What Is a Unit Trust (UT) ?

A unit trust is an unincorporated mutual fund structure that allows funds to hold assets and provide profits that go straight to individual unit owners instead of reinvesting them back into the fund. The investment fund is set up under a trust deed. The investor is effectively the beneficiary under the trust.

Understanding Unit Trust (UT)

A unit trust's success depends on the expertise and experience of the company that manages it. Common types of investments undertaken by unit trusts are properties, securities, mortgages and cash equivalents. The term "unit trust" is also used in the United Kingdom as "mutual fund," which has different properties than mutual funds in the United States.

A unit trust is a type of collective investment packaged under a trust deed. Unit trusts provide access to a vast range of securities. These are offered in Guernsey, Jersey, Fiji, Ireland, New Zealand, Australia, Canada, Namibia, Kenya, Singapore, South Africa, the UK, the Isle of Man and Malaysia. The exact definition of what a unit trust is in these jurisdictions varies. In Asia, a unit trust is essentially the same as a mutual fund. In Canada, however, a unit trust is an unincorporated fund that is set up specifically to allow income to flow through to unit holders - although these investments are more commonly called income trusts.

How Unit Trusts Operate

The underlying value of the assets in a unit trust portfolio is directly stated by the number of units issued multiplied by the price per unit. It is also necessary to subtract transaction fees, management fees, and/or other associated costs. Determining management goals and limitations depends on the goals and objectives of the investment of the unit trust.

In unit trust investments, fund managers run the trust for gains and profit. Trustees are assigned to ensure that the fund manager runs the trust following the fund's investment goals and objectives. It is also the trustees' job to safeguard the assets of the trust.

Owners of unit trusts are called unit-holders, and they hold the rights to the trust's assets.
Between the fund manager and other important stakeholders are registrars, who simply act as middlemen or liaison for both parties.

How Unit Trusts Make Money

Unit trusts are open-ended and are divided into units with different prices. These prices directly influence the value of the fund's total asset value. Being open-ended, whenever money is added to the trust as an investment, more units are made to match the current unit buying price. At the same time, whenever units are taken, assets are sold to match the current unit selling price.

Fund managers make money through the difference between the price of the unit when bought, which is the offer price, and the price of the unit when sold, which is the bid price. The difference between the offer price and the bid price is called the bid-offer spread. The bid-offer spread varies. It depends on the kind of assets managed and can range from a few basis points on easily liquidated assets like government bonds to a 5% or more change on assets that are harder to trade, such as properties.