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An Examination of the Unit Trust Scheme/Mutual Fund as a Veritable Vehicle of Investment in the Nigerian Stock Market.

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Abstract
The Nigerian economy is characterized by low income, low savings, low investment and low productivity. The capital market which on its own is a veritable vehicle for mobilizing investible funds from surplus units to units suffering from scarcity came alive with the financial restructuring of the 1990s and especially the bank consolidation scheme of 2004. At a time it was adjudged one of the highest yielding stock markets in the world. However with the global financial meltdown, there was a near complete collapse of the market and many of the investors who were playing more or less solo got their fingers bunt. As marginal investors, majority of them lacked the skill, knowledge, competence and capital to effectively diversify their investment risks to have a soft landing during the meltdown. Neither were they much aware of the availability of the unit trust scheme/ mutual fund as a veritable investment vehicle especially for novitiates and fringe investors as most of them were. The result was a poorly patronized segment of the Nigerian stock market and a monumental loss of wealth and confidence in the market. This paper examines the unit trust scheme /mutual fund as an investment option very suitable in mobilizing investible funds from small savers and not too sophisticated investors. It finds out that there is lack of awareness and poor patronage of the scheme in the Nigerian stock market and sufficient wide spread education is necessary in this regard. It posits that the Nigerian economy stands to gain substantially from the strengthening of institutional and systemic factors including legal and accounting architecture to enhance transparency and accountability around fiduciary relationships as unit trust and mutual fund schemes connote.

1 Introduction

Investment is a *sin qua non* for growth and development of any economic entity. Usually investment involves postponing current consumption to put resources in capital formation activity or production of future income. However investment is fraught with risk and uncertainties. There is the risk that the capital may be lost entirely, or that the return may not be as and at when expected. It is probabilistic irrespective of the vehicle of investment chosen, to say the least. In most part, the riskier, the higher the expected rate of return. Hence there is always an attempt to do a trade- off between risk and return, *ceteris paribus*. Little wonder that Markowitz advocates for a spreading of investment portfolio to minimize non systematic risks. Portfolio diversification. That is, a portfolio model that avoids the proverbial putting of all ones eggs in a single basket. Such a sound portfolio selection that would ensure minimization of risk and maximization of return is better done by financial experts. It is not a game for all comers.

During the Bank consolidation exercise of 2004 and shortly after, the Nigerian stock market was adjudged one of the highest yielding stock markets in the world. Investment in the market was so rewarding that it attracted all manner of investors – risk averse, non-risk averse, financial experts, professionals, civil servants, politicians, traders, farmers name it. It became an all comers affair. A lot of people made so much money within a short time, that people were liquidating all other forms of investment (especially real estate) and borrowing from the banks to play in the Nigerian stock market. Caution was thrown to the winds and majority just kept on investing without consulting experts in the field. It became the fad. The frenzy was palpably felt in all sectors of the economy. Investment in all other sectors of the economy was drying up in favor of the stock market. Essentially, many people, many banks, many firms and even government agencies forayed into the business of investing in stocks without really patronizing financial wizards and experts. And they were making real money. Caution was actually thrown to the winds. No special knowledge was felt necessary to ensure success in the business. But came the global financial meltdown and many fingers became burnt without any hope of ever getting healed..

Following the global financial meltdown, majority of the investors and participants in the Nigerian stock market went bankrupt. Banks folded, stock brokerage firms liquidated, individuals committed suicide *et cetera.* It is feared that the impact was so much due not only to recklessness of the investment activities engaged in but also to the forms of investment that went on. Not many investors patronized financial experts and not many were aware and ever tried more sophisticated modes of investment in the stock market such as the unit trust investment vehicle. Unit Trust Scheme is a non-incorporated collective investment scheme. Its purpose is to pool the savings of investors with the intention of investing and managing the savings for the investor's benefit.

The historical average return is about 13% which is higher than a lot of other available investments such as bonds (Agbasi, 2001).
This paper thus examines the unit trust investment with special focus on its *nutty gritty*, the importance, prospects and challenges inherent in investment in unit trust in Nigeria and the extent of awareness and adoption of unit trust as a vehicle of investment in Nigeria. The paper is organized in four parts. Part one introduces the work, part two shows the methodology, and part three analysis the findings while part four concludes the work.

2. Methodology

The paper adopted a survey research method that pooled a sample of critical participants in the Nigerian stock market*, to wit***,** stock brokers, bankers and investors through a random sampling method and administered a questionnaire on them. Through the statistical method of selecting a sample size for a finite population (for stock brokers) and another one for an infinite population (for bankers and investors), according to the Yaro Yameni formulae (Onwumere, 2005) a total of 50 stock brokers, 150 bankers and 180 investors was selected. It used measures of central tendency and the analysis of variance (ANOVA) to analyze the data collected. In addition the paper made use of secondary data sourced from the Nigerian Stock Exchange records of unit trust/mutual funds listed in the exchange as at the date of the research.

3 Findings and Discussion

3.1 Mutual Funds Operations in Nigeria
Mutual funds operations in Nigeria came to the limelight for the first time during the early 1990's, as a result of the rapid growth in the financial sector induced by the deregulation policy of the mid 1980s. They emerged as part of the financial markets innovations that followed the policy of deregulation. Banks engaged in competition floatation and management of mutual funds then as is happening again presently. A good number of them closed shop during the financial turmoil that followed. Banks were mainly the fund managers and the funds went down with the banks that were hit by financial distress. Mutual funds began to re-emerge as from the mid 1990s but remained relatively insignificant with limited impact in the capital market until the recent banking consolidation reinforced the sector once again.
3.1.1 Mutual Funds Listed In The Nigerian Stock Exchange.
Presently, there are 21 mutual funds listed in the Nigerian Stock Exchange and another 16 not listed. A growing number of others are still in the process of being set up. Some of them are listed below;
1) IBTC Nigerian Equity Fund:
This is the biggest mutual fund in Nigeria with a net asset value in excess of N30 billion as at the end of 2007. The fund, which is managed by IBTC Asset Management Limited, commenced operations in1997. The units of the fund were issued at an initial price of N1, 000 per unit and the offer price is presently in excess of N11, 000. The equity fund is mainly capital market based and requires a minimum subscription of N50, 000. The principal investment is guaranteed for a minimum of three months. The fund has a minimum target allocation of 75 percent in stocks quoted in the Nigerian Stock Exchange and 25 percent in money market instruments. A return on investment of 62.14 percent was realized in 2007 and annual growth is estimated at an average of 53 percent.
The primary objective of the fund is to achieve long-term capital appreciation by investing in high quality securities quoted on the Nigerian Stock Exchange and in other instruments approved by SEC. IBTC Asset Management Limited also manages two other funds – Stanbic IBTC Banks Ethical Fund and Stanbic IBTC Bank's Guaranteed Investment Fund.
The ethical fund was floated in 2005 at a par value of N1 per unit. It has a minimum target allocation of 75% in stocks quoted in the Nigerian stock exchange and a maximum of 25% in money market assets. Its choice of investments excludes stocks of companies that operate in the brewery and tobacco sectors or involved in the production of arms and ammunition, gambling or any other businesses considered harmful to society. The funds focus is to permit a clear moral conscience by investing with the interest of society in mind. It is designed for those who do not want to make profit at the expense of their religious believes and principles. The minimum requirement for investing in the fund is N50, 000 and the principal investment is guaranteed against diminution in value provided the investment is held for a minimum of three months.
The Stanbic IBTC Guaranteed Investment was launched in December 2007 at a nominal value of N100 per unit. The fund builds its assets around fixed income securities such as government bonds, money market securities and other securities approved by SEC. It has a minimum target allocation of 75 percent in fixed income securities and a maximum of 25 percent in securities, essentially blue chip companies listed on the Nigerian Stock Exchange. Investment in fixed income securities is biased in favor of tax exempt assets and those that

offer the best post tax return. The principal investment is guaranteed against diminution subject to funds kept for a minimum of three months. The fund is designed to provide regular income and long-term capital appreciation.

2) Arm Discovery

This was established in 1995 and was initially named Equity Growth Fund. The open-ended fund is managed by Asset and Resources Management Company Limited (ARM). The fund's investment targets are equities, fixed income securities and real estate. The investment mix is designed to provide capital growth while achieving an optimum balance between risk and return. The fund's investments have allocated targets of a minimum of 40 percent in equities and a maximum of 65 percent. The fund achieved a return of 56 percent in 2007. Minimum investment amount is N10,000 with minimum additional investment amount of N5,000.

3) Arm Aggressive Growth Fund

This is the second mutual fund managed by ARM and was established in 2004. It has a targeted allocation of 80 percent of its investments in equities quoted in the Nigerian Stock Exchange and 20 percent allocation to money market and other fixed income investments. The fund is designed for investors with the primary goal of achieving capital appreciation and having above average appetite for risk for the possibility of higher return in the long-term. The fund achieved an 86 percent return in 2007 and an annual average of 41.4 percent over the four years of its operations. Minimum investment in the fund is N50, 000.

4) Coral Growth Fund:

This was set up in 2001 and managed by FSDH (Fist Securities Discount House Limited) Asset Management Limited (FAML). The fund invests 65 percent of its resources in equities quoted on the Nigerian Stock Exchange and the balance of 35 percent on investment grade fixed income securities. The minimum investment amount in the fund is N50, 000 with a minimum additional investment of N10, 000. The investment objective is to grow capital value over the long term. It is designed to meet the needs of private pension/retirement plan, savings and investment plans and educational and contingency plans. The fund has recorded an annual average growth of 33.98 percent by the end of 2006.

5) Coral Income Fund:

This is the second of the three funds managed by FAML. The funds focus mainly on fixed income securities in both the money and capital markets. As much as 70 percent of its investments constitute fixed income securities while the remaining 30 percent is targeted at equities quoted on the Nigerian Stock Exchange. The objective of the fund is to enable investors preserve the value of their capital and achieve a stable stream of income. It is designed for the less aggressive investors who are desirous of preserving their stock of capital.

6) Coral Ethical Fund:

This is the third mutual fund managed by FAML and focuses on investing in equities quoted in the Nigerian Stock Exchange but which have been screened to meet specified ethical values. Qualifying equities exclude companies whose principal business is deriving interest income and those engaged in the production of alcoholic beverages. Interest bearing securities are also excluded from the fund's investing focus. The objective of the fund is to provide investors with capital growth over the long term through investment choices that do not offend their ethical and social values. This is also called ***Coral Dynamic fund.***

7) Intercontinental Integrity Fund

This emerged as the former A – Z Mutual fund that was managed by Gateway Bank PLC. After the merger of the bank with intercontinental bank, the fund came under the management of Intercontinental Capital Markets Limited in 2006. The fund's investment targets are company stocks quoted on the Nigerian stock exchange, government bonds, money investments and real estate. Investing in the fund requires a minimum of 10,000 units at prevailing market price and multiples of 1,000 units thereafter. Investors can realize part or all of their investments in the fund subject to five working days notice and a minimum investment period of 90 days.

8) Oceanic Vintage Fund:

This was launched in 2007 and is managed by Oceanic Bank International (Nigeria) Plc. The investment targets of the fund are mainly blue chip equities quoted on the Nigerian Stock Exchange and supported with moderate interest in real estate and fixed income investments. The fund's objective is to optimize return for investors from a portfolio of investments diversified into the main high growth sectors of the economy. The minimum qualifying investment in the fund is N50, 000.

9) Legacy Fund

This was floated in February 2006 and is managed by CSL Stockbrokers Limited. The fund's objective is to achieve regular income for investors as well as capital gains in the long term through a diversified portfolio of high quality assets. Its investment portfolio is structured to contain a maximum of 50 percent of blue chip equities quoted on the Nigerian Stock Exchange and the balance mostly of money market assets with moderate interest in government bonds. At the end of its first one year in operation, its net asset value stood at N1.37

billion with annualized total return of 55 percent and a growth of 15 percent. Minimum investment in the fund is 10,000.

10) UBA Equity Fund:

This was set up in September 2006 and listed on the Nigerian Stock Exchange Memorandum quotations in December 2006. The fund's investment objective is to achieve high return on investment and thus provide a hedge against inflation. It is managed by UBA Assets Management Limited. Investment allocation targets are 80 percent equities quoted on the Nigerian Stock Exchange and 20 percent money Market Investments. It is ideal for high return seeking investors with above average appetite for investment risk.

Other funds include;

11) **UBA Balanced Fund,** Managed by UBA Asset Management Limited and was established in September 2006.
12) **UBA Bond Fund**, also managed by UBA Asset Management Limited.
13) **Fidelity Nigerian Fund** was established in 2002 and managed by Fidelity Bank PLC.
14) **Paramount Equity Fund**, formerly known as ICON Unit Trust Scheme, is one of the oldest mutual funds in Nigeria. It commenced operation in April 1991 and changed to its present name in June 2004. It is managed by Denham Asset Management Limited.
15) **Denham Asset Management Limited** also manages two other funds not listed on the Nigerian Stock Exchange. These are the Nigerian Global Investment Fund and Denham Management Millennium Fund.
16) **First Interstate Unit Fund**, registered in 1991 as well as continental Unit Trust, Devcom Mutual Fund and Indo Nigeria Trust Scheme, were all registered in 1991.
17) **Frontier Fund** was under the management of NAL Bank Plc and First Trustees Nigeria Limited before the amalgamation that formed Sterling Bank Plc.

A number of new mutual funds are presently in various stages of establishment.

18) **Zenith Ethical Fund**, Zenith Income Fund and Zenith Equity Funds, all managed by Zenith Capital Limited. Floated in May 2008.
19) **Cash Craft Asset Management Limited** floated two mutual funds in 2007 named, Anchor Fund and Bedrock fund. The fund is not listed in the Nigerian Stock Exchange.
20) Afrinvest (West Africa) Limited, formerly Securities Transaction and Trust Company (Nigeria) Limited (Sectrust), has floated Afrinvest Equity Fund.
21) **DVCF Oil and Gas Limited**, a subsidiary of Deep Capital Plc is in the process of establishing DVCF Oil & Gas Fund. It is offering to the public one billion units of the fund at N1 each. The minimum subscription is N3,000.
22) **Chapel Hill Denham** recently launched Nigeria's first gender specific N2.5 billion mutual fund (Women's investment Fund) through an Initial Public Offer (IPO) at N100 per unit.
23) **PHB Asset Management**, is the fund manager for the Diaspora und launched by Nigerians in Diaspora Europe (NIDOE) with the support of all NIDO organizations worldwide which should debut in October 2008.

3.2 Extent Of Awareness And Adoption Of Unit Trust As A Vehicle For Investment In Stocks In Nigeria.

Not as much as 20 percent of investors in Nigeria are aware and do invest through the unit trust investment vehicle. The analysis of variance (ANOVA) test run through the E view computer analysis accepted the hypothesis that a great majority of investors in the Nigerian stock market are not aware and do not adopt the unit trust investment vehicle in their investment in the stock market. Majority of the investors in shares entered through the primary market and by direct purchase of shares as the banks and other companies offered their shares to the investing public. Not many cared to read and could understand the abridged prospectus advertised during the offer. Again the critical injunction always demanded of and complied with by the companies offering their shares to the public, to wit, to advice that prospective investors should consult their Accountant, Lawyer, Stockbroker or any other financial expert, before filling the purchase forms, was ignored by these prospective investors. Nearly 80 percent of the pooled investors proved to have never participated in the secondary market, only bought shares from the primary market, never consulted stockbrokers or accountants and lawyers and simply bought shares for keeps waiting for dividends either in cash or kind. Little wonder that they never sought for information about the existence, *modus operandi* and benefits of the unit trust scheme.

But according to Denham (2008), Unit Trust Scheme is a non-incorporated collective investment scheme; its purpose is to pool the savings of investors with the intention of investing and managing the savings for the investor's benefit. It combines the capital of many investors to employ experienced management in purchasing securities of many companies. The management of a Unit Trust provides diversification of investments and supervision which few investors could individually afford. Professional investment management being full time job requires specialized knowledge, skill and training. These equip the unit trust manager with the capability and capacity to compare all industries in the economy, conduct relativity studies of all companies within a promising industry, evaluate the effect of both monetary and political international events and determine the results of government policies on each industry.

The unit trust scheme is governed by rules normally articulated in a Deed. The Deed sets out the investment scope of the fund, names the unit trust management company and the trustees. It provides details of how the unit trust scheme is to operate including the maximum fee payable, the type of investment that a particular scheme can make, and how the value of a unit in the scheme can be determined. To facilitate flexibility in unit trust holdings, the Deed also describes how the price of a unit sold to unit holders and thereafter bought from them can be calculated. Essentially, the Deed contains a self modification mechanism by outlining the steps that should be taken when a need arises to make changes to the Deed itself. This forestalls all acrimonious relationship that could arise between the unit trust holders and the management company and the trustees of the trust and enhances transparency, accountability and trust.

The Unit Trust Management Company reports to the trustee about the purchase, sale and management of investments in the Unit Trust Scheme. They also promote and sell units of the scheme of investors (also known as “Unit Holders”) and buy back units from investors who wish to sell back the units. The management company keeps record in order to calculate the selling and buying prices and to determine the amount of distribution payable to the investors. On the other hand, the Unit holders, also called investors, supply the capital to be invested by the unit trust management company on their behalf. They are responsible for paying a fee to the management company and the trustee. Unit holders hold units, the value of which is determined by the formula set out in the deed. It is based on dividing the market value of the net assets of the scheme by the number of units in circulation. The formula is written thus:

$$\text{Value of unit} = \frac{\text{Market value of Net Assets of the Scheme}}{\text{Number of Units in circulation}}$$

Unit holders buy units in the scheme by completing the application form contained in the Unit Trust Scheme prospectus.

The trustee is responsible to the Unit holders to safeguard their investment and to ensure that the money is invested according to the term of the deed. They supervise the operations to ensure that the objectives are followed by the Unit Trust management company. The Trustees also approves and monitors all financial transactions, hold title documents of all the assets of the Unit Trust Scheme and collect all income there-from on the investments.

Goodwill is critical to the success of any unit trust management company the same as it applies to any serious business that has an eye into survival far into the future. In this light, unit trust managers have a reputation for the stability of their funds that is second to none. Of great importance also is the efficient and effective legal framework in which the managers operate. Every individual fund has its own independent trustee, although for administrative simplicity it is not unusual for unit Trust management companies to engage one trustee for all funds. The trustee’s primary role is to see that the terms of the fund’s deed are adhered to.

The seamless operation of the unit trust fund is also enhanced by the presence of a Regulator, in this case the Nigerian Securities Commission, and the use of a Prospectus. The Securities Commission Act 1993 provides that the Securities Commission (SC) is responsible for regulating all matters relating to Unit Trust Schemes. The SC has drawn up a set of Guidelines on unit trust schemes (Guidelines) to ensure a fair and consistent application of policies in considering proposals by management companies of unit trust funds. The Guidelines are formulated with the objective of providing a regulatory frame work that would protect the interests of the investing public and facilitate an orderly development of the unit trust industry. The requirements of the Guidelines are to be complied with by all parties involved in a Unit Trust Scheme. In addition, to the above Act and Guidelines, all Unit Trust Management Companies must comply with the companies (Amendments) Act 1997, the Securities Industry Act 1983 ad Trustee Act 1949.

On the other hand, the prospectus is a document providing information on the Unit Trust Scheme. When a unit Trust scheme is offered to the public the law requires that a copy of the prospectus be made available to people interested in investing in the scheme. This allows prospective investors the opportunity to make sound investment decision. The prospectus must be registered with the Securities Commission. It must contain certain information required by law. It must be accurate and not misleading. The people involved in preparing it are accountable for its contents. If there are misrepresentations in the prospectus, legal remedies are available to investors. By completing and signing the application form from the unit trust scheme prospectus, an investor becomes a Unit Holder of the scheme and a party to the deed.

3.3 Prospects Of Using The Unit Trust Scheme As A Veritable Vehicle For Enhancing Mobilization Of Capital For Investment In The Nigeria Stock Market

From the data collected through questionnaire, both the stockbrokers and the bankers are nearly unanimous on the potential benefits of using the unit trust scheme as a tool for mobilizing savings and investing in the stock market. However, the investors themselves show less enthusiasm in the prospects of using the unit trust as a good mode of investment in the stock market in Nigeria. The result is not unexpected since majority of the investors are neither aware nor use this mode of investment in the stock market. However for the stockbrokers and bankers their strong assertion that the unit trust has a lot of prospects is hinged on the possibility of benefiting from professional management, efficient diversification, easy liquidation of investment, exponential increase through compounding, regularity of investing and efficient fund administration (Pandey, 2004).

Professional Management is engendered through the gauging of probable effects of extraneous variables and events on the performance and survival of the firms invested in. As less obvious as these factors might be to non professionals who invest their savings on the company's shares, the professional has what it takes to evaluate them and correctly predict their effect on the profitability of the company both now and in the future. Hence the investor can hand his savings to a unit trust manager and go to sleep. And the professional can effectively perform each company's or industry SWOT (Strengths, Weaknesses, Opportunities and Treats) analysis and avail the investor the chance to invest wisely. Essentially, the professional has the time to continuously perform this SWOT analysis more than the investor himself, in appreciation that, in business, change is constant.

Unit trust scheme equally brings about diversification. This means spreading one's investments among many securities. It is an important method of reducing risk. It decreases the danger of damages or losses, which can occur through having all of one's eggs in one basket. Diversification is difficult and expensive for a small investor because the cost of purchasing numbers of shares in many companies at the same time is disproportionately high. Unit Trust with their resources is able to make widely diversified investments available to even the smallest investor. Diversification involves the ownership of many different securities

There is the prospect of liquidity offered by the unit trust scheme. An investor can sell his units, wholly or partially, at the following trading day's unit buying price. Units have a high liquidity that is; they can be readily converted into cash. It has to be remembered, however, that unit trust's units will be redeemed at the prevailing buying price on the following day after receipt of the repurchase form. The unit price may be higher or lower than the price at which the investor started the plan. Hence an investor can turn in all his savings to a unit trust scheme with the understanding that the investment is as good as good as cash and can answer for all those reasons for which some economic units prefer to hold cash. This does not in any case negate the quality of unit trust scheme as a vehicle for long term investment. It only offers wider range of choice and satisfies both the short and long time investor.

Unit trust scheme is seen to lead to exponential increase in wealth arising from the opportunity of compound interest. After all investment income is passive income arising from handing ones savings/fortune to another expected to be a better agent at growing the wealth. Instead of collecting dividends and searching for a new investment outlet, the investor that has no immediate need for cash can avail himself of opportunities provide by many unit trust funds for investors to reinvest their distribution. For those who opted for distribution reinvestment, the fund will automatically credit the distribution into the account, rather than sending distribution warrants allow both capital and earning to 'go back to work' immediately.

Another prospect is the regularity of investing. Many people do not have substantial sums of cash available to invest, but they can develop an investment account, investing smaller sum regularly in a unit trust. Most unit trust funds have plan available to make it possible for smaller investors to invest relatively small amounts monthly. Hence the scheme is very well suited for civil servants whose salaries are though meager but come regularly. In Nigeria where the wage level is relatively low, a unit trust plan married to income level of the worker is ideal means of mobilizing savings for investment. Little wonder that the new pension scheme in Nigeria is tailored along this scheme.

The presence of a regulatory body is a plus for the unit trust scheme in Nigeria. The Nigerian Securities Commission established by The Securities Commission Act 1993 provides this regulatory function. The Securities Commission (SC) is responsible for regulating all matters relating to Unit Trust Schemes. The Guidelines are formulated with the objective of providing a regulatory frame work that would protect the interests of the investing public and facilitate an orderly development of the unit trust industry. The requirements of the Guidelines are to be strictly followed by all parties involved in a Unit Trust Scheme. In addition, to the above Act and Guidelines, all Unit Trust Management Companies must comply with the companies (Amendments) Act 1997, the Securities Industry Act 1983 ad Trustee Act 1949. This on a good day provides the necessary level playing ground for all participants.

Most importantly, unit trust scheme provide ample chance for experienced administrators of fund to work for investors for the benefit of meaningful investment in the economy. Not many investors – some politicians, academics, market women, civil servants, artisans, doctors et cetera – have the experience, time or facility to properly set up an investment plan, much less supervise it constantly. But unit trust managers provide this service as professional organizations. They take away the trouble and effort required to obtain quotations on securities, handle delivery and payment for the securities involved in each transaction, safe-keep cash and securities and do the necessary accounting and rendition of documents to all stake holders.

According to Adeloye (2009), Unit Trust Schemes create a balance between the expectations of return in a rising market and possibilities of loses when the market falls. The investment portfolio for a beginner requires being constructed around a diversified risk advantage and thus guarantees the level of return required to transform investments into great wealth over the years. The financial capacity needed to achieve the standard portfolio diversification is clearly not within the reach of the small investors. Recent market developments have also tended to place new hurdles for the small investor in direct stock market investing. The main restrictive factor is the general increase in the minimum account opening amounts required by stock broking firm. This has spurred fresh attempts to establish Unit Trust Schemes to create an alternative investing window for the small investor. The investing activity requires the involvement of experts in deciding what to buy and when to buy or sell. Unit Trust Schemes provide a remedy for limited knowledge about stock market investing and inability to select good investments. They create investing expertise through the appointment of professional managers and make it available to the general investing public. The fund managers are knowledgeable about the market and are in a better position than individual investors to build a portfolio of stocks and other securities and turn them over to take advantage of market developments. Unit Trust Schemes therefore offer a big window of opportunity for beginners and it is available to both big and small investors. A mutual fund is a financial intermediary that creates instruments for a group of investors to pool their funds for investment in predetermined markets, usually equities, bond and money markets.

Finally, the return prospect of mutual funds in Nigeria is enormous. The merit of investing in mutual funds depends on the ability of fund managers to produce the superior returns they normally claim. Research findings in Nigeria have not supported the claim that mutual funds can consistently produces superior return that best market average yield. The ability to consistently produce superior return is tested by comparing annual average yields of mutual funds over the years with the all share index that represents average performance of a portfolio not so managed.

A five year annual yield computed by Mr. M. Ibrahim of the research department of SEC between 1993 and 1997 shows a disappointing performance of mutual funds relative to the all-share index. None of the 9 mutual funds then in operation was able to match the 48.51 percent five year average stock market return. Besides there was no consistency in the year by year rates of return achieved by the mutual funds during the period.

This was the period when mutual funds operation just began and two factors are identified to have accounted for the disappointing performance. The first is lack of adequate skills in stock selection and trading. Financial analysis expertise and market intelligence skills were quite low at that time. The second is the long period of depression the stock market experienced during the period. The experience is that average portfolio performances tend to fall below general market average when the stock market faces a decline and tends to rise above market average in bullish markets.

Table 3.1: **First 5 years Annual Yield Rankings (1993 – 1997)**

S/NO	MUTUAL FUND	5 YEAR AVERAGE ANNUAL YIELD %
1	ICON Unit Trust Scheme	35
2	Continental Unit Trust	11
3	First Interstate Unit Trust	4
4	Denham Management Millennium Fund	4
5	Gloria Unit Trust Scheme	1
6	Lead Unit Trust	1
7	MBA Mutual Trust Fund	(1)

Source: NSE Annual Report 1998.

Unfortunately, with the recent global financial crisis, people have gradually decided to reduce or stop investment in mutual funds and/or unit trust schemes. Most of them have decided to go into Real Estate investment as an alternative. Hence unit trust/mutual fund is faced by numerous challenges in Nigeria.

3.4 Challenges To The Use Of Unit Trust/Mutual Fund Scheme As A Veritable Tool For Mobilization Of Savings For Investment In Nigeria.

Data provided from the survey show that there are various challenges to the unit trust scheme ranging from systemic to institutional problems. The various segments of the sample reveal that chief among the institutional challenges is the weakness of control institutions in the country. The various control institutions – the Police, the Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices Commission (ICPC), the Stock Exchange Commission *et cetera* are all too weak to fight corruption to a standstill and instill confidence in investors to freely establish fiduciary relationships as the unit trust scheme demands.

The legal infrastructure and the adjudication system in the country also stand implicated as a major challenge to the acceptability of the unit trust scheme as a good vehicle for mobilization of savings for investment in Nigeria. The level of transparency in the dispensation of justice is circumspect. Justice is not only delayed unnecessarily but is out-rightly denied in many cases. People lose hope in the ability of the courts to protect the weak. And there is rampant recourse to jungle justice in the settlement of even commercial disputes. There is the general feeling which is largely correct that financial criminals walk away from the courts smiling home after plea bargaining abracadabra by lawyers.

Poor accounting and auditing architecture in the country is also identified as a major challenge to the unit trust scheme. Not many organizations can avail themselves of the services of top grade accountants and auditors. The unit trust by its nature is not a limited liability concern and the Company and Allied Matters Act of 1990 does not prescribe a compulsory annual external or statutory audit of its affairs. Given the prevalent poor bookkeeping and accounting habit in the country and the public’s perception of the failure of audit firms to adequately and sufficiently forewarn investors of the true state of health of so many companies especially banks that go under quite unexpectedly, investors generally accept accounting records including audit reports with a pinch of salt.

Low level of awareness about the unit trust scheme by investors poses a major challenge to the scheme. A greater percentage of the investors do not even have faint idea about the workings of the unit trust scheme. The populace has very limited information about the scheme and how they can benefit from it as marginal investors. With proper education in a country of more than 160 million people majority of who are within the working age and earning very meager salary, the unit trust system could have provided a good opportunity for investment.

Corruption is also implicated as a major minus for the adoption of the unit trust scheme in Nigeria. With the current rating of Nigeria as a still one of the most corrupt nations in the world by the Transparency International there is palpable fear in entrusting ones wealth into the care of another person irrespective of the presence of regulators and trustees.

4 Conclusion

In spite of the numerous benefits of Trust Fund and its very vital prospect as a veritable instrument for pooling of capital for meaningful investment in Nigeria not many investors within are either aware of this vehicle nor appreciate its prospects. Whereas the Nigerian stock market has lots of stocks listed numbering more than 500 different stocks, the unit trust/mutual fund segment can only boast of a paltry 21 firms engaged in mutual fund investment. The Nigerian economy needs much domestic investment to be able to grow at a rate (double digit), it can develop and enable the country achieve the Millennium Development Goals (MDGs) and probably be in a position to join the league of the first 20 economies in the world by the year 2020. The income level is low which gives rise to low saving, low investment and again low production and low income. A constellation of forces that keep reinforcing each other so much so that the authorities keep embarking on both fiscal and physical policies to attract Foreign Direct Investment (FDI) to bridge the gap between domestic savings and required investment level. But the global competition for FDI is so stiff that FDI ends up flowing back to their sources ultimately. Aremu (2005) posits that Nigeria does not attract up to the African average when the size of GDP is factored into the calculation of FDI inflow. In the face of low per capita income, the unit trust/mutual becomes the only viable vehicle for mobilizing small scale savings to be able to invest meaningfully in the real sector.

It is obvious that the impact of Mutual Funds has not been significantly felt in the Nigerian Economy. Majority of investors who by and large is still insignificant; viz *a viz* a population of more than 160 million people are presently neither aware nor do they patronize the unit trust/mutual fund scheme in Nigeria. However enough evidence show that even in the present economic down turn, investment through the unit trust is a viable one.

Therefore, there is need for more publicity of Unit Trust Schemes or Mutual Funds so that more people will become aware and people with small amounts of money may not be discouraged from investing. It is recommended here that there should be concerted effort to increase public education about unit trust/mutual fund schemes. There should be a strengthening of the legal framework for transparency and accountability in the conduct of business in general and the safeguarding of all interests when fiduciary relationships are created in Nigeria. The accounting architecture should be made more responsive to the expectations and aspirations of investors in Nigeria and in this respect the Nigerian Financial Reporting Council should expedite action towards adaptation and adoption of the International Financial Reporting Standard. Government at all levels should 'put their money where their voice is' with respect to the fight against corruption in Nigeria. The major organs of control – the ICPC, EFCC, Police, Due process Office.- and the financial regulatory bodies should be empowered and given the leverage to perform their statutory functions.

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