

ADDRESS TO THE UNIT TRUST CORPORATION

“MEET AND LEARN” SEMINAR

November 24, 2005

***THE STATE OF THE MUTUAL FUNDS
INDUSTRY IN
TRINIDAD AND TOBAGO***

I wish to thank the Unit Trust Corporation for inviting me to address you on the state of the Mutual Funds Industry in Trinidad and Tobago. This invitation has come at an opportune time as the Trinidad and Tobago Securities and Exchange Commission ("the Commission") is currently involved in the collation and analysis of data that has been collected in a recent survey sponsored by the Commission and the Central Bank of Trinidad and Tobago.

With your permission Mr. Chairman, I would like to share some of the preliminary findings of our research study and to suggest one or two emerging issues of supervisory and regulatory concern. Let me assure you, Chairman, that both the Commission and the Central Bank are committed to having detailed consultations with collective investment vehicle market participants on both the results of the analysis and on the emerging regulatory issues.

Our survey and analysis attempted to address not only those products that may generally be called mutual funds but also a number of other collective investment products whereby an individual investor contributes payments towards a pool of investments that is managed by a professional investment manager on behalf of the whole group. The individual investor has no say in the investments decisions being made but will receive a proportionate share of the profits, income or property under the group scheme. Defined in this way, Collective Investment Vehicles include mutual funds and some annuity schemes.

Evolution of the Collective Investment Vehicle Industry

In 1981 Government of Trinidad and Tobago introduced two pieces of legislation that were designed to strengthen our capital markets and to widen access to them. The Stock Exchange Act of 1981 formalized the establishment of the Trinidad and Tobago Stock Exchange and provided certain incentives for the conduct of securities transactions over the exchange. By this means, it was intended that businesses in need of productive capital would have an additional avenue, in addition to bank loan financing, to raise capital for productive investments. A concurrent policy favoring localization of foreign

firms also was designed to contribute to the development of the capital markets.

The Government added a further incentive for the growth of the capital market by the passage of the Unit Trust Corporation Act also in 1981. The formation of the Unit Trust Corporation was intended to provide an opportunity for the smallest investor to participate in the risks and rewards of investing in the capital market. The Unit Trust Corporation offered these opportunities, as I recall, for a minimum initial investment of \$100 and increments of only \$10 or \$20.00.

The result that was expected was that thousands of new investors who perhaps would not otherwise buy shares on the Stock Exchange would be able to do so in the collective scheme. It was also expected that this new activity would be reflected in the growth and development of the stock market and would encourage significant trading on the floor of the Stock Exchange.

I will leave it to the Unit Trust Corporation - and more recently to some of the newer Collective Investment Vehicles providers – to regale you about their success stories about the number of investors who now participate in the capital markets through their products.

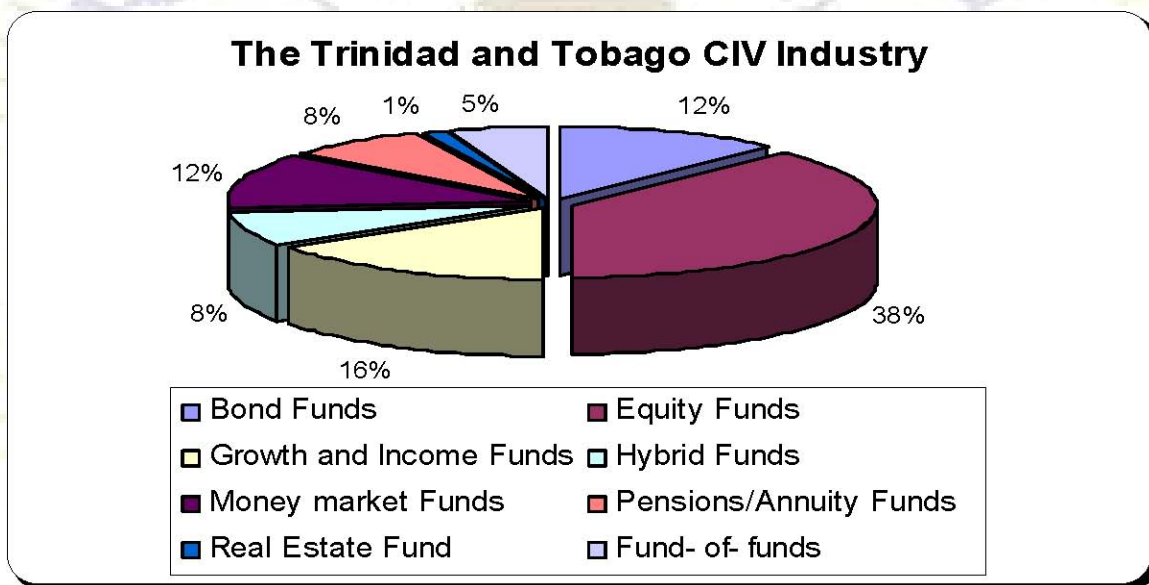
What is less clear, however, is the impact of the growth of the Collective Investment Vehicle Industry on the value and liquidity of the stock market. But this discussion will have to be left for another time. Suffice to say, that the current levels of liquidity on the stock exchange – the value of shares traded to the value of market capitalization – are very low.

During the period beginning in November 1982 through to September 1989, the Unit Trust Corporation launched four (4) CIV products, the first of which was the First Unit Scheme. Following a major reform of the financial system, culminating with the floatation of the currency in April 1993 and the passage of the Financial Institutions Act which made it possible for other financial institutions to offer collective investment vehicles, a number of additional procedures and products have entered the Collective Investment Vehicle market place.

To date the Trinidad and Tobago Securities and Exchange Commission (TTSEC) has

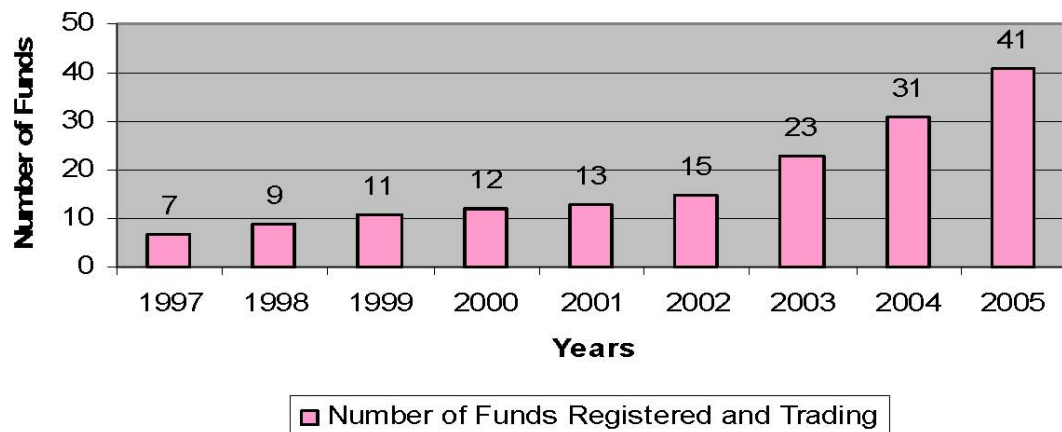
registered two hundred and twenty-one (221) Collective Investment Vehicles products, including one hundred and seventy-four (174) foreign funds which have originated and are governed under laws outside the jurisdiction of Trinidad and Tobago and forty-seven (47) locally domiciled/ domestic funds which have been incorporated and are governed under the laws of Trinidad and Tobago.

Only thirty five (35) of the foreign funds and forty-one (41) local funds are currently being actively sold/ traded in Trinidad and Tobago. These seventy six actively traded funds classified by their stated investment objectives include 9 bond funds, 29 equity funds, 12 growth and income funds, 6 hybrid funds, 9 money market funds, 6 pensions/annuity funds, 1 real estate fund and 4 funds-of funds.



The most significant growth in the number of domestic funds registered and trading has occurred over the last four years. During the period December 31st 2002 to November 2005, the numbers of domestic funds which have been registered and are actively trading have grown by approximately 173%, from fifteen (15) funds registered as at December 2002 to forty one (41) funds for 2005 to date.

Number of Funds Registered and Trading December 1997 to Date



The 41 locally domiciled and traded funds belong to nine fund families including the Unit Trust Corporation, one (1) bank, one (1) insurance company, one (1) securities firm and five (5) financial institutions belonging to the non-banking finance sector. The thirty-five (35) foreign funds are also distributed through nine corporations/investment advisors.

In addition, to Trinidad and Tobago seven (7) other jurisdictions have actively traded funds in the market including - United States of America, Canada, Luxembourg, Isle of Man, Cayman Islands, Barbados and Guernsey and these are designated in six different currencies – United States, United Kingdom, the Euro, Canada, Barbados & Jamaica.

INDUSTRY GROWTH IN FUNDS UNDER MANAGEMENT

Let me now give you a sense of value and power of the domestic funds in our capital market.

The Collective Investment Vehicle industry has been growing at a phenomenal rate over the last five years. More specifically, it has been growing faster, annually, than bank deposits in recent times. Based on our (TTSEC & CBTT) surveys, for the year ending December 2000 the industry's funds under management was approximately five billion T&T dollars (TTD\$5 Billion). By the end of 2004, funds under management had skyrocketed to approximately twenty seven billion T&T dollars (TTD\$27 Billion). This represents a growth rate of approximately 500% over the 5 year period and compares to

a 35% growth in the worldwide industry over the same period.

For the Period ending December	Funds Under Management for the Local T&T CIV Industry (\$Billion)	Bank Deposits Within the Local T&T Industry (\$Billions)	Funds Under Management for the Worldwide CIV Industry (US\$ Billions)
2000	4.76	18.52	11,871
2001	9.39	21.43	11,655
2002	15.42	22.50	11,324
2003	21.44	23.82	14,048
2004	27.09	27.65	16,063
Overall Growth 2000-2004	469.12%	49.30%	35.31%

Source: FUM Local CIV Industry – Survey Instrument
Bank Deposits Local Industry – CBTT Monthly Statistical Tables
FUM Worldwide CIV Industry - Investment Company Institute

Note: The CIV industry fund under management value in 2004 represent 23 of the 31 funds trading thus and estimate of TTD\$30 is used for the period ending Dec. 2004.

You may recall my earlier reference to the objectives that were in the contemplation of the Government in 1981 when the Trinidad and Tobago Stock Exchange Act and the Unit Trust Corporation Act were brought into force. With these and the liberalization of the financial sector, we now have the following scenario:

1. Investments in collective investments schemes, reflected in funds under management, have grown phenomenally.
Based on the growth between 2003 and 2004 (26.4%) funds may increase to \$34 billion by the end of December 2005.
2. Bank deposits have grown more modestly (13.7%) and may reach \$31 billion by December 2005 and so be less than collective investment vehicles for the first time.
3. Since 1997 the majority of activity in the capital market has been in debt securities rather than equity securities – despite record levels of trading and values in the stock market especially in 2003 and 2004. Of \$100 billion of new securities issued between 1997 and 2003 only about \$32 billion were in equities and of that only \$2.8 billion were Initial Public Offers, the rest being

raised in stock splits and rights issues which tend only to involve existing shareholders.

The picture is one of substantial investments from thousands of investors – both directly as unit/funds holders and more indirectly as pension fund contributions – that are being accumulated in relatively few highly inter-related hands and in relatively few types of investments – primarily debt instruments.

A footnote on the participants is relevant here. I have made passing reference to pension fund managers who, as institutional investors hold significant investments in mutual funds. It is estimated that institutional investors account for 70% of funds under management – on behalf of thousands of pensioners and potential pensioners who may have no other interaction with the capital market.

I shall not attempt here to analyze the reason for the growth and structure of the industry. That will also have to await another opportunity and another place.

As the regulator that is charged with the responsibility of regulating this aspect of the capital market, these are a few observations that I believe it is appropriate for me to make at this time.

Firstly, although the Securities Industry Act, 1995 was passed after the Trinidad and Tobago Stock Exchange and the Unit Trust Corporation Acts of 1981 and the liberalization of the financial sector in 1993, it never contemplated the phenomenal growth and success of the Collective Industry Vehicle that has taken place.

Consequently, although the Securities Industry Act provides for the registration of units of a Collective Investment Vehicle as securities it does not adequately provide for the additional levels of surveillance that are provided for other capital market participants and products.

In light of the phenomenal growth of the sector, however and the evidence that has been emerging from our study of the market regarding issues of fund governance, risk management practices, marketing and promotional practices and reporting by fund managers, promoters and trustees, the Commission has started to adopt more proactive

approaches to implementing the spirit of the Securities Industry Act.

Let me also at this point clarify the policy of the Government in regard to securities regulation generally and the regulation of the collective investment vehicle industry in particular. Although the Government has in its long term contemplation the creation of a single regulator for the capital and financial markets, the current and medium term policy is that the regulation of the entire securities market and of the collective investment vehicle industry will remain the responsibility of the Trinidad and Tobago Securities and Exchange Commission while the Central Bank will continue to regulate banking, insurance, pensions and credit unions.

Let me further clarify that within this responsibility for regulating the Collective Investment Vehicles, the Trinidad and Tobago Securities and Exchange Commission also has the clear responsibility for regulating those Collective Investment Vehicles issued by financial institutions. The guidelines that the Central Bank issued for such collective investment vehicles some time ago were only intended to help plug the regulatory gap.

Let me now conclude by speaking a bit about the Trinidad and Tobago Securities and Exchange Commission's strategy in regard to the regulation of collective investments vehicles. The strategy is based essentially on the recommendations of the Stikeman Elliot Report as well as additional issues that are based on current practices and the results of our recent study and on further consultations on related matters with all the relevant market participants.

The Trinidad and Tobago Securities and Exchange Commission has already issued and have implemented guidelines on certain prospectus disclosure issues, particularly those related to risk disclosures and to nomenclature.

We have also implemented additional requirements for new products relating to continuous reporting requirements for collective investment vehicles. All of those guidelines and our implementation of them have been guided by the Stikeman Elliott recommendations.

But the preliminary results of our survey tell us that we have to go further and supplement the Stikeman Elliott recommendations in a number of areas and the Commission shall be

issuing further guidelines in those areas in the coming weeks. Some of the more urgent areas include, but are not limited to:

- 1 Corporate Governance with a view to ensuring that adequate levels of independent oversight are exercised over the management, custody, audit and reporting of funds paying particular attention to the interrelated structures of fund management groups.
- 2 Continuous Reporting with a view to bringing all fund managers and trustees under similar continuous reporting requirements that must be observed by other issuers of securities in this market. And this will necessarily have to include special reporting requirements – such as on asset allocation – that are of particular importance in this sectors
- 3 Performance measurement and advertising and comparisons of fund performance with a view to ensuring that misleading performance claims are not being communicated to existing and potential investors; and
- 4 Prospectus Disclosure with a view to ensuring that adequate disclosure of both general risks and those associated with a fund's specific investment objectives /strategies are communicated to existing and potential investors and that such investors have adequate and ready access to Fund Prospectuses on the internet, at branches of fund managers' offices and other easily accessible public places.

There are, of course other areas of concern, both these will suffice for the present.

The Trinidad and Tobago Securities and Exchange Commission views its strategy as being consistent with its broad mandate to protect investors, ensure fairness and efficiency in the market and to minimize the potential risks to the system – the three pillars of the Objectives and Principles of Securities Regulation as subscribed to by all securities jurisdictions.

To do so in a constantly evolving market , the Commission must have resort to its broad power to do such things as will contribute to the maintenance of strong, secure markets in which entrepreneurs and investors alike have full confidence, as provided for under Section 6 of the Securities Industry Act.

To date, all participants in the collective investment vehicle industry have cooperated with the Commission's moral suasion efforts to improve the quality of regulation of this industry by accepting and following our guidelines.

I would like to take this opportunity on behalf of the Board of Commissioners, the management and staff of the Commission to congratulate and thank you for the cooperation and compliance that you have displayed so far. We commend your continued cooperation and compliance as we develop further an acceptable level of supervision for this industry. The beneficiaries of such cooperation and compliance will be the investors, the level of confidence in our markets and, not least, yourselves.

I thank you.

