**Unit 8: Investment Funds**

[**https://quizlet.com/889414560/unit-8-investment-funds-flash-cards/?funnelUUID=b911f63c-1cd4-4f6a-a4f7-a232d39f9a71**](https://quizlet.com/889414560/unit-8-investment-funds-flash-cards/?funnelUUID=b911f63c-1cd4-4f6a-a4f7-a232d39f9a71)

**Advantages of collective investments**

Wide choice

Diversified.

Professionally managed.

Low cost

Can start small

**Collective investments: Starting small?**

5k can’t but property.

But could invest REIT

**Why are collective investments cheaper?**

Costs can be spread across thousands of investors

Bulk buying power.

**Three Types of Collective investments**

Investment Funds

Investment Trusts

Investment Bonds

**Which type of Collective investments are ‘Open Ended’?**

Investment Funds & Investment Bonds

**Which type of Collective investments are ‘Close Ended’?**

Investment Trusts

**Who sells Collective investments?**

Investment Funds & Investment Trusts = MGMT Companies.

Investment Bonds = Life Insurance Companies.

**Open-Ended investments**

Unlimited investors: Just create more units.

When want to sell – no market.

Provider cancels units.

**Close-Ended Investments (Investment Trusts)**

Fixed number of shares.

Must buy off existing investor.

Prices subject to supply & demand.

**Open-Ended investments : What determines the price?**

Net Asset Value of Fund

Not distorted by supply and demand.

**Close-Ended investments : What determines the price?**

Mostly supply and demand.

**Downside of Open-Ended investments**

Trading can be suspended if large amount withdrawn

May need to sell illiquid assets – e.g. property.

**Types of Investment Funds: Onshore**

Unit Trusts

OEICs

**Types of Investment Funds: Offshore**

Reporting Funds

Non- Reporting Funds

**Unit Trusts v OEICs: How similar?**

Largely the same.

Unit Trusts more British

OEICs more continental

**Unit Trusts v OEICs: Broad Categories**

80% of assets to be in said category.

These are checked monthly by Investment Association.

Equity Growth, Equity Income, UK Mixed Growth

**Unit Trusts v OEICs: Who regulates in the UK?**

FCA: Coll & Fund Sourcebooks

**FCA Sourcebooks for Unit Trusts & OEICs**

COLL: Collective Investment Schemes

FUND: Investment Funds

**Main Purpose of Investment Fund Regulation**

Sufficient diversification.

Permitted Assets

**What are ‘Permitted Assets’?**

Those in EU

FCA annual review for those outside.

**Unit Trust: Internal Monitoring**

Trustees

**OEICs: Internal Monitoring**

Depositary

**Qualified Investor Schemes**

Wider Investment and borrowing powers

Only available to professional/ institutional investors.

**Unit Trusts v OEICs: EU Regulation**

Must meet UCITs rules

If so can be freely marketed across UK/EU

**Unit Trusts v OEICs: UCITs Requirements**

Sufficiently diverse

Not overlay ‘geared’

**UCITs: Max Holdings in one asset (actively managed)**

4 Funds at Max of 10% = 40%

Remaining Funds Max of 5% = 60%

**UCITs: Minimum Number of Holdings (actively managed)**

16

4x 10% = 40%

12x 5% = 60%

**Typical number of assets in actively managed fund**

50-80

**UCITs: Max holding in one asset for tracker funds**

20%

35% Exceptional circumstances

Impacted by weighting- Shell, Google.

**UCITs: Gearing Rules for Retail Funds**

10% Fund value

This must be temporary and offset by cash flows to ensure this gets repaid.

**UCITs: Gearing Rules for ‘Non- Retail’ Funds**

10% Fund value on permeant basis.

**UCIS Meaning**

Unregulated Collective Investment Scheme

High Risk

**UCIS: Unregulated Collective Investment Scheme - Holdings**

Can be broader

Crops

Hotel bookings etc.

**UCIS: Unregulated Collective Investment Scheme: Who are they for?**

NOT for retail investors

**UCIS: Unregulated Collective Investment Scheme: Regulation**

Not regulated by FCA

Not covered by FOS/FSCS – unless can prove bad advice given by advisor.

**What type of Income Tax for Investment Funds?**

> 60% Interest bearing assets (Bonds) = Savings Income

< 60% Interest bearing assets (Equities) = Dividend Income

**When can you use your PSA with Investment Funds?**

If fund has 60% Interest bearing asset

Gilts, bonds, corporate bonds

**Investment Funds: Tax situation if income re-invested?**

Still liable for income tax for that year.

Calculation is the same.

**Investment Funds: CGT**

Sale of assets for profit = CGT liability.

**Regardless of asset mix- even if fund includes qualifying bonds.**

**When would qualifying bonds be liable for CGT?**

If part of a Unit Trust/ OEIC.

Not if bought directly.

**Investment Funds: SD/SDRT**

Doesn’t apply.

Investment funds themselves aren’t equities.

**Tax if Investment Funds are in an ISA?**

No Income Tax/ CPT

**What If move investment fund from outside to inside an ISA?**

Treated as a disposal > liable for CGT

Bed & ISA

**How often are investment funds priced?**

Daily at set time.

NAV determines unit price.

**Historic Pricing**

Buy at last declared price.

**Issues with Historic Pricing**

If big price swing in last 24 hours.

Buyer gets product that no longer reflects market value.

Fund may move to forward pricing if more than 2% swing.

**Forward Pricing**

Next declared Price.

Buyer doesn’t know exact price.

**Multi-Manager Funds: 2 Types**

Fund of Funds

Manger of Funds

**Multi-Manager Funds: Key Benefit**

Additional layer of diversification.

2nd tier of management.

**Multi-Manager Funds: Cons**

Extra cost.

Additional layer of MGMT also have to be paid.

**Fund of Funds**

One manager combines several funds under one roof to meet specific objective.

Fettered or Unfettered.

**Fund of Funds: What if fails?**

Can be replaced without creating tax liability for investor.

**Fund of Funds: Fettered**

All funds come from same MGMT company – Blackstone.

Cheaper

**Fund of Funds: Unfettered**

Funds can be sourced from whole of the market.

More choice but more expensive.

**Manger of Funds**

Brings together fund managers that specialise in different areas- fixed income, property.

**Manger of Funds: Pros**

Should avoid any duplication of holdings- like in funds of funds.

**Manger of Funds: Cons**

More expensive than Fund of Funds as more specialist.

More popular with institutional investors – pension funds etc.

**Unit Trust: Legal Structure**

Trust

**Unit Trust: What is it governed by?**

Trust Deed with set mandate.

Major changes to mandate must be approved by unit-holders.

**Unit Trust: Income v Accumulation Units**

Income: Paid out to unit-holder.

Accumulation: Automatically re-invested.

**Unit Trust: Owners**

Trustees

**Unit Trust: Trustee Responsibilities.**

Look after interests of beneficiaries (unit holders)

Ensure manager sticks to remit- can remove.

Audits, meetings, register of unit holders.

**Unit Trust and OEIC: Who regulated by?**

Same protection.

FCA

FSCS- 85K.

FOS- Advice issues.

**Unit Trust: Day to running?**

Manager

Must be FCA Authorised.

**Unit Trust: What if manager breaches mandate?**

Must inform trustees/ possibly FCA.

**Unit Trust: Manager responsibilities.**

Fund selection, admin, promotion

**Unit Trust: Register of unit-holders**

Record of ownership: name, address, number of units etc.

Responsibility of trustees

**Unit Trust Pricing**

Mainly ‘duel-priced’.

Some have single pricing- mid market price.

**Offer Price**

Buying Price

Price you can buy units in fund.

**Bid Price**

Selling price

‘Bid to get rid’

Price you get if you sell units back to fund.

**Bid – Offer Spread**

% difference between buying/ selling price.

Monitored by FCA.

**Unit Trusts: Implications of bid-offer spread.**

If you buy units then sell straight away, will make a loss due to duel-pricing.

**Unit Trust Fees**

Initial charge- less likely if duel-priced.

Annual management charge

Exit charges – within set timescale.

**OEIC: Legal Structure & what governed by?**

Company

Articles of association

**OEIC: Open Ended?**

Unlike normal company, can Create/ Cancel unlimited shares.

Therefore > Share Price = NAV of fund.

**OEIC: What do investors buy?**

Non-tradable shares

**OEIC: SD/SDRT on purchase of shares?**

No.

**OEIC: What if investor wants to sell.**

Can’t sell on open market.

Return to provider who cancels shares.

**OEIC Umbrella**

Can operate as an umbrella company with sub-funds for different goals.

**When would two investors have different share-classes for an OEIC?**

If OEIC has an umbrella structure with different sub-funds.

**OEIC: Who provides oversight?**

Depositary

**OEIC: Who is the Depositary?**

Authorised independent person.

**OEIC: Depositary responsibilities.**

Safeguard interests of shareholders.

Oversea MGMT.

Distribute income.

**OEIC: Day to Day running?**

Authorised Corporate Director – Annual fee.

**OEIC: Authorised Corporate Director Responsibilities**

Manage fund within remit.

Maintain register of shareholders

Prepare accounts.

**OEIC: Register of shareholders**

Record of ownership.

Responsibility of Authorised Corporate Director

**OEIC: Pricing**

Mainly single-priced.

Duel-priced very rare.

**OEIC: Dilution Levy**

Form of exit fee.

Targeted at institutional investors selling vast sums at once.

Creates trading costs/ selling illiquid assets.

**OEIC: Dilution Levy – other use**

Cn be used as dis-incentive to new investors if don’t seek any further investment.

**Is Dilution Levy fairer?**

Units trusts tweak bid-offer spread which impacts all investors.

Dilution Levy can target large investors only.

**Advantages of OEIC over Unit Trusts**

Legal structure more recognised overseas- more widely marketed.

Umbrella Structure: Easier to add new funds- rather than create a new trust deed etc.

**Overseas Reporting Fund: Regulation**

Set criteria: Accounts etc

Apply for reporting fund status

**Overseas Reporting Fund Tax**

UK rules for both income and capital gains.

Income: PSA,DA

CGT: Annual amount, then taxed at 10/20%.

**Overseas Non-Reporting Fund Tax**

Capital Gain treated as INCOME.

No CGT allowance – taxed at marginal rate.

No Top-Slicing

**Overseas Funds**

Operator not resident in UK