



12 questions to ask before investing

Where are your funds being placed?

“Risk comes from not knowing what you are doing”– Warren Buffet

As an investor, you have a range of investment options that you can take advantage of to help grow your wealth. The ones that are most patronized by Ghanaians include:

- Treasury bills or bonds, which are issued by the Government of Ghana
- Bonds that are issued by corporations
- Shares, which are stocks listed on the Ghana Stock Exchange or another Exchanges outside of Ghana
- Collective investment schemes (otherwise known as Mutual funds or Unit Trusts), which can be grouped into Money Market, Fixed income, Balanced or Equity

The first three items on the list are considered direct investments, so you would know exactly what you are purchasing and who it is issued by. For the remainder of this article, we will focus on mutual funds, one of the most popular investment instruments in Ghana.

Why mutual funds make investing easy

A mutual fund is advantageous to most investors because you have a fund manager who pools the investments of a group of investors (could be as few as 50 or even 500,000) and then invests the money on their behalf in a range of investments that a single person may not have access to. As an investor, you get the benefit of:

- **Being able to invest small amounts** (as little as GHC 10 or 20) and still getting access to the same investments as someone with GHC 100,000 or even a million cedis
- **A professional fund manager** who spends all their time researching the various investment options available, monitoring the performance of the existing investments and standing ready to take advantage of any new investment opportunities that arise
- **A well-diversified portfolio** that is positioned to better manage the risks that come with investing while increasing your chances of making a better return

However, because of the pooled structure of your mutual fund, it means that you are not always able to tell exactly where your money has been invested.

How the Fund manager invests your money

The Fund Manager of the product(s) that you choose can invest in a range of instruments provided that they adhere to the Fund's Scheme Particulars – the document that contains information about your regulated mutual fund.

Each fund will provide the Fund Manager with a target asset allocation. The asset allocation is the expected combination of fixed income and equity investments that the Fund will hold. For example, MFund is a fixed-income fund and so its target asset allocation is 100% Fixed Income. BFund and ArkFund are considered balanced funds, and have target asset allocations of 60% Fixed Income/40% Equities and 70% Fixed Income/30% Equities, respectively. EdIFund has two tiers: Tier 1 is 100% Fixed Income, while Tier 2 is balanced between 60% Fixed Income and 40% Equities. Epack, which is considered an equity fund, still has a mix of both fixed income and equities, but only 20% is invested in Fixed Income while 80% is expected to be invested in Equities.

Using the Fund's target asset allocation, **the Fund Manager then invests in a range of companies or investment instruments to try and achieve that target in a way that will also give you the most optimal return.** At Databank, the decision to invest in a specific company or security is usually made after stringent background checks and a comprehensive valuation exercise from our Research Team, as well as feedback from our Investment Committee and the Fund's Board of Directors. The combined benefit of these activities helps ensure that the Fund manager selects solid companies and high-yielding securities that can give you value for money.

How you can know where the Fund Manager is placing YOUR money

While it is very important for the Fund Manager to take his or her time to make sure they have placed your money in the right investment instruments, it is equally important that you also know where they put your money. With Databank, you can find this out in a number of ways:

- **Monthly Fund Fact Sheets** – On every fund fact sheet, the Fund Manager will not only tell you what the target asset allocation is of the Fund, but will also tell you what the current asset allocation was for the month in review and what the top 5 holdings are for the equity and/or fixed income investments that the fund holds.
- **Annual Reports** – the annual report, which is mandated by the regulator, will give you several views of where and how your money is invested. You will typically see the breakdown of the money held in the fund by asset class, by geography (if applicable), by sector (if applicable) and any other view. Then, and most importantly, you will also be provided with a detailed list of EVERY investment that the Fund Manager has the money invested in at the time of the report. This report is provided by the Custodian, which is the commercial bank assigned to hold the money.

Why you need to stay informed

While many investors don't seem to have the patience or interest in finding out this level of detail on their investments, we strongly encourage you to do so. Every Fund Management company is required by the regulator to provide you with Annual Reports, but some Fund Managers go one step further to also provide you with monthly updates. If you are not able to access this information, then you should find out why because sometimes, it could be an indicator of a problem with the Fund Manager. At Databank, we believe that **a wise investor is an informed investor**, and we encourage you to stay informed every step of your investing journey.

Invest wisely. Invest with Databank.



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