UNIT INVESTOR TRUST FUND CHARACTERISTICS, INVESTOR PREFERENCES, AND UNIONBANK TRUST STRATEGIES

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Abstract

Survey shows that Filipinos are “now more concerned about planning their personal finances while at the same time trying to improve their financial security” (Citt’s Fin-Q Survey). However, very few Filipino households utilize financial products and services offered by commercial banks, specifically Unit Investment Trust Funds (UITFs). The researcher used Pindyck and Rubinfield’s (2005) Theory of Consumer Behavior as the theoretical framework for consumer behaviour, supported by various literature on behavioural economics and behavioural finance. The researcher used the learning organization framework in developing management strategies based on current and potential UITF investor preferences, which the researcher classifies as organizational inputs.

This study examined the characteristics and investor preferences of current and potential UITF investors in the Philippines. This was done by conducting a survey and the data was examined using factor analysis. The author concluded that most of the respondents are non-UITF investors. The main preventive factor for not investing in UITF was lack of awareness. For current investor, the main driver was better earning potentials. Most of the respondents held salaried positions and aged below 30 years old. In general, the respondents value Fund Product Qualities then Trustee Qualities and lastly Investor Services. Also, the analysis identified that Performance Record, Reputation, Expertise and Transparency in Fund Management were the qualities that do matter for them. Based on the findings of the study, UnionBank should implement strategies that focus on investor education, improving fund product qualities, maintain and improve trustee qualities and providing adequate disclosures to clients.

Key Words:

UITF; preferences; investor; characteristic
Chapter 1: Problem

Background of the Study

Universal and commercial banks are considered as the most important type of banks because they comprise approximately 90% of total assets of the entire banking system (Domingo, 2012). Being the biggest among banks, Abola (2006) stresses that they are able to establish strong presence in urban areas and boast a large network of branches in different areas. As of June 2011, there are 4,764 Universal and Commercial Banks, 38 of which are Head Offices supervised and regulated by the BankoSentralngPilipinas (BSP, 2011). With these, Abola states that commercial banks can cater medium to large companies and individuals in need of their products and services. A number of financial services banks can offer try to satisfy the need of the individual for financial security.

According to Citi’s Financial Quotient (Fin-Q) Survey, Filipinos are more skilled at managing their finances at present (Morillo, 2012). Furthermore, Morillo quotes that with the Philippines’ 52.6 points, up from 46.6 points in 2008, Filipinos are “now more concerned about planning their personal finances while at the same time trying to improve their financial security”. Looking more closely, BSP’s first Consumer Finance Survey (2009) showed that there is only a small percentage of households that have investments in stocks, mutual funds, and/or fixed-income securities, including government securities. The survey data has illustrated that there are less than one per cent of households in NCR that invest in any of the mentioned financial instruments while the percentage of households outside NCR investments are negligible. Aside from the financial instruments stated in the survey, another type of these is the UITF.

UITFs are open-ended pooled trust fund dominated in pesos or any acceptable currency, operated and administered by a trust entity and made available by participation (Trust Officers Association of the Philippines, 2009). It pools together funds of various investors and places it in government securities, bonds, stocks/equities, deposit products, and other similar instruments. Some of the banks that offer UITFs in the country are Banco De Oro (BDO Unibank), Bank of the Philippine Islands (BPI), EastWest Banking Corporation, Metropolitan Bank and Trust Company (Metrobank), and UnionBank of the Philippines.

UnionBank, a universal bank, currently has 175 branches and 202 ATMs nationwide, as well as a call centre and an internet banking site (UnionBankph.com). With a wide market base being served by the banking industry as well as it has various industry players, competition among banks is high. To obtain favorable position in terms of promoting banking products and services and to increase the number of existing clients, aggressive strategies should be developed and implemented. UITFs are one of the most profitable among the Trust products, thus management strategies of UnionBank should center on these.

Problem Statement

Even with the Filipinos’ growing awareness on the relevance of wealth management, as stated by Citi’s survey, it is noticeable that few Filipinos utilize financial services such as mutual funds and UITFs. With this in mind, it would be worth pursuing the examination of one of these financial instruments, UITFs in particular, to be able to assess the needs and wants of current and potential UITF investors for the improvement of UITF product and services of UnionBank Trust. Thus the problem statement is phrased as follows:
What are the impacts of the investors’ preferred characteristics of Unit Investment Trust Fund on the management strategies of UnionBank Trust and Investment Services Group?

Objectives of the Study

To address the problem, the study seeks:
1. To determine the characteristics of UITFs preferred by current and potential investors.
2. To determine the appropriate management strategies that UnionBank Trust could adopt in relation to its UITFs.

Theoretical or Conceptual Framework

Theory of Consumer Behavior

Pindyck and Rubinfield’s (2005) Theory of Consumer Behavior serves as the guideline in economics, finance, and marketing, and explains how consumers allocate their incomes for goods and services. Due to limited income and having numerous choices, consumers deal with trade-offs. Figure 1 illustrates that choices are subjected to budget constraints (what they can afford) and preferences (what they would like to consume). Pindyck and Rubinfield (2005) also point out that “economists assume that a consumer can rank various consumption possibilities. The way in which consumers rank the consumption bundles describe consumer preferences. Indifference can be used to depict different kinds of preferences” (p. 32).

Behavioral economics also studies how consumers make choices depending on how a problem is framed. This uses insights from psychology and related fields (Varian, 2006). Based on literature, behavioral economics has been recognized as an important tool in financial industry. According to Chuah and Devlin (2011),

Behavioural economics are useful in helping to explain various aspects of consumer behaviour in financial services markets. It is shown that an understanding of the implications of behavioural economics may help in fashioning a choice architecture that is more likely to bring the desired consumer response, from either a commercial or policymaking perspective. (p. 456).
Olsen (2010) stressed that a general theory of behavioral finance must include the assumptions of subjective perception, indeterminancy, and financial decision process. DeBondt, Forbes, Hamalainen & Muradoglu (2010) mentioned that behavioral finance is beneficial and can contribute to the financial industry, but stressing that there was an issue between the academic and the professional world when it comes to utilizing behavior finance research. Stronger partnership and dialogue is needed to bridge the gap according to the authors. A possible framework for understanding investor’s psychology is Neurofinance. According to Sahi (2010), this tries to relate the brain processes to investment behavior. However, it is still a young discipline and most of past studies focus on trading behavior.

Figure 13. The Learning Organization: Input / Output Model
Adapted from Murray, Poole & Grant (2006)
Learning Organization Framework

The process by which better knowledge and understanding help develop actions (Murray, Poole & Jones, 2006); organizational learning is described as the method within the organization to improve performance based on experience. The key output from the model is knowledge which directs competitive advantage and change. The authors also highlighted that the framework focused on “understanding what knowledge is and becoming more self-aware” (p. 271). Thus, this framework can serve as a backbone for this research in developing management strategy based on acquiring knowledge about current and potential UITF investor preferences.

The researcher classifies the UITF characteristics and the investor preferences as organizational inputs; the creation of strategies for UnionBank Trust as the learning organization inputs, whereas, competitive advantage will be the output.

Research Hypotheses

The formulations of the following hypotheses are based on the findings of Panda and Tripathy (2001) and Rajeswari (n.d.) in Indian studies:

1. The selection of fund products/services of investors is influenced by product qualities, trustee/sponsor qualities and investor services.
2. Among the top underlying factors valued by investors are performance record, reputation of the firm, disclosure of investment objectives, method and fund valuation.

Significance of the Study

This paper offers additional empirical research on financial services, specifically UITFs, in the Philippines. The researcher noted that studies on investor fund preferences have been limited to mutual funds and that studies on investor preferences in the Philippine setting have been scarce. This study hopes to determine the main reasons a Filipino investor would choose to invest in UITF.

The researcher, being the head of the UnionBank Trust and Investment Services Group, would also like to gather empirical evidence to support future management initiatives.

Scope and Delimitation

This study is based on data collected to develop a marketing strategy for UnionBank’s Retail UITF which was conducted by the same author. Since the study was conducted for the UnionBank of the Philippines, the data presented in this paper is secondary in nature. Also, the researcher understands that the local funds business has a very wide scope, thus the focus will be limited to UITFs in the Philippines. The study limits itself to determining what current and potential investors preferences of UITFs characteristics would be. Other investment outlets such as mutual funds and variable life funds will not be included.

The study will use current UnionBank UITF clients, UnionBank employees, and selected parents of University of Asia and the Pacific (UA&P) students as respondents for convenience.

Definition of Terms

1. Common Trust Fund – fund maintained by an entity authorized to perform trust functions under a written and formally established plan, exclusively for the collective investment and reinvestment of certain money representing participation in the plan received by it in its capacity as trustee, for the purpose of administration, holding or management of such funds.
and/or properties for the use, benefit or advantage of the trustor or advantage of the trustor or of others known as beneficiaries.

2. Central Bank – institution for the conduct of monetary policy.

3. Bank – entities engaged in the lending obtained in the form of deposits.

4. Trust Entity – any bank, investment house or a stock corporation duly authorized by the Monetary Board to engage in trust, investment management and fiduciary business.

5. Unit Investment Trust Fund – open-ended pooled trust fund denominated in pesos or any acceptable currency, which is operated and administered by a trust entity and made available by participation. Each UITF product is governed by a Declaration of Trust (or Plan Rules) which contains the investment objectives of the UITF as well as the mechanics for investing, operating and administering the fund.

6. Investor preferences – Behavioral and cognitive biases that influence UITF clients when choosing outlets.

7. UITF characteristics – the product, fund manager and trustee qualities

8. Management Strategies – plans and approaches of the UnionBank organization to increase profitability and market share.

Chapter 2: Review of Related Literature

Empirical literature are presented which study the behavior of investors in selecting financial services, the tool used to examine them and financial services and products availed by investors.

Investment Choices and Consumer Behavior

Clark-Murphy and Soutar (2005) studied the link between investment choices and consumer behavior. They aimed to identify the different share attributes favoured by individual investors and the investor segments that value the different share attributes. Using conjoint analysis, the author processed 488 valid questionnaires and found that the most important share attribute was company management then a stock’s market statues (i.e. speculative, growth, etc.) and finally a stock’s price trend. Clark-Murphy and Soutar (2005) identified four groups from their survey: explorers, risk-averse investor, traders, and contrarian investors; and concluded that there were investor segments that prefer different share attributes. According to them, these differences should be taken into consideration by Financial professionals when providing services and products. The authors recommended examining “how accurately those advising individual investors perceive their client’s preferences and attitudes, and how they take such opinions into account in client interactions” (p. 14). Haslem (2008) created a study to understand why investors employ financial investors in mutual fund selection. The frameworks he used were five measurable characteristics sold through broker and advisor channels. They found that investors asked the assistances of advisors because of their expertise, assurance that the estate is in order, idea about savings and other services they provide. They have also emphasized in their study that returns earned by MF investors are lower than the rational behavior paradigm of finance proposes.
Factors Affecting Mutual Fund Investor Demand

Moreover, Duke and Upadhyay (2006) analyzed the factors affecting the demand of investors in mutual fund industry, the follow-on reaction of the mutual fund management companies and the impact on the investment and marketing performance of the funds. They concluded that in order to achieve the desired long term investment performance to entice more investors, investment style and specific fund’s characteristics should be given more attention. To obtain short-term marketing successes, fee reductions and introduction of new class shares may be beneficial, while for long-term benefits, achieving higher levels of investment performance for individual mutual funds may be focused on.

Loyalty Marketing Programs

On the other hand, Ferguson and Hlvanka (2007) assessed the banking industry’s expanding use of loyalty marketing programs to build profitable relationship with customers. Using innovative programs launched by various banks as data for the study, their findings showed that:

“Banks are customizing their relationship-building strategies to create value propositions as unique as the institutions and customers they serve. When banks use loyalty programs to engender trust and build confidence in the brands, the customer relationship will develop organically, and so will profits. (p. 110). “

Therefore, building enduring customer relationship is imperative to bank growth.

Preferences for Financial Investment Products

In India, Sahi, Dhameja and Arora (2011) identified the predictors of preferences for financial investment products using CART analysis. They examined the different demographic, socio-economic and psychographic variables influenced investors’ preferences. With valid sample of 377 and applying classification and regression tree (CART) methodology, their study discovered that psychographic variables was the most important predictor of investment preferences with greater degree of risk, while demographic and socio-economic variables were considered as the most important to investors with lesser degree of risk. The sample was then divided based on occupation profile (government and non-government) for fixed returns based instruments and non-fixed instruments, the authors determined that psychographic variables was the most important predictors. The authors concluded that investment preferences were more understood if psychographic variables of customers were also studied and recommended doing the same study in the different countries for verification.

Younger Generations’ Mutual Fund Investing Behavior

Wang (2011) focused his research study on younger generation’s Mutual Funds’ investing behavior. He examined if age and gender affected investing behavior. His study sought to know how to cater to young generations in wealth management and hypothesized that knowledge and experience in investing as well as higher levels of income would influence the investing behavior. Using MANCOVA as statistical procedure, the study showed that age, income, experience, and knowledge were significant in the model while education contributed in their model insignificantly. Wang results’ suggested that,

“The more experiences the respondents had, the more the respondents searched information about mutual funds and invested in mutual funds. With more experience, the respondents also perceived better performance from their investments in mutual funds.
However, experience did not influence how long the respondents maintained their investments in mutual funds.”(pp. 17-18).

Results suggested that social and personal influences were important factors to examine in their investing behavior. Nga, Yong and Sellapan (2010) also conducted a study on young consumers and their financial awareness. They aimed to assess the level of general financial and products awareness among young adults. This paper filled the gap by developing measurement scales for both general and financial product awareness. The sample size of 280 college students, data was processed using Exploratory Factor Analysis. Results showed that the level of education and majors influence the youth’s awareness on the general and financial products; males were more aware about financial awareness. The paper verified the past studies that finance awareness should be incorporated among college level students’ education system.

Factors Valued by Pakistani Mutual Fund Investors

Same with Wang, Awan (2012) examined the factors valued by Mutual Fund investors in Pakistan. His problem statements revolved on factors valued, determinants of investors’ behavior and demographic factors affecting their behavior. Using AHP and factor analysis, he revealed that investors’ age group and cities have impact on fund selection schemes while income, education level and occupation have no effect. Attributes such as past performance of a fund, the reputation of the investment company, the withdrawal facility, and company services for the investor have greater impact on decision making. Rajeswari and Moorthy (n.d) used factor analysis to identify the influencing factors affecting mutual fund/scheme selection of Retail Investors in India. According to them, in the financial literature there were “no models which explain the influence of these “perceptions” and beliefs” on “Expectations” and “Decision Making” (p. 3). Therefore, these authors filled the gap. Based on their study, the three major factors analyzed were Fund/Scheme Qualities, Fund Sponsor Qualities and the Expected Investor Services. There were 23 identified variables that were classified under three major groups. These variables were based on brainstorming session in Anantapur and Bangalore India and evidence from past research prior to the construction of the questionnaire. Some of the results were: the most preferred investment vehicle was Bank Deposits while Mutual Funds ranked 4th in order of choices. Growth Schemes were ranked first while based on the duration of operation, open-ended schemes were ranked primarily. Investors looked for safety first in Mutual Funds followed by good returns. Then scheme selection decision was made by respondents and other sources of influencing their selection decision were Newspapers and Magazines, Brokers etc. Lastly, respondents preferred to get the routine/special information like daily NAV, dividend, bonus, change in asset mix, etc. through automated response system.

Investors’ Preferences and Priorities toward Mutual Fund Products

With factor analysis as methodology, Panda and Tripathy (2001) aimed to track investor’s preferences and priorities towards different types of mutual fund products and to identify the key features in deciphering sustainable marketing variables in the design of a new mutual fund product as emphasized on their paper. Based on their results, the five key factors for Mutual Fund Product were: The Core Product, Investors Expectation, Service Behavior, Persuasive Promotion and
Investor Confidence. By identifying these factors, the authors stressed that they provided inputs on understanding investors and these would serve as a guide in designing mutual fund products in India.

**Investors’ Behavior towards the UTI Mutual Fund in Thoothukudi**

Balamuragan’s (2012) paper analyzed the investors’ behavior toward the UTI Mutual Fund in Thoothukudi. His objectives were to determine the investment pattern, influential factors, and level of satisfaction of mutual fund investors. He tested the hypotheses that there was no significant relationship between gender and age with investment behavior; while, occupation of respondents, level of satisfaction, and income levels had significant relationship with their behavior. The results proved the following:

1. No significant relationship between the gender of investors and the investment behavior towards the UTI schemes.
2. No significant relationship between the age of investors and the investment behavior towards the UTI schemes.
3. There is a significant relationship between the Educational qualification of investors and the investment behavior towards the UTI schemes.
4. There is a significant relationship between the Occupation of investors and the investment behavior towards the UTI schemes.
5. There is a significant relationship between the investors’ level of satisfaction and their behavior.

He concluded that the relevant factors stated earlier influence the investment behavior. He recommended gaining deeper understanding on all types of investors and providing better services to them. Martenson (2008) aimed to contribute “how customer contact persons influence attitudinal and behavioral loyalty in three different customer groups, who differ in terms of their motivation and ability to understand stock market information” (p. 119). He tested three hypotheses: characteristics of the contact person are positively related to perceived relationship quality; relationship quality is positively related to relationship intentions such as commitment; and, relationship intentions are positively related to behavioral loyalty. Based on the results, all the hypotheses were supported. Findings showed customer contact person create behavioral loyalty. This paper dealt with the substantive areas of complex financial services and professional advice. Furthermore, the model tested in the study “is a micro-theory of the role of the contact person in developing and keeping loyal customer” (p. 121).

**The Effect of Advertising on Mutual Fund Cash Flows**

In Korkeamaki, Puttonen and Smythe’s (2007) paper, they studied the effect of advertising on mutual fund cash flows in the Finnish fund market. With the sample of 145 Finnish fund
families over the period of 1999-2004; using regression analysis framework, their results showed that the impact of advertising on fund families was relevant. The results are as follows: “Advertising when the fund family has top performing funds lead to higher flows and when they examine these relationships looking at specific media outlets, we find that newspaper and periodical advertising follow the same pattern” (p. 447).

How Investors Assess Mutual Fund Performance Quantitatively and Qualitatively

In addition, Wu, Chan, and Wu (2008) evaluated how investors assess mutual fund performance in both quantitative and qualitative manners. Using Delphi method and Analytical Hierarchy process (AHP) to design an assessment method, they found that Mutual Fund investors’ important criteria for evaluating mutual fund performance were Mutual Fund Style and Market Investment Environment. They recommended exploring the correlation between each criterion conducted in the study. Using risk utility frameworks, Niendorf and Ottaway (2002) examined the cause of market risk premiums and risk preferences of individual investors. Based on the artificial market, they have found that, “If investors have financial incentive to vary their risk preferences, or if investors of a constant risk preference vary the way they participate in the market under different market conditions, this could lead to time variation in market risk premiums. We find that the agents that trade in our artificial stock market have significant incentive to demonstrate different risk preferences under different market conditions. Specifically, during both bull and flat markets, agents have incentive to act in a risk-averse manner, and during bear markets, agents have incentive to act in a risk seeking manner. We also find that a hypothetical risk preference optimizing agent could outperform straight risk averters and risk seekers.” (p. 85-86).

Marketing Financial Services to Hispanic American Consumers

Steven and Plath’s (2006) examined Hispanic American and non-Hispanic White consumers for targeting and marketing financial services. They tested three hypotheses:

1. There are differences in the proportionate holdings of investment categories across Hispanic American and NHW investors that can be explained by controlling for household income levels.

2. There are differences in the proportionate holding of investment categories across Hispanic American and NHW households that can be explained by controlling for head of household age.

3. There are differences in the proportionate holding of investment categories across Hispanic American and NHW investors that can be explained by controlling for head of household educational attainment.

Utilizing data from the 1998 Survey of Consumer Finances, they concluded that Hispanic American increased in size and relevance. Furthermore, Hispanics and non-Hispanic Whites differ in terms of financial product preferences, investment asset portfolio composition, breadth and
depth of financial holdings. These differences could be an opportunity for financial service providers due to the emerging of Hispanic American segment.

**Demographic Characteristics of Socially Responsible Investors**

Junkus and Berry (2010) observed the demographic characteristics of people who invest in socially responsible (SR) related funds and those who did not, as well as the statistical significance of the demographic factors. They tested six hypotheses:

1. SR investors will not differ in age from non-SR investors.
2. No difference in investment behavior between male and female investors
3. Little difference in SR investment behavior and wealth level.
4. There may be a correlation between education levels and wealth.
5. Married investors are more likely to be SR investors.
6. Those who are retired or employed might have the financial resources to include a non-financial factor, such as SR, when making investment choices, while those with more limited means might be expected to concentrate exclusively on rate of return.

They surveyed US-based, well-informed individual investors and discovered that a typical SR investor was female and likely to be single, younger, less wealthy and better educated than the non-SR investors, and SR investor differs significantly from non-SR investor. They recommended encouraging wealthier male investors to avail the socially responsible funds.

Past studies state there are several factors and attributes that influence the investing choices of individuals, such as advertising, fund/company services, investment performance, occupation, and reputation of the investment company among others. By studying the different demographic, socio-economic, and psychographic variables, the authors found the different characteristics and buying behavior of different investors in several countries. In the case of the Philippines, studies on investor preferences in investment products are scarce, particularly on UITF. It would therefore be worth pursuing a study similar to these to assess and verify past studies and to improve UITF services and products.
Chapter 3: Methodology

Research Design
The study is descriptive in nature, using the survey method, mean analysis, and factor analysis. The data was generated for the UnionBank of the Philippines Trust and Investment Services Group, the proponent for this is the author; therefore, the data that will be presented in this paper is secondary in nature. This study focuses on identifying the profile and investment preferences of the respondents to better understand them in order to improve UITF products and services.

For this study, a survey is created to identify the investor’s UITF selection criteria. This is patterned after Panda and Tripathy, Rajeswari & Moorthy’s (2001) study which used Factor Analysis for identifying key Mutual Fund features preferred by the respondents. The selection of the variables used for the UITF survey was based on the studies of Panda and Tripathy, Rajeswari & Moorthy (2001). The author included those variables which could be applicable for studying the UITF selection in the Philippines.

Population and Respondents
Conducting a survey enabled the researcher to observe clients’ decision and investment preferences and gain primary information from the respondents. Neuhauser (2010) stated that using survey method can be worthily applied in finance topics and stressed that it can improve one’s understanding of all finance areas but cautioned future researchers to be careful to use the same rigor of survey technique with other research topics. UITF and non-UITF investors are the target respondents for this survey. For convenience, the researcher used UnionBank clients, UnionBank employees (20) and parents of UA&P students as respondents for the survey.

Sampling Design
The convenience sampling method employed is drawn on the basis of opportunity and accessibility of the target respondents (Adamchak, et al. 2000). The results of this survey are only a representation of the entire investor population. The formula used for calculating the sample size is:

\[ n = \left( \frac{z}{m} \right)^2 p(1-p) \]

Where \( z = 1.645 \) for 90% confidence interval level
m = 0.10 for margin of error
p = 0.50 for estimated value for the proportion of a sample that will respond a given way to a survey question

The value arrived from this formula is 68, expected response rate is 60%, new sample size 113. Furthermore, the researcher takes into account that 10% of the total respondents will not answer the survey, bringing the final sample size to 136 \([68/(0.60-0.10) = 68/.50 = 136]\) expecting to receive 68 valid surveys.
Measurement and Instrumentation

The survey to be used is adapted from Panda and Tripathy, Rajeswari&Moorthy’s (2001) survey. Consultation with statistician determined that Cronbach alpha was not necessary due to the lack of relationship between the survey items (i.e. product qualities, investor qualities). Prior to processing the data using Factor Analysis, Kaiser-Meyer Olkin (KMO) and Bartlett’s test of sphericity will be implemented to determine the appropriateness of factor analysis. If KMO value is greater than 0.6 and Bartlett’s test significance is $\rho < .05$, the data is appropriate for factor analysis (Cohen, L., Manion, L., & Morrions, K., n.d.). The results were all greater than 0.6 and significant at the $\rho < .05$ level, as shown in appendix B.

Research Procedures

The survey was distributed to current UnionBank clients and employees, and parents of UA&P students by UnionBank officers. Respondents were guided on how to accomplish the survey and that their input will be used in developing marketing strategies. The officers stayed with the respondents to answer any questions.

Factor Analysis was used to: 1) reduce the number of variables, and 2) detect structure in the relationships between variables that is, to classify variables (StatSoft.com). It is performed by observing the pattern of correlations between the observed measures (DeCoster 1998). Factor Analysis was conducted using Principal Component Analysis (PCA) to identify the underlying UITF selection criteria of the sampled respondents (investors). DeCoster states that “the purpose of PCA is to derive a relatively small number of components that can account for the variability found in a relatively large number of measures” (p. 3). The PCA model is illustrated below. Afterwards, the varimax rotation method was applied in the factor analysis. According to Abdi(n.d), this method makes the “interpretation simple because each of original variables tends to be associated with one (or a small number) of factors, and each factor represents only a small number of variables” (p. 3).

![Diagram](image.png)

Figure 14. Principal Components Analysis Model (DeCoster)
Data Analysis

Survey results were analyzed using mean and factor analysis. The Stata software was used to run the model.

Assumptions of the Study

The researcher assumes that the survey will be sufficient to measure the preferences of the respondents.

Methodological Limitations

The analysis of the study is based on the survey results. The results are limited based on the soundness of the survey and the sample size of UITF and non-UITF respondents.

Chapter 4: Results

The actual survey was conducted from January 31 to March 13, 2012, was discontinued and then completed November 16, 2012. A total of 127 respondents were surveyed. The respondents were UITF and non-UITF investors. Of the 127, 100 responses were considered valid for analysis while 22 surveys were not returned to the researcher. Of those surveyed, 20 were UnionBank employees. Five responses were considered invalid because they were not answered properly and were therefore not included in the data processing. Overall, the researcher was able to obtain an 83% response rate.

Demographic Profile

Figure 4 shows that 66% of the total respondents were female while 34% were male. Of the 99 respondents, majority were 30 years old and minority were above 50 years old.

![Gender Pie Chart]

**Figure 15.** Gender

\[ N = 99 \]
Figure 6 and 7 shows the educational attainment and occupation of the 99 respondents. Majority are salaried university/college degree holders.

![Pie chart showing age distribution]

**Figure 16. Age**

![Bar chart showing educational attainment]

**Figure 17. Educational Attainment**
Respondents’ Investment Profile

This section reports the respondents’ investment profile in terms of UITF. Figure 8 shows the percentage of UITF and Non-UITF investors.

![Figure 18. Occupation](image1)

![Figure 19. UITF Investors](image2)
Table 7.
Reasons for not investing in UITF

<table>
<thead>
<tr>
<th>Variable</th>
<th>Rank</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>UITF Awareness</td>
<td>1st</td>
<td>1.87</td>
<td>1.03</td>
</tr>
<tr>
<td>Returns not assured</td>
<td>2nd</td>
<td>2.59</td>
<td>1.06</td>
</tr>
<tr>
<td>Lack of capital for UITF</td>
<td>3rd</td>
<td>2.61</td>
<td>1.28</td>
</tr>
<tr>
<td>Risky</td>
<td>4th</td>
<td>2.96</td>
<td>0.87</td>
</tr>
</tbody>
</table>

N = 54
Lowest mean is the first influencing factor

Table 1 reflects the reason investors do not invest in UITFs while table 2 reflects the main reason investors invest in UITFs.

Table 8.
Reasons for investing in UITF

<table>
<thead>
<tr>
<th>Variable</th>
<th>Ranking</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better earnings potential</td>
<td>1st</td>
<td>1.88</td>
<td>1.50</td>
</tr>
<tr>
<td>Professional Fund Management</td>
<td>2nd</td>
<td>3.47</td>
<td>1.81</td>
</tr>
<tr>
<td>Liquidity</td>
<td>3rd</td>
<td>3.71</td>
<td>1.65</td>
</tr>
<tr>
<td>Diversification</td>
<td>4th</td>
<td>3.82</td>
<td>1.74</td>
</tr>
<tr>
<td>Affordability</td>
<td>5th</td>
<td>3.82</td>
<td>1.78</td>
</tr>
<tr>
<td>Transparency</td>
<td>6th</td>
<td>5.53</td>
<td>1.74</td>
</tr>
<tr>
<td>Regulated Product</td>
<td>7th</td>
<td>6.29</td>
<td>1.65</td>
</tr>
<tr>
<td>Exempt from Reserve Requirement</td>
<td>8th</td>
<td>7.47</td>
<td>0.72</td>
</tr>
</tbody>
</table>

N = 17

Table 9.
Influencing factors for investing in UITF

<table>
<thead>
<tr>
<th>Variable</th>
<th>Ranking</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Evaluation</td>
<td>1st</td>
<td>1.82</td>
<td>1.45</td>
</tr>
<tr>
<td>Friend's Suggestion</td>
<td>2nd</td>
<td>2.83</td>
<td>1.67</td>
</tr>
<tr>
<td>Brokers and Agents</td>
<td>3rd</td>
<td>3.58</td>
<td>1.64</td>
</tr>
<tr>
<td>Newspaper/Magazines</td>
<td>4th</td>
<td>4.81</td>
<td>1.40</td>
</tr>
<tr>
<td>Direct/E-mail</td>
<td>5th</td>
<td>4.90</td>
<td>1.80</td>
</tr>
<tr>
<td>Internet</td>
<td>6th</td>
<td>4.92</td>
<td>1.69</td>
</tr>
<tr>
<td>Television and Commercials</td>
<td>7th</td>
<td>5.08</td>
<td>1.63</td>
</tr>
</tbody>
</table>

N = 77

Table 3 shows that the most influencing factor for investing in UITF was self-evaluation while the least was Television and Commercials.
Most of the respondents primarily looking for the Investor Services in UITF investments with Total Return of Investment as their main objective.

UnionBank being among the top performers in the last five years affects the willingness on investors to invest in UnionBank UITF as shown in Figure 11.
The respondents’ annual incomes brackets are reflected on Figure 12 with majority being below 1M.

\[ N = 100 \]

*Figure 22. Investing in UnionBank UITF*

*Figure 23. Income*
Figure 24. Percentage of Income for Investment

Figure 13 exhibits the percentage of income that respondents are willing to allocate for investment and most prefer to receive investment updates via Email.

Table 10. Modes for receiving updates and performance

<table>
<thead>
<tr>
<th>Mode</th>
<th>Ranking</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email/Internet</td>
<td>1st</td>
<td>2.26</td>
<td>1.42</td>
</tr>
<tr>
<td>Smartphone</td>
<td>2nd</td>
<td>2.91</td>
<td>1.25</td>
</tr>
<tr>
<td>Personal contact/Visit</td>
<td>3rd</td>
<td>3.06</td>
<td>1.73</td>
</tr>
<tr>
<td>Direct Mail</td>
<td>4th</td>
<td>3.27</td>
<td>1.31</td>
</tr>
<tr>
<td>Telephone</td>
<td>5th</td>
<td>3.46</td>
<td>0.99</td>
</tr>
</tbody>
</table>

Factor Analysis Results

“The Factor Analysis is based on the fundamental assumption that some underlying factors, which are smaller in number than the number of observed variables, are responsible for the covariation among the observed variables” (Kim and Mueller 1978a, 6 as cited in Apuyan 2006, p. 145). It is used to reduce the number of variables and to detect structure in the relationships between variables; with this, the researcher may be able to group into factors the investors’ UITF selection preferences based on various attributes.

This section presents the factor analysis results for the three qualities: Fund Qualities, Trustee Qualities, and Investor Services.

Fund Product Qualities: Table 5 presents the ranking of Fund Product Qualities that are relevant to investors, Performance Record ranking first.
To identify the UITF selection preferences of investors based on several Fund Product Qualities, factor analysis was implemented. Prior to analysis, Kaiser-Meyer Olkin (KMO) and Bartlett’s test of sphericity were done to determine the appropriateness of factor analysis. The test results revealed that factor analysis was suitable for studying Trustee and Investor Services Qualities. Detailed results of the Kaiser-Meyer Olkin (KMO) and Bartlett’s test of sphericity could be found in the Appendix.

Based on Kaiser Criterion, three factors were retained. Table 6 shows that Factors 1, 2, and 3 explained a total of 66% of the variance.

To get a clearer pattern on the relevance of each variable, varimax rotation was done. After rotation, factor 1 accounted for 28% of the variance; factor 2 for 25% and factor 3 for 14%; total variance was 66%. Furthermore, the varimax rotation supported that three factors have emerged. Similar with Rajeswari and Moorthy (2001), each factor is composed of variables having factor
loadings greater or equal to 0.5. Table 8 presents the list of attributes under factor 1 (Fund Management and Reputation), factor 2 (Inherent Qualities of Fund) and factor 3 (Performance).

Table 7.
Factor analysis/correlation (Orthogonal Varimax)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variance</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor1</td>
<td>2.48</td>
<td>0.23</td>
<td>0.28</td>
<td>0.28</td>
</tr>
<tr>
<td>Factor2</td>
<td>2.25</td>
<td>1.00</td>
<td>0.25</td>
<td>0.52</td>
</tr>
<tr>
<td>Factor3</td>
<td>1.24</td>
<td>.</td>
<td>0.14</td>
<td>0.66</td>
</tr>
</tbody>
</table>

LR test: independent vs. saturated: chi2(36) = 283.79 Prob>chi2 = 0.0000

Table 8.
Summary of Attributes under Factor 1, Factor 2 and Factor 3

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1 – Fund Management &amp; Reputation</strong></td>
<td></td>
</tr>
<tr>
<td>Reputation of fund and portfolio manager</td>
<td>0.79</td>
</tr>
<tr>
<td>Withdrawal Facilities</td>
<td>0.78</td>
</tr>
<tr>
<td>Rating by Rating Agency</td>
<td>0.64</td>
</tr>
<tr>
<td>Trust Fees</td>
<td>0.63</td>
</tr>
</tbody>
</table>

Table 8. (continued)
Summary of Attributes under Factor 1, Factor 2 and Factor 3

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 2 – Inherent Qualities of Fund</strong></td>
<td></td>
</tr>
<tr>
<td>Fund Brand Name</td>
<td>0.73</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>0.76</td>
</tr>
<tr>
<td>Portfolio constituents</td>
<td>0.52</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>0.64</td>
</tr>
<tr>
<td><strong>Factor 3 – Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Performance Record</td>
<td>0.92</td>
</tr>
</tbody>
</table>

**Trustee Qualities**: Table 9 shows the ranking of Trustee Qualities that are significant for investors with Reputation of Trust Institution and Expertise in Managing Money equally most important.
Table 9.
Mean Ratings of Trustee Qualities

<table>
<thead>
<tr>
<th>Variable</th>
<th>Ranking</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation of Trust Institution</td>
<td>1st</td>
<td>1.22</td>
<td>0.44</td>
</tr>
<tr>
<td>Expertise in Managing Money</td>
<td>1st</td>
<td>1.22</td>
<td>0.58</td>
</tr>
<tr>
<td>Trust Institution various products</td>
<td>2nd</td>
<td>1.47</td>
<td>0.70</td>
</tr>
<tr>
<td>Developed Network/Infrastructure</td>
<td>3rd</td>
<td>1.65</td>
<td>0.78</td>
</tr>
<tr>
<td>Efficient Research Wing</td>
<td>4th</td>
<td>1.71</td>
<td>0.77</td>
</tr>
<tr>
<td>Trust Institution's Brand Name</td>
<td>5th</td>
<td>1.88</td>
<td>0.84</td>
</tr>
</tbody>
</table>

N = 100

Based on Kaiser Criterion, only two factors with eigenvalue of 1.0 or higher were retained; Factors 1 and 2 explained a total of 66% variance.

Table 10.
Factor Analysis/Correlation

<table>
<thead>
<tr>
<th>Factor</th>
<th>Eigenvalue</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor1</td>
<td>2.95</td>
<td>1.92</td>
<td>0.49</td>
<td>0.49</td>
</tr>
<tr>
<td>Factor2</td>
<td>1.03</td>
<td>0.38</td>
<td>0.17</td>
<td>0.66</td>
</tr>
<tr>
<td>Factor3</td>
<td>0.65</td>
<td>0.10</td>
<td>0.11</td>
<td>0.77</td>
</tr>
<tr>
<td>Factor4</td>
<td>0.54</td>
<td>0.06</td>
<td>0.09</td>
<td>0.86</td>
</tr>
<tr>
<td>Factor5</td>
<td>0.48</td>
<td>0.14</td>
<td>0.08</td>
<td>0.94</td>
</tr>
<tr>
<td>Factor6</td>
<td>0.34</td>
<td>.</td>
<td>0.06</td>
<td>1.00</td>
</tr>
</tbody>
</table>

N = 100

After varimax rotation, factor 1 accounted for 44% of the variance while factor 2 accounted 22%. Overall variance was 66%, shown in Table 11. Furthermore, the varimax rotation supported that there were two factors: factor 1 (Proficiency) and factor 2 (Image).

Table 11.
Factor Analysis/Correlation

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variance</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor1</td>
<td>2.65</td>
<td>1.32</td>
<td>0.44</td>
<td>0.44</td>
</tr>
<tr>
<td>Factor2</td>
<td>1.33</td>
<td>.</td>
<td>0.22</td>
<td>0.66</td>
</tr>
</tbody>
</table>

LR test: independent vs. saturated: chi2(15) = 168.33 Prob>chi2 = 0.0000
Table 12.
Summary of Attributes under Factor 1 and Factor 2

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1 – Proficiency</strong></td>
<td></td>
</tr>
<tr>
<td>Trust Institution various products</td>
<td>0.77</td>
</tr>
<tr>
<td>Developed Network/Infrastructure</td>
<td>0.75</td>
</tr>
<tr>
<td>Efficient Research Wing</td>
<td>0.80</td>
</tr>
<tr>
<td>Expertise in Managing Money</td>
<td>0.77</td>
</tr>
<tr>
<td><strong>Factor 2 – Image</strong></td>
<td></td>
</tr>
<tr>
<td>Reputation of Trust Institution</td>
<td>0.92</td>
</tr>
<tr>
<td>Trust Institution's Brand Name</td>
<td>0.59</td>
</tr>
</tbody>
</table>

Table 13.
Mean Ratings of Investor’s Services

<table>
<thead>
<tr>
<th>Variable</th>
<th>Rank</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure in advertisement of objectives, method and periodicity</td>
<td>1st</td>
<td>1.58</td>
<td>0.82</td>
</tr>
<tr>
<td>Announcement of Net Asset Per Value on every trading day</td>
<td>2nd</td>
<td>1.72</td>
<td>0.98</td>
</tr>
<tr>
<td>Disclosure of deviation of investment from expected pattern</td>
<td>3rd</td>
<td>1.79</td>
<td>0.89</td>
</tr>
<tr>
<td>Disclosure in in offer documents of objectives, method and periodicity</td>
<td>4th</td>
<td>1.83</td>
<td>1.04</td>
</tr>
<tr>
<td>Disclosure of investment on every trading day</td>
<td>5th</td>
<td>1.93</td>
<td>1.00</td>
</tr>
<tr>
<td>Fund grievance reparation machinery</td>
<td>6th</td>
<td>2.05</td>
<td>1.07</td>
</tr>
<tr>
<td>Free Services/Perks</td>
<td>7th</td>
<td>2.12</td>
<td>0.92</td>
</tr>
</tbody>
</table>

**Investors’ Services:** Table 13 exhibits that Disclosure in advertisement was the most important for investors in terms of Investor’s Services. Only one factor with an eigenvalue of 4.28 was retained based on Kaiser Criterion; the component explained a total of 61% variance. Table 14.

**Factor Analysis/Correlation**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Eigenvalue</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor1</td>
<td>4.28</td>
<td>3.56</td>
<td>0.61</td>
<td>0.61</td>
</tr>
<tr>
<td>Factor2</td>
<td>0.72</td>
<td>0.05</td>
<td>0.10</td>
<td>0.71</td>
</tr>
<tr>
<td>Factor3</td>
<td>0.67</td>
<td>0.12</td>
<td>0.10</td>
<td>0.81</td>
</tr>
<tr>
<td>Factor4</td>
<td>0.54</td>
<td>0.21</td>
<td>0.08</td>
<td>0.89</td>
</tr>
<tr>
<td>Factor5</td>
<td>0.33</td>
<td>0.02</td>
<td>0.05</td>
<td>0.93</td>
</tr>
<tr>
<td>Factor6</td>
<td>0.30</td>
<td>0.13</td>
<td>0.04</td>
<td>0.98</td>
</tr>
<tr>
<td>Factor7</td>
<td>0.17</td>
<td>.</td>
<td>0.02</td>
<td>1.00</td>
</tr>
</tbody>
</table>

N = 100
Varimax rotation revealed the same variance values and only one relevant factor; all variables have factor loadings greater than 0.5 and were therefore grouped as one, shown on Table 16.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1 – Investor Confidence</strong></td>
<td></td>
</tr>
<tr>
<td>Advertisement of objectives, method and periodicity</td>
<td>0.69</td>
</tr>
<tr>
<td>Disclosure in offer documents of objectives, method and periodicity</td>
<td>0.80</td>
</tr>
<tr>
<td>Announcement of Net Asset Per Value on every trading day</td>
<td>0.76</td>
</tr>
<tr>
<td>Disclosure of deviation of investment from expected pattern</td>
<td>0.87</td>
</tr>
<tr>
<td>Disclosure of investment on every trading day</td>
<td>0.82</td>
</tr>
<tr>
<td>Fund grievance reparation machinery</td>
<td>0.85</td>
</tr>
<tr>
<td>Free Services/Perks</td>
<td>0.66</td>
</tr>
</tbody>
</table>

Chapter 5: Discussion

The results suggest that there were few UITF investors among the respondents; the main preventive factor being the lack of UITF awareness which is a possible hindrance in increasing UnionBank’s potential clients. This indicates that strategies should focus on investor education on the product and its risks. As with Rajeswari and Moorthy (2001), this survey reveals that Self-Evaluation is the key influencing factor in fund investment selection. The researcher agrees with the authors’ arguments that information dissemination through all possible cost-effective routes must be tapped. Due to most of the respondents’ lack knowledge on UITF, they prefer to make personal decisions on this matter; as such, providing them access to UITF information in an easier and less technical approach is beneficial for trust entities which emphasizing ‘better earnings potential’ as this is their main reason for investing. Of the 100 respondents, 28 Non-UITF respondents are willing to invest in UnionBank and 35 Non-UITF respondents may possibly invest given that they have an idea about the bank, its performance, and UITF products. This openness sets a better platform for investment promotions. UnionBank may improve existing products or create new products to tap the younger salaried market segment, majority of respondents.
In general, the respondents value Fund Product Qualities, Trustee Qualities, and Investor Services. The findings are congruent with past studies of Panda, Tapan&Tripathy(2001). Analysis identifies that Performance Record, Reputation, Expertise and Transparency in Fund Management are the qualities that matter most. Therefore, the bank should continue maintaining its strong performance and reputation in developing products by continuous research and development focusing on Inherent Qualities of the Fund, Fund Management and Proficiency, Reputation and Image, and Investor Confidence.

The findings of the PCA and mean analysis support the hypothesis that investor selection of fund products or services is influenced by product qualities, trustee/sponsor qualities and investor services. The mean analysis also supports the hypothesis that the top underlying factors valued by investors are performance record, reputation of the firm, disclosure of investment objectives, method and fund valuation.

Chapter 6: Summary, Conclusion and Recommendations

Summary
At present, more Filipinos are proficient at managing their finances (Citi’s Financial Survey). However, there are still some Filipinos who put their funds in financial investments such as stocks, mutual funds, fixed-income securities, and unit investment trust (BSP). With this in mind, it is worth pursuing the examination of one of these financial instruments, UITFs, to assess the needs and wants of current and potential investors for the improvement of UITF product and services of UnionBank Trust. A survey and mean and factor analysis were used to address the objectives of this study.

Conclusion
Majority of the respondents are non-UITF investors due to product lack of awareness; most of whom are below 30 years of age and hold salaried positions. Respondents identify self-evaluation as their key influencing factor in fund investment selection with better earning potential as the main motivation for current UITF investors. Most of the respondents are willing to put five to ten per cent of their income in UITF.

In general, the respondents value Fund Product Qualities then Trustee Qualities and lastly Investor Services. Also, the analysis identifies that Performance Record, Reputation, Expertise and Transparency in Fund Management are the qualities that do matter for them.

Recommendation
It is suggested that further studies on current UnionBank UITF investors be surveyed to determine their preferences to develop and improve management strategies. Future studies could also segregate the investors by gender, age, educational attainment, and income level to determine differences in preferences. In addition, case studies that are longitudinal in nature may be conducted as supplements.

Based on the findings of the study, UnionBank should implement several steps to gain competitive advantage in the funds business. These strategies include: (1) investor education on the benefits of UITFs; (2) ensuring the fund product qualities desired by the investors are intact (acceptable performance records, reputable fund managers and manageable trust fees); (3) taking
steps to attain the trustee qualities desired by the investors (reputation of the Trust institution and highlighting the bank’s expertise in fund management); and (4) providing adequate disclosures to clients.

Marketing strategies should center on the factors on what investors value. These are: the performance record, the un tarnished reputations of the fund managers, affordable trust fees, the trust institution’s expertise in fund management, and on disclosing product qualities to current and potential investors.

References

help.com/factor.pdf.


