massive increase of TT\$15.18 Billion or 37.17%.

Figure 1 – Industry Growth (January 2010 – January 2020)



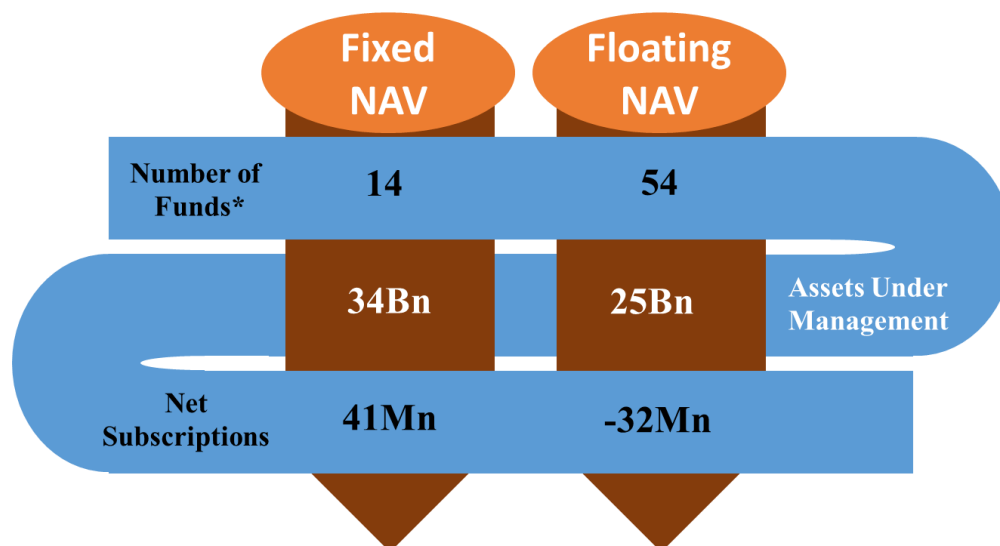
What is a NAV? – The Net Asset Value (NAV) of a mutual fund represents the value of the fund and takes into consideration subscriptions (i.e. when investors deposit money into their mutual fund accounts) and redemptions (which occur when investors withdraw money from their mutual fund accounts). It is normally determined by dividing the AUM of the mutual fund by the number of units or shares held by investors. In most cases, this value is calculated on each 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, the per unit price or value of the fund will either remain constant or fluctuate on a daily basis. Therefore, it is important for investors to regularly review and monitor their mutual fund investment statements to better understand the value of their investments as time goes by. Should the investor decide to redeem their investment, the investor will have a better idea of the gains or losses on the investment and also be in a better position to make a more informed decision.

From **Figure 2**, it can be seen that as at November 30, 2020, while there are significantly more Floating NAV mutual funds operating in the industry, their assets, which is 42% of total AUM, are significantly less in comparison to those of Fixed NAV mutual funds, which comprise 58% of total AUM.

Figure 2 – Mutual Fund Industry at a Glance (November 30, 2020)



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 and securities issued by state agencies and local corporate entities. Conversely, Floating NAV funds are generally comprised of investments in securities that are more liquid but may be classified as higher risk such as foreign equities and securities issued by foreign corporate entities.

The CIS market plays an integral role in the composition of the local securities industry and 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 (TTSEC). You should also ensure that you review the fund's prospectus. This is a document which provides investors with important material information about a security to help them determine which mutual fund would be best suited to their investment goals and risk tolerance. Once you are satisfied with a chosen fund, we recommend you consult with a registered investment adviser, then you may contact the relevant fund manager, to get started and begin your investment journey!

To help you navigate this journey, we encourage you to visit our investor education website at www.investucatett.com. While on this site, you will have access to free online resources such as brochures, blogs and a budget calculator. There is also a free investor education online course which takes you through (9) modules that will lead to a certificate upon completion.

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