Why Managed Funds Are One of Your Best Investment Options

What Is A Managed Investment Fund and What are its Advantages?

Managed funds are collective investments where a number of investors pool their money so that it can be managed by investment professionals.

Most people realise that in order to achieve financial security and independence in the future they have to put money aside on a regular basis.

They know, too, that having worked hard for that money, it makes a great deal of sense to ensure that it works equally as hard for them.

And that's where investment comes in, because there is a fundamental difference between saving and investing.

Saving, on the one hand, is the simple act of squirrelling money away for some future purpose.

Investment, however, is using that same money in such a way that it actually makes more money. In other words, making it work for you so that it provides you with an increase in capital, or an income, or both.

Here in New Zealand, one of the best ways to ensure that your money works really hard is to put it into a managed investment fund.

There are several significant advantages which you'll enjoy with a managed investment fund

- You gain access to potentially high return investments which would not otherwise easily be available to you as a direct investor - international investments for example, or investment in multi-million dollar projects or property.

- Your money is managed to minimise risk given the returns that you seek

- You gain the opportunity for higher returns over the long term

- Your money is managed by experienced professionals who are fully aware of investment trends and opportunities so that returns are maximised and risks are minimised.

- You can choose a fund which matches your attitude to risk and your requirement for capital growth, on-going income, or both.

How to select an investment fund which is right for you

Your final choice of investment will be determined by a number of factors.

The most important are that the type of investment is designed to meet your specific requirements and that you are comfortable with both the prospective returns and the risk which is involved.

Your requirements

It is a good idea to be quite clear in your mind what it is you require from your investment, before you start.

Is preserving your capital most important, or is the provision of an income uppermost in your mind? Are you prepared to risk some spare cash in the hope of significant returns? Are you looking for capital growth rather than an income producing investment? Do you want both income and capital growth?

Your attitude to risk and return

You should be comfortable with the level of risk associated with the investment you choose. Investments can go down as well as up. It is no good investing in a particular fund only to lose sleep if its unit price should fall back or not rise as quickly as you had anticipated.

Likewise, choosing a fund with a conservative focus might result in returns you find disappointing, if your original investment purpose was more speculative or entrepreneurial.

Your time scale

Most managed investments should be seen as medium to long term commitments.

It is a good idea to ensure that the investment you make is effective over your own time scale.

Assessing the quality of management

In a managed investment, you're putting your money into someone else's hands so it is wise to ask questions about the manager's depth and breadth of investment skills.

How long have they been in business, what company affiliations do they have? Do they have a good reputation? Are they members of the Investment Savings and Insurance Association? If so, they will be bound by the Association's Practice Standards.

Checking their track record

While past performance is no guarantee for the future, it does give some indication of expertise and ability, provided nothing has changed in the meantime.

Most fund managers will be able to provide you with statistics relating to the historical performance of their funds.

Checking the investment portfolio

What will your money be specifically invested in? Is your prospective fund's investment portfolio available for inspection?

Finding out about fees

All fund managers' prospectuses and Investment Statements must clearly state what service, management and other fees are charged on the fund.

Other useful information

The Securities Act 1978 (as amended) and the Securities Amendment Regulations 1997 set out the information which must be provided to you before you sign up for a managed fund.

You must be given an Investment Statement with answers to the following questions:

- What sort of investment is this?

- Who is involved in providing it for me?
- How much do I pay?
- What are the charges?
- What returns will I get?
- What are my risks?
- Can the investment be altered?
- How do I cash in my investment?
- Who do I contact with enquiries about my investment?
- Is there anyone to whom I can complain if I have problems with the investment?
- What other information can I obtain about this investment?

You also might find it useful to know such details as:

- how often the fund's assets are valued - daily, weekly or a longer interval

- whether the manager has the right to borrow on security of the fund's assets and if so, do they exercise that right, and what percentage of assets is involved

- whether the fund manager is permitted to invest in futures or options for the purpose of hedging and/or speculation

- whether the fund hedges against exchange rate fluctuations if it invests offshore

- if the fund distributes income, whether this can be reinvested in the fund to buy additional units, and if so, what charges may be incurred

What are the Different Sorts of Managed Fund?

There are several types of managed funds you can choose to invest in. They include Unit Trusts, Group Investment Funds, Insurance Bonds, Superannuation Funds and Investment Companies.

Unit Trusts

Unit trusts are one of the world's fastest growing and most popular investment types, and are a variety of managed fund where investors' funds are pooled. The individual investor buys "units" in the trust, the price of which is determined at the time the investor buys into it.

Most unit trusts are not listed on the stock exchange; instead units are bought and sold through the fund manager.

For those trusts which are listed on the stock exchange, the buying and selling of units is based on the price which buyer and seller agree. This may differ from the asset backing of the trust.

Unit Trusts at a Glance

What asset classes are invested in?	*Cash, fixed interest mortgages, property, equities, specialist assets, diversified funds*

Are specialist Trusts Available?	*Yes*
Do I have access to overseas investments?	*Yes*
Are Balanced Trusts Available?	*Yes*
Are Savings Locked in for a Set Period?	*Not usually*
Are unit trusts registered and approved?	*Yes, by the Justice Department, under the Unit Trusts Act 1960.*
Must the Trustee be Independent of the Fund Manager?	*Yes*
Are a Registered Prospectus and an Investment Statement Required by Law?	*Yes*

Types of unit trust

In New Zealand there are about thirty fund managers who offer a multiplicity of different unit trusts. In addition, you also have access to a number of overseas-based managers.

Trusts may focus on one particular asset or asset class, country or region , or may be diversified over different assets, asset classes, countries or regions.

There are also trusts which widely diversify their investments. Some may concentrate on protecting their unit holders' capital; others on providing them with regular income, or on delivering capital growth, or on a combination of both.

How unit holders' rights are safeguarded

Unit trusts are regulated by law, and must be approved and registered by the Ministry of Commerce before they can be promoted to the public.

A unit trust is based on a trust deed - an agreement between the independent trustee and the fund managers - which sets out the rules by which the trust must operate.

The independent trustee is responsible for the safe custody of the trust's assets; ensuring that the trust is managed according to the rules set out in the trust deed; and ensuring that all assets are correctly registered in the name of the trustee or its nominee company. These responsibilities allow the trustee to oversee the trust's operations so that unit holders' interests are safeguarded.

As a further safeguard, an independent auditor audits the trust's accounts annually and a report is sent to all unit holders as well as being filed with the district Registrar of Companies.

The manager of the trust, who is responsible for day-to-day operations, must be independent of the trustee, and post a bond with the government securing the discharge of its obligations under the Unit Trusts Act.

In addition, certain information prescribed by law must be supplied to the prospective investor before an application to buy units is actioned. This information is provided in what is known as a registered prospectus.

Trusts which are managed offshore are not subject to the Unit Trusts Act 1960, but are governed by the Securities Act 1978.

Many Australian unit trusts are exempt from registering a separate prospectus as required by New Zealand law, and can use their Australian prospectus since the two countries' requirements are very similar.

Group Investment Funds

Group investment funds (GIFs) are very similar to unit trusts. The significant difference is that the trustee and the manager are the one and the same.

The trustee/manager must be one of a limited number of statutory Trustee Corporations established in New Zealand.

Types of Group Investment Fund

The conservative and risk averse nature of many Trustee Corporation clients has meant that group investment funds have traditionally been biased towards fixed interest securities and investments secured by mortgages, rather than equities or other investments which offer higher potential returns with a higher level of risk. However, GIFs are now offering an increasing range of asset classes.

Group Investment Funds at a Glance

What asset classes are invested in?	*Traditionally focused on cash, fixed interest and mortgages, but increasingly offering property and equities.*
Are specialist Funds Available?	*Yes*
Do I have access to overseas investments?	*Yes*
Are Balanced Funds Available?	*Yes*
Are Savings Locked in for a Set Period?	*Not usually*
Are Group Investment Funds Controlled by legislation?	*Yes, under the provisions of the Trustee Companies Act 1967.*

Must the Trustee be Independent of the Fund Manager?	*No, but has to be one of a limited number of statutory Trustee Corporations.*
Are a Registered Prospectus and an Investment Statement Required by Law?	*Yes, must satisfy the provisions of the Securities Act*

Generally, GIFs focus on providing both capital growth and income to their investors.

How investors' rights are safeguarded

GIFs are formed under the provisions of the Trustee Companies Act 1967. Legislation requires the trustee/manager to invest with the care, diligence and skill that a prudent person would exercise in the management of the affairs of others.

Insurance Bonds

Insurance Bonds are single premium life insurance policies which provide the policy holder with access to a pooled investment fund.

They offer limited life cover in the form of a death benefit which results in the estate of the unit holder typically receiving at least the total amount invested.

Types of Insurance Bonds

A number of different types of insurance bonds are available.

One of the most popular is a bond which gives investors the assurance that the unit price will not fall. Such bonds are usually titled "capital stable". They are designed for investors who are very risk averse and almost always concentrate on assets such as cash or fixed interest securities.

Insurance Bonds at a Glance

What asset classes are invested in?	*Traditionally focused on cash, fixed interest and mortgages, but increasingly offering property and equities.*
Are specialist Funds Available?	*Yes*
Do I have access to overseas investments?	*Yes*
Are Balanced Funds Available?	*Yes*
Are Savings Locked in for a Set Period?	*Not usually*
Are Insurance Funds Controlled by legislation?	*Yes, under the provisions of the Life Insurance Act 1908, and the Securities*

	Act 1978
Is a Trustee Required?	*No.*
Are a Registered Prospectus and an Investment Statement Required by Law?	*Yes*
Other	*Offers limited life insurance cover*

Income earned by a fund is added to the policy value rather than distributed to bond holders. This means that they are suitable for investors who seek capital growth rather than those who require income.

As with unit trusts, a broad range of asset types is available to the investor - from cash and fixed interest funds to higher risk equity investments.

How bond holders' rights are safeguarded

Insurance bonds are subject to a stringent code of practice on how they operate, and investors' rights are further protected by specific provisions of the Life Insurance Act 1908, and the Securities Act 1978.

Most insurance bonds offer investors a "free look" period. This means that they can change their mind during this period and cancel the bond without incurring any financial penalty.

Superannuation Schemes

Superannuation schemes, like unit trusts, are also a popular form of managed investment fund in New Zealand.

This is largely the result of the realisation that taxpayer-funded superannuation is unlikely to provide more than the barest essentials in the future, and that individuals must make provision for their own retirement income.

Types of superannuation scheme

While any form of saving for retirement could be termed a "superannuation scheme" the schemes described here are trusts registered under the Superannuation Schemes Act 1989.

A scheme may be set up for a group such as employees in a work place or, more commonly, people may simply join a retail scheme offered to the public by a fund manager.

How Investors' rights are safeguarded

The Superannuation Schemes Act 1989 requires extensive reporting, and gives wide-ranging powers to the Government Actuary to safeguard the interests of investors.

Superannuation Schemes at a Glance

What asset classes are invested in?	*Traditionally focused on cash, fixed interest and mortgages, but increasingly offering property and equities.*
Are specialist Funds Available?	*Yes*
Do I have access to	*Yes*

overseas investments?	
Are Balanced Funds Available?	*Yes*
Are Savings Locked in for a Set Period?	*Sometimes - depending on the trust deed*
Are Superannuation Schemes Controlled by Legislation?	*Yes, under the provisions of Superannuation Schemes Act 1989. Government Actuary has wide powers to safeguard investors' interests.*
Must the Trustee Be Independent of the Fund Manager?	*No*
Are a Registered Prospectus and Investment Statement Required by Law?	*Yes, except in very limited circumstances.*
Other	*"Free Look" period may be available.*

Superannuation schemes are required to have a trustee, who must be approved by the Government Actuary.

As with the insurance bonds, some superannuation schemes offer investors a "free look" period where they can reconsider their decision without financial penalty.

Risks Versus Returns and the Influence of Market Forces

You will often hear people say that investments which promise the highest returns may also carry the highest risk and, for the most part, this is true.

Conversely, those investments which are considered to be the least risky, may also produce the smallest returns.

This doesn't just happen in isolation. Various types of investments follow different cycles which are driven by international and domestic market forces, and other factors such as the rate of inflation.

This has the effect of making some investments riskier in the short term, or making the returns from more conservative investments less attractive in the long term.

What this means is that at any given time there are a wide variety of factors influencing the worth of a particular investment, which is why successful investors put their funds not only into a spread of different investment types but also across a variety of markets in different countries.

The result? Their investment portfolio contains a good spread of investments. In other words, the inherent risk of a particular type of investment is offset against the lower risk of another - the old adage of never putting all your eggs in the one basket is particularly appropriate when it comes to investment.

When share values, for example, might be falling, fixed interest securities might be rising. The markets in Europe could be sluggish while Japan or the US is moving ahead. Oil and gas shares can boom at the same time as commodities slump.

It's obvious then that it requires skill, experience and quite a lot of time to directly invest in, and successfully develop a balanced portfolio, but that's no reason why ordinary New Zealanders can't gain access to the rewards enjoyed by the professional investor, since managed funds give them that opportunity.

What types of Assets do managed funds invest in?

There are many different types of assets which managed funds invest in. The fund may specialise in just one type of asset, or it may diversify its investments over a range of assets.

The most common asset classes invested in are:

Asset Classes at a Glance

Type	Return	Risk	Duration
Cash	Low	Low	Short Term
Fixed Interest	Moderate	Med	Med Term
Mortgage	Moderate	Low	Med Term
Property	Moderate	Mod	Long Term
Equities	High	High	Long Term

These risk return indicators are based on a long term (15-20 year) investment cycle, but market conditions can sometimes cause short term variations.

Cash

Investing in cash means investing in on-call accounts, term deposits and 90 day bills, and some funds, usually called cash management funds - specialise in this asset class.

Cash management funds offer an alternative to money market and call deposits with a bank, building society or finance company. They enable small amounts of money to be pooled to attract higher interest rates and provide you with a convenient means of saving for shorter term goals.

Cash Management Funds are very low risk and usually accept smaller sums than other types of funds.

Fixed interest securities

Fixed interest securities comprise government, local body or corporate bonds. The borrower issues the bonds to the lender at a fixed rate of interest over the term of the investment.

Fixed interest funds do not offer the investor a fixed rate of return as such, since the capital value of the investment will vary as interest rates move up or down.

Fixed interest funds in New Zealand offer the opportunity to invest in either local and offshore securities, or both, or in securities with shorter or longer term maturities.

Mortgages

Mortgages are similar in effect to fixed interest securities, the difference being that they are secured over property rather than the credit worthiness of the issuing organisation.

A wide range of mortgage funds is available. They may invest in first or second mortgages, secured over residential, commercial, industrial or rural property and be of varying duration.

Mortgage funds are considered to have a very low risk, and a number may carry some form of capital guarantee.

Equities or shares

An equity is a "share" in a company listed on a stock exchange. Essentially buying a company's shares means that the investor shares in the success, or failure, of that particular company.

Equity funds invest in these shares.

Equity funds available in New Zealand give you access not only to the local sharemarket, but to virtually every sharemarket in the world. There are also global or international funds which spread their investments across a selection of the world's markets.

In addition to funds focusing on a particular country or region, some equity funds also have a specific purpose; they might, for example, invest in stocks of a particular type such as emerging markets, or in resource-based shares.

There are many factors which affect the returns of equity funds. They include the individual performances of the shares of the companies which make up the fund, as well as wider domestic and international economic influences. For this reason, investment in equity funds should be considered a medium to long term commitment.

Property

Property is real estate, physical ground, with or without buildings on it.

Property fund managers generally seek to invest in good quality commercial, retail or industrial properties which have solid, dependable tenants on secure long term leases, or in listed property securities.

In New Zealand you can choose from property funds which specialise in certain types of property - retail or industrial, for example; on a particular region; or on a combination of both.

The returns from a property fund are influenced by changes in the underlying value of the property or properties invested in and the rentals derived from them. These factors in turn are affected by wider influences such as supply and demand and the general economic environment.

Highly Specialised assets

Investment funds specialising in such highly specialised areas as bloodstock breeding, film or other entertainment projects, fine art, futures trading and tourism are increasingly available, particularly overseas.

These types of funds are often attractive to people with a specific interest in the asset being invested in.

Balanced funds

Balanced funds are probably the most common form of managed investment fund. They offer investors access to the specialist asset classes described above, the proportions of which are determined by the fund's objectives.

Their primary benefit is that they offer you the opportunity to have a diversified portfolio which can maximise your returns and minimise potential risk - all in the one fund.

The risk/return profile of a particular balanced fund depends on the proportion of the various asset classes which make up the fund. For long term investors, funds which are weighted towards cash or fixed interest generally have smaller returns and less risk than those which have a higher exposure to equities or property, which offer higher potential rewards with an increased level of risk.

Getting Professional Financial Advice

It is always reassuring to gain professional advice if you're not sure about your investment intentions. You could seek advice from an investment advisor, a financial planner, or direct from a fund manager.

Keeping Track of Your Investments

Keeping a regular eye on how your fund is performing is usually easy.

Unit prices for most New Zealand funds are published regularly in the financial or business pages of the main centre newspapers. In addition, fund managers often advertise their prices on a regular basis, as well as sending reports on a quarterly or half yearly basis to their unit holders.

You can also telephone your fund manager or financial adviser or planner to get the latest prices.

You should be aware that most investment funds are designed to produce optimum returns over the medium to long term and you should not be unduly influenced by the day-to-day fluctuations in unit prices.

Once a year fund managers are obliged to produce an audited annual statement of account for each fund, and a copy of this is sent to each unit holder.

To calculate the value of your investment, provided there are no exit fees involved, simply multiply the number of units you hold by the exit or selling price.