

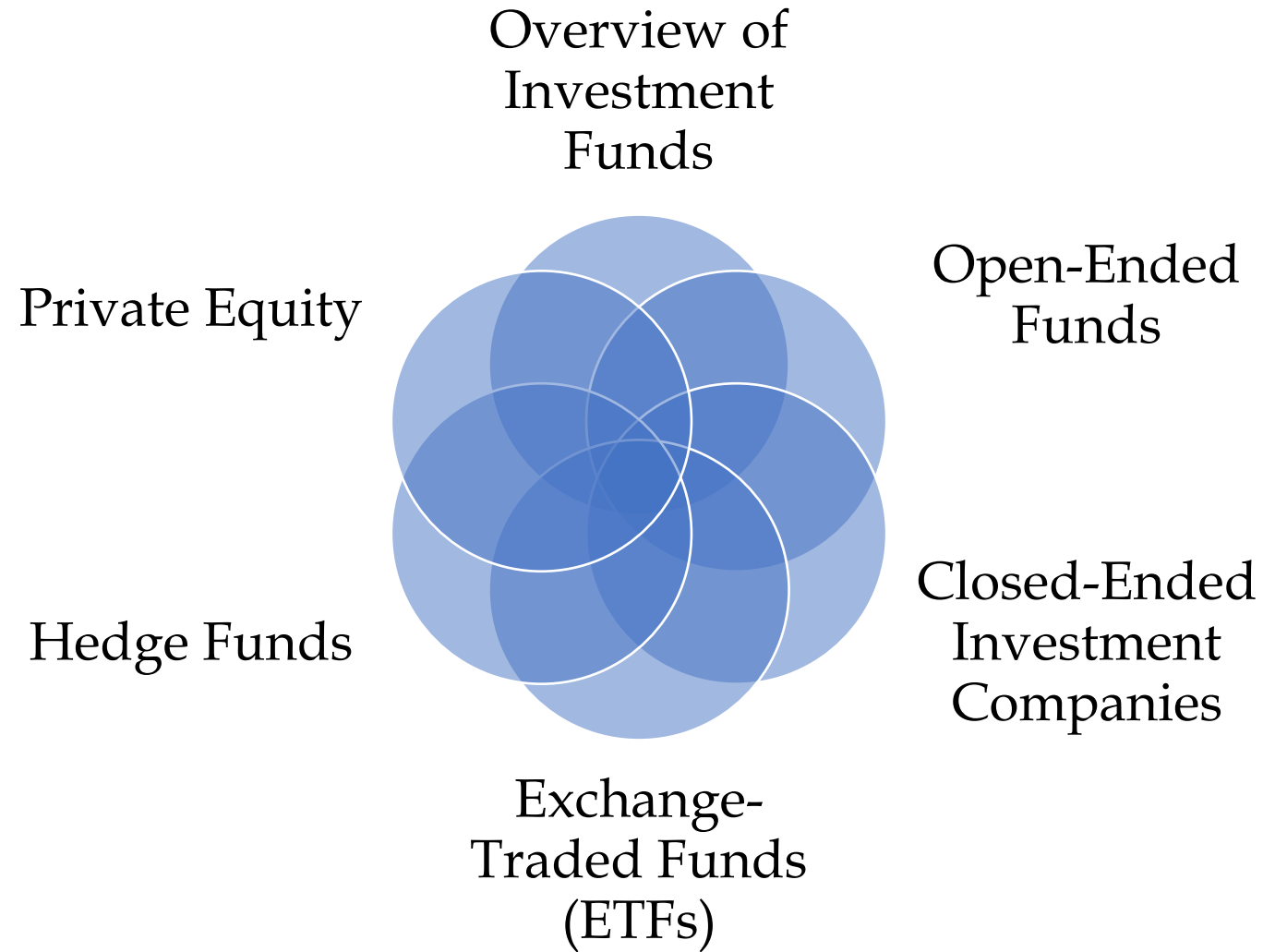


## Chapter 7 – Investment Funds

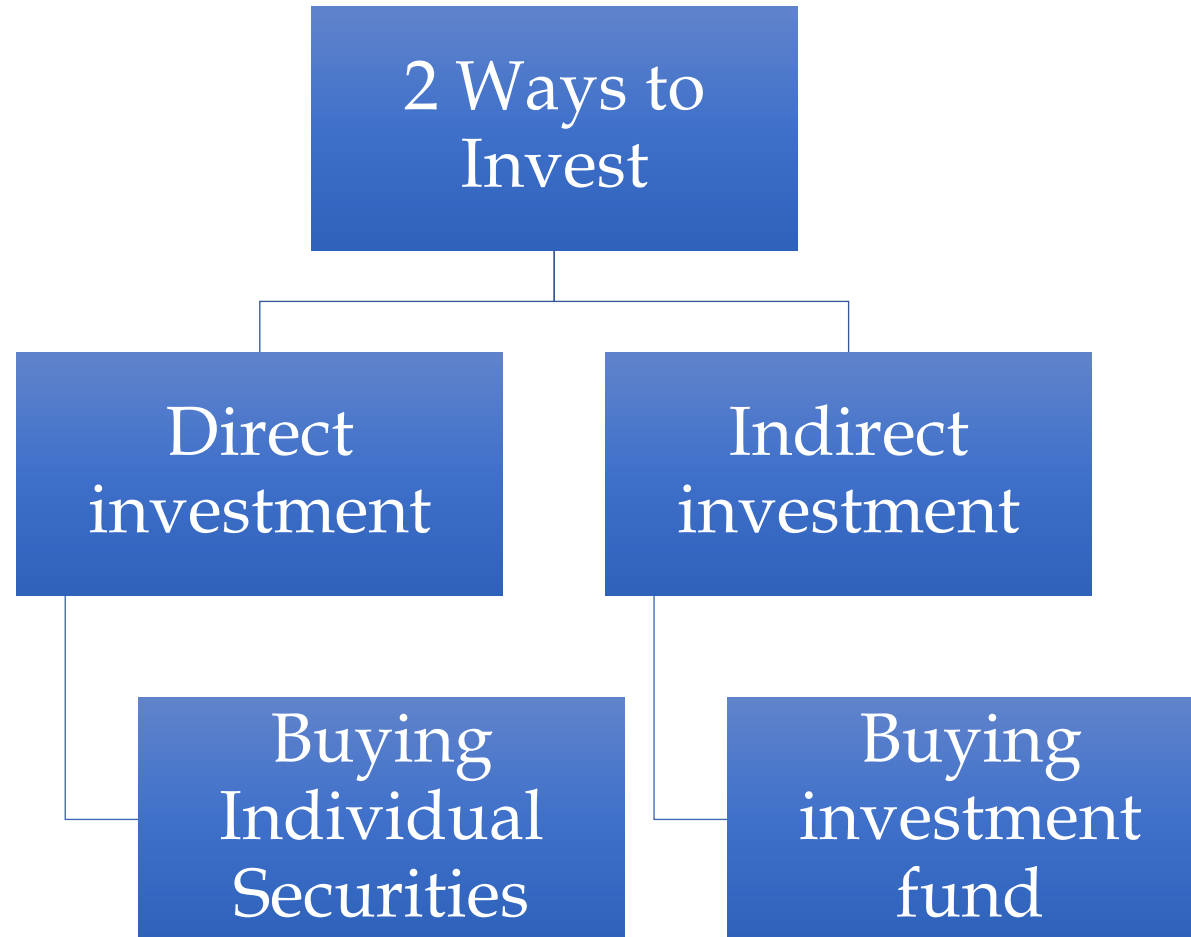
6 Questions



# Investment Funds



# Overview of Investment Funds



# Overview of Investment Funds

These investment or pooled funds are known as collective investment schemes (CISs). Also very well-known by other names, such as mutual funds,

**Unit trusts** or open-ended investment companies (OEICs)

**Funds can be:**

- **Open-ended funds** can create new shares in response to investor demand or cancel them when sold so that their capital can expand or contract e.g. mutual fund.
- **Closed-ended fund** has a fixed capital base so if an investor wants to buy shares they will do so on the stock exchange and buy them from another investor who wants to sell.



# Benefits of Collective Investment

## Rationale:

- Pool the resources of a large number of investors, with the aim of pursuing a common investment objective

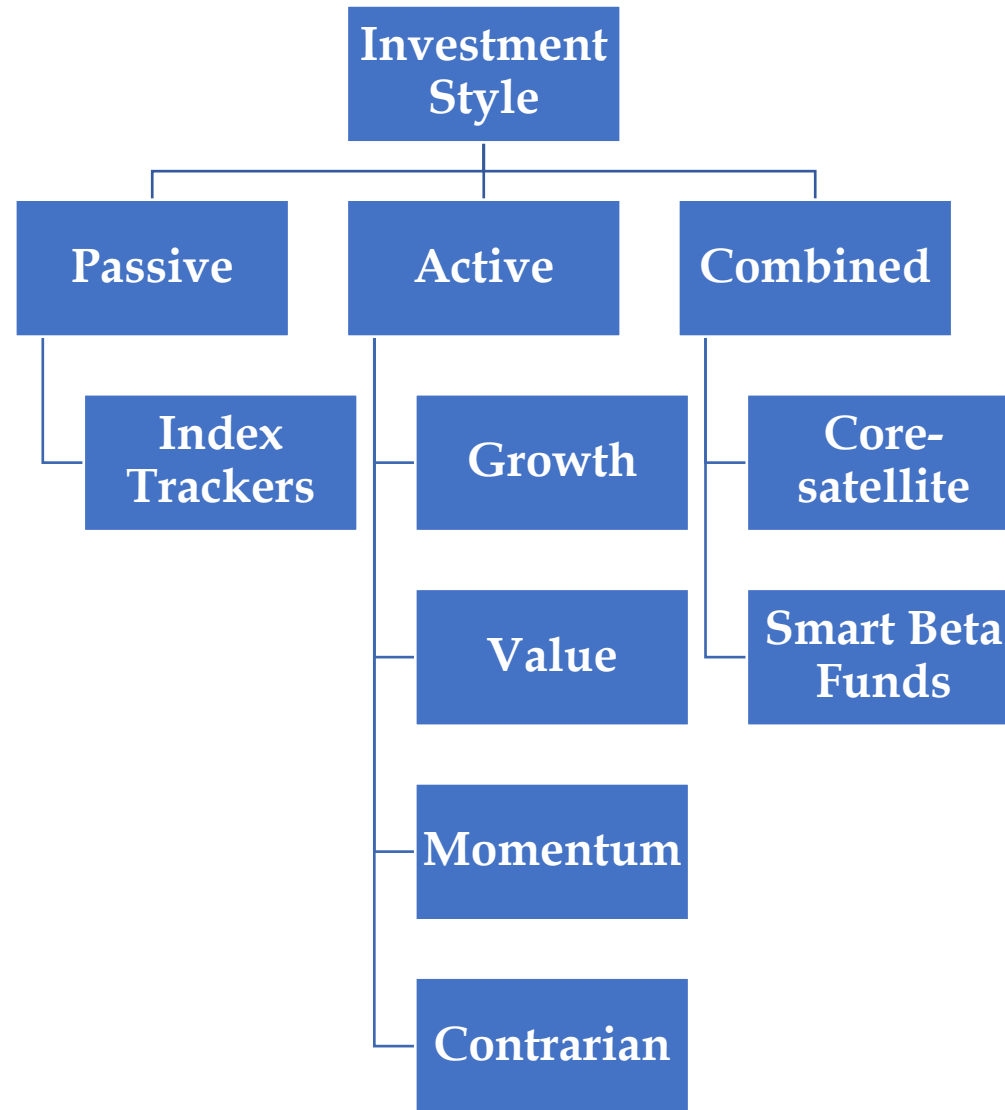
## Benefits:

- Economies of scale
- Diversification
- Access to professional investment management
- Access to geographical markets, asset classes or investment strategies which might otherwise be inaccessible to the individual investor
- In some cases, benefit of regulatory oversight
- In some cases, tax deferral

What are the drawbacks?



# Investment Strategies



# Fund Classification

Fund classification includes assembling funds with related goals.

This enables investors to match their goals with the funds and helps investors to contrast funds with comparable goals.

Most funds can be broadly divided into two groups: those intended to give "income" and those intended to create "growth".

Funds that are difficult to fit into these categories can be found under the capital protection, specialty funds, volatility managed, absolute/target return, or unclassified category.



## Regulatory authorisation

- Authorised
- Unauthorised

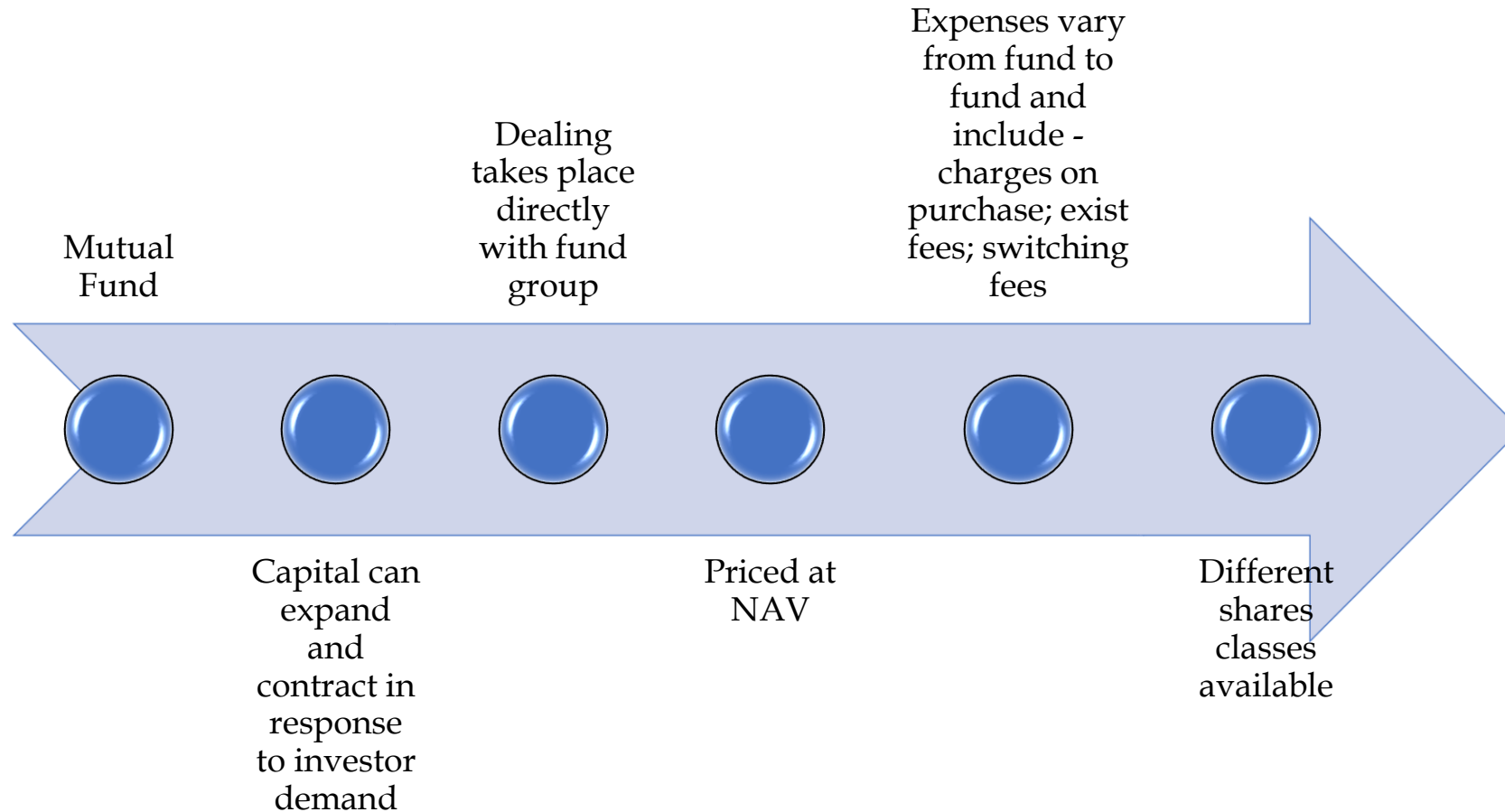
## Key features of investment funds

- Differing legal structures
- Structures involve segregation of investment management and safeguarding of assets to provide investor protection
- Open Ended or Closed Ended
- Dealt directly with the Fund Management Group or on a Stock Exchange
- Price is based on the underlying investment portfolio but how it is calculated varies





# US Open-Ended Funds

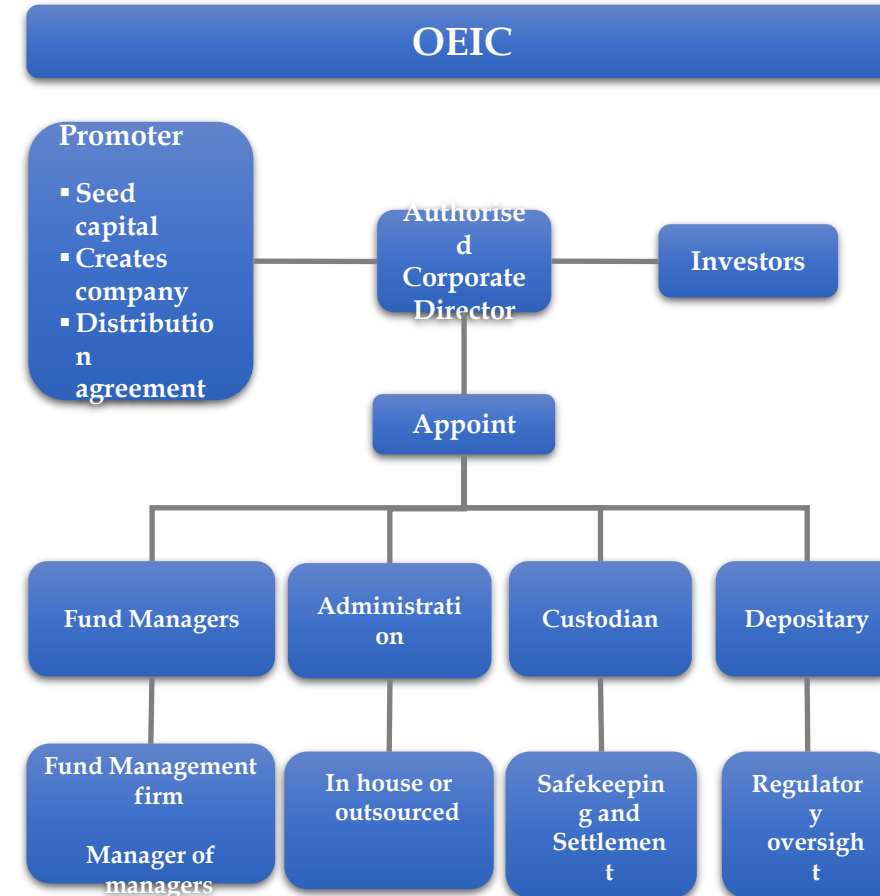
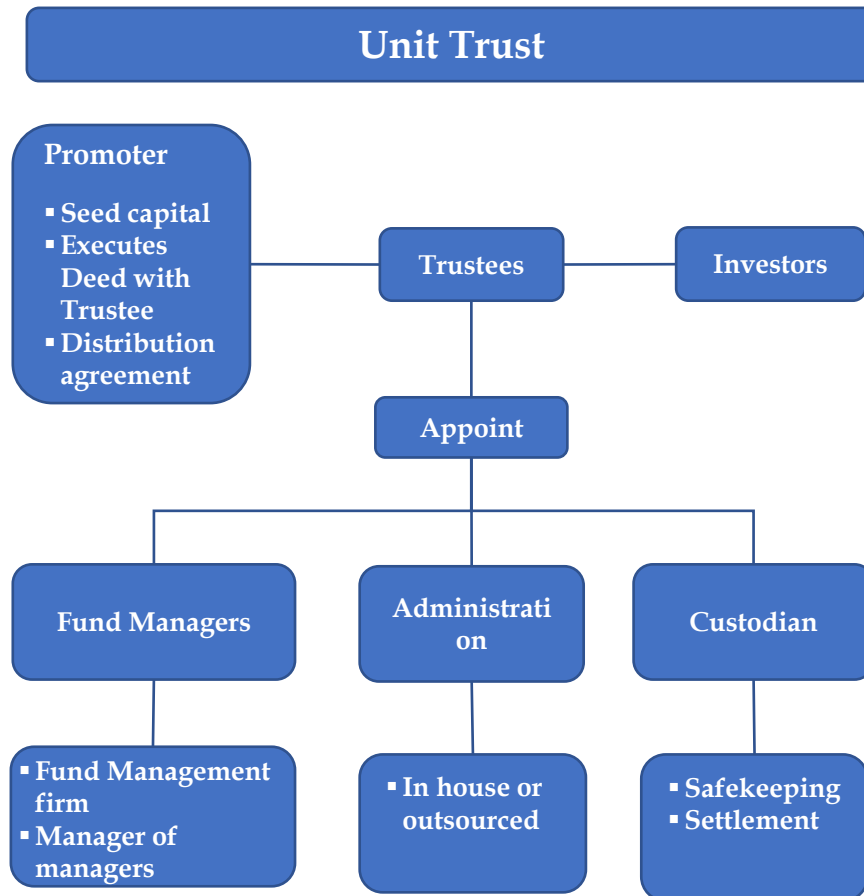


# European Open-ended Funds

SICAV	FCP	Unit Trust	OEIC
<ul style="list-style-type: none"><li>• Societe D'Invesstisement Capital a Variable</li><li>• ICVC – Investment Company with Variable Capital</li><li>• Corporate structure and open ended fund</li><li>• Requires appointment of depositary to exercise oversight on the fund</li><li>• Major fund type used in Luxembourg for cross-border marketing</li><li>• Single Priced</li><li>• Linked to NAV</li></ul>	<ul style="list-style-type: none"><li>• Alternative legal structure for European funds</li><li>• Fonds Commun de Placement</li><li>• Contract structure between scheme manager and investors</li><li>• No legal personality – administered by a management company.</li><li>• Administration similar to SICAV</li></ul>	<ul style="list-style-type: none"><li>• Structured using a Trust Deed</li><li>• Trustee is the legal owner of assets</li><li>• Unit holders are the beneficial owners</li><li>• Unit Trust Manager is responsible for marketing and management of the fund</li><li>• Trustee safeguards assets and undertakes checks on manager for investor protection</li><li>• Dual-priced basis – bid and offer price</li></ul>	<ul style="list-style-type: none"><li>• Requires appointment of an Authorised Corporate Director to manage the company</li><li>• Fund investments are held by an independent depositary – who is the legal owner</li><li>• OEIC is beneficial owner</li><li>• Can be single or dual priced</li></ul>

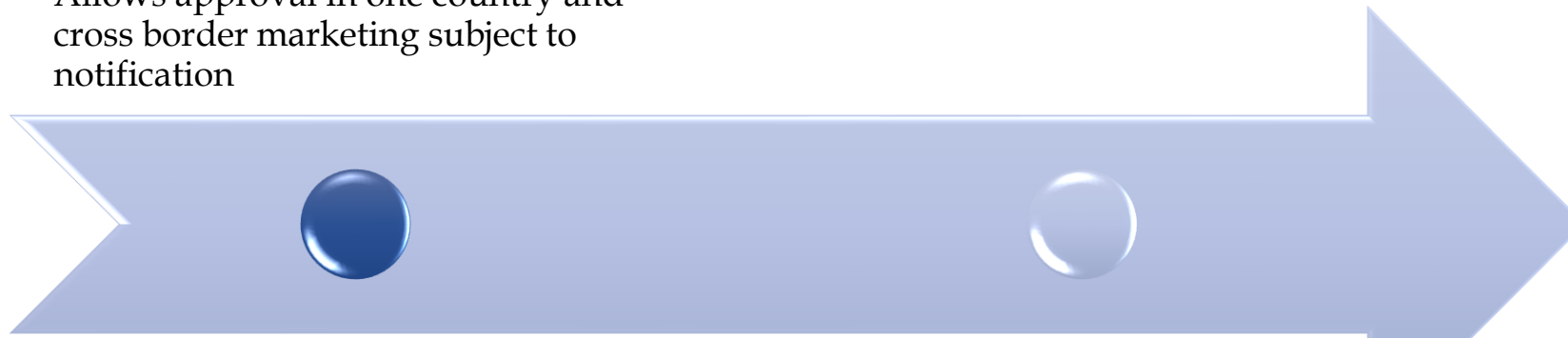


# Unit Trusts and OEICs



## UCITS

- European Directive - Undertakings in Collective Investments and Transferable Securities
- Intended to enable free marketing of funds across Europe
- Product Directive - simplified prospectus; wider range of instruments
- Management Directive - single passport
- Allows approval in one country and cross border marketing subject to notification



## Distribution

- UCITS increasingly accepted as global standard
- Luxembourg funds distributed in over 90 countries



## US Closed End Funds

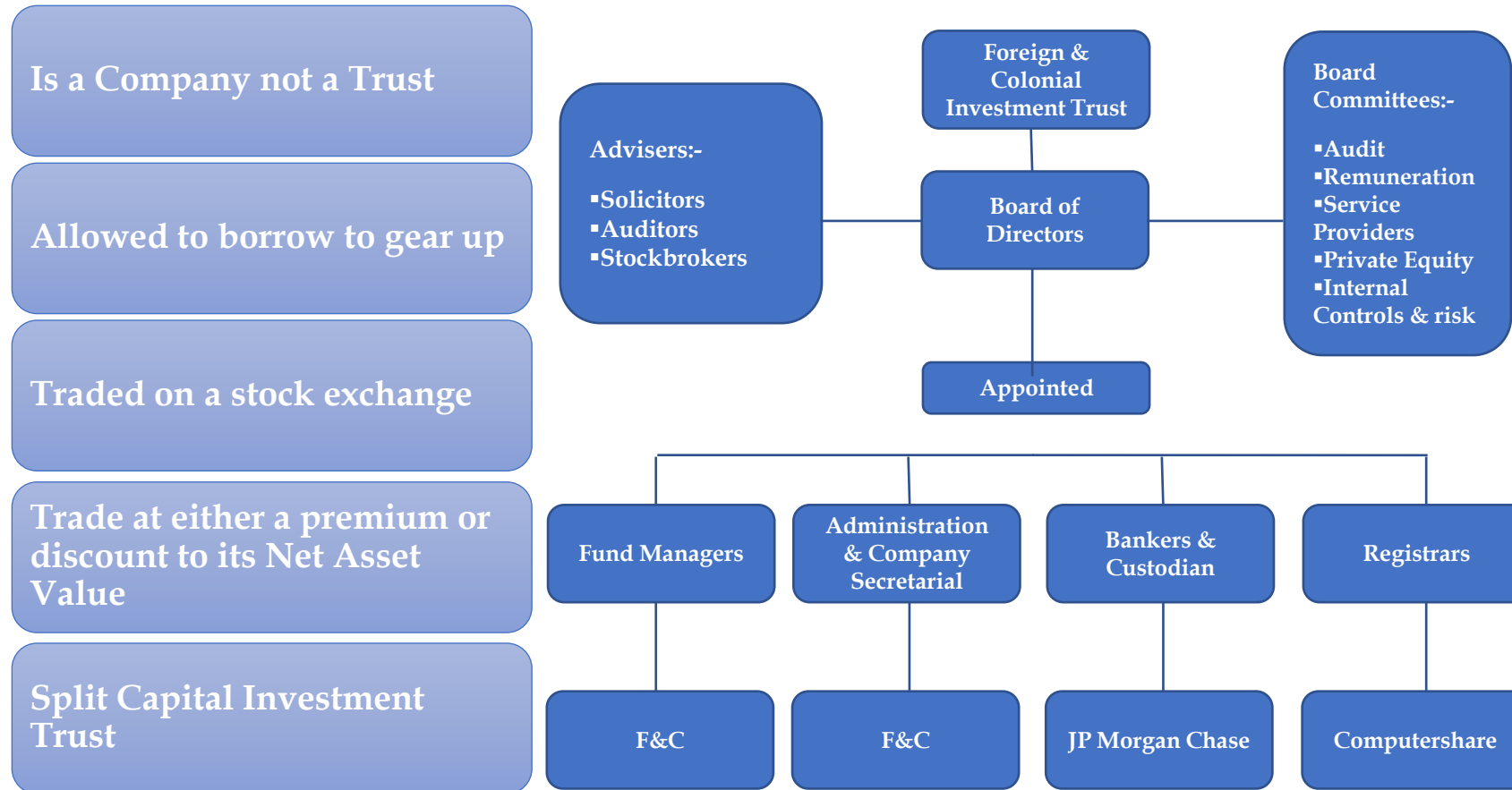
- Have fixed capital and traded on a stock exchange
- Can have different investment objectives, strategies, and investment portfolios
- Also can be subject to different risks, volatility, and charges
- Permitted to invest in a greater amount of "illiquid" securities than are mutual funds

## Unit Investment Trust

- Buys and holds a relatively fixed portfolio of securities for life of the fund
- Does not actively trade its investment portfolio
- It will usually make an initial public offering of its shares (or units) like a closed-end fund
- But the sponsors of the fund will maintain a secondary market
- Allows owners of UIT units to sell them back to the sponsors and allows other investors to buy UIT units from the sponsors



# Europe Close-ended Funds - Investment Trusts



# Share Classes

Both common and preferred shares may be issued by certain investment trust firms

Other classes of shares will be issued under a limited-life split-capital investment trust

Preference shares are an illustration. An investment trust, for instance, might issue both common and preferred shares.

Different types of preference shares, such as convertible preference shares that can be converted into common shares or zero dividend preference (ZDP) shares, may be issued.

ZDPs, do not pay dividends; instead, investors receive a return in the form of the difference between the price they bought and the amount they would receive when the ZDP is returned at a predetermined later period.

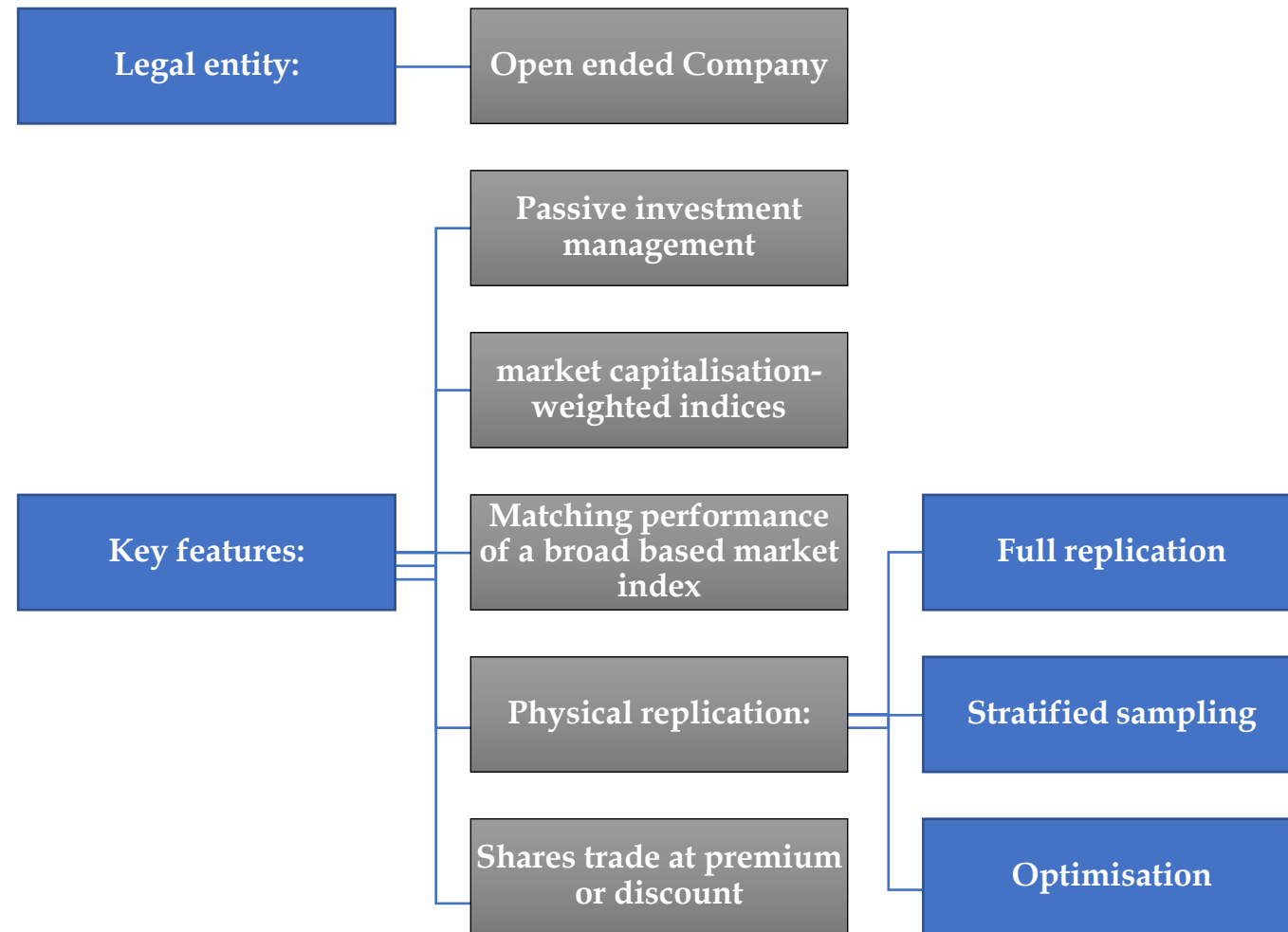


- Investment trust that pools investors funds to invest in commercial and residential property
- Enables access to differing types of property and can provide some diversification through pooling
- No corporation tax if structured so that underlying income and gains are paid to investors
- Property markets are cyclical and whilst pooling enables diversification still exposed to property market cycles

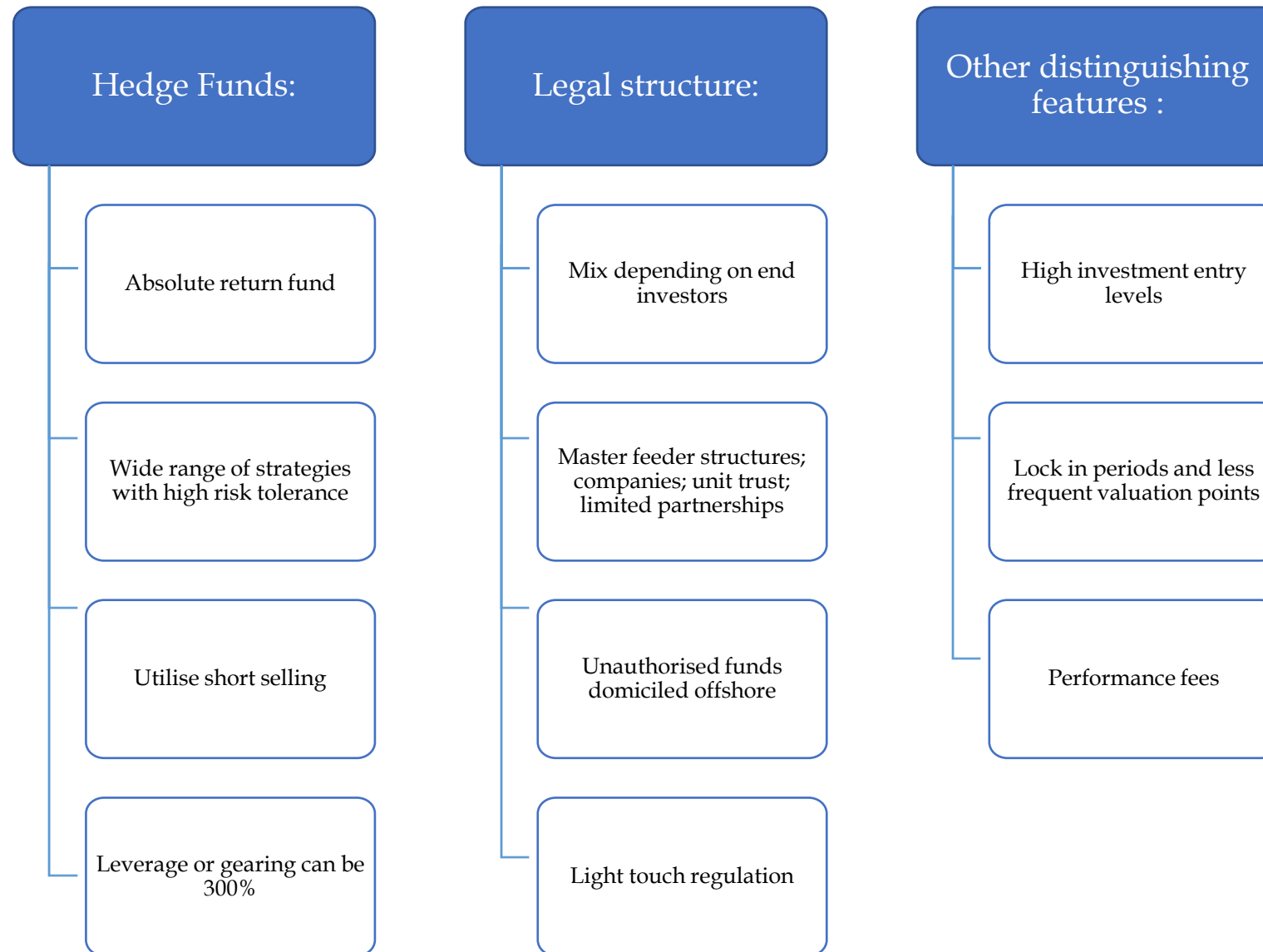




# Exchange Traded Funds



# Hedge Funds



# Private Equity

Now a major asset class in its own right

Provides medium to long term finance in return for an equity stake

Venture capital or complete buy outs

Usually structured as a limited partnership

