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How to choose the right unit trust for you

Have you decided to do more about your finances this year and want to invest, but just don't know how to choose the right investment? When you invest through unit trusts, you can be exposed to a wide range of different assets, even by investing only a small amount each month. This is an opportunity anyone can take, whether it be online or via a professional financial adviser, and the earlier you start investing, the longer you have for your money to grow.

Few new investors truly understand what a unit trust fund is, let alone how to choose one, and even seasoned investors can struggle to determine the best choice for their goals. There's a massive range of unit trusts available to invest in, which can make your decision even trickier. As a first step, we've outlined how to get started below. Even more helpful is M&G Investments' Guide to Investing video series which explains the essentials in easy-to-understand language.

What is a unit trust?
In simple terms, a unit trust (also known as a fund) is a collection of individual savings invested in the financial markets and other assets, such as cash. These collections of savings are managed by professional investment managers, who aim to grow the value of the overall fund over time. You can invest in a unit trust fund either through a monthly debit order, or a lump

sum amount. When you do, you are allocated a number of units in the fund based on the amount of money you've invested and the price of the units on the day you bought them.

You and the hundreds of other investors pool your money together into the unit trust, and that pool is divided up into equal units. The group shares the risks and rewards of the investment in proportion to the amount of units they own.

Why are unit trusts a good investment?

The flexibility that comes with investing in unit trusts is one of their major benefits. You can buy or sell your units at any time (generally receiving your cash within 2-3 days), and they allow ordinary individuals with small amounts to invest to access assets that they might not otherwise be able to afford, such as bonds. Equally, they are cheaper than if you build your own portfolio of assets: every time you sell an asset, you will be taxed on it, whereas professional portfolio managers are able to sell and switch between underlying assets continually, but you only incur taxes when you sell out of the overall unit trust itself.

In addition to different types of bonds, the underlying assets in unit trusts can comprise equities, listed property, short-term cash instruments and actual cash. Most are listed on public exchanges, like equities. Some assets are riskier than others, for example equities are considered the riskiest, as their value can go up and down fairly frequently. This means you can lose money over the short term. The assets you end up investing in will depend on the fund's investment mandate, which essentially determines which assets the fund is allowed to invest in.

Which one is best for you?

The right unit trust for you will typically depend on your time horizon and the level of investment risk you can tolerate, as determined by your investment goal. Remember, your choice should be based on your specific needs, and not simply on which unit trust happens to be performing the best at that particular point in time.

As your financial adviser is likely to tell you, past performance is not an indication of future performance –so a unit trust that does wonders this year may not deliver the same results next year. It's all about consistent performance over the long term. Be sure to select an asset manager that will help you achieve the returns you want over time. M&G Investments currently has several unit trusts that have consistently returned top-quartile performance (relative to their peer groups).

Your time horizon matters because if it's relatively short (for example, less than two years), your financial adviser might suggest that you select a low-risk fund with exposure to bonds and cash, and no exposure to property or equities. On the other hand, if you're working with a longer time horizon (seven years or more), your adviser might point you in the direction of a fund that only holds property and/or general equities. Otherwise, multi-asset funds that invest across all types of assets can be ideal for those with medium-term investment horizons of three to seven years.

One of the benefits of unit trusts is that simply investing in them helps to reduce your overall investment risk compared to building your own portfolio, because you can get exposure to a wide variety of assets, if you choose to. M&G's Balanced Fund for example, can invest in equities and listed property among other assets. Unit trusts are also strictly regulated, which makes them transparent and safe for individual investors.

Want to know more? Don't forget to read M&G Investments' Guide to Investing.

Ready to invest now? You can start investing in unit trusts with M&G online. Or feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za

https://www.mandg.co.za/insights/articlesreleases/how-to-choose-the-right-unit-trust-for-you/