HARGREAVES
LANSDOWN

INVESTING IN FUNDS

IMPORTANT INFORMATION

Investing for 5+ years increases your chances of positive returns compared to cash savings. But investments rise and fall in value, so you could get back less than you put in.

The information in this guide was correct as at 26 March 2025.

We wrote this guide to give you useful information about funds, but it's not personal advice. If you're thinking about investing and you're not sure if a particular investment is right for you, please ask for advice.

WELCOME

Learn about funds and how to choose the right ones for you.

Investing in funds isn't right for everyone. Investors should only invest if the fund's objectives are aligned with their own, and there's a specific need for the type of investment being made. Investors should understand the specific risks of a fund before they invest, and make sure any new investment forms part of a diversified portfolio.

> When you invest in a fund, you're buying a slice of a range of different investments conveniently in one place.

If you're looking for an easy and convenient way to invest, funds are a great place to start. They offer instant diversification and professional management. This makes them a popular choice for both novice and experienced investors, although we always recommend investing for at least 5 years.

A fund is a collection of investments, chosen and run by a fund manager who's trying to achieve the fund's investment objective. This could be to grow investors' capital, or provide a decent level of income. When you invest in a fund, you're buying a slice of the fund's underlying investments. You'll receive units, which are your portion of the overall pot.

Funds can be invested in many different types of asset, like shares (which represent part-ownership of a business), bonds (which are loans to companies and governments) and property. Some funds are focused on just one type of asset, and some include a mixture.

THE BASICS

When you buy a fund, you're investing in a variety of investments at a relatively low cost.

If you bought 50 or 100 shares yourself, you'd find a big chunk of your money eaten up by dealing fees and other costs. In a fund you share these costs with all the other investors.

Funds can also let you invest in things which are hard to buy directly – for example shares listed on overseas markets, commercial property or commodities like oil.

As always with investing you'll need to remember that funds can go down in value, so you could get back less than you put in.

THE TWO MAIN TYPES OF FUND

There are two common types of funds – unit trusts and open-ended investment companies (OEICs).

Unit trusts are funds that are set up as trusts, and they usually have a buy ('offer') and sell ('bid') price. The difference between these is known as the bid-offer spread.

OEICs are funds that are set up as companies, and they usually have just one price.

You might see these types referred to, but for most investors the differences aren't important.

WHAT ABOUT INVESTMENT TRUSTS?

When people talk about funds, they're usually referring to unit trusts and OEICs. But there's a third type – investment trusts.

There are a few key differences – and extra risks. In this guide we'll be focusing on unit trusts and OEICs, but if you'd like to know more about investment trusts trusts, visit www.hl.co.uk/investment-trusts

ACTIVE AND PASSIVE MANAGEMENT

Actively managed funds are run by a fund manager and team of analysts. They choose the fund's investments, making changes as needed to keep the fund performing as well as possible. Ideally these funds look to outperform the stock market and other competing funds, although there are no guarantees.

Passively managed funds (also known as tracker funds) take a different approach. Rather than trying to do better than the stock market, they track it. So their performance is tied to the ups and downs of the market they're following.

Both types have their advantages. With no active manager or analysts to pay for, passive funds usually have lower fees. But there's little potential for outperformance either.

INCOME AND ACCUMULATION

Many funds offer different types of unit. The two you'll see most often are income and accumulation. Some funds offer both types of unit, others offer only one.

With income units, you'll be paid any income the fund's investments make (like dividends from the companies the fund invests in, for example).

With accumulation units the income is automatically reinvested into the fund. You don't receive an income payment – instead the income increases the price of each unit. If you're investing to grow your money in the long term, you'd usually buy accumulation units.

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DEALING IN FUNDS

Unlike shares, which are traded continuously when the stock market is open, funds are usually traded once a day.

Each fund has a daily ‘valuation point’, normally at 12 noon. At this time the manager works out the value per unit of the fund’s investments. This is the price at which units are bought and sold.

If you place an order to buy or sell a fund, it’ll go through at the next valuation point. This means you won’t know the exact price beforehand.

FUND CHARGES

If you invest in a fund, you’ll pay an ongoing charge to the company managing the fund. This is referred to as the ongoing charges figure (OCF) or total expense ratio (TER), depending on the type of fund. It’s shown as an annual percentage, but is calculated daily and factored into the price of the fund. In rare cases funds also carry a performance fee, paid to the manager if certain targets are met.

You can find full details of a fund’s charges in its Key Investor Information Document (KIID).

As well as the fund’s charges, you’ll also pay an annual fee to the company you use to hold your investments. We charge up to 0.45% a year. Full details of our charges are on our website.

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funds available

HOW TO CHOOSE FUNDS

When you choose a fund, you need to be sure it's right for you. Here are four tips to help you get started.

1. LOOK FOR GOOD FUND MANAGERS

The first thing you might be tempted to look at when choosing a fund is how it performed in the past.

But there's a reason we always say past performance isn't a guide to the future. While a fund's track record can help you imagine its future potential, it only shows you part of the picture so it's not a reliable guide.

Maybe the manager was skilful and chose their investments well, or maybe they made a few lucky choices. Alternatively the area they invest in may have performed particularly well. A fund investing in oil and gas companies, for example, will probably do well when the oil and gas market does well, regardless of the manager's skills.

Working out which funds are likely to perform well in future is much harder than looking at which have done well in the past. This is where expert research can help. We've developed sophisticated mathematical models to help us work out how much of a manager's performance is down to luck, and how much is down to judgement. We use the results to choose our Wealth Shortlist of funds as well as the investments in our own range of HL Funds. More on both of these later.

2. BROADEN YOUR HORIZONS

Different investment areas perform well at different times.

Funds are classified into sectors – a fund's sector will tell you which area of the market it's invested in. This can be from a geographical point of view, a particular sector such as technology or property, or even different types of businesses, such as smaller companies.

The table shows the annual returns from some of the main sectors over the last decade – you can see that the top performers vary quite a bit from year to year.

This is why it's a good idea to make sure you have funds that invest in different types of assets, and in different parts of the world.

There's no rule that says you have to have a diversified portfolio, but if you focus on just one particular area, you'll only be right some of the time.

It's, though also important not to be too diversified. If you have too many investments, your portfolio can only ever be average.

SECTOR	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Asia Pacific	-3.1	25.9	**25.2**	-9.8	15.8	**20.1**	1.4	**-7.0**	**-0.8**	10.2
Europe	9.6	16.8	17.3	**-12.1**	20.3	10.5	15.6	-9.2	14.0	**1.8**
Corporate Bonds	1.8	12.4	**3.2**	**-1.1**	**8.5**	6.8	**-0.8**	-11.9	7.0	3.6
Emerging Markets	**-9.4**	**31.7**	24.7	-11.3	15.8	13.9	-0.3	**-12.5**	4.3	8.2
Japan	**15.8**	23.5	17.7	-11.4	17.2	13.7	1.7	-8.3	11.7	9.0
North America	4.9	30.7	10.1	-1.3	**24.7**	16.3	**25.7**	-9.9	**16.7**	**22.1**
UK	4.9	**11.2**	14.1	-11.2	22.5	**-6.2**	17.1	-9.3	7.3	8.1

● Best performer
● Worst performer

Past performance is not a guide to future returns

Source: Lipper

3. WATCH FOR VOLATILITY

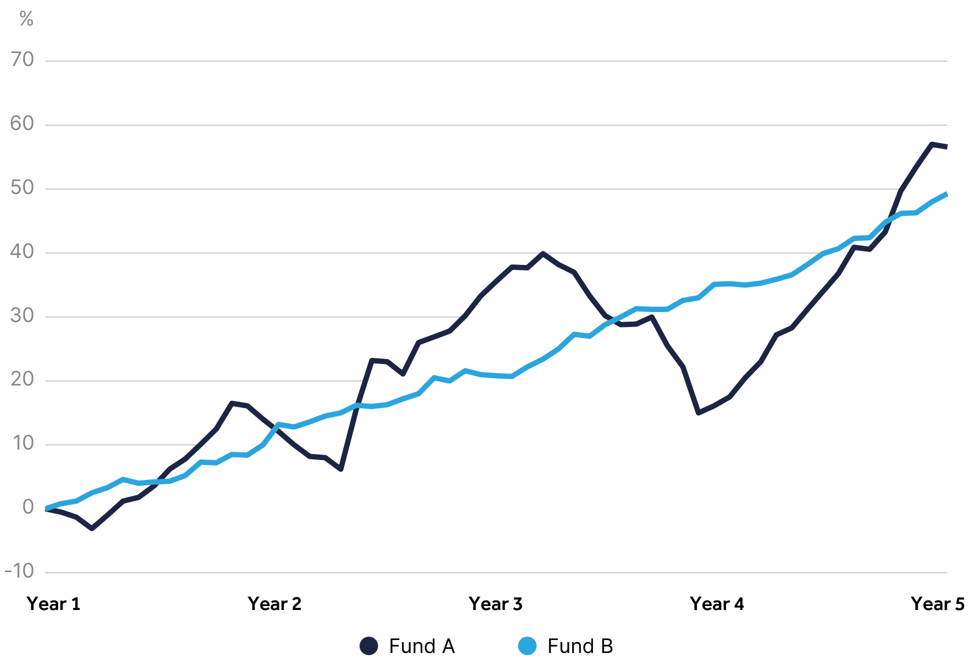
Before deciding to invest in a fund that's performed well, it's a good idea to check its volatility too.

A fund might be doing well because the manager's taking more risk. This might give you higher returns when the stock market's rising, but it could backfire if markets turn.

The graph below shows you what we mean. If you only look at performance, you might think Fund A is the best fund – after all, it delivered a profit of almost 60%.

But it's also been very volatile, which tells you it's a higher-risk investment.

Fund B on the other hand, performed almost as well as A, but with much less dramatic ups and downs. If you're looking for a good balance of risk and reward, this would actually be the better fund.



4. KEEP AN EYE ON COSTS

Investment costs can be a drag on your returns. So all things being equal, lower costs are better.

But as with anything you buy, there's often a trade-off between cost and quality. While it's always good to try to keep costs down, you don't want to find yourself compromising on quality.

Sometimes it's worth paying more to invest with a particularly good fund manager. Remember that the performance of a fund is shown after fund charges have been taken into account. So if a fund performs better than its peers despite higher charges, buying a different investment purely because it was cheaper would have been a false economy.

The same principle applies when choosing where to hold your investments. Some charge more than others, but you'll need to consider things like security and service. For example, does the company invest enough in technology to keep your money safe? Does their website work? Can you get through to them on the phone? Do they provide research to help you choose investments?

> Sometimes it's worth paying more to invest with a particularly good fund manager.

HOW TO GET STARTED

You can choose from over 3,500 funds with us, but that doesn't mean you need to search through all of them.

You could choose from our experts' picks, or opt for funds from our own HL Funds range.

WEALTH SHORTLIST
The Wealth Shortlist is a selection of funds we've analysed and chosen for their long-term performance potential. The Shortlist is designed to help investors build well-balanced and diversified portfolios. We've narrowed the field, but the choice of where to invest is still yours. To use the Shortlist to build your portfolio effectively, you should:

- Be comfortable deciding if a fund fits your investment goals and risk level
- Know how to diversify your investment portfolio to reduce risk

You can find out more at
www.hl.co.uk/wealth-shortlist

FINANCIAL ADVICE
If you're in need of more help managing your investments, we also offer financial advice. Our unique approach means you only pay for the advice you want. You can find out more at **www.hl.co.uk/financial-advice**

READY-MADE INVESTMENTS
Leave it to the experts with our all-in-one portfolio funds. Pick an option from the different risk levels and you're good to go.

Once you've chosen a portfolio fund our experts will manage the investment from there. They'll look to maximise returns according to the level of risk of the option chosen. You'll need to check in regularly to make sure it still meets your needs and circumstances.

These ready-made investments use a selection of different managers, bringing together a range of investment styles and approaches. This means you're not holding all your eggs in one basket.

Our ready made investments are managed by our sister company, HL Fund Managers Ltd.

You can find out more at
www.hl.co.uk/leave-it-to-an-expert

ABOUT US

We've been helping people save and invest for a better future since 1981.

1.9 million clients trust us with over £155bn of their savings and investments.

Plus, when you buy funds with HL you get expert fund research from our award-winning team of analysts, free fund dealing and discounts on almost 500 funds.

GET IN TOUCH
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