



## What is a Unit Trust or OEIC?

Unit trusts and Open-Ended Investment Companies (OEICs) are professionally managed collective investment funds. Managers pool money from many investors and buy shares, bonds, property or cash assets and other investments. This guide covers on-shore, that means UK-based, OEICs and unit trusts.

## When might a Unit Trust or OEIC be right for you?

If you don't understand a financial product, get independent financial advice before you buy.

These may be for you if:

- you want to invest in shares, or other assets but don't have the time, interest or expertise to know what mix to go for
- you understand you may get back less than you invested, and you're comfortable with that you can save at least £25 a month or can invest a lump sum of £500.

## How they work

- You buy shares (in an OEIC) or units (in a unit trust).
- The fund manager puts your money together with money from other investors and uses it to invest in the fund's underlying assets.
- Every fund invests in a different mix of investments. Some only buy shares in British companies, while others invest in bonds or in shares of foreign companies.
- You own a share of the overall unit trust or OEIC – if the value of the underlying assets in the fund rises, the value of your units or shares will rise. Similarly, if the value of the underlying assets of the fund falls, the value of your units or shares falls.
- The overall fund size will grow and shrink as investors buy or sell.
- Some funds give you the choice between 'income units' or 'income shares' that make regular payouts of any dividends or interest the fund earns, 'accumulation units' or 'accumulation shares' which are automatically reinvested in the fund, and distribution units or shares which may pay out a combination of accrued income and capital augmentation at regular intervals.

## Risk & return

- The value of your investments can go down as well as up and you may get back less than you invested.
- Some assets are riskier than others. But higher risk also gives you the potential to earn higher returns.
- Before investing, make sure you understand what kind of assets the fund invests in and whether that's a good fit for your investment goals, financial situation and attitude to risk.

Unit trusts and OEICs help you to spread your risk across lots of investments without having to spend a lot of money.

## Access to your money

- You can sell your shares or units at any time. Although, for units and shares in a property fund, the manager may be able to defer any redemptions for up to 6 months in times of market turbulence (and some other funds for up to one month).
- However, bear in mind that the length of time you should invest for depends on what your fund invests in. If it invests in shares, bonds or property, you should plan to invest for five years or more.
- Money market funds can be suitable for shorter time frames.

## Charges

- Unit trusts and OEICs come with costs. The fund will need to perform well enough to more than cover them if it is to produce returns for you. If returns are low or negative, charges will eat into your capital. Always check what the initial and on-going charges will be and compare them with other options.

Here are the different fees and charges you may pay.

- **Initial charge:** The charge for buying new shares or units, varies from zero up to 5%. For example, if you have £100 to invest and the initial charge is 5%, you will get shares worth £95.
- **Bid-offer spread:** Many unit trusts have both 'bid' (buy) and 'offer' (sell) prices for their units. The price you get if you're selling is slightly lower than the price you pay if you're buying. OEICs (and some unit trusts) only quote a single price.
- **Annual Management Charge (AMC):** An annual charge for the manager's services. It can be up to 1.5% or more of the value of your shares, but some funds that invest based on automatic rules – like index trackers – may have much lower annual management fees.
- **Total Expense Ratio (TER):** The TER is quoted by some funds. It includes the AMC and some other expenses. It's a useful way to compare different products but it does not include dealing charges which can add considerably to the annual costs if the fund has a high turnover of shares.
- **Exit charge:** The charge for selling shares or units, charged as a percentage of the total value of the sale.

## Safe & secure?

Fund assets are held in safekeeping on investors' behalf by a trustee or depository.

If an authorised investment firm goes into default, your assets are protected. You continue to own your investment and the fund's assets are still invested as before.

If your money is mismanaged, then the firm would be required to compensate investors. If it did not have enough money and, therefore, went out of business, then the outstanding compensation would be covered by the FSCS up to £50,000 per person.

## Where to buy a Unit Trust or OEIC?

You can buy a unit trust or OEIC:

- directly from the fund management company
- through an agent with ties to the manager
- through a fund supermarket or discount broker
- through an independent financial adviser or financial planner
- through an online share dealing service or stockbroker

## Tax

When a fund pays out dividends or other income, some tax will have been deducted. If you're a taxpayer, you'll need to pay the difference between this and your income tax rate. If you are a non-tax payer, you may be able to reclaim tax deducted from fixed income investments.

Any profit you make when selling your shares or units counts towards your Capital Gains Tax annual exempt amount. Losses can be offset against other gains in the same tax year or carried forward to future years.

### Tax-free options

Many unit trusts and OEICs can be held in an ISA. In this case, your income and capital gains will be tax-free.

## If things go wrong

Most fund managers are regulated by the Financial Conduct Authority. If you're unhappy with the service you get or you want to make a complaint, refer to the companies terms of business for their complaints procedure.

