

UITF Primer/Frequently Asked Questions (FAQs)

○ What is a Unit Investment Trust Fund (UITF)?

The UITF was created by virtue of [BSP Circular No. 447](#) dated September 3, 2004 and amended by BSP Circular No. 593 dated January 8, 2008. It is an open-ended trust fund denominated in peso, or any acceptable currency, which pools together the funds of various investors, for investment in different instruments such as government securities, bonds, commercial papers, deposit products and other similar instruments.

○ What is the meaning of an “open-ended trust fund”?

It is a fund wherein investors can freely buy and sell units of participation any time subject to the fund’s minimum holding period. Units are bought and sold at their current net asset value, which is expected to fluctuate daily, depending on the prices of the securities held by the fund.

○ What are the advantages of UITF?

1. It assures investors of information and guidance using a more realistic valuation method known as marked-to-market (MTM). This system allows clients to fully understand the status of their investments.
2. It requires an accredited third party custodian to take charge of all securities or proofs of ownership of investments to ensure market integrity and iron-clad protection for the investor.
3. Investments are limited to tradable investments, or those that can be sold or bought in an organized exchange to ensure fund liquidity at all times.
4. Peso-denominated UITF is exempt from reserve requirement so the entire assets are fully invested to maximize returns.
5. The bank is required to fully disclose investment risks to investors.
6. Transparency is ensured as the list of prospective and outstanding investment outlets of the fund are made available to clients at least quarterly. Likewise, the NAV/pu, year-on-year and year-to-date returns are published weekly in a national newspaper aside from being accessible daily via the bank's website and www.uitf.com.ph.

○ What is Marked-to-Market?

Marked-to-Market (MTM) is a valuation method which assigns a value to a position held in a tradable financial instrument based on the current market price of the instrument.

○ What makes the market-to-market method of valuation a better yardstick for investors?

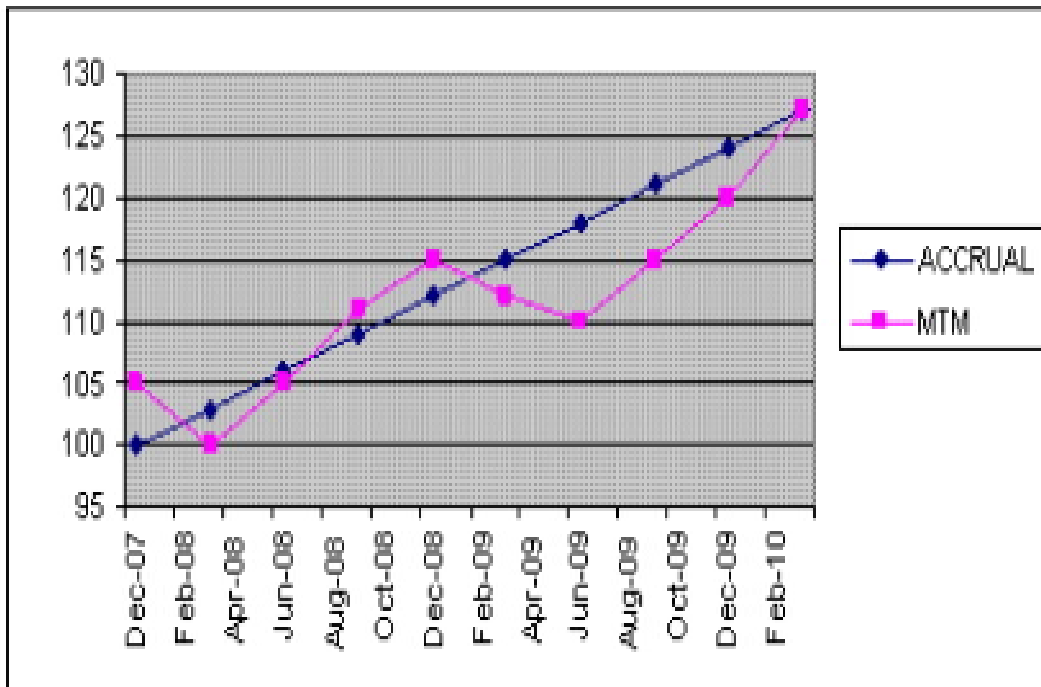
Marked-to-market (MTM) is considered a more accurate and transparent method of valuation as it is able to give investors the actual value of their investments at any given date. The consolidated value of the instruments held by a UITF is easily determined by using the prices of the said instruments in the secondary market at the close of each banking day. With this information readily available for investors, they can easily get in and out of the fund at a market value that is acceptable to them.

It also allows the fund manager to take advantage of trading/market opportunities that may arise, thus enhancing potential returns for its investors.

○ What is the impact of Marked-to-Market on the value of an investment?

Under the marked-to-market method, the value of the investment is constantly adjusted based on prevailing market rates. During times of increasing interest rates, the present value of the investment is lower. On the other hand, during times of decreasing interest rates, the present value of the investment is higher. However, if investment is kept up to maturity date, it will end up with a return effectively equal to the yield-to-maturity on acquisition date of the instrument plus the par value of the investment.

As a result of these interim valuations, a fund's total asset value under the marked-to-market valuation will fluctuate depending on prevailing market conditions.



○ Who can invest in the UITF?

UITFs are available to both corporate and retail investors, who, for a small investment amount, can take advantage of investment privileges normally accessible to investors with sizeable funds.

○ What are the different types of UITF funds currently available in the market?

The introduction of the UITF gives customers more investment options to choose from. Clients are given more choices with a wide range of fund types that include purely fixed income, balanced funds and equity and (discussed in detail below). These funds are suited to meet every customer's financial standing, investment goal, risk appetite and investment horizon. They are also differentiated by their investment objectives and risk appetite.

- **Fixed Income Fund** - This fund aims to achieve steady income at low risk to the invested principal. To achieve this, the fund is invested in fixed-income instruments such as T-Bills,

FXTN's and premium savings deposits. Fixed income funds are further classified according to the term of their underlying assets:

- Money Market Fund - invested principally in short-term, fixed income deposits and securities with portfolio duration of 1 year or less
- Bond Fund - invested in a portfolio of bonds and other similar fixed-income securities with portfolio duration which may exceed 1 year

Sub-class	Macaulay Duration
Intermediate Term	Up to 3 years
Medium Term	Up to 5 years
Long Term	Greater than 5 years

- **Balanced Fund** - This fund seeks a mix of the two classes, fixed income and equity, to achieve a higher return compared to a purely-fixed income fund.
- **Equity Fund** - Funds are invested mainly in stock issues to achieve a higher long-term appreciation or growth of capital. It is usually more risky than fixed income or balanced funds.

○ [What are allowable investment outlets for UITF?](#)

Pursuant to the rules and regulations set forth by the BSP and the PNB Board of Directors, UITFs may be invested and reinvested in the following:

- Bank deposits/deposit substitutes.
- Securities issued by or guaranteed by the Philippine government, or the Bangko Sentral ng Pilipinas.
- Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country or any supranational entity.
- Exchange-listed securities.
- Marketable instruments that are traded in an organized exchange.
- Loans traded in an organized market.
- Such other tradable investments outlets/categories as the BSP may allow.

○ [How do I participate in a UITF? Subsequently, how do I redeem my investments?](#)

To be an investor, you must acquire units of participation in the UITF at the prevailing price for the day, called the Net Asset Value per unit (NAVPU).

On the other hand, should you decide to redeem your participation in the UITF, you may compute for your proceeds by multiplying the number of units to be redeemed by the prevailing NAVPU for the day. The product gives you the proceeds of the investment.

- **Sample Computations is as follows:**

Amount invested:	Php100,000
Date of contribution:	February 1, 2010
NAVPU on the date of investment:	1.00000

No. of units of participation	= Principal/NAVPU
	= Php100,000/1.00000
	= 100,000 units

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Assuming the client decides to redeem his investments in full on May 31, 2010:

NAVPU at the time of redemption:	1.01850
Proceeds of investment:	1.01850 x 100,000
	= Php101,850.00

○ What is the evidence of investment in the Fund?

Every investment will be issued a corresponding Confirmation of Participation (COP). A Participating Trust Agreement (PTA) will be also given to document an investor's initial investment/participation in the UITF.

○ How is the NAVpu calculated?

The NAVPU is the current net market value of each unit of participation in the fund. It is calculated by taking the total market value of the fund's various investments, deducting total expenses, and dividing the balance by the number of outstanding units of participation as illustrated below:

	In Philippine Peso
Total Market Value of Investments:	111,111,111
Less Total Expenses:	11,111,111
(Assuming that expenses is 10% of the market value of investments; total expenses consist of fees, taxes and qualified expenses)	
Total Market Value of Investments:	111,111,111
Equal NAV:	
Assume 100,000,000 units	NAVPU = 1.00

The NAVPU shall be calculated everyday including holidays and will be declared on each business day in accordance with BSP rules and regulations. The NAVPU, as well as the Return On Investment (ROI) of the fund on a YTD and YOY basis will also be published in Business World every Monday and will be made available on the PNB website at www.pnb.com.ph and www.uitf.com.ph on a daily basis.

○ Is the yield on UITF guaranteed?

No. Any income or loss of the UITF will be for the account of the investors. There is no principal protection. Past performance does not guarantee similar future results. However, even if the yield

cannot be guaranteed, you are assured that your hard-earned money is being prudently managed by expert fund managers.

- Will there be an indicative yield quoted to the client at the time of investment?

Since the fund uses the marked-to-market method of valuation, no indicative yield will be quoted to the investor. However, the actual yield of the investment can be determined using the formula below:

$$\text{Actual Yield} = \frac{\text{Net Income(Loss)}}{\text{Principal}} \times \frac{360 \times 100}{\text{no of days}}$$

Where: Net Income (Loss) = Market Value - Principal

Market Value = # of units x NAVPU

- Sample Computations are as follows:

Amount invested:	Php100,000
Date of contribution:	February 1, 2010
NAVPU on the date of investment:	1.00000
No. of units of participation	= 100,000 units
Date of redemption:	May 1, 2010
NAVPU at the time of redemption:	1.01850
Coupon Rate of Investment:	6%
Interest Rate Scenario:	Decreasing
Market Value (100,000 x 1.01850)	= 101,850
Net Income (101,850 – 100,000)	= 1,850
No of Days	= 89

$$\text{Actual Yield} = \frac{1,850}{100,000} \times \frac{360 \times 100}{89}$$

= 7.48% p.a.

Amount invested:	Php100,000
Date of contribution:	February 1, 2010
NAVPU on the date of investment:	1.00000
No. of units of participation	= 100,000 units
Date of redemption:	May 1, 2010
NAVPU at the time of redemption:	0.99850
Coupon Rate of Investment:	6%
Interest Rate Scenario:	Increasing
Market Value (100,000 x 0.99850)	= 99,850
Net Loss (99,850 – 100,000)	= -150
No. of Days	= 89

$$\text{Actual Yield} = \frac{-150}{100,000} \times \frac{360 \times 100}{89}$$

= -0.61% p.a.

- Is the UITF covered by the Philippine Deposit Insurance Corporation (PDIC)?

No. The PDIC only covers deposit accounts. However, PNB Trust has instituted safeguards and risk mitigants in compliance with BSP rules and industry best practices to ensure that investments are managed in the best interest of the investor.