INVESTOR EDUCATION

COLECTIVE INVESTMENT SCHEMES (UNIT TRUSTS): WHAT YOU SHOULD KNOW

Background

The Kenyan capital markets offer an array of investment products in the form of shares, bonds and unit trusts. The type of products chosen by the investor to commit his capital depends largely on his financial goals, time frame, and amount of capital available. Unit trusts have grown in acceptance and popularity in recent years. This is evidenced by the growth in the number of approved unit trust funds from virtually zero in 2001 to 11 in 2008. Unit trusts are the small investor's answer to achieving wide investment diversification without the need of prohibitive sums of money. As a market becomes sophisticated and more volatile, unit trusts become safe havens for less, sophisticated and less capitalized, conservative individuals in the market place.

COLLECTIVE INVESTMENTS SCHEMES OPERATIONAL IN KENYA

	Name	**Type of Fund(s)**	**Minimum Investment Amount (Kshs.)**
1	African Alliance Kenya Unit Trust Scheme	1.Shilling Fund 2.Fixed Income 3.Managed Fund 4.Equity Fund	100,000.00 (all the funds)
2	Old Mutual Unit Trust Scheme	1.Equity Fund 2. Money Market Fund 3. Balanced Fund	200,000.00 (all the funds)
3	British American Unit Trust Scheme	1. Money Market Fund 2. Income Fund 3. Balanced Fund 4. Managed Retirement Fund 5. Equity Fund	250,000.00 (all the funds) Kshs.150, 000.00 and a top of Kshs 25,000 per month for 4 consecutive months.
4	Stanbic Unit Trust Scheme	1. Money Market Fund 2. Flexible Income Fund 3. Managed Prudential Fund	1,000,000.00 (all the funds)
5	Commercial Bank of Africa Unit Trust	1. Money Market Fund 2. Equity Fund	500,000.00 (all the funds)

	Name	Type of Fund(s)	Minimum Investment Amount (Kshs.)
	Scheme		
6	Zimele Unit Trust Scheme	1. Balanced Fund 2. Money Market Fund	5,000.00 (Balanced Fund) 5,000.00 (Money Market Fund)
7	Suntra Unit Trust Scheme	1.Balanced Fund 2. Money Market Fund 3. Equity Fund	100,000.00 (all the funds)
8	ICEA Unit Trust Scheme	1. Money Market Fund 2. Equity Fund 3. Growth Fund	100,000.00 (all the funds)

This is the number that is currently operational and making the necessary reporting in the local dailies others who are licensed by CMA include CFC Unit trust, Dyer and Blair unit trust and standard unit trust

What Unit Trusts Are

A Unit Trust Fund is an investment scheme that pools money together from many investors who share the same financial objective to be managed by a group of professional managers who invest the pooled money in a portfolio of securities such as shares, bonds and money market instruments or other authorized securities to achieve the objectives of the fund. In exchange of the money received from the investors, the fund issues units to investors who are known as unit holders. The fund earns income from the investment in the form of dividends, interest income and capital gains. The underlying value of the assets of a Unit trusts is always directly represented by the total number of units issued multiplied by the unit price less the transaction or management fee charged and any other associated costs.

How a Unit Trust Works

To invest in a unit trust fund, investors buy units through the fund manager at the prevailing selling price which is calculated daily. These units can be bought any time as long as the fund has not reached its maximum approved size. Unit holders can also sell their units back to the fund manager at the prevailing buying price. It is because of this repurchase feature that units are called open-ended funds. The fund manager not only issues new units to incoming investors, they are also required to repurchase or redeem units from outgoing investors.

The value of the fund or the price to be paid by unit holders or the amount to be received when the units are sold is based on the net asset value of the fund plus charges (if any). It is important to note that in the case of funds where a substantial portion is invested in stocks and shares, the performance of the fund would be affected by the performance of the stock market. Hence, a unit holders selling price could either be higher or lower relative to the stock market's performance when units were bought.

How Unit Trust Fund earn income

The unit holders have the potential to earn money either by capital growth or dividend income. Each unit in the fund represents a slice or share of the fund's underlying portfolio of securities. Therefore if the value of the portfolio goes up, so does the value of each unit. This is called capital growth, or capital appreciation. If one sells the units at a higher price than they bought, a profit would be gained. The converse will mean a loss is incurred if the units are sold for less than price they were bought.

Whatever income received by the fund from its investments may be passed on to unit holders as dividends. However, dividends are not guaranteed if the fund makes little or no income, it may not pay any dividend. Moreover, a fund that concentrates on achieving capital growth may have a policy of paying very little or no dividend at all. In such cases you may have to sell your units if you need to redeem some cash. It is therefore important to read the prospectus to find out the type of fund being offered and whether it matches your investment objectives.

The advantages of investing in unit trusts

Diversification

Investors in unit trusts can access a broader range of securities than they could when investing on their own. With a given amount of money, the individual investor can buy a small number of shares in a few companies. But when one's money is pooled with that of other investors, it gets spread out over many other companies. The loss made by a few counters can be absorbed by the gain made in other counters. The risk is therefore reduced and the investor can further reduce his risk by investing in other funds instead of just one fund.

Liquidity

There is ease in selling and buying the units compared with investing directly in shares of companies where prices and opportunities to transact depend on the supply and demand at that time.

Continuous professional management

Unit trusts are managed by a team of experienced professionals who manage the fund in a structured manner as opposed to the individual investor who may invest in a random fashion. Investment decisions made by fund managers are based on extensive research, and they continuously monitor the portfolio based on researched information.

Access to a broader array of assets

Unit trusts fund managers can trade in investment products that are normally inaccessible to the individual investor, such as government and corporate bonds, which may be restricted to institutional investors. Some of these products are traded in large amounts, which limit the individual investor even when he has the opportunity.

What information to look for

- The fund's investment objective and strategy, investment limits, its current portfolio and any commentary on its recent performance. This should also give you a rough idea of the risk level of the fund.
- Check the past performance of the fund. Do not pay too much attention to periods of a year or shorter.
- Look for good and consistent performance over the longer term. Be warned that the past success of a fund is no guarantee of good performance in the future.

- See if there are any specific features and constraints which may conflict your needs or preferences. For example, the fund may have a policy of not distributing dividends, the minimum investment required may be higher than what you want to invest or the procedures for buying and selling of units in the fund may be inconvenient.
- When deciding which fund to invest, you should also look for information on the shareholders, board of directors and key management staff of the fund manager.
- You should assess the financial strength, track record and expertise of the company and its staff.

Investing wisely

- Every investor has different goals, needs and constraints. Yet there are a number of general rules that every investor should follow for his or her protection;

- Read the prospectus carefully. Make sure you understand where and how your money is to be invested and the risks involved. You should be aware of how a unit trust works, the charges and fees involved and your rights as a unit holder. The Investment objectives must be clearly stated or it gives leeway to the fund manager not to carry out your intentions of choosing the fund.
- Ensure that you deal with only licensed fund managers. This will help you in the event that you are aggrieved by the actions of the fund manager for recourse from the relevant authorities.
- Do not rush into a decision. Resist pushy salespeople. Units are not only sold during the initial period but throughout the life of the fund, as long as the units in circulation do not exceed the approved limit.
- Keep good records of your investments and check any statements or certificates you receive to make sure they are correct.
- Be wary of representations of spectacular profit or guarantees that you will not lose money or will earn a certain minimum return.
- Resist any pressure to purchase a product that is inconsistent with your investment goals and the risk you want or can afford to take.
- Resist any pressure to invest a larger amount of money in unit trusts than you think you should, for example by borrowing at a higher margin.

Regulation of Unit Trusts

Only unit trusts schemes that are approved by the Capital Markets Authority may be offered for sale to the Kenyan public. Such schemes must comply with the *Capital Markets Act Cap 485 A and also the Capital Markets (Collective Investment Schemes) Regulations, 2001*. An approved fund can easily be identified by the cover of its prospectus which contains a statement that *a copy of the prospectus has been lodged and approved by the Capital Markets Authority*.

Although there are laws and guidelines to aid investor protection, it is ultimately investor's responsibility to evaluate the suitability, profitability and viability of an investment. An investor must read the information which is required to be provided in the prospectus and make the decision whether to invest or not, based on their own circumstance and attitude to risk.

The information contained in this article is meant to be a general guide issued in the interest of investor education. It should not be construed as constituting investment advice which can be obtained from one's investment adviser.