

SECURITIES AND EXCHANGE COMMISSION

PUBLICATION ON ASSET MANAGEMENT COMPANIES

CRITICAL INFORMATION FOR THE BENEFIT OF INVESTORS

(FREQUENTLY ASKED QUESTIONS)

1. Why did SEC publish the notice and change the colour code of licensees on its website?
 - a. The Commission has a mandate to create the necessary atmosphere for the orderly growth and development of the capital market and to provide information the Commission considers necessary to the general and investing public under section 3 and 208 of Act 929.
 - b. The decision to publicize firms with (a) regulatory issues and or (b) pending complaints, provides investors and the general public with some level of information to ask further questions and make informed decisions. Once the affected firms resolve the issues identified, they will be reinstated to regular status.
2. What does it mean if the firm I invest with is marked in the colour code?
 - a. Further explanation has been provided within the descriptive boxes of each firm that has been colour coded. The description clarifies the nature of issues the firm faces.
 - b. Pending complaints indicate that the firm is unable to honor redemption requests due to liquidity challenges and their clients have filed complaints with the SEC under section 19 of Act 929 and the complaints are being heard by the SEC.
 - c. Regulatory Issues indicate that the Commission has found certain infractions from inspections and reports that are yet to be resolved satisfactorily. In most cases the Commission may have exacted the necessary penalties from the defaulting firm and corrective measures are being taken by the firm to restore its position. The SEC publishes some of this information regularly in its quarterly newsletter.
 - d. Your funds, ideally, would have been invested in financial instruments which are either listed or unlisted. Depending on the nature of investments made, a fund manager may have difficulties if several investors request significant sums at a single moment. Market conditions also play a role in ability to honor redemption requests. Some of our fund managers have also encountered

counterparty defaults on investments they had made with other institutions which have contributed to some of their liquidity challenges.

3. What should I do if the firm I invest with is marked in the colour code?

- a. No need to panic and have a knee-jerk reaction
- b. Seek to understand the meaning of the color code as provided in Q.2 above.
- c. Ask questions and demand answers from the firm regarding what made them fall into that category and what steps they are taking to resolve the issues.
- d. If the reason has to do with inability to pay funds, ask them what the underlying investments are, whether a custodian bank handles the investment funds and what strategy they have to restore liquidity for clients.
- e. Lodge a complaint with the Commission or seek further clarification if you are not satisfied with the answers provided.

4. Should I seek to withdraw all my funds?

- a. No. Take a look at the terms of your investment agreement with your fund manager, taking note in particular of the exit options. If your investment is not yet matured, it may be better to allow it to mature so you can make your full returns as provisions on early redemptions, in most cases, involve a penalty. Please evaluate your options and take the decision in your best interest.

5. What is SEC doing about people whose monies are locked up at firms and cannot retrieve their funds?

- a. Investors with such complaints are required first to file a complaint with their fund manager and the fund manager has 30 days within which to resolve the complaint under regulation 26 of L.I. 1728. If the fund manager is unable to resolve the complaint, it must refer the matter to the SEC. The investor can also file a complaint with the Commission either through our website or at our office after the 30 days allowed the fund manager and then allow the process to take its course.
- b. Following hearings at the Commission on the complaint, the Commission will issue a decision in favor of the Complainant if the complainant is able to establish its claim against the fund manager. In some cases the decision may also authorize the investor to pursue the fund manager in court upon the full exhaustion of the Commission's internal resolution mechanisms, should that become necessary.
- c. The Commission may reprimand the fund manager, suspend or revoke the fund manager's licence if the fund manager is found to have acted in contravention of the securities laws

6. Is it worth it or safe to still invest with SEC licensed asset management companies?

- a. Yes, there are safe, well-managed and compliant asset management companies licensed by SEC.

- b. What you must do before investing is to ask questions rather than just rely on the recommendations of a friend or relative. Some questions that can assist you identify the good firms include:
 - i. Does the firm have a valid license from the SEC?
 - ii. Does the company have a board with experienced independent directors?
 - iii. What is the investment strategy of the firm and do they have qualified investment managers duly licensed by the SEC?
 - iv. What underlying assets do they invest in and what is the risk profile of the underlying investments?
 - v. Do they have an investment committee that oversees the investment management process?
 - vi. What strategies do they have on risk management and liquidity?
 - vii. Do they use the services of a Custodian bank?
 - viii. What is their track record in performance and resolving customer complaints?
 - ix. What the status of the Asset Management Company is as indicated on the SEC website?
- c. You must avoid the temptation of chasing returns: remember that high returns means high risk and high risk means you can lose all or part of your money.
- d. Fund managers have been directed not to offer guaranteed returns so stay away from any firm that offers you a guaranteed return.
- e. Collective investment schemes such as mutual funds and unit trusts licensed by SEC have better governance structures; in the case of Mutual Funds, the assets are, by law, held by Custodian Banks so there is no commingling of the Fund's assets with that of the Fund Manager. In the case of Unit Trusts, the assets are held in trust by the Trustee.
- f. Furthermore, the Commission is taking steps to ensure stronger and better capitalized asset management firms, including the ff:
 - i. Implementing a new licensing regime that includes higher minimum capital requirements and rigorous screening such as interviewing prospective operators to make sure they pass the fit and proper test.
 - ii. Stronger enforcement including new provisions on corporate governance, investment guidelines, related party transactions and sanctions for misconduct.
 - iii. Implementing a sustained campaign on investor education and facilitate access to information on our licensees.

- iv. Digitizing the operations of the Commission to facilitate electronic submission of returns from the licensed operators and analysis of the returns to throw up early warning signals.