

Collective investment funds

Pooling your money with thousands of other people

British collective investment funds that pool money from lots of investors go back to 1868. The first funds were investment companies - listed companies that offer shares to investors and then buy shares in other companies with the monies they collect in. Just like fully functioning companies, investment companies have boards of directors to oversee the managers' efforts, shareholders with voting rights, and reports and accounts.

Closed-ended

They are known as "closed-ended" as they have a fixed number of shares in the market. If the fund does well, the value of the investments rises (called the net asset value) and the share price should follow. In reality, there is usually a time delay and shares can trade at a discount when worth less collectively than the value of the fund, or at a premium if worth more.

Investment companies can also borrow money so they can invest in more stocks. Called gearing, this can accelerate performance if the fund manager does well, but can damage performance by a greater amount if the manager fails to deliver.

A fund is born

As issuing new shares can be cumbersome and costly, a new form of fund was born called the unit trust. These issue new units every time someone invests in the fund, so the value of the fund and the value of the units are always in line, with no discounts or premiums. Also, as the funds are not structured as companies, there is no stock market listing and, instead of shareholders, investors are called unit holders and have trustees to ensure all is above board.

Unit trusts usually have a bid-offer spread, the difference between the selling price and the buying price. As unit trusts took off in Britain, another type of fund was taking Europe by storm.

Shareholder voting rights

The société d'investissement à capital variable (SICAV), like investment companies, these have shareholders with voting rights and boards of directors. Luxembourg is their favoured home and many are sold right across Europe. And like unit trusts, they are able to take in new money by issuing new shares each time someone invests. They also tend to have sub-funds that deal in different asset classes or separate currencies for various markets.

Unlike their continental counterparts, unit trusts have been difficult to sell in Europe as international buyers do not like the British trust structure. So in 1997, the Open Ended Investment Company (OEICs) - pronounced 'oik' - came into existence. The FSA's rules governing which types of fund could convert to OEICs were relaxed in 2001 and since then, the majority of fund management groups have converted their unit trusts to OEICs or launched OEIC funds.

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Arrange a review

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CHOOSING WHICH TYPE OF FUND TO BUY DEPENDS NOT ONLY ON WHERE YOU LIVE, BUT WHAT YOUR ATTITUDE TO RISK AND YOUR AIMS AND OBJECTIVES ARE. YOU SHOULD SEEK PROFESSIONAL ADVICE TO ENSURE YOU MAKE THE RIGHT CHOICES. FOR MORE INFORMATION ABOUT HOW WE COULD ASSIST YOU TO IMPLEMENT THE MOST APPROPRIATE INVESTMENT STRATEGIES FOR YOUR CIRCUMSTANCES, PLEASE CONTACT US.

The value of these investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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