BOOK
2 OF 6

PRUDENTIAL INVESTMENT MANAGERS

A guide to investing in unit trusts

A basic introduction to the world of investing in unit trusts for the South African investor

Ways to invest in unit trusts

PRUDENTIAL INVESTMENT MANAGERS

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Ways to invest in unit trusts

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01

What are the different ways to invest in a unit trust?

There are two main ways to invest in a unit trust: directly with the unit trust company or through a Linked Investment Services Provider (LISP). In either instance, this can be achieved through the help of an Independent Financial Adviser (IFA) or directly. Each of these options has its own advantages and disadvantages; the various costs of each option are detailed in BOOK 4.

01

What are the different ways to invest in a unit trust?

Directly with the unit trust company

You can invest directly with a unit trust company, which would require you to complete an application form, provide the necessary FICA documentation (read about FICA overleaf) and make a fund selection. At Prudential we offer investors the option of investing directly with us – instructions on how to invest are available on our **website**.

However, regulations do not allow unit trust companies like Prudential (as product providers) to provide investors with financial advice. This avoids any bias or conflict of interest in recommending certain unit trusts. Only licensed Financial Advisers (some tied to financial services companies and others Independent) may give individuals advice in choosing their investments. Prudential works with many Independent Financial Advisers, all of whom are licensed by the Financial Sector Conduct Authority (FSCA). You can find a list of approved financial practices and advisers for your area on the website of the **Financial Planning Institute (FPI) of Southern Africa.**

While it may be cheaper to invest directly, since you avoid paying any adviser fees, it is important to consider that this comes with additional risks: you may have made inappropriate investment decisions for your financial circumstances, and you will personally have to manage your investments over time. Should you want to switch to a fund at another unit trust company, this can be cumbersome as you would have to open up a new investment and provide your FICA documentation again.

01

What are the different ways to invest in a unit trust?

Through a Linked Investment Services Provider (LISP)

A LISP is an administration platform registered with the FSCA that packages, distributes and administers a broad range of investment products. It acts like an intermediary between investors and unit trust companies. Most LISPs require that you invest with them through an IFA, as similarly to unit trust companies they are not licensed to give financial advice. A LISP provides simple and cost-effective solutions to investors wanting to invest in an assortment of investment products across different unit trust companies in one place. LISPs offer consolidated reporting and the ability to easily switch between investments with both a low cost and lower administrative burden. Should you want to switch to a fund at another unit trust company that is on the LISP platform, you can do so more easily and without the need to re-submit FICA documentation.

02

What is FICA documentation?

The Financial Intelligence Centre Act (FICA) is a law passed in 2001 designed to combat money laundering, which involves the abuse of financial systems to hide the proceeds of crime.

Under the law, financial institutions are required to ensure they have the correct details of all their clients. As a result, first-time clients are required to submit documentation to verify certain information, including proof of identity, physical address, banking details and income tax number (if applicable).

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You can find a list of required documents on the Prudential Unit Trust Application Form.

SEE THE LIST

03

How much should you invest?

Unit trust funds can be accessed for as little as R500 a month (via debit order) or R10 000 (as a once-off lump sum). We recommend that you consult a Financial Adviser to determine the most appropriate amount for your own circumstances.

NEED HELP CHOOSING AN AMOUNT TO INVEST?

Try our goal calculator tool. It can help you determine what monthly investment contribution you need to achieve your goal within a specified time period.

GOAL CALCULATOR TOOL

04

Should you choose a lump sum investment or debit order?

YOU CAN CHOOSE TO INVEST THROUGH:

- a once-off lump sum amount;
- a lump sum amount PHASED IN over time; or
- a recurring amount every month via a debit order.

Ideally, you want to invest when prices are low and sell when prices are high. However, in reality it is impossible to predict the highs and lows of the market. Theoretically, lump sum investments can take advantage of times when the market is low. Phase-ins and debit orders take advantage of rand-cost averaging when markets are volatile. By regularly investing at different prices (both high and low) this strategy averages out the rand cost of your investment over time. Debit orders also encourage regular savings habits and remove the emotion from your investment decisions, as you are already committed to investing regularly.

Prudential does not charge a fee if you miss a debit order payment (although your bank may do so), and will only cancel a debit order after 3 consecutive missed payments.

REMEMBER

One of the keys to investing is that it is not about timing the market, but rather about time invested in the market.

Glossary of unit trust terminology

VIEW ONLINE

Term	Definition
ASISA - Association of Savings and Investment South Africa	The industry body which assists the FSCA with the regulation of the financial services industry. Its members include most South African financial services providers, including asset managers, insurers and banks.
Beneficiary	A person who derives advantage from something, especially a trust, will, or life insurance policy.
Capital gain/loss	The increase (or decrease) in the price of an asset such as equity, property or other investments that leads to a profit (or loss) when it is sold.
Capital Gains Tax (CGT)	A tax levied on profit from the sale of an asset such as equity, property or other investments when it is sold.
Cession/To cede	Legally, the formal giving up of rights. Also, to give away ownership of something.
Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA)	CISCA regulates the administration, management and sale of collective investments.
Compound interest	Interest added to the principal of a deposit or loan so that the added interest also earns interest from then on. This addition of interest to the principal is called compounding.
Dividend income	Income from dividends paid to shareholders in a company.
Financial Services Conduct Authority (FSCA)	A unique and an independent institution established by statute (Financial Services Board Act, 97 of 1990), to oversee the South African non-banking financial services industry in the public interest. The FSCA is responsible for ensuring that the regulated entities comply with the relevant legislation, as well as capital adequacy requirements to promote financial soundness of these entities and thereby protecting the investing community.
Fund of Funds	A fund that is comprised of holdings in other funds (and therefore not invested directly in the underlying assets).
Institutional investors	Corporate investors such as pension funds and medical aids.
Interest income	Income received from investments such as bonds and money market instruments (cash) that pay interest.
Linked Investment Services Provider (LISP)	A platform run by a financial services company offering a variety of investment products, including unit trusts, from different asset managers.

Term	Definition
Multi-asset fund	A unit trust that invests in more than one type of asset. For example, balanced funds can invest across most asset classes.
NAV price of a fund	The Net Asset Value (NAV) of a fund is the market value of investments, plus cash held, dividends accrued and interest accrued, less the liabilities due by the fund. The value of each unit can be calculated by dividing the value of the fund by the number of units that have been issued.
Participatory interest	Units owned by an individual in a unit trust fund.
Principal	The amount originally invested or deposited in an account or fund.
Rand-cost averaging	The technique of buying a fixed rand amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high.
REIT/REIT income	A Real Estate Investment Trust (REIT) is a type of listed property company that is governed by strict regulations in terms of its structure and operations. Distributions paid by REITs to shareholders are taxed as income, at the individual’s marginal income tax rate.
Return/Total return	The percentage gain or loss in the value of a unit trust over a period of time. The total return includes both income/distributions paid to the investor and the change in asset value (capital gain).
Standard deviation	Also known as risk/volatility. This measures the amount of variation or difference in the monthly returns on an investment. The larger the annualised monthly volatility, the more the monthly returns are likely to vary from the average monthly return (i.e. the more volatile the investment).
Total Expense Ratio (TER)	The TER measures the direct costs involved in managing a unit trust. The TER shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated for the year to the end of the most recent completed quarter.
Weighted average base cost method	This method is used to calculate the base cost for CGT purposes. It is the weighted average price paid for the units.
Withdrawal	To take money from an account or investment; also known as redemption/repurchase.
Yield	The income return on an investment; specifically, the interest or dividends received from an asset. This is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A guide to investing in unit trusts

Book 2 ends here

PLEASE READ BOOK 3:

All about assets, risk and returns

READ NOW

OTHER BOOKS IN THIS SERIES:

Book 1: An introduction to unit trusts

Book 4: the costs of investing in unit trusts: fees and taxes

Book 5: After investing: what you should know

Book 6: How unit trusts work

Ready to get started?

INVEST NOW IN UNDER 10 MINUTES!

INVEST NOW

For more information, speak to your financial adviser or contact our Client Services Team on 0860 105 775 or query@prudential.co.za.