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Fees on unit trusts

Costs are naturally a consideration when investors choose a fund. However, there are no hard and fast rules about what makes a fund good value, because ultimately costs are subordinate to performance. A fund that performs well will more than cover its costs to the investor; a mediocre one often won't.

When you purchase units, you buy at the 'offer' price and then sell at 'bid'. This system is called 'dual pricing' and the difference between the prices is often referred to as the spread. Typically, a fund will impose an initial charge, usually up to 5% of the value of your investment, which the spread represents.

The initial charge will incorporate commission to any agent, if for example you are buying through a third party like a bank or broker, which is payment for advice. Sometimes this fee is reduced, for example during launch periods of new funds, or during special promotions. Discounts are often given in the form of bonus units.

Once invested, you will have to pay an annual management fee, deducted automatically from the fund's assets. This sum is normally accrued daily and reflected in the pricing. In effect, it is the fee you pay to the investment manager for his services, which include portfolio management and associated research.

In general, bond and money market funds tend to be cheaper than equity funds where there is a requirement for more active and intensive work at the stock level. From this perspective, an emerging markets fund will typically charge a premium.

In addition, funds have separate trustee, registrar, audit and valuation fees, as well as custody charges, all payable to outside agencies, which are deducted from the fund. The total of these costs, including the management fee, as a percentage of the fund's size, is known as the Total Expense Ratio (TER).

Most funds are structured so that you pay either a front-end fee or a back-end fee - meaning when you sell you may be liable for a redemption charge. Funds that do not charge a front-end fee are commonly referred to as 'no-load' funds and the amount you pay on exit is usually based on how long you have been invested in the fund.

If you aim to sell units soon after purchase, the chances are your money will have had little time to get to work and you may not be able to recoup the front-end load. So, for a fund charging a 5% front-end, your money will have to grow by the same amount just to break even. These transaction costs make unit trusts unsuitable as short-term investments. However, unit trusts are still one of the most cost-efficient ways for the retail investor to access markets and reap the benefit of professional management.

Sometimes, you may feel that you want to re-allocate funds to a new investment area. A handful of fund management houses that operate umbrella funds allow you to switch between individual funds at a nominal charge. This is a useful facility as it saves you paying the full cost of the initial charge when you re-balance your portfolio.

Overall, private investors ought to take note of fees/costs. There can be some traps for the unwary. For example, some funds in Singapore feed into offshore funds and management charges are imposed at both levels. But remember, don't allow low costs or, for that matter, discounts, to lead you into buying an investment that isn't suited to your needs and objectives. Over time, successful funds more than pay for themselves. Poor performing funds, on the other hand, have to work much harder, sometimes even to cover ongoing fees.

Source: [Aberdeen Asset Management Asia](#)