

Schroders Navigator

Investor Guide

Unit trust fees and charges made simple.



Unit trust fees and charges made simple

With any investment, there are costs which need to be taken into account before parting with your hard earned money. Unit trusts and Open Ended Investment Companies (OEICs) are no exception. There are generally two main charges; an up front initial charge, and an annual management charge.

The Initial Charge

Definition: The initial charge is the sales fee charged by the fund manager when you invest. If you invest through an intermediary such as an Independent Financial Adviser (IFA), the fund manager may share the initial charge with that intermediary as a form of commission for selling the product.

Funds can be single priced or dual priced. Dual pricing means that there is a different price for buying and selling. When a fund is dual priced, you buy units at what is known as the 'offer' price and sell at the lower 'bid' price. The difference in the two prices is known as the bid-offer spread. The reason for the names is that at the offer price, the fund manager is offering units to you and, at the bid price, they are bidding to receive them from you.

The offer price includes the full initial charge, however you can often get a lower initial charge or in some cases pay no initial charge. For further information contact your Independent Financial Adviser. If you do not currently have a Financial Adviser, you can find one near to where you live by visiting www.unbiased.co.uk. As a result your offer price will be calculated at a lower price.

Single-priced funds have one price, and it is at this price that sales and purchases of units or shares is made. With single-priced funds the initial charge is a percentage of the total investment made. For example an initial charge of 5% on an investment of £100 would be £5, so the amount you would be investing would be £95.

Annual Management Charge (AMC)

Definition: The Annual Management Charge (AMCs) is the fee that the fund manager charges annually to manage the fund.

AMCs typically cost between 0.5% and 1.5%. This cost is spread throughout the year so you don't see large swings in the price. It is calculated and paid daily based on the value of the fund on each day.

Investors should be aware that the annual management fee can be taken from a fund's 'capital' or 'income'. In this context 'capital' means the value of the total investments in the fund, and 'income' refers to the dividends received by the fund. If the AMC is taken from capital then the distributable income is higher but there is the potential that



Annual Management Charge (AMC) Continued

performance or capital value may be eroded. If the AMC is taken from income then the capital value may be higher but the income may be lower.

In addition to the initial and annual management charges, there are other charges for administration. These are reflected in the **Total Expense Ratio (TER)** which is a more realistic reflection of the total charges.

Total Expense Ratio (TER)

Definition: The Total Expense Ratio, or TER, measures the total cost of investing in a fund. Total costs may include various fees (legal and accounting) and other expenses. The TER is calculated by dividing the total cost by the fund's total assets and is shown as a percentage. It may vary from year to year as costs do not always remain the same. Because it is inclusive of these other charges, it is a more reliable indicator of the impact on a fund's performance than just using the annual management charge alone. In short it is the best guide to how fees and charges will affect the returns you get.

TERs on actively managed funds can range from 1.0-3.0%, depending on the type of fund you choose. Clearly, funds with high TERs have to work that much harder to produce a return, net of all charges. It is worth noting that most performance is quoted net of charges so the impact has already been calculated.