How to Calculate Your Return in Units of a Unit Trust

The Unit Trust is a trust that incorporates the savings of large number of investors. The Fund Manager invests the savings into different types of investments, including stocks, bonds and other liquid assets. After charging the permitted expenses, the unit holders are paid out a proportionate amount of return on the investment. The unit trust code which is a regulatory document specifies the type of expenses that the fund management company can charge to the Unit Trust. The expenses such as salaries paid to the staff of the fund management company, marketing expenses such as promotional advertisements, commission paid to the sales agents etc are not allowed to be charged to the Unit Trust as expenses. However, the fund management company can charge an annual management fee and front end fee which is a once and for all charge when an investor enters the Unit Trust. The other expenses such as audit fees, trustee and custodial fee, expenses connected to dividend payment, printing and mailing expenses incurred with statutory reports such as interim and final reports can be charged to the Unit Trust.

The open ended Unit Trusts publish daily unit prices based on the net asset value of the fund. The net asset value is calculated after charging the permitted expenses which are accrued daily wherever possible. The question of what is my return from the investment in a unit trust needs to be carefully understood by the investors in a Unit Trust. The unit holder receives his returns in the form of dividends and capital profit on redemption. The combination of both dividend and capital gain is the reward to the investor from the investment made in a Unit Trust.

When an investor enters an open ended fund, his initial investment is determined using the unit selling price (P0) and when he redeems the units he receives a sum of money based on the buying price (P1). Some of the Unit Trusts distribute the realised income by way of dividends periodically. For example let’s assume you have invested in a Unit Trust a sum of Rs 100,000/- at a unit selling price of Rs.10/- per unit on 1st January 2008. The unit price changed over time and the unit buying prices recorded were Rs.12/-, 15/- and 18/- at the end of 2008, 2009 and 2010 respectively. Let’s also assume this Unit Trust paid Rs. 1/- per unit at the end of each year on December 31st as dividend (D). It is important to understand the return from the unit investment made by the investor compared to other forms of savings such as fixed deposit, Treasury bill etc.

The unit holder would have received 10,000 units for the initial investment of Rs.100,000/- at Rs. 10/- The value of those units would have been Rs. 120,000/-, 150,000/-, 180,000/- at the end of year 2008, 2009 and 2010 respectively. This investor also received Rs 10,000/- as dividend at the end of each year.

Hence, the return is as follows:

Year 1: \[ \frac{120,000 - 100,000}{100,000} + \frac{10,000}{100,000} = \frac{20,000}{100,000} + \frac{10,000}{100,000} \]
\[ = 30\% \]

Similarly,

Year 1 & 2: \[ \frac{150,000 - 100,000}{100,000} + \frac{20,000}{100,000} = \frac{70,000}{100,000} \]
\[ = 70\% \]

Year 1, 2 & 3 \[ \frac{180,000 - 100,000}{100,000} + \frac{30,000}{100,000} \]
\[ = 110\% \]
It should be noted that the above calculations take into account the dividend payments and the closing value of the units at the end of each year. Accordingly, the return for the year 2008, 2009 and 2010 were 30%, 70% and 110% respectively. The second and third period returns are calculated for two and three years of holding periods.

Hence, the return for a period can be calculated as follows:

\[
R = \frac{(P_1 - P_0)}{P_0} + \frac{D}{P_0}
\]

- **R** – Return for the period
- **P₁** – End of the period unit value
- **P₀** – Initial investment unit price
- **D** – Total dividends received during the relevant period

The above returns which are for periods over one year can be converted to annual effective rate of return to compare with other forms of saving products where annual rate of return is quoted. It should be noted that the above calculation ignores the timing of the cash receipts to the investors. It is more precise if the IRR method of calculation is used to get the correct time value of money in calculating the investor return.

The above return calculation can be summarised as follows:

- Return for any investment is calculated by looking at the profit (or loss) made on the investment divided by the cost of investment.
- In Unit Trust the performance is the gross profit; i.e., dividends received and the difference between the redemption value and the capital invested.
- Unit holders can get these information from the unit holder statement issued by their Fund Manager.

**Fund Management Companies**

In Sri Lanka, there are six fund management companies licensed by the Securities and Exchange Commission of Sri Lanka. Only licensed fund management companies can operate Unit Trusts. The investors can purchase units from the fund management company offices located in Colombo or from any of their sales agents. Investors are entitled to receive an application form together with an explanatory memorandum which describes the scheme details and related regulations and procedures. These documents enable the investors to understand the scheme and to open an account with the fund management company. After opening the account, the fund management companies enable the investors to invest in any of their products.

The names of the licensed fund management companies are given below for the information of the investors:

- Aviva NDB Wealth Management Ltd
- Ceybank Asset Management (Pvt) Ltd
- Ceylon Asset Management Ltd
- Comtrust Asset Management Ltd
First Capital Asset Management Ltd
National Asset Management Ltd

These fund management companies offer different Unit Trust funds under their umbrella of funds to enable investors to choose appropriate funds in line with their investment goals and risk tolerance level. Investors can call above fund management companies to gather further information about their products.

For further information about Unit Trusts in general, the investors can write to the following address:

President
The Unit Trust Association of Sri Lanka
C/o Securities and Exchange Commission of Sri Lanka
Level 28, East Tower
World Trade Centre
Colombo 1