HMRC - STSM101020 - Introduction To Collective Investment Schemes: What Is A Unit Trust?

A ‘unit trust scheme’ is defined in section 237(1) Financial Services and Markets Act 2000 (FSMA) as

‘a collective investment scheme under which the property is held on trust for the participants’.

A unit trust scheme is legally a trust, having a trustee and beneficiaries. The trust deed forms the constitution of the unit trust and will outline the full name of the trust fund, the category of the fund and specify the type of investments that may be held within it.

A unit trust scheme constitutes a pool of investments (‘the scheme property’) funded by the contributions of investors. In return for a contribution to the trust fund, the trust will issue ‘units’ to the investor to the value of the contribution. The pool of investments held by trust fund is divided into equal portions called units, and investors holding a number of units are beneficially entitled to an undivided share of the investments subject to the trust. Investors holding units are referred to as unit holders. The price of units is determined by the managers of the trust (usually on a daily basis) at the current market value of the investments held in the fund.

There are three parties to a unit trust:

the manager (who operates the Trust fund and is responsible for investing cash contributions received from investors);

the trustee, who must be unconnected with the manager, and who is entrusted with the custody of the investments held within the trust on behalf of the unit holders, and

the unit holders who are the trust beneficiaries.

Unit trusts with trustees resident in the UK will either be Authorised Unit Trusts (a type of Authorised Investment Fund), or Unauthorised Unit Trusts.

Investors in a unit trust (or any collective investment scheme) are not allowed to have day to day control over the management of the trust fund property.

See STSM101040 for the meaning of an unauthorised unit trust.

See STSM101020 and STSM101030 for the meaning of an authorised investment fund.

See STSM101010 for the meaning of a collective investment scheme.