

Letters

LETTERS

Unit trust investors need financial transparency

Evening X-Spaces have recently become popular for people to unwind after a busy workday. This month, lawyer Ellison Karuhanga, the founder and host of the Judicial Services Conversations podcast, moderated a session on unit trusts that has become the most attended weekly discussion for lawyers.

Unit trusts have gained significant popularity, prompting banks to launch their own unit trust products in response to the erosion of bank deposits caused by these investments.

Last year, one bank received approval from Bank of Uganda to distribute its unit trust products through its extensive network of branches nationwide. However, I have reservations about this development.

According to the Capital Markets Authority's (CMA) report for the last quarter of 2025, unit trusts have shown strong growth, with assets under management reaching Shs5.66 trillion. The report also indicates that there are over 206,405 actively funded unit trust accounts managed by various fund managers.

Unit trusts are collective investment schemes that pool funds from various investors to allocate in different investments.

When you invest in a unit trust, you are relying on the investment strategies of the fund manager, and in return, you receive something akin to shares in that fund, which reflects the performance of the underlying assets.

When you invest money in a unit trust, your funds do not appear as liabilities on the balance sheet of the fund manager or the trustee, similar to how banks record deposits or public funds. In this case, the money is actually segregated from that of the fund manager and is held as your assets, managed on your behalf. Therefore, in the event of insolvency of the fund manager, your money is not subject to creditor claims.

In Uganda, unit trusts have significant information asymmetry. Unit trusts often come with high administrative and operational costs that can diminish potential returns for investors.

Various international studies have indicated that these high Total Expense Ratios (TER), can reduce the compounding effect of unit trusts. It doesn't make sense to earn compound interest when faced with such high expense ratios associated with those unit trusts! One study found that high expense ratio can significantly reduce the impact of compound interest over time. For example, a two percent fee can cut a four percent nominal return in half.

Unit trust investors need greater financial transparency. While unit trusts release fact sheets every month, they often omit crucial details in their disclosures. Recently, I compared two fact sheets from the same fund manager—one from South Africa and the other from Uganda. The South African fact sheet was much more comprehensive.

In Uganda, unit trust fund managers are not aligning their disclosures and pricing with internationally-recognised standards for collective investment schemes. Upon examining their daily pricing information, it becomes clear that important pricing details are intentionally left out. This creates a disadvantage for unit holders, forcing them to operate under conditions of information asymmetry. How pricing data is represented is vital for individuals planning to sell their units on the secondary market or manage cash withdrawals.

Unlike listed securities, which have visible public order books and where prices fluctuate in real-time based on market supply and demand throughout the trading day, unit trusts determine their pricing only once at the end of the day. This information should be made publicly available to everyone rather than provided only upon request from unit holders. Withholding this information creates inequities in financial justice for various unit holders. CMA should take appropriate action.

It is the responsibility of fund managers to make their pricing models transparent and clarify whether the pricing for those cashing out or selling their holdings is forward-looking. Our laws don't allow backward-looking pricing.

Louis N. Kizito,
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