

Guide to Fund of Funds

Why Fund of Funds?

It is terribly hard work picking a portfolio of the right funds. With over 2,000 funds on the UK market alone, choosing the right one can be a complicated, expensive and time consuming affair. Many people simply don't have the time, expertise or inclination to do the research needed to make an informed decision. So why not let the experts do it for you? This is where 'Fund of Funds' come in.

A 'Fund of Funds' is a one-stop investment solution managed by full time investment professionals which makes it one of the simplest and most cost effective ways to build and maintain a properly diversified investment portfolio that works for you.

How does a Fund of Funds work?

Each Fund of Funds is carefully constructed and managed on an ongoing basis – all you need to do is choose your overall investment objective, which of course can be done as a combination i.e. income, growth or a combination of the two. Everything else is then done for you by experts. The manager of the Fund of Funds will carry out all the research and make all the investment decisions on your behalf.

The manager invests money in a number of underlying funds, all of which must be regulated by the Financial Services Authority, and has the freedom to invest in the funds of other asset management groups. Rather than invest in one company as a traditional fund would, a Fund of Funds invests in a mix of other funds. They use their expertise to select and access what they believe to be the best funds with the aim of producing competitive returns.

Why should I invest in a Fund of Funds?

Diversification

The old adage "Never put all your eggs in one basket" is especially true for investing; relying on one company

or fund can be dangerous as your investment will rise and fall with their fortunes. With Fund of Funds your money would be spread across a range of funds, reducing volatility and diversifying your portfolio.

Tax Efficiency

The Fund manager's aim is to achieve consistent and positive returns. In order to do this they will buy and sell to potentially benefit from the changing market conditions. If you were to do this yourself you could trigger a Capital Gains tax (CGT) liability of up to 40%. The Fund of Funds manager can switch funds as often as necessary without having to incur CGT. CGT may only become an issue when you come to sell the fund itself and the profits, added to other gains in the tax year, exceed the CGT allowance (£9,600 2008/2009 tax year).

Actively Managed

Fund of Funds have their own team of experts who research the industry on your behalf, selecting the most appropriate fund(s) for the future. Investing in their time and experience gives you peace of mind as they constantly monitor the market so that funds can be bought and sold as required.

Simplicity

How fantastic that someone else takes care of all the paperwork? The investor need make only one transaction, and only one choice – the objective of the fund. The money is then invested and monitored by a team of specialist individuals at the investment house. If you currently hold a number of separate funds you may be receiving a mountain of reports and statements. Fund of Funds will dramatically reduce the amount of paperwork and the time spent trying to organise and file it. Typically you will receive a concise report and statement of holdings twice a year which cover all the underlying holdings and fund activity.