Prudential Investment Managers
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How to choose the right unit trust fund

Unit trusts play a massive role in South Africa's investing landscape… but what exactly are they, what do they do and how do they work? While many people have money invested in these products, very few new investors actually understand them. To make things even more complicated, there's a huge range of unit trusts available, which can make it difficult to tell them apart or to know which ones to choose.

In simple terms, a unit trust (also known as a fund) is a collection of people's savings that is invested in financial markets and other assets. These collections of savings are managed by professional investment managers, who aim to grow the value of the investment over time. You can invest in a unit trust fund either by a monthly debit order, or a lump sum amount. When you do, you are allocated a number of units based on the amount of money you've invested and the price of the units on the day you bought them. You and the other investors pool your money together into the unit trust, and that pool is divided up into equal units. The group (most of whom will never know meet each other) then shares the risks and rewards of the investment, in proportion to the amount of units that they own. It's easy to see why unit trusts are so popular. They're flexible in that you can buy or sell your units at any time and they allow ordinary people to access asset classes which they might not otherwise be able to afford. The underlying assets are usually things like bonds, equities, listed property or even cash. What those assets are will depend on the fund's investment mandate, which basically determines what the fund is allowed to invest in.

There are many different unit trusts to choose from. The trick, however, is knowing which ones are best for you. 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 moment. As your financial adviser is likely to tell you, past performance is not necessarily an indication of future performance – and a unit trust that does wonders this year may not deliver the same results next year. It's all about consist performance over the long term. Be sure to select an asset manager that will help you achieve the returns you want, consistently and over time. Prudential currently has several unit trusts that have consistently returned top-quartile performance (relative to their peer group) over the past 1 – 10 year periods.

When choosing a unit trust you should consider two key factors : your investment time horizon and the level of risk you are able to tolerate.

Your time horizon is especially important. If it's short (i.e. less than two years), your financial adviser might suggest that you select a very low-risk fund with 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 has property or shares.

Risk is another important factor. Here you need to be sure that you're not taking too much or too little risk. One of the benefits of unit trusts is that, by investing a small amount, you can be exposed to a wide range of assets – and that helps to reduce your risk. They're also strictly regulated, which makes them transparent and safe for individual investors.

Interested in investing in unit trusts? Speak to your Financial Adviser to see what your options are, or invest online now yourself. If you need more information, feel free to contact our Client

Services Team on 0860 105 775 or email us at query@prudential.co.za