
MUTUAL FUNDS 101



For most of us, putting a portion of our income into the bank is our sole strategy for weathering emergencies and meeting our future needs. But just how sound is this savings strategy? If rates on savings accounts don't even beat inflation, will deposits be enough to send your kids to college? Will you be able to maintain your lifestyle (and health care costs) after you retire?

Your savings account alone may not be enough to buy you financial security. Fortunately, there are other ways to make your money grow. One solution is to invest in mutual funds.

What is a mutual fund?

A **mutual fund** is a corporation which manages a pool of money on behalf of individual and/or institutional investors. The fund manager invests the pool in a mix of securities (typically stocks, bonds, or some combination of these) in accordance with the fund's stated objectives and strategies.

Mutual funds are an ideal vehicle for people focused on their careers or businesses, and who don't have the time, expertise or interest to devise their own investing strategies. In effect, a saver delegates the investing decisions to the fund manager.

Mutual funds in the Philippines are heavily patterned after those in the U.S., where they have operated since 1924. Today, about half of all U.S. households are invested in mutual funds. Around the world, mutual funds have been a powerful engine for the middle class to build capital.

How does a mutual fund work?

Investors in a mutual fund own shares of the fund company. Investors buy or sell the shares at a price called the **Net Asset Value per share (NAVps)**, which is recomputed once a day based on the market value of the fund's investments.

An investor can realize profits by redeeming shares (i.e., selling his shares back to the fund) at a higher NAVps than what he bought these at ("buy low, sell high"), and/or by receiving cash dividends from the fund (though most local mutual funds avoid dividends to spare investors from taxes).

Mutual funds are managed on a best-efforts basis, and are therefore exposed to investment risk. Unlike bank deposits, mutual funds are prohibited by law from offering protection of principal, guaranteed returns or promised interest rates. Mutual funds are not covered by the Bangko Sentral ng Pilipinas or the Philippine Deposit Insurance Corp. Instead, they are regulated by the Securities and Exchange Commission. The mutual fund industry's association is the Investment Company Association of the Philippines (ICAP).

What are the basic kinds of mutual funds?

- **Equity funds** are largely invested in stocks. These are the riskiest type, as measured by fluctuations in market prices, but they also often offer the highest returns.
- **Bond funds** mostly consist of long-term government or corporate debt securities; these are generally less risky than equity funds, but offer much more modest returns.
- **Balanced funds** are invested in a mix of stocks and bonds in order to attain a moderate or blended level of risk and middle-of-the-road returns.
- **Money market funds** are invested in short-term, relatively safe, liquid debt instruments; this type usually generates the lowest returns, and is used as a "safe haven" when capital markets turn jittery.

THE MANY ADVANTAGES OF INVESTING IN MUTUAL FUNDS

1. Potentially higher returns – It is precisely the willingness to take measured risks which allows mutual funds to generally beat bank savings deposits, inflation, and in many cases other instruments such as treasury bills and pre-need plans.



2. Affordability – A low minimum initial investment of only **P 5,000** is all you need to open a mutual fund account. Additional investments can be made for as little as **P 1,000**. In contrast, most banks will require a minimum starting balance of \$ 50,000 or \$ 100,000 before

their private bankers even entertain you.

3. Professional management – Full-time fund managers experienced in market and securities research, valuation and portfolio construction make all the tough decisions: what to buy or sell, how much, and when. While you sleep easy.

4. Diversification to manage the downside – Not "putting all your eggs in one basket" is a key way funds limit their risks. With careful securities selection, a fall in the prices of some investments held by the fund can be offset by rising prices of its other investments. Through mutual funds, you can dip your toes into the stock and bond markets without enduring the full extent of the markets' swings.

5. Investor information – As required by law, a statement of account is sent to each shareholder on a quarterly basis. There are also monthly fact sheets, annual and quarterly reports, and other materials issued by the fund manager.



6. Ready access to your money – An investor can request redemption at any time. There is **no term** or **minimum holding period** for a mutual fund (although most funds charge modest "exit" fees for redemptions within two years or less of investment).

HOW TO GET STARTED?

First, read the fine print!

Before anything else, the investor must give himself the chance to read the **prospectus** of the mutual fund he is interested in. The prospectus contains the fund's investment objectives; the broad financial strategies to which the fund manager will be bound; the risks which the investor will be presumed to accept; the legal, custodial and external auditing entities engaged by the fund; and the fees, costs and other disclosures essential to good governance and transparency.

A careful reading of the prospectus, and discussion with the fund manager's sales or investor servicing representatives, should help you decide whether the fund appropriately matches your financial goals and appetite for risk.

Account opening forms can be obtained at the office of the fund manager and its designated outlets. After submitting said form and other required documents, you can deposit your investment at the fund's depository bank. You should then receive an official receipt, and shortly thereafter, a confirmation slip which shows the number of mutual fund shares you bought and the NAVps at which you bought them.

INTRODUCING: THE MUTUAL FUND MANAGEMENT COMPANY OF THE PHILIPPINES, INC. (MFMCP)

Established in 1995, The Mutual Fund Management Company of the Philippines, Inc. is the asset management arm of the ATR KimEng Group, and is a member of ICAP.

MFMCP manages the following:

- The Kabuhayan Fund
- The ATR KimEng Equity Opportunity Fund
- The MFMCP-Aizawa Trust Philippine Fund

For more information on our funds and their performance, visit www.mutualfund.com.ph and download our monthly fact sheets, which discuss each fund's actual performance, portfolio composition and outlook. Our website also features:

- Our funds' NAVps updated daily from Monday to Friday;
- A password-secured area where our existing investors can track their transaction histories and market values;
- Our prospectuses, new account forms, and easy instructions, all of which can be downloaded by new investors – even those based in the provinces or abroad;
- Educational resources ranging from basic FAQs to papers on mutual funds written by professors of the U.P. College of Business Administration, to economics and market reports by our affiliated stock broking firms; and
- Background details on MFMCP, its board and management, its funds' boards, the ATR KimEng Group, and our key business partners.

MFMCP's **Investor Relations Department** is also accessible via mobile phone, and by e-mail at ird@mutualfund.com.ph. Our friendly Investor Relations Officers are ready to help: they may be reached at the phone numbers listed on this brochure, or visited at our Investor Relations Centers.

About the ATR KimEng Group

The **ATR KimEng Group** is a leading Filipino-controlled, diversified non-bank financial institution. Group parent **ATR KimEng Financial Corp.** is listed on the PSE (symbol: ATRK). Its largest shareholder is **ATR Holdings Inc.**, a Filipino-controlled firm led by former principals of Peregrine Capital Philippines. A key minority owner is **Kim Eng Holdings Ltd.**, Singapore's largest independent stock broker,

whose network across Asia, the U.S. and Europe gives the Group access to the global capital markets.

MFMCP's competitive advantage springs from the Group's long experience in equities. **ATR KimEng Capital Partners, Inc.** is one of the country's biggest investment banks, and has been a lead underwriter for major public stock offerings. **ATR KimEng Securities, Inc.** is the largest Filipino-controlled stock broker, ranking sixth in trading volume on the PSE in 2006. MFMCP also works together with its insurance sister firms **AsianLife Financial Assurance (ALFA)** and **AsianLife and General Assurance (ALGA)**.

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