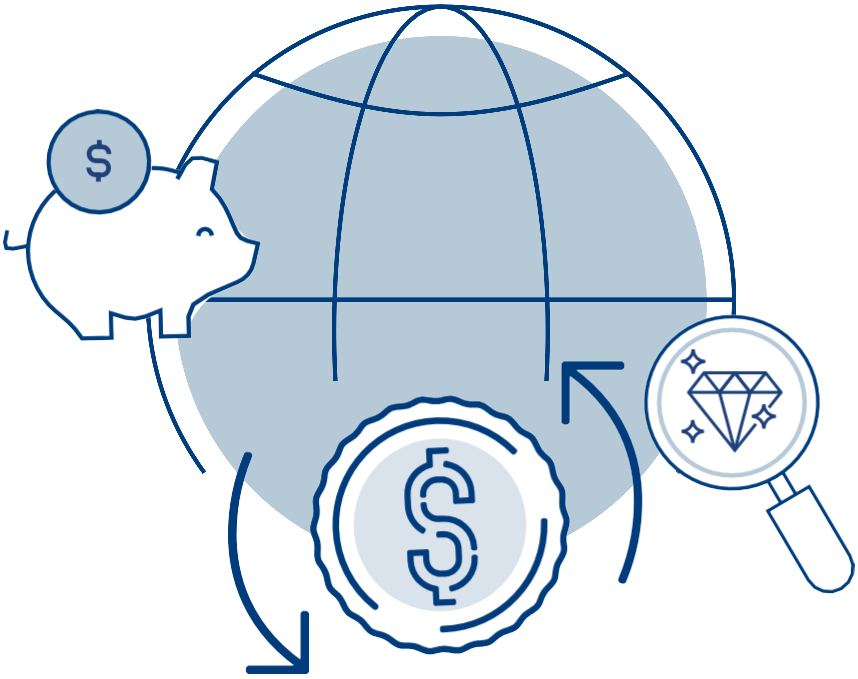

MAGELLAN

EXPLAINS: Managed funds

A Managed Fund gives investors access to a portfolio of individually selected companies in one easy transaction.

WHAT IS A MANAGED FUND?

A managed fund is a type of unit trust that is also known as a 'registered managed investment scheme'.

By using a managed fund, investors' money is pooled together and is used by the investment manager to buy investments and manage them on behalf of all investors in the fund. By pooling funds, investors can gain access to investment opportunities that they may not be able to access if acting on their own.

Being a unit trust, when an investor invests in a managed fund they are assigned units proportionate to the amount of money they have invested. A managed fund is typically open ended, meaning that new units are created as investors join the fund and units are cancelled as investors redeem.

There are a number of different roles that are performed for a retail managed fund by different entities. These include a Responsible Entity, Investment manager, Fund Administrator, Unit Registry and Custodian.

A **Responsible Entity** is required to have an Australian financial services license and performs the role of trustee of a managed fund. They are responsible for overseeing the operations of the managed fund, monitoring the managed fund's investments and market performance, and making sure the managed fund pays it operating costs and tax.

They may also act as the fund's investment manager or they may appoint a third party investment manager.

The **Investment Manager** is responsible for selecting and managing the assets of the managed fund.

The **Fund Administrator** is responsible for the asset valuations and reporting of the financial book of records of the managed fund.

The **Unit Registry** is responsible for the processing of all investor related activity and maintenance of the investor book of records of the managed fund.

Finally, the **Custodian** is an independent financial institution that physically holds the underlying investments of the managed fund. The custodian acts as an important check for managed funds because they help insulate the managed fund from fraud by physically segregating the underlying investments of the managed fund from the party responsible for managing these assets.

Managed funds are an easy way for investors to gain access to a professionally managed portfolio of both local and global stocks.

HOW DOES UNIT PRICING WORK?

When an investor buys into a managed fund, they are buying units in a unit trust. That unit trust in turn buys the underlying investments in the shares of companies that make up the fund's investment portfolio. When an investor sells units in the managed fund, the opposite occurs.

The return that investors in the managed fund receive is made up of the share prices of these portfolio companies going up or down in value and also the any income and capital returns received from those companies.

Each unit in the managed fund has an equal value and this is known as a unit price and it lets investors know the value of one unit in a managed fund on any given day.

The unit price or Net Asset Value per unit is determined by the net value of the managed fund's assets, which is the total value of the assets that the fund owns, less any liabilities divided by the number of units on issue.

If the value of the assets that the fund owns increases, then the unit price will increase and if the value of the assets goes down, then the unit price goes down.

HOW ARE RETURNS GENERATED BY MANAGED FUNDS?

On a yearly basis, the managed fund may receive income in the form of dividends from the companies in the fund. Additionally the portfolio manager may decide to sell one or more of the companies held by the managed fund, which may create a gain or a loss from that sale.

The combination of this income and realised net capital gains may be passed on to the underlying unit holder a certain points throughout the financial year. This is called a '**Distribution**'.

When a distribution is made, it 'uncouples' from the managed fund and the unit price falls by the amount of the distribution per unit that has been paid out. Investors can choose to have this distribution paid into their bank account or have it reinvested

at the lower ex-distribution unit price where there is a Distribution Reinvestment Plan ('DRP') available.

The remainder of an investor's return, their '**Growth Component**', which is the movement in the share prices of the companies that the managed fund owns, is still locked into the unit price of the fund. So, an investor's total annual return is made up of these two components – Distributions and Growth.

HOW TO INVEST IN MANAGED FUNDS

Managed funds can be accessed either '**off market**', in the case of an unlisted managed fund or they can also be purchased '**on market**' in the case of a listed managed fund, which can be a Listed Investment Trust (LIT) or an Active Exchange Traded Fund (Active ETF).

For unlisted managed funds, an investor needs to complete an application form and send it into the fund manager's unit registry. There are minimum investment amounts that could be applicable and these minimums are noted in the managed fund's Product Disclosure Statement (PDS).

For listed managed funds, such as an Active ETF or LIT, an account with a stockbroker or an online share trading platform (like, CommSec, NABtrade, CMC Markets, Bell Direct, etc) is required, and then an investor can purchase units in the managed funds just like any other stock on an exchange – no paperwork is needed to buy or sell. All that is required is the ticker code of the managed fund, which is generally a three or four letter code, and the desired amount of the investment in the managed fund.

The on-market purchase is done the same way as any other listed security and settlement is after 2 days. Once confirmed, investors can then see the units in the managed fund in their share trading account alongside their other listed investments. Brokerage will vary depending on the platform or stockbroker used.

Minimum trades are normally $500, but can vary between share trading platform/stockbrokers.

HOW ARE MANAGED FUNDS TAXED?

When someone invests in a managed fund, they can expect to pay tax on an annual basis for the distributions that they have received and then when they finally sell or withdraw from the fund, they will pay capital gains tax (CGT)on the remaining portion of growth that has not yet been taxed or incur a capital loss if they sell for less than their cost base.

If the managed fund operates under the Attributed Managed Investment Trust Regime (AMIT), the change in cost base needs to be taken into account when calculating the final amount of the capital gain or capital loss. Given the complexity of this, we recommend that investors seek their own professional tax advice when investing in managed funds.

For more information, please visit **www.magellangroup.com.au** to see our full range of Managed Funds.

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