Capital Markets Authority
Protecting Your Investments

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Investing in the Capital Markets

Overview: Financial Markets Structure in Uganda

CENTRAL BANK (24.37 trillion M3 61% of this being domestic credit)

Monetary Policy MGT, Foreign Exchange MGT

- Commercial Banks
  - *Trade Finance*
  - *Asset & Lease Finance*
  - *Development Finance*
- Development Banks
- Credit Institutions
- Micro-Deposit Taking Institutions (MDIs)
- Forex Bureaus

CAPITAL MARKETS AUTHORITY (1.38 trillion free float)

Equity
Debt
Unit Trusts

- Securities Exchange **(2)**
- Broker/Dealers (**7**)
- Investment Advisors **(8)**
- Fund Managers **(9)**
- Unit Trust Managers **(3)**

INSURANCE REGULATORY AUTHORITY (865 b)

Insurance
Assurance
Reinsurance

- Insurance Companies
- Insurance Brokers
- Loss Assessors, Adjustors & Surveyors

RETIREMENT BENEFITS AUTHORITY (13.58 trillion incl. NSSF)

Pension & Provident Funds

- Fund Managers
- Trustees
- Custodians
- Administrators

Private Equity Funds, Investment Clubs, Contractual & Voluntary Savings
Micro-Finance Institutions/Savings & Credit Co-operative Organizations e.t.c

WHAT ARE CAPITAL MARKETS?

What are Capital Markets?

- These are markets where those with savings can provide long term capital to government and corporations that are in need of capital.
- In the capital markets, savers buy financial products known as securities, issued by corporations or governments to raise capital.
- The financial products that savers can buy/invest include ***unit trust schemes, shares and bonds***

Capital Markets Authority (CMA)

- This is the government body responsible for regulating and promoting the development of Uganda's capital markets.

- CMA is mandated by law to:

I. To promote confidence in the market;
II. To ensure honesty and transparency in capital markets transactions;
III. To carry out investor education;
IV. To protect investors; and
V. To reduce systemic risk.

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COLLECTIVE INVESTMENT SCHEMES

Collective Investment Scheme(CIS)

- CIS is an investment product that gives investors the opportunity to pool their savings with other investors, creating a large pool of funds that is invested on their behalf by a professional manager.
- Individuals, investment clubs, institutions, companies and SACCOs can investment in CIS

Unit Trust Schemes

- There are numerous ways of forming CIS's.
- Currently, all existing CIS in Uganda are structured as unit trust schemes. A unit trust scheme is a CIS that is professionally managed by a unit trust manager and is established by a unit trust deed.

Types of CIS Funds One Can Invest in

- **Balanced fund;** Comprises of investments in bonds and stocks. It is also called a hybrid fund.

- **Money market fund;** Comprises of investments in short term securities for a period of less than one year e.g. T-bills.

- **Umbrella trust fund;** This fund comprises of investments in a mix of short term and long term securities. Usually suited for pension funds.

- **Equity fund;** This fund comprises of investments in only shares.

Why Invest in a CIS?

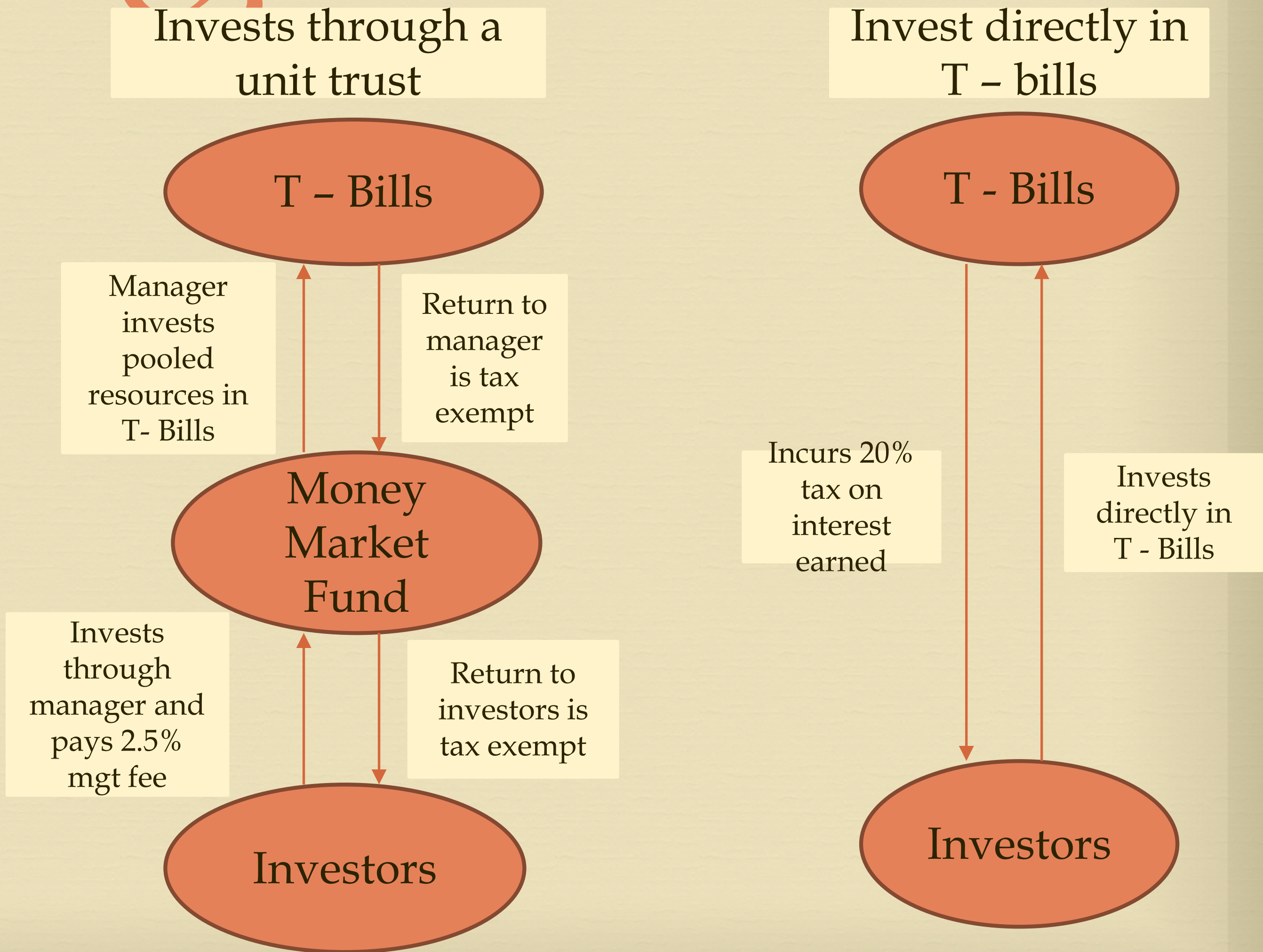
- **Risk Diversification;** CIS invest in a variety of assets such as shares, corporate bonds and government securities, off setting a drop in return on investment (profit) in one asset by a gain in return on another asset.
- **Professional management;** Most individual investors do not have professional skills to manage their own investment. CIS have managers who provide full time professional management of the investments, thereby ensuring that investment decisions are well informed.
- **Access to a wide variety of securities investments;** By investing a small sum, either lump or a regular basis, an investor can achieve investment in different securities as CIS invest in a wide variety of assets such as shares, corporate bonds and treasury securities.
- **Affordability;** One can invest by depositing small amounts of money over time e.g. on a monthly basis, enabling people invest in financial assets they would normally not afford to.

Why Invest in a Unit Trust?

- **Tax benefit;** According to section 21 (1) (t) of the Income Tax Act, income distributed by a CIS to investors in not taxed, thereby increasing returns to investors.
- **Liquidity;** CIS Units held by an investor can easily be converted to cash by selling the units back to the CIS manager as and when you want to.
- **Compounding benefit;** This occurs if an investor does not withdraw the interest (profit earned) on the investment in a unit trust but rather reinvests it. Compounding leads to interest on both the money saved and interest earned. The benefit is greater for someone who consistently makes regular contributions to the investment.

Tax Benefit of Investing in a Unit Trust

- Income distributed by the Unit Trust Scheme to investors is not taxed.
- If not tax exempt, unit trust investors would be charged a tax of up to 20% on certain types of unit trust schemes.



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Power of Compounding

- Compounding essentially amounts to earning interest on both the money saved and the interest or income that the money saved earns.
- Compound interest is the result of reinvesting interest or income earned on an investment instead of withdrawing and spending it.
- The benefit is greater for someone who consistently makes regular contributions to the investment.

Power of Compounding

Advantage of compounding for an investor who invests Ugx 1,000,000 per year for 5 years in a money market fund, assuming an interest rate of 9% per annum. The return offered excludes the management fee charged by the CIS manager which ranges from 1.5% to 2.5%.

Year	Opening Balance	Investment per year	Total Investment	Interest rate	Closing Balance
1	0	1,000,000	1,000,000	90,000	1,090,000
2	1,090,000	1,000,000	2,090,000	188,100	2,278,100
3	2,278,100	1,000,000	3,278,100	295,029	3,573,129
4	3,573,129	1,000,000	4,573,129	411,582	4,984,711
5	4,984,711	1,000,000	5,984,711	538,624	6,523,335

Please note that the interest rate will vary per year depending on drivers like inflation

Breaking the Saving Cycle

An investor who breaks their saving cycle benefits less from the compounding effect. An investor who breaks their saving cycle would earn Ugx 2.8 million less than an investor who does not break their saving cycle at the end of the 5 year period.

Year	Opening Balance	Investment per year	Total Investment	Interest rate	Closing Balance
1	0	1,000,000	1,000,000	90,000	1,090,000
2	1,090,000	1,000,000	2,090,000	188,100	2,278,100
3	2,278,100	500,000	2,778,100	250,029	3,028,129
4	3,028,129	100,000	3,128,129	281,532	3,409,661
5	3,409,661	0	3,409,661	306,869	3,716,530

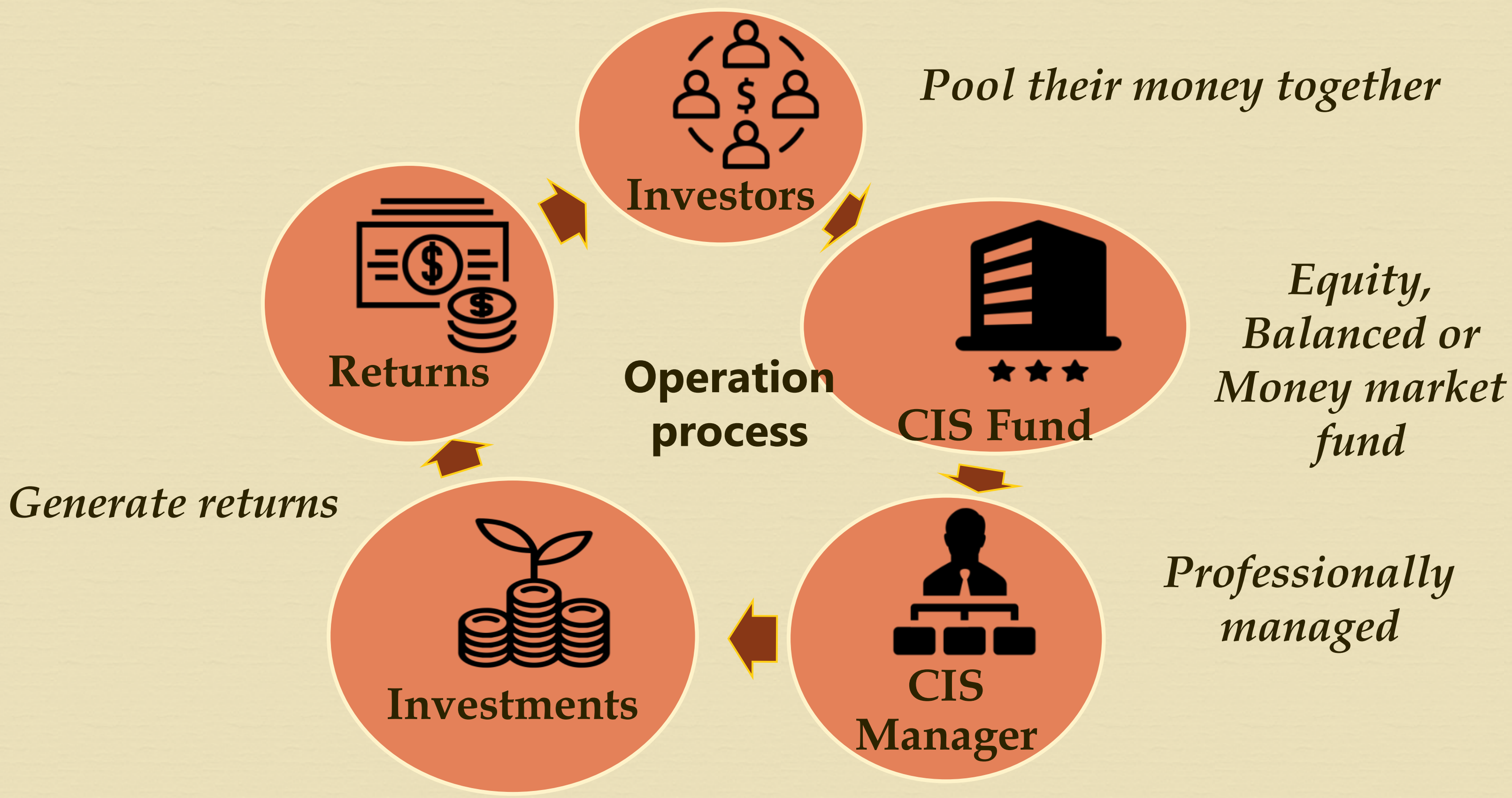
Downside of CIS

- **Loss of control**; As an investor, one is not directly in control of all investment decisions. However, the CIS manager must invest your funds in accordance with the prospectus and trust deed of the scheme.
- **Fees / Charges**: CIS managers do not offer a free service and therefore investors must pay a small unit trust management fee, which is usually a small percentage of the total amount invested.

How to Invest in a CIS

- Visit any CMA licensed CIS manager, with whom you open an investment account. Currently opening an account is free of charge.
- To successfully open an account, one needs to have valid identification documents and a bank account with any commercial bank.
- For groups, identification documents of key persons such as directors are required, in addition to the group bank account.
- You will be required to fill in an account opening form, which contains the terms and conditions of your relationship with the CIS manager
- Once the CIS account has been opened, make a deposit of a desired amount to the client trust fund bank account of the CIS manager. This is provided to you upon activation of your CIS account.
- Contact your CIS manager to confirm deposit to a client trust account. After confirmation, units are purchased by the fund manager and you become a unit holder in the fund.

Process of Investing in a Unit Trust Scheme



How to Redeem/Sell Units in a CIS

- Contact your CIS manager through email or telephone and inform them of your intention.
- Fill out a redemption form indicating how many units you are selling and submit it either by hand delivery or by your registered email to your CIS manager.
- Once redemption form has been confirmed, your units are sold and the funds credited to your account four to five business days from the day of redemption.
- Request for an investor statement indicating your closing units, closing price of each unit and closing market value.

Remember redeeming your units doesn't mean you can't buy more units in future.

Key Terms

- **Investor:** An individual or group of individuals with savings or money to invest in a CIS.
- **Prospectus:** A disclosure document that describes the CIS. It contains details such as the scheme's strategies, manager's background, the fund's fee structure and a fund's financial statement.
- **Trustee:** This is the company responsible for holding and overseeing the assets of the CIS. The primary role of the trustee is to protect the interests of the investors by monitoring actions undertaken by the CIS manager by ensuring that investments are structured as stated in the prospectus.

Key Terms

- **Trust deed:** This is a legal document that creates a trust, giving the trustee the responsibility to hold and oversee assets for the benefit of the investors. The unit trust Scheme is established by a trust deed between a unit trust manager and a trustee.

- **Units:** These are the rights or interests of the investors in the unit trust scheme. One's investment is represented by the number of units they hold in a scheme.

- **CIS Manager:** This is a CMA licensed firm that markets and sells units to potential investors in a CIS. The role of the CIS manager is to decide, within the rules of the trust deed and the various regulations, which investments are included within the CIS Fund.

IMPORTANT CONTACTS

Licensed CIS Managers

STANLIB Uganda Ltd	**Contact Person:** Mr. Owen Katto Plot 17, Hannington Rd, 4th Floor Crested Towers (Short Tower) **Tel.** 0312-224322/600 **Email:** customercare.uganda@stanlib.com
ICEA Investment Services Ltd	**Contact Person:** Mr. Mwaka Emmanuel Rwenzori Courts **Tel.** 0414-347535/0414-232337 **Email:** icea@africaonline.co.ug
UAP Financial Services	**Contact Person:** Mr. Simon Mwebaze 6th Floor, UAP Nakawa Business Park, (1st Tower), Plot 3-5, New Port Bell Road **Tel.** 0414-332743/0312-370290/0312-332743 **Email:** financialservices@uap.co.ug , info@uap.co.ug
Xeno Technologies Uganda Limited	**Contact Person**: Mr. Aeko Ongodia 6th Floor Workers House Plot 1, Pilkington Road **Tel**: 0392-177488 **Email**: uganda@myxeno.com
Britam Asset Managers Company (Uganda) Limited	**Contact Person**: Mr. Ronald Kasolo Course View Towers, 1st Floor Yusuf Lule Road **Tel**: 0417-702600/ 0312-305600 **Email**: info@britam.com