

What are managed

funds and where do they fit?

Pooling money for everyone's benefit

A managed fund is one that enables you and a lot of other people, each with a small amount to invest, to pool your money for everyone's benefit.

By combining resources you have more investment muscle and can spread costs. The result? The greater spread means your exposure to risk is lower than if all your money's tied up in just one or two investments.

Your money is still your own

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.

With managed funds your money isn't locked away. Even though they're generally medium or long-term investments, you can always get access to your money – normally within a few days – if you need to.

Your return comes in two forms

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

First, there are **income distributions**, usually 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.

It's easy to keep track

It's easy to keep track of how your managed fund investment is performing. You'll receive regular reports from the manager, usually every time they pay you an income distribution. Prices of most funds are also published regularly in the business pages of newspapers, in finance magazines and often on the investment manager's internet site.

Where do managed funds fit?

You may be wondering where managed funds fit compared with other places you might put your money, like term deposits or rental property or superannuation.

This chart helps you compare. You can use it to match what's important to you with different types of investment. So, for example, if you're looking for capital growth you might consider property or superannuation or managed funds. But if you also want easy access to your capital, a managed fund is likely to be the most suitable.

Meeting your needs				
	Term deposits	Rental property	Super-annuation	Managed funds*
Capital growth	x	✓ <small>(depends on location)</small>	✓	✓
Regular income	✓	✓	x	✓
Tax effectiveness	x	✓ <small>(best if using borrowed money)</small>	✓	✓
Easy access to capital	✓	x	x	✓
Fixed rate of return	✓	x	x	x
Suitable time horizon	Short to medium term	Long term	Long term	Medium to long term

* By Managed Funds in this context we are referring to capital growth and balanced funds that include some shares and property investments among their assets.

Term deposits are useful if you know you're going to need access to your money in the near future or require a fixed income return. But with historically lower returns than other asset classes, no capital growth and no tax benefits, they don't always stack up over the longer term.

Rental property may produce reasonable returns and have taxation benefits, but you are committing a lot of your money to just one asset. Plus it may require you to contribute more capital for maintenance and of course you can't get access to your money at short notice.

Superannuation is great for long term investing and a tax-effective way to save for retirement, provided you are happy to leave it untouched until you retire and you don't need any income in the meanwhile. (Don't forget to make sure any super you do have is working as hard as you are – your financial adviser can help you to check this.)