FACT SHEET

Your guide to managed funds

What is a managed fund?

A managed fund is made up of a pool of money which allows people with similar investment goals to individually invest an amount of money into the fund. Managed funds are also known as managed investment schemes, managed investments or unit trusts and are managed by professional fund managers.

The pool of money is invested, in line with investors' goals and objectives, by the professional investment manager who purchases assets in a single asset class, for example property, or a mixed range of asset classes such as shares, property, fixed interest and cash. Examples of goals could be to provide a regular income by way of dividends while maintaining the value of the investment over the short-term or to generate growth over the long-term.

How do managed funds work?

When a person invests in a managed fund, they are generally allocated units representing their interest in the fund. The number of units allocated indicates their proportional share of the fund. Each unit in the fund is of equal value and the price of a unit can fluctuate day to day. In the main, fluctuations are a result of increases or decreases in the market value of the fund's underlying investments. For example, when the value of the fund's underlying investment rises – so will the value of any unit. Similarly, if the value of the underlying investment falls, the value of any units will also fall.

Where do returns come from?

Returns from managed funds come in two forms – income and capital growth:

- Income is based on the earnings from the fund's assets over the period and may include income from share dividends, rent from property, or interest from cash investments less any costs.
- Capital growth comes from the revaluation of hard assets such as property or increases in the market value of liquid assets such as shares.

How are managed funds taxed?

Managed funds do not generally pay tax because their income (including net capital gains) is distributed to investors annually. Investors pay tax on distributions at individual marginal tax rates.

Distributions may include components such as Australian income, foreign income, tax-free amounts, tax-deferred amounts and net capital gains, each of which has different tax implications for investors.

Depending on the investments of the managed fund, Australian income may include franked and unfranked dividends, interest, rental income and other profits of a revenue nature earned in Australia.

Franked dividend distributions may have franking credits attached, and those franking credits may be used to reduce an investor's tax liability.

Foreign income distributions may include foreign tax credits. Investors may use foreign tax credits to reduce the Australian tax payable on their foreign income.

Tax-free and tax-deferred amounts are not included in an investor's assessable income at the time of distribution. These amounts may however affect the taxable capital gain or loss when investors sell their units.

Net capital gains made by a managed fund when assets are sold, are distributed to investors. Capital gains and losses are also made when investors sell, switch or transfer any part of their unit holdings in a fund. Trusts and individuals are eligible for a 50% tax discount on gains made on assets held for 12 months or more.

Why invest in a managed fund?

Managed funds can help make the most of a person's time and money – here are some reasons why:

- **Easy to get started** – In general, an initial investment of $1,000 is enough to begin investing with most funds.
- **Professionals manage your money** – most people do not have the time or knowledge to research and maintain an investment portfolio. A managed fund offers the opportunity to tap into a fund manager's resources, investment expertise and experience.
- **More investment opportunities** – because a managed fund is made up of pooled money from lots of investors, the fund has the buying power to access assets not usually available to individuals – such as private equity, large infrastructure projects and other major property assets such as shopping centres.
- **Diversification** – because a managed fund spreads or diversifies investor's money across a number of different investments, it therefore reduces your reliance on the performance of any one investment. This means if one investment falls in value, others that are performing well may make up for the loss.
- **Accessibility** – when an investment is made into a managed fund (outside the super system) it is generally not tied up and funds can be accessed at any time although most funds require some notice of withdrawal. Investors may also incur exit costs depending on how long they have been invested and the agreed fee structure.

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- **Opportunities for gearing** – borrowing money to invest in a managed fund is called gearing. Gearing can increase the profits on your investment because more money is invested. However, on the down side, there is a greater risk attached to the investment should unit prices fall or interest rates on borrowed money increase.
- **Readily available information** – most fund managers provide convenient access to current information about your investments, including your account balance, transaction history, fund performance and unit prices.
- **Investor protection** – in Australia there are strict laws to protect consumers of financial services products. Ordinary or non-super managed investments are operated by a responsible entity which protects the interests of investors.

How to choose a managed investment fund?

Financial advisers can help investors choose a fund or a range of funds, that matches their risk profile and investment objectives. However, before talking to an adviser, investors should consider the following factors.

- **The investment time horizon** – this is the length of time between the period when investors enter a fund and when they would want to access their funds.
- **Risk tolerance** – is the ability or willingness to accept declines in the value of an investment while the investor waits for the investment to return a profit. Some investors lose sleep if the value of their investment falls marginally, while others are relaxed even when their investment is volatile – moving up and down dramatically.
- **Type of investment return** – investors need to decide if they want their investment to pay an income, grow in value or deliver a combination of the two.
- **Cost and investment philosophy of the fund** – the methodology or style adopted by the fund manager is worth considering. For example, some managers invest to achieve a benchmark, and charge lower fees, while others believe they can generate additional returns through active management and tend to charge higher fees. Most fund managers will outline their style on their websites or in their information brochures.

Would you like more information?

Contact your ANZ Financial Planner who is dedicated to providing you with information so you can make the decision that is right for you.

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