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.

Regulation of CIS

Only CIS 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.

Note

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.

For further information, please contact:

CAPITAL
MARKETS AUTHORITY

CAPITAL MARKETS AUTHORITY
Embankment Plaza, 3rd Floor, Upper Hill,
Longonot Road, Off Kilimanjaro Avenue
P.O Box 74800-00200, Nairobi Kenya
Tel: +254 20 2264900/ 2710789/ 2710775/ 2221910
Fax: +254 20 2228254
Email: corporate@cma.or.ke
Website: www.cma.or.ke

Disclaimer

This brochure is by no means a conclusive document. The Capital Markets Authority takes no responsibility for any consequences arising from decisions taken on the basis of the contents of this brochure. For more information or clarification on Collective Investment Schemes, please refer to our regulations on the same which are available at our website: www.cma.or.ke

CAPITAL
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COLLECTIVE INVESTMENT SCHEMES

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.

What are Collective Investment Schemes?

Collective Investment Schemes are pools of funds that are managed on behalf of investors by a professional money manager.

They are arrangements made or offered by any company under which the contributions, or payments made by the investors, are pooled and utilized with a view to receive profits, income, produce or property, and is managed on behalf of the investors.

The manager uses the money to buy stocks, bonds, or other securities according to specific investment objectives that have been established for the scheme.

Types of Collective Investment Schemes
There are various types of collective investment schemes and they include:

- Unit Trusts
- Mutual Funds
- Employee Share Ownership Plans (ESOPs)

What is a Unit Trust?

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. Unit trust are managed under the Unit Trust Act where investors invest in Unit Trust.

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.

What is a Mutual Fund?

A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests it in stocks and other securities. It is a collection of stocks or bonds. This happens when a large number of people give their money to professionals, to manage and invest, with the aim of achieving a return and in accordance with the objective of the fund.

Mutual Funds are managed under the Company Act where investors invest in Shares.

What is an Employee Share Ownership Plan (ESOP)?

An ESOP is simply an option by the employees of a company to buy the shares of that company at a price prescribed by the company. Normally, to make the ESOP attractive, the option is lower than the market price. The company normally has the right to determine the number of shares the employee gets, which employees get them and the ownership is actually transferred. It is normally given to high calibre employees as way of motivating them and retaining them in the company since they become shareholders.

The Advantages of Investing in CIS

- **Diversification:** Investors in unit trusts can access a broader range of securities than they could when investing on their own as individuals.

- **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.

- **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.

- **Convenient Record Keeping and Administration:** Fund managers take care of various types of Schemes: CIS offer various types of schemes such as regular income plan, growth plan, equity Funds, debt Funds, and balanced Funds. An investor can therefore select a plan according to his needs.

- **Scope for Good Return:** Fund managers invest in various industries and sectors; therefore, the portfolio gets diversified, resulting in CIS generating equitable returns.

- **Tax Benefits:** The CIS income is tax exempt, and this can be extended to unit holders in form of better returns.

What information to look for

- 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 the fees involved and your rights as a unit holder.

- 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