RISK AND INVESTMENT ADVISORS AUSTRALIA PTY LTD

insights
insights

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Making the most of **managed funds**

When people consider investing, many think about buying a house or shares. However, you may be better off pooling your money and using a managed fund to achieve your financial goals.

Pooling power

If you simply use your own money to invest you are limited in how broadly you can spread your investment. For instance, some investments such as commercial property could be out of your reach. Managed funds offer you the power to pool your money with other investors creating access to a greater number of investments.

For example, if you had $10,000 to invest and decide to invest directly in the stock market, you could only afford to buy a small amount of shares in one or two companies. On the other hand, if you pool your money with other investors, using a managed fund, you can spread your investment across a variety of sectors eg retail, manufacturing and industrial companies. And, you can also invest across a range of fund managers using a multi manager fund.

Investing across a wider variety of assets allows you to create a diversified investment portfolio. This is important because investment performance is cyclical and although there will always be peaks and troughs diversification allows you to balance out short-term troughs with peaks in performance. This ultimately smooths out your investment performance over time.

Professional expertise

Managed funds are, as the name suggests, managed by professional investors – known as investment managers or fund managers. They have the skills, experience and research resources not available to the average individual investor.

An investment manager will have a number of skilled professional people working with them to:

- Research and analyse the share including a company's financial performance, cashflow, the industry's market size, competition plus aspects like the company's management stability.
- Allocate the pool of money to the fund to maximise return with an appropriate level of risk.

You can leverage this expertise rather than having to do all the research and asset allocation yourself. This not only saves you time but protects you from making bad investment decisions.

Keeping watch

Overseeing and managing investments by yourself would take a significant amount of time. A fund manager administers the fund for you so that you can simply review periodic reports to see how the fund is performing and make changes if your objectives or risk profile has changed.

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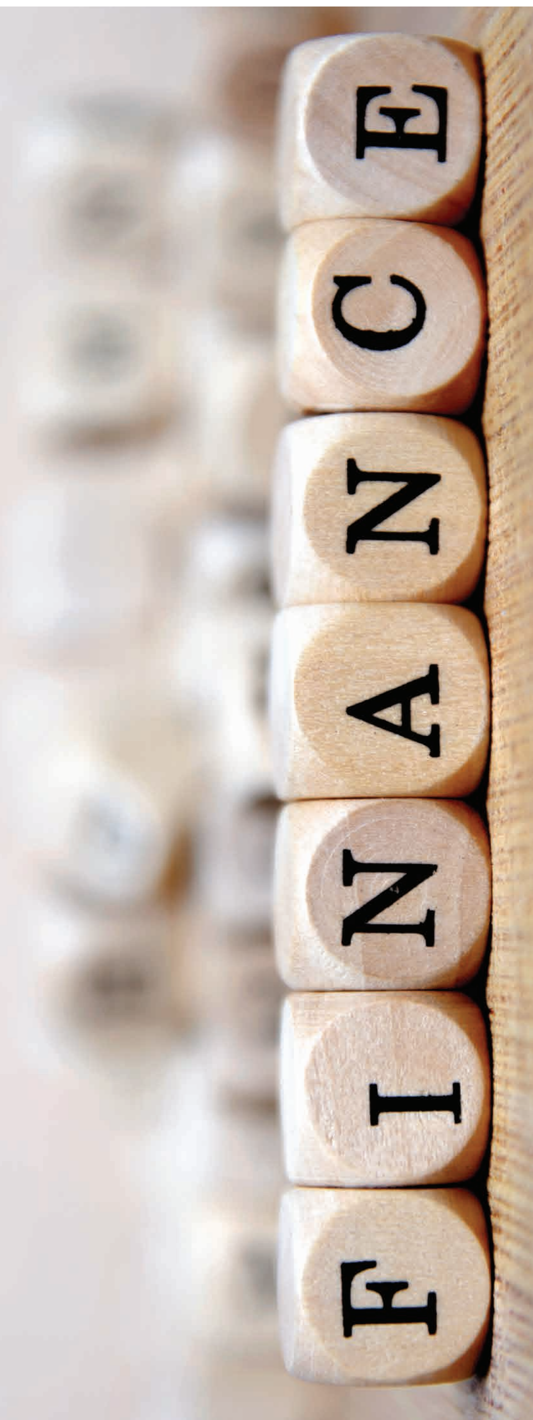


What types of managed funds are there?

There are different types of managed funds depending on what you want to achieve and your risk profile.

Single sector funds

Single sector funds invest in just one asset class, such as cash, shares or fixed interest. Single sector funds may also specialise in certain sectors, for example resource companies.

Multi-asset funds

Multi-asset funds invest across more than one asset class such as shares, property, infrastructure and fixed interest. Diversifying across different asset classes is likely to reduce your level of risk. This is because different asset classes are influenced by different factors so they are likely to behave differently throughout the economic cycle.

Multi-manager funds

A multi-manager fund is a fund comprised of more than one fund which can be within the same asset class or across various asset classes. Each fund has a separate fund manager, with different investing styles. Multi-manager funds work on the premise that investment managers operate differently in different environments and by diversifying across fund managers, risk is reduced.

Growth funds

Growth funds are long-term investments (5+ years), focused on capital growth rather than income and include shares, property and other alternative investments.

Income funds

Income funds are usually shorter term investments, such as cash and fixed interest, and typically have lower risk than growth assets.

Passive funds

Passive funds aim to achieve performance returns in line with a market index, such as the S&P/ASX 200. These funds are also known as Index funds.

Active funds

Active funds aim to outperform an index. They typically have a higher fee than passive funds to compensate the investment manager for their expertise and resources.

Speak to us today to make sure you're making the most of your investment options.

Self-service super **contributions**

The 1 July 2017 super reforms have opened up a fantastic new opportunity to build wealth in super and reduce your tax bill at the same time. That is, it's now easier to claim a tax deduction on your personal super contributions than ever before.

Before 1 July 2017, the only way most people could take advantage of the concessional (before-tax) contributions tax benefits was by salary sacrificing through their employer. Some people, such as the self-employed, could make voluntary personal contributions to super and claim a tax deduction but, most people were simply ineligible.

Remember, concessional contributions are contributions you can make to super either with your before-tax salary or by claiming a tax deduction on after-tax contributions. Either way, for most people, concessional contributions are taxed at just 15 per cent – not your marginal tax rate which could be as high as 47 per cent.

Now, anyone[1], not just the self-employed, can make voluntary personal contributions to super and claim a tax deduction.

This gives you more flexibility if your employer isn't in a position to arrange salary sacrifice for you – such as a small business owner who doesn't have the time to provide this service to their employees.

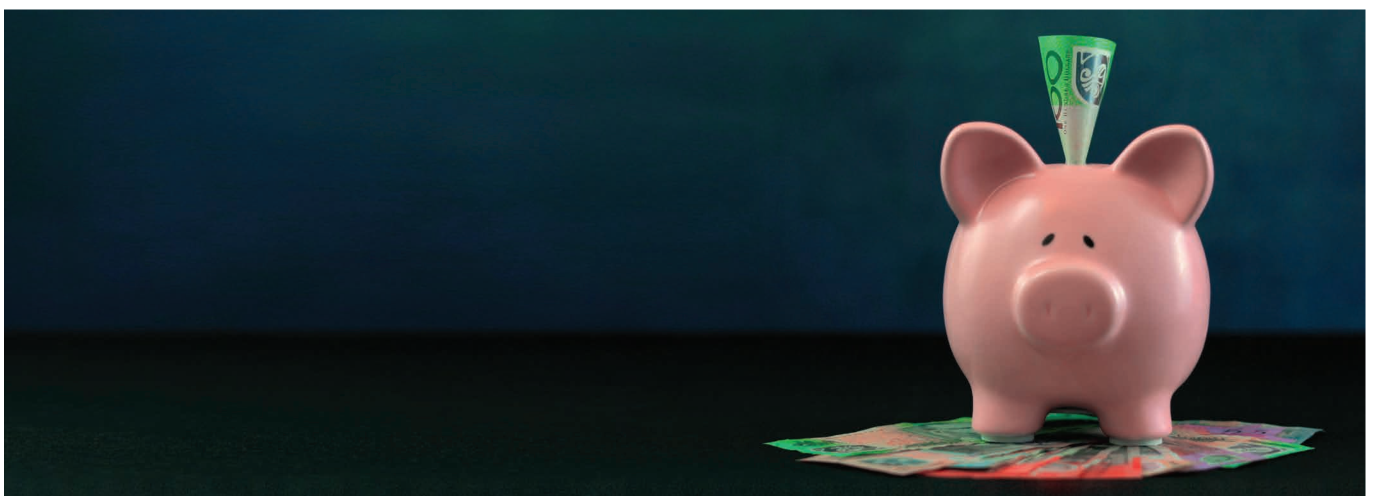
As an employee, you rarely have control on the timing of the salary sacrifice contributions made by your employer. This gives you that control so, for instance, you can time your final contributions leading up to 30 June each year and make the most of your contribution limits and the resulting tax benefits.

Getting started

To claim a tax deduction on your super contributions make sure you:

- Check the age restrictions to make sure you're eligible. There is a work test if you are age 65 to 75.
- Lodge a 'notice of intent to claim a deduction' to your super fund within the timeframes.

This change represents an opportunity for everyone, including those who are currently salary sacrificing, to gain greater control of their personal super contributions.



1 Fund and age restrictions apply.

Secure your children's **future education**

As a parent or grandparent, one of the best things you can do is give your child or grandchild a good education. But what if you weren't around to help make it happen? Fortunately, you can put plans in place in your Will to make sure your children's or grandchildren's inheritance goes towards their education.

Usually, when you die, any inheritance your beneficiaries receive becomes part of their personal assets and are under their control. There's no guarantee that they will use their inheritance for any particular purpose, such as their education.

An education fund established through a testamentary trust in your Will is a tax-effective and flexible way to provide for the education of your children or grandchildren.

Case study

Rob and Amber have two teenage children who are their beneficiaries. They are worried that, in the event of their deaths, their children will not be mature enough to use their inheritance responsibly. They wish to establish an education fund.

As a result, Rob and Amber's Wills state that 40 per cent of their children's inheritances will be held in an education fund with the following terms:

- Until the beneficiary turns 30, their access to the income and capital of the trust is limited to specified purposes, such as:

education expenses, including HECS liabilities

hospital and medical expenses

rent or accommodation charges

- If the children gain a certain level of tertiary education by the age of 30 they are given full control of the trust. If not, the remaining balance of the education fund will be given to charities as chosen by Rob and Amber.

An education fund ensures that your children are adequately supported, but also gives them an incentive to further their education.

For further information please contact us. We're here to help.

Your RIAA Financial adviser is:

Source: Australian Executor Trustees

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