

Reasons for existence of fund industry

When people have disposable income they can invest it in various ways, a classic example is in a savings account. If you are looking for a higher return, you can invest via the stock exchange, buying for example shares or bonds. You can do this independently by placing a buy order with your bank. Or, you can gather some friends with the same interests, discuss investment opportunities and invest together so as to cut down on stock exchange transaction fees.

Alternatively, you can be assisted by an investment advisor to invest. However, the drawback is that advisors or private wealth managers are usually only available when you have quite large amounts to invest.

A further alternative is to invest your savings in a savings or investment product, such as a mutual or investment fund. Money invested by savers in such a fund - Undertaking for Collective Investment/Organisme de Placement Collectif (UCI/OPC) - is managed and invested by professional managers following a clearly defined investment strategy, respecting the principle of risk diversification.

The initiative of launching a mutual fund generally comes from a financial institution – bank, insurance firm, private wealth manager – which has detected amongst its customers a particular interest for specific investments or which has identified promising business sectors offering potentially interesting returns.

Having made the decision to create an investment fund, the initiator – called the fund sponsor – then looks for partners to launch, manage, administer and distribute the fund: lawyers, investment managers, depository agents, distributors and administrative and accounting agents such as EFA.