



MM FINANCIAL MANAGEMENT

Financial Planning since 1990

INVESTMENT FUNDS (UNIT TRUSTS & OEICS)

Unit trusts and OEICs (open ended investment companies) enable the private investor to obtain a spread of investment and professional management at modest cost. Compared to many investments, unit trusts/OEICs are simple to arrange and require little administration.

Around 1,800 investment funds are presently available, of which approximately half are invested in UK stocks and shares. Broadly speaking, funds may be categorised as follows:-

General Funds aim to produce both capital growth and a reasonable level of income.

Income Funds aim to provide a higher income than generally obtained from equities.

Growth Funds aim to produce above average long term growth.

Unit trusts/OEICs may be graded according to risk. For example, General Funds are generally considered to be medium risk investments. However, certain specialist Growth Funds, such as those which invest in “special situations” offer the prospect of high returns, but are also considered high risk.

A unit trust provides an easy way to invest in stock market investments. Investors’ money is “pooled” and invested across a wide spread of investments on their behalf by professional fund managers. Investors own units in the fund which represent their share of the “pool”. Normally two prices are published for a unit trust – the buying price and the selling price. Any fund manager’s charges are normally reflected in the price.

An OEIC is similar to a unit trust in that investors’ money is “pooled” in the same way to create a portfolio of assets. The main difference is that OEICs have a corporate structure and offer shares rather than units. In addition there is only a single price published for the fund which reflects the underlying value of the investments in the fund. Unlike most unit trusts, the fund manager’s charges are shown separately.

Unit trusts/OEICs may be encashed at any time. Gains may be liable to Capital Gains Tax (CGT), subject to the usual exemptions and reliefs.

From the 1999/2000 tax year dividends from unit trusts/OEICs carry a non-reclaimable tax credit of 10%, which satisfies lower and basic rate tax liabilities. Higher rate taxpayers are liable to a balancing income tax charge of 22.5% of the grossed up dividend.

Managed Portfolios

For portfolios of up to £100,000 a “managed portfolio” approach may be beneficial to avoid the inhibiting effect of CGT on management of a portfolio of separate unit trusts/OEICs. The “managed portfolio” approach also minimises the administration associated with a number of different investments in respect of the reconciliation of dividend vouchers, etc..

This can be achieved by:-

- A unit trust/OEIC “Fund of Funds”
- A “Managed Portfolio” trust

These “managed portfolios” include a degree of active fund management without incurring CGT and should allow good returns at reduced risk because of increased diversification.



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However, the Fund of Funds and Managed Portfolio both suffer the potential disadvantage of being run by one fund management group. If this group falls behind its peers for whatever reason, a switch to another group will incur a fresh set of initial charges and may trigger a CGT liability.

Umbrella Funds/Fund Supermarkets

The umbrella fund approach is used by the Skandia Multifund and a number of “fund supermarkets” such as Cofunds. We believe that it is particularly suitable for portfolios in excess of around £100,000 or where high levels of income are required. This investment philosophy recognises that no one fund management group can meet all investors' needs and this approach means that you need not be locked into the fortunes of one company alone - or the performance of their fund managers.

The umbrella fund allows a portfolio of unit trusts/OEICs to be structured to suit your risk/reward profile (including cash if required) and future switches between managers and/or trusts may be made at low charge. This means that you will have considerable flexibility in the future. There are usually no additional charges over those that would apply for the same funds held directly – in some case the charges may be lower. There may be a liability to CGT on any switches.

Most providers issue annual valuation statements and consolidated information for inclusion on your tax return.

“Income” may be drawn from the portfolio, but the level and frequency of payment of income may be chosen to suit your requirements – you are not limited to the dividend amounts and payment dates of the underlying trusts. For instance, you might decide to take 5% of the portfolio’s value on a monthly basis.

Higher levels of income are arranged by partially encashing the underlying investments, and you should be aware that excessive levels of withdrawal may lead to erosion of your capital.

These notes provide only outline information. Please contact us for further details and specific recommendations.

Risk Warnings

Past performance is no guarantee of future performance, and the value of investments can fall as well as rise.

These products are intended as medium/long term investments. Therefore if you withdraw from them in the early years you may not get back the full amount invested.

The insurance or investment company product literature contains much useful information. It outlines benefits and risks, and we recommend that you take the time to study and familiarise yourself with it. If you have any questions please let us know and we will be pleased to answer them.

The income from these products is not guaranteed and may fluctuate.