

## More on Unit Trusts.

### 1. What is a unit trust?

A unit trust is a collective investment scheme in which investors' contributions are pooled together to purchase a portfolio of financial securities, such as equities (shares), bonds, cash, bank deposits etc. The portfolio is managed by professional fund managers.

Each unit trust fund or portfolio has a specific investment objective - income, growth or a combination of the two. The investment objective of a particular unit trust will determine the proportion of the fund invested in a particular security such as company shares.

As the name suggests, a unit trust has a trust framework, with the investments held by an independent trustee. Unit trusts are regulated by the Capital Markets Authority to ensure that they are safe and that only registered professionals are involved with the affairs of the unit trusts.

Unit trusts and other collective investment schemes such as mutual funds have been around the world since the 1930s and have become very popular as the ideal alternative in providing cost effective access to stock markets and fixed income investments, and diversifying one's portfolio of investments.

### 2. What is a unit?

Your contributions to a unit trust are used to purchase units. Each unit represents an equal fraction of the total value of the pool of invested money.

Units in the Unit Trusts are brought from the fund manager, and sold back to them in the event unitholders need to redeem their units.

When you invest in a Unit Trusts, the number of units you are allocated is calculated by dividing the amount you invest by the offer price at the time. As an example, if the offer price for each unit is Kshs 100, an investment of Kshs 250,000 will buy 2,500 units.

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The value of units moves in accordance with the performance of the unit trust's assets.

### 3. What Should I consider before I invest in a Unit Trust?

Before considering investing into a unit trust, the following should be ascertained:

- Your risk profile;
- Your time horizon for the investment; and
- whether you require regular income from the investment or purely looking for capital growth.

Unit trusts are considered appropriate investment vehicles for individual investors wanting to gain long-term exposure to financial markets.

However, the value of a unit trust depends on the value of the underlying assets within the portfolio. Therefore, the value of the unit trust will fluctuate as the values of the underlying assets fluctuate.

### 4. When is the best time to invest in unit trusts?

You can invest at any time.

However, it is very difficult for an investor to predict market conditions i.e. to buy units at the lowest price and sell them at the highest price. Our knowledge and insight into the workings of the financial markets enables us to provide the investor with expertise which takes into account market fluctuations and applies an effective investment strategy.

One of the most common mistakes made by investors is to switch in and out of unit trusts based on short-term performance figures. Periodic switching between funds can lead to increase in the cost of transactions, which can reduce the return on your investment.

It is important to note that portfolio managers do not manage funds on a short-term basis. Most portfolios, particularly equity funds, are managed to generate consistently good returns over a period of five years and above.

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A good strategy is to buy unit trusts on a regular basis - termed shilling cost averaging. This method allows you to avoid the risk of poor timing, which may result in buying when the market is high and selling when the market is low.

## 5. What are the benefits of investing in a unit trust?

You gain several benefits from pooling your money in a trust with other investors.

**Potentially superior returns:** Unit trusts provide potentially superior returns to fixed deposits over the longer term, providing investors with the opportunity to build real wealth.

**Easy and affordable investment:** unit trusts are a convenient and low-cost way of investing in financial markets. They enable investors to invest in a wide variety of diversified portfolios of shares, bonds and other financial instruments they would not necessarily be able to afford as individuals.

Investor can share in the rewards of the stock exchange without without the risks of direct investment. Unit trusts offer investors the choice of switching their portfolios when their needs and risk profile changes and the choice of increasing, stopping or decreasing stop orders without penalties.

**Diversification of risks:** With a relatively small investment, a collective investment provides access to a broad spread of different shares and investments.

This diversification helps to reduce your risks because it makes you less dependant on the performance of one company.

**Expertise in Professional Management:** Unit Trusts are managed by highly qualified investment managers and investment specialists whose full-time job is to make investment decisions.

Few people have the time, skills or experience to actively manage their investments and research the best way of making money.

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By investing in the unit trusts, experts experienced in investments are managing your money on a daily basis and ensuring your peace of mind.

**Value for money:** unit trusts are designed to give investors good value for money. The pooling of money increases the buying power by enabling the payment of lower dealing and administration costs than if the investor had invested directly in a selection of investments.

The pooling of investments also enables the fund manager to buy shares, money market instruments such as treasury bills, bonds and other investments which would be beyond the reach of the average investors.

**Flexible investment options:** unit trusts provide investors with the following investment options:

- **Lump sum investments:** A lump sum investment can be made at any time during the life of the investment, resulting in the entire investment benefiting from the growth and income potential of the chosen unit trust.

Following the opening of your account, you are able to invest any additional amounts to top up your account.

- **Monthly Investment Plan:** A regular monthly investment can be made into your account resulting in an easier way of building capital. A monthly investment has the benefit of shilling cost averaging, where additional investments can be made during times of market weakness. A Monthly Investment Plan would also allow you to invest in a long term savings plan to meet your desired financial goals.
- **Switching:** Investors are able to switch their investments between different portfolios.
- **Cash Withdrawal Facility:** The Cash Withdrawal Facility allows you to take regular withdrawals from your unit trusts. The facility is useful if you are investing for a specific event in the near future where you will require a regular flow of cash -to pay for school fees, fund your children's further education or to supplement a regular income. The Cash Withdrawal

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Facility is flexible, simple and tax-efficient way of taking withdrawals from your investments.

**Liquidity:** unit trusts are flexible and easily accessible. You can sell all or part of your investment at any time. However, we recommend that investments in the Balanced Fund and the Equity Fund should be viewed as medium to longer term of 3 to 5 years or more in order to benefit from market cycles.

**Tax efficient:** Unit trusts are highly tax efficient investment. A unit trust fund does not pay tax on its income, either from dividends or interest. In addition, unit trusts do not pay tax on capital gains.

**Safe and Transparent:** Unit trusts are strictly controlled the Capital Markets Authority under the Capital Markets (Collective Investment Schemes) Regulations, 2001. The regulations impose duties and responsibilities on the key functionaries of the fund including fund manager, custodian and trustee. The fees and charges are transparent and are published in the Information Memorandum. Information on the investment performance is provided in a report audited by external auditors. Each unit trust has a Trust Deed, the legal document establishing the trust, and an Information Memorandum, of which a copy are available by email.

## 6. What returns can I expect from my investments?

Investment returns on a unit trust fund depend on the following:

- Returns from the financial markets;
- The type of assets within the unit trust portfolio; and
- The management skills of the portfolio managers.

The value of shares, bonds and other asset classes are determined by financial markets and can rise or fall over time.

In general, equity-based unit trusts provide the highest potential return, followed by bond or income funds and finally money market funds. In addition, the level of investment return is generally related to the level of risk incurred i.e. the higher the potential risk, the greater the potential return.

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## 7. Please provide some tips for successful investing?

Before investing, it is useful to follow the following steps to ensure success:

### 1. Identify your goal for investing

This could be meeting future education expenses, retirement, payment of a deposit for a house or a savings plans

### 2. Establish a time-frame for your investment

Be realistic about the time commitment for your investment. It is recommended that investments in unit trusts be medium to long-term investments.

### 3. Identify the level of risk

It is important to understand the level of risk associated with different types of investments

### 4. Select a unit trust fund which best meets your requirements above.

**Money Market Fund:** The fund aims to obtain a high level of current income while protecting investor's capital.

The Fund will invest in money market securities with a maturity of less than 12 months which are usually available to the wholesale or institutional investors. Potential investments include: interest-bearing securities such as bank deposits, bank acceptances and other short-term money market instruments including short-dated treasury bills and commercial paper.

The Fund is designed for investors who require a low risk investment which offers a high income yield, capital stability and immediate liquidity.

The Fund is a good parking place or safe haven for investors who wish to switch from a higher risk portfolio to a low risk, high interest portfolio, especially during times of high stock market volatility.

It is also ideal for investors who wish to make a lump sum investment and wish to reduce timing risk by regularly transferring amounts to other more aggressive portfolios.

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This is a low risk fund with zero initial charge.

**Income Fund:** The objective of the Income Fund is to achieve a reasonable level of current income and maximum stability for the capital invested.

The fund will invest in interest-bearing securities including financially sound preference shares, treasury bills, treasury bonds, corporate bonds, loan stock, debenture stock, debenture bonds, approved securities, notes and liquid assets and any other securities which are consistent with the portfolio's investment policy.

The Fund is suitable for investors are seeking a regular income from their investment, including those who intend to secure a safe haven for their investments in times of stock market instability.

The Fund can be used a means of drip-feeding investments into the Equity Fund over a long period of time.

**Balanced Fund:** The investment objective of the Balanced Fund is to offer investors a reasonable level of current income and long term capital growth. This would be achieved by investing in a diversified spread of equities and fixed income securities.

The Fund is suited to investors who seek to invest in a balanced portfolio offering exposure to all sectors of the market.

It is also suitable for Individual Pensions Plans, Occupational pension schemes, treasury portfolios of institutional clients, co-operatives and high-net worth individuals amongst others.

The Fund is a medium risk fund and has a lower risk profile than pure Equity Funds

**Equity Fund:** The fund aims to offer superior returns over the medium to longer term by maximizing long term capital growth.

To achieve this, the fund will invest primarily in listed companies on the Stock Exchanges of Kenya, Uganda and Tanzania, which shows above average prospects for future growth.

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The Fund will also take advantage of initial public offerings (IPOs) of companies currently owned or controlled by private investors and/or the Governments of Kenya, Uganda and Tanzania the neighbouring countries. The Fund aims to achieve its performance objectives through well-researched and superior share selection. The fund will have some exposure to offshore listed companies, denominated in Euro, Sterling or Dollar.

This fund is designed for investors seeking medium to long term capital growth in their portfolio and who want to gain exposure to equity investments.

The fund is suited to investors who want to invest their money over a period of at least 5 years.

The Fund is a medium to high risk fund. Risk will be reduced through holding a diversified portfolio of shares across most sectors.

#### **8. Where can I find more information about Unit Trusts?**

To learn more about unit trusts, we recommend that you talk to CAS.