



Capital Markets Authority
Protecting Your Investments

CIS MANAGERS' SURVEY REPORT



June 2023

Research and Market Development, Capital Markets Authority Uganda

Table of Contents

Table of Contents.....	2
List of Tables	4
List of Annex 1 Tables	5
List of Figures.....	6
Acronyms.....	7
Definitions	8
EXECUTIVE SUMMARY	9
1.0 INTRODUCTION.....	13
1.1 Background of the Survey	13
1.2 Objectives of the Survey.....	14
1.3 Methodology.....	14
2.0 FINDINGS.....	15
2.1 Response Rate	15
a) INDUSTRY CHARACTERISTICS AND SIZE.....	15
2.2 Breakdown of the CIS Managers' AUM as at End of March 2023.....	15
2.2.1 Breakdown of the AUM per CIS Fund.....	15
2.2.2 Breakdown of AUM in Terms of Investor Category	17
2.3 Breakdown of the Number of CIS Accounts by Investor Category.....	17
2.3.1 Breakdown of the CIS Accounts per CIS Manager.....	18
2.4 Parent Companies	18
2.5 Employee Breakdown	19
b) FACTORS AFFECTING GROWTH OF THE CIS INDUSTRY.....	20
2.6 Demand for /Distribution of CISs.....	20
2.6.1 Slow Uptake of CIS in Uganda	20
2.6.2 Distribution Channels Used by CIS Managers.....	20
2.6.3 Advertising.....	22
c) ASSESSMENT OF CHALLENGES FACED BY THE CIS MANAGERS	23
2.7 Management and Investment of CIS Fund Assets	23
2.7.1 Challenges Experienced while Investing CIS Funds	23
2.8 Internal Management of the CIS Managers	24
2.8.1 Human Resource Challenges.....	24

2.8.2 Cost Drivers for the Business	24
d) ASSESSMENT OF PERCEPTIONS ON THE REGULATORY ENVIRONMENT.....	25
2.9 Perception of the Regulatory Environment	25
e) OTHER INDUSTRY ASPECTS SURVEYED.....	26
3.1 Improving the CIS Industry.....	26
4.0 RECOMMENDATIONS.....	27
ANNEX 1 – Statistical Data	29
ANNEX 3 – Frequently Asked Questions	30

List of Tables

Table 1: Comparison of Number of CIS Investor Accounts and CIS AUM as a Percentage of GDP.....	13
Table 2: Breakdown of the CIS Managers' AUM at the End of March 2023	15
Table 3: Industry Weighted Average Annual Returns of Selected CIS Funds (%).....	16
Table 4: Breakdown of AUM by Investor Category	17
Table 5: Breakdown of the CIS Accounts by Investor Category	17
Table 6: Breakdown of the CIS Accounts per CIS Manager	18
Table 7: Type of Business Conducted by the Parent Company	18
Table 8: Employee Breakdown	19
Table 9: Distribution Channels Used by CIS Managers	21
Table 10: Customers from the Different Distribution Channels in 2022.....	22
Table 11: Issues and Recommendations.....	27

List of Annex 1 Tables

Table A 1: Breakdown of the CIS Funds for UAP	29
Table A 2: Breakdown of the CIS Funds for ICEA	29
Table A 3: Breakdown of the CIS Funds for Britam.....	29
Table A 4: Breakdown of the CIS Funds for Sanlam	29
Table A 5: Breakdown of the CIS Funds for XENO	29
Table A 6: Breakdown of the CIS Funds for SBG.....	29

List of Figures

Figure 1: Breakdown of the AUM by CIS Fund	16
Figure 2: How CIS Managers Leverage the Relationship with Their Parent Companies	19
Figure 3: Contributors to the Slow Uptake of CISs in Uganda	20
Figure 4: Challenges Experienced while Investing CIS Funds	24
Figure 5: Cost Drivers for the Business	25

Acronyms

CMA	Capital Markets Authority
USE	Uganda Securities Exchange
BOU	Bank of Uganda
CIS	Collective Investment Schemes
AUM	Assets Under Management
GDP	Gross Domestic Product
MOU	Memorandum of Understanding
URBRA	Uganda Retirement Benefits Regulatory Authority

Definitions

Collective Investment Scheme – An investment product which allows an investor to pool their savings with those of other investors, thereby creating a large pool of funds to be invested on their behalf by a professional manager.

Investor – An individual, group of individuals or company with savings or money to invest in a CIS, such as a unit trust scheme.

CIS Manager – A licensed firm that markets and sells units to potential investors in a CIS fund. The role of the CIS Manager is to decide, within the rules of the CIS fund and the various regulations, which investments are included within the CIS fund. This will include deciding what to buy and when to buy it, as well as what to sell and when to sell it.

Trustee – A company responsible for overseeing the assets of a CIS. The trustee is essentially the legal owner of the scheme's assets. The primary duty of the trustee is to protect the interests of the investors by ensuring that the CIS Manager is performing its duties in accordance with the CIS Act and is investing the funds in accordance with the prescribed investment policy of the CIS fund. Trustees are normally financial institutions such as banks and insurance companies.

Trust Deed – A legal document that creates a trust, giving the trustee the responsibility to oversee assets for the benefit of the investors/beneficiaries. All CIS in Uganda are established by a trust deed between the CIS Manager and a trustee.

Custodian – Refers to the company responsible for holding and keeping safe custody of CIS funds. Custodians are normally financial institutions such as banks.

Money Market Fund – A CIS fund containing interest-bearing investments having a maturity of 12 months or less or a fund having interest-bearing instruments whose weighted time to maturity is 12 months or less.

Balanced Fund – A CIS fund comprised of short, medium and long-term interest-bearing investments plus equities.

Umbrella Fund – A CIS fund with any number of constituent sub-funds, providing the opportunity for unit holders to switch all or part of their investment from one sub-fund to another.

Equity fund – A CIS fund comprised of investments in only shares.

EXECUTIVE SUMMARY

The enactment of the Collective Investment Schemes (CIS) Act in 2003 paved the way for the establishment of CISs in Uganda. There are six licensed CIS Managers operating within the country, with the Ugandan CIS industry experiencing immense growth over the last 9 years. As of March 2023, Assets Under Management (AUM) amounted to UGX 1,779.2 Billion (US\$ 476.9 million), which is a substantial increase from UGX 1.6 Billion (US\$ 0.42 million) as of March 2014. Despite this growth, the industry's size remains relatively small as it only accounts for 1.1% of Uganda's Gross Domestic Product when compared to other African markets.

a) CHARACTERISTICS OF THE SIZE OF THE CIS INDUSTRY

The CIS Managers surveyed had a total of Ugx 1,779.2 billion in AUM as of March 2023. Interestingly, the top two CIS managers held 80.9% of the total AUM at the end of March 2023. UAP was the clear leader with a market share of 67.3% and a total AUM of Ugx 1,197.4 Billion. Fund type, the Umbrella funds had a total of Ugx 1,328 billion in AUM, representing 74.6% of the total AUM held by CIS Managers. It's noteworthy that local individuals were the majority investor category, contributing 52.03% to the total AUM.

At the end of March 2023, the six CIS Managers surveyed held a total of 56,787 investor accounts with 90.2% being accounts held by Ugandan individuals. UAP had the biggest market share with a total of 24,391 accounts, representing 43% of total investor accounts.

Out of the six CIS Managers surveyed, five had a parent company. Among them, three stated that their parent companies conduct insurance business, while one indicated that it conducts both insurance and banking business, and another stated that it conducts banking business.

In total, the CIS Managers surveyed were found to have a workforce of 200 employees. Interestingly, over half of these employees (68%) are responsible for sales and business development functions.

b) FACTORS AFFECTING THE GROWTH OF THE CIS INDUSTRY

According to the survey, the major reason for the continued low uptake of CISs in Uganda is mainly due to the public's low level of awareness about CIS, despite the public education programs run by the CMA and CIS Managers. The respondents also indicated that the slow pace of reforming the pension sector was contributing to the slow uptake of CIS.

Most CIS Managers rely heavily on their in-house sales teams (100%) and third-party independent financial advisors (83%) for client acquisition and investments. However, it's worth noting that some CIS Managers

are also utilizing other distribution channels, such as parent company in-house sales teams, parent company third-party sales agents, and Mobile-Network Operators / Mobile Money Providers, to enhance their reach. Nevertheless, the heavy reliance on in-house sales teams places restrictions on the expansion of CIS Managers, while third-party distribution agents like Mobile-Network Operators / Mobile Money Providers remain underutilized. It's important to mention that none of the respondents use third-party agents such as investment advisory firms, brokerage firms, and banks for product distribution.

Five of the six CIS Managers surveyed disclosed that they advertised in 2022 through TV, print media, social media, or billboards. While the advertising campaign was largely deemed successful, with a focus on brand awareness and increasing public knowledge about CIS, there is still a need for more engaging advertising to raise public awareness about CISs in Uganda.

c) CHALLENGES FACED BY THE CIS MANAGERS

Most of the respondents reported facing obstacles when investing CIS funds, with the largest challenge being the limited investment options in capital markets. Furthermore, the CIS Managers revealed that few issues coming to the market for both equities and corporate bonds and the low liquidity in the secondary market of equities and corporate bonds only add to these difficulties.

According to the survey, human resource-related challenges were minimal, except for the shortage of investment operations professionals and software engineers to support digital business models.

CIS Managers noted that they have a high cost structure, which prevent them from paying higher commissions to their sales agents. The primary cost drivers are administration fees, such as office space, trustee fees, custody fees, and audit fees, marketing expenses, and the cost of setting up and maintaining distribution channels. These costs are almost entirely fixed.

d) PERCEPTIONS OF THE REGULATORY ENVIRONMENT

Two of the six CIS Managers who participated in the survey revealed that they are currently facing regulatory challenges. These challenges include the high cost of securing individual fund licenses, and the requirement for all funds to apply for a license from the CMA. The CIS Managers also cited the delay in closing out audit issues in part due to limited resources.

e) RECOMMENDATIONS

From the issues that emerged, several recommendations were made including:

- i) Slow uptake of CISs in Uganda.

- CMA should continue engaging stakeholders on reforming the pension sector to help increase pension savings and players;
 - CMA's public education program should continue to focus on creating awareness of CIS products and a coordinated approach should be taken on public education programs by financial sector regulators and industry bodies;
 - The CMA in coordination with CIS Managers should continue to support the tax exemptions of CIS to support the growth of the industry;
 - Publication of CIS industry updates and CIS prices in print media by CIS Managers as a way of increasing awareness and encouraging more Ugandans to invest in CIS; and
 - More advertising by CIS Managers citing CMA as a regulator to give the industry legitimacy.
- ii) Distribution Channels
- CIS Managers should forge strategic partnerships with third-party distributors like Mobile-Network Operators; and
 - CIS Managers should review their cost and fee structures in order to be able to offer higher commissions to their sales agents to grow their AUM.
- iii) Challenges with Investing CIS funds
- CMA should continue with its efforts to increase issuer participation and ensure that more products are brought to the market through its Issuer Resource Person Program;
 - The CMA should aim to more actively engage its stakeholders, specifically the Ministry of Finance and the Bank of Uganda, in devising strategies to develop the secondary market for government securities; and
 - The CMA could consider bringing market players together to establish a trading system similar to the interbank system.
- iv) Cost Drivers for Business
- CIS Managers should increase their AUM in order to allow them to benefit from economies of scale.
- v) Regulatory Matters
- The CMA should consider having a single license/ application fee for all funds under one CIS Manager to reduce costs;

- CMA should consider extending the license period or granting perpetual licenses to reduce the cost of operating various funds;
- CMA should consider developing a regulatory sandbox to allow for innovations from market players;
- CMA should consider engaging URBRA to ease up on the stringent limits on the maximum amount that fund managers are permitted to invest through CIS;
- CMA should consider bringing together stakeholders to discuss modalities of having standard management fees for CIS Managers; and
- As the AUM of the CIS managers grows, CMA should consider mandating all CIS Managers to have in-house risk and compliance teams.

1.0 INTRODUCTION

1.1 Background of the Survey

The enactment of the Collective Investment Schemes (CIS) Act in 2003 paved the way for the establishment of CISs in Uganda. There are currently 6 licensed CIS Managers in Uganda; ICEA Asset Management Uganda Limited, UAP Old Mutual Financial Services Uganda Limited, XENO Investment Management Limited, Sanlam Investments East Africa Limited, Britam Asset Managers Company Uganda Limited and SBG Securities Limited.

The CIS industry has remarkably grown over the last 9 years. Assets Under Management have increased from Ugx 1.6 Billion (US\$ 0.42 million) at the end of March 2014 to UGX 1,779.2 Billion (US\$ 476.9 million) at the end of March 2023, however, this only represents 1.1% of Uganda's Gross Domestic Product.¹ Despite the growth seen over the last 9 years, the size of the Ugandan CIS industry remains small compared to CIS industries in other African markets. Across the East African region, Kenya leads with AUM of US \$ 1,216 million (See Table 1).

Table 1: Comparison of Number of CIS Investor Accounts and CIS AUM as a Percentage of GDP

Indicator	Uganda	Kenya	Tanzania
GDP at Constant Prices (US \$ billion)	44.7	94.9	67.5
CIS Assets under Management (US \$ million)	476.9	1,216.7	636.9
CIS Assets under Management to GDP (%)	1.1	1.3	0.9
Number of CIS Accounts	56,787	942,236	183,987
Average Balance per Account (US \$)	8,398	1,291	3,461

Source: Survey Findings; World Bank; Capital Markets Authority Kenya. (2023). Quarterly Statistical Bulletin; <https://www.uttamis.co.tz/>

The Authority recognizes the outstanding potential of CIS to mobilize savings from Ugandans for investment and has made it a priority for growth. This is an integral part of the Capital Markets Development Master Plan and the third National Development Plan (NDP III) 2020/21 – 2024/25, whose goal is to 'Increase household incomes and improve the quality of life'. As part of the implementation of the abovementioned plans, CMA, together with the licensed CIS Managers have been engaged in different initiatives that include among other things:

- Public education campaigns aimed at sensitizing the public on saving and investing in CIS; and

¹ CMA Market Supervision Department

- Market forums which provide a platform for sharing best practices with stakeholders and also present stakeholders an opportunity to air out areas of concern to the regulator.

To enable CMA further contribute to the development of the CIS sector, the Authority undertook a second survey (having initially done one in 2019) to assess the profile of CIS investors and their level of participation, the factors affecting the growth of the CIS industry, the challenges faced by CIS Managers and perceptions of the regulatory environment. It is envisaged that the data collected from the survey will inform further intervention measures aimed at enhancing the growth of the CIS industry.

1.2 Objectives of the Survey

The CMA undertook a survey to inform intervention measures by the Authority that would enhance the growth of the CIS industry. Specifically, the survey sought to:

- i) Assess the characteristics and size of the CIS industry;
- ii) Assess the factors affecting the growth of the CIS industry;
- iii) Assess the challenges faced by the CIS Managers; and
- iv) Assess the perceptions of the regulatory environment.

1.3 Methodology

A questionnaire with a combination of both structured and unstructured questions was circulated via e-mail to the six CIS Managers in May 2023. Follow-up phone calls were held there with the six CIS Managers where there was need for clarity. Questionnaires were analyzed by the Research and Market Development Department of the Capital Markets Authority Uganda.

2.0 FINDINGS

2.1 Response Rate

Six (6) survey questionnaires were circulated to the CIS Managers (ICEA Asset Management Uganda Limited, UAP Old Mutual Financial Services Uganda Limited, XENO Investment Management Limited, Sanlam Investments East Africa Limited, Britam Asset Managers Company Uganda Limited and SBG Securities Limited). Six (6) responses were obtained, translating to a response rate of 100%.

a) INDUSTRY CHARACTERISTICS AND SIZE

2.2 Breakdown of the CIS Managers' AUM as at End of March 2023

By the end of March 2023, the CIS Managers who were surveyed had amassed a total AUM of **Ugx 1,779.2** billion. The top two CIS managers controlled 80.9% of the total AUM at the end of March 2023. UAP took the lead with **Ugx 1,197.4** Billion in AUM, accounting for 67.3% of the total industry AUM.

Table 2: Breakdown of the CIS Managers' AUM at the End of March 2023

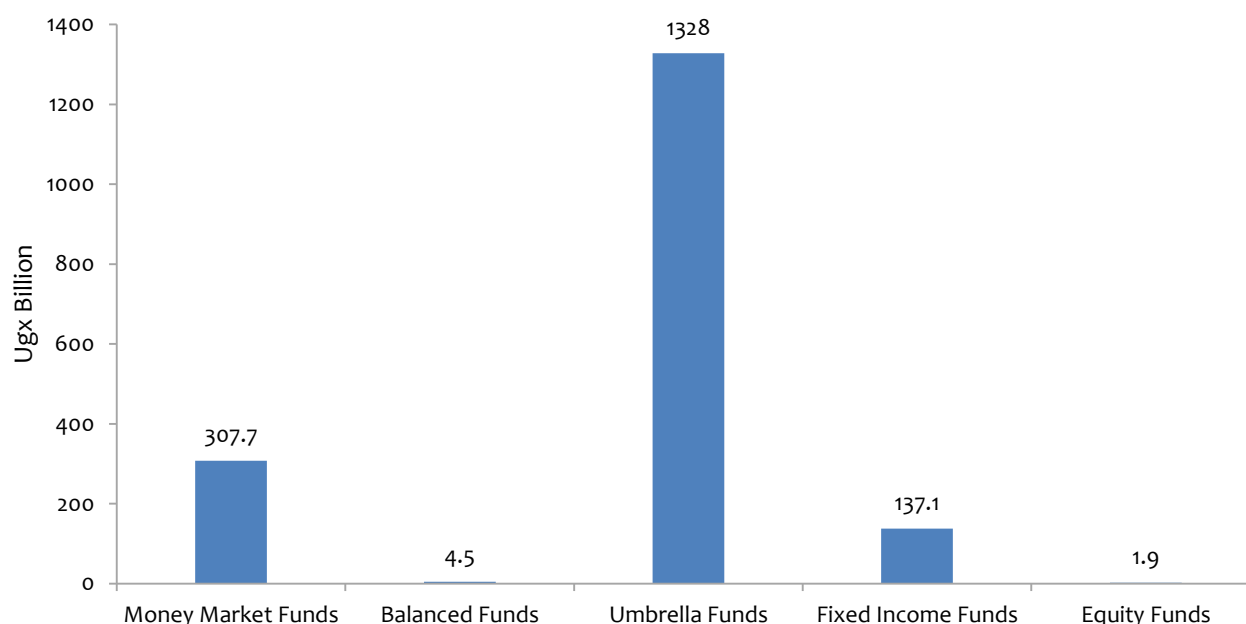
	CIS Manager	AUM (UGX billion)	Percentage (%)
1	UAP-Old Mutual Financial Services Limited	1,197.4	67.6
2	ICEA Lion Asset Management Limited	242.6	13.6
3	Britam Asset Managers Uganda Limited	190.5	10.7
4	Sanlam Investments East Africa Limited	69.9	3.9
5	Xeno Technologies Uganda Limited	50.8	2.9
6	SBG Securities Limited	27.8	1.6
	Total	1,779.2	100

Source: Survey Findings

2.2.1 Breakdown of the AUM per CIS Fund

With Ugx **1,328 billion** in AUM, the Umbrella Funds reigns supreme among CIS funds, holding 74.6% of total industry AUM. The dominance of the umbrella funds is partly because they provide higher returns compared to the other funds. The Umbrella funds invest in interest-bearing securities offered in the market such as treasury bills, treasury bonds, corporate bonds, and fixed deposits with approved financial institutions and other fixed income securities available in the market. The funds' returns are further enhanced by the inclusion of selected, highly rated debt, corporate and government paper from across the region and offshore.

Figure 1: Breakdown of the AUM by CIS Fund



Source: Survey Findings

Table 3 below shows the end of march 2023 annualized returns of the different CIS funds of selected CIS Managers.

Table 3: Industry Weighted Average Annual Returns of Selected CIS Funds (%)

CIS Manager	CIS Funds	Inception Date	Annualized Return Since Inception (%)
UAP-Old Mutual Financial Services Limited	Umbrella Fund	August 2013	11.9
	Money Market Fund	August 2013	11.02
	Balanced Fund	August 2013	10.1
ICEA Lion Asset Management Limited	Money Market Fund	February 2014	11.2
	Fixed Income Fund	June 2020	23.9
	Savings Fund	June 2020	8.1
	Balanced Fund	February 2014	32.8
Xeno Technologies Uganda Limited	Money Market Fund	September 2017	10.84
	Bond Fund	September 2017	15.43
	Domestic Equity Fund	September 2017	24.48
	Regional Equity Fund	September 2017	-4.37

Source: Unit Trust Fund Fact sheets

2.2.2 Breakdown of AUM in Terms of Investor Category

A breakdown of AUM in terms of Investor Category indicates that Ugandan individuals were the dominant investor type accounting for 52% to the total industry AUM.

Table 4: Breakdown of AUM by Investor Category

	Investor Category	AUM (Ugx Billion)	Percentage (%)
1	Ugandan Individuals	925.7	52
2	East African Individuals	18.6	1
3	Foreign Individuals	0.9	0.05
4	Local Companies & Institutional Investors	624.3	35.1
5	Investment Clubs	15.1	0.9
6	SACCOS	194.6	10.9
	Total	1,779.2	100

Source: Survey Findings

2.3 Breakdown of the Number of CIS Accounts by Investor Category

There were 56,787 CIS accounts at the end of March 2023 held by the 6 CIS Managers surveyed, with 90.2% being accounts of Ugandan individuals. Notably, the average Ugandan has invested about Ugx 18.1 million shillings in CIS, which suggests that many Ugandans have not yet invested in CIS. Meanwhile, Investment Clubs hold an average of Ugx 6.9 million indicating that there is great potential for more investment club participation with the right publicity and marketing campaigns.

Table 5: Breakdown of the CIS Accounts by Investor Category

	Investor Category	Number of CIS Accounts	AUM (Ugx Billion)	Average Balance per Account (Ugx Million)	Percentage (%)
1	Ugandan Individuals	51,221	925.7	18.1	90.2
2	East African Individuals	37	18.6	507.3	0.1
3	Foreign Individuals	26	0.9	36.1	0.04
4	Local Companies & Institutional Investors	2,545	624.3	245.3	4.5
5	Investment Clubs	2,183	15.1	6.9	3.8
6	SACCOS	776	194.6	250.7	1.4
	Total	56,787	1,779.2		100

Source: Survey Findings

2.3.1 Breakdown of the CIS Accounts per CIS Manager

UAP had the highest number of CIS accounts with a total of **24,391** accounts, representing 43% of the total accounts held by CIS Managers.

Table 6: Breakdown of the CIS Accounts per CIS Manager

	CIS Manager	Number of CIS Accounts	Percentage (%)
1	UAP-Old Mutual Financial Services Limited	24,391	43
2	Xeno Technologies Uganda Limited	22,692	40
3	ICEA Lion Asset Management Limited	6,778	11.9
4	Britam Asset Managers Uganda Limited	2,222	3.9
5	Sanlam Investments East Africa Limited	515	0.9
6	SBG Securities Limited	189	0.3
	Total	56,787	100

Source: Survey Findings

The breakdown of investor accounts held by each CIS Manager in the different unit trust funds is shown in Annex 1.

2.4 Parent Companies

Out of the six CIS Managers surveyed, five were found to have a parent company. Interestingly, three out of those five had parent companies conducting insurance business. One of the CIS Managers, UAP-Old Mutual Financial Services Uganda Limited, shared that its parent company is involved in both insurance and banking businesses. Additionally, SBG Securities Limited's parent company is in the banking business.

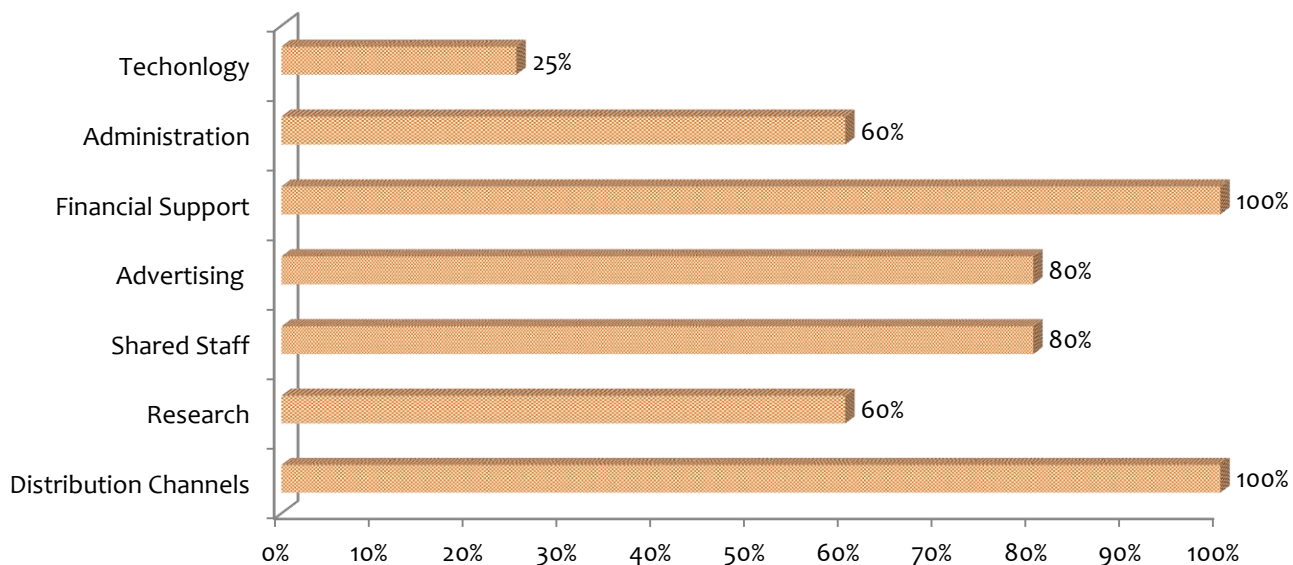
Table 7: Type of Business Conducted by the Parent Company

	Business Type	Respondents
1	Financial Services (Insurance and Banking)	4
2	Financial Technology	1

Source: Survey findings

All the respondents reported that they leverage the relationship with their parent companies. Financial support (100%) and distribution channels (100%) were the main areas of support provided to the CIS Managers by their parent companies.

Figure 2: How CIS Managers Leverage the Relationship with Their Parent Companies



Source: Survey findings

2.5 Employee Breakdown

The CIS Managers surveyed had a total number of 200 employees. More than half of the total employees (68%) carry out sales and business development functions. Notably, the CIS Managers with parent companies indicated that they leverage available resources such as marketing, human resources, information technology, legal, risk and compliance, to name a few. It is worth noting that only one CIS Manager has an in-house Risk and Compliance team, while other CIS Managers rely on their parent companies' Risk and Compliance resources. As the AUM of CIS Managers increases, it is necessary to mandate all managers to maintain in-house risk and compliance teams.

Table 8: Employee Breakdown

	Function	Number of Employees
1	Sales and Business Development	136
2	Administration	16
3	Investment and Research	12
4	Finance	12
5	Operations	10
6	Technology and Product Development	9
7	Marketing	2
8	Risk and Compliance	3

Source: Survey findings

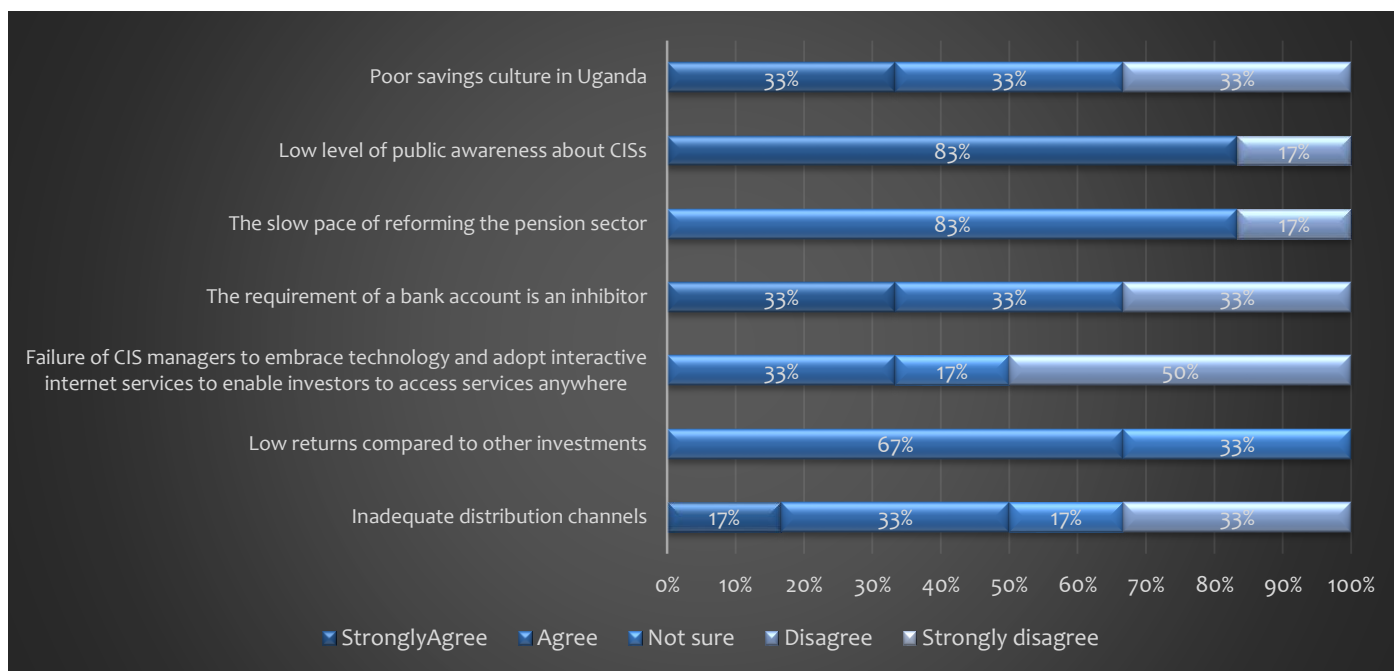
b) FACTORS AFFECTING GROWTH OF THE CIS INDUSTRY

2.6 Demand for /Distribution of CISs

2.6.1 Slow Uptake of CIS in Uganda

CIS Managers surveyed stated that the major reasons for the continued low uptake of CIS in Uganda are the low level of public awareness about CISs and the slow pace of reforming the pension sector. It is noteworthy that the reform of the pension sector would help attract Ugandans, to save with different pension schemes. The initiative would help mobilize local capital, which could be deployed for productive use in the capital markets through CIS. Furthermore, the survey results in part imply that much as there have been extensive public education programs which aim at creating awareness about CIS, a lot more needs to be done.

Figure 3: Contributors to the Slow Uptake of CISs in Uganda



Source: Survey findings

2.6.2 Distribution Channels Used by CIS Managers

All CIS Managers surveyed had in-house sales teams that are remunerated with a retainer and a commission. These individuals usually have sales targets and are trained to be conversant with selling CIS products. Interestingly, all but one of the CIS Managers surveyed rely on third-party independent financial advisors, who don't have sales targets but still receive commissions for their services.

The heavy reliance on the in-house sales teams limits the reach of CIS Managers, while parent company In-house sales team (where the CIS Manager is a subsidiary) and Mobile-Network Operator/ Mobile

Money Providers are sparingly used. None of the respondents have ventured into third-party distribution channels like investment advisory firms, brokerage firms and banks.

Table 9: Distribution Channels Used by CIS Managers

	Distribution Channel	Respondents (%)
1	In-house sales team	100
2	Third-party independent financial advisors	83
3	Parent company third-party sales agents (where the CIS Manager is a subsidiary)	33
4	Parent company In-house sales team (where the CIS Manager is a subsidiary)	33
5	Mobile-Network Operator/ Mobile Money Providers	17
6	Third-party investment advisory firms	0

Source: Survey findings

It is worth noting that the parent company sales agents (where parent companies that conduct insurance business) prefer selling insurance products to CIS products since the commission earned is significantly higher (40% of the premium) than that for CIS products, which is between 20% and 35% of the annual management fees.

One CIS Manager (XENO) has been able to leverage mobile phone and mobile telecommunications technology to increase access to its investment products. Through its mobile application and USSD investment service partnership with MTN, investors can access professional investment advice and management on their mobile phones. Xeno's groundbreaking initiative has not only made investment accessible to a wider audience but also enabled them to process about 37,792 mobile money transactions, amassing a total of UGX 4.2 Billion from their clients in the year 2022 alone. With this untapped potential in the mobile phone space, there's no doubt that partnerships with Mobile-Network Operators to distribute CISs would greatly spur the growth of the sector. It's high time other CIS Managers embraced this distribution channel for optimal success.

Notably, in 2020, Financial Sector Deepening Uganda (FSDU) and XENO joined forces to test the potential of mobile technology to broaden investment access for low-income investors. Over the course of the two-year program, which ran from September 2020 to November 2022, XENO successfully registered a total of 45,863 CIS accounts through mobile phones. The report noted that although the traditional banking channel performed similarly, deposits made through MTN Mobile Money were found to be more successful during the project period, except for two brief periods in 2021. Additionally, the report showed

that the usage of the MTN USSD channel, which charged no transfer fees for transferring investment funds from the mobile money wallet to the XENO investment account, significantly increased low-income customer deposits. This proves that the mobile phone serves as a catalyst to increase the uptake of investment products among the low-income market segment, without incurring any charges.²

Five out of six CIS Managers who were surveyed were able to provide insightful information regarding the number of investor accounts opened through various distribution channels. As per Table 6, a total of 18,529 clients were enrolled through different channels in 2022. Notably, the parent companies' third-party sales teams managed to sign up 39.3% of these new accounts, which clearly showcases their effectiveness in attracting new clients in 2022.

In 2022, CIS Managers were able to pull in an impressive UGX 651.1 billion through various distribution channels (as shown in Table 10) and interestingly enough, further analysis reveals that the parent companies' third-party sales teams were responsible for bringing in 40% of this total, followed by third-party independent financial advisors with 25%. It can be safely concluded that these teams were most successful in sourcing investments.

Table 10: Customers from the Different Distribution Channels in 2022

	Category	Number of Customers	Total Investment (UGX Billion)
1	In-house sales team	2,254	153.8
2	Parent company in-house sales team	1,308	71.7
3	Parent company third-party sales team	7,341	262.2
4	Third-party independent financial advisors	2,465	163.4
5	Mobile-Network Operators/ Mobile Money Providers	5,264	0.05 ³
	Total	18,529	651.1

Source: Survey findings

2.6.3 Advertising

All except one of the CIS Managers surveyed confirmed that they had advertised during 2022, with spends ranging from UGX 20 million to UGX 295 million. Regardless of the medium, be it television, print, social media, or billboards, each CIS Manager focused on increasing brand awareness while at the same

² Financial Sector Deepening Uganda. (2023). *XENO Case Study Report*

³ This figure only represents the first deposit through new MTN USSD account creation channel

time educating the public about CIS. And it's safe to say that their efforts were largely successful. Interestingly enough, every single CIS Manager has expressed interest in advertising again in 2023.

c) ASSESSMENT OF CHALLENGES FACED BY THE CIS MANAGERS

2.7 Management and Investment of CIS Fund Assets

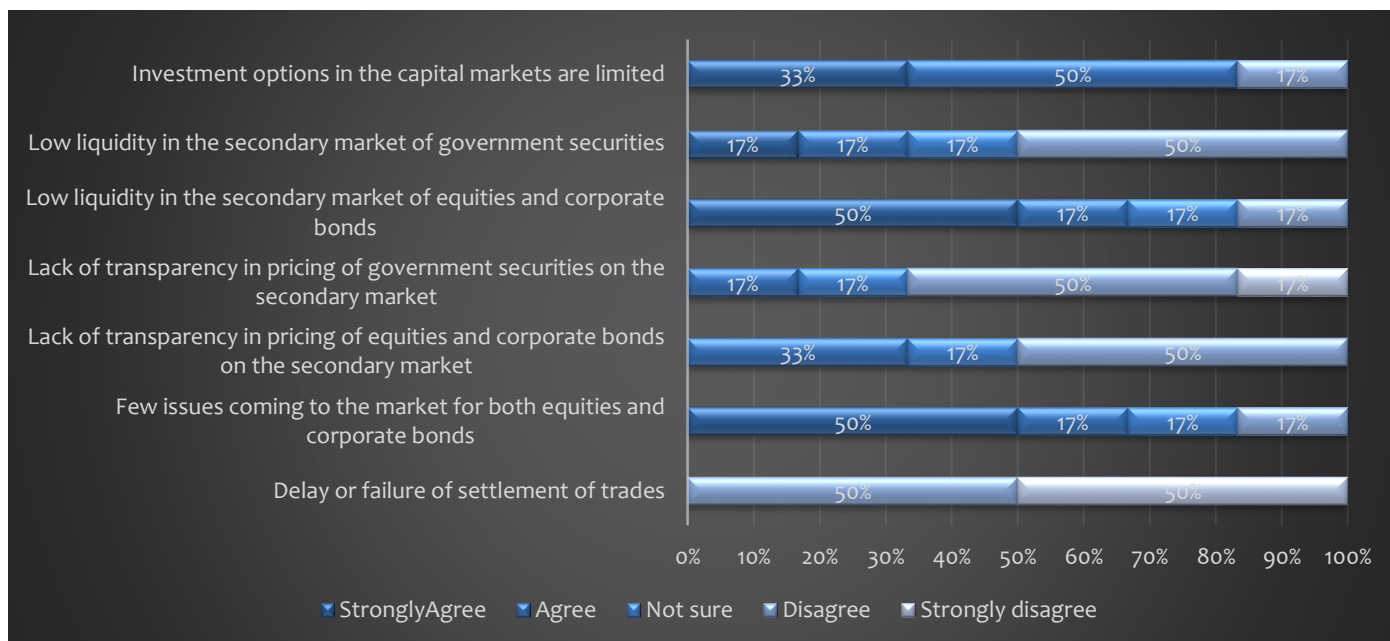
2.7.1 Challenges Experienced while Investing CIS Funds

Five out of the six survey respondents highlighted the challenge of limited investment options in the capital markets when investing CIS funds. Additionally, 67% of the respondents agreed that there were few issues coming to the market for equities and corporate bonds. It's worth noting that the Uganda Securities Exchange (USE) has only 17 listed companies, with 10 locally listed and seven cross-listed from the Nairobi Securities Exchange. Conversely, only one corporate bond is currently listed on the USE.

While the limited investment options and few issuers can be attributed to various factors such as a nascent private sector dominated by family-owned businesses, a low level of awareness of market-based financing and a lack of investment readiness for companies, several initiatives are being undertaken to ensure more companies are brought to the market. These initiatives include, among others: The Issuer Education Program and the Deal Flow Facility (DFF). The Issuer Education Program uses external contractors to sensitize business owners, founders, board members, CEOs, and CFOs on long-term capital raising opportunities presented by non-bank, market-based financing.

On the other hand, the DFF, which was set up through a collaboration between the CMA, Financial Sector Deepening (FSD) Uganda and the European Union is a one-stop center that prepares and enhances businesses' access to long-term market-based financing (both private and public equity and/ or debt). This is done by, amongst other things, actively matchmaking selected business enterprises to long-term investment capital to allow them to focus on growth rather than short-term funding needs.

Figure 4: Challenges Experienced while Investing CIS Funds



Source: Survey findings

Four out of the six CIS Managers (67%) surveyed also agreed that low liquidity in the secondary market of equities and corporate bonds is also a hindrance to investing CIS funds. It's worth noting that government securities auctions occur every two weeks, explaining the significant holding of government securities in the money market funds and the umbrella funds.

2.8 Internal Management of the CIS Managers

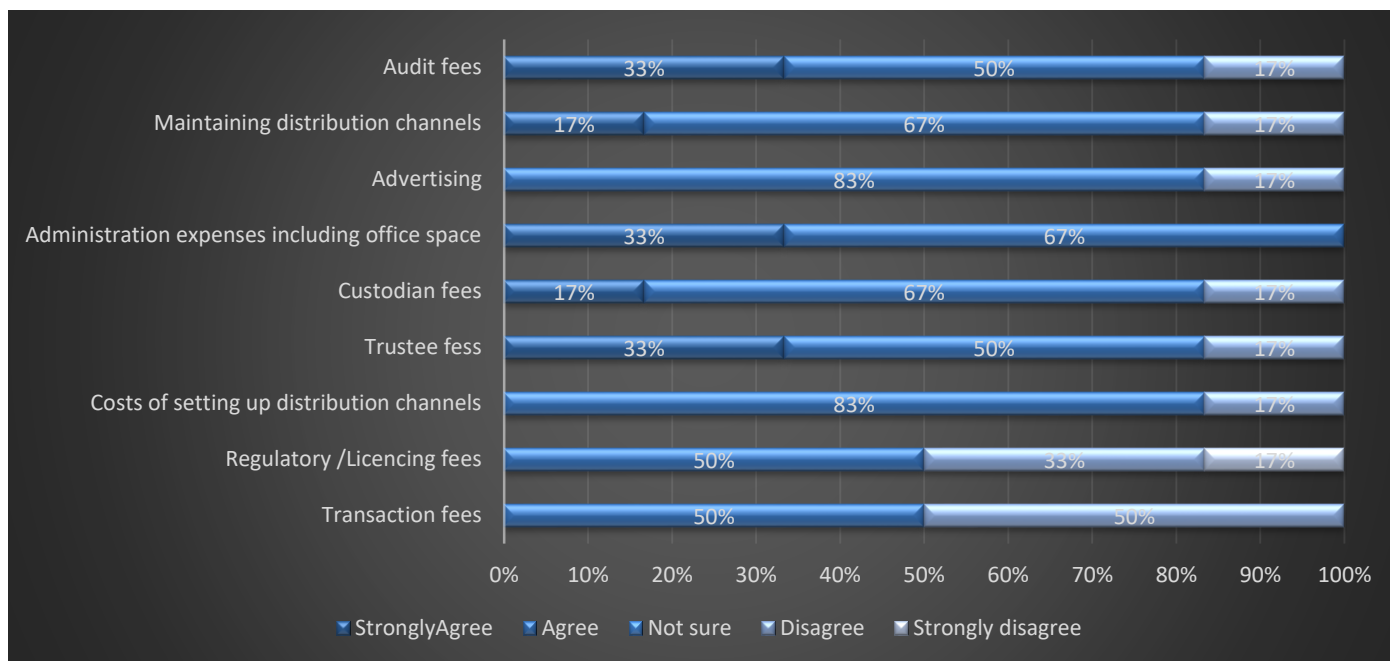
2.8.1 Human Resource Challenges

The respondents were tasked with identifying challenges related to human resources, and the primary hurdle they faced was a shortage of investment operations professionals and software engineers necessary to support the digital business models.

2.8.2 Cost Drivers for the Business

Many survey participants mentioned that they have a high cost structure, which in part prevents them from granting their sales agents better commissions. The major cost drivers are administrative fees like renting office space, trustee fees, custody fees, audit fees, maintaining distribution channels, marketing, and setting up distribution channels, which are often unchanging fixed costs.

Figure 5: Cost Drivers for the Business



Source: Survey findings

The CIS managers charge an annual management fee that ranges between 1.5% to 2% of the assets under management. However, there is no standardized method for quoting management fees within this industry. This is because some CIS Managers include trustee, custodian, and audit fees as part of their annual management fees. On the other hand, some CIS Managers exclude such fees from the annual management fee to offer high commissions to their sales agents.

CIS Managers who separate trustee and custodian fees from the annual management fees can better incentivize their sales teams and drive more business. To do this, managers should consider reviewing their cost and fee structures to provide higher commissions to their agents.

d) ASSESSMENT OF PERCEPTIONS ON THE REGULATORY ENVIRONMENT

2.9 Perception of the Regulatory Environment

Two of the six CIS Managers surveyed indicated that they are currently facing regulatory challenges, which include:

- i) The high cost of individual fund licenses and the requirement to have all funds apply for a license from CMA; and
- ii) The delay in closing out internal audit issues is in part due to limited resources.

CIS Managers surveyed suggested that CMA should make the following improvements:

- i) Consider having a single license/ application fee for all funds under one CIS Manager to reduce costs;
- ii) Consider extending the license period or granting perpetual licenses to reduce the cost of operating various funds;
- iii) Engaging with the market players more often to understand the business aspect of the industry and the challenges the industry players face so that we can grow the industry together;
- iv) Consider bringing market players together to introduce a trading system similar to the interbank system where market players can trade assets/ securities with other schemes overnight without selling assets at a loss to settle withdrawal requests; and
- v) Consider simplifying the regulatory language for easy interpretation by all stakeholders.

e) OTHER INDUSTRY ASPECTS SURVEYED

3.1 Improving the CIS Industry

The following are suggestions from the CIS Managers surveyed on how to improve the CIS industry and address their most pressing issues:

- i) Continue to support the tax exemptions of CIS to support the growth of the industry;
- ii) Creation of a regulatory sandbox to allow for innovations from market players;
- iii) CMA should consider engaging URBRA to ease up on the stringent limits on the maximum amount that fund managers are permitted to invest through CIS in order to increase the role of CIS Managers in the pension sector;
- iv) Continue promoting investor education and public awareness; and
- v) Carrying out countrywide public awareness campaigns.

4.0 RECOMMENDATIONS

From the analysis of data, several issues emerged and recommendations to address them have been generated as shown in table 11.

Table 11: Issues and Recommendations

Issue	Recommendation
Slow uptake of CISs in Uganda	<p>i. CMA should continue engaging stakeholders on reforming the pension sector to help increase pension savings and players, hence increasing the number of institutional investors. Key areas for consideration as the CMA seeks to have a conversation with stakeholders include the portability of occupational scheme savings and partial access to savings upon changing jobs.</p> <p>ii. CMA’s public education program should continue to focus on creating awareness of CIS products and a coordinated approach should be taken on public education programs by financial sector regulators and industry bodies.</p> <p>iii. The CMA in coordination with CIS Managers should continue to support the tax exemptions of CIS to support the growth of the industry.</p> <p>iii. Publication of CIS industry updates and CIS prices in print media by CIS Managers as a way of increasing awareness and encouraging more Ugandans to invest in CIS.</p> <p>iv. More advertising by CIS Managers citing CMA as a regulator to give the industry legitimacy.</p>
Distribution channels	<p>i. CIS Managers should forge strategic partnerships with third-party distributors like Mobile-Network Operators. By embracing mobile phone and telecommunications technology, CIS Managers will extend the reach of their investment products. Along with this, investors would be able to easily and conveniently receive professional investment advice and management on their mobile phones.</p> <p>ii. CIS Managers should review their cost and fee structures in order to be able to offer higher commissions to their sales agents to grow their AUM.</p>
Challenges with investing CIS funds	<p>i. CMA should continue with its efforts to increase issuer participation and ensure that more products are brought to the market through its Issuer Resource Person Program</p>

	<p>which aims at sensitizing, among others, business owners on long-term capital raising opportunities presented by non-bank, market-based financing.</p> <p>ii) The CMA should aim to more actively engage its stakeholders, specifically the Ministry of Finance and the Bank of Uganda, in devising strategies to develop the secondary market for government securities. Ultimately, this will result in increased liquidity in the debt capital markets, as well as contribute to a reduction in the cost of borrowing for both the government and private sector, while enhancing market transparency.</p> <p>iii. The CMA could consider bringing market players together to establish a trading system similar to the interbank system. This mechanism would allow market players to trade assets or securities with other schemes overnight, without having to sell assets at a loss to settle withdrawal requests. This will require the developing regulatory sandbox guidelines.</p>
<p>Cost drivers for the business</p>	<p>i. CIS Managers should increase their AUM in order to allow them to benefit from economies of scale.</p>
<p>Regulatory Matters</p>	<p>i. The CMA should consider having a single license/application fee for all funds under one CIS Manager to reduce costs.</p> <p>ii. CMA should consider extending the license period or granting perpetual licenses to reduce the cost of operating various funds.</p> <p>iii. CMA should consider developing a regulatory sandbox to allow for innovations from market players.</p> <p>iv. CMA should consider engaging URBRA to ease up on the stringent limits on the maximum amount that fund managers are permitted to invest through CIS in order to increase the role of CIS Managers in the pension sector</p> <p>v. CMA should consider bringing together stakeholders to discuss modalities of having standard management fees for CIS Managers.</p> <p>vi. As the AUM of the CIS managers grows, CMA should consider mandating all CIS Managers to have in-house risk and compliance teams.</p>

ANNEX 1 – Statistical Data

Tables A 1 to A 6 show the breakdown of the CIS Finds per CIS Manager.

Table A 1: Breakdown of the CIS Funds for UAP

	Category
1	Umbrella Fund
2	Money Market Fund
3	Balanced Fund

Source: Survey Findings

Table A 2: Breakdown of the CIS Funds for ICEA

	Category
1	Money Market Fund
2	Fixed Income Fund
3	Savings Fund
4	Balanced Fund

Source: Survey Findings

Table A 3: Breakdown of the CIS Funds for Britam

	Category
1	Money Market Fund
2	Umbrella Fund
3	Fixed Income MMF

Source: Survey Findings

Table A 4: Breakdown of the CIS Funds for Sanlam

	Category
1	Umbrella Fund

Source: Survey Findings

Table A 5: Breakdown of the CIS Funds for XENO

	Category
1	Money Market Fund
2	Bond Fund
3	Domestic Equity Fund
4	Regional Equity Fund

Source: Survey Findings

Table A 6: Breakdown of the CIS Funds for SBG

	Category
1	Money Market Fund
2	Fixed Income Fund
3	Balanced Fund

Source: Survey Findings

ANNEX 3 – Frequently Asked Questions

What is a Collective Investment Scheme?

A Collective Investment Scheme (CIS) is an investment product which allows an investor to pool their savings with those of other investors, thereby creating a large pool of funds to be invested on their behalf by a professional manager. The professional manager invests these pooled funds in different financial assets such as shares, corporate bonds, Government bonds and treasury bills, and distributes the income earned to the different contributing investors.

Collective Investment Schemes, Unit Trust Schemes: is there a Difference?

There are numerous ways of forming CIS's. In Uganda, CIS's may be structured either as unit trust schemes or investment companies with variable capital. Currently, all existing CIS in Uganda are structured as unit trust schemes. **A Unit Trust Scheme** is a CIS that is professionally managed by a CIS Manager and is usually established by a unit trust deed. Both the scheme and the manager (as a fund manager) must be licensed by the CMA.

Who Can Invest in a CIS?

Anyone with savings or an income can invest in a CIS. This may be an individual (employed, pensioner etc.), or a legally incorporated group of people such as an investment club, a SACCO, a retirement benefit fund, an NGO etc.

For How Long Can One Invest in a CIS?

Investing in or exiting investments in a CIS is through purchasing or selling units. An investor can sell either part or all the units if they wish to exit the investment, at any time of the year. CIS quote two prices; the price at which a unit can be bought and the price at which a unit can be sold. Pricing is done daily to reflect the most current total value of the assets within the scheme. The longer an investor holds the units, the more they gain as a result of dividends and interest earnings being reinvested.

How Can One Invest in a CIS?

To undertake an investment in a CIS, one needs to visit any of the licensed CIS Managers, with whom you open an investment account. Currently, opening this account is free of charge. To successfully open an account, one needs to have valid identification documents and a bank account with any of the commercial banks. For groups, the identification documents of key persons such as Directors are required, in addition to the group having a bank account. You will also be required to fill out account

opening forms, which contain the terms and conditions of your relationship with the CIS Manager. Once the account is opened, purchase orders can be placed through the CIS Manager.

What are the Benefits of Investing in CIS?

- **Risk Diversification:** By their nature, CIS invest in a variety of assets such as shares, corporate bonds, and government securities. This implies that a drop in return on investment (profit) in one asset could be offset by gains in return from another.
- **Professional Management:** Most individual investors do not have the professional skills to manage their investments. CIS have licensed managers who provide full-time professional management of the investments, thereby ensuring that investment decisions are well-informed.
- **Access to a wider variety of investments:** By investing a small sum regularly, or a lump sum in a CIS, an investor can (in a single investment) achieve investment in numerous securities as CIS invest in a variety of financial assets.
- **Affordability:** One can invest by depositing small amounts of money over time, e.g. on a monthly or annual basis, which enables more people to invest in financial assets they would normally not afford to invest in.
- **Tax benefit:** According to Section 21 (1) (t) of the Income Tax Act, income distributed by CIS funds to investors is not taxed, thereby lowering the cost of investing in the scheme.
- **Liquidity:** Units held by an investor in a CIS can easily be converted into cash by selling the units back to the CIS Manager as and when you want to. This accords investor flexibility in investing money that may only be required after a specified time period.
- **Compounding benefits:** This occurs if an investor does not withdraw the interest or dividend income earned on their investment in a CIS, but rather reinvests it. Compounding leads to interest on both the money you save and on the interest that money earns for medium to long periods of time. The benefit is even greater for someone consistently making regular contributions to the investment.

What Disadvantages Do CIS Investments Have?

- **Loss of Control:** As a CIS investor, one is not directly in control of all investment decisions. However, the CIS Managers must invest your funds in accordance with the prospectus and trust deed of the scheme.
- **Fees / Charges:** CIS Managers do not offer a free service and therefore investors must pay a management fee, which is normally a small percentage of the total amount that is to be invested.

What should one Look Out for Before Investing?

- Read the prospectus⁴ carefully to understand how your money will be invested and the risks involved.
- Review a fund's investment objective, strategy, investment limits and current investments. Ensure that you also review the past performance of the fund over a long period of time (beyond a year).
- Establish if there are any specific features and constraints which may conflict with your needs and preferences.

⁴ A prospectus is a disclosure document that describes the unit trust scheme, for potential buyers. It contains details such as the fund's strategies, the manager's background, the fund's fee structure and a fund's financials statements.