INVESTING IN FUNDS

Your existing investments looked after by the Roberts Partnership will comprise a series of unit trusts and OEICS. Therefore much of what this Focus concentrates on will be known to you, but it is always sensible to periodically revisit the fundamental nature of your investments.

What are Unit Trusts and OEICs?

Unit Trusts and Open Ended Investment Companies (OEIC) are collective investments, also known as investment funds, and are a cost effective and efficient way of investing into the various asset classes (e.g. shares or fixed interest securities).

An investment fund pools together money from many investors. This combined pool of money is then spread across a wide number of investments into individual companies with the aim of reducing the risk of the overall portfolio. The investment decisions are entrusted to a specialist and professional fund manager.

The manager of the fund invests on behalf of the investors and decides on the investment strategy to be followed. Each fund has an objective which describes what it aims to accomplish and how it plans to achieve it. This could be investing into one type of asset class (shares, property, gilts or corporate bonds), investing into one particular geographical area, or investing into shares with a particular style.

The overall value of the underlying securities held within the unit trust/OEIC is directly reflected by the price of the units/shares. As the underlying securities values go up and down so does the price of the unit/share and hence value of the investment.

Unit Trusts and OEICs are open ended. Units or shares can be created or issued when investors invest and cancelled when investors dispose of their holding by selling them back to the fund manager. There is a direct relationship between unit or share price and the value of the underlying investment.

Whilst a unit trust issues units and OEIC issues shares, different share classes may be issued with different charging structures or currencies.

For an OEIC single pricing must be used whilst a unit trust will operate a bid/offer spread.

The opinions expressed above are those held by The Roberts Partnership at the date of issue and are not a recommendation to buy or sell any investment. Past performance is not a guide to future performance. Investments can go down as well as up. The Roberts Partnership is authorised and regulated by the Financial Services Authority.

What are the advantages of using funds?

- All investors' cash can be 'pooled' into a much larger fund.
- Professional fund managers make the underlying investment decisions and have the resources and experience to perform high levels of research and analysis.
- Fund managers are able to create a highly diversified fund at a reduced cost with the advantage of spreading the risk involved.
- Collective investments offer the ability to pursue particular objectives or specialise in particular markets. This allows us as advisors to choose those fund managers that we feel will excel at each of the different markets and investment styles.
- When the fund manager makes changes within the fund (sales of existing companies and purchases of new companies) there is no capital gains tax levied on the sales allowing the fund manager flexibility in the fund's management.
- Collective investments can be held within ISA, SIPP and Offshore Bond wrappers.
- Dividends can be used to increase the value of an investment by way of either accumulation units or income reinvestment plans which cannot occur with individual equities. It should be noted that income, when reinvested, still counts as income and is taxable in the same way as if income were distributed.

What are the disadvantages of using funds?

- Charges to the portfolio of funds may be relatively expensive (compared with individual securities) because of the selling to buying price spread that most unit trusts operate or the initial charge levied on most OEICs.
- There is generally little direct involvement by investors.
- Changing investment managers will involve costs.
- Changes to the portfolio of units trust units or OEIC shares will have capital gains tax implications

What are the charges?

There are usually two charges made by unit trust/OEIC managers.

The initial charge of a unit trust or OEIC varies between 0% and 6%. However we have negotiated competitive terms whereby the initial costs are typically 0.25% if not zero.

The annual management charge, typically set around 1%-1.5%, but on index funds it may only be 0.5% or possibly less. Multi manager funds have additional charges which are typically between 0.5% and 1.0% per annum.

Tax

Whilst sales within the fund by the fund manager are exempt from capital gains tax, it may be payable on any profits made by a taxpayer who disposes of units.

There is an annual exemption for each person (husbands and wives have separate exemptions) which is currently £10,100. Profits made on the sale of units of up to the annual exemption are not liable to CGT. Above the annual exemption the taxable gain is taxed at 18%.

For equity (shares) unit trusts/OEICs basic rate income tax of 10% is deducted at source on dividend distributions. A non tax payer can not reclaim this tax credit whilst a basic rate tax payer has met their liability and therefore need take no further action. A higher rate tax payer needs to pay an extra 22.5% tax by assessment bringing the total liability to 32.5% of the gross dividend.

For non-equity (fixed interest) unit trusts/OEICs distributions are paid net of 20% tax. A non tax payer can claim back the tax deducted in full whilst basic rate tax payers have no further liability. Higher rate tax payers are subject to a further 20% charge.

And finally ......

The use of funds provides a high degree of diversification and therefore a reduction in risk, whilst utilising the expertise of proven fund managers in a tax efficient and cost effective manner.

These attributes are increasingly important in these economically uncertain times. The prospects for recovery and inflation etc. are unsure and in turn the prospects for investment markets are unknown. A well diversified portfolio of funds that is spread across all asset types and geographical areas goes along way to tackling this problem.