T: 01228 587588
E: info@trulyonline
W: www.trulyifa.co.uk

Managing your money

Investing though a fund

If you feel you do not have the time, knowledge or inclination to manage your own portfolio of investments, you can delegate responsibility for managing your money to a professional fund manager. Funds are collective investments, where your and other investors' money is pooled together and spread across a wide range of underlying investments, helping you spread your overall risk.

You pick the asset class, geography or theme and then the fund managers invest the money for you. One of the major advantages of funds is that they enable you to build a diversified portfolio. In addition, funds enable you to gain access to an array of geographical markets around the world, a variety of specialist asset classes and a range of industry sectors.

INVESTMENT CHOICES

You receive reports on the fund's performance but have no influence on the investment choices short of removing your money from the fund and placing it elsewhere. Spreading risk is one of the main reasons for investing through a fund. Even if you have a small amount to invest, you can have a lot of different types of assets you're investing in – you're 'diversified'.

You can spread risk across asset classes (such as bonds, cash, property and shares), countries and stock market sectors (such as financials, industrials or retailers). Funds will typically focus on either growing or generating an income for you.

FINANCIAL GOALS

Which approach you choose depends on your financial goals and future plans. Ask yourself this: are you in a position to leave your money alone for a while in the hope that it grows as much as possible, or would you rather get some money back regularly? If it's the former, you should look at growth funds; if it's the latter, it might be better to focus on income funds.

Ethical investments tend to focus on things like the environment, projects that support social development, or businesses that support an inclusive work culture. Funds can also aim to be ethical by excluding so-called 'sin stocks' – such as investments in tobacco and weapons.

TAX-EFFICIENT WRAPPERS

There is also a tax benefit with funds. In the UK, switches between shares within funds are free of capital gains tax (CGT) for the saver. This is not the case if you manage a portfolio of shares unless these are held in tax-efficient wrappers such as Individual Savings Accounts (ISAs).

There are two main structures of funds – open ended and closed ended. The former are split between unit trusts and open-ended investment companies (OEICS), while the latter comprise investment trusts.

OPEN-ENDED FUNDS

You can invest in or redeem cash from open-ended funds at any time. Fund managers create shares or units for new investors and cancel them when they are redeemed. This means that the size of the fund can increase and decrease depending on investor demand – they are open to subscriptions and redemptions. The price an investor pays is based upon the actual value of the underlying assets (called the 'net asset value' or NAV).

CLOSED-ENDED FUNDS

The closed-ended funds, also known as investment trusts, are structured as listed companies and trade like any other equity on the stock market. They are 'closed' in the sense that, once created, they are typically not open to subscriptions and redemptions. They have a limited amount of shares available and any buying and selling has to be carried out in the open market.

This means these funds' prices can differ from the NAV. The price of the fund is determined by investor demand as well as by gains or losses in the underlying assets. The price you can pay for a share, therefore, can either be more or less than what it is actually worth (known as trading at a premium or a discount to NAV). For a fund manager, a closed-ended fund has the benefit of stabilising the amount of money with which they invest and can make this structure a better fit for slower-moving, less liquid asset classes such as property.

"Ethical investments tend to focus on things like the environment, projects that support social development, or businesses that support an inclusive work culture."

Speak to an IFA

Planning your investment goals is essential if you're going to have a real chance of achieving them. A financial review is a great way to take a fresh look at your finances and plan for the journey ahead. More importantly, it enables you to talk through your long-term financial objectives and discuss with us a way forward to deliver your plan to achieve them.

Truly Independent Ltd. Company Registration No: SC367442. Principal Office Address: Atlantic House, Parkhouse, Carlisle, Cumbria, CA3 0LJ. Registered Office Address: Forsyth House, 93 George Street, Edinburgh, EH2 3ES