

Trigger funds:

Trick or Treat

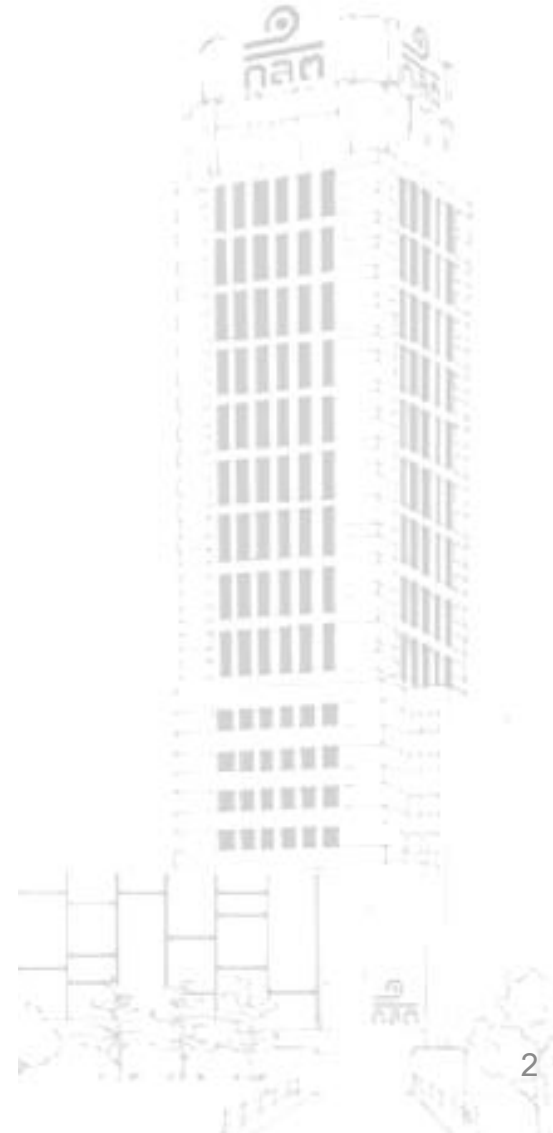
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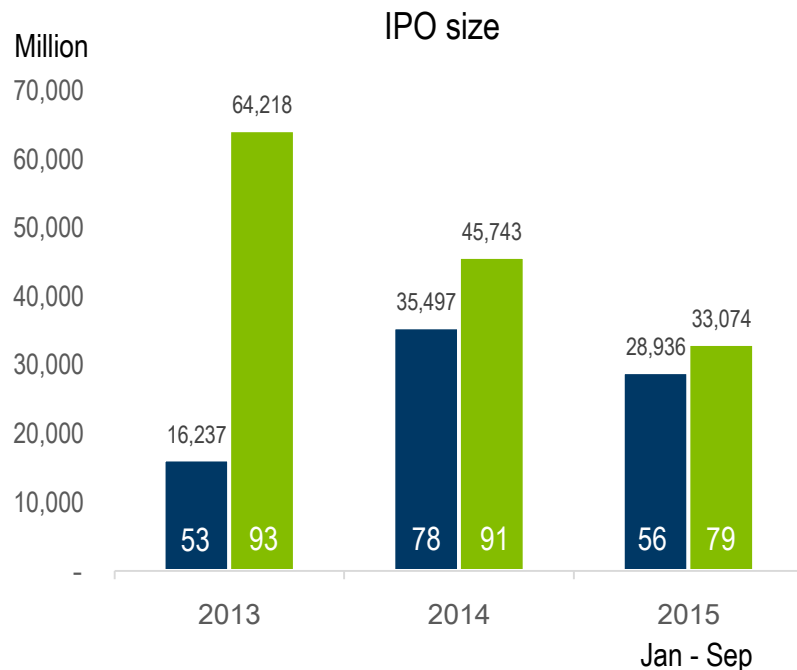
Content

- What it is
- What it really is (not)
- What it could be

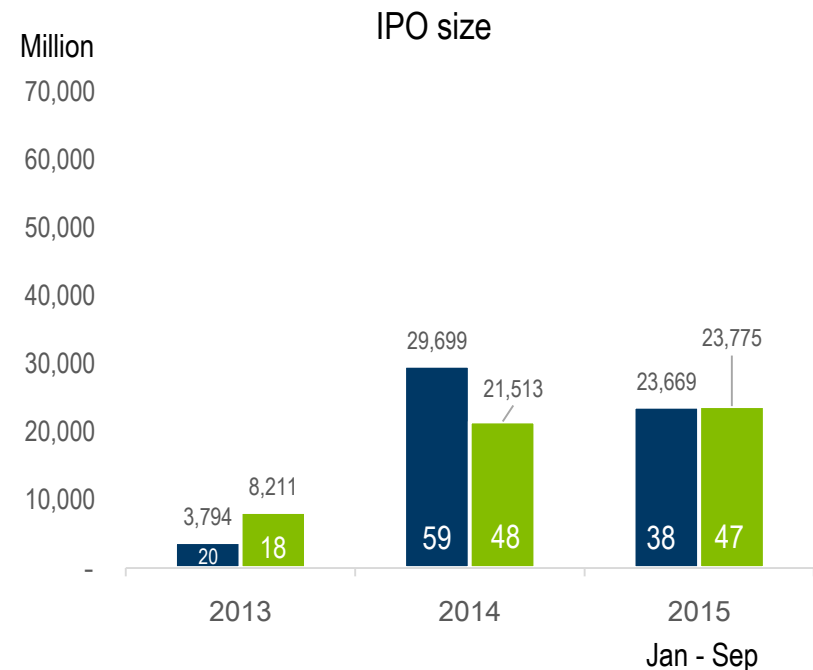


Recently, a large number of issuances of Thai and foreign equity funds are trigger funds.

Thai equity funds



Foreign investment funds



Trigger funds

Other equity funds

Product values:

[Expectations?]

Target return at X% in Y months

- Set a clear target return
- Require less monitoring from investors

Active management

- Possess selection & market timing abilities
- Use various strategies to seek alpha

กองทุนนี้เหมาะกับใคร

นักลงทุนที่ตั้งเป้าหมายผลตอบแทนในตลาดหุ้นในระดับที่ไม่สูงมากนัก โดยระดับผลตอบแทนดังกล่าวมีโอกาสสามารถเป็นจริงได้ ภายในระยะเวลาที่สั้นที่สุด ภายใต้สภาพแวดล้อมการลงทุนที่เอื้ออำนวย และเมื่อได้ผลตอบแทนที่ต้องการแล้ว สามารถหยุดความเสี่ยงด้วยการออกจากตลาดหุ้นทันที

Appropriate Investor

- Investor who desire to seek better investment opportunity in Thai equity.

Fund Highlights

- The fund is targeted to achieve approximately 6% return (3% + 3%) within 12 months.
- The fund employs different strategies in order to produce a positive return regardless of the direction and the fluctuations of capital markets.

Rosy past success

[Selective?]

บลจ. โฉวผลงานบริหารกองทริกเกอร์โดดเด่น ล่าสุดปิดกองทุนไทยก่อนกำหนด 2 กองทุนรวด หลังสร้างผลตอบแทนเข้าเป้า 8% ในเวลาเพียง 1 เดือนกว่า ตอกย้ำความเป็นมืออาชีพในการบริหารจัดการกองทุน

กองทุนหุ้นจีนเข้าเป้า 5 กองรวดพร้อมกัน สร้างสถิติใหม่

กลยุทธ์การบริหารกองทุนสามารถสร้างผลตอบแทนได้สูงกว่าเกณฑ์มาตรฐานเป็นส่วนมาจากการสร้างผลตอบแทนส่วนเพิ่ม (Alpha) ให้แก่กองทุน ตัวอย่างเช่น 2 กองทุนฯ ที่เพิ่งปิดล่าสุด ก็ได้ให้ผลตอบแทนของกองทุนตั้งแต่จัดตั้งอยู่ที่ 7.30% และ 6.00% เมื่อเทียบกับเกณฑ์มาตรฐานที่ให้ผลตอบแทนที่ 1.03% และ 3.69% ในช่วงเวลาเดียวกัน และในช่วงปีที่ผ่านมาถึงปัจจุบัน มีการเสนอขายกองทุนประเภทนี้แล้วกว่า 16 กองทุน ซึ่งประสบความสำเร็จไปเรียบร้อยแล้ว 13 กองทุน ขณะที่อีก 3 กองทุนยังอยู่ในช่วงการบริหารจัดการ

Some arguments

การลงทุนแบบ “ขึ้นขาย” “ลงไม่ขาย” แบบ Trigger Fund นี้ดูผิวดินแล้วเหมือนว่าจะไม่มีทางขาดทุน มีแต่กำไร แต่ส่วนตัวแล้วผมกลับมองว่ามันเป็นการลงทุนแบบ “จำกัดกำไร” แต่ “ไม่จำกัดขาดทุน”

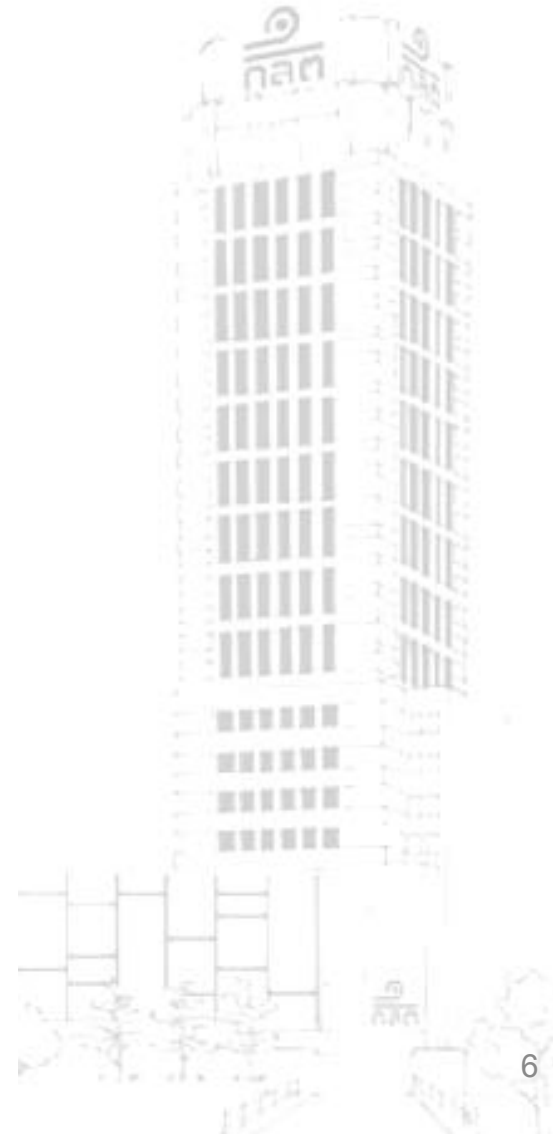
Trigger Fund ไม่สามารถทำการ cut loss ทำให้ไม่สามารถควบคุมความเสี่ยงในช่วงขาลงได้ ผู้ลงทุนที่สนใจลงทุนต้องมีสภาพคล่องทางการเงินที่ดีเนื่องจากไม่สามารถขายได้ก่อนครบกำหนด โดยเฉลี่ยแล้วมีการเก็บค่าธรรมเนียมสูงกว่ากองทุนหุ้นแบบปกติ

มีกองทุน Trigger fund ที่ลงทุนในหุ้นไทยเปิดขาย 51 กอง ทำผลตอบแทนได้ตามเป้าแล้วปิดกองไปแล้ว 13 กอง ที่เหลืออีก 38 กองก็ “ติดดอย” เพราะช่วงนี้ตลาดหุ้นเป็นขาลง กองพวกนี้นอกจากจะไม่ได้ผลตอบแทนตามเป้าแล้วผู้ลงทุนยังจะได้เงินต้นไม่ครบอีกด้วย

Trigger fund นั้นอาจจะเป็นการขายฝันที่ไม่มีวันบรรลุ เพราะ trigger fund เป็นกองทุนรวมที่โฆษณาว่าหากทำกำไรได้ผลตอบแทนเท่ากับก็เปอร์เซ็นต์แล้วจะเลิกกองทุนภายในกี่เดือน ส่วนใหญ่ตัวเลข % ผลตอบแทนนั้นมักจะสูงมากเช่น 8% หรือ 10% ซึ่งสูงกว่าผลตอบแทนโดยเฉลี่ยของตลาดหลักทรัพย์ อัตราดอกเบี้ยเงินฝากธนาคารมากมายทำให้คนจำนวนมากหลงคิดว่าตัวเองจะต้องได้กำไรเท่านั้นเท่านี้ ซึ่งมากมายและดูเหมือนจะเป็นทางเลือกที่ไม่เสี่ยงเลย

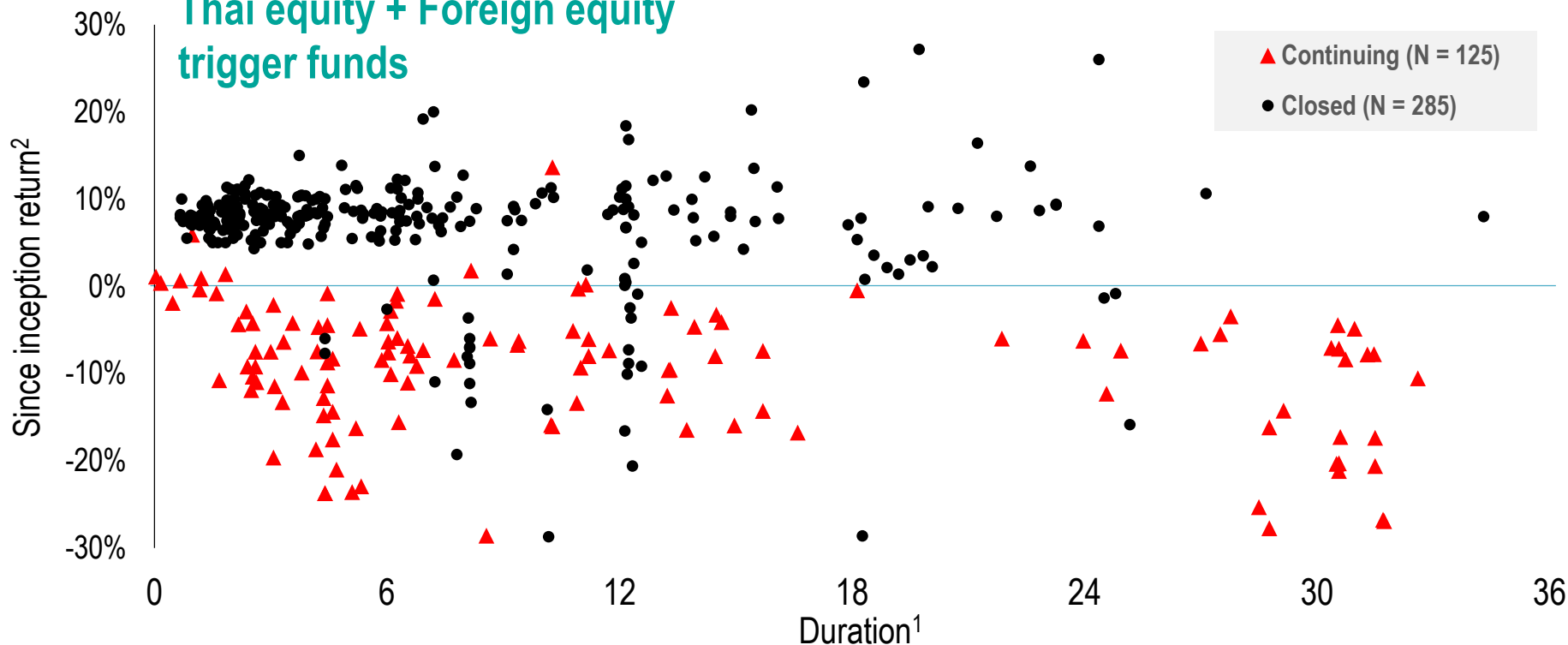
Content

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- What it could be



Approximately, half of the funds give more than 5 percent within one year while one-third give negative returns –the latter are both continuing and terminated funds.

Thai equity + Foreign equity
trigger funds



No. of fund	Duration	Return (not annualized)			Total
		≥ 5%	0 - 5	< 0	
Closed	< 1 yr	189	6	15	210
	1-2 yr	40	13	10	63
	> 2 yr	8	0	4	12
Continuing	< 1 yr	2	7	71	80
	1-2 yr	0	0	16	16
	> 2 yr	0	0	29	29
Total		239	26	145	410

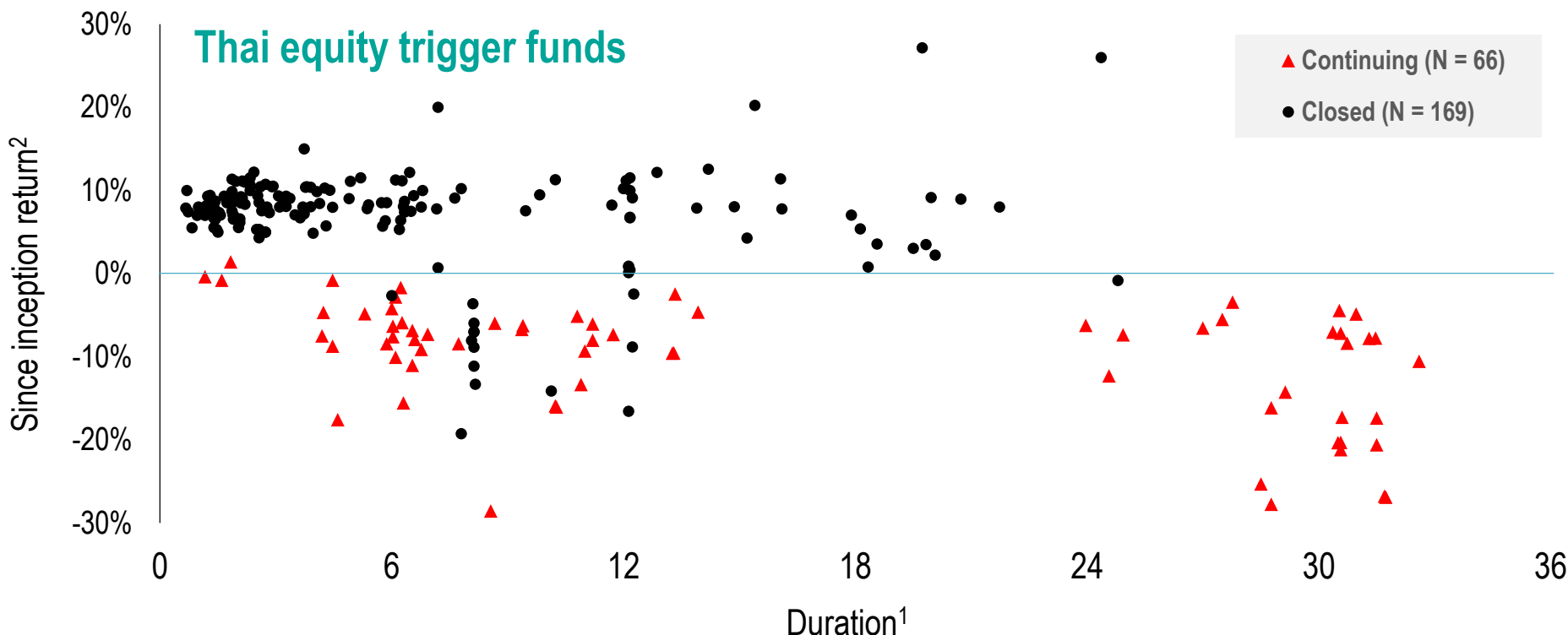
Percentage	Duration	Return (not annualized)			Total
		≥ 5%	0 - 5	< 0	
Closed	< 1 yr	46%	1%	4%	51%
	1-2 yr	10%	3%	2%	15%
	> 2 yr	2%	0%	1%	3%
Continuing	< 1 yr	0%	2%	17%	20%
	1-2 yr	0%	0%	4%	4%
	> 2 yr	0%	0%	7%	7%
Total		58%	6%	35%	100%

¹since inception to Sep 2015 for continuing funds or to termination date for closed funds

² not annualized, calculated since inception to Sep 2015 or to termination.

Similar to Thai equity trigger funds.

Approximately, half of the funds give more than 5 percent within one year while one-third give negative returns – the latter are both continuing and terminated funds.



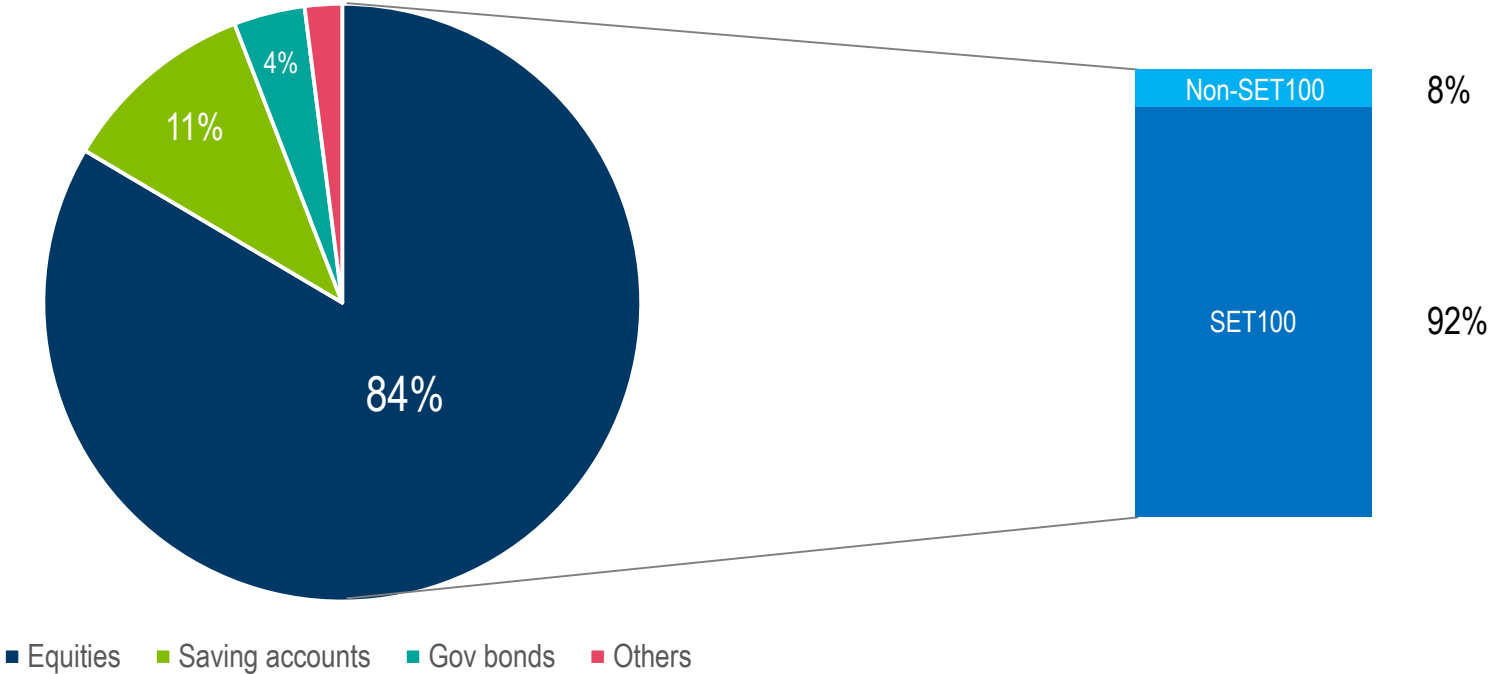
No. of fund	Duration	Return (not annualized)			Total
		≥ 5%	0 - 5	< 0	
Closed	< 1 yr	118	3	11	132
	1-2 yr	20	10	3	33
	> 2 yr	3	0	1	4
Continuing	< 1 yr	0	1	35	36
	1-2 yr	0	0	5	5
	> 2 yr	0	0	25	25
Total		141	14	80	235

Percentage	Duration	Return (not annualized)			Total
		≥ 5%	0 - 5	< 0	
Closed	< 1 yr	50%	1%	5%	56%
	1-2 yr	9%	4%	1%	14%
	> 2 yr	1%	0%	0%	2%
Continuing	< 1 yr	0%	0%	15%	15%
	1-2 yr	0%	0%	2%	2%
	> 2 yr	0%	0%	11%	11%
Total		60%	6%	34%	100%

¹since inception to Sep 2015 for continuing funds or to termination date for closed funds

² not annualized, calculated since inception to Sep 2015 or to termination.

Based on our sample, trigger funds are mostly investing in SET100 and three-quarters of Thai equity trigger funds are labeled as flexible allocation funds.



	No. of funds	IPO size (MB)	Equity portion (%) ¹
Equity funds	31	12,141	93%
Balanced fund	1	626	16%
Flexible allocation funds	90	58,719	83%
Total	122	71,486	84%

n = 122 Average no. of stocks held = 22

Sample selection:

- Thailand OE Equity Fix Term established within 2012-Q3/2015.
- Operated more than 5 days before the 1st reporting period.

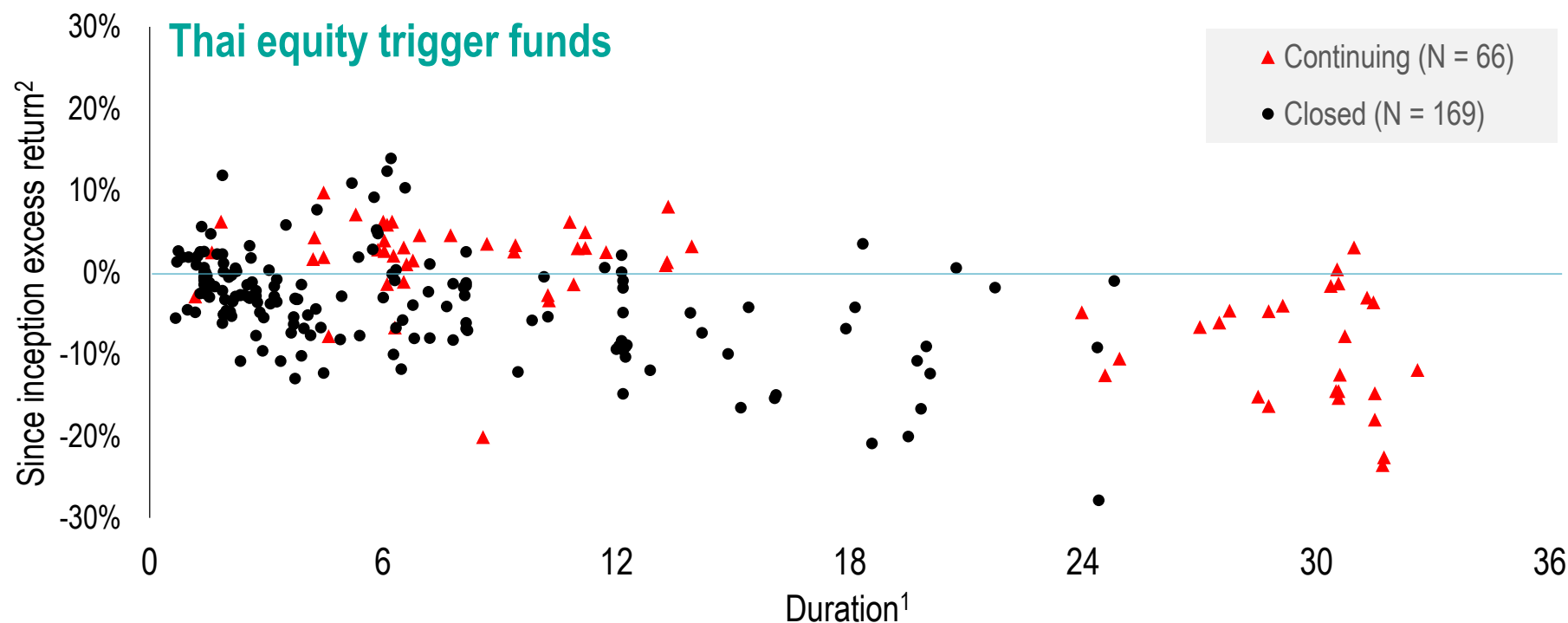
¹ Value-weighted average

Various studies found no alpha. Although some found alpha at gross-of-fee level, it disappeared at net-of-fee level.



- Jensen (1968) reaches conclusion that average actively managed mutual fund does not capture alpha, net of fees and expenses.
- Chang and Lewellen (1984) find that fund managers have no stock selection and market timing ability, concluding that active strategy could not outperform the passive strategy.
- Grinblatt and Titman (1994) find that few mutual funds are able to successfully time the market and that their performance is negatively related to their expenses.
- Carhart (1997) documents that persistence in superior fund performance is very weak to nonexistent.
- Barras, Scaillet, and Wermers (2010) document that 75% of funds exhibit zero alpha (net of expenses). Also, there were significant proportion of positive alpha funds prior to 1996, but almost none by 2006.
- Fama and French (2010) find that typical actively managed U.S. equity fund earns a negative after-fee alpha.
- Lonkani, Satjawathee, and Jegasothy (2013) document that Thai fund managers have negative selectivity and timing abilities.

Around one-third of Thai equity trigger funds beat the market.



No. of fund	Duration	Excess return (not annualized)		Total
		≥ 0%	< 0	
Closed	< 1 yr	37	95	132
	1-2 yr	4	29	33
	> 2 yr	0	4	4
Continuing	< 1 yr	27	9	36
	1-2 yr	4	1	5
	> 2 yr	2	23	25
Total		74	161	235

Percentage	Duration	Excess return (not annualized)		Total
		≥ 0%	< 0	
Closed	< 1 yr	16%	40%	56%
	1-2 yr	2%	12%	14%
	> 2 yr	0%	2%	2%
Continuing	< 1 yr	11%	4%	15%
	1-2 yr	2%	0%	2%
	> 2 yr	1%	10%	11%
Total		31%	69%	100%

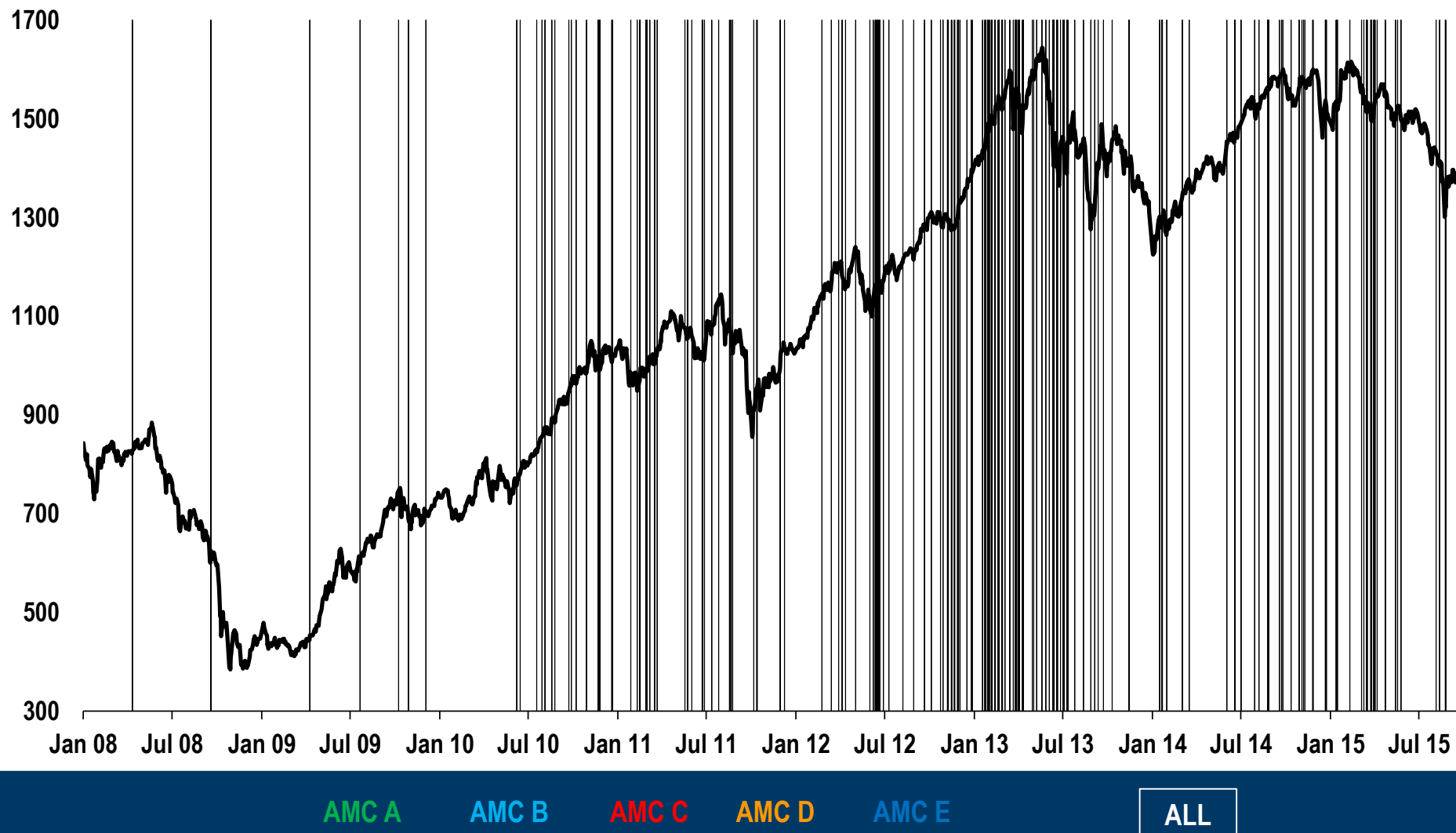
¹since inception up to termination date or Sep 2015 for continuing funds

² not annualized, calculated since inception to Sep 2015 or to termination.

Market Timing: date of issuances



Market Timing: date of issuances

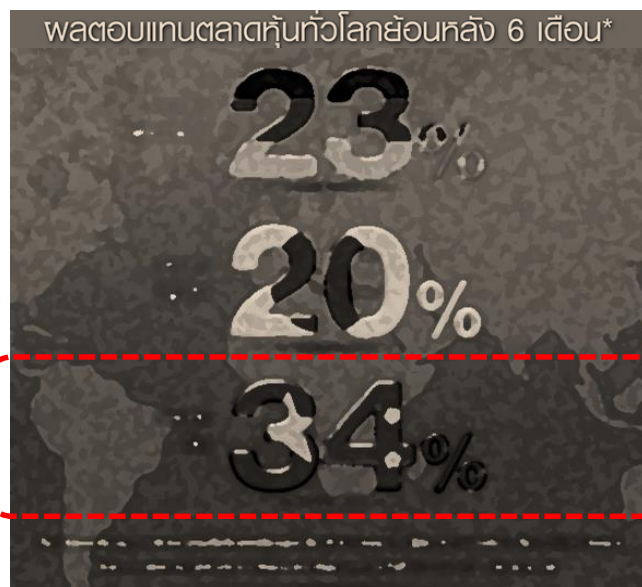


N = 235 Sample: TH Equity Trigger funds

Source: Morningstar Direct complied by Research Department of Thai SEC

Tempted by past success, investors are more likely to chase the recent winner/hot markets.

- Past returns shown in the selling materials are calculated over the chosen period of very good market performance.
- Also, only the successful trigger funds are advertised with a small footnote for the failure.



During the recent peak, several China equity trigger funds were issued. Trigger funds were rarely issued around the troughs.



Controlling for selection abilities, market timing abilities are not very common in the market.

Investment period Jan 2011- Sep 2015	No. of buy decisions ¹	Selling rule: sell when return reach X% (Buy-and-hold)					
		5%	6%	7%	8%	9%	10%
I. Buy on each issuance of Trigger fund <i>Average of Top 5 players</i>		Return per annum					
AMC A	XX	-3.49%	-2.13%	-1.17%	0.03%	0.62%	1.14%
AMC B	XX	-1.47%	-0.61%	0.21%	0.91%	1.48%	1.94%
AMC C	XX	1.51%	2.93%	3.10%	4.03%	4.40%	4.28%
AMC D	XX	-13.09%	-10.22%	-8.31%	-6.00%	-5.31%	-4.37%
AMC E	XX	-6.44%	-5.79%	-4.74%	-3.15%	-2.75%	-2.40%
		2.04%	3.03%	3.86%	4.34%	5.30%	6.25%
II. DCA at the							
Middle of each month	57	-1.26%	-0.13%	0.96%	2.09%	3.37%	4.56%
Beginning of each month	57	-0.97%	0.41%	1.81%	3.20%	4.46%	6.19%
III. Random (10,000 times)							
75th percentile	15-57 ²	1.51%	2.97%	4.39%	5.77%	7.29%	8.96%
50th percentile	15-57	-0.94%	0.19%	1.22%	2.21%	3.26%	4.30%
25th percentile	15-57	-2.22%	-1.34%	-0.55%	0.17%	0.88%	1.64%

Setting

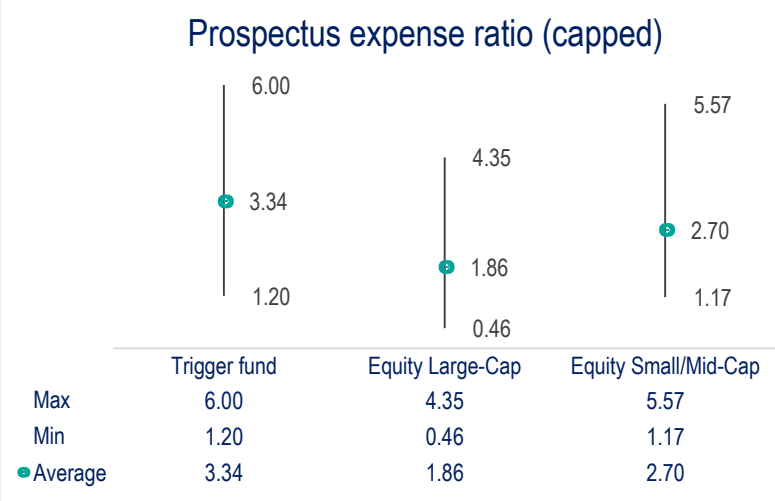
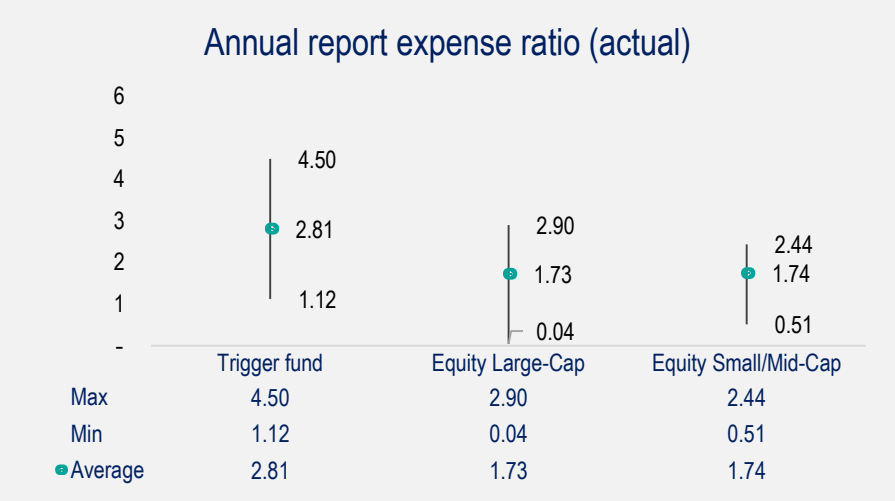
- Control:
 - Same selling rule
 - Same invested asset (SETTR Index)
- Only difference:
 - Timing
 - Frequency of buy decisions

¹ No. of issued trigger funds

² Ranging from monthly to quarterly investment

Source: Morningstar direct compiled by Research Department of Thai SEC

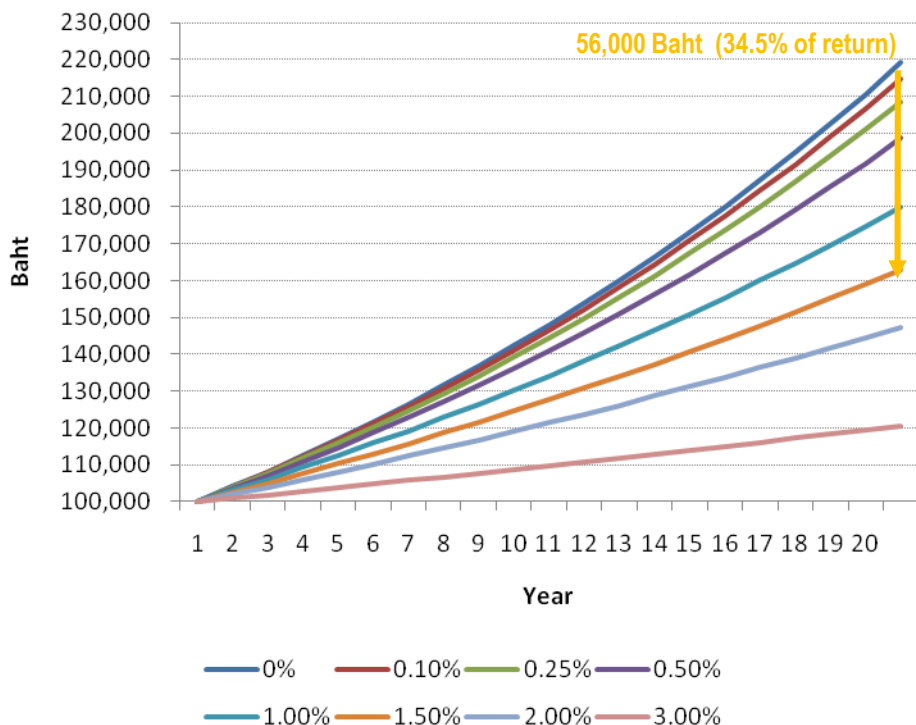
Trigger funds are charging relatively higher fees with various fee structures.



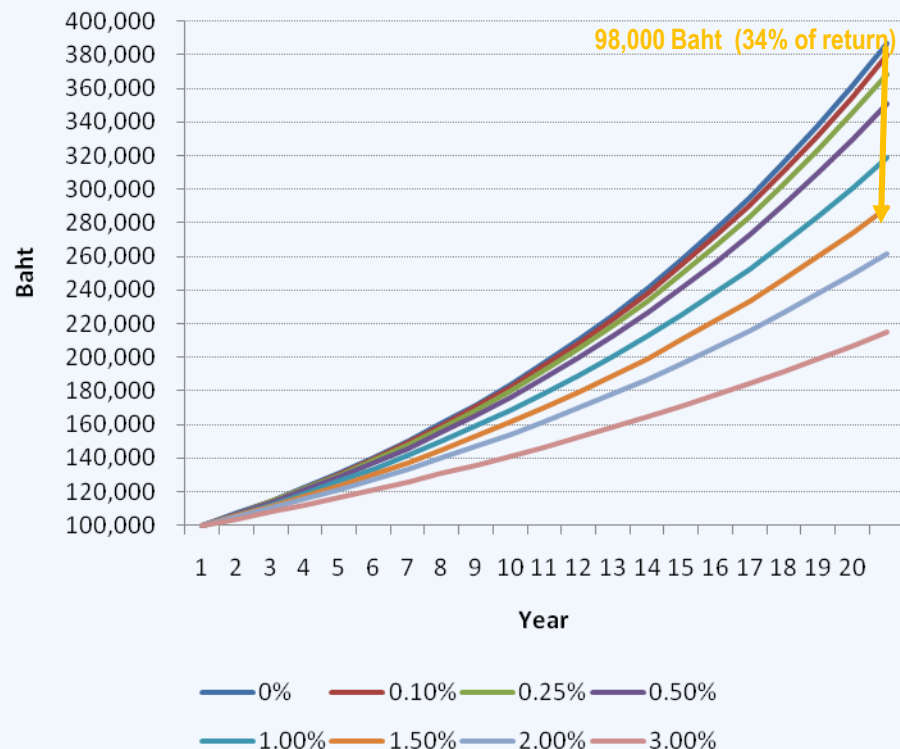
Scheme	Set up fee	Management fee	Back-end fee
1	X	Actual period	✓
2	X	Target period	✓ X
3	✓	Actual period	X
4	✓	Target period	X

Typical Thai large cap equity funds with 1.5% fee rate could take one-third of the total long-term investment return. Increasing fee rate could further decrease the return.

Return at 4% p.a.



Return at 7% p.a.



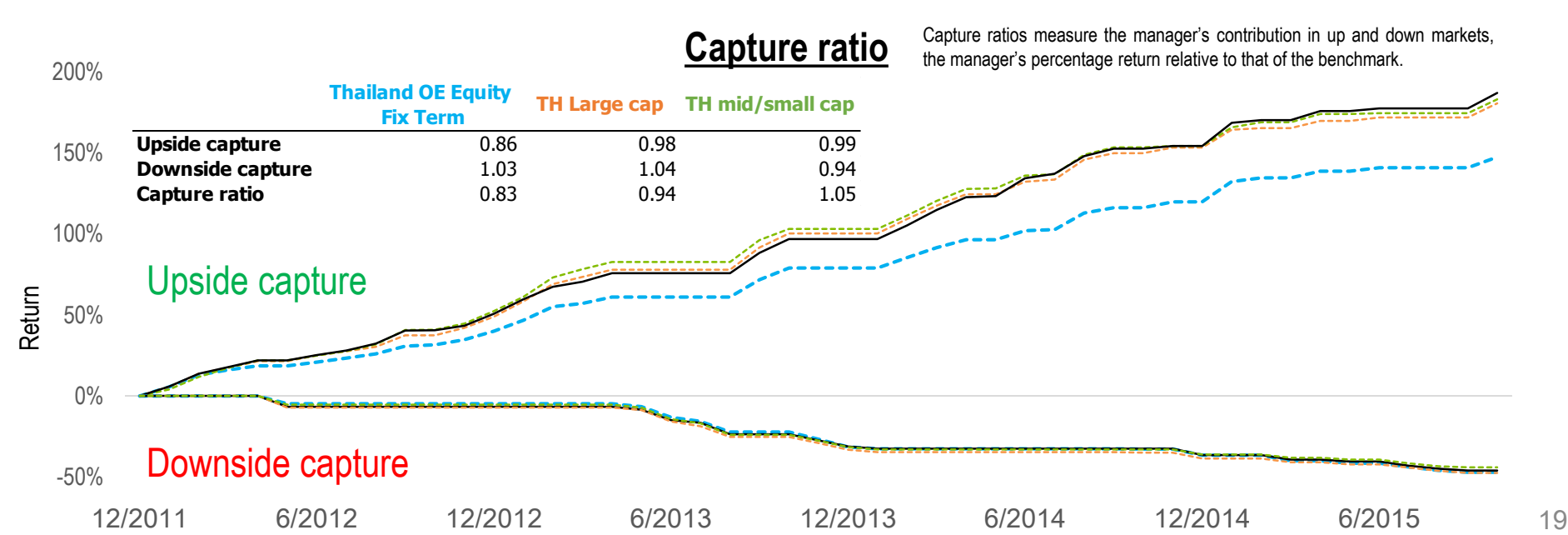
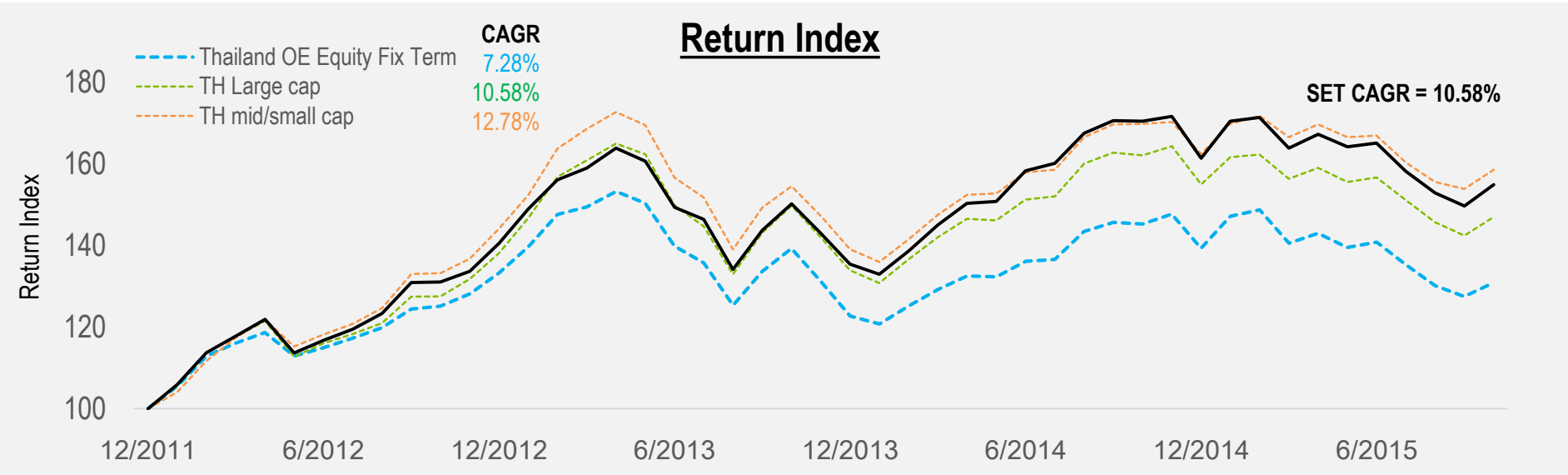
Assume the initial investment at 100,000 Baht for 20 years of investment horizon:

→ For 4% return & 1.5% fee, investors lose 56,000 Baht for the fee charged.

→ For 7% return & 1.5% fee, investors lose 98,000 Baht for the fee charged.

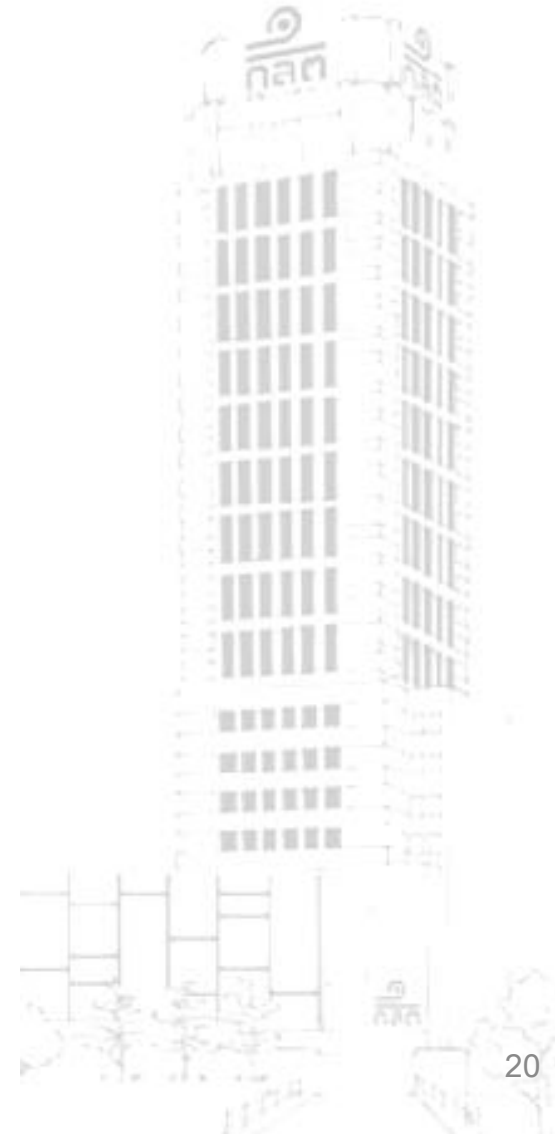
Note that in 2014 the average fee (total expense ratio) of Thai equity funds was around 1.7% charged by AMC's in Thailand.

In the long term, average Thai trigger funds underperformed both up and down markets.



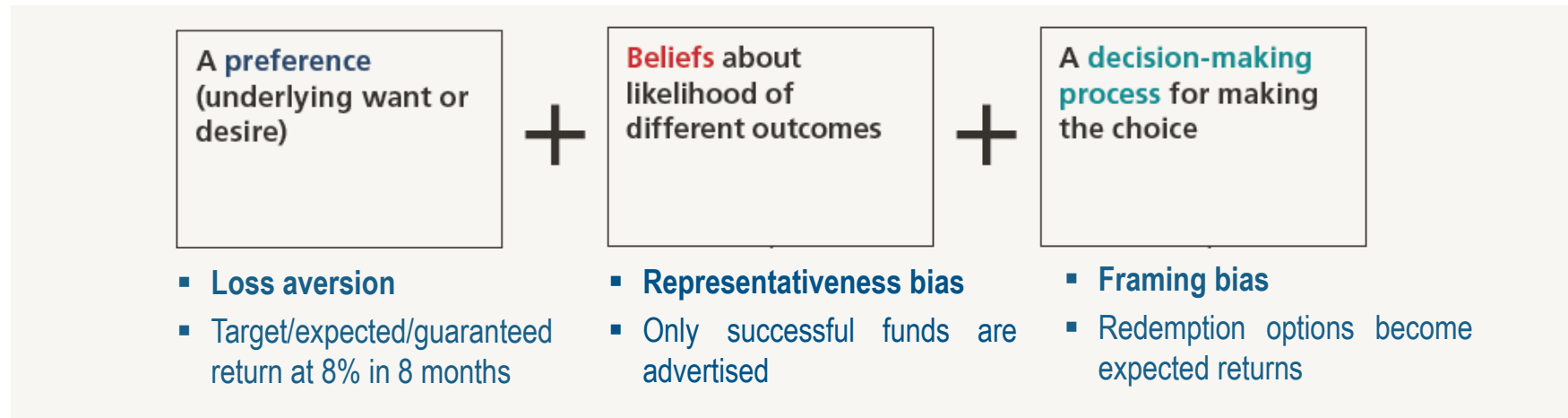
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Due to the unique product design and representativeness bias in performance presentation, investors might be subject to framing bias and loss aversion when interpreting the product values.

Biases as distortion in choice (figure 1 in FCA Occasional Paper no.1, 2013)



Loss aversion

...Psychologically, losses are felt roughly twice as much as gains of the same magnitude. As a result, consumers underweigh gains and overweigh losses. But the same outcome can be framed as a gain or a loss depending on the choice of reference point. So consumer choice can be unstable and vary depending on which reference point is chosen...

Representativeness bias

... People often make predictions on the basis of only a few observations, when these observations are not representative...

Framing bias

... As people have limited attention, framing and salience can determine what information is processed and how that information is processed. Even when the economic benefits of particular choices are identical in two situations, consumers may make different choices depending on how the decision problem is framed, i.e., what it draws attention to. What makes a particular frame or interpretation lead to a particular choice depends on the bias triggering the reaction...

Trigger (redemption) Facilities, rather than Trigger Funds is one option to foster investment discipline.

- Offered by AMCs, trigger facility is an additional, optional feature (like DCA facility) provided in ordinary mutual fund schemes, enables investors to book profit automatically at a pre-defined time or value.

Example of choices

- **Value**

Redeem when the value of investment rises or falls by a certain percentage.

- **Capital appreciation**

Activated when capital gains or losses become equal to, more than or lower than a specified amount or percentage.

- **NAV-Based**

When the NAV of the funds has risen or fallen by a certain percentage.

- **Time-Based**

Activated on a particular date or after a certain period.

- **Index-Based**

Trigger activated based on an index.

- **Stop loss**

Activated when capital has depreciated by a certain percentage.

- **Entry**

Switch from a liquid or debt fund to an equity fund when the conditions were met.

Automatically pops up the bread once it's toasted.



Automatically redeems your investment once the predetermined growth is achieved. #

TRIGGER FUND - SERIES 2

A Close-ended Equity Scheme

In case the predetermined growth is not achieved during the 3 year period, the scheme would mature at the end of 3 years at the then prevailing NAV.

New Fund Offer Opens: 18th February, 2015. Closes: 4th March, 2015.

CHANGE OF TARGET AMOUNT / TARGET SCHEME

Please refer to instructions, terms and conditions mentioned overleaf. Please fill only in the space provided. Any additional details/ notings/ instructions or those provided at a non designated area of the form may not be executed.

CHANGE OF TARGET VALUE / TARGET SCHEME

Goal Based Folio No. / (Mandatory)

Name of Sole/
First Unitholder:

I/We request the fund to update the following as new values in my goal based folio mentioned above: I/We have read the terms and conditions of 'My Target Value Savings account' and agree to abide by the terms, conditions, instructions, rules and regulations of the said facility as may be prescribed by the Fund from time to time.

Target Amount:
(A. Amount you desire to achieve)

₹ Default: 1 crore

Target Scheme:
(B. Scheme you opt to switch into)

Scheme

Plan

Option

**MY TARGET VALUE
SAVINGS ACCOUNT**

Conclusion

Trigger funds are a relatively new investment product, recently gaining popularity among Thai investors. Its alluring advertisement “X% within Y months” seems to be the key message capturing attention of many investors. In fact, they may deliver below X% or last beyond Y months. Up to the end of Sep 2015, over half of the funds give below 5% or last beyond 12 months. Around one third of the funds give negative returns – some of these were terminated. Although the funds are charging relatively high fees with various fee structures, their X% targets are set below the prevailing long-term market total returns. Due to the unique product design and representativeness bias in performance presentation, investors might be subject to framing bias and loss aversion when interpreting the product values.