Collective Investments Fact Sheet

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Collective investments are companies or funds which use the funds of multiple investors to create a professionally-managed portfolio of assets. The assets these companies or funds can invest in include, but are not limited to, equities, bonds and property. In this way, by investing in the company or fund, investors can gain indirect exposure to a basket of goods or assets without having to invest in each directly and can benefit from the expertise of a market professional. Investing in collective investments, therefore, brings the benefits of diversification and provides investors with the means of gaining fairly cost-efficient exposure to markets or assets which can be difficult to invest in directly.

WHY INVEST IN COLLECTIVES?

There are a number of circumstances in which collective investments can be suitable for an investor, including:

- For the smaller investor who does not realistically have sufficient funds to achieve an economical and acceptable spread of risk from a portfolio
- For larger investors who prefer the simplicity and diversity provided
- As part of an overall investment strategy aimed at restricting risk, but complementing individual equity investment weighted towards specific companies or market sectors
- To gain exposure to specialist investment markets, for example, smaller companies, venture capital and overseas markets

WHAT ARE THE DIFFERENT TYPES OF COLLECTIVES, AND HOW DO THEY DIFFER?

There are several types of collective investments available, including Investment Trusts, Exchange Traded Funds (ETFs) and schemes such as Unit Trusts and Open Ended Investment Companies (OEICs). These all have the common objective of providing exposure to a diversified portfolio of investments, but they can have a variety of investment aims and risk profiles. Collective investment schemes do not pay Capital Gains Tax (CGT), but investors in these schemes may incur CGT when selling shares/units. There are a number of differentiating characteristics, primarily:

- Investment Trusts are quoted public companies with an independent Board of Directors to look after shareholders' interests. Unit Trusts are regulated by a Trust Deed supervised by an independent trustee whilst OEICs are established under a special company structure substantially regulated by the Financial Conduct Authority (FCA).
- As companies, Investment Trusts have a 'closed ended' structure, with a fixed number of shares in issue. Unit Trusts and OEICs are 'open ended' with units and shares created and cancelled in response to investor demand - the management of the resultant cash flow can restrict performance, particularly on more specialised trusts investing in either less liquid markets and/or specialist areas of the market that can be subject to investment fashions.
- The share price of Investment Trusts is determined by supply and demand and is not a direct reflection of the value of the underlying portfolio. As a result, shares are often priced at a premium or discount to their Net Asset Value (NAV). This can provide investors with opportunities, but in our view they need to be carefully monitored. Unit Trust and OEIC prices are based on the underlying value of the portfolios, the former being quoted by means of dual bid and offer prices and the latter by a single price.
- Investment Trusts can borrow, gearing their portfolios to increase exposure to investment markets. This can be beneficial, but needs to be monitored as it can also have an adverse effect on asset values, particularly in falling markets.
- Management charges on Investment Trusts and ETFs are generally lower than funds, but in all cases charges can vary considerably normally due to asset class or geography. The charges to collective investment schemes are deducted from the portfolio and therefore, are reflected in the NAV of the scheme.
- Investment Trusts can be subject to corporate activity, particularly when shares stand at an excessive discount to NAV or if investment performance has been poor. This can lead to remedial action, including liquidation, share buy backs, capital reconstruction and manager removal.
- ETFs are designed to track particular indices or sectors.

COLLECTIVE VEHICLE	ETFS	UNIT TRUSTS	INVESTMENT TRUSTS
Trading during market hours	Continuous	Once a day	Continuous
Real-time pricing	Yes	No	Yes
Transparent portfolio	Yes	Periodic basis	Periodic basis
Free of stamp duty	Yes	Possible	Possible
NAV Discount/Premium	No	No	Yes
ISA eligible	Yes	Yes	Yes

Investments and income arising from them can fall as well as rise in value and you may lose some or all of the amount you have invested.