



**THE INFLUENCE OF KUALA LUMPUR STOCK  
EXCHANGE COMPOSITE INDEX (KLSE CI)  
ON THE PERFORMANCE OF  
THE EQUITY INDEX TRACKER FUND  
( A CASE STUDY OF MBF EQUITY INDEX )**



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## **ABSTRACT**

1959 is a memorable year in the history of the Malaysian Unit Trust Industry as it makes the first appearance of unit trust in Malaysia. The formative years of the industry (spanning 2 decades) were challenging due to lack of public awareness and interest in unit trust.

As the country grew and prospered, the average citizen's taste and demand for goods and services rose with their affluence. The 1990's is by far the most exciting period in the industry's history, as it saw the largest leap in terms of the industry's growth.

Unit trust funds have certainly come a long way in Malaysia. In the 1980s, they earned a bad reputation when product-pushing, hard-seli methods coupled with investors' lack of understanding led to many Malaysians being badly burnt by their unit trust investments. Even today, we still hear the occasional skeptical response – particularly from the older generation – when we mention unit trusts. Thankfully, unit trusts have since gained more respectability as investors have gained a better understanding of the instrument, and efforts by the industry to clean up its act and strive towards greater professionalism have borne fruit.

# CHAPTER 1

## 1. INTRODUCTION

### 1.1 Background of Study

KLSE CI has a great impact not only on the Equity Index Tracker Funds but also on all other unit trusts. With this research on the implication and repercussion, it is anticipated that the contributing factors can be seen and its effects be studied more closely.

Prior to this, some have pointed out the effects of the economic crisis on the KLSE. Inadvertently, it has also created certain implications on unit trusts in Malaysia where the effects on the rise and fall of the KLSE has reverberated heavily on the ups and downs of unit trusts especially the Equity Index Tracker Funds (EITF) which clearly has a symbiotic relationship with the KLCI.

However, EITF which follows the KLCI clearly provides higher returns compared to other unit trusts. Here we would like to study the relationship and its sensitivity to changes and how far the KLSE CI can be used as a benchmark of MBf Equity Index Fund.

## CHAPTER 2

### 2. LITERATURE REVIEW

This section reviews the findings of some of studies carried out on the performance of unit trusts in the Malaysia.

#### 2.1 Review of KLSE-CI Performance

The return on the KLCI has typically been greater than the average return on the equity unit trusts in Malaysia. The return data from **Standard & Poor's Micropal** indicate that such performance was registered in nine out of thirteen years during the period from 1998 through 2000. Moreover, the return on KLCI exceeded that of at least 65% of the private equity unit trusts in each of those nine years. Indexation is increasingly accepted as an attractive alternative to active management. From the above empirical evidence, we may also enjoy similar out performance with an index tracking fund.

#### 2.2 Review of Unit Trust Performances

**"Tan Hoon Chuan"** , investigated the investment performance in Malaysia for the period from January 1984 to December 1993. It also includes an investigation into the consistency of performance of the