Teachers Financial Planning

Unit trusts and OEICs

Your guide to collective investment funds.

Effectively managing your own investments requires time, knowledge and a good deal of experience. For many of us the demands of daily life mean that we cannot dedicate as much time and energy to investments as we would like.

Researching which companies to invest in can take considerable time. A lack of expertise could result in severe losses. And some asset classes are simply beyond the financial reach of many.

With these common problems it is easy to see why collective investment funds – particularly unit trusts and open-ended investment companies (OEICs) – have become so popular.

What are unit trusts and OEICs?

Unit trusts and OEICs allow investors to put their capital into a shared fund with other investors.

These are known as collective investment schemes; rather than taking on the risk of going solo and investing your money directly into the equity and bond markets, these funds share it among an unlimited number of investors, spreading the risk.

Since the fund managers make the investment decisions, these types of fund are popular among people who don't have the time or expertise to make the big calls.

Unit trusts vs OEICs

Unit trusts are divided into 'units'. Your purchased units will be newly-created by the manager and will be cancelled when you decide to sell up. How much you pay for a unit will depend on the value of the assets held by the fund.

OEICs are set up in much the same way as unit trusts. You buy a part of the fund at a price that reflects the underlying value of the fund's assets. However, there are a number of key differences between the 2:

- Structure
  Investing in an OEIC will mean buying shares in an investment company, allowing you to own a share of the company's assets. Unit trusts operate on a more complex basis. Buying units does not actually grant you ownership, but instead allows you to participate in the fund. This difference means that unit trusts are governed by trust law while OEICs are governed by company law.
- Prices
  Unit trusts carry 2 separate prices: the buy price and the lower sell price. The sell price must rise above the price at which you bought the units in order for you to make a return on your investment. OEICs however have a single price, which will rise and fall according to the performance of the assets held by the fund.
- Choice
  OEICs can cater for many different types of investor, and offer different types of charges, commissions and investment strategies. Unit trusts do not offer this kind of flexibility; what the fund manager invests in is what your money goes into.

Unit trusts and OEICs

- **Management**
  Fund managers are responsible for managing the assets in both a unit trust and an OEIC, while trustees are responsible for overall governance for a unit trust and corporate directors carry out this role for OEICs.

We can help you decide on an investment strategy.

Where do they invest?

Investors can choose from more than 2,000 unit trusts and OEICs that invest in different asset classes, sectors and places around the world. Most funds will invest in multiple sectors, assets and countries.

The standard portfolio will consist of equity and corporate bond holdings. This means that the performance of your investment will very much depend on how well companies perform.

The Investment Association identifies 3 types of managed funds that allow you to choose how much exposure you want in the equity markets:

- mixed investment 0 - 35% shares
- mixed investment 20 - 60% shares
- mixed investment 40 - 85% shares.

Sometimes funds will buy into other investments such as property in order to mitigate against risk. On top of this, some funds invest into other collective funds.

Active vs passive

Most funds will be managed actively. This means that the fund manager will actively conduct research and analysis into the assets held by the fund and future investment opportunities.

Other funds operate passively. Here, there is no fund manager actively taking decisions; instead the funds buy all equities in a specific stock market and track its ebbs and flows, rising and falling in line with the market. This is the way to go if you believe the market will produce better returns than the choices made by fund managers.

Charges

Many unit trusts and OEICs will ask for a minimum investment of £1,000 in order to acquire a unit or a share. Additionally, investors may face 2 charges when putting their money into funds.

Up-front buying fees charged upon investment are becoming increasingly rare, but an additional fee of 0.5 - 1.5% will usually be charged annually.

Funds are up-front about the charges they levy. They will be shown clearly on the fund's Key Investor Information Document ('KIID') or fund information document which you should be given before investing, and will also be shown on your transaction confirmation, so you needn't worry about being hit with hidden fees.

Access your returns

It's generally pretty easy to get your money out of unit trusts and OEICs, provided the fund has invested in liquid assets such as shares and bonds.

Most funds will permit you to sell your units or shares at any time during normal business hours on a working day.

However, if the fund has invested in assets that are harder to sell (such as property) you may face restrictions on when you can sell up.

In these cases, there may be monthly, quarterly or biannual windows in which you can get your money out.

There are 2 ways you can access your returns:

- **Income units/shares**: These will pay you regular income in the form of dividends and any interest earned by the fund. You can also choose to reinvest income so that you buy more units or shares.
- **Accumulation units/shares**: These will automatically reinvest any returns back into the fund, which results in the price of units and shares increasing.

If you are thinking about putting money into a collective investment fund it is essential to seek professional financial advice.

No matter what your asset and risk preferences are, we can help you choose the fund that's right for you, at the lowest cost.

Get in touch today to talk about investing.