Uganda Securities Exchange

March 2021

Monthly Bulletin

ACTIVITY REPORT

MARKET PERFORMANCE

Equities Report

The trading volume for March 2021 was 26,947,169 shares with a turnover of UGX1,154,790,287. This month's turnover performance was an 46 % decrease from 11,085,570 shares worth UGX 2,137,510,606 that was recorded in March 2020.

Activity in the 3rd month of the year decreased by 42 percent to a turnover of UGX 1.1 billion from UGX 1.9 billion recorded in February 2021. This represents a daily average turnover of approximately UGX 52.4 million. Volume traded decreased to 26.9 million shares compared to 69.8 million shares traded in February 2021. The number of deals presented a total of 323 deals up from 213 deals executed in February 2021, with 53.3 per cent of the deals attributed to the Stanbic counter.

Turnover performance per counter

Bank of Baroda Uganda counter dominated activity for the month accounting for 50.87 percent of the total turnover followed by Stanbic with 41.72 percent. In third position was UMEME with 5.92 per cent contribution to the month's turnover. National Insurance Corporation, CIPLA and Nev Vision limited combined recorded 1.49 percent of the total turnover. There was no cross-listed company that traded during the past month.

Volume traded per counter

Stanbic registered the highest volume of shares with 69.15 percent, followed by Bank of Baroda Uganda with 20.84 percent. National Insurance Corporation Uganda came third with 8.71 percent of the volume, while UMEME was in the fourth position with 1.15 percent of the total volume. CIPLA accounted for 0.13 percent, New vision Limited and Uganda Clays Limited had the least number of shares traded amounting to 1,200 shares, representing 0.00 percent of total number of shares traded.

Trading Volumes and Activity on a Monthly Basis year on year

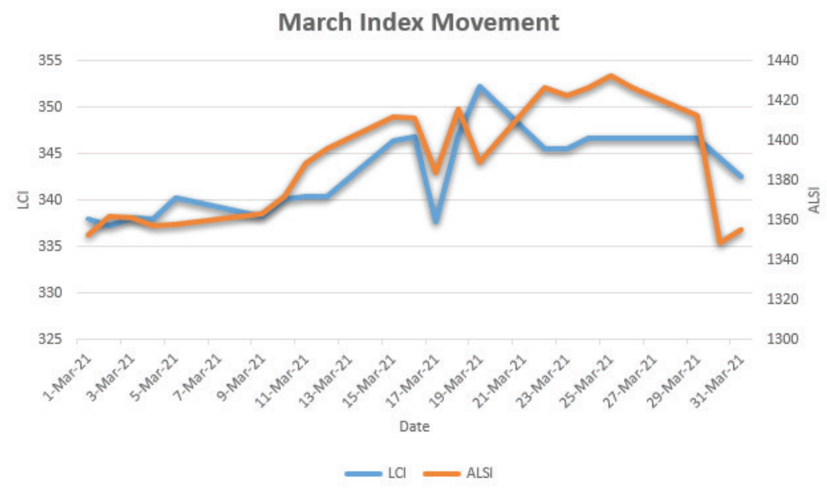
	March 2021	March 2020
Volume Traded	26,947,169	11,085,570
Turnover (UGX)	1,154,790,287	2,137,510,606
No. of Deals	323	283
Trading Days	22	22
Daily Avg. Turnover (UGX)	52,490,468	97,159,573
Daily Avg. no. of trades	15	13
Market Capitalization (UGX.bn)	18,870.74	18,214.90
USE All Share Index (ASI)	1,355.12	1,305.34
Local Share Index (LSI)	342.46	342.21

Source USE Product Markets Department

USE Index Results

The Local Company Index (LCI) slightly increased during the period with many local counters registering minimal price movements. The local index commenced the month at 338.86 and closed at 342.46 representative of a 1.06 percent increase. The All Share Index (ALSI) increased by 0.22 percent to 1,355.12 from 1,352.13 at the start of the month. Refer to ALSI/LCI graph below.

March 2021 Indices Graph:



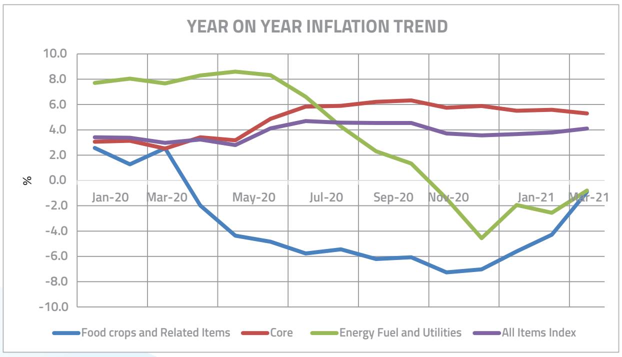
Source: USE Product Markets Department

ECONOMIC & FINANCIAL DEVELOPMENTS:

INFLATION – OUTLOOK AND RISKS:

Year on year headline inflation for the 12 months to March 2021 increased to 4.1% from 3.8% in the year to February 2021 according to the Uganda Bureau of Statistics (UBOS). The increase in headline inflation was attributed to a rise in Annual Food Crops inflation which increased to a deflation of 0.9% in March 2021 from a deflation of 4.3% registered in February 2021 because of a price increase in vegetables and fruits.

Annual Core inflation dropped to 5.3% in the 12 months to March 2021 from 5.6% recorded in the year to February 2021 driven by a lower services inflation due to a decrease in transport prices. Annual Energy, Fuel and Utilities inflation rose to a deflation of 0.8% last month from a deflation of 2.6% registered in February 2021 due to higher prices of charcoal, firewood, and petrol. Notably, month on month inflation edged higher by 0.3% in March 2021 driven by increase in prices of food. Inflation is forecast to edge higher over the short term driven by effects of slight rise in food and fuel prices.



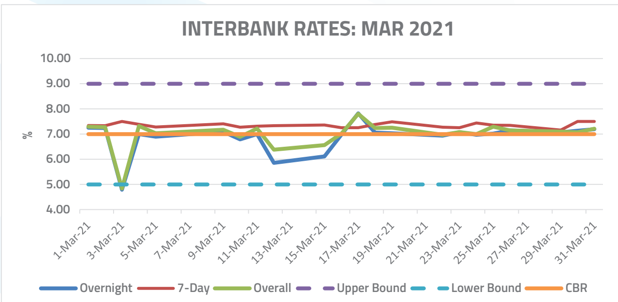
Source: UBOS UGANDA CONSUMER PRICE INDEX: 2009/10=100 MARCH 2021

INTEREST AND LENDING RATES

Interbank Money Market Rates

Overall rates edged lower in March 2021 averaging 7.0% from 7.1% in February 2021 pointing towards slightly higher liquidity last month. Overnight rates and 7-day rates were largely stable at 6.9% and 7.4% respectively.

Money market rates fluctuated within the bands set by the Monetary Policy Committee as shown in the graph below:



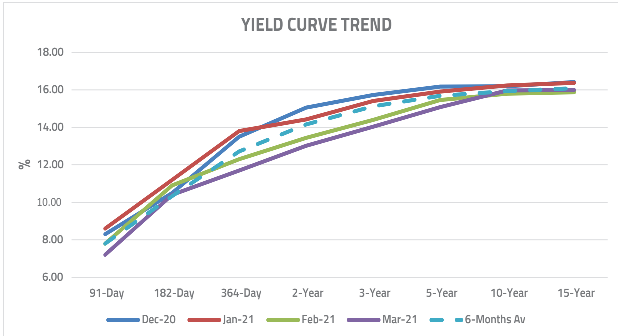
Source: Bank of Uganda

Yields on Government securities

The short and medium portions of the yield curve fell further in March 2021 compared to February 2021. The largest drops were registered on the T-Bills rates with the 91-day, 182-day and 364-day falling to 7.1%, 10% and 11.5% from 7.8%, 10.9% and 12.3% in February 2021, respectively. This volatility is a result of sustained high liquidity due to slow growth in Private Sector Credit.

Rates on the 2-year, 3-year and 5-year government papers fell by an average of 39 basis points to 13%, 14% and 15.1% respectively. The longer end of the curve registered increments month-on-month as investor demand was mainly focused on the short and medium portions of the yield curve. Rate on the 10-year and 15-year rose to 15.96% and 16% in March 2021 from 15.8% and 15.9% in February 2021, respectively.

Interest rates are expected to remain range bound over the short term driven by a stable local currency and sustained liquidity in the markets due to slow recovery in private sector credit growth.

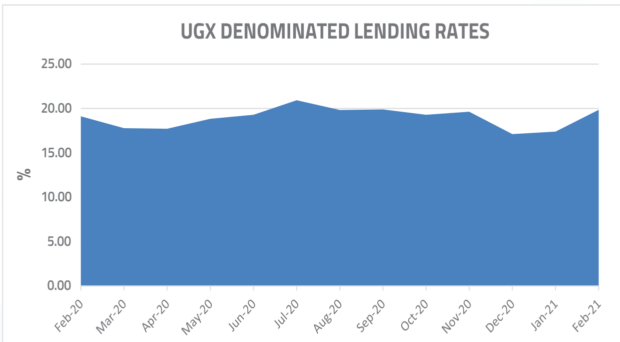


Source: Bank of Uganda

Lending rates

Rates on shilling denominated loans rose in February 2021 with rates quoted at 19.9% compared to 17.4% in January 2021. Foreign currency denominated loan rates also increased to 5.3% in February 2021 from 4.7% recorded in January 2021.

Private Sector Credit growth remains subdued as banks remain cautious of risk arising from borrowers' ability to pay with economic activity recovery remaining slow.

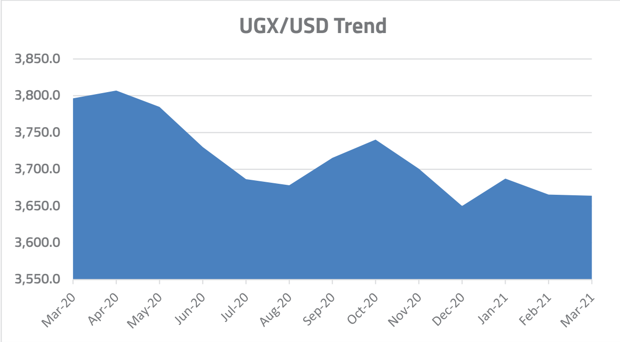


Source: Bank of Uganda

FOREIGN EXCHANGE RATE DEVELOPMENT

The Local Currency was stable closing March 2021 at 3,664 compared to 3,666 in February 2021. The Uganda Shilling was supported by low demand for hard currency from importers. The Shilling has weakened marginally by 0.4% so far this year. On a year on a year basis, the UGX has gained 3.5%.

The local currency is forecast to remain largely stable over the short to medium term supported by sustained low demand for hard currency as recovery of economic activity remains largely slow.



Source: Bank of Uganda

BOND LISTINGS:

There were 2 treasury bonds re-opened in March 2021 with a value of UGX 450bn which listed. Secondary market trading is over the counter (OTC) through the primary dealers. The current total value of the Government Bonds listed on the bourse stands at UGX 16.6 Trillion.

Government Bond Schedule: February 2021

INSTRUMENT CODE	ISIN	ISSUED SHARES	ISSUE DATE	RATE	MATURITY
FXD/05/2016/5YR	UG12H1305210	100BN	2016/05/18	16.50	2021/05/13
FXD/09/2016/5YR	UG12H2109215	100BN	2016/09/27	16.50	2021/09/21
FXD/11/2016/5YR	UG12H2810218	200BN	2016/11/03	16.75	2021/10/28
FXD/12/2016/5YR	UG12H0312217	100BN	2016/12/09	17.00	2021/12/03
FXD/05/2017/5YR	UG12H1305228	156.3BN	2017/05/19	15.38	2022/05/13
FXD/7/2012/10YR	UG0000001079	1.615TN	2013/08/14	11.00	2022/06/09
FXD/07/2017/5YR	UG12H0707226	300BN	2017/07/13	14.13	2022/07/07
FXD/12/2017/5YR	UG12H2811224	156.3BN	2017/12/04	12.50	2022/11/28
FXD/6/2013/10YR	UG0000001244	1.482TN	2013/04/24	11.00	2023/04/13
FXD/1/2014/10YR	UG12J1801248	1.140TN	2014/01/30	14.00	2024/01/18
FXD/05/2019/5YR	UG12H1005240	153.7BN	2019/05/17	14.88	2024/05/10
FXD/8/2014/10YR	UG0000001467	1.070TN	2014/08/13	14.00	2024/08/01
FXD/1/2015/10YR	UG0000001517	100BN	2015/01/28	11.00	2025/01/16
FXD/12/2015/10YR	UG12J1812252	120BN	2015/12/30	19.50	2025/12/18
FXD/08/2016/10YR	UG12J2708269	970BN	2016/09/08	16.63	2026/08/27
FXD/5/2017/10YR	UG12J0605277	360BN	2017/05/18	16.00	2027/05/06
FXD/1/2018/10YR	UG12J1301280	220BN	2018/01/25	14.13	2028/01/13
FXD/12/2013/15YR	UG0000001376	220BN	2013/12/04	15.25	2028/11/16
FXD/2/2015/15YR	UG0000001533	1.865TN	2015/02/25	14.25	2029/08/23
FXD/5/2015/15YR	UG12K0205308	120BN	2015/05/21	17.50	2030/05/02
FXD/11/2020/10YR	UG12J1411303	187BN	2020/11/27	16.00	2030/11/14
FXD/4/2016/15YR	UG12K0304317	1.360TN	2016/04/20	17.00	2031/04/03
FXD/3/2017/15YR	UG12K0403325	320BN	2017/03/23	16.38	2032/03/04
FXD/2/2018/15YR	UG12K0302337	750BN	2018/02/22	14.38	2033/02/03
FXD/7/2019/15YR	UG12K2206346	1.959TN	2019/07/11	14.25	2034/06/22
FXD/11/2020/15YR	UG12K0811352	496.7BN	2020/11/27	16.25	2035/11/08
FXD/11/2020/20YR	UG12L0111405	1.039TN	2020/11/27	17.50	2040/11/01

Corporate Bond Activity: February 2021

The corporate Bonds segment remained inactive throughout the period. Investors in this segment have continued to hold onto their investments and receive interest that is paid out semi-annually. Below are the corporate bonds currently listed on the USE;

1. African Development Bank Bond maturing on 01.02.2022
2. Kakira Sugar Limited Bond maturing on 07.12.2023

Alternative trading of Government securities

	Month	Security	Amount Auction	Secondary
01	March	TBILL	338,700,000	
02		TBOND	45,500,000	4,900,000
	Total		**384,200,000**	**4,900,000**

CORPORATE ANNOUNCEMENTS: MARCH 2021

STANBIC.

Stanbic Uganda Holdings Limited 2020 Annual results for the year ended 31st December 2020.

Below are the company's 2020 Financial Highlights.

Customer Deposits: Grew from UGX 4.7 trillion to UGX 5.5 trillion, which further supported new credit to key sectors in much need of support especially during the peak of the pandemic.

Revenue: Total revenue remained relatively stable year on year despite the impact of the pandemic and a declining interest rate environment.

Net Loans: Net loans and advances increased by 26.8% year on year from UGX 2.9 trillion to UGX 3.6 trillion as more clients acquired loans to sustain their businesses.

Total Asset Quality: Deteriorated year on year due to the impact of covid-19 pandemic on client businesses. Provisions for non- performing loans grew by 110% from 2019 UGX 43.5 billion to 2020 UGX 91.8 billion. Nonetheless, Stanbic Bank remained a strong and well capitalised bank committed to its purpose by contributing to economic growth and transformation of the country.

Dividend: The Directors resolved to recommend to shareholders at the forthcoming annual general meeting, a final dividend for the year ended 31 December 2020 of Ushs 1.86 per share. The book closure date will be on 2 June 2021 with respect to entitlement to this dividend which will be paid by 01 July 2021.

Full announcement is available on our website https://www.use.or.ug/uploads/announcements/Stanbic%20Uganda%20Holdings%20FY%202020%20Financials.pdf

DFCU LIMITED

DFCU Group Extract of Consolidated Financial Statements for the year Ended 31 December 2020

Below are the company's 2020 Financial Highlights.

Business Environment: Global growth contracted by 3.5% due to major disruptions to supply chains that affected productivity of key economic sectors and similarly, Uganda's GDP growth contracted to 1.4%. The economy is estimated to rebound to 5% GDP growth by the end of 2021, but the pace of recovery will depend on how fast business activity picks up and the effectiveness of the measures put in place to contain the spread of the Corona Virus. As a business, the group remains optimistic about a faster recovery of the local economy on account of a successful national vaccine roll out program and a resilient business community.

Revenue: Total revenue remained relatively stable year on year despite the impact of the pandemic and a declining interest rate environment.

Loan Provisions: Loan provisions increased by 107% and impairment of the financial asset rose by 400%, to reach 50 Billion consequently posting a net profit for the year of 24 Billion. The Financial asset is composed of non-performing loans that were taken over from the 2017 transaction.

Financial Strength; Sustained growth of total assets underpins the strength and viability of the business. Total assets grew by 18% to 3.499 Trillion Shillings. This robust growth in assets positions the group uniquely to deliver improved earnings in the years ahead.

Dividend: The company remained well capitalized with capital ratios of 19.34% and 20.94% for tier one and two capital, respectively. Liquidity position remained strong with an average liquid assets ratio above 35%. Considering this robust liquidity, strong equity shareholders and healthy capital position, the Board recommended a dividend payout to the shareholders of UGX 50.33 per share less withholding tax where applicable (2019: Nil). Shareholders are advised to note that book closure and dividend payment date details shall be availed in a later communication.

Full announcement is available on our website; https://www.use.or.ug/uploads/announcements/DFCU%202020%20FINANCIALS%20.pdf

UMEME LIMITED

CAUTIONARY ANNOUNCEMENT PROFIT WARNING

The Board of Directors (the "Board") of Umeme Limited informed the shareholders of the Company, prospective investors, and the general public that based on the assessment of the Company's performance for the year ending 31st December 2020, it expected the Company's net profit to decline by more than 60% compared to the year ended 31st December 2019. The reduction in profitability was attributed to the effects of the Covid-19 pandemic, regulatory lag, and suspension of the Government's free connections policy. Shareholders and potential investors were advised to exercise caution while trading in the Company's shares.

Full announcement is available on our website https://www.use.or.ug/content/umeme-cautionary-announcement

UMEME Limited 2020 Financial Results

Below are the company's 2020 Financial Highlights.

Revenue
Revenue decreased by 7% to UGX 1 ,661 billion in 2020 compared to UGX 1 ,777 billion in 2019. Revenues from the provision of ECP services reduced by 72% to UGX 54 billion from UGX 190 billion of 2019, due to suspension of the ECP Program. The total electricity sales volume remained in line with 2019 levels, with regression in the commercial and medium industrial tariff categories, offset by the increase in demand by the large industrial users.

Cost of Sales
Cost of sales reduced by 0.1% to UGX 1,182 billion from UGX 1,183 billion in 2019. The main drivers were an increase in electricity purchase costs by 13% to UGX l,116 billion from UGX 984 billion in 2019 driven by 2% volume growth, and an over 9% increase in the Bulk Supply Tariff. The ECP costs relating to completed connections recognized during the year reduced to UGX 56.7 billion compared to UGX 189.6 billion of 2019 mainly due to the suspension of the program during the year.

Gross Profit
The resultant gross profit reduced by 19.4% to UGX 479 billion compared to UGX 594.1 billion in 2019.

Operating Costs
Operating costs increased by 6% to UGX 226 billion in 2020 from UGX 214 billion in 2019. Operating costs were mainly driven by increase in repairs and maintenance costs and implementing COVID- 1 9 Standard Operating Procedures.

Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA)
The EBITDA for the year reduced to UGX 246 billion compared to UGX 376 billion of 2019 driven by performance on gross margin and operating costs as noted above.

Financing Costs
Finance costs reduced by 17% primarily due to reduction of interest expense incurred on facilities A and B, following the repayment of principal of UGX 110 billion (US$ 29.7m) and reduction in the variable 6-month LIBOR rates.

Profit after Tax
Profit after Tax reduced by 69%, to UGX 43.1 billion from UGX. 139.2 billion of 2019.
Shareholder Equity reduced by 4%, from UGX 834 billion in 2019 to UGX 803 billion in 2020. The decline was due to dividends paid of UGX 67.1 billion while profit for the year was UGX 43.1 billion. Outstanding interest-bearing debt reduced to UGX 517 billion in 2020 from UGX 557 billion in 2019.

Analysis of Cash flows
During the year under review, the Company generated UGX 277 billion (2019: UGX 194 billion) from operating activities. The cash generated was used to fund some of the capital investments, dividends, and financing obligations.

Dividend
Subject to the approval of the shareholders, the Directors recommended a final dividend of UGX 12.2 per ordinary share to be paid for the year ended 31 December 2020 (2019: UGX 41.3), subject to withholding tax deductions, where applicable, to shareholders registered in the books of the Company at the close of business 25th June 2021. If approved, the outstanding dividend will be paid on or about 19th July 2021.

Full announcement is available on our website;
https://www.use.or.ug/uploads/announcements/Umeme%20FY%202020%20Results.pdf

UGANDA CLAYS LIMITED
Appointment of New Managing Director
Uganda Clays Limited (the Company) informed its shareholders and the public that the Board of Directors had appointed Mr. Reuben B. Tumwebaze as the new Managing Director of the Company with effect from March 2021.

Before joining Uganda Clays Ltd, Mr. Tumwebaze was the Director of Road Infrastructure Protection at Uganda National Roads Authority. He has a wealth of experience at management level in several manufacturing companies including Hima Cement Ltd and Century Bottling Company Ltd.

Full announcement is available on our website https://www.use.or.ug/content/uganda-clays-ltd-appointment-managing-director-notice

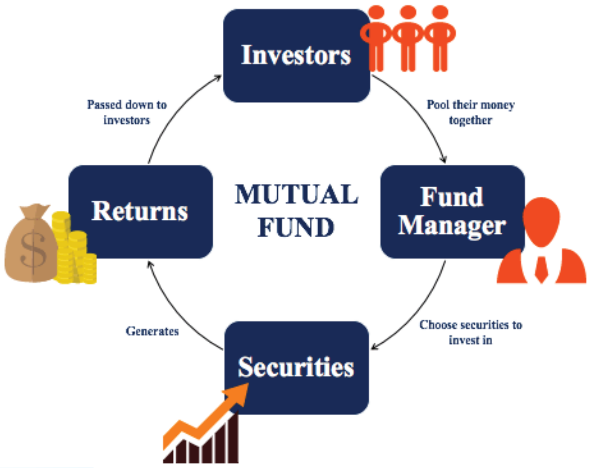
EAST AFRICAN BREWERIES LIMITED
Changes in the Board
The Board of Directors of East African Breweries Limited (EABL) announced the following changes to the Board.
The Board announced the resignation of Mr. Andrew Cowan as a Director of the Company with effect from 1st March 2021. Mr. Andrew Cowan was the Group Managing Director and Chief Executive Officer of EABL, a position he stepped down from 31st December 2020 to take up the role of Managing Director for Africa Regional Markets.

The Board was pleased to announce the appointment of Mr. Dayalan Nayager as a Non-Executive Director of the Company with effect from 1st March 2021. Dayalan is the Managing Director for Diageo Great Britain and is passionate about developing strong talent. He is also known for his ability to implement a structured and disciplined approach that drives stronger performance and sustainable growth.

Full announcement is available on our website https://www.use.or.ug/uploads/announcements/EABL%20Board%20Announcement%20-%202%20March%202021.pdf

EDUCATION COLUMN

Understanding Mutual Funds



What Is a Mutual Fund?

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or, more precisely, a part of the portfolio's value. Investing in a share of a mutual fund is different from investing in shares of stock. Unlike stock, mutual fund shares do not give its holders any voting rights. A share of a mutual fund represents investments in many different stocks (or other securities) instead of just one holding.

That's why the price of a mutual fund share is referred to as the net asset value (NAV) per share. A fund's NAV is derived by dividing the total value of the securities in the portfolio by the total amount of shares outstanding. Outstanding shares are those held by all shareholders, institutional investors, and company officers or insiders. Mutual fund shares can typically be purchased or redeemed as needed at the fund's current NAV.

The average mutual fund holds over a hundred different securities, which means mutual fund shareholders gain important diversification at a low price.

How Mutual Funds Work

Investors typically earn a return from a mutual fund in three ways:

1. Income is earned from dividends on stocks and interest on bonds held in the fund's portfolio. A fund pays out nearly all of the income it receives over the year to fund owners in the form of a distribution. Funds often give investors a choice either to receive a check for distributions or to reinvest the earnings and get more shares.
2. If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.
3. If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit in the market.

Types of Mutual Funds

Mutual funds are divided into several kinds of categories, representing the kinds of securities they have targeted for their portfolios and the type of returns they seek. There is a fund for nearly every type of investor or investment approach.

Equity Funds

The largest category is that of equity or stock funds. As the name implies, this sort of fund invests principally in stocks. Within this group are various subcategories. Some equity funds are named for the size of the companies they invest in: small-, mid-, or large-cap. Others are named by their investment approach: aggressive growth, income-oriented, value, and others. Equity funds are also categorized by whether they invest in domestic stocks or foreign equities. There are so many different types of equity funds because there are many different types of equities.

Fixed-Income Funds

Another big group is the fixed income category. A fixed-income mutual fund focuses on investments that pay a set rate of return, such as government bonds, corporate bonds, or other debt instruments. The idea is that the fund portfolio generates interest income, which it then passes on to the shareholders.

Index Funds

Another group, which has become extremely popular in the last few years, falls under the moniker "index funds." Their investment strategy is based on the belief that it is very hard, and often expensive, to try to beat the market consistently. So, the index fund manager buys stocks that correspond with a major market index such as the S&P 500 or the Dow Jones Industrial Average (DJIA). This strategy requires less research from analysts and advisors, so there are fewer expenses to eat up returns before they are passed on to shareholders. These funds are often designed with cost-sensitive investors in mind.

Balanced Funds

Balanced funds invest in a hybrid of asset classes, whether stocks, bonds, money market instruments, or alternative investments. The objective is to reduce the risk of exposure across asset classes. This kind of fund is also known as an asset allocation fund.

There are two variations of such funds designed to cater to the investors objectives. Some funds are defined with a specific allocation strategy that is fixed, so the investor can have a predictable exposure to various asset classes. Other funds follow a strategy for dynamic allocation percentages to meet various investor objectives. This may include responding to market conditions, business cycle changes, or the changing phases of the investor's own life.

Money Market Funds

The money market consists of safe (risk-free), short-term debt instruments, mostly government Treasury bills. This is a safe place to park your money. You will not get substantial returns, but you won't have to worry about losing your principal. A typical return is a little more than the amount you would earn in a regular checking or savings account and a little less than the average certificate of deposit (CD).

Income Funds

Income funds are named for their purpose: to provide current income on a steady basis. These funds invest primarily in government and high-quality corporate debt, holding these bonds until maturity to provide interest streams. While fund holdings may appreciate in value, the primary objective of these funds is to provide steady cash flow to investors. As such, the audience for these funds consists of conservative investors and retirees. Because they produce regular income, tax-conscious investors may want to avoid these funds.

International/Global Funds

An international fund (or foreign fund) invests only in assets located outside your home country. Global funds, meanwhile, can invest anywhere around the world, including within your home country. It is tough to classify these funds as either riskier or safer than domestic investments, but they have tended to be more volatile and have unique country and political risks. On the flip side, they can, as part of a well-balanced portfolio, actually reduce risk by increasing diversification, since the returns in foreign countries may be uncorrelated with returns at home. Although the world's economies are becoming more interrelated, it is still likely that another economy somewhere is outperforming the economy of your home country.

Specialty Funds

This classification of mutual funds is more of an all-encompassing category that consists of funds that have proved to be popular but do not necessarily belong to the more rigid categories we've described so far. These types of mutual funds forgo broad diversification to concentrate on a certain segment of the economy or a targeted strategy. Sector funds are targeted strategy funds aimed at specific sectors of the economy, such as financial, technology, health, and so on. Sector funds can, therefore, be extremely volatile since the stocks in a given sector tend to be highly correlated with each other. There is a greater possibility for large gains, but a sector may also collapse (for example, the financial sector in 2008 and 2009).

Regional funds make it easier to focus on a specific geographic area of the world. This can mean focusing on a broader region (say East Africa) or an individual country (for example, only Uganda). An advantage of these funds is that they make it easier to buy stock in foreign countries, which can otherwise be difficult and expensive. Just like for sector funds, you must accept the high risk of loss, which occurs if the region goes into a bad recession.

Socially responsible funds (or ethical funds) invest only in companies that meet the criteria of certain guidelines or beliefs. For example, some socially responsible funds do not invest in "sin" industries such as tobacco, alcoholic beverages, weapons, or nuclear power. The idea is to get competitive performance while still maintaining a healthy conscience. Other such funds invest primarily in green technology, such as solar and wind power or recycling.

Mutual Fund Fees

A mutual fund will classify expenses into either annual operating fees or shareholder fees. Annual fund operating fees are an annual percentage of the funds under management, usually ranging from 1–3%. Annual operating fees are collectively known as the expense ratio. A fund's expense ratio is the summation of the advisory or management fee and its administrative costs.

Shareholder fees, which come in the form of sales charges, commissions, and redemption fees, are paid directly by investors when purchasing or selling the funds. Sales charges or commissions are known as "the load" of a mutual fund. When a mutual fund has a front-end load, fees are assessed when shares are purchased. For a back-end load, mutual fund fees are assessed when an investor sells his shares.

Advantages of Mutual Funds

There are a variety of reasons that mutual funds have been the retail investor's vehicle of choice for decades. The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds. Multiple mergers have equated to mutual funds over time.

Diversification

Diversification, or the mixing of investments and assets within a portfolio to reduce risk, is one of the advantages of investing in mutual funds. Experts advocate diversification as a way of enhancing a portfolio's returns, while reducing its risk. Buying individual company stocks and offsetting them with industrial sector stocks, for example, offers some diversification. However, a truly diversified portfolio has securities with different capitalizations and industries and bonds with varying maturities and issuers. Buying a mutual fund can achieve diversification cheaper and faster than by buying individual securities. Large mutual funds typically own hundreds of different stocks in many different industries. It would not be practical for an investor to build this kind of a portfolio with a small amount of money.

Easy Access

Trading on the major stock exchanges, mutual funds can be bought and sold with relative ease, making them highly liquid investments. Also, when it comes to certain types of assets, like foreign equities or exotic commodities, mutual funds are often the most feasible way—in fact, sometimes the only way—for individual investors to participate.

Economies of Scale

Mutual funds also provide economies of scale. Buying one spares the investor of the numerous commission charges needed to create a diversified portfolio. Buying only one security at a time leads to large transaction fees, which will eat up a good chunk of the investment. Also, the $100 to $200 an individual investor might be able to afford is usually not enough to buy a round lot of the stock, but it will purchase many mutual fund shares. The smaller denominations of mutual funds allow investors to take advantage of dollar cost averaging.

Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than what an individual would pay for securities transactions. Moreover, a mutual fund, since it pools money from many smaller investors, can invest in certain assets or take larger positions than a smaller investor could. For example, the fund may have access to IPO placements or certain structured products only available to institutional investors.

Professional Management

A primary advantage of mutual funds is not having to pick stocks and manage investments. Instead, a professional investment manager takes care of all of this using careful research and skillful trading. Investors purchase funds because they often do not have the time or the expertise to manage their own portfolios, or they do not have access to the same kind of information that a professional fund has. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments. Most private, non-institutional money managers deal only with high-net-worth individuals—people with at least six figures to invest. However, mutual funds, as noted above, require much lower investment minimums. So, these funds provide a low-cost way for individual investors to experience and hopefully benefit from professional money management.

Variety and Freedom of Choice

Investors have the freedom to research and select from managers with a variety of styles and management goals. For instance, a fund manager may focus on value investing, growth investing, developed markets, emerging markets, income, or macroeconomic investing, among many other styles. One manager may also oversee funds that employ several different styles.

This variety allows investors to gain exposure to not only stocks and bonds but also commodities, foreign assets, and real estate through specialized mutual funds. Some mutual funds are even structured to profit from a falling market (known as bear funds). Mutual funds provide opportunities for foreign and domestic investment that may not otherwise be directly accessible to ordinary investors.

Transparency

Mutual funds are subject to industry regulation that ensures accountability and fairness to investors.

VOLUME 75%

Disadvantages of Mutual Funds

Liquidity, diversification, and professional management all make mutual funds attractive options for younger, novice, and other individual investors who don't want to actively manage their money. However, no asset is perfect, and mutual funds have drawbacks too.

Fluctuating Returns

Like many other investments without a guaranteed return, there is always the possibility that the value of your mutual fund will depreciate. Equity mutual funds experience price fluctuations, along with the stocks that make up the fund.

Cash Drag

Mutual funds pool money from thousands of investors, so every day people are putting money into the fund as well as withdrawing it. To maintain the capacity to accommodate withdrawals, funds typically must keep a large portion of their portfolios in cash. Having ample cash is excellent for liquidity, but money that is sitting around as cash and not working for you is not very advantageous. Mutual funds require a significant amount of their portfolios to be held in cash to satisfy share redemptions each day.

High Costs

Mutual funds provide investors with professional management, but it comes at a cost—those expense ratios mentioned earlier. These fees reduce the fund's overall payout, and they are assessed to mutual fund investors regardless of the performance of the fund. As you can imagine, in years when the fund does not make money, these fees only magnify losses. Creating, distributing, and running a mutual fund is an expensive undertaking. Everything from the portfolio manager's salary to the investors' quarterly statements cost money. Those expenses are passed on to the investors. Since fees vary widely from fund to fund, failing to pay attention to the fees can have negative long-term consequences. Actively managed funds incur transaction costs that accumulate over each year. Remember, every shilling spent on fees is a shilling that is not invested to grow over time.

Active Fund Management

Many investors debate whether or not the professionals are any better than you or I at picking stocks. Management is by no means infallible, and even if the fund loses money, the manager still gets paid. Actively managed funds incur higher fees, but increasingly passive index funds have gained popularity. These funds track an index such as the S&P 500 and are much less costly to hold. Actively managed funds over several time periods have failed to outperform their benchmark indices, especially after accounting for taxes and fees.

Lack of Liquidity

A mutual fund allows you to request that your shares be converted into cash at any time, however, unlike stock that trades throughout the day, many mutual fund redemptions take place only at the end of each trading day.

Taxes

When a fund manager sells a security, a capital-gains tax is triggered. Investors who are concerned about the impact of taxes need to keep those concerns in mind when investing in mutual funds. Taxes can be mitigated by investing in tax-sensitive funds or by holding non-tax sensitive mutual funds in a tax-deferred account.

Evaluating Funds

Researching and comparing funds can be difficult. Unlike stocks, mutual funds do not offer investors the opportunity to juxtapose the price to earnings (P/E) ratio, sales growth, earnings per share (EPS), or other important data. A mutual fund's net asset value can offer some basis for comparison, but given the diversity of portfolios, comparing the proverbial apples to apples can be difficult, even among funds with similar names or stated objectives. Only index funds tracking the same markets tend to be genuinely comparable.

KEY TAKEAWAYS

- A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.
- Mutual funds give small or individual investors access to diversified, professionally managed portfolios at a low price.
- Mutual funds are divided into several kinds of categories, representing the kinds of securities they invest in, their investment objectives, and the type of returns they seek.
- Mutual funds charge annual fees (called expense ratios) and, in some cases, commissions, which can affect their overall returns.
- The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds.

Pros

- Liquidity
- Diversification
- Minimal investment requirements
- Professional management
- Variety of offerings

Cons

- High fees, commissions, and other expenses
- Large cash presence in portfolios
- Difficulty in comparing funds
- Lack of transparency in holdings

SOURCE

https://www.thebalance.com/mutual-funds-101-356319
Investopedia

Appendix I: USE Member Firms

The following USE Member Firms are licensed to act as both broker/dealers and Market Advisors:

Market Advisor	Contact Person:
BARODA CAPITAL MARKETS (U) LTD. P. O. Box: 7197 Kampala **Tel:** +256 414 232 783 **Fax:** +256 414 230 781 **Email:** bcm.ug@bankofbaroda.com **Website:** www.barodacapital.webs.com	**Mr. Mohan Prashantam**
DYER & BLAIR (UGANDA) LTD Rwenzori House Ground Floor P. O. Box: 36620 Kampala **Tel:** +256-414-233050 **Fax:** +256 -414 231813 **Email:** Uganda@dyerandblair.com	**Ms. Esther Kakiza**
EQUITY STOCK BROKERS (U) LTD. Orient Plaza Plot 6/6A Kampala Road P. O. Box: 3072 Kampala **Tel:** +256-414 7719133/44 **Email:** equity@orient-bank.com	**Ms. Nkundizana Christine**
CRESTED STOCKS AND SECURITIES LIMITED Head Office - Impala House 6th Floor Plot 13-15, Kimathi Avenue P. O. Box 31736, Kampala, Uganda Tel: +256 312 230900/ +256 414 230 900 **Email:** info@crestedcapital.com **Website:** www.crestedcapital.com	**Mr. Robert H. Baldwin**
UAP OLD MUTUAL FINANCIAL SERVICES LTD 2nd floor, Block A, Nakawa business park P. O. Box 20079, Kampala **Tel:** +256 414 332 825 **Email:** brokerageufs@uap-group.com	**Mr. Mwebaze Simon**
SBG SECURITIES LIMITED 4th Floor Crested Towers (Short Towers) P. O. Box 7131, Kampala **Tel:** +256 0312 224 600 **Email:** sbgs_uganda@stanbic.com	**Mr. Ongura Joram**

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