CENTRAL BANK OF TRINIDAD AND TOBAGO

MUTUAL FUNDS AND UNIT TRUST:

THE TRINIDAD AND TOBAGO EXPERIENCE

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ABSTRACT

The Mutual fund industry in Trinidad and Tobago have its' genesis in the establishment of the Unit Trust Corporation of Trinidad and Tobago (UTC) by a special Act of Parliament, No. 26 of 1981. On November 29, 1982, one year following the promulgation of the Unit Trust Corporation Act, the financial landscape of Trinidad and Tobago was widened with the establishment and operationalisation of the UTC. Since 1994 several developments have occurred which has had the effect of transforming the local mutual funds industry and which is likely to impact upon its future performance. One such occurrence has been the termination of the single firm industry reign of the UTC consequent upon the liberalisation of the financial system.

This paper critically examines the degree to which the mutual fund industry was successful in: firstly, providing a simultaneous solution to the need to mobilise domestic savings and to channel these saving into desirable investment activities; providing investors exercising the mutual fund alternative to engaging in the complex activities of the stock exchange with competitive rates of returns on their investments; and finally the paper will explore the likely impact of pending dramatic changes in the economic, fiscal, institutional and regulatory, trends on industry performance and yields.

MUTUAL FUNDS AND UNIT TRUSTS: THE TRINIDAD AND TOBAGO EXPERIENCE

Sandra Swan-Daniel and Kelvin Sergeant*

INTRODUCTION**

> *The relationships among insurance companies, banks and mutual fund complexes are experiencing dramatic changes. Expansion of each of these industries' product lines into the others' market base has blurred traditional market definition, and product designs may be governed as much by historic regulatory constraints as by market demands. What was once bitter competition and rivalry among these industries may be turning to a sharing of complementary strengths. What was once product differentiation by carefully protected industry segments may be turning to product differentiation by the manner in which the parts are put together.*
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> Diane E. Ambler, "On the Development of Banks, Insurance Companies and Mutual Fund Complexes in the United States," *Journal of International Banki ng Law*, 1995: 4.

Trinidad and Tobago's financial system has grown rapidly since Independence. In fact, when compared to other countries of the Caribbean, the growth has been described in some circles as impressive. The country now has a relatively sophisticated financial structure not only in terms of the types of institutions, but also in the range of financial instruments available. Against the background of the current trends, such as the globalisation of finance, and economic liberalisation programmes currently underway, the financial system continues to adapt to this new and dynamic environment. At the end of 1996 the financial system consisted of a range of institutions which include a Central Bank, deposit taking institutions, development banks, credit unions, insurance companies, a secondary mortgage market institution, a Stock Exchange, a Deposit Insurance Corporation, and the National Insurance Board. Recent additions to this list include an expansion among the *mutual funds*, three venture capital companies and a Securities and Exchange Commission.

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** All technical terms which are in italics are defined in the glossary.

Driven by the forces of deregulation, innovation and structural change the domestic financial system has exhibited considerable dynamism both at the institutional level and by the variety of products being offered. Hybrid financial products and services have now emerged and some banking services have been integrated with other forms of financial market functions. The process of mergers and acquisition within the financial system has also been prevalent as dominant actors seek to flex their financial muscle. Moreover, borrowers and investors have displayed a tendency to seek new sources of funding or investment opportunities in alternative segments of the financial services market. In so doing these actors rely less on traditional banking services and provided the impetus for some of the new hybrid financial products. More recently corporate borrowers have turned to the bond market as a substitute for overdraft financing, and depositors have sought higher yielding investments in alternative financial instruments such as mutual funds.[1] In this regard, the financial system in Trinidad and Tobago is creating its own internal dynamic and is increasingly becoming integrated with global *financial markets*.

This paper explores one aspect of Trinidad and Tobago's financial services sector; the mutual funds/unit trust industry. For many years this segment of the sector was dominated by one firm in a clear monopoly position. More recently the authorities levelled the playing field and made conditions more appropriate for the entry of new firms. In response to these changes there were four new funds over a period of three years. The paper gives an account of the origins of the mutual fund industry in Trinidad and Tobago and examines the degree to which the industry has been successful in the mobilisation of domestic savings. The paper also explores the need for pending changes in the regulatory and supervisory framework of the mutual fund industry and concludes with some preliminary recommendations.

I. THE HISTORY OF THE MUTUAL FUND INDUSTRY IN TRINIDAD AND TOBAGO

Mutual fund activities in Trinidad and Tobago have their genesis in the establishment of the Unit Trust Corporation of Trinidad and Tobago (UTC) by a special Act of Parliament.[2] The proposal to establish a unit trust in Trinidad and Tobago was first aired in 1969 and seven years later a further call was made for the establishment of a unit trust; at this time the call was made by representatives of the local private sector who saw the institution as providing a means of widening the investment opportunities available to local businessmen.[3] A Cabinet-appointed Committee was then established to consider the establishment of a unit trust and one year after submitting its report, the Unit Trust Corporation came into being.[4]

The functions conceived for the new financial institution as enunciated in the official statement of policy by the then Minister of Finance were as follows:

> *The Unit Trust Corporation of Trinidad and Tobago will serve two basic purposes; first it will mobilize savings of the community in order to channel them into desirable corporate investments and secondly, it will provide the facility to people of modest means to own shares.* (*Hansard* July 3, 1981 p. 824)

These aims were stated in the context of two wider objectives:

> *The twin objectives of income distribution and the continuing development of the money and capital market are to be achieved through actions being initiated to increase the availability of acceptable equity shares on the market through: (a) the divestment programme and (b) the establishment of the Unit Trust Corporation of Trinidad and Tobago.* (*Hansard* July 3, 1981 p. 824)

The choice of a unit trust was motivated, therefore, by the fact that this institutional form lent itself ideally to the simultaneous achievement of the government's several objectives. These objectives were:- the generation of new savings and the channeling of such savings into productive investment; government's localisation program and the creation of a so called share holding democracy; and the dilution of what was viewed as an unhealthy concentration of business ownership in a relatively few privileged hands.

On November 29 1982 the UTC launched its First Unit Scheme or mutual fund (the Income and Growth Fund) and seven years later in September 1989 a Second Unit Scheme, or the *Money Market Fund* was also introduced. The former is aimed at individuals who seek to combine long-term capital growth with a steady income flow, while the latter is directed towards the yield-maximizing investor. On October 24 1990 the UTC family of mutual funds was further expanded to include a Third Unit Scheme - the Chaconia Income and Growth Fund (Chaconia). The Chaconia is incorporated in Maryland, United States of America and is regulated by the Securities and Exchange Commission (SEC) in the USA.[5]

Eleven years following the launch of the UTC, the Minister of Finance announced in the 1994 Budget Speech that the time had come "*to open the monopolistic, highly protected and supported investment institution.*" that is to widen the playing field in the mutual funds industry in Trinidad and Tobago. This was considered necessary to further the development of the capital market and make the system fully responsive to market forces. The opening of the industry to other players was also considered to be a progressive move which afforded savers and investors a wider choice of investment instruments. The view was also expressed that a more level playing field could also prove more attractive to foreign investors. This announcement paved the way for three new entrants into the industry and interestingly enough they were all related to the well-established deposit-taking institutions. The three new entrants were the Roytrin, Republic and Scotia families of mutual funds.

The Roytrin Family of Mutual Funds

On March 9 1994 the Royal Bank of Trinidad and Tobago Limited launched the Roytrin Mutual Income and Growth Fund.[6] The objectives of this fund are similar to those of the First Unit Scheme of the UTC, that is to attract investors by promoting maximum income growth and long-term capital appreciation. The composition of the investment portfolio includes a mix of high-quality stocks, bonds as well as treasury bills and this *portfolio* is the responsibility of the investment manager. Net assets of the fund at June 30 1997 stood at TT$68.9 million. Almost two years later on February 7 1996 the Royal Bank introduced the

Roytrin Mutual Money Market Fund in direct competition with the UTC's Second Unit Scheme. The objective of this fund is to maximise current income while ensuring the protection of capital invested. The investment portfolio of the Roytrin money market fund is comprised of a mix of short-term money market instruments, securitised mortgages and corporate and government bonds. As at June 30 1997 the net assets of the fund stood at TT$28.8 million.

The Scotia Offshore Global Growth Fund

The Bank of Nova Scotia in June 1994 launched the country's first offshore mutual fund. The US dollar denominated Global Growth Fund is domiciled in the Cayman Islands. The Scotia Offshore Global Growth Fund is an *open-ended* pooled investment fund denominated in US dollars and designed to offer long term capital growth.[7] The objective of the fund is to provide investors with an opportunity to achieve long-term capital growth through investing in high quality *securities* primarily, but not exclusively, of issuers located outside Canada and the United States." The fund's portfolio includes investments in equities, debt instruments, and government and corporate securities denominated in a variety of currencies.

The Republic Global Equity Fund

On July 27 1995 Republic Bank (Trinidad) Limited subsequently launched its Global Equity Fund[8] also domiciled in the Cayman Islands. As at June 30 1997 the Republic offshore mutual fund had net total assets of US$12.2 million. The fund invests in securities which originate in the United States, Chile, Japan, Argentina and Europe and offers investors an easier avenue to invest abroad.

Thus, as at October 1997 the industry in Trinidad and Tobago consists of seven separate and distinct mutual funds - two money market funds and two equity funds domiciled in T&T, and three foreign-currency denominated global equity funds. Hence within a period of three years four new funds were established and in direct competition with the original

UTC family of mutual funds. In this paper however the discussion will focus on those mutual funds and/or activities domiciled in the Republic of Trinidad and Tobago, that is the UTC and the Roytrin family of mutual funds. So far in the discussion of the mutual fund industry the terms 'mutual fund' and 'unit trust' have been used almost interchangeably. There are however differences in the meaning of the terminology and the next section of the paper provides an important discussion on conceptual and definitional issues.

II. DEFINITIONAL AND CONCEPTUAL ISSUES

A mutual fund is a type of investment company which sells shares that represent an interest in a pool of financial assets. A mutual fund may be defined, therefore, as an investment company that invests on behalf of individuals and institutions who share common financial goals as defined in the prospectus of the fund. The fund pools the money of all individual and institutional investors and buys a variety of stocks, *bonds* or money market instruments to achieve its financial objective.[9] Mutual funds can be divided into four types: stock funds, bond funds, growth and income and money market mutual funds. Stock funds invest solely in the stock of various corporations and are often thought of as growth funds. The portfolios of growth funds are largely made up of stocks or equities. What is not invested in stocks is usually invested in cash. The hope is that the per share prices of the stocks in the stock fund's portfolio will increase in value or grow over time, and thereby the value of a stock fund investment will also appreciate. Bond funds are made up of bonds from various corporations, countries, or governments. These funds are often called *income funds* because the securities in which the funds invest are managed so as to produce income for all the shareholders. One may consider stock funds and bond funds as representative of mutual fund activities that are skewed toward the polar ends of a spectrum. Within the spectrum therefore it is possible to conceive of a variety of funds whose investment portfolios represent some combination of both types of assets. Two examples for Trinidad and Tobago include the Growth and Income and Money Market mutual funds of the UTC and Roytrin described in the previous section.

Growth and income funds are typically made up of a combination of stock and bond investments and are often referred to as *balanced or equity funds.* The assets of these funds are primarily equity but in some cases may include a mix of fixed-income securities. Income is distributed in cash or re-invested in new units at monthly or quarterly intervals while the value of the units in the fund varies with price changes in the underlying securities. *Money-market mutual funds* are considered to be the safest kind of mutual investment because their assets are usually short term and high-yielding instruments. These assets are comprised of *commercial paper*, bankers' acceptances and treasury bills with a maximum average term to maturity of 180 days. In most of these funds the value of units are managed to maintain a constant per share price. Interest accrues daily but is distributed monthly or quarterly in the form of new units such that the value of the units remain constant.

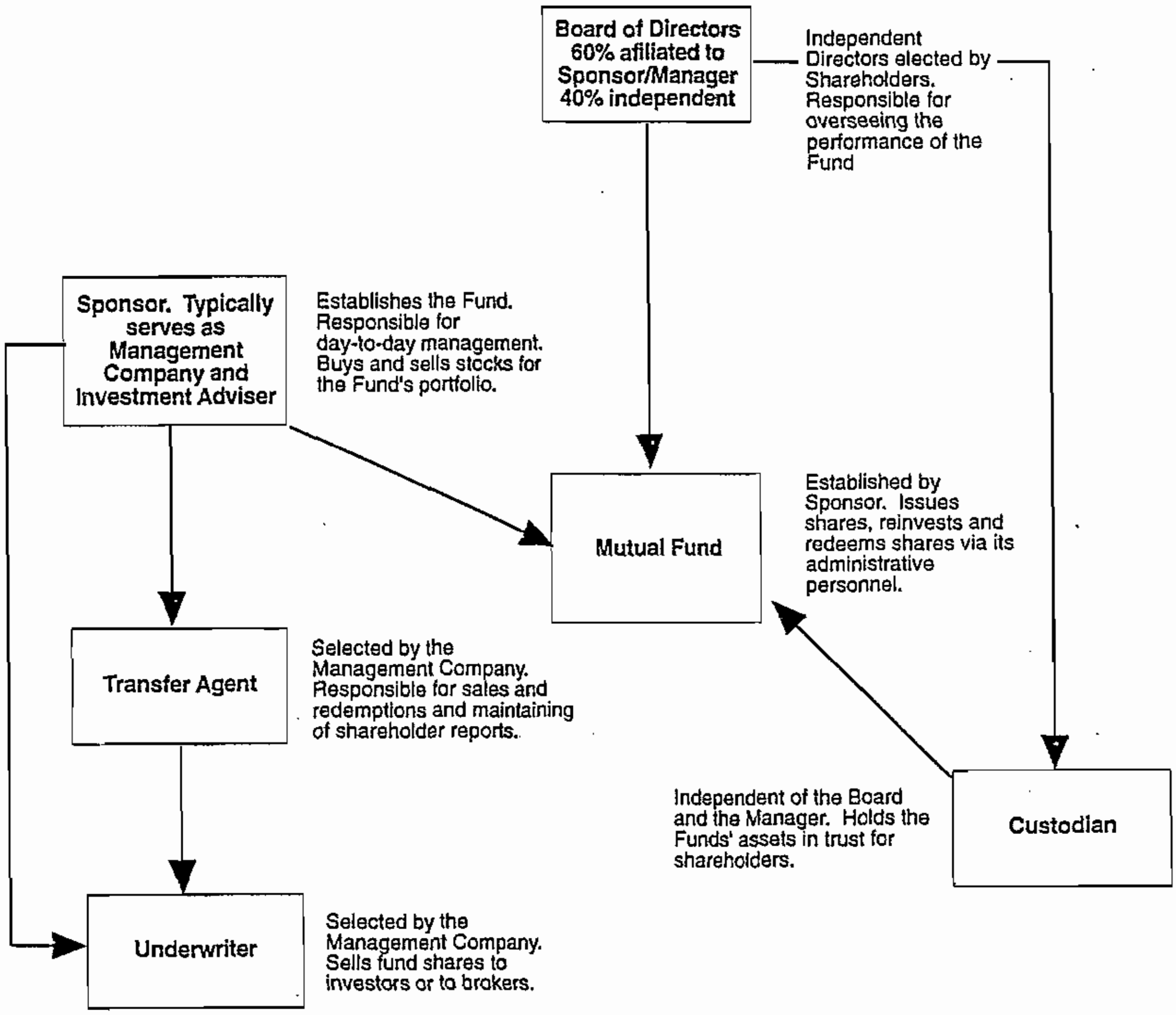
The Legal Structure

The legal structure of a mutual fund is usually defined in the trust deed as is the case of those mutual funds currently offered by the deposit-taking institutions or by the appropriate governing legislation e.g. the UTC Act. The most important legal requirement is the separation of powers between the primary parties of the fund and an independent custodian to hold the assets of the fund on behalf of unit holders or shareholders. A mutual fund or investment company irrespective of its classification (that is money market funds, fixed income funds or equity funds) may conform to one of two basic legal structures: *the Corporate Structured Mutual Fund (Investment Trust) or the Trust Structured Fund(Unit Trust)*.

The corporate structured mutual fund is usually adopted by those funds domiciled in the USA. This structure offers to shareholders, and to a limited extent directors, freedom from liability. The fund is subject to annual meetings and shareholder approval of the issuance of additional shares, and investors generally exercise voting rights with respect to the fund. As indicated in Chart I below, at the apex of the corporate structure is the Board of

CHART I

CORPORATE STRUCTURE MUTUAL FUND



Source: Adapted from M. Alexander, "Mutual Funds Proposed Legislation", (1996).

TABLE 1

CHARACTERISTICS OF INVESTMENT AND UNIT TRUSTS

INVESTMENT TRUST	UNIT TRUST
A company quoted on the stock exchange	A trust set up under a trust deed and supervised by a regulatory authority
A closed-end fund: a fixed number of shares bought and sold through a stockbroker	An open-end fund: units issued and redeemed according to supply and demand by the unit trust management company
Shares whose price is determined like any other company by supply and demand	Units whose price is determined by the net asset value of the fund
Shares may stand at a discount or, rarely, a premium to the net asset value	Units can always be bought and sold at near asset value
An investment trust cannot advertise or promote the sale of its shares, although it can advertise its achievements	Through its management company the unit trust can advertise or promote the sales of its units
The trust can take a long term view as it has a permanent fixed capital structure	The trust must always have regard to the level of redemptions by unit holders and, therefore, exercise caution in difficult markets and when investing in unlisted securities
The trust can borrow to provide gearing and invest additional money on behalf of its shareholders. The interest on these borrowings is allowed against the company's tax	The trust cannot borrow to provide gearing
The trust can invest in a wide range of securities, both listed and unlisted, and can hedge all currency risks	Unlisted companies can form up to 10 per cent of the portfolio, **but very strictly controlled.**

Source: Adapted from B. Chiplin and M. Wright (1991) p.38.

Directors. The Board is elected by the shareholders of the fund and is responsible for overseeing the fund's performance. Forty per cent (40%) of the directors must be independent of the sponsor/manager of the fund, while the Board retains an independent custodian to hold the fund's assets in trust for shareholders. Subject to shareholders' approval, the Board selects the management company which is responsible for the day-to-day management of the fund. The management company usually serves as the investment advisers to the fund in the purchase and sales of stocks in the funds portfolio. The investment adviser usually retains the services of a transfer agent and an underwriter. The transfer agent is responsible for the sale and redemption of shares in the fund as well as the maintenance of shareholder reports, while the underwriter engages in the direct sale of the fund's shares to investors or indirectly to brokers.

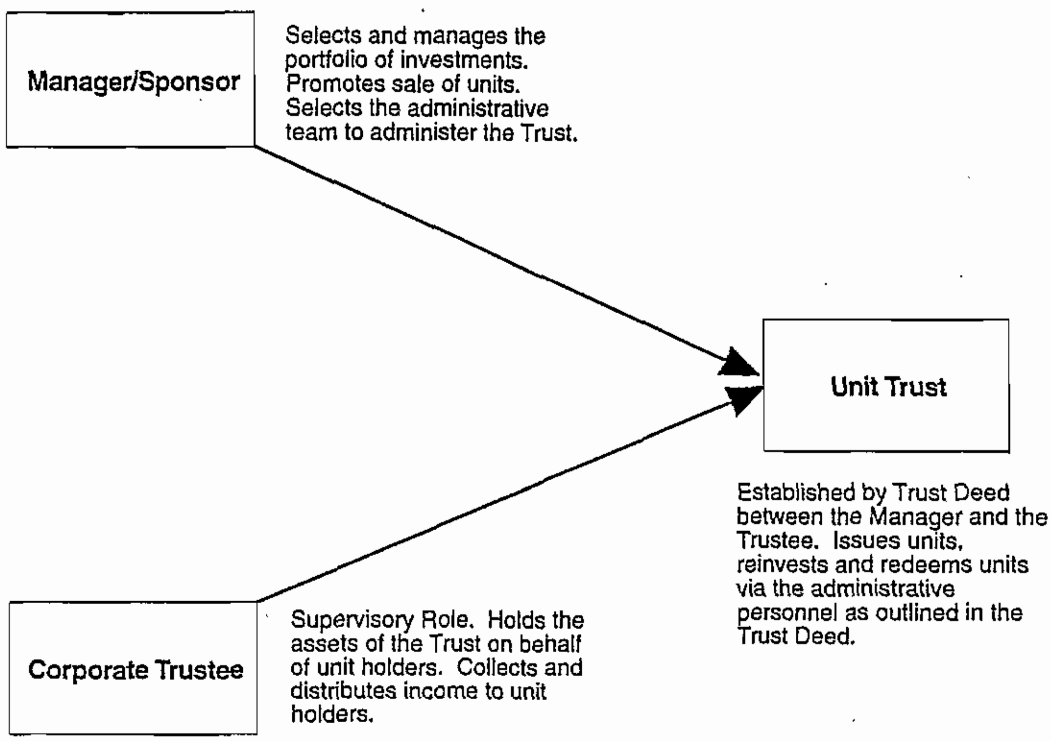
In the United Kingdom and several other Commonwealth jurisdictions including T&T, the trust structured fund came into being in response to provisions in the original company legislation in these countries (See Chart II). This prohibited a corporate structured fund from redeeming shares that it had issued. In the U.S. however, mutual funds and unit trusts function in a similar manner except that the former is governed by the company legislation and common law and the latter, by trust law. The business trust is an un-incorporated association governed by a board of trustees. While this model dispenses with traditional corporate formalities - for example of annual shareholder meetings, and shareholder approval for the issuance of new or additional shares - the trustees of the business trust have the same responsibilities as those assigned the directors of a corporate body.

With respect to the trust structured fund the following characteristics usually obtain: The fund is typically constituted by a trust deed between a trustee and a manager e.g. the Roytrin family of mutual funds, Republic Global Equity Fund and the Scotia Offshore Global Growth Fund. The assets of the fund are held on trust for the participants and the investor has no voting rights with respect to the way the trust is operated. The role of the corporate trustee is of a supervisory nature with respect to the operation and management of the trust, and stands in a fiduciary relationship with share holders. The responsibility of the trustee includes holding all the assets of the trust as well as the collection and distribution of income to unit holders at stipulated intervals.

Mutual funds, unit trusts or investment trusts channel savings to different forms of investments just like other financial intermediaries. To the saver, mutual funds offer several advantages over the closest, non-intermediary alternative, the direct purchase of stocks and

CHART II

TRUST STRUCTURED FUND



Source: Adapted from M. Alexander, "Mutual Funds Proposed Legislation", (1996).

bonds. These advantages include: the employment of professional asset managers and analysts with investment expertise exceeding that of the typical small investor; allowing small savers to invest in a diversified portfolio, thus reducing their exposure to certain types of *risk*. Typically, the higher transactions cost and minimum purchase sizes encountered in direct investment make diversification difficult for the small investor; in addition the mutual fund offers investors a greater degree of liquidity than would be available through direct investments in the capital markets.

As a financial intermediary, mutual funds may be distinguished from commercial banks and thrift institutions along several lines and one distinct feature is the way in which savings are channelled. Mutual funds issue shares or units which represent an ownership interest so that investors or share owners assume all the financial and credit risks of the fund's assets and share proportionally in the gains (losses) of the fund. Consequently, the return on the shareholder's investment fluctuates with the general market conditions and the investment *performance* of the fund. In contrast, commercial banks issue deposit liabilities with a fixed rate of interest and depositors are protected up to some legally defined maximum level by deposit insurance and are not subject to any credit risk. In competing with banks and thrift institutions mutual funds will appeal to those savers who are willing to shoulder additional risk for higher expected returns.

III. AN ASSESSMENT OF THE UNIT TRUST ALTERNATIVE

The First Unit Scheme

As already indicated the UTC manages two funds which are domiciled in Trinidad and Tobago - an equity fund and a money market fund. The equity fund, the First Unit Scheme (FUS) was launched on November 29, 1982. The seed capital of the FUS was facilitated by initial capital contributions from the Central Bank (TT$2.5 million), life insurance companies and the National Insurance Board (TT$1.5 million), and commercial banks and other financial institutions (TT$1 million). The portfolio mix of the FUS includes equities, government corporate bonds, US$ denominated government bonds and a small percentage of real estate holdings in properties. A minimum investment of one hundred dollars (TT$100) is required to make an initial investment and subsequent purchases require a minimum of twenty dollars (TT$20). Incoming investors are required to purchase units at the current price of *net asset value* (NAV), plus a *front-end load* or sales charge of five per cent (5%) of the initial charge.[10] Existing investors in this fund are not required to pay any *back-end load* or redemption charges. The front-end load or sales charge is used to generate income for fuelling the operations of the UTC. The front-end load is effected through the offer and bid prices operated under the FUS. The former represents the price investors must pay to obtain units in the Scheme while the latter represents the redemption price. The five per cent difference between the offer and bid prices defines the initial sales charge, hence the ascription of a front-end load.

Within the FUS a myriad of investment products have been developed over the years, through which would-be investors could effect their participation in the fund. One example of this is the ***Children's Investment Starter Plan (CISP).*** The CISP was established on May 29 1985 to provide long-term investment in trust for a child. Upon purchasing five units in the FUS a further five units is granted to an investor by way of a loan facility. This loan is repaid from the distributions generated by the ten units over a period of approximately five years. Additional units may be bought on a consistent basis utilising such facilities as salary deductions, standing orders, etc. The ***Individual Retirement Unit Account (IRUA)*** was introduced on November 16 1992 and is targeted towards both employers and employees who wish to establish a private 'Pension Plan'. The IRUA is an individual or personalised retirement account, which provides investors with several pay out options: e.g. lifetime income, paid either monthly, quarterly, semi-annually or annually or other variants.[11]

In an attempt to mitigate against the risk of capital loss assumed by any investor, the UTC has opted to extend a price guarantee to purchasers of units in the FUS. The price guarantee mechanism provides unit holders an assurance of receiving the higher of the purchase price or the prevailing bid price on redemption once the investment is held for a minimum of three years. The guarantee scheme is sustained by a guarantee reserve fund established under Section 26 of the Unit Trust Corporation Act.[12]

The Second Unit Scheme

The Second Unit Scheme (SUS), the money-market fund, is an *open-ended,* front-end load instrument and was launched on September 1, 1989. This instrument carries a fixed unit cost of TT$20 per unit, has a *minimum investment requirement* of TT$100 or five units, and a maximum of TT$1 million. The expected quarterly rate of interest is quoted at the start of each quarter and published daily. While the expected rate quoted may change each quarter with changes in market conditions, interest is accrued daily but distributed quarterly in the form of new units in such a way as to keep the value of the units constant. Investments in the money market fund may be likened to bank deposits as units are redeemable on demand at face value.

There are several factors which may be considered in assessing the performance of the UTC over the last sixteen years. One can analyse the UTC's contribution to the growth of national savings, the provision of funds for equity capital investment (the divestment objective) and the level of popular participation (shareholding democracy objective) in the First and Second Unit Schemes. This assessment must be interpreted however against the broad macro-economic environment in which the funds operated and in particular any fiscal and monetary policy regimes which were in place.

TABLE 2

SELECTED MACRO-ECONOMIC INDICATORS, 1980-1990

Year	Real GDP Growth Rates* (%)	Fiscal Surplus/ Deficit (TT$M)	Inflation Rate (%)	Balance of Payments Overall Surplus/Deficit (TT$M)
1980	10.4	1,048.0	17.5	1,498.9
1981	4.6	426.5	14.3	1,350.5
1982	3.8	-2,346.6	11.4	-527.1
1983	-10.3	-2,216.0	15.2	-2,161.6
1984	-5.8	-11,655.7	13.2	-1,749.5
1985	-4.1	-917.4	7.6	-261.5
1986	-3.3	-1,012.2	7.6	-2,413.7
1987	-4.6	-1,012.0	10.8	-899.6
1988	-3.9	-983.7	7.7	-633.7
1989	-0.8	-763.8	11.4	-660.9
1990	1.5	-268.4	11.0	-807.7

Source: *Annual Economic Survey*, Central Bank of Trinidad and Tobago.

A critical analysis of the UTC's performance must also take cognisance of the fact that the institution was created just before the onset of seven years of uninterrupted economic decline. Thus the performance of the two funds would be reflective of the underlying performance of the real economy and as the economy entered a period of recession this was clearly evident in the direction of the price of the units. As Table 2 suggests all the major macroeconomic indicators were indicative of a period of disequilibrium in the early years of the UTC's life.

The peformance of the UTC must also be considered in light of the fiscal policy measures which impacted on unit holders and the Corporation. Table 3 below describes the incentive regime in place shortly after the onset of the UTC's operations. The tax incentive given to the Corporation took the form of a complete exemption from taxation on income. For the unit holders however, starting in 1986 the incentive took the form of a reduction in chargeable income of an amount up to a limit of TT$5,000, if the amount had been used for the purchase of units. In 1986 tax allowances were granted for incremental investments in units but in keeping with the tax reform process of the late 1980's these were replaced four (4) years later by a system of tax credits. In this system a maxiumum credit of TT$300 was offered on a minimum net increase in investments of TT$1,500 in the UTC. In 1992 this incentive was increased from 20 per cent to 25 per cent on the maximum allowable net increase. In 1994 however, the authorities started the process of dismantling the fiscal regime; by January 1 1996 all the incentives had been removed and instead a 15 per cent tax on gross interest income of all mutual funds was imposed at source.

The Performance of the FUS (1982-1996)

From an initial investment of TT$36 million in 1982, gross sales in the UTC's first fund slumped to TT$3 million in 1983 and decreased further in 1984 to TT$1.4 million despite government's attempt to ensure the survival of the institution through the incentives described above. Repurchases or unit redemption totaled TT$14 million and TT$13 million in 1983 and 1984, respectively and this induced sharp contractions in the Unit Fund in those two years. These contractions coincided with a 26 per cent depreciation in the value of the

TABLE 3

FISCAL POLICY AND THE
MUTUAL FUND INDUSTRY (1982-1997)

YEAR	PROVISION / EXEMPTIONS	AUTHORITY
January 1984	Exemption of the UTC from income tax and unemployment levy in respect of any income, profits or gains derived by it from any source whatever.	S35 (a) Unit Trust Corporation of Trinidad and Tobago Act, No. 4 of 1984.
	Exemption of the UTC from income tax on any dividend income received on equities.	S35 (b) UTC Act as amended by No. 4 of 1984.
	Exemption accorded to unit holders from paying taxes on their distribution income up to a maximum of $5,000 per year.	S36 (a) UTC Act as amended by No. 4 of 1984.
	Earnings on investment in the initial capital by contributing institutions exempt from taxes.	S36 (c) UTC Act as amended by No. 4 of 1984.
January 1986	Unit holders allowed to deduct purchases of units up to a maximum of $2,500 in any one year from their chargeable income.	Finance Act 1986
January 1990	The aforementioned tax incentives to unit holders was replaced by a maximum tax credit of $300 on a minimum net increase in investment of $1,500 in the First and Second unit schemes.	Finance Act 1990
January 1992	Increase in the tax incentives accorded unit holders from 20 per cent to 25 per cent ($625) on the maximum allowable net increase in investments of $2,500.	Finance Act 1992
January 1994	Removal of the tax credit extended to unit holders of the Second Unit Scheme.	Finance Act 1994
January 1995	Imposition of a 15 per cent tax on the dividend income received by all mutual funds in the industry.	Finance Act 1995
	Imposition of a 15 per cent withholding tax on interest payable to mutual fund investors at the point of distribution.	
January 1996	Removal of the 15 per cent tax on Dividend Income received by all mutual funds.	Finance Act 1996
	Removal of the 15 per cent tax on distributions to unit holders of the Second Unit Scheme and other money market funds.	
	Imposition of a shift in the incidence of the 15 per cent withholding tax on distributions from the point of distribution to the point of receipt.	
January 1997	The 15 per cent withholding tax on interest payable to investors was reimposed at the point of distribution.	Finance Act 1997

Source: *Review of Fiscal Measures*, Ministry of Finance.

unit from TT$10.10 in 1982 to TT$7.45 in 1984. By December 1988, the value of the unit had reached a record low of TT$5.85 representing - a 42 per cent decline in the unit value over its 1982 bid and offer prices of TT$9.60 and TT$10.10 respectively as shown in Table 4. The decline in the bid and offer prices was a clear reflection of the underlying contraction in real output, which was also evident in the trends in the stock market. As economic activity fell in certain sectors (e.g. Construction, Distribution, Finance, etc.) the performance of firms in these sectors was also reflected in the value of their shares which traded on the Stock Exchange and were part of the portfolio of the FUS.

TABLE 4
FIRST UNIT SCHEME: SELECTED INDICATORS
1982-1996

YEAR	SALES (TT$M)	REPURCHASES (TT$M)	BID PRICE (TT$)	OFFER PRICE (TT$)	FUNDS UNDER MANAGEMENT (TT$M)
1996	146.01	104.31	14.90	15.65	593.67
1995	203.76	65.48	13.80	14.50	493.48
1994	81.50	27.36	10.35	10.85	257.58
1993	62.80	27.08	9.60	10.10	194.17
1992	24.50	14.58	7.90	8.30	127.42
1991	30.90	28.30	9.00	9.55	135.89
1990	36.50	5.40	9.05	9.50	137.14
1989	12.90	6.40	6.40	6.70	78.42
1988	30.20	5.40	5.55	5.85	68.41
1987	22.70	0.87	6.05	6.35	49.76
1986	12.40	0.59	5.60	5.90	29.13
1985	4.00	1.10	5.95	6.30	19.54
1984	1.40	2.80	7.05	7.45	20.03
1983	3.00	13.70	8.30	8.75	24.03
1982	35.99	0.31	9.60	10.10	42.05

SOURCE: *Annual Reports*, Unit Trust Corporation

However, the eight year period 1989 to 1996, which coincided with economic recovery saw an upward trend in gross unit sales. In part the upward trend was driven by the fiscal concessions outlined in Table 3 as well as the return to positive real economic growth as described in Table 5. Sales of units in the FUS rose from TT$12 million in 1989 to over

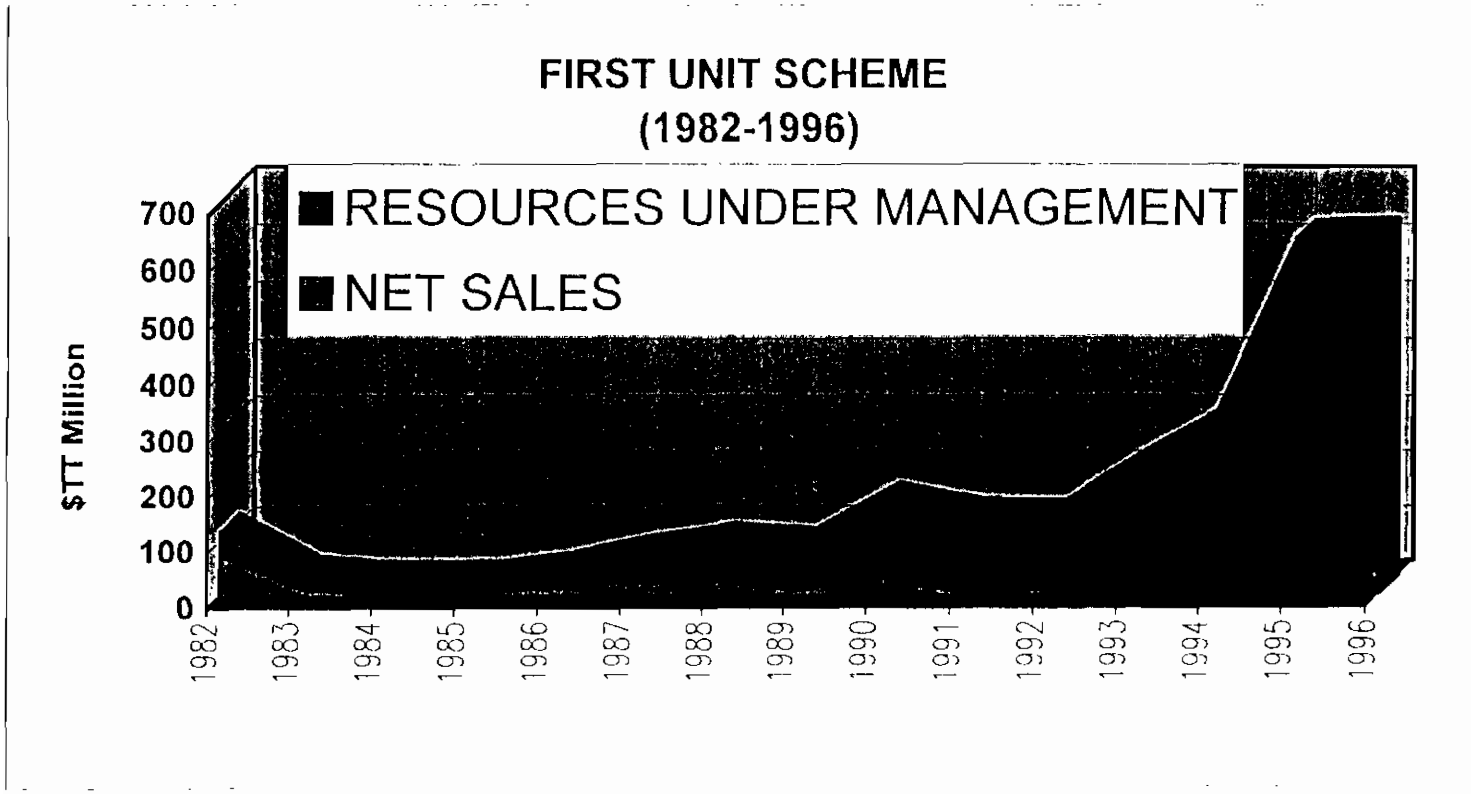
TABLE 5
SELECTED INDICATORS
1990-1996

Year	Real GDP Growth	Fiscal Surplus/ Deficit	Inflation Rate	BOP Surplus/ Deficit
1990	-0.95	-268.4	11.0	-807.7
1991	2.87	-45.9	3.8	-1,326.1
1992	-1.1	-643.8	6.5	-116.8
1993	-2.6	-39.1	10.8	151.3
1994	5.0	-6.0	8.8	181.0
1995	3.2	53.3	5.3	32.5
1996	2.8	523.5	3.3	211

Source: *Annual Economic Survey*, Central Bank of Trinidad and Tobago.

TT$146 million in 1996 (See Chart III below). The offer and bid prices of units rose from TT$6.70 and TT$6.40, respectively in 1989 to TT$15.85 and TT$15.08, respectively at the end of 1996. Resources under management closely mirrored the pattern of net sales with a sharp decline in 1983 (41 per cent), 1984 (20 per cent) and 1985 (2 per cent). As the economic recovery began in the 1990's the downward trend in the offer and bid prices, and funds under management was reversed. In fact, funds under management surpassed its initial level at inception as early as 1987, and may be attributed in part to favourable fiscal measures introduced in 1986. Funds under management increased by TT$144.4 million between 1987 and 1993, and this generated higher levels of gross investment income. Gross investment income of the equity fund grew from TT$4.08 million to TT$19.27 million between the period 1987 and 1993 representing an average annual rate of growth of 2.9 per cent over the period. This may be contrasted with an average annual rate of 3.03 per cent between 1994 and 1996 when the fiscal incentives were removed.

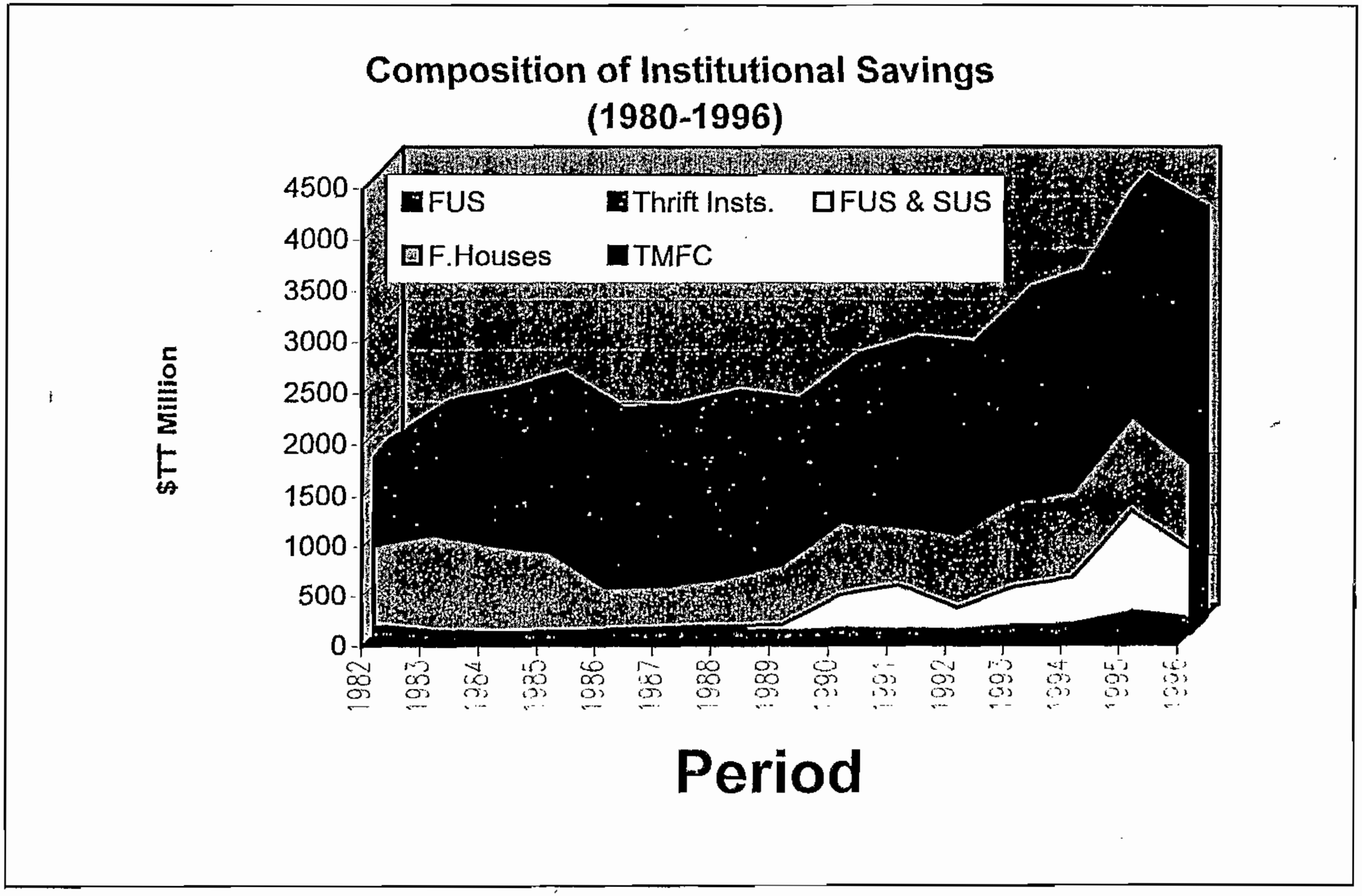
CHART III


FIRST UNIT SCHEME
(1982-1996)
RESOURCES UNDER MANAGEMENT
NET SALES
$TT Million
700
600
500
400
300
200
100
0
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996

Between 1989 and 1996 the funds under management for both the FUS and the SUS expanded rapidly growing from TT$78 million to TT$1,342 million. Over the period 1982 to 1996 the financial base of the FUS also grew with an average annual rate of growth of 1.9 per cent. Given the mobilisation efforts of the SUS the average annual growth rate of 2.6 per cent in the financial base of the UTC as compared with an average annual rate of growth of 4.3 per cent in commercial bank deposits. Chart IV depicts the changes in the institutional composition of financial savings between 1982 and 1996 and includes data for all deposit-taking institutions except the commercial banks. As is expected the commercial banks dominate the institutional composition of financial savings (See Chart V) and in this regard it may be more appropriate to exclude their data from the comparative analysis. If the commercial banks are then excluded, the data suggests that the UTC has been experiencing significant growth with the establishment of the SUS. The relative performance was particularly pronounced in 1995 for example, when the funds under management almost doubled within the space of one year. The data suggests therefore that in spite of the dominance of the commercial banks as mobilisers of savings, there has been a secular decline in the amount of time deposits held at banks which represent an alternative to the SUS in particular. Time deposits in the banking system fell from TT$3,800 million in 1985 to TT$2,747 million in 1996. This notwithstanding, in 1984 the FUS accounted for less than one per cent of total institutional savings, but by 1995 the relative share of both the FUS and SUS in total institutional savings had grown to 5.99 per cent.

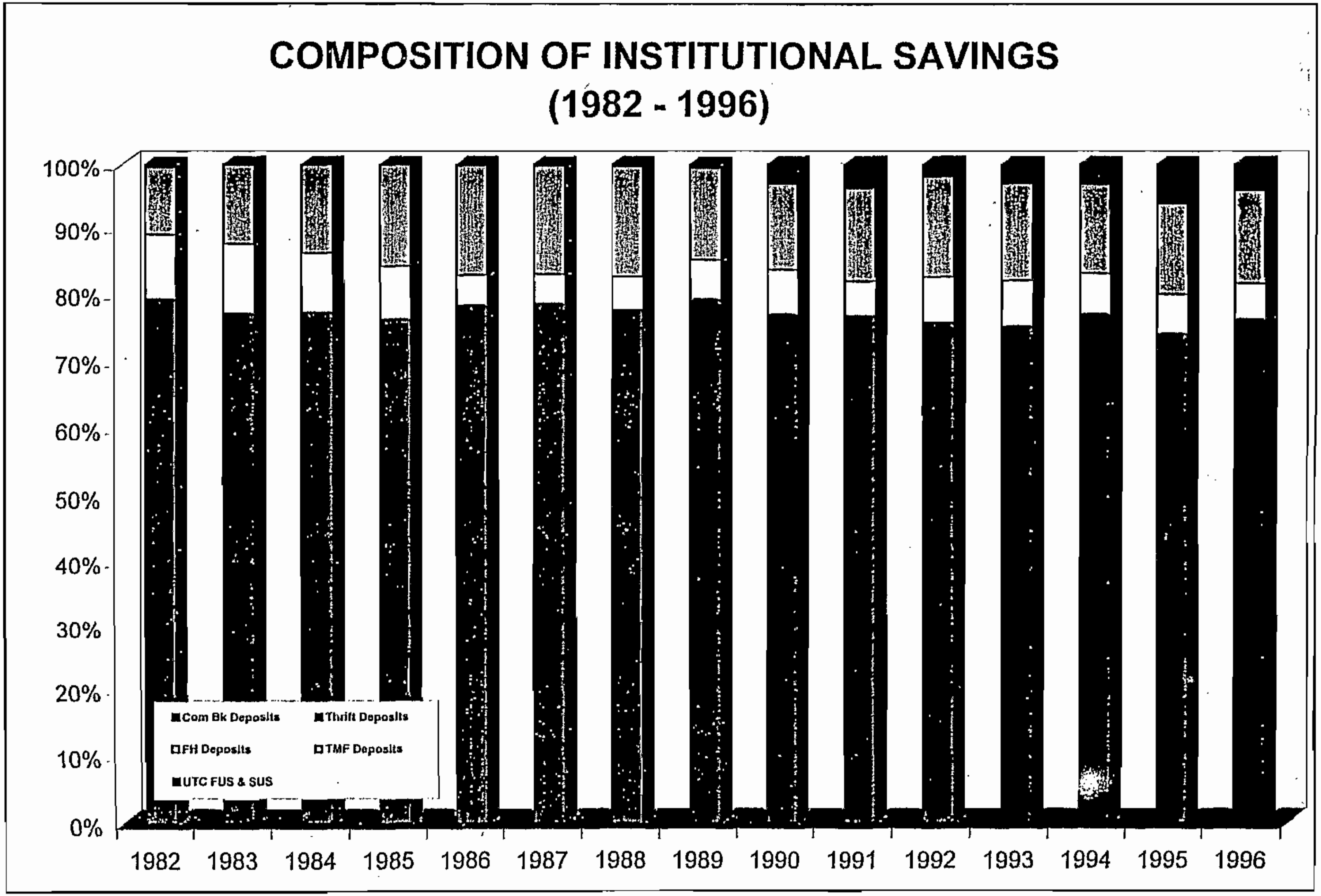
Based on the discussion so far it may be difficult to argue that the UTC's existence added to an increase in the level of savings in the overall economy. It may be more accurate to suggest that savings grew once the economy recovered from the economic recession. One may argue however that the UTC has been relatively successful in changing the **composition** of domestic savings away from bank deposits towards other types of instruments. There are three factors which may have partially influenced the UTC's success in transforming the essentially short-term, liquid character of domestic savings in favour of the acquisition in

CHART IV



Composition of Institutional Savings
(1980-1996)
FUS
Thrift Insts.
FUS & SUS
F.Houses
TMFC
4500
4000
3500
3000
2500
2000
1500
1000
500
0
$TT Million
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
Period

CHART V


COMPOSITION OF INSTITUTIONAL SAVINGS
(1982 - 1996)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
Com Bk Deposits
Thrift Deposits
FH Deposits
TMF Deposits
UTC FUS & SUS

equities. These include: the pace of the government's divestment process, the availability of new shares on the stock exchange, and the ability of managers of the FUS to acquire shares on the secondary market. While the first factor may have been relevant given the stated intention of the authorities, in reality the second and third factors are much more relevant.

At its inception the UTC was the beneficiary of 1.2 million stock units from the National Insurance Board (NIB). These stock units had been held in trust by the NIB pending the establishment of the UTC. A further boost to the UTC's efforts in the acquisition of equities included a preferential option to take up a maximum 10 per cent of any public divestment issue. Indeed the government's divestment program was intended to be the UTC's major source of future acquisitions in equities. However, between 1983 and 1987 the divestment program fell into abeyance and when this was resumed there was a change in focus. A closer examination of the various divestments which took place between 1988 and 1996 underlines the fact that state entities were divested for foreign exchange which was used to service the external debt. Thus by December 1996 there were only two major divestment issues in which the UTC participated up to its statutory ten per cent limit i.e. the National Flour Mills (NFM) and Trinidad Cement Limited (TCL).

In terms of the wider market conditions, the UTC has also had to operate in the context of a shrinking stock market (See Table 6) below. Between 1986 and 1993 for example, a total of 16 stocks were delisted from the Stock Exchange while there were three new listings. In 1993 the total volume of shares issued stood at 763 million, in contrast to 561 million ten years earlier. Between 1994 and 1996, however, the total volume of shares issued rose to 1,637 million as several companies entered the capital market and engaged in bonus issues, rights issues, etc.

TABLE 6

TRINIDAD AND TOBAGO STOCK EXCHANGE
YEARLY INFORMATION ON MARKET TURNOVER

End of Period	No. of Listed Cos. (C) & Shares (S)	No. of Shares Traded	Market Value of Shares Traded	Market Capitalization
1986	34(C) 39(S)	42,736,603	93,020,002	1,346,345,000
1987	34(C) 39(S)	34,404,009	45,314,508	1,397,916,000
1988	34(C(38(S)	31,135,788	57,305,864	1,136,003,000
1989	31(C) 35(S)	71,280,836	146,688,119	1,748,383,000
1990	30(C) 36(S)	66,386,513	235,313,910	2,956,200,000
1991	29(C) 33(S)	103,475,680	338,710,355	2,851,675,308
1992	28(C) 32(S)	34,309,339	94,585,392	2,184,842,389
1993	26(C) 30(S)	77,971,790	301,242,168	2,850,885,745
1994	27(C) 31(S)	67,624,928	300,890,722	3,873,921,088
1995	27(C) 31(S)	131,651,789	812,395,236	6,750,685,340
1996	27(C) 30(S)	121,347,803	645,996,109	8,852,164,723

Notwithstanding the relatively unfavourable equity supply conditions, the UTC had managed to increase its share holding from the initial 1.2 million units to 22.5 million units or 6.5 per cent of the total volume in issue in 1993. Three years later the size of the Corporation's share holding had grown to 38.5 million and was achieved as a result of active participation in bonus and rights issues as well as concerted activity on the secondary market. In aggregate the UTC has been responsible for the injection of TT$124.6 million into the equity market, equivalent to 21 per cent of unit capital raised in FUS.

The Level of Popular Participation in the UTC[13]

As indicated earlier the UTC had been established to ensure some widening of the shareholding democracy in Trinidad and Tobago. After 11 years in operation the unit holding community amounted to over 73,000 unit holders, 42 per cent of whom were members of the FUS. By December 31 1996, 141,217 unit holders were on the Corporation's register, each holding an average unit investment of approximately TT$9,507 compared with an average holding of TT$8,889 in 1993 and TT$3,281 in

1983. From a slightly different perspective however, the data suggests that the UTC has been able to mobilise an overall 31.2 per cent of the employed labour force to its fold, 15.6 per cent of whom are participants in its equity-based FUS. The inability of the UTC to attract an even wider level of participation to its equity-based scheme has had much to do with the timing of its establishment and the resulting capital losses incurred by unit holders in its early history.

The picture has changed significantly since the early 1980s with unit holders receiving annualised yields ranging between 16.55 per cent in 1987 and 51.36 per cent in 1990. Despite the imposition of a 15 per cent tax on the dividend income on the Corporation and on the interest income payable to investors in 1995, the annualised yield provided to unit holders was 43.67 (See Chart VI). Since its inception in 1982 the UTC, has distributed over TT$124.6 million to unit holders of the FUS.

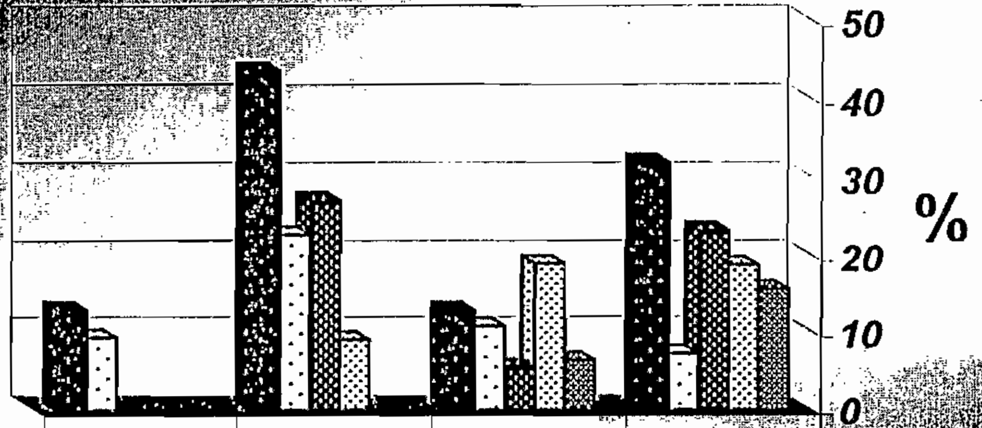
The Performance of the SUS (1989-1996)

In sharp contrast to the income and growth fund, the Second Unit Scheme (SUS) the Money Market Fund has had a more vigorous and dynamic history. From an initial investment of TT$48.4 million in 1989, sales in the SUS soared initially, dipped in 1992 and again in 1996 (See Table 7). Unlike the FUS the declines in the sales were not significant enough to affect the performance of the fund. Thus at the end of 1996 the Money Market Fund experienced an increase in its unit capital from TT$42.2 million in 1989 to TT$705.3 million and accounted for 54.3 per cent of the total unit capital managed by the UTC. Over the first seven years of its existence total distribution had grown to TT$86.1 million.

Since equities are not part of the investment portfolio of the SUS clearly the SUS cannot contribute towards increasing the "share holding democracy" among the widest possible community. Nonetheless, the SUS has contributed significantly to the

CHART VI

COMPARATIVE RETURNS FOR SELECTED EQUITY FUNDS



	1994	1995	1996	1997
FUS	12.9	43.67	12.86	32
RIG	9.3	22.77	10.77	7.2
Chaconia		27.16	5.61	23.31
Scotia Offshore		9	19	18.83
Republic Global			6.41	15.65

TABLE 7

SECOND UNIT SCHEME: SELECTED INDICATORS
1989-1996

Year	Sales $M	Repurchases $M	FUM $M	A Returns
1989	48.40	15.10	42.24	
1990	303.10	166.80	177.12	8.53
1991	415.80	344.10	247.01	8.44
1992	185.20	141.04	297.64	10.3
1993	333.70	199.87	431.51	10.33
1994	385.60	275.60	541.57	10
1995	811.15	544.13	781.04	9.4
1996	537.55	584.45	705.33	8.74

Source: Trinidad and Tobago Unit Trust Corporation, *Annual Reports*.

overall savings mobilisation and the development of the capital market in particular the shorter end of the market. In December 1996 TT$329.7 million or 46.7 per cent of the assets of the money market fund was invested in the short-term capital market.

The establishment of the UTC led to the introduction of new financial instruments, and also served to alter the structure of the intermediation processes. In particular the operations of the UTC have resulted in an increase in competition among institutions in the financial market. Some analysts have argued that the SUS, as a wholesaler of funds to the banking system, has added an unnecessary layer of costs to the intermediation process which has resulted in an unnecessary rise in domestic interest rates. This is a valid concern if the SUS wholesales funds to the commercial banks and as an institutional investor is therefore able to command relatively higher rates of interest on its deposits. The higher interest rates are then passed on to participants in the SUS as a private gain, but is a cost to society and devoid of any tangible social benefit. While this action may be expedient and good business practice on the part of the UTC, the data do not suggest that there has been a significant surge in the cost of intermediation since the establishment of the SUS. As is indicated in Chart

VII there has been the same general trend in the ratio of intermediation costs to average total assets for both commercial banks and the UTC.[13]

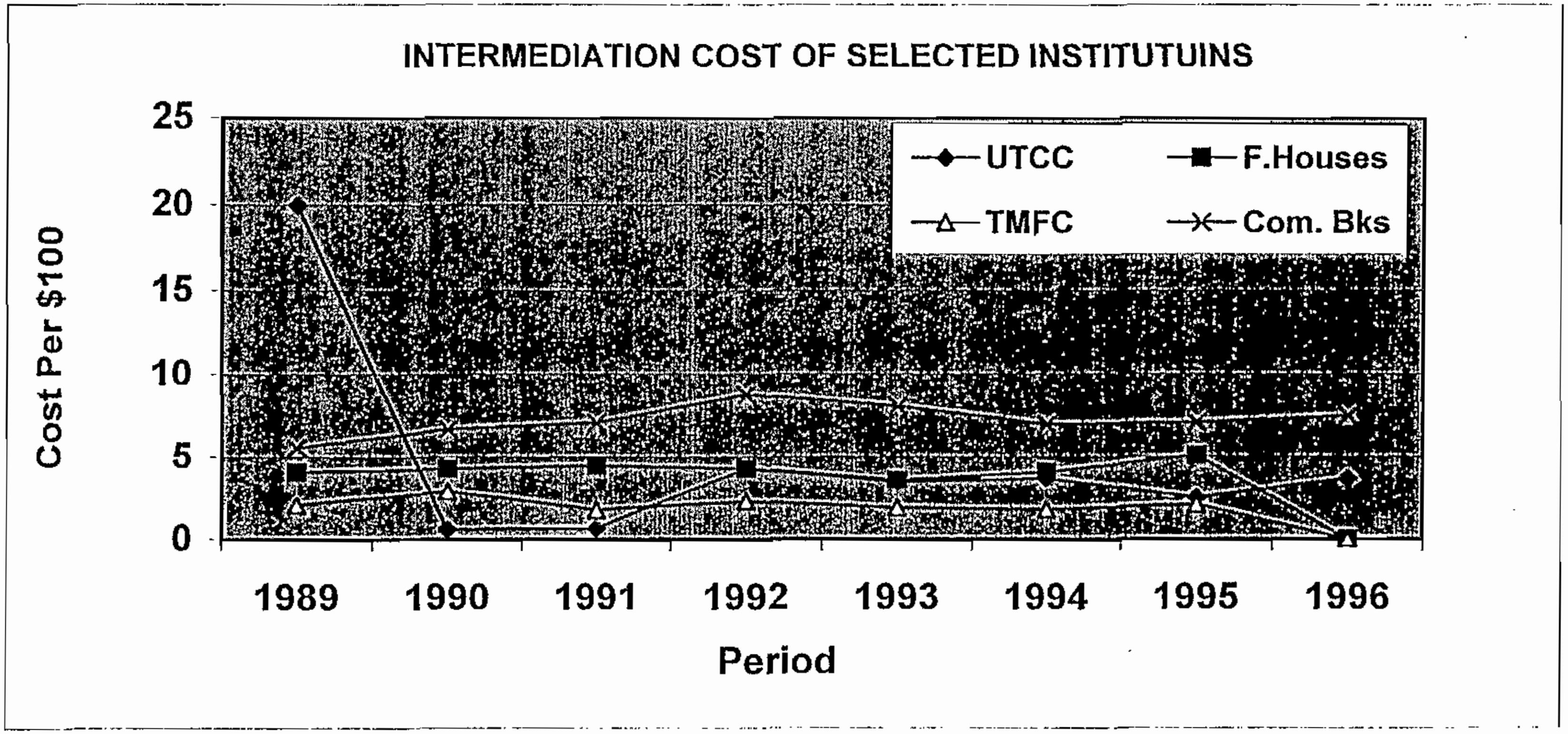
The discussion so far has suggested that the establishment of the UTC changed the composition of the financial superstructure in Trinidad and Tobago and also contributed to a decline in the claims/equity ratio of total financial assets. This has been achieved despite a dismantling of the fiscal regime set up in 1984. The UTC has also been effective in widening share ownership and in so doing fulfilled the shareholding democracy intent.

The initial success of the UTC persuaded the authorities to continue to aspire toward an expanded role for mutual funds in Trinidad and Tobago. For this type of financial institution was deemed most likely to offer household diversification of savings instruments. Indeed the very success of the UTC created an inceintive for other players in the financial sector to enter in that particular segment of the industry. As such by 1994 the Minister of Finance was persuaded to remove the monopoly status of the UTC.

The Roytrin Family of Mutual Funds (1994-1996)

Nineteen ninety-five marked the first full year of operation of the Roytrin Income and Growth Fund (RIG). While both the UTC and Roytrin experienced challenges in their first year the nature of the challenges differed in both instances. Roytrin began operations during a period of economic growth, declining inflation and a period of fiscal and balance of payments surpluses. However, the operating environment for mutual funds in 1995 was characterised by a highly liquid money market with declining short-term interest rates, and an unusually strong equity market. Given the increased activity in the equity market there was an upward trend in equity prices which translated into exceptionally high returns to investors in both equity funds (FUS & RIG). Another major challenge facing the new equity fund was the

CHART VII


INTERMEDIATION COST OF SELECTED INSTITUTUINS
25
20
15
10
5
0
Cost Per $100
UTCC
F.Houses
TMFC
Com. Bks
1989
1990
1991
1992
1993
1994
1995
1996
Period

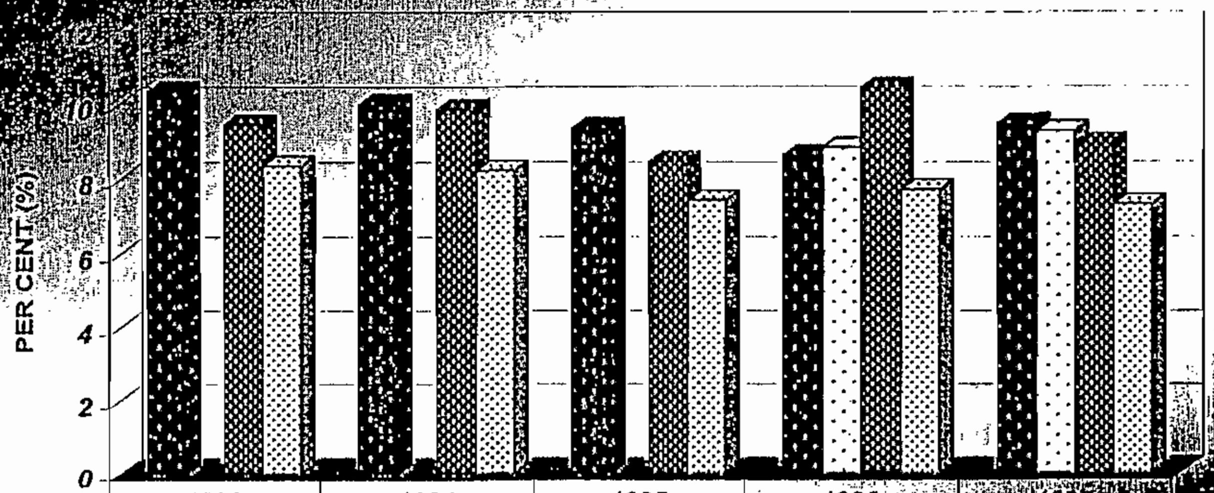
competition from the well established First Unit Scheme which had slowly regained the confidence of investors. Nevertheless, the imposition of a 15 per cent withholding tax on interest income at the point of distribution may also have been seen as a set back to the new institution in its early life.

Despite these challenges the Roytrin Mutual Growth and Income (RIG) Fund grew from TT$12.4 million at December 1994 to TT$52.5 million at December 1995. This represented an increase of TT$40.1 million compared with corresponding increase of TT$235.9 million in the UTC's FUS. Those investors who had participated in the RIG fund from its inception in March 1994 realised an *annualised rate of return* of 15.65 per cent. In 1995 the new fund distributed TT$1.8 million, representing a distribution of 6.78 cents per unit. An annual rate of return on both capital and income of 22.77 per cent was paid to investors for 1995 compared with a rate of return of 43.7 per cent for the FUS (See Chart VIII). These returns were based primarily on the strong capital appreciation of the underlying equity portfolios of both funds.

In 1996, the Roytrin Money Market fund (RMM) was established under conditions which were substantially different from those which prevailed in 1994. The operating environment was characterised by restrictive monetary policy, and higher rates of interest on competitive short-term instruments, particularly treasury bills. In respect of the fiscal regime tax changes introduced in the 1996 budget altered in the tax treatment of interest income earned in mutual funds' (See Table 3 above). Thus, yields on the SUS and the RMM fund were 8.6 per cent and 8.8 per cent, respectively in 1996, well below the average gross yield of 11.3 per cent paid in 1995 when only the SUS operated in the industry. Investors in the RMM fund were paid a rate of return of 8.8 per cent for quarter ending June 1997, while the SUS provided its investors 9.5 per cent for the quarter ending May 1997. Chart VIII below describes the comparative rates of return for money market instruments over this period.

CHART VIII

RETURNS ON SELECTED MONEY MARKET INSTRUMENTS



	1993	1994	1995	1996	1997
SUS	10.33	10	9.38	8.66	[illegible]
RMMF				8.86	[illegible]
T.Bills	9.46	9.87	8.48	10.45	[illegible]
Comdep	8.37	8.25	7.46	[illegible]	[illegible]

At the end of 1996 total funds under management by the mutual funds amounted to TT$1,352.2 million 52.6 per cent of which was invested in money market funds (SUS and RMM funds). In contrast, the two equity-based funds provided investors with total returns of 12.8 per cent (FUS) and 9.7 per cent (RIG fund), in 1996. Comparative annualised rates for the period January to June 1997 were 37.2 per cent and 32.04 per cent, respectively. The difference in the returns paid to investors of one equity fund as compared with the other may be attributed to the differences in asset size and portfolio composition of both funds as seen in Chart IX and X.

CHART IX

UTC EQUITY PORTFOLIO COMPOSITION
(1996)

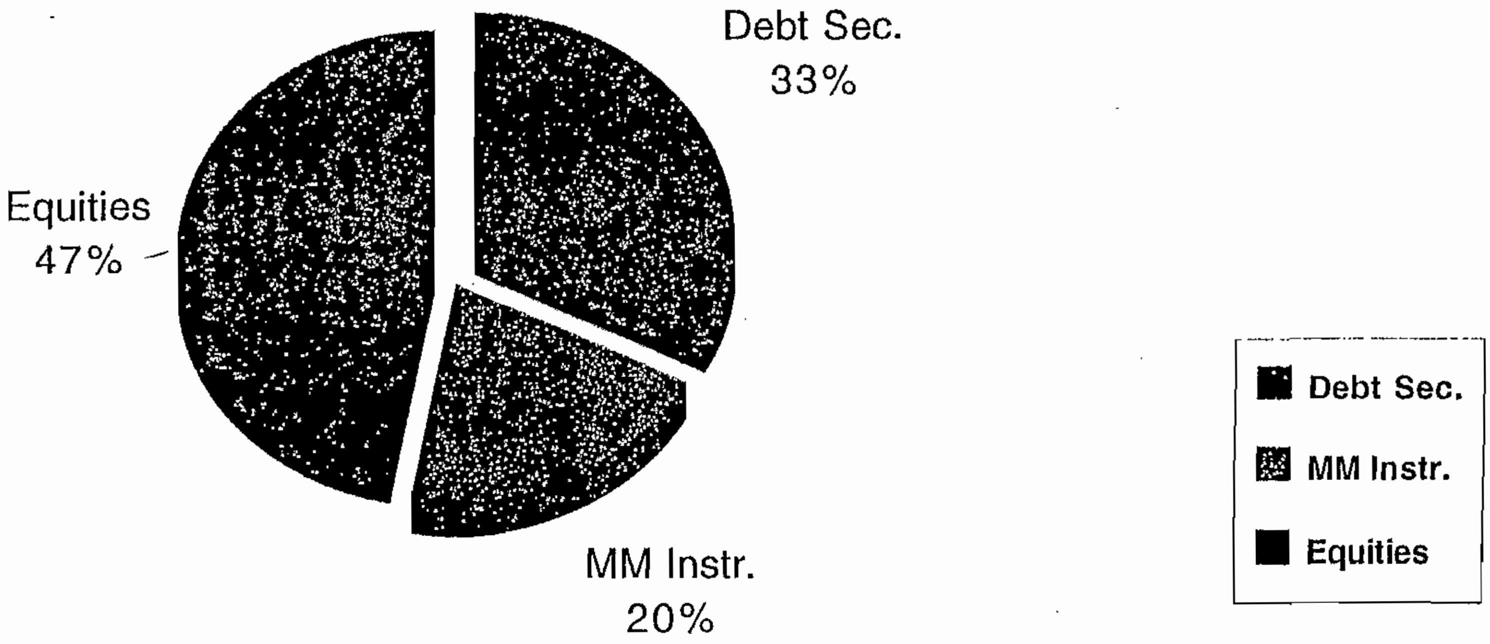
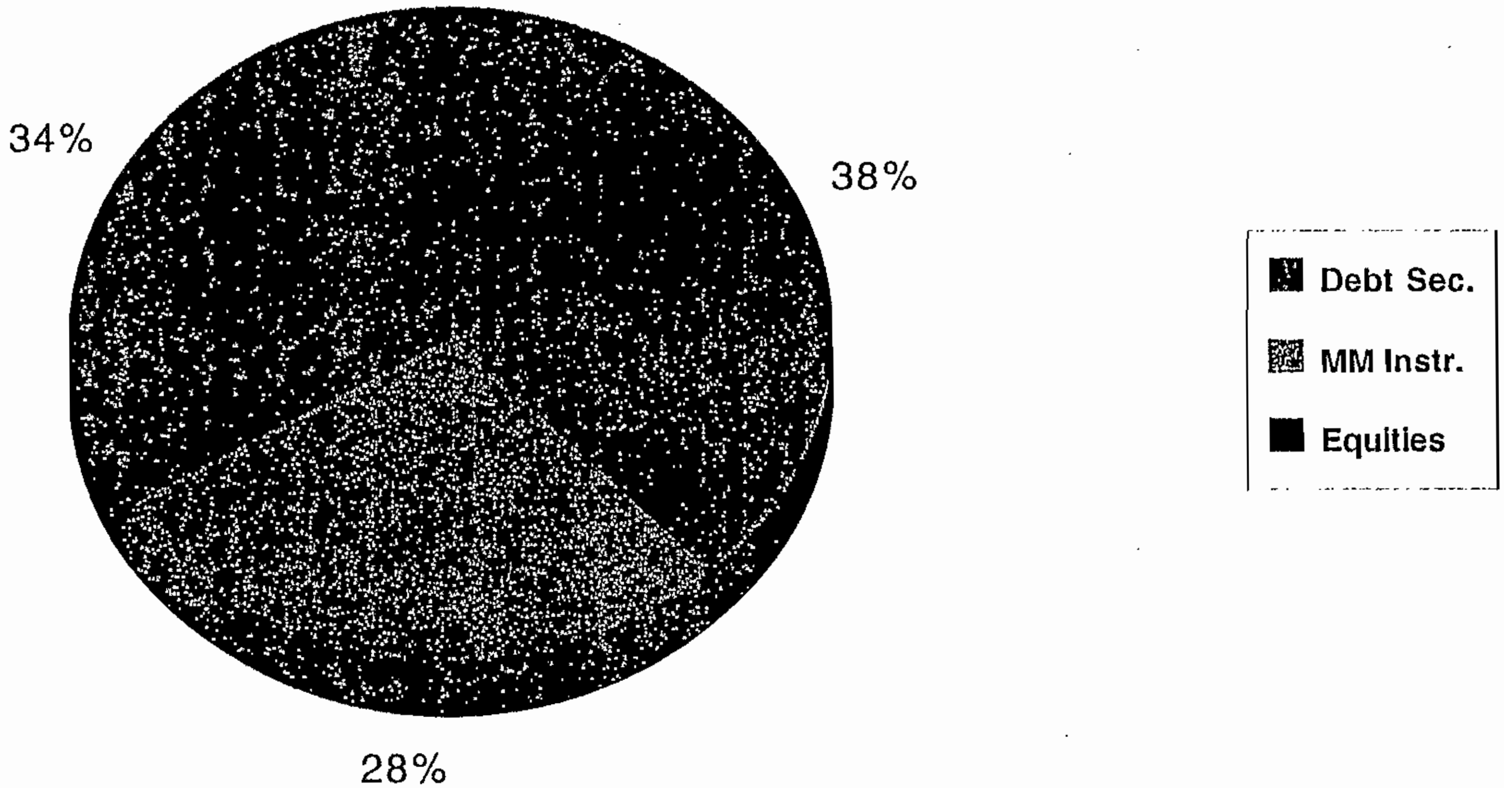


CHART X

ROYTRIN EQUITY PORTFOLIO COMPOSITION (1996)



IV. THE WAY FORWARD: LEVELING THE PLAYING FIELD

As the trends towards globalisation continue a greater demand will be placed on the financial services sector to meet investors' needs for portfolio diversification. In this new environment, the cross-fertilisation of services offered requires that the product which is sold meets certain requirements and that the institutions themselves meet prudential standards. The unification of banking, insurance, fiduciary and brokerage services implies that there is an appropriate regulatory environment in place to deal with the new entities. Mutual funds geared as they are primarily to small investors have a strategic role to play in this new environment in which there are amorphous institutions. However, within Trinidad and Tobago, there are certain legal and regulatory issues which must be addressed if the industry is to operate in an effective manner.

Regulatory Framework Governing Mutual Funds In T&T

Control over the establishment and regulation of the mutual fund industry in Trinidad and Tobago is currently exercised through a variety of statutory instruments none of which includes a Mutual Fund Act specifically. The legislative framework currently in place for the financial sector comprises the following:

(i) The Unit Trust Corporation of Trinidad and Tobago Act, 1981 (The Unit Trust Act);

(ii) The Financial Institutions Act, 1993 (the FIA);

(iii) The Companies Act, 1995 (the Companies Act);

(iv) The Securities Industry Act, 1995 (the Securities Act); and

(v) The Guidelines for the Establishment and Operation of Mutual Funds, 1994.

The special nature of the Unit Trust Corporation (UTC) and the absence of mutual funds legislation in Trinidad and Tobago have led to the development of a two-tiered or dualistic legislative structure. Currently, the Unit Trust Act 1981, the FIA 1993, and the Securities Act influence the activities of the Unit Trust Corporation. The Unit Trust

Act defines the powers and duties of the Corporation and prescribes and constrains the modus operandi of the UTC's unit schemes. The other entities in the industry are governed by provisions of the FIA 1993, the Companies Act, the Securities Industry Act and the Central Bank Guidelines. The latter Guidelines were laid down by the Central Bank for those deposit-taking institutions under its aegis which managed mutual funds. These pieces of legislation need to be replaced by a single regime that would embrace all mutual funds/unit trusts domiciled in Trinidad and Tobago.

Moreover, the proposed mutual fund legislation will have to reconsider the Unit Trust Act or even its repeal if all mutual funds are to be placed on a uniform playing field. As currently obtains several provisions of the UTC Act prohibit or inhibit its optimal operation in an industry which is now highly competitive. Some aspects of the current legislation which curb the ability of the Corporation to meet the new challenges effectively are as follows:-

(i) The subscription of initial capital and the related composition of its Board of Directors to include representatives of its major competitors;

(ii) The limiting of the activities of the UTC to managing its unit schemes thus rendering it unable to compete with major new players who offer a number of other financial services;

(iii) The fixed rates stipulation for the distribution of net income and the relationship this has to taxation of the gross interest income earned;[15] and

(iv) The limitation in respect of the amount which may be held of any single security.[16]

In response to concerted lobbying from the UTC the government has responded in a tardy and piecemeal fashion to the constraints on the activities of the Corporation. The UTC Act was amended to enable the Corporation to conduct business in other activities: the business of a merchant bank; the business of a trust company; credit card activities; and the provision of financial services in respect of future contingent liabilities relating to foreign exchange and commodities.[17]

The rules of the game have changed within recent years and players in the financial system, including the UTC, found themselves being impacted upon by a set of forces some of which may be viewed as threats, others as opportunities. These include:

(i) the move toward a more open economic system and the concomitant dismantling of overt barriers to trade, and financial flows (liberalisation);

(ii) the recent introduction of bancassurance companies which offer both banking and insurance services;

(iii) more stringent regulation and supervision of the financial system.

(iv) the passage of new financial legislation permitting banks not only to engage in other activities of a financial nature but also to acquire non-bank subsidiaries and be affiliated to commercial entities either directly, or indirectly through holding companies;

(v) the likely expansion of the financial sector to include foreign banks.

The entry of the Roytrin Family of Mutual Funds in 1994 had the effect of terminating the twelve (12) year monopoly status of the Unit Trust Corporation. Moreover, this has underscored a need to rationalise the legal and policy environment that once supported a single firm mutual fund industry in favour of a multi-firm industry. This notwithstanding, the playing field remains heavily undulating in the absence of a single legislative framework applicable to all mutual fund activities within the country.

SUMMARY AND CONCLUSION

The financial system of Trinidad and Tobago has grown rapidly over the last three decades and now consist of a wide range of institutions. This paper sought to explore one segment of the financial sector; the mutual funds/unit trust industry. Mutual fund activities in Trinidad and Tobago had their beginnings in the establishment of the Unit Trust Corporation in 1981. With the onset of liberalization, the globalisation of finance and the growing exposure of the economy to external influences, other mutual funds have entered the industry in 1994. Most of the new entrants since 1994 are domiciled outside of the country. On the domestic scene, the once single-firm industry has been transformed into a multi-firm industry. The expansion of the industry created the need to rationalize and strengthen the existing regulatory and supervisory regime. In particular there is an absence of formal regulation on issues such as registration, standard operating procedures, disclosure requirements and investor protection.

The preliminary analysis presented here suggests that the establishment of the UTC had a major effect on the financial landscape; for example there was a change in the composition of financial saving i.e. a decline in the claims/equity ratio of financial assets, and the new entity allowed smaller investors to participate indirectly in equity investments. The success of the UTC's operations attracted new entrants into the industry and changed its monopoly status forever.

The domestic the mutual fund industry is now becoming an outward-looking one and some question whether that development was foreseen and intended by the policy makers. One area of concern relates to whether the industry has now been placed on an artificially elevated playing field. Having liberalised the financial system, the authorities are now forced to level the playing field both in respect of the fiscal regime and the legislative restraints imposed on the UTC's scope of operations. Efforts at redressing the balance in favour of the UTC has resulted in a relatively ad hoc attempt to increase the scope of its operation to include a number of non-bank financial functions. While this may have the effect of securing some temporary relief to the Corporation, the organization still remains bound by its enabling Act which offers it little hope for effectively competing in the new environment.

ENDNOTES

1 See for example de Silva et al 1997 for a discussion on new financial instruments in Trinidad and Tobago.

2 The Unit Trust of Trinidad and Tobago Act, Chapter 83:02 of the Laws of Trinidad and Tobago, 1981.

3 The first call was made in June 1969 by the then Prime Minister. The prevailing economic and social philosophy at that time espoused a need to shift the centre of decision-making in investment, production, employment, management and marketing from overseas controlled to locally controlled institutions. Moreover, the perceived failure of the private sector to lead effectively the process of economic development, had convinced the government of the need to assume the role of catalyst in this process. This led to the acquisition by the state of equity interests in a wide diversity of directly productive enterprises. Throughout the nationalisation period however, the government maintained that it considered its shareholdings as being held in trust on behalf of all nationals, and that they would be divested to the wider national community at the earliest convenience. Consequently, localisation and divestment objectives loomed large in the search for an appropriate institutional vehicle that would enhance the flow of long-term capital to the productive sectors of the economy.

The second request was made in May 1976, at a Symposium on the Mobilisation of Domestic Financial Resources and was made by members of the local private sector who saw this as providing a means of widening the investment opportunities available to local businessmen.

4 This Committee, Chaired by the then Governor of the Central Bank of Trinidad and Tobago, comprised representatives of the Ministry of Finance, the Central Bank, the banking community and the Institute of Chartered Accountants. The Committee submitted its final report to the Minister of Finance in January 1980. The Act was passed in the Senate on April 29 1981, the House of Representatives in July 6 1981 and Presidential assent was given on August 26 1981.

5 The Chaconia Income and Growth Fund which began operations on May 11 1993 is an open-end, no-load and non-diversified management investment company with a stipulated minimum initial investment of US $250.00. Subsequent investments are denominated at US $100. This fund is tailored for those investors who are seeking high current income and capital appreciation and meets its objective by investing in: US government securities including US treasury obligations and obligations issued or guaranteed by US Government agencies, investment grade corporate and foreign government bonds, equity securities of US, Canadian, British and Trinidad and Tobago companies, the FUS and SUS of the UTC, certificates of deposit and money market funds.

6 The Fund was created by a Trust Deed dated February 23, 1994 and made among the Royal Bank of Trinidad and Tobago Limited (promoter); Royal Bank Trust Company (Trinidad) Limited (Trustee); and Royal Merchant Bank and Finance Company Limited (Investment Manager).

7 The minimum initial investment is US $25,000 with subsequent investments of US $10,000 minimum. The Fund is valued on a weekly basis, normally each Thursday and is not available to United States citizens or residents, or to investors resident in Canada or the Cayman Islands.

8 This fund is managed by Merrill Lynch Asset Management and the Bank of New York has been selected to provide custodial services. The minimum initial investment is US $4,000 with subsequent investments of US $100.

9 This is the definition employed by the Investment Company Institute (ICI) in their Guide to Mutual Funds. The ICI is the trade association for the mutual fund industry in the United States of America.

10 The net asset value is calculated once a day based on closing market prices. It represents the bottom line of a mutual fund from a per share point of view; the market worth of a mutual fund's total assets, minus its liabilities, divided by the total number of outstanding shares in the fund. Fluctuations in a fund's NAV is primarily due to the change in market value of holdings in its portfolio.

11 Other options include access to a lump sum at any time, plus life time income from the residual, paid either monthly, quarterly, semi-annually or annually; and placement of the accumulated savings value into the UTC's money market fund or any other account.

12 It is important to note that the guarantee price mechanism does not eliminate financial risk but merely transfers the risk from the investor to the Corporation. Should the Corporation be faced with a large-scale collapse of equity prices for example, the corporation may be incapable of meeting this commitment if the resulting call on the reserve fund exceed its capacity. The value of investors' claims will always decline *pari passu* with the value of the underlying assets of the FUS fund.

13 The figures employed in this analysis include both individual and institutional unit holders and should be viewed with this caveat in mind.

14 Intermediation is herein defined to include interest expense, salaries and benefits plus other operating expenses.

15 The UTC is prohibited from investing more than 10 per cent of the funds of any Unit Scheme in any one company or other corporation. Further, the investments of all Unit Schemes established by the Board should not exceed 10 per cent of the securities issued by any company or other corporation (S13(3)).

16 The legislation supports the idea of a high and minimum rate of distribution by requiring that not less than 90 per cent of the Corporation's incomes - reduced for interest and other expenses - be allocated to unit holders annually. It has been argued that this upper limit may need to be reviewed against the background of long-run trends in operating costs.

17 In this regard, Section 8 of the Order prohibits the UTC from accepting funds "in the form of deposits, shares, loans, premiums and the investment of such funds and loans, shares and other securities, or banking business within the meaning of Section 4(2) of the Financial Institutions Act, 1993.10

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GLOSSARY OF TECHNICAL TERMS

Annualised Rate of Return: The one-year return of an investment instrument based on its compounded total return. For example, the seven-day returns on money market funds show an annualised rate of return. They are arrived at by taking the compounded effect over seven days and multiplying it by 52.

Assets: Anything having commercial or exchange value that is owned by a business, institution, or individual. The assets of a mutual fund are made up of various securities such as stocks, bonds and cash.

Back-End Load: A kind of sales charge incurred when investors redeem (or sell) shared of a fund.

Bid (or Redemption) Price: The per-share price that a fund will pay its shareholders when they sell back shares of the fund, usually the same as the net asset value (NAV) of the fund.

Bond: One of the many kinds of securities; a debt instrument with a maturity date scheduled some time in the future. Bonds are typically issued by corporations and governments and usually pay interest twice a year.

Certificate of Deposit (CD): A debt instrument issued by a bank that usually pays interest to its owner. Interest rates are set by competitive forces in the marketplace.

Closed-End Investment Companies: Also referred to as closed-end funds or publicly traded funds; companies that issue only a fixed number of shares and are not required to create or redeem shares upon the demand of their shareholders. Consequently, the price and number of shares depends entirely upon the supply and demand of the marketplace. Like stocks, closed-end funds trade on the major exchanges.

Commercial Paper: Short-term obligations with maturities ranging from 2 to 270 days. Commercial paper is typically issued by banks and corporations to borrowers with temporarily idle cash and is often backed by bank lines of credit.

Debt Instruments: A written promise to repay a debt; for instance, a Bill, Note, Bond, Bankers' acceptance, certificate of deposit, or commercial paper.

Disclosure: Information-positive or negative- that companies are required to reveal about themselves so that investors can make informed investment decisions.

Distribution: Payout of realised capital gains on securities in the portfolio of the fund or close-end investment company.

Equity Investments: Ownership interest possessed by shareholders in a corporation - stock as opposed to bonds.

Expenses and Management Fees: Asset-based annual charges that investment companies pass on to their shareholders. These fees differ from mutual fund to mutual fund and typically range between 0.50 and 1.5 per cent annually.

Financial Market: The host of investment opportunities available in the various types of securities around the world today, including the stock, bond, commodity, currency, and international financial markets.

Front-End Load: A kind of sales charge that is paid before any money gets invested into the mutual fund.

Global Equity Fund: A type of mutual fund that invests in securities traded worldwide. Compared to direct investments, global funds offer investors an easier avenue to investing abroad. The funds' professional money managers handle the trading and record-keeping details and deal with differences in currencies, languages, time zones, laws and regulations, and business customs and practices. In addition to another layer of diversification, global funds add another layer of risk-exchange-rate risk.

Growth and Income Fund: A kind of mutual fund that invests in the common stocks of publicly held companies that have had increasing share values but also have a solid record of paying dividends. This type of fund attempts to combine long-term capital growth with a steady stream of dividend income.

Growth Fund: A type of mutual fund that invests in the common stock of publicly held companies. The primary aim of growth funds is to produce an increase in the fund's NAV, which means that investors who buy these funds are more interested in seeing the fund's share price rise than in receiving income from their investment.

Income: Payments made to mutual fund shareholders, typically from dividends, interest, or short-term capital gains earned on a fund's portfolio of securities after deduction of operating expenses.

Income Equity Fund: A type of mutual fund that seeks a high level of current income for shareholders by investing primarily in equity securities of companies with good dividend-paying records.

Individual Retirement Account (IRA): An account designed for saving that anyone may create for themselves, and subject to taxation restrictions on the amount of money that may be invested each year.

Investment: Use of capital to create more money, either through income-producing vehicles or through risk-oriented ventures designed to result in capital gains. Investment connotes the idea that safety of principal is important.

Investment Company: A mutual fund; a corporation, trust, or partnership that makes investments on behalf of individuals and institutions who share common financial goals and objectives. Investment companies hire investment advisers to purchase a variety of stocks, bonds, money market instruments, or other securities that- in their judgment – will help the fund meet its investment objectives.

Investment Objective: The "what", "why," and "how" behind an investment. The investment objective of a mutual fund is specifically spelled out in the fund's prospectus. An individual's personal investment objective has to do with what that person is investing for.

Load: A sales charge levied by a mutual fund, the maximum being 8.5 per cent of a shareholder's initial investment, which is equal to 9.3 per cent of the net amount invested.

Minimum Investment Requirements: The smallest amount of money necessary to open an account with a mutual fund, ranging from $0 to as high as $25,000.

Money-Market Fund: A type of mutual fund that invests in short-term securities sold in the money market, which have maturity dates of 90 days or less and are generally thought to be the safest, most stable securities available. Short-term securities include Treasury bills, certificates of deposit of large banks, commercial paper, and the like.

Mutual Fund: An investment company that pools money from its shareholders and invests that money into a variety of securities, including stocks, bonds, and money-market instruments, representing a way of investing money into a professionally managed and diversified pool of securities that hopefully will provide a good return on shareholders' money.

Net Asset Value (NAV): In mutual funds, this refers to the market value of a fund share, synonymous with bid price. In the case of no-load funds, the NAV, market price, and offering price are all the same figure, which public pays to buy shares; load fund market or offer prices are quoted after adding the sales charge to the NAV. NAV is calculated by taking mutual fund's total assets, minus its liabilities, then dividing the total number of outstanding shares in the fund. A fund's NAV may fluctuate daily due to changes in the market value of holdings in a fund's portfolio.

No-Load Fund: A mutual fund offered by an open-end investment company that imposes no sales charge.

Offer Price: The price per-share of a mutual fund or the asked price, plus the maximum sales charge of the fund if the fund has a sales charge.

Open-End Investment Companies: Often called open-end mutual funds. These investment companies are obliged by law to continually create new and redeem the existing shares of their funds upon the request of their shareholders. The purchasing and redeeming of these shares can be done on any business day throughout the year.

Performance: The growth in principal investment over the time in which money is invested.

Portfolio: All the assets owned by an institution or an individual whether they be stock, bond, cash, or real estate investment. The purpose of a portfolio is to reduce risk through diversification.

Portfolio Manager: An individual, group, or team of individuals employed by a mutual fund to manage all the securities within the fund's portfolio.

Prospectus: An official booklet given to all investors by a mutual fund. It describes the history, background of managers, fund objectives, a financial statement, and other essential information.

Redemption: Mutual fund shares are redeemed or brought at Net Asset Value when a shareholder's holdings are liquidated.

Redemption Fee: A sales charge, also referred to as a back-end load, imposed when an investor redeems- or sells back- shares of the fund to the company.

Risk: The measurable possibility of losing or not gaining value. Risk is different from uncertainty, which is not measurable.

Securities: Investments such as stocks, bonds or money-market instruments.

Securities and Exchange Commission (SEC): A regulatory agency that governs the securities industry.

Shareholder: One who owns shares of a company, corporation, or mutual fund.

Short-Term Funds: An Industry designation for funds that invest primarily in securities with maturities of less than one year.

Total Return: The per-share price change of a fund based on changes in its net asset value. Total return includes the income received from dividends and interest, capital gains distributions, and any unrealised capital gains or losses.

Yield: The income per share that gets paid to mutual fund shareholders from the dividends and interest of that fund, expressed as a percentage of the current offering price of the fund.