

Four steps to understanding managed funds

While managed funds can form a very important part of investors' wealth worldwide, there are many different types of investments available. A licensed, or appropriately authorised, financial adviser can help you determine what, if any, managed funds are suitable for you.

STEP 1 – What is a managed fund?

A managed fund is simply an investment vehicle that enables you to pool your money with that of other investors in order to diversify your savings across a variety of different investments.

A managed fund is typically arranged through a fund manager that specialises in pooling together the funds of individual investors and investing them in a range of asset classes – shares, property, cash, fixed interest. They employ full-time analysts who decide which shares to invest in, what property investments they will expose you to, etc. Depending on the fund you select, the initial investment can be as low as \$500 because they are pooling your funds with other investors' funds to allow you to access markets that may normally be out of your grasp.

However, some restrictions do apply with such a small investment. Generally when you make a smaller initial investment, there is a requirement for you to make regular contributions on a monthly basis via a direct debit facility.

STEP 2 – Key benefits of managed funds

The key benefits of managed funds can be summarised as follows.

The main benefit is that they provide an easy way to invest. Professional investment managers make the decisions for you. This enables you to diversify your money across a range of investment types through a single product with a small initial investment.

Ease and simplicity are important to investors – but so is making money. Managed funds can help you achieve your financial goals in two main ways:

1. Investments you are exposed to generate profits and earnings which are distributed back to you as **income** on a monthly, six-monthly or yearly basis, and
2. Profits or earnings that are generated by the underlying investments increase the capital value of your managed fund. You can sell off all or part of your managed fund at any time and realise this increase in value or what we call **growth**.

There are different types of managed funds depending on how much income or growth you are interested in.

On top of all of this, some managed funds provide you with tax advantages in the form of discounts on income they pay (imputation credits associated with Australian shares, for example). A licensed, or appropriately authorised, financial adviser can provide you with specific information about how this works.

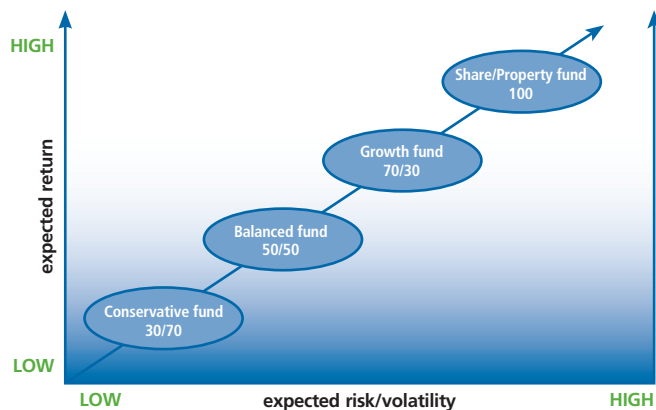
It is important to note however that, as with any other investments, the value of managed funds will fluctuate over time, and can generate both positive and negative investment returns.

STEP 3 – The risk/return relationship

It is very important when you are comparing different managed funds that you are comparing apples with apples. To do this you need to understand the relationship between risk and return as it applies to managed funds. In the chart below, we've named the type of fund followed by the percentage exposure to growth investments (ie shares and property) first, then the percentage exposure to defensive investments (cash and fixed income). Those managed funds with higher exposure to growth investments will, generally speaking, offer higher risk (being the ups and downs in the unit price) in the short term and higher returns in the long term, compared to those managed funds with a higher proportion invested in defensive investments like cash and fixed interest.

This risk/return trade-off needs to be remembered when comparing performance (particularly of a short-term nature). You will avoid falling into the traps of inappropriately investing on the basis of short-term performance if you see a licensed, or appropriately authorised, financial adviser prior to investing and work through a risk profile that will set out your current financial needs and preferences and future objectives.

Managed funds attract fees and charges and these will vary from fund to fund. Generally, the fees to manage a fund with high exposure to shares and property will be higher than the fees that apply to a fund that invests predominantly in cash and fixed interest.



STEP 4 – Getting a plan together

When meeting with a licensed, or appropriately authorised, financial adviser for the first time, it's important that you ask a number of questions to ensure the adviser is right for you.

1. Find out what their company background is - are they linked to any particular investment group and could this affect the advice they provide you?
2. A Certified Financial Planner is the highest qualification an adviser can have and these people will have CFP after their name.
3. Find out if they are a commissioned based adviser or if they only receive fees. This will be important so you understand how they are being remunerated. All initial and ongoing commissions must be disclosed in a Statement of Advice in dollar terms.
4. Being a member of the Financial Planning Association is also important – it means that your adviser is subject to minimum ongoing education requirements and has a sufficient level of professional indemnity cover.

Remember to read the Product Disclosure Statement for any product you are considering before making any investment decision.

In summary...

In **Step 1**, we discussed that managed funds pool your money together with that of other investors in order to access a range of investments.

Step 2 looked at the key benefits to managed funds, highlighting that they are an easy way to invest and can provide you with capital growth and regular income.

Step 3 touched on the relationship between the level of risk you invest in and the impact that can have on your long term investment return. We also looked at how fees may vary depending on the level of sophistication in the managed fund.

Step 4 spelled out the need to seek personal advice from a licensed, or appropriately authorised, financial adviser and outlined some of the questions to ask when speaking with a financial adviser.

To speak directly with a Mercer financial adviser call **1800 682 525**. We have offices located around Australia. To find a Mercer office, please visit our website at mercerwealthsolutions.com.au/office-locations.

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