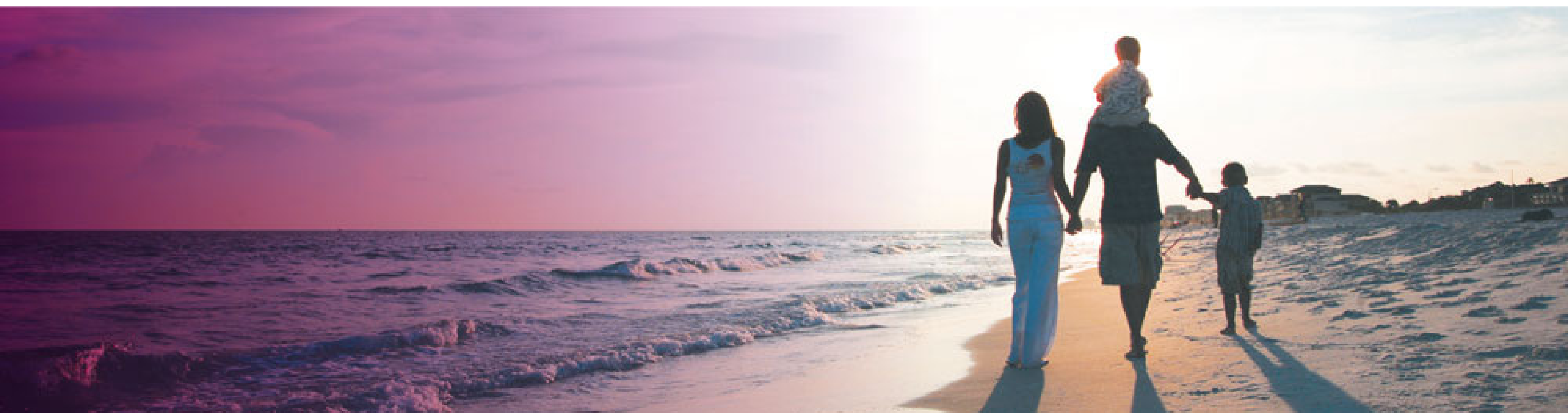
Understanding managed funds

July 2013



What are managed funds?

Managed funds can allow people with a small amount to invest to pool money and collectively invest a greater amount. By combining resources, you generally have more investment muscle and lower costs. And you may achieve better returns than you could on your own. Plus, the greater spread over different investments means you're less exposed to movements in individual securities, because all your money isn't tied up in just a few investments.

Can you access your money?

While investments in a managed fund are pooled, you still have complete control over your own money. Your investment buys units in the fund, and those units are yours to sell, transfer or add to, as you wish (subject to any restrictions relating to the managed fund). Generally, your money isn't locked away.

Even though managed funds are generally medium or long-term investments, you can usually access your money within a few days. Depending on the fund's cost structure a withdrawal fee may apply for early access.

Investment returns

The return you receive from a managed fund generally comes in two forms.

First, there are income distributions; these are likely to be paid monthly, quarterly or half-yearly, depending on the fund. You can have these paid into an account that you nominate or, if you don't need the income immediately, you can reinvest it to buy more units in the fund.

The second component of your return is capital growth. If the value of the fund's investments rises, then the value of your units goes up and you can take some profits should you choose to sell them at that time. The income-growth composition of your managed fund will be largely determined by the underlying investments or asset allocation you choose.

What are the advantages of managed funds?

There are many benefits associated with investing in managed funds, rather than trying to invest directly on your own. Here are five of the most important.

1. Full-time professional management

Investment markets move quickly, and keeping on top of things requires a lot of attention. Most of us don't have the time or tools to look after our investments to this degree. Professional investment managers spend their entire working lives thinking and learning about markets, companies, currencies and interest rates. They have access to the latest developments and can act on them instantly. And because they're professionals, they don't become impatient, act impulsively, or let their heart rule their head. Their job is to make money for you.

2. Spread of investments reduces risk

Even if you did have time to look after your own investments, you generally wouldn't have the resources to build a portfolio to compare with a major funds manager. This spread of investments is the single most important way to reduce risk. You're not putting all your eggs in one basket.

3. Opportunities beyond your reach

Because of their size and investment muscle, managed funds may have access to the best investment opportunities. These opportunities may be beyond the reach of individuals, and you may most likely never hear about them. The most effective way to take advantage of these opportunities is through a managed fund that has access to 'on the ground' investment professionals.

4. Convenience and value

Compared with property, shares or even term deposits, managed funds are 'low maintenance' investments. There are no repair bills, no overdue rent to chase up, no new tenants to find, no maturity dates and no searching for the best interest rates. It's all done for you. And you may be able to add to your managed fund investment in small amounts, or withdraw small amounts if you need to, possibly within a matter of days. As mentioned above, however, a withdrawal fee may apply for early access.

5. Tax advantages

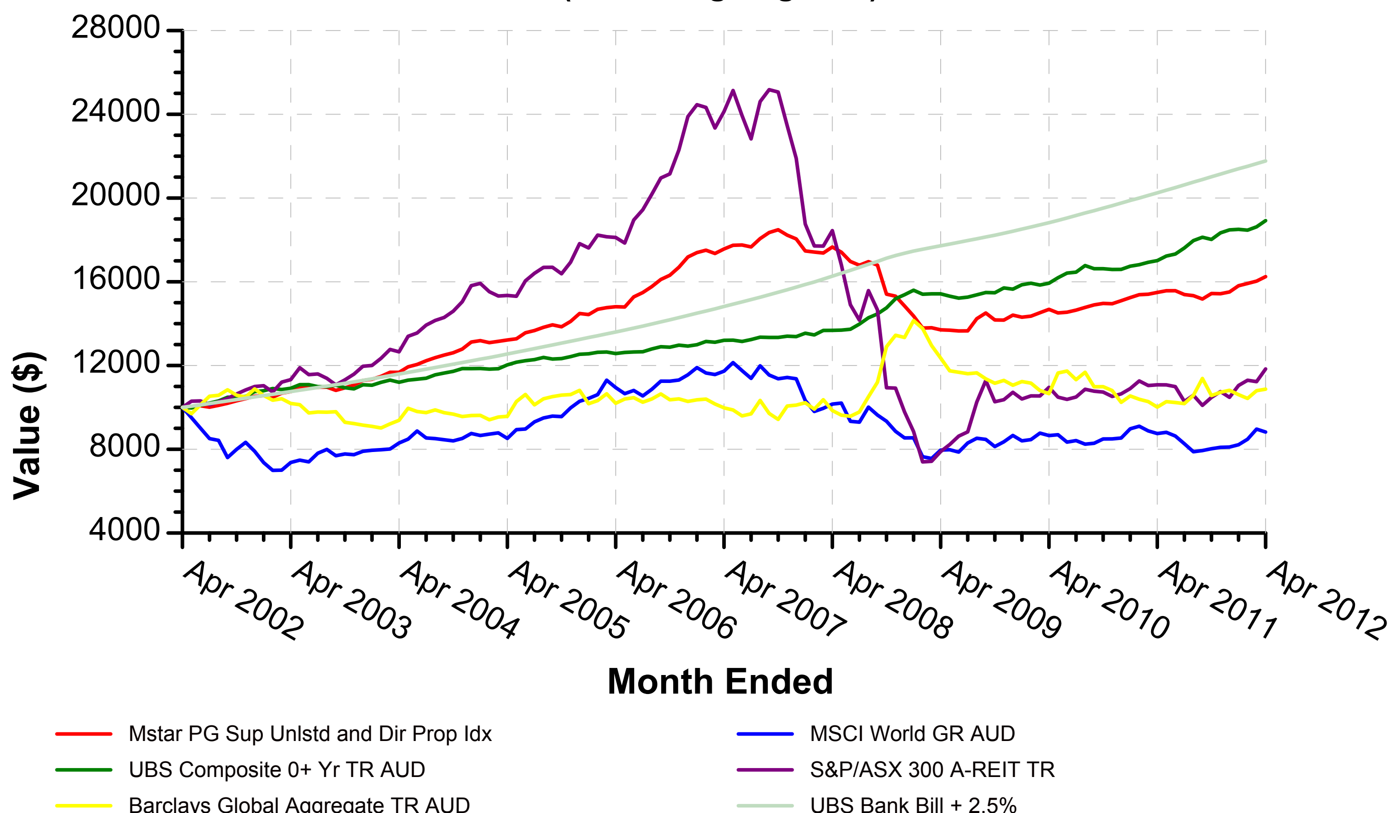
Some investment assets offer attractive tax benefits. Australian company dividends, for example, often carry imputation credits that may reduce your tax bill or earn you a tax refund. Managed funds take full advantage of these tax benefits and pass them on to you when they pay income distributions. They also take advantage of the tax breaks on long-term capital gains, where only half the profit is taxable (if certain conditions are met), so you may benefit from those tax concessions too.

Where do managed funds invest?

Managed funds invest in different assets, depending on their objectives. The most important assets to know about are Australian shares, international shares, property, fixed interest and cash.

Let's start with shares, which are simply investments in real companies either in Australia or overseas. Shares have historically produced higher returns over the long term (at least 5 to 7 years). Over the shorter term (say up to 3 years), returns are less predictable and in some years can be negative (which, incidentally, may be a good time to top them up at a lower price).

You can see the real value of shares from this chart. It shows how resilient sharemarkets have been regardless of wars, natural disasters and economic crises. In the short term the ride may have been a little bumpy, but this is put into perspective when you look back over the medium to long term and see just how far the value of shares has grown.



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All potential investors should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product.

Past performance is not a reliable guide to future performance.

At the other end of the spectrum is cash. Cash, which in this sense means bank bills and deposits, is seen as the ultimate low risk investment. Returns are predictable but they're also lower compared with what can be achieved with shares over the longer term. So low, in fact, that an investment in cash is unlikely to keep pace with inflation after tax, let alone increase the spending power of your money.

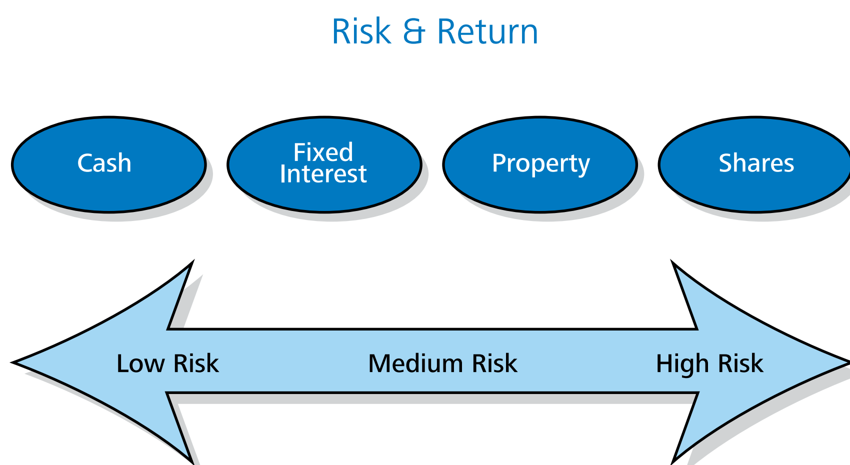
In between cash and shares are the other main asset sectors, namely fixed interest and property.

Fixed interest – mainly government bonds and the like – generally produces better returns than cash but with more fluctuations. It's possible (but uncommon) for fixed interest to produce a negative return over a year.

Property – such as office buildings, shopping centres and industrial estates are growth investments not unlike shares. Just as shares have a capital growth and dividend component, good property has growth potential and also income through agreed rental yields. Property can go through periods of negative returns but over the long term it tends to produce better returns than fixed interest, though lower than shares.

The relative risk and return of these different types of asset are illustrated in the panel below. You can decide your own investment mix.

Risk & Return



Some funds just focus on a single type of asset. These are useful if you want to build up your investments in that area, perhaps because you already have enough invested in the others. Other funds include a broader mix of investments, usually diversifying across all the main asset sectors.

These include:

- income funds, that aim to deliver a relatively high and stable level of income, and may include the potential for a small amount of capital growth.
- growth funds, that pay relatively low income and focus mainly on growing the value of your investment; and
- balanced funds, that put roughly equal emphasis on income and capital growth.

These multi-sector funds save you having to decide what asset sectors to invest in, so you only have to think about your time horizon and the balance you want between income and growth.

Matching the fund to your time horizon

When you're looking at any investment it's important to keep in mind your time horizon – in other words how far ahead you're planning for and how long you expect to keep the investment.

Managed funds are best thought of as medium to long-term investments, so the minimum timeframes for different types of fund are:

Type of fund	Plan to invest for at least
Income funds (including specialist fixed interest) and cash funds	Up to 3 years
Balanced funds	5 years
Growth funds	5-7 years
Specialist share funds (including Australian, international and property securities)	5-7 years

These are useful guidelines, but remember that all investments – and growth investments in particular – will reward you best if you're patient.

Important note

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