



Wealth management education series:
Explore the field of mutual funds

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Managing your wealth is like tending a beautiful formal garden—you need to start with good soil and a good set of tools. Just as good soil has the proper fertility to nourish a plant, having the right foundation in financial literacy should empower you to potentially cultivate a successful investment portfolio.

Explore the field of mutual funds is part of our **wealth management education series** to help educate you on the fundamentals of investing as you tend your very own financial garden.





What are mutual funds?

Mutual funds is a general term for funds that allow you to pool your money with that of other investors and are managed by a team of investment professionals. The term may vary across countries but mutual funds may also be referred to as **collective investment schemes**, unit trusts or simply as funds.

The pooling of your money generally creates **greater buying power** so you are able to invest in a **wider range of investments** than possible for most individual investors. Each investor in a fund owns units (or shares) which represent a part of a fund's portfolio holdings.

Mutual funds can be categorised by the type of assets they invest in (such as shares, bonds, cash or other securities). You can refer to the mutual fund's prospectus and factsheets to get a better understanding of their respective investment objectives and policy (for example, type and mix of investments) and past performance.

What are mutual funds?

Mutual funds are **open-end funds** but some investment schemes are structured as closed-end funds (see page 15). This document is focused on open-end mutual funds.

Open-end funds—issue and redeem units at times specified to meet subscription or redemption requests made by investors. Generally, buying and selling of units takes place directly between investors and the fund or its agents. The price per unit of an open-end fund will vary in proportion to the fund's net asset value, and therefore reflect the fund's performance.

The price per unit of an open-end fund is known as its net asset value or NAV.

This is calculated as follows:

$$\frac{\text{Fund's assets} - \text{Fund's liabilities}}{\text{Number of units issued}}$$



What are the fees?

Mutual funds charge various fees and it is best to refer to the fund's prospectus or factsheets to understand what you are being charged.

Examples of fees that may be charged:

Management fee

Typically charged to the fund to pay the investment manager of the fund.

Custodian/trustee fee

Typically charged to the fund to pay for services provided by a custodian or trustee of the fund.

Entry fee

Typically called a sales charge, it is deducted directly from the subscription amount and paid to the distributor.

Any fees that are charged to the fund is paid out of fund assets and will be indirectly borne by the investors.



What types of mutual funds are there?

There are many types of mutual funds, but broadly speaking they can be divided into four main categories:

1. Equity (stock) funds

2. Bond (fixed income) funds

3. Money market funds

4. Hybrid funds

What types of mutual funds are there?

1

Equity (stock) funds

As the name suggests, equity funds consist mainly of stock investments and are the most common type of mutual funds. Often equity funds focus on a particular type of investment strategy, such as growth, value, large caps and small caps or themes such as property, energy and healthcare. The funds can be invested globally, regionally or in single countries.

2

Bond (fixed income) funds

Bond funds invest mainly in debt instruments including government bonds, corporate bonds or mortgage-backed securities. The return that a bond fund may have can vary depending on the type of bond. Typically, bond funds that invest in short-term bonds tend to be less volatile. Bond funds that invest in corporate bonds generally do so to obtain higher yields, thus carrying greater risk.

What types of mutual funds are there?

3

Money market funds

Money market funds seek to maintain a stable net asset value by investing in the short-term, high-grade securities sold in the money market. These are generally the safest, most stable securities available, including Treasury bills, certificates of deposit and commercial paper.

4

Hybrid funds

Hybrid funds invest in a mix of stocks and bonds and may also hold money market instruments which can vary proportionally over time or remain fixed. They may be further sub-divided into balanced funds, asset allocation funds and life-cycle funds.



What are the benefits?

Diversification

A mutual fund can give you instant diversification. With as little as USD1,000 you can buy a fund which invests in equity and bond markets around the world. The investment risk is spread over many securities, thus potentially reducing the volatility of your portfolio.

Active, professional management

You can enjoy professional management when you invest in a mutual fund. The investment professionals will manage the funds on your behalf using their experience, skills and resources.

Liquidity

Generally, for mutual funds that are priced daily and open-ended, you can redeem your units any day and get your money back promptly at the prevailing price (net asset value) of the fund. It is best to refer to the fund's prospectus or factsheets to better understand the price at which the fund will redeem your units.



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What are the risks?

When you invest in a mutual fund, you should receive a prospectus, which will detail the risks involved in investing in the mutual fund. We have outlined examples of general risks relating to an investment in a mutual fund, but it is important for you to review each prospectus in detail so that you are aware of all the risks you may incur for any particular mutual fund.

Market risk

This is the risk that the value of a mutual fund's investments may fluctuate in response to broader market movements—for example, in the stock or bond markets. In addition, the market price (net asset value) of mutual funds may fluctuate in response to volatility in their component investments.

Currency risk

If a mutual fund invests in overseas securities, this is the risk that any adverse foreign exchange movement in the currencies of denomination of these securities against the mutual fund's own reporting currency will have a negative impact on the mutual fund's net asset value.

Investment objective risk

This is the risk that your objectives will not be met by investing in the mutual fund.



What other types of investment funds are there?

1

Closed-end funds

These funds issue only a fixed number of units or shares, and do not issue new units or shares even as investor demand grows. Unit or share purchases take place in the secondary market, and prices are determined by investor demand. Units or shares of these funds are often traded at a premium or discount to the fund's net asset value.

2

Index funds

An index fund is passively managed and is not listed on a stock exchange. It is designed to replicate the return of a broad market index such as the S&P 500 by buying the index's component stocks.

What other types of investment funds are there?

3

Exchange-traded funds

An exchange-traded fund (or “ETF”) is a security traded on a stock exchange that tracks a market index (such as the S&P 500). An ETF may track the same underlying market index as an index fund, but there are still differences between the two. The key difference is that ETFs are openly traded in a stock exchange throughout the trading day and can be purchased in small or flexible investment sizes through a brokerage account. In contrast, you can generally only redeem out of an index fund at the end of the day, at the prevailing price (NAV) of the fund.

4

Hedge funds

Hedge funds are another type of investment fund; they undertake a wider range of investments and trading activities than mutual funds. For instance, hedge funds can invest in options, futures and even operating businesses. They can also take on short-sell positions and highly-leveraged transactions—both of which are generally not allowed for mutual funds.

Hedge funds generally aim to achieve higher absolute returns in all market conditions for their investors.

What other types of investment funds are there?

Difference between a stock...

When you own shares of an individual stock, you are in effect, a direct owner of that company. By owning a stock you also assume the risks associated with that one company. For example, if that company goes bankrupt, you can lose all your investment in that stock. If you have a strong view about a particular stock and the direction of the stockmarket, you can potentially profit by trading the stock.

...and a mutual fund

When you own a share of a mutual fund, you are pooling together with other investors and own a share of a portfolio comprising many stocks. This can help diversify the stock holdings and reduce the risk associated with individual stock ownership. Moreover the fund is managed by a professional manager who decides what stocks to buy and what stocks to sell, that is, the manager makes the trading decisions on behalf of unit-holders.

Mutual funds are designed for longer-term holding rather than short-term trading. In fact short-term trading by unit-holders can hurt fund performance due to higher transaction costs borne by the fund in order to unwind positions at possibly unfavourable times to meet frequent redemption requests.



What do these investment terms mean?

Alpha

A measure of selection risk of a mutual fund in relation to the market. A positive alpha is the return awarded to the fund manager for taking a risk, instead of accepting the market return. For example, an alpha of 0.4 means the fund outperformed the market-based return estimate by 0.4%.

Arbitrage

Arbitrage can be described as a technique of simultaneously buying a security at a lower price in one market (for example, cash market) and selling at a higher price in another market (for example, futures market) to make a profit on the spread between the prices.

Beta

A measure of sensitivity of your investment to market movement.

1 beta	indicates that the investment should move in line with the market.
< 1 beta	means that the investment should be less volatile than the market.
> 1 beta	indicates that the investment should be more volatile than the market. For example, if a stock's beta is 1.2, it is theoretically 20% more volatile than the market.

What do these investment terms mean?

Information ratio

A statistical ratio which is a measure of the consistency of the excess return or value add of the investment manager. It aims to measure the value that has been added by a manager per unit of risk taken relative to the benchmark. All else being equal, the higher the information ratio, the better.

Mark to market

The current market valuation for every security in a portfolio used in determining the NAV of a fund.

Sharpe ratio

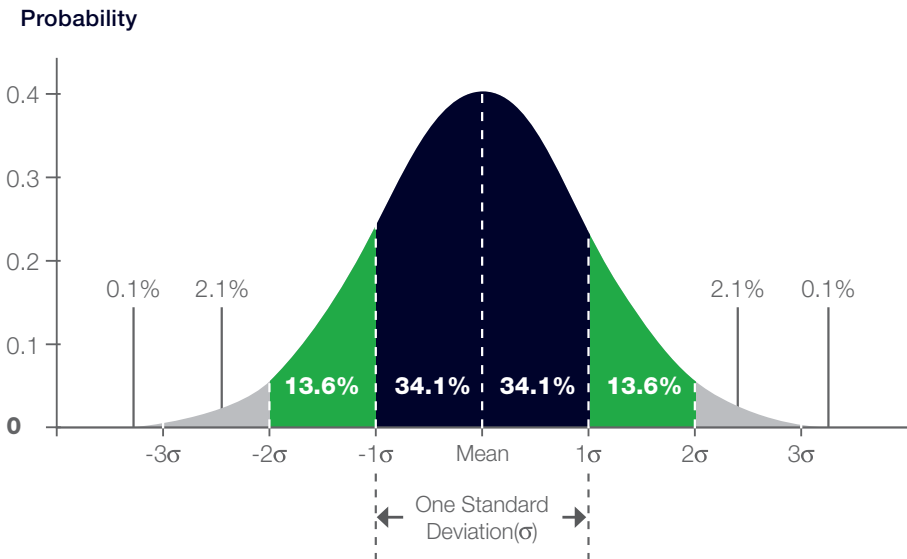
A ratio to measure risk-adjusted performance. It is calculated by subtracting the risk-free rate (deposit rate) from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The Sharpe ratio tells us whether the returns of a portfolio are due to smart investment decisions or a result of excessive risk taken by the manager.

What do these investment terms mean?

Standard deviation

Measures the dispersion of a series of returns from the mean return. When returns are normally distributed, an individual return will fall within one standard deviation of the mean about two-thirds of the time. For example, if your investment has an average return of 8% and a standard deviation of 10%, then it means that 68% of the time the return was between 2% (8% less 10%) and 18% (8% plus 10%).

Theoretically, the higher the standard deviation the higher the investment risk.



Important information

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Notes

Notes

Branch Directory

Branches with Priority Banking Centres:

Battery Road | Extended hours

6 Battery Road
Singapore 049909

Holland Village

261 Holland Avenue
Singapore 278986

Marina Bay

8 Marina Boulevard
#01-01
Singapore 018981

Marine Parade | Open Mon–Sun*

Block 87 Marine Parade Central
#01-500
Singapore 440087

Scotts Mall

1 Scotts Road
#01-01 Shaw Centre
Singapore 228208

Serangoon Garden

67 Serangoon Garden Way
Singapore 555963

Branches:

Bedok | Extended hours

Block 210 #01-703/705
New Upper Changi Road
Singapore 460210

Bukit Timah

2 Hillview Road
Singapore 669317

Clementi Mall | Open Mon–Sun

3155 Commonwealth Avenue West
#04-16/17
Singapore 129588

Hougang

Block 210 Hougang Street 21
#01-251/253
Singapore 530210

ION Orchard | Open Mon–Sun

2 Orchard Turn
#B1-16
Singapore 238801

Jurong

Block 66 Yung Kuang Road
#01-83/91
Singapore 610066

nex Serangoon | Open Mon–Sun

23 Serangoon Central
#03-02
Singapore 556083

Sixth Avenue | Extended hours

795/797 Bukit Timah Road
Singapore 269766

Suntec City Mall | Open Mon–Sun

3 Temasek Boulevard
#02-108/110/112
Singapore 038983

Tampines | Open Mon–Sun*

3 Tampines Central 1
#01-01 Abacus Plaza
Singapore 529540

Upper Thomson

246R Upper Thomson Road
Singapore 574370

VivoCity | Open Mon–Sun

1 HarbourFront Walk
#B2-01 and #01-03
Singapore 098585

Woodlands | Open Mon–Sun*

900 South Woodlands Drive
#02-07 Woodlands Civic Centre
Singapore 730900

Banking hours:

Monday–Sunday

Marine Parade*	10.00 am – 8.00 pm
Tampines*	10.00 am – 8.00 pm
Woodlands*	10.00 am – 8.00 pm
Clementi Mall	11.00 am – 9.00 pm
ION Orchard	11.00 am – 9.00 pm
nex Serangoon	11.00 am – 9.00 pm
Suntec City Mall	11.00 am – 9.00 pm
VivoCity	11.00 am – 9.00 pm

Monday–Friday

Battery Road	9.30 am – 7.00 pm
Bedok	9.30 am – 5.00 pm
Marina Bay	10.00 am – 7.00 pm
Sixth Avenue	11.00 am – 8.00 pm
All other branches*	9.30 am – 3.30 pm

Saturday

Battery Road and Marina Bay	Closed
Bedok and Sixth Avenue	9.30 am – 1.00 pm
All other branches	9.30 am – 11.30 am

Use Breeze on the iPhone and iPad to find our branches or ATM locations.

* Marine Parade, Tampines and Woodlands branches are closed during public holidays.

* Personal Financial Consultants, Preferred Banking and Priority Banking Relationship Managers will be available till 5.00 pm.

Information is accurate as of 1 April 2011.

Call 1800 846 8000 priority.standardchartered.com.sg