TOPICCAPITALMARKETSINUGANDA

18.1Introduction:

Anybusinesswillrequirefinancetostartorexpanditsactivities.Thisfinancecannotbe easilyaccessedthroughcommercialbankswheretheinterestratesarehighandthe requirementofasecuritybeingoneoftheprerequisitetogettheloans.Capitalmarkets provideasolutiontothisproblemespeciallywherelongtermfinancesareconcerned.These capitalmarketsalsoofferotherinvestmentopportunities.

Capitalmarketsarealmostsimilartoothermarketsbutdifferintermsoftheproductstraded andtheirorganisation.Capitalmarketsdealwiththetradeoffinancialproductssuchas shares,bondsissuedbythegovernmentsorprivatecompanies,unitsincollective investmentschemes,debentures,etc.Thesefinancialproductsarecollectivelyreferredtoas securitiesinUganda,themarketwherethesesecuritiesaretradediscalledtheUganda SecuritiesExchange(U.S.E.).

18.2TYPES/INSTRUMENTSUSEDINCAPITALMARKETS:

Oneofthewaysthroughwhichcapitalisraisedinbusinessisthroughissuingfinancial instruments.Someoftheseinstrumentsinclude:

a- Bond:Thisisacertificateissuedbyacompanyacknowledgingthatmoneyhasbeen lenttoit andthatitwillbepaidbackwithaninterestataspecifiedperiodoftime.when youbuybonds, youarelendingthebondissuerermoneyinreturnforafixedrateof return,theyarethereforeknownasfixed-incomeinvestmentandthereforebecomea creditorofthecompany.

b- Shares:Thisisaunitofownershipofacompany,Whenyoubuyashare,youbecome apartownerorashareholderofthecompany.Aninvestorwillbuystakeinbusinessby buying shareswhichwillautomaticallyentittlehimorhertoacompany’sprofits. c- Debenture:Thisisadocumentshowingthatacompanyhasborrowedacertain amountof moneyfromapersonnamedonit.Thecompanypaysafixedrateofintereston thisloan.

RolesofCapitalMarketsinBusiness:

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- Raisingfundsthroughthesaleofshares.
- Provisionofamarketwherethesellingandbuyingofsharestakesplaceinan organised manner.
- Attractingforeigninvestorswhomaywishtoinvesttheirmoneyinanorganised capital market.
- Betterstandardsoflivingbroughtaboutbyincreasedemploymentopportunities causedby increasedinvestments.

18.3TYPESOFSHARES:

Therearetwotypesofsharesi.e.ordinaryandpreferenceshares

Ordinarysharesarethecommononesthatareheldbytheownersofthebusinessandthey usuallydonothaveafixedrateofdividendsrealisedfromthebusinessprofits.

Preferencesharesarethosewheretheholdersdonothavevotingrightsbuthavearighttoa fixedrateofdividendbeforeanydividendispaidouttotheordinaryshareholders,theyalso havethefirst priorityoverthebusinessassetsoverordinaryshareholdersinanenventofwindingup.

Preferencesharesarefurthercategorisedinto:

i-Cumulativepreferenceshareholdersofthesesharesareentitledtoafixedrateofinterest everyyear,irrespectiveofwhetherthebusinesshasmadeprofitsornot,thismeansthatin casetheholdermissesdividendforayear(maybewhenthecompanyhasincurredlosses), he/shewillrecieveadoubleshareinthefollowingyear.(thedividendswillcontinueto accumulateuntilpaid).

Non-cummulativepreferenceshares:holdersofsuchsharesareentittledtoafixedrateof dividendsonlywhenacompanyhasrealisedprofits.

Redeemablepreferenceshares:thesesharesareboughtback(redeemed)bythecompany afterastatedperiodoftime.

Irredeemablepreferenceshares:theseareonesthatcannotberedeemed/boughtbackby thecompany.

Participatingpreferenceshares:holdersofsuchsharesareentitledtoashareofthesurplus profitsremainingaftertheordinaryshareshavebeenpaidi.e.onadditiontotheirfixedrateof dividends.

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18.4TYPESOFDEBENTURES

Nakeddebentures:Thesearedebentureswhicharenotsecuredi.e.nopropertyofthe companyhasbeenpledgedagainstthem.Soincaseofbankruptcyorwindingup,these debentureholderswilljustberegardedasordinarycreditorsofthecompany.

Mortgageddebentures:Thesearedebentureswhicharesecuredi.e.somepropertyofthe comapnyhasbeenpledgedagainstthemwhichcanberesoldincaseofwindinguptopay offthemortgageddebentures.

Redeemabledebentures:thesearedebentureswhicharesupposedtobeboughtbackbythe comapnyanytimeafterthespecifiedminimumperiode.g.iftheperiodstatedisbetween2-4 years,theycanberedeemedanytimeafter2yearsbutbefore4yearselapse.

Irredeemabledebentures:thesearedebentureswhichareneverrefundeduntilwhenthe comapnyiswindingup.

18.5DIFFERENCESBETWEENASHAREANDADEBENTURE i- Ashareisaunitofcapitalwhileadebentureisaunitofaloaninacompany.

ii- Shareholdersearndividendsi.e.partofthecompany'sprofitswhereasdebenture holders earninterestwhichisanexpensethatacompanyhastopaywhetherithas realisedprofitsornot. iii- Shareareusuallyirredeemablewhiledebenturesareusuallyredeemable.

iv- Atthetimeofwindingup,thedebentureholdersgetonlythefacevalueandspecific interest evenifthecompany'sassetsfetchreturnswhileshareholdersinmostcases enjoymuchmore thanthefacevalueoftheirshares.

v- Ashareholderisamemberofthecompanywhereasadebentureholderisamere creditortothecompany.

vi- Incaseofdecisionmakinginthecompany.shareholdershavevotingrightswhereas debentureholdersdonothavethem.

18.6CAPITALMARKETSAUTORITY(C.M.A.)

CapitalMarketAuthorityisasemi-autonomousbodythatwasestablishedbythegovernment (1996)tooverseetheoperationsofcapitalmarkets,itisresponsibleforpromoting.,

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developingandregulatingthecapitalmarketindustryinUganda,withtheoverallobjectiveof investorprotectionandmarketefficiency.

18.61FUNCTIONSOFCAPITALMARKETAUTHORITY.

a- Toregulateandpromotesthedevelopmentofcapitalmarketsin Ugandawith particularemphasisoncreationofincentivesforlongerterminvestmentsinproductive ventures.

b- Toguaranteeandapprovesthestockexchangeoperationsandsecuritydepository systems.

c- Approvingandgivinglicensestobrokersordealersinstockexchangeand investmentadvisorslikeUgandaSecuritiesExchange.

d- Approvingalloffersofsecuritiestothepublic. e- Protectionoftheinterestsofinvestors. f- Approvecollectiveinvestmentschemes.

g- Toadvisethegovernmentonrulesandregulationsgoverningoperationsofcapital markets. h- Toprovideprotectiontoinvestors-bothforeignandlocal. i- Tocreatemarketsinwhichsecuritiesareissuedandtraded.

j- Toprovidefacilitiesforraisinglongtermcapitalfunds. k- Toactasayardstick /guidelinestocompanies'performance.

l- Providingavenuesforthosewhorequireadditionalcapitalandotherswhowishto invest theirmoney. m- Regulatingtheoperationsofacompensationfund.

NB:ThesecanaswellworkastheObjectivesorbenefitsofCapitalMarketsAuthority. CapitalMarketsAuthority(CMA)isdifferentfromtheUgandaSecuritiesExchange(USE, commonlyknownasstockexchange)inthatCMAisaregulatorybodythatoverseesthe capitalmarketindustryinUganda,whileUSEistheactualmarketwherecapitalmarkets productsaretraded.TheUSEislicencedandregulatedbytheCMA

CurrentlytheUganda'scapitalmarketsindustrydealsinthreeproductsinwhichonecan invest,i.e.shares,collectiveinvestmentschemesandGovernment/corporatebonds.

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18.71THESTOCKEXCHANGE

Thisisamarketwheretheexistingstocksandbondsareexchangedsmoothly.Itisan organisedmarketwheretradersofsecuritiesmeetasdealers/brokersrepresentthemand acquireorsellsecurities.TheUgandaSecuritiesExchangewaslicensedin1997bythe capitalmarketsauthorityofUgandatooperateasanapprovedStockexchange.

18.72PLAYERSINASTOCKEXCHANGE

Thesearethedifferentpeople,groupofpeopleorcompaniesthatplaydifferentrolesina stockexchange.

1 Brokers:Thesearemoreofmiddlemenorfinancialprofessionalswhoareauthorised tobuyandsellsharesonbehalfoftheclientsorinvestors,theytrytobuyatacheapestprice possible andthenselltosomeoneelseatahigherprice.

2 Jobbers:Thesedealersbuyandsellsecuritiesintheirownnames.Theirrewardisthe jobber's returnbeingthedifferencebetweenthebuyingpriceandthesellingpriceofthe shares.Jobbers arefurtherclassifiedinto:

a- Bulls:arejobberswhobuyshareswhentheyarecheapinanticipationthatthepriceof theseshareswillriseinthenearfutureandhe/shewillbeabletosellthematahigherprice. b- Bears:areonesthatsellshareswhenpricsarehighonhisexpectationthatthese priceswill fallinthenearfuturewhenhewillbeabletobuythemagain.

c- Stags:areonesthatbuysharesofanewlyestablishedcompanyinthehopethat priceswill risetoberesold.Theydealinnewissuesofacompany.

3 TheRegistrar:Thisistheoneinchargeofkeepingrecordsinrespectofstocksand shares.

4 InvestmentAdvisors:thesearelicencedprofessionalswhoresearchintothefinancial standofcompaniestobetakentothestockexchange,makerecommendationsonwhich securities tobuyorsell.

5 Shareholders:theseareindividualsorgroupsofindividualsorcompanieswho contribute moneyinabusinesswithanexpectationofreturnsafterwards.

6 CapitalMarketAuthority:itisabodyestablishedbygovernmenttooverseetheoperat ionsofUgandacapitalmarketinvestmentopportunitiesthroughcapital marketslike;

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- investmentinshares
- investmentinbonds
- collectiveinvestmentschemes(smallsaverspoolresourceswhichareinvestedcollec tivelyinbuyingshares)

18.73FUNCTIONSOFSTOCKEXCHANGE/U.S.E.

a- Itprovidesafacilityforraisingfundsforinvestmentinlongtermassets.

b- Itmobilisesindividuals'savingssoastocarryoutinvestmentinproductive enterprises,like buyingsharesindifferentcompanieswithaviewofenjoyingbenefits thereafter(dividends andmorereturns)

c- Ithelpsnewandsmallbusinessestoimproveaccesstofinancethatcanbeusedto expand them,thisisdonethroughmobilisingandmakingarrangementstosselltheir sharesformoney.

d- Creationofliquidity,i.e.abilityofsecuritiestobechangedintocashatamarketprice. Acquiringandsellingofsharesischeap,simpleandmaybedoneatanytimethat suitsaninvestor'sconvenience.

e- Itleadstothegrowthofrelatedfinancialservicesectorasinstitutionslikeinsurance compa niesdevelopaspiritofsavings,USEcomesinandprovidesanavenuethrough whichfinancial securitiescanbetradedbysuchinstitutionsinordertofacilitatetheir activitiesasfinancial intermediaries.

f- Itfacilitatesequityfinancingasopposedtodebtfinancing,equityfinancingisflexible asthecompany paysshareholderdependingonperformance,whereaswithdebtfinancing,theholder

is entittledtoafixedsumofinterestdisregardingtheperformanceofthe company.

g- Itfacilitatesthedivestitureofgovernmentowedcompanies,theprivatisationprocess throughcapital marketsinvolvesthefloatationofsharesandneedsasecondary marketforitssuccess,therebyindigenouspeopleareabletoattainastakeinthe privatisedcompany.

Thecurrentequitiesthatareonstockexchange(asat3rdMay2012)andtheperiodthey werelistedinclude:

i- BritishAmericanTobaccoUgandaLtd(October2000)

ii- BankofBaroda(November2002) iii- Dfcu(October2004)

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iv- CentumInvestmentCompanyLimited v-
EastAfricanBreweries(March2001)
vi- HousingFinanceBank vii- EquityBank(June2009)
viii- JubileeInsurance(February2006) ix-
KenyaAirways(March2002) x-
KenyaCommercialBankGroup(2009) xi-
NationMediaGroup xii-
NationalInsuranceCorporation
xiii- NewVisionGroup(PrintingandPublisingCo.Ltd(Deember2004) xiv-
StanbicBankUgandaLimited(January2007) xv- UgandaClayLimited(January2000) v-
JubileeHoldings(February2006)

18.8THEPROCESSOFBUYING/SELLINGSHARES

- YoucanbuysharesduringtheInitialPublicOfferperiodorfromexistingshareholders. - NewissuesofsharesusuallytaketheformofInitialPublicOffering(IPOs),where sharesare soldforthefirsttimetothepublic.ThisisreferredtoasthePrimarymarket.
- Thepurchasefromexistingshareholderstakesplaceinasecondarymarketwhere sharesare tradedonthestockexchange.
- Youcansell/buyyoursharesbycontactingalicensedbroker/dealerwhowillhelpyou sellyour sharesonthestockexchange.CMAissueslicensestoqualifiedfirmsor personstotransactbusinessontheExchangeorgiveinvestmentadvice.Theseare knownasbroker/dealersandinvestmentadvisors.

NB:Aprimarymarketisamarketinwhichacompanyoffersitssharestomembersofthe publicforthefirsttime.ItisalsoknownasanInitialPublicOffering(IPO).Tobuyshares duringthe IPO,ashareapplicationform (SAF)isobtainedfrom participating broker/dealersand authorisedsellingagents,whichiscompletedbytheprospective investor.

- TheSAFisthenfilled,paymentismadeandsenttotheleadbrokerwheretheshare allocation ismadeandareceiptissuedtothepurchaser.
- Iftheofferisover-subscribed(applicationxceedingthenumberofsharesavailable), theshares availablearedividedamongapplicantsaccordingtotheallotmentcriteriaandthe

investor thenreceivesarefundforthesharespaidforbutnotreceived.

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- Thesuccessfulapplicantsarethensenttheirsharecertificatesthroughthe broker/dealerorauthorisedsellingagent.

NB DuringanIPO,aprospectus/informationmemorandumisgivenout

Aprospectusitisalegaldocumentthatgivesgeneralinformationaboutthecompany, whichisofferingitssharestothepubliclikethecompany'shistoryandoperations,products and services.Itcanbeanotice,acircular,anadvertisementoranyotherinvitationoffering tothepublicachancetopurchasesharesorsecuritiesofacompany.

AninformationMemorandumisadocumentcontainingdetailsaboutanissuerof debt securitiessuchascorporatebonds.Itcontainsinformationaboutthecompany, amountis sued,purposeoftheissue,whetherit'sguaranteedornot,repayment terms,etc.

Asecondarymarketisamarketinwhichthesecurities(sharesorbonds)aretraded onthestockexchange.Here,securitiescanonlybebought/soldthroughalicensed broker/dealer,thatisafirmthatbuysandsellssecuritiesonbehalfofinvestorsfora commissionorabrokeragefee.

NB:Beforeinvestinginshares,youshouldbeclearaboutyourownfinancialpositionand whatyou hopetoachievefromyourinvestment.Tosellshares,youneedtocontacta broker/dealer andinstructhim/hertoselleitherallorsomeofyourshares.Secondary markettradingtakes placeattheUgandaSecuritiesExchangeUSE)onMondays, TuesdaysandThursdaysfrom 10.00amto12.00pm.

Ifthevalue/priceofsharesfalls,youcannotbecompensated,likeanyother investment,investinginsecuritiescarriesarisk.Thepriceofthesharescanfluctuateandif youchooseto sellyoursharesataparticulartime,thenyoucouldeithermakealossor again.

18.91BENEFITSENJOYEDBYASHAREHOLDER

a- Dividends;whenacompanymakesprofits,theBoardofDirectorsmaygivea percentageof theprofittoitsshareholderswhichincreasestheincomeoftheinvestor. Theunsharedprofits thatremaininthecompanyascapitalaretermedasRetained Earnings. b- Capitalgains;whensharesaresoldatapricethatishigherthanthepriceatwhich theywere purchased,thisrepresentsaprofitwhichistermedascapitalgain.

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c- Sharesmayactasacollateralsecurityfortheowner,forinstanceifhewishesto accessaloan fromfinancialinstitutions.

d- Easeoftransferability;sharescanbepassedonfromonepersontpanother,for instancethey canbeinherited. e- Capitalgrowth;whenthecompanygrow,thevalueofthshareswillalsogrow,hence benefit ingtheshareholder

18.92DISADVANTAGESOFINVESTINGINSHARES:

a- Sharepricescangodownorupdependingonanumberoffactorssuchasthe performanceof thecompany,theeconomicsituation,demandandsupplyfactors,etc b- Ifthecompany'sprofitsfall,thedividendswillfallandifthecompanymakesaloss,it maynotpayanydividendatall.

c- Ifthesharepricesfall,theirvaluelessens.

d- Ifthecompanycollapsesorbecomesinsolvent,thesharesbecomeworthless.

e- Ifthecompanygoesintoliquidation,shareholdersarethelasttobepaidafterallother creditors.

Insummary,theprocessofbuyingandsellingsharesinvolvesthefollowing:

Theprocessofbuyingshares

- Placeanorderthroughabroker/dealer
- Fillclient'sinformationformafterradingthroughthecompanyprospectus.
- Signapurchasetransfer
- Payforthenumberofsharesyouarewillingandabletobuy.
- Receiveareceiptfromthebroker/dealer

Onthedayofexecutingtheexchange;

- Thebrokersendstothebuyerapurchasecontactnote/document(legal)which entittlesoractsasaproofofownershipuntilthecertificateisrecieved.
- Dealers/brokerforwardsthesignedpurchasetransfertotheRegistrarthroughthe exchange.
- TheRegistraruponrecievingtransfersissuesacertificate(alegaldocument confirmingown ershipofshares).

Theprocessofsellingshares:

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- Findouthowmuchsharesaresellinginthemarketi.e.throughthebrokeror newspapersor eventhroughthestockexchange.
- Contactthedealer/brokerandplaceanordertosellsharesatapricethatis satisfactoryto you.
- Afterplacinganorder,thebrokersendsasalescontractnotethatshowsthenet proceeds payable.
- Collectthecheckfromthedealer/broker.

NB:Iftheofferisoversubscribed(applicantsexceedingthenumberofsharesavailable),the sharesavailablearedividedamongapplicantsaccordingtotheallotmentcriteriaandthe investorthenreceivestherefund.

WhenBuyingthroughasecondarymarket:

- Placeanorderthroughabroker
- Fillaclientsinformationform
- Signapurchasetransfer
- Payforthenumberofsharesoneiswillingtobuy - Receiveareceiptfromthebroker/dealer.
- Thenonthedayofexecutingtheexchange,thedealer/brokersendstothebuyera purchase contractnote(legaldocument/proofofownershipuntilthecertificatearrives. - Dealer/brokerforwardsthesignedpurchasetransfertotheregistrarthroughthe exchange
- Theregistraruponreceivingtransferissuesacertificate(alegaldocumentconfirming owner shipofshares)

INVESTINGINBONDS

Abondisessentiallyaloananinvestormakestotheissuerofabond.Theinvestorreceives regularinterestpaymentsonthisloanuntilthebondmaturesoriscalled,atwhichpointthe issuerpaysyoutheprincipal.Certainbondshavespecialprovisions.

BondsareissuedbyGovernmententitiesandcorporationstoraisemoneyfortheir endeavors.Therearefourmajortypesofbondsrepresentingthefourmajorissuers.

* Government(Treasury):

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Governmentissuetreasurybondstopayforgovernmentactivitieslikepayingoffthenational debtorfightinginflation.Theyieldislowestamongbondsbutconsideredlowinriskifheld untilmaturity.Bondsareexemptfromstateandlocaltaxes.

* Municipal:

States,cities,countiesandtownsissuebondstopayforpublicprojects(likeroads)and financeotheractivities.Theyarealsoexemptfromtaxes(majorityofthem).

* Corporate:

Corporationsissuebondstoexpand,modernize,coverexpensesandfinanceotheractivities. Theyieldandrisksaregenerallyhigherthangovernmentalandmunicipals.Theyarefully taxable.

* Mortgage-backed:

Banksandotherlendinginstitutionspoolmortgagesandofferthemassecuritiesto investors.Thesebondshaveayieldthatexceedsthoseofcorporate,withcomparable maturity.Theyarealsofullytaxable.

HOWBONDSWORK?

Bondshavethreemajorcomponents.i.e.

a- Thefacevalue(parvalue).Thisisthevalueofthebondasgivenonthecertificateor instrument.Itisthevaluethebondholderwillreceiveatmaturityunlesstheissuerdefaults. Ifbondsareretiredbeforematurity,bondholdersmayreceiveaslightpremiumoverface value.

b- Couponrate:Thisistheannualrateofinterestpayableonthebond.Fortheownerof thebond,thehigherthecouponrate,thehighertherateofinterestpaymenttheowner receives.Therateissetatthetimethebondisissuedandgenerallydoesnotchange. c- Maturity: Thisisthedateuponwhichtheissuerpaysbackthefacevalueofthebond.Thebond terminatesatmaturity.

Example:

AcompanyissuesaShs1,000,00010-yearbondwitha5%couponrate.Eachyear,theowner receives50,000shillings(5%of1,000,000),paidintwosemi-annualinstallmentsofShs 25,000.

18.2ADVANTAGESOFINVESTINGINBONDS i-

Bondsarepredictable.Youknowhowmuchinterestyoucanexpecttoreceive, howoften youwillreceiveit,andwhenyourprincipal(thebond'sfacevalue)willberepaid

(maturity date)

ii- Bondsaresteadierthanotherstockswhichfluctuatewidlyinshortterm,that's whymost investorspreferbuyingbondsthanequityinvestmentswhicharemorevolatile.

iii- Peopleonafixedincomeand/orinretirementwillreceiveapredictableamount ofregular incomefrombondssincemostbondspayinteresttoholdersonaregularbasis apartfromthe zerocouponbonds.

iv- Theinterestratepaidbybondstypicallyexceedthosepaidbybanksonsavings accounts, especiallyshorttermbonds.

18.2DISADVANTAGESOFINVESTINGINBONDS i-

Companiesandmunicipalitiescananddogobankruptandincasetheydo,your bondswilllosevalueandpossiblyevenbecomeworthless.

ii- Longtermbondswillhaveyourmoneytiedupinlowyieldingbondsifinterestrates goup.

iii- Unlikestocks,bondsdonotofferthepossibilityofhighlongtermreturns.Younger investorsandthosewithseveralyearstogountilretirementwouldbebetterserved bylimitingtheirbondpurchasesandoptingforequitybuysinstead.

iv- Althoughtheyarelessvolatilethanstocks,theyarenotimmunetopricefluctuations. Bondsfromriskiercompaniescanbeveryvolatile,itisalsopossibleforacompanyto defaultonbondsissued,resultingintoatotallossofprincipalforthebondholder.

18.3INVESTINGINCOLLECTIVEINVESTMENTSCHEMES

Therearemanywaysofsavingsandinvestmentsinbusiness,oneofthemisthrough capital marketsandspecificallythroughCollectiveInvestmentschemes.

CollectiveInvestmentschemesareprivatefinancialarrangementsthatprovideameans formobilisationofsavingsandenablesmallinvetorstoparticipateincapital markets.Theypoolresourcesofmanysmallsavers,generatingalargepooloffunds, whichresourcesaretheninvestedinvariousassetslikeshares,bonds,propertyand treasurybillswiththesolepurposeofgeneratinghighreturnswhilwminimisingriskthrough diversificationofinvestments.

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TheCISManagerinvestsalthemoneyreceievedfromthedifferentsmallsavers,whenth einvestmentsmakereturnsafterwardsintermsofcapitalgainsanddividends,themanager distributesthesereturnsamongstalltheinvestors.Soeveryonegetsashareoftheprofits accordingtothemoneyinvested.

ACISManagerisapersonlicensedbytheCapitalMarketsAuthoritytoundertake,onbehalfof theclientthemanagementofCISs.

Ordinarypeoplearethemainparticipantsintheseschemesalthoughtheymayalsoattract institutionalinvestorssuchaspensionfundsorinsurancecompanies.

CISaregovernedbytheCISAct2003,whichsetsoutthedutiesandobligationsofthevarious partiesthatareinvolvedintheformationofascheme.OneofthepartiesisaCustodianwhose dutyistosafeguardthefundsoftheinvestorswhiletheCISManageronlymakesinvestment decisions.

TherearetwotypesofschemesinUgandai.e.UnitTrustsandInvestmentCompanywith Variablecapital.

a)AUnitTrustSchemeisanarrangementwherebyinvestor'sfundsarecollectedtogetherand laterusedtoinvestinsecuritiesandotherfinancialassetswiththebenefitialinterestinthe assetsofthetrustdividedintounits.Inthisscheme,theinvestorsbuyunits,whichrepresentthe unitstheyholdinthescheme.

Theunittrustschemeisestablishedbyatrustdeedbetweenafundmanager(whichmustbea bodycorporate)andatrustee(bankorinsurancecompany)

Thetrustdeedspellsoutthedutiesandobligationsofthefundmanagerandtrustee.Inaunit trust,investmentsaremadeonbehalfoftheunitholdersbytheunittrustmanagerbutthe assetsoftheschemeareheldbythetrusteeorcustodian.Themanagerpurchasestheinvestor's unitattherulingpriceandtheinvestor'smoneyisdepositedontohis/herbankaccountwithin twodays.

Thetrusteeisimportantforthefollowingreasons:

-Overseeingthefraud

-Safeguardingtheassetsofthescheme

-Ensuringthatthefundmanagermanagesthefundaccordingtothetrustdeed

-Ensuringthathefundmanagermanagesthefundaccordingtothetrustdeed.

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b)InvestmentCompanywithvariableCapital(ICVC);thisisatypeofschemewhereone's investmentisrepresentedbythesharestheyhold.Theschemetakestheformofanordinary company,however,thekeyfactorthatdistinguishesitfromanordinarycompanyisthatthe companyisallowedtobuybackthShareswhenaninvestorwishestopullout.

Themaindifferencebetweenthetwoistheformtheytake,oneisorganisedasatrustand theotherisacompanybutbothformsofCISsinvolvethepoolingofinvestors'contributions, whichareinvestedontheirbehalf.

However,aninvestorshouldnotethatinbothtypes,investorsarenotinvolvedinthedayto daydecisionsconcerninghowtheirmoneyisinvested.Theinvestorspayacommissionnot exceeding2%tothefundmanagerasafeeformanagingtheirinvestments.Thescheme thereforemakesmoneybymanagingotherpeople'smoney.Investmentincomeandcapital gainsgeneratedbytheschemearepassedontotheinvestorsandaresharedinproportion totheinvestors'holdingintheCIS

18.4ADVANTAGESOFCOLLECTIVEINVESTMENTSCHEMES:

a) Itencouragesdiversificationofrisks:-investorscsnsecureamuchwider diversificationof risk,becausethesefundsareinvestedindifferentsecurities.Studies showthatthegreaterthediversifiationofaportfolio,thelowertheriskinrelationtothe return.Thosewhoinvestin CISsarethereforeseekingtolowerriskinrelationtotheir returns.

b)Iteasesaccessibilitytosecuritiesinvestments:-Byinvestingasmallsum(eitherina lumpsum oronaregularsavingbasis),aninvestorthroughtheCIScanachievea personalportfolio spread overseveralsecurities.Investorscanaccesshigh pricedmarketsbecauseofthepooled resourceswhichcreatealargerfund.

c) Itlowerstransactionscosts:-ByinvestinginCIS,investorsincurlowercoststhanif theywere tobuyandsellshares/bondsdirectly.Thisisbecausetransactioncostsare generallyrelated tothesizeofthetransaction,andinvestorsbenefitfromthefund manager'sabilitytodealin

largerquantitiesofsharesatloweraveragedealingcosts. Fundmanagerscanalsoreallocate portfoliosmoreefficientlythatindividualinvestors.

d)Itfacilitatesprofessionalmanagement:-Duetothecomplexityofanalysinginformation regarding individualsecurities,mostindividualsdonothavetheprofessionalskills tomanagetheirowninvestments.CISprovidefulltimeprofessionalmanagementina directandsimpleformandthisisespecially importantwheremarketinformation isnotwidelyavailable.

e) Itcreatesinvestorprotection:-CISshavesucceededindevelopedmarketsduetoan effective legalandregulatoryframework.Peopleneedtohaveconfidencethattheir moneyisprotectedfromfraud,theftandotherformsofabuses.

f) Liquidityismadeeasy:-Itgivesanopportunitytoeasilyliquidateinvestmentsby sellingyourunitsbacktotheUnittrustmanager.Themanagerisobligedtobuytheunits.

g) Thereiseasyperformancemonitoring,thenetassetsvaluepershareorthebidand offerprice theinvestorsofopenendedfundsarereportedinthepress,internetsited allowingtheinvestor tocontinuallymonitortheperformanceofhis/herinvestment.

h) Somefundsallowsinvestorstobuymoresharesinaregularbasisevenwithsmallermonthly installments.

18.4DISADVANTAGESOFCOLLECTIVEINVESTMENTSCHEMES i- Lossofcontrol–whenyouinvestinCIS,youarenotdirectlyinvolvedindeciding howyour moneyisinvested.AslongastheUnitfundmanagersinvestyourmoneyin accordancetothe prospectusanddeedofthescheme,thereislittlethatyou,theunitholder,cando ifyou happentodisagreewiththeirinvestmentdecisions.

ii- Feesandcharges:Thefundsprovidedbythefundmanagersarenotfree.There arefeesand chargespayablebytheunitholderstotheCIS.

iii- Opportunitycost:i.e.byputtingyourmoneyinCIS,youlosttheopportunitytouse itelse whereandthereisnoguaranteethatputtingitinCIS,thingswillbeperfect,thus,in sucha situation,youenduplosingthemoneythatyouwouldhaveusedproductively somewhere else.

NB:-Portfoliosrefertofundsmanagedonbehalfoftheclientsatthediscretionofa fund manager

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-ATrusteereferstoanindividualorcompanythatholdtheassetsofacollective investment fundonbehalfofitsclientsorinvestorswhoarethebeneficiariesof thetrust.

-Aunittrustisaninvestmentschemethatpoolssavingsofthepublicwhoshare thesame financialinterests,whichsavingsaretheninvestedinsecuritieslike bonds,shares, etc.

-Afundmanagerisaperson/companylicensedbytheAuthoritytoundertake,on behalf oftheclientthemanagementofaportfoliooffunds.

-AtrustdeedisanagreementbetweenthefundmanagerandaTrusteeoranuy othet authorisedcorporateDirector(ACD)

CONDITIONSNECESSARYFORTHEOPERATIONSOFCIS

- Acondusiveoperationenvironment
- Availabilityandcondusivebankingenvironment - Savingsenvironment.
- Maximumcooperationamongthesavers
- etc

RAISINGLONGTERMFINANCETHROUGHCAPITALMARKETS.

Whensourcingforlongtermfinanceinbusiness,therearemanyquestionsthatmayarise, thesemayinclude:

i- Shouldyouapplyforabankloan?Buttherepaymentperiodisquiteshort.
ii- Howaboutthemicrofinanceinstitutions?Theinterestratesarequitetoohigh.
iii- Sohowaboutcapitalmarkets?

ADVANTAGESOFRAISINGLONGTERMFINANCETHROUGHCAPITALMARKETS

a- Raisingfunds:throughthesaleofsharesonthecapitalmarkets,businessesare enabledtoraisefunds,whichischeaper,easierandfastercomparedtootherforms likecommercialbanks.

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b- Provisionofmarketstosellandbuyshares:Capitalmarketsprovidemembersofthe publicorotherinterestedindividualsorcompanytobuyshares.Thisprovidesthem analternativemethodofinvestingtheirsavings.

c- Inflowofinternationalcapital:Foreigninvestorswhomaywishtoinvestinthecountry willfinditeasiertodosothroughthecapitalmarketwheretheywillbuysharreseasily, thisleadstoinflowofinternationalcapitalwhichcontributestothegrowthofthe country'seconomy.

d- Betterstandardsofliving:Increasedinvestmentbycompaniesduetotheexistenceof awellorganizedcapitalmarketwillleadtomoreemploymentopportunitiesbeing created,moreincomesgeneratedandthismayresultinmoredisposableincomethat peoplemayuseforconsumptionandevenmoresavings.

AVENUESOFRAISINGLONGTERMFINANCINGTHROUGHCAPITALMARKETS.

Therearetwoavenuesthroughwhichabusinesscanraisefinanceinthecapital marketsi.e.equityfinancinganddebtfinancing

18.6EQUITYFINANCING

Withthistypeoffinancing,thebusinessraisesfinancebyissuingsharestothegeneral public.Those whobuythesharesofthecompanythenbecomepartownersofthecompanyandthus calledshare holders.AcompanymustfirstapplyandseekapprovalfromtheCMAbeforeitoffersshares tothe public.

18.7ADVANTAGESOFEQUITYFINANCINGFORABUSINESS.

a- Ifyourcompanycloses,shareholders'equitycontributionswillnotbepaidbackuntil allthecompany'screditorshavebeenpaid. b- Yourbusinessassetsdonothavetobepledgedascollateralinordertoobtainequity investments/sellsharestothepublic.

c- Thebusiness/companydoesnothavetomakedebtandinterestpaymentsto shareholders.

d- Thecompanyisbettergovernedgiventhelnternationalstandardsaccounting followedbylistedcompanies.Listedcompaniesarethosethathaveofficiallybeen acceptedtooffersharestothepublicandthereforearetradingtheirsharesonthe market.

18.7DISADVANTAGESOFEQUITYFINANCING

a- Thecompanyownersmayhavetorelinquishownershipofallproceedsandmayhave tosharetheirbusinessprofitswithotherequityinvestors/shareholders.

b- Ownerswillhavetobeaccountabletoallshareholdersandthereforewillberequired topublishtheirannualaccounts,organizeannualgeneralmeetingsforallshare holdersandcommunicateallmajorassurancesinthecompanytoallshareholders.

18.8DEBTFINANCING

Abusinesscanalsoraisefinancebyborrowingfromthepublicandinstitutions, throughcapitalmarkets.Theexamplesofdebtinstrumentsinclude:

i- Corporatebondswhichisanarrangementthatenablesacompanytoborrow moneyfromthe publicforalongperiodoftime.

ii- Governmentbonds/municipalbonds,whichisanarrangementthatenablesboth government andlocalcouncilstoborrowfundsfromthepublicforalongperiodoftime.

iii- Commercialpaper,whichisanarrangementthatenablesacompanytoborrow moneyfora shortperiodoftime.

18.8ADVANTAGESOFDEBTFINANCING

a-Thecompanydoesnothavetogiveupanyownershipofthecompany.

b-Thelenderhasnocontroloverhowtorunthecompanywhosebondsshe/hehas purchased,allthatthelenderrequiresofthecompanyisthattheloanandinterest shouldbepaidback.

c-Thecompanyisnotrequiredtopaythelenderdividendswhenitmakesaprofit,asis thecasewiththeshareholders.

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18.8DISADVANTAGESOFDEBTFINANCING a-

Thecompanyisrequiredtopaybacktheprincipleandinterestregardlessofits financialposition. b-

Thecompanymusthavesufficientcashflowtorepaytheloanandinterest.

18.9OTHERSOURCESOFLONGTERMFINANCEFORBUSINESSESSIN UGANDA

Apartfromcapitalmarkets,thereareanumberofothersourcesoffinanceforabusiness, theseincludethefollowing.

i- Jointventure;Findanindividualoranorganizationtobothinvestandworkwitha company initsbusinessproject.

ii- Banksforworkingcapital;shorttermfinanceortheworkingcapitalnecessaryto fundthe day-to-dayrunningofthebusiness.Thiscantaketheformanagreedoverdraft, whereinterest willbecalculatedonyourdailyoutstandingbalanceandchargedonamonthlyor quarterly basis.

iii- Banksformediumtermloans;aloanpaidbackoveranagreedterm–typically3-10years, whereprincipleandinterestarepaidoffmonthly.Thistypeofloanisusedmainly toinvestin equipment,expansionanddevelopment.

iv- Banksforlongtermloans;thistypeofloanisnormallyusedtopurchaseassets likeland, buildings,plantormachinerythatcanbeshowntodirectlyorindirectlyaddprofit overa numberofyears. v- Leasing;thisprovidesfinancefortheacquisitionofspecificassets,likecars, equipment, machinery,etc.Itinvolvesadepositandrepaymentsover,typically,3-10years.The financier purchasestheequipmentyouneedandthenleasesittoyouinreturnforregular paymentsfor thedurationoftheleaseperiod.

vi- Personalloans;ifitisimpossibletoobtainaloaninyourbusiness’name,you couldconsider obtainingapersonalloan.However,checkthattheconditionsdonotjeopardize controlofthe

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businessandthatyouareveryconfidentofbeingabletorepayoryoumaylose assetsputup ascollateral.

vii- Familyandfriends;youcanborrowmoneyfromfriendsandfamily,howeverto avoidany misunderstandingsand/orresolveanydisputeifthingsgowrong,itisimperative tomakea writtenagreement,includingtheloantimeperiodandinterestpayments.

DISADVANTAGESOFSUCHAVENUESOFRAISINGFUNDS

a-Jointventurescanoftenresultintolossofcontroloveraspectssuchaspolicyand development.

b-Bankshavethepowertoplaceabusinessintoadministrationorbankruptcyifit defaultson debtinterestorrepayments.

c-Borrowingfromfamilyandfriendscanleadtodisputesorinterferenceinthe managementof theventure. d-Whenseekingfinancing,considerwhatsourceandtypeoffinancesuitsyourneeds. Then matchthemethodoffundingandtheloantotheloantothereasonforthefinance. Donot forgetthatyourfinancingdecisionsmayhaveanimpactonbusinesscashflowand other obligationssuchastaxation.

END

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