SEI Global Asset Management Product Guide

UK Authorized Unit Trusts

A unit trust is a collective investment vehicle established as a trust and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. Unit trusts are designed to allow individual and institutional investors to invest in a well-diversified and professionally managed portfolio in a relatively cost-effective and tax-efficient manner. Unit trusts are characterized as "open-ended" because the trustee can create additional units on demand.

Investor Profile

- As an open-end investment vehicle, investors can freely purchase and sell units of the unit trust and the value of the units owned reflects the net asset value of the underlying assets.

Regulatory Reporting Requirements

- The prospectus, key investor information document ("KIID") and annual and periodic financial reports must be filed with the FCA.

Distribution, Advertising, and Promotion

- Only authorized persons resident or incorporated in the UK can promote participation in unit trusts.
- Key features of the unit trust are disclosed in the prospectus and KIID or other simplified prospectus, which are delivered to investors.
- Unit trusts may be purchased directly from the management company or through a broker, fund supermarket or independent financial adviser. Direct purchases from the management company are typically more expensive than the other purchase options.
- Investments may be made through the UK's tax wrappers (ISA & SIPP).
- There is an initial charge of up to 6%.

Fund Launch Timeline and Organizational Requirements

- Authorization can take anywhere from six weeks to six months depending on complexity.
- Unit trusts must be authorized by the FCA in order to be promoted in the UK and to obtain an exemption from capital gains tax.
- Unit trusts can invest in any EU stock market or non-EU market that the manager and trustee believe meet satisfactory regulatory and liquidity requirements.
- The FCA rules governing authorization require that the unit trust is sufficiently diversified. To be "sufficiently diversified," an actively managed unit trust may not hold more than 10% of the total value of the unit trust in the shares of any single company and the aggregate of any holdings over 5% must not exceed 40%. Under normal circumstances, where a unit trust tracks an index no single component of the index may consist of more than 20% in the shares in any one company. Unit trusts that invest more than 35% in UK government fixed-interest securities (gilts) or the debt of another government must invest in at least six different issues of such debt and

no single holding can exceed 30% of the value of the unit trust. Unit trusts may hold up to 20% of their value in units or shares of a single collective investment scheme (e.g. other unit trusts or open end investment companies).
- The FCA rules also require that a unit trust may not exert "significant influence" over the issuers of the securities in which it invests i.e. it should be a passive investor. An actively managed unit trust may not hold more than 20% of the shares in any one company.

Fund Organizational Structure

- A unit trust is established as a trust with a trust deed made between the trustee (usually a bank regulated by the FCA) and the unit trust manager. The trust deed governs the unit trust and must state the name of the trust and category of fund and specify the types of investments that may be held by the unit trust.
- The trustee holds the unit trust's assets on behalf of the unit holders and is often the custodian for the unit trust's underlying assets. The trustee has the authority to replace the manager if the trustee believes that the manager is not acting in the unit holders' best interests or if the manager becomes insolvent or bankrupt.
- The manager is responsible for the day-to-day operation of the unit trust, including promotion, investment and administration. The manager must be authorized by the FCA to conduct investment business in the UK.
- Units are created for new investors and cancelled for redeeming investors in the unit trust. Unit prices are calculated daily and are based on the value of the underlying investments.
- Generally, investors may sell or redeem units at any time by placing an order with the management group or investment platform. Some unit trusts impose a penalty on withdrawal and FCA rules allow some unit trusts to defer redemptions for up to six months if the unit trust invests in property or offers some form of guarantee.

Initial and Ongoing Costs

- The initial and ongoing costs of unit trusts are comparable to those of open-ended investment companies or "OEICs," which are open-ended collective investments formed as companies rather than trusts.

Fees and Limitations

- In addition to the initial charge, there is an annual management fee and charges for dealing, custody, administration and trusteeship that are paid from fund assets and reflected in the unit trust's expense ratio.
- An annual management charge of typically 0.75-1.75% is deducted out of fund assets.
- Performance fees are also allowed for unit trusts.

Taxation

- Capital gains are not taxed at the trust level, but individual investors generally pay taxes on income received or accumulated and capital gains upon selling units of the unit trust.
- A fixed percentage of the tax due on dividends and interest income is deducted by the unit trust prior to distribution to unit holders. Depending on an individual's tax rate, no further tax may be required to be paid.