

Collective Investment Schemes as Passive Investment Products for Wealth Creation

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We all know the troubles that come with actively managing a business as an investment. As an owner operator, many responsibilities fall on your shoulders, from managing customer queries, suppliers and employees. Unfortunately, for individuals in fulltime employment, this can be an uphill task and could adversely affect the growth trajectory of one's investment. Financial experts advise those found to be in such a position to consider passively investing, as a way of ensuring that they save and earn a decent return.

Rather than struggle with actively managing a business (as an investment), individuals can turn over the management of their investments to a third party. Collective Investment Scheme (CIS) can provide such a channel for one to invest passively, with management of their investment being undertaken by an investment professional. A CIS is a regulated investment product that involves several individuals contributing money into a common pool and having a licensed professional fund manager investing on their behalf based the documents that establish a CIS. In the contemporary financial landscape, collective investment schemes (CIS) have emerged as significant vehicles for both retail and institutional investors aiming to build wealth. These schemes,

which pool money from multiple investors to purchase securities, typically offer a balance of growth, income, and risk when managed within the parameters of a well-defined investment strategy. In Uganda, there are 6 managers licensed by the Capital Markets Authority (CMA) to manage CIS. Investors in a CIS have a pro-rata claim on the income and value of the CIS. Over 121,000 Ugandans have thus far invested in CIS to the tune of Ugx 2.5 trillion, which is barely scratching the surface. This in our estimate is expected to generate a minimum of Ugx 200 billion in wealth for investors this calendar year, who are currently able to invest as low as Ugx 10,000. This is consistent with the wealth creation message of His Excellency the President, who has preached about tapping into several avenues to create wealth.

Ugandans can invest in different types of CIS. Some of the CIS available include: money market funds that invest in interest bearing short-term financial instruments such as treasury bills; equity funds that invest in shares; bond funds that invest in corporate and treasury bonds; and balanced funds investing in both shares and bonds. Your investment goal will determine the most appropriate CIS to invest in. The main appeal of CIS is their ability to offer small or individual investors access to professionally managed portfolios with lower transaction costs than if



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they tried investing directly in the capital markets. It is critical that you engage your CIS manager, for professional advice on the most appropriate CIS for your situation.

Numerous benefits accrue to investors in CIS. CIS are regulated by CMA, which provides a level of protection to investors. The CIS Act and CIS regulations require that a custodian (usually a bank) holds assets under management by a CIS. Furthermore, the assets are legally owned by a person called a trustee for the benefit of investors. The Trustee is licensed by Uganda Retirement Benefits Regulatory Authority. This risk management framework ensures that CIS managers have no access to investor assets, guaranteeing their safety. Ugandans have previously fallen prey to financial scams and CIS provide a channel for investing in a financial product that is backed by a robust regulatory framework.

Additionally, CIS are liquid, meaning that they can be converted into cash with a lot of ease. An investor in a CIS can access their investment after filling in a redemption form in a period of between 24-48 hours. In more developed markets, CIS usually compete with banks for deposits as they have more attractive returns compared to holding money in a savings account at a bank.

The presence of a professional manager undertaking investing on behalf of investors allows them to earn a return passively creating wealth, while also engaging in other activities such as being a full-time employee. CIS invest in a portfolio of securities providing diversification enabling an investor to gain exposure to a wide variety of underlying securities, rather than assembling an investment portfolio on their own, which could be an uphill endeavor if done alone.

CIS have a beautiful aspect about them referred to as compounding. In very simple terms, compounding speaks to earning interest not only on the original amount invested (principal) but also on earnings from the original amount. An investor who holds CIS units, which accrue a return, is able to earn a return on the earnings made. The more money invested and the longer the period invested, the higher the compounding of income. CIS can thus be a powerful

tool for creating wealth.

I know that the question on the minds of readers of this piece is, how do I start the investment journey through CIS? CMA has licensed CIS managers to operate CIS. Visiting the CMA website for a list of licensed CIS managers and licensed CIS schemes should be the first step. You may do your own due diligence as an individual before selecting a CIS manager. However, licensing by CMA is proof-enough that prior vetting has been undertaken by a public interest entity on behalf of the public, hence the CIS managers licensed by CMA are equally competent to provide you the CIS management service.

The next step would be opening an account with a CIS manager of your choice, depositing funds with the custodian bank and you are ready to start your journey as a CIS investor. Should you need access to your investment, all that is required is for you to fill in a redemption form and you will have funds between 24-48 hours.

In conclusion, through CIS, you can passively create wealth in a safe, regulated environment. With the adult population in Uganda currently estimated at 24 million and only 121,000 having invested through a CIS, the potential remains immense. CIS can provide an investment vehicle to meet your wealth creation needs and should be given serious consideration.