What are collective investment trusts?

Collective investment trusts (CITs) are an alternative to to mutual funds. They can also be referred to as "collective trusts" or "commingled trusts." But what exactly are they? And how do they work? You probably have questions before you try them out. We're here to help you find answers.

What is a CIT?

A CIT is a type of investment typically created and managed by a bank or trust company, which is also responsible for choosing the trust's underlying investments. Although CITs often share an investment strategy with a corresponding mutual fund, they are available only to eligible participants in certain retirement plans.

Why choose a CIT?

One of the main benefits of a trust is lower costs. Trusts often cost less to own than a similar mutual fund. That's because of their lower regulatory reporting costs and larger initial investment requirements. And with lower costs, a trust can pass more of its returns on to you as an investor.

Do CITs have ticker symbols?

No. A ticker symbol serves as an identifier for an investment that's traded on an exchange. CITs do not have ticker symbols because—unlike mutual funds—they are not traded on an exchange. For this reason, public information about certain CITs can be more limited than mutual funds. For example: A simple internet search may reveal more information about a specific mutual fund than a search for a CIT would.

Do CITs pay regular dividends like mutual funds?

No. Dividends and capital gains generated on a trust are not required to be distributed as they are for mutual funds. The dividends and capital gains are typically immediately reinvested in the trust. This reinvestment increases the net asset value of the trust over time.

Reinvesting makes sense for the trusts because of their structure. Unlike mutual funds, trusts are intended solely for large retirement plans. Because of the withdrawal restrictions of such retirement plans, you don't have the option to take the dividends and capital gains in cash as you could, for example, with a personal investment in a mutual fund.

Do the same regulations for mutual funds apply to CITs?

A CIT is not considered a mutual fund under the Investment Company Act of 1940. So it is not subject to regulation by the U.S. Securities and Exchange Commission (SEC). However, trusts are subject to the SEC's antifraud provisions, as well as banking laws, the Internal Revenue Code, the Employee Retirement Income Security Act of 1974, and other Department of Labor regulations.

Whenever you invest, there's a chance you could lose the money.

Collective trusts and separately managed accounts are special types of investments. They're offered only in retirement plans like yours. Before you invest in one, know its objective, risks, charges, and expenses. Consider these things carefully.

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