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The Association of Investment Companies

Savings and investment schemes

Saving for the future is something that most of us need to do whether for a specific event, to supplement retirement income or to accumulate a capital sum for our future security and that of our families.

In an environment where economic forecasters warn of less predictable career structures and a pensions outlook that means we cannot rely on the state to keep us in our old age, it has never been more important to start putting a little aside for the future.

What are investment companies

In a nutshell, investment companies are companies that invest in a diversified portfolio of assets to make money for their shareholders. Investment companies can be investment trusts, venture capital trusts, and offshore and AIM traded investment companies. Investment companies pool investors' money and employ a professional fund manager to invest in a wider range of assets than most people could practically invest in themselves. This way even people with small amounts of money can gain exposure, at low cost, to a diversified and professionally run portfolio, spreading the risk of their investment. Investment companies are listed on a stock exchange and there are over 400 investment companies in the UK responsible for the management of billions of pounds worth of assets on behalf of investors. For more information on investment companies please read our factsheet 'An introduction to investment companies'.

What are savings and investment schemes?

Savings and investment schemes were introduced as a simple method of buying investment company shares without having to go through a stockbroker. You can use them to invest a regular amount each month or to invest a lump sum. Most investment company shares are available through these schemes which are generally run by the management companies of the relevant investment companies.

Savings and investment schemes are one of the most cost-effective methods available for investing in investment companies. Even if you have only relatively small sums to invest they can help build your investment over time to provide you with a well-balanced portfolio for the future. And if you have larger sums to invest, you may find their charges particularly competitive.

You can invest in an investment company savings and investment scheme from as little as £50 per month or £250 as a lump sum.

What are the benefits of investment companies?

Allows you to pool your money

When you purchase shares in an investment company you pool your money with all the other investors' money, providing potential economies of scale, in terms of dealing costs and administration.

Allows you to spread your risk

Each investment company owns a range of investments, so buying shares in only one company effectively gives you a diversified portfolio. As you're not dependent on the success of just one or two investments, this spreads your risk. However, it must be remembered that investment company shares are equity investments and the price of the shares and the income from them can go down as well as up. You may not get back the full amount invested.

Uses professional management

Each investment company uses professional fund management expertise.

Many have low internal charges

Most investment companies have low internal charges. Because the boards must act in the interests of shareholders, they work to ensure that 'costs' or the company's internal charges are not excessive and that the interests of shareholders are looked after. Low charges within the company means more of your money is working for you right from the start of your investment.

Put all these benefits together and you have an effective and cost-efficient investment vehicle which can enable you to gain exposure to a diversified portfolio.

The advantage of investing through an investment scheme

Flexibility

You can invest monthly or make a lump sum investment or a combination of both – perhaps topping up your investment occasionally with a windfall or bonus. You can increase or decrease your regular payments (subject to the minimum for the particular scheme you are in) and even stop investing and start again at a later date if you want to. Remember that equity investment is for the longer term and you should carefully evaluate your objectives and reasons for investing before making a decision to change or dispose of your investment.

Each scheme may offer several investment companies that can be held within it, normally those under the management of the scheme manager. You can hold more than one company's shares within a scheme and hold as many different schemes as you want. For instance, if you are investing for income, you could invest in several different investment companies each paying dividends in different months to give you a regular income.

Low minimum investment

With minimum monthly payments starting from £50 in some schemes and lump sums or occasional top-ups from £250, you can start to build your investment up from a low initial base.

Low costs

A savings and investment scheme manager will commonly collate the buying orders from all the monthly investors within a scheme for a given month and place the total as one bulk deal with a stockbroker. By pooling all the investors' money the manager is able to negotiate a discount on the dealing costs. These cost savings are passed on to you, making savings and investment schemes a cost effective way to invest regularly in the stock market. Please note that although it is common for schemes to buy once a month, some schemes offer weekly or daily purchases.

Scheme providers usually make an additional charge to cover the costs of administering the scheme. These costs will be detailed in the provider's literature, and you should investigate the total costs involved before investing.

Simple administration

Once you have decided which scheme you want to invest in, the scheme managers will send you all the paperwork you need. You just fill in the forms and enclose a cheque or direct debit details and leave it to the scheme manager to do the rest.

Regular saving

One of the advantages of regular saving is known as 'pound-cost averaging'. Buying your shares monthly smoothes out the highs and lows of the share price over time. This is because you buy fewer shares when the price is high and more when the price is low, taking away some of the risk of market timing that can occur when buying shares with a lump sum. The result of this is that, in a falling or volatile market, the average price you pay for your shares over a given period is lower than the average market price.

Here is a theoretical example where £50 a month is used to buy shares in a particularly volatile company. Because the number of shares bought goes up as the price goes down, the average cost of the shares is lower than the average share price. For the purposes of this illustration, a wide range of share price movement has been telescoped into six months.

Month end	Share Price	Number of shares bought for £50
January	100	50
February	80	62
March	60	83
April	90	55
May	110	45
June	120	41
	Average price 93.3	Total number of shares 336 Actual cost per share 89.29 (£50 x 6 = £300 / 336 shares)

Because of pound cost averaging and market timing advantages, regular savings and investment schemes are an excellent way of reducing some of the risk of stock market investment. They are useful for small investors who want to put away a little each month and can also be used to feed large sums gradually into the market – which can be comforting in times of stockmarket volatility. Investors with an established portfolio might use them to build exposure a little at a time to more risky areas of the market.

'Wrapper' Products

Savings and investment schemes are often referred to as a "wrapper product". This is simply a "wrapper" within which an underlying investment is held. You can put your money into an ISA, a savings and investment scheme or a pension scheme. You can invest monthly or make a lump sum investment or a combination of both. Most investment company shares are available through these schemes which are usually run by the management companies of the relevant investment company. The AIC website www.theaic.co.uk has details on the schemes offered by Member companies and their managers.

Other features of savings and investment schemes

Reinvesting dividends

Most schemes allow you to use any dividends you receive to buy more shares in your investment company. If you are a regular saver, your dividend payment will normally be held and added to your next monthly contribution. If you are a lump sum investor or have ceased contributing, the dividend payments will be held until they reach a minimum sum suitable for investment. Scheme managers do not pay interest on any cash amounts waiting to be invested.

Share exchange schemes

If you already own a variety of shares, perhaps inherited, bought through government privatisation offers or through building society windfalls you could convert these into a managed portfolio by swapping them for investment company shares. A number of savings and investment schemes offer a facility whereby they will sell these holdings for you and use the proceeds to buy shares in the investment companies in their scheme. This is a cost effective way to transfer your holdings and much of the administration is taken out of your hands.

Gifting investment company shares

You can buy shares as a gift for other people within a savings and investment scheme - either for an adult or a child. You do however need to consider the tax implications of doing this - for both yourself and the recipient. Children cannot hold shares in their own right but you can designate them as beneficiaries or set up a bare trust.

Details of how to invest for a child can be found in our factsheet investing for children available as a download from www.theaic.co.uk or by calling 0800 085 8520.

Administration

Nominee accounts

The majority of schemes will hold your shares on a nominee basis. This means that the shares are held on your behalf by the registrar which keeps the costs of share certification down.

You will still normally receive the report and accounts of the company you are invested in, but may not always have voting rights at the Annual General Meeting or on other issues that affect shareholders. Managers are often keen to encourage nominee shareholders to vote. You should note that some managers may vote shares within a nominee account on your behalf if you yourself do not vote.

Tracking your investment

All schemes will send you a statement every six months detailing the number of shares you have bought and any charges levied. Daily share prices of investment companies are widely available both online and in print. A good place to find this information is on our website www.theaic.co.uk, individual company or management group websites and also in the major newspapers.

Selling your shares

All schemes have a sale facility should you wish to dispose of some or all of your shares. Sale arrangements vary between schemes and some require written notice of any changes to your instructions. These will be made clear in the brochure and the terms and conditions.

How to invest

Investing with advice

You can go to a professional financial adviser, who will give you advice on what to invest in. Together you can work through all the factors that affect your decision, including your needs and available funds, the performance figures for different companies, and the outlook for different sectors. Your adviser can then advise you on whether investment companies are a suitable investment for you and how to make your investment.

The AIC website www.theaic.co.uk has further information about getting financial advice or you can find a Certified Financial Planner by calling the Institute of Financial Planning on 0117 945 2470 or by going to www.financialplanning.org.uk.

Investing without advice

If you are prepared to select your own investment company you can choose whether to go direct to a stockbroker or an execution only dealing service to buy shares for you. Or you can approach a fund management group to invest via a wrapper product. The AIC website www.theaic.co.uk has further information on wrapper schemes.

Summary

Investment companies can be a good way for smaller investors to benefit from an effective and cost-efficient investment vehicle and to gain exposure to a diversified portfolio. The flexibility and accessibility of investment companies can make them suitable for a wide range of financial planning objectives because of their low minimum investment levels and spread of risk.

Because of pound cost averaging and market timing advantages, regular saving through investment schemes is an excellent way of reducing some of the risk of stock market investment. They are useful for private investors who want to put away a little each month and can also be used to feed large sums gradually into the market – which can be comforting in times of stockmarket volatility. Investors with an established portfolio might use investment schemes to build exposure a little at a time to more risky areas of the market.

Investors who are unsure whether this investment is suitable to them should obtain independent advice from their professional adviser.

For further information

Visit our website

Our website is a good place to start if you want to learn more about investment companies and find detailed information on all our member companies. You can find it at **www.theaic.co.uk.**

Information factsheets

The AIC publishes a range of factsheets which are available free of charge by calling 0800 085 8520 or can be downloaded from our website.

AIC Information Services Limited
24 Chiswell Street
London EC1Y 4YY

Telephone 020 7282 5555
Fax 020 7282 5556
enquiries@theaic.co.uk
www.theaic.co.uk

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