

Fins asset essay



Choose Managed Funds © 2012 Michael Lannon When it comes to investing in managed funds and superannuation, many investors are uncertain of how to go about researching and comparing the available products. Many seek the assistance of a financial planner but are then charged high entry fees and commissions. The following article is intended to educate readers on how to interpret the available independent research and ratings, as well as provide information on other considerations when comparing funds. There are literally thousands of managed funds and superannuation funds available in Australia.

The vast majority of these funds are owned by banks and insurance companies which in turn own financial planning companies that recommend their corporate owner's "in-house" products, making the advice one receives potentially subjected to bias. Investors can find factual information combined with promotional information on the company's managed funds in advertisements and on company websites but the key questions remains: How is an investor supposed to sort through the range of products and get unbiased assessments of their relative investment merit?

Where can an investor find this information? Luckily there are a couple of independent fund research companies that research managed funds and assign ratings. Research on Australian managed funds is provided by Morningstar and Standard & Poor's, both of whom provide ratings on thousands of funds. By using independent ratings, individual investors are able to harness the resources and expertise of these two research houses in developing their own investment portfolio.

In the past financial planning firms paid for access to this information and in turn passed the information onto investors. Nowadays investors can directly access this information via websites that target DIY investors, as well as in the “ money” or “ investment” sections of main newspapers. Investors are able to access comprehensive performance data, fee information, asset allocation and independent fund rating information which can make the process of selecting and monitoring an investment fund a whole lot simpler.

STAR RATINGS – WHAT THE RATINGS MEAN

Most investors will have seen fund star ratings in the newspapers, but many do not know what these ratings actually mean. Morningstar Morningstar fund ratings is calculated every month and are based on a 40: 60 split of the rolling three year and five year performance “ risk- adjusted return”. This split is designed to reward consistent performance and to minimise short-term variations in performance. Morningstar uses categories to group similar-style funds together to ensure that a fund’s Morningstar Rating is relative to other funds in the same peer group.

Following a Bell Curve, the top 10% of funds rated are allocated a Morningstar Rating of 5 stars, the next 22. 5% are allocated 4 stars, and the next 35% of funds 3 stars. Standard & Poor’s Standard & Poor’s ratings are arguably more meaningful due to their combined qualitative and quantitative basis. Standard & Poor’s ratings involve interview based-research and analysis, and are designed to provide investors with both an absolute option on whether a fund meets certain minimum standards and a relative perspective on where a fund falls among its peers.

Only funds that are considered by researchers to consistently generate “superior risk-adjusted fund returns, net of fees, relative to relevant investment objectives and peers” are granted a 4 or 5 star rating, dependent on Standard & Poor’s “level of conviction”. Standard & Poor’s similarly apply a peer group approach, allowing for the comparison of funds within specific asset classes. Their qualitative approach allows ratings to be much more forward looking though, accepting that the track record of the investment manager may be an important reference, but that past performance is no guarantee of future performance.

FEES Entry fees and management fees should also be considered when researching managed funds, as small differences in fees and costs can have a substantial impact on your long term returns. Entry fees of 4% to 5% are charged by most managed funds on your initial investment as well as all additional investments or contributions. By investing through a direct investment broker you can get a full rebate of the entry fee so that all your money goes to work from day one.

DIVERSIFICATION REDUCES RISK In selecting your investments, it is worth developing an asset allocation plan that spreads your investments across a range of assets. Your investment plan should include a mix of investments from different sectors of the financial market. That way you won’t have all your eggs in one basket and your financial future won’t be solely dependant upon the returns of a single type of fund, investment or asset category.

MONITORING YOUR FUNDS Once you have invested, you should periodically review the performance of the selected funds and monitor those funds that are re-rated by Standard & Poor’s and Morningstar.

You can easily monitor ratings changes by subscribing to online investment newsletters that highlight the changes in funds ratings. Very often when the investment manager changes or there are risk management issues with a fund either Morningstar or Standard & Poor's will put the fund rating " On Hold" or downgrade the fund's rating. When this happens and you are invested in that fund you should monitor the situation closely and determine whether you wish to continue your investment in that fund. <http://www.ozinvestor.com.au/articles/2009/oct/001.html> The problem with managed funds

Elizabeth Moran 18 June 2012 Print PORTFOLIO POINT: Investors in managed funds in continual or steep decline should redeem their units. Last month Macquarie Group announced it would close at least three of its managed funds. This article explores some of the consequences and suggests ways to improve your portfolio to minimise losses. It's always upsetting to read of investors losing money, and it was no different when Macquarie Group announced the closure of at least three of its funds last month: Macquarie Property Securities Trust, Macquarie Balanced Fund and Macquarie Small Companies Growth Trust.

However, it does give the rest of the investment community the opportunity to examine the consequences and look at ways to improve portfolios to minimise losses. Macquarie sent letters to clients explaining the situation: " Due to the increasing investor redemptions the reduced size of the fund is expected to lead to increased costs and potentially lower returns to unit holders. Therefore we formed the view it is in the best interests of unit holders to terminate the fund".

<https://assignbuster.com/fins-asset-essay/>

The comment should act as a warning to managed fund investors that you don't want to be the last one to turn out the lights in a managed fund. So, investors should keep an eye on the size of the fund and those funds in continual or steep decline should present a warning to investors to think about redeeming the units before the managers decide to terminate the fund. Liquidity of the underlying investments in a managed fund is the key. How easily or quickly can the investments be sold without loss of value?

I think it is interesting that one of the Macquarie funds to be terminated was a properties securities trust. Property can have a particularly nasty sting if you need to sell quickly (especially if it holds direct property or if the managed funds holds a disproportionately high share of a single listed property company) to satisfy an increase in redemption requests quite possibly due to under-performance. Think about Queensland tropical island resorts and the impact of the high Australian dollar or US residential property or Irish commercial property.

These markets have simply plummeted. Forced sellers in these markets have been lucky if they could find buyers. Personally, I'd avoid property managed funds because of the possible illiquidity of the investments. Sure, the distributions might be attractive enough but does it compensate you sufficiently for that possible illiquidity or loss of capital? Managed funds are good for investors with smaller portfolios. The Macquarie funds needed a minimum \$20, 000 to invest. Typically the minimum investment for managed funds ranges from \$5, 000, up to \$50, 000 for specialist bond funds.

Problems with managed funds include: * No control over choosing underlying investments and they can be tied to an index * No control over when to take profits or losses to suit your own personal taxation requirements * No say on when or if to terminate the fund * Gains and losses are hidden behind a daily unit price * Investors are exposed to the fund manager as well as the underlying investments Some other points to note: Size and type of investment matters – if you like the managed funds style of investment look for large, well-known managed fund companies.

PIMCO is a large international competitor and its minimum investment for some retail funds is as low as \$5, 000. Blackrock is another fund I'd investigate. Choose individual funds that are large and assess the underlying liquidity of the investments. Direct investment is the best option in my view. That way you have no exposure to the dynamics of a fund – the manager, the whims of other investors, nor the costs associated with a wind-up. Government bonds can be bought from as little as \$1, 000 and ASX-listed senior, subordinated debt and hybrids have no minimum transaction amounts.

If you want an exposure to property, there are companies that issue bonds such as Stockland, Mirvac and Westfield”” all that have known returns and sit high in the respective capital structures. Table 1 below shows four property bonds available; three are available in \$50, 000 face value parcels. Mirvac, Stockland and Leighton bonds are all senior debt and fixed rate and are trading at a premium above their \$100 issue price. Yield to maturity (YTM) ranges from 5. 63% for Stockland through to 6% for Leightons. The running

yields for all three bonds are higher, reflecting the high coupon payments, valuable in this declining rate environment.

The Genworth security is subordinated debt and offers a floating rate coupon with an attractive 7.88% YTM (based on current swap curves) and an 8.98% running yield. Genworth is an Australian mortgage insurer and, as such, is considered a “property play”. Read more at EurekaReport: <http://www.eurekareport.com.au/article/2012/6/18/portfolio-construction/problem-managed-funds#ixzz231UI0bdu> 1992 Feature Article – Managed Funds in Australia This article was published in Australian Economic Indicators February 1992 issue on 3 February 1992. Introduction

Over the last decade, a variety of managed funds has developed in Australia to meet the needs of small and large investors. The development of managed funds has occurred in parallel with changes resulting from the deregulation of the financial system. While the ABS and the Insurance and Superannuation Commission have produced statistics relating to the assets of individual categories of managed funds, no estimate has been made of the total assets of managed funds on a consolidated basis. This article presents the first ABS estimates of the size and growth of the total consolidated assets of managed funds in Australia.

A managed fund is defined as any fund established for the purpose of pooling monies from investors with the intention of investing in financial and non-financial assets. The managed funds discussed in this article are: * Statutory Funds of Life Insurance Offices, * Superannuation Funds and Approved Deposit Funds, * Public Unit Trusts, * Cash Management Trusts, *

Common Funds and * Friendly Societies. A definition of each category of managed funds has been included at the end of this article. Consolidated Assets Classified by Type of Fund

To arrive at a figure for the total assets of managed funds in Australia, it is necessary to eliminate the cross investment between the various types of funds. For example, investments by superannuation funds in public unit trusts are excluded from the assets of superannuation funds in a consolidated presentation. Table 1 shows the estimate of total unconsolidated and consolidated assets of managed funds by type of fund as at 30 June 1991. TABLE 1. ASSETS OF MANAGED FUNDS BY TYPE OF FUND – CONSOLIDATED AND UNCONSOLIDATED AS AT 30 JUNE 1991, \$ MILLION | | Assets |

Type of Fund	Total	Elimination	Consolidation	Statutory Funds of Life offices (a)
– Superannuation Business (b)	59, 018	3, 391	55, 627	–
Ordinary Business	35, 314	1, 615	33, 699	Superannuation ; amp;
Approved Deposit Funds(b)	77, 922	3, 380	74, 542	Public Unit Trusts
	25, 680	1, 531	24, 149	Friendly Societies
	7, 329	144	7, 185	Common Funds
	6, 645	20	6, 625	Cash Management Trusts
	5, 756	0	5, 756	Total
	217, 664	10, 081	207, 583	

(a) Source: Insurance and Superannuation Commission (b) Approximately \$97 billion of superannuation money was invested through professional fund managers. |

Total assets of managed funds on a consolidated basis were valued at \$207.6 billion at 30 June 1991. The total value of assets of managed funds representing liabilities of other managed funds and therefore excluded from

the consolidated total, was \$10.1 billion or 4.6 per cent of total (unconsolidated) assets. Superannuation business of life offices (33.6 percent) and superannuation funds and approved deposit funds (33.5 per cent) accounted for most of the cross investment. Friendly societies, common funds and cash management trusts had the least cross investment within the managed funds, \$164 million or 1. per cent of total assets eliminated. After consolidation, assets of the statutory funds of life insurance offices, together with superannuation funds and approved deposit funds, accounted for \$163.9 billion or 78.9 per cent of total assets of managed funds at 30 June 1991. Consolidated assets of \$89.3 billion, held in statutory funds of life offices, comprised both superannuation and ordinary business, with superannuation business accounting for over 60 per cent of all assets of the statutory funds of life offices. At 30 June 1991, assets of public unit trusts on a consolidated basis stood at \$24. billion or 11.6 per cent of total assets of managed funds. Unit trusts invest in specified assets, such as property, equity, mortgages, public securities, etc. These trusts provide opportunities for investors, particularly small investors, to enter these markets. All other types of managed funds contributed \$19.6 billion to the total consolidated assets of managed funds. This was composed of Friendly Societies \$7.2 billion (3.5 per cent), Common Funds \$6.6 billion (3.2 per cent) and Cash Management Trusts \$5.8 billion (2.8 per cent). Assets Managed by Professional Fund Managers

Professional fund managers operate within the managed fund industry acting as managers for smaller funds, and agents for other funds, including unit trusts and superannuation funds. While they accept individual portfolios to

manage, e. g. for charities, their existence is generally not visible to the small investor. The professional fund managers fall into two groups – those attached to insurance agencies, who also act as agents for outside institutions as well as their own company’s clients and those attached to other institutions. Professional fund managers provide a sophisticated level of service matching assets and liabilities.

They act in the main as the managers of pooled funds but also manage clients’ investments on an individual portfolio basis. A considerable proportion of the assets of managed funds, particularly statutory funds of life offices and superannuation funds, is invested through professional fund managers. At 30 June 1991, \$155. 6 billion or 75 per cent of assets of managed funds, were invested through professional fund managers. Table 2 shows the total unconsolidated assets of each type of managed fund and the amount of these assets invested through professional fund managers.

TABLE 2. ASSETS OF MANAGED FUNDS MANAGED BY PROFESSIONAL FUND MANAGERS AT 30 JUNE 1991, \$ MILLION | Type of fund| Unconsolidated assets of managed funds| Assets invested with professional fund managers| |

Type of fund	Unconsolidated assets of managed funds	Assets invested with professional fund managers
Statutory Funds of Life Offices	94, 332	90, 186
Superannuation and Approved Deposit Funds	77, 922	41, 342
Public Unit Trusts	25, 680	20, 724
Friendly Societies	7, 329	3, 148
Common Funds	6, 645	209
Cash Management Trusts	5, 756	0
Total	217, 664	155, 609

| Statutory funds of life offices are the major employers of professional fund managers. They had \$90. billion invested through fund managers at 30 June 1991 or 95. 6 per cent of their total unconsolidated assets. Superannuation funds had \$41. 3 billion (53. 1 per cent) of their assets invested through fund managers and

<https://assignbuster.com/fins-asset-essay/>

public unit trusts had \$20.7 billion (80.7 per cent) so invested. Professional fund managers also manage money from investors other than managed funds. At 30 June 1991, professional fund managers also invested \$17.5 billion on behalf of government, general insurance and other institutions.

Consolidated Assets Classified by Type of Asset

At 30 June 1991, consolidated total assets of managed funds were invested in seven broad categories of assets. Table 3 shows the consolidated total assets of managed funds by type of investment as at 30 June 1988 and 30 June 1991. TABLE 3. CONSOLIDATED ASSETS OF MANAGED FUNDS BY TYPE OF INVESTMENT AT 30 JUNE 1988 AND 30 JUNE 1991, \$MILLION

Type of investment	30 June 88	% of total	30 June 91	% of total
Deposit loans and placements	21,348	14.7	28,455	13.7
Short term assets	22,715	15.6	29,216	14.1
Long term assets	22,895	15.4	31,977	15.4
Equities and units in trusts	33,645	23.1	46,513	22.4
Land ; amp; Buildings	27,056	18.6	35,747	17.2
Overseas assets	10,882	7.5	24,182	11.6
Other assets	6,877	4.7	11,493	5.5
Total	148,418	100.0	207,583	100.0

At 30 June 1991 the majority of assets of managed funds, \$183.4 billion (88.4 per cent) was invested in domestic assets, leaving \$24.2 billion (11.6 per cent) invested overseas. The breakdown of the assets of managed funds by category of investment changed very little between 30 June 1988 and 30 June 1991.

The largest relative change occurred in overseas assets, which increased from 7.5 per cent of total assets in mid 1988 to 11.6 per cent in mid 1991. The only other category to increase its share of total assets was “ other assets”, which increased from 4.7 per cent in mid 1988 to 5.5 per cent in

mid 1991. “ Other assets” comprise mainly accrued income and debtors. The share of total assets represented by all other categories decreased, including the largest category, equities and units in trusts (which decreased from 23. 1 per cent of total consolidated assets in 1988 to 22. 4 per cent in 1991).

Growth of Managed Funds From 30 June 1988 to 30 June 1991, the value of total consolidated assets of managed funds grew by \$62. 2 billion or 42. 8 per cent to \$207. 6 billion, with an average rate of growth per quarter of three per cent. The following graph shows the value of assets of managed funds on a consolidated basis from mid 1988 to mid 1991. GRAPH 1. VALUE OF CONSOLIDATED ASSETS OF MANAGED FUNDS AT THE END OF EACH QUARTER The largest single quarterly increase in managed funds occurred in the December quarter 1988, when total consolidated assets rose five-and-a-half per cent.

Income attributable to a particular statutory fund, whether new business or earned income, must be paid into and become an asset of the appropriate statutory fund and must be kept separate and distinct from the assets of any other statutory fund or the life office. The assets are only available to meet the liabilities and expenses of that particular statutory fund. Superannuation Funds and Approved Deposit Funds Superannuation funds are funds which have been constituted to provide retirement benefits for their members. The funds are made up of contributions paid by employers (on behalf of employees) or by employees, or both.

The contributions are used by fund managers to purchase investments and the resulting assets finance the retirement payments to fund members.

Approved deposit funds were established in 1984 for recipients of eligible termination payments (ETPs) to preserve their benefits until retirement age.

Approved deposit funds accept individual ETPs and pool them into a fund for

investment purposes. Public Unit Trusts A public unit trust is defined as an

arrangement (fund) which is governed by a trust deed between a

management company and a trustee; is open to the public for the purpose of

investing the pooled funds of unit holders to yield returns in the form of

income and/or capital gains; and allows unit holders to dispose of their units

within a relatively short period of time. Unit trusts invest in specified assets,

such as property, equity, mortgages, public securities, etc. The major

distinction between a listed and unlisted unit trust is that a listed unit trust's

units must be listed on Australian stock exchanges and adhere to listing

requirements similar to those for company shares. Cash Management Trusts

A cash management trust is a unit trust which is governed by a trust deed, is

open to the public, generally confines its investments to financial securities

available through the short-term money market and issues units that are

redeemable by the trustee to the unit holder on demand. Common Funds

Common funds operate similarly to public unit trusts, combining depositors'

funds and other funds held in trust in an investment pool with the intention

of investing in specific types of securities and/or assets. Common funds

comprise cash funds, equity funds, mortgage funds, property funds and “

other” funds.

However, common funds do not have a trust deed and can only be set up by prescribed trustee companies (who are also the managers of common funds). Friendly Societies Founded in 1840, friendly societies were originally formed on the basis of group interests such as craft or religion. They have since evolved to offer a full range of financial services to the public at large, including the operation of investment funds. Friendly societies are registered under relevant State legislation and operate in all States. This feature article was contributed by Dene Baines and Suzanne Hartshorn,