

# grow with managed funds



# growing with managed funds

According to the Investment and Financial Services Association<sup>1</sup>, Australia's first managed funds were introduced in 1954. Since then the industry has grown substantially and managed funds have become a popular form of investment for more than 1.2 million Australians<sup>2</sup>.

Sandhurst Trustees, a wholly-owned subsidiary of Bendigo and Adelaide Bank, has been offering managed funds to its customers for more than 20 years.

So why should you consider investing in a managed fund? And how do they work?

A managed fund is a professionally managed investment portfolio that individual investors can buy into, purchasing units in a fund rather than in the assets directly. Your money is then pooled with that of other investors to form an investment fund, which provides you with the opportunity to invest in assets which might otherwise have been too difficult or expensive to invest in by yourself.

Our Managed Funds Growth Guide seeks to explain, in simple terms, some of the features and risks of managed funds and to answer a range of commonly asked questions. Once you've read it, we hope you'll be in a better position to make informed investment decisions.

Of course, if you'd like more information about our range of products you can speak to a friendly Bendigo Bank branch staff member or contact Sandhurst Trustees on 1800 634 969. Or why not consider discussing your investment options with your local Bendigo Financial Planner.

<sup>1</sup> Source [www.ifsa.com.au](http://www.ifsa.com.au) – Fifty Years of Managed Funds in Australia

<sup>2</sup> Source Roy Morgan Research March 2006

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# What is a managed fund?

A managed fund is a professionally managed investment portfolio that individual investors\* can buy into, purchasing units in a fund rather than in the assets directly.

Managed funds come in many shapes and sizes and each has a different investment strategy. Some funds invest in just one type of investment - such as Australian shares, international shares, cash or mortgages – while others, known as diversified funds, invest across a range of asset classes.

The number of units you own in a managed fund depends on the amount of money you invest. Generally, the more money you invest, the more units you own.

This core number of units will not change unless you invest additional funds. However, the value of your units will vary in line with the market value of the underlying investment. This is measured by a unit price.

Managed funds are a popular form of investment for many people because:

- > It's easy to diversify your investments.
- > Experts manage your money – with access to information, research and investment processes not easily available to you.
- > It's easy to reinvest your earnings letting you maximise the benefits of compound interest.
- > It's easy to set up a regular investment plan.
- > You can choose between funds that return income, growth or both.
- > You can start investing with as little as \$2,000.
- > You can grow your wealth and save for the future.

Over the next few pages we'll explain each of these points in more detail.

\*You must be 18 years of age or older to invest in a managed fund (unless established in trust for younger children).

## Growth tip

Before you can choose the right investments and grow your nest egg you should understand what it is you are looking to achieve. You can focus on what you want to achieve by asking yourself the following:

- > What are my short and long-term financial goals?
- > Do I need a regular income stream?
- > How much do I need to achieve my financial goals?

Clearly defined financial goals show where you are, where you're going and help you track your progress.

A Bendigo Financial Planner can work with you to determine your financial goals, which investments may be more appropriate to your needs and help make your money work harder for you.

### It's easy to get started

Typically, an initial investment of just \$2,000 is all you'll need to begin investing in most funds.

### It's easy to grow your investment

Most funds offer the convenience of a regular savings plan, so you can add to your investment on a regular basis.

### You can spread your investment

Because a managed fund is made up of pooled money from lots of investors, you'll have access to investment assets not usually available to individual investors.

### Specialist management

Not everyone has the time or skill to manage their investment portfolio. With a managed fund you can tap into the resources and expertise of specialist fund managers.

### It's simple

Investing in managed funds is easy. Once you've decided which fund suits your objectives and tolerance for risk, the fund manager does the rest.



When the value of a managed fund's underlying investment rises – so will the value of your units. Similarly, if the value of the underlying investment falls, the value of your units will also fall.

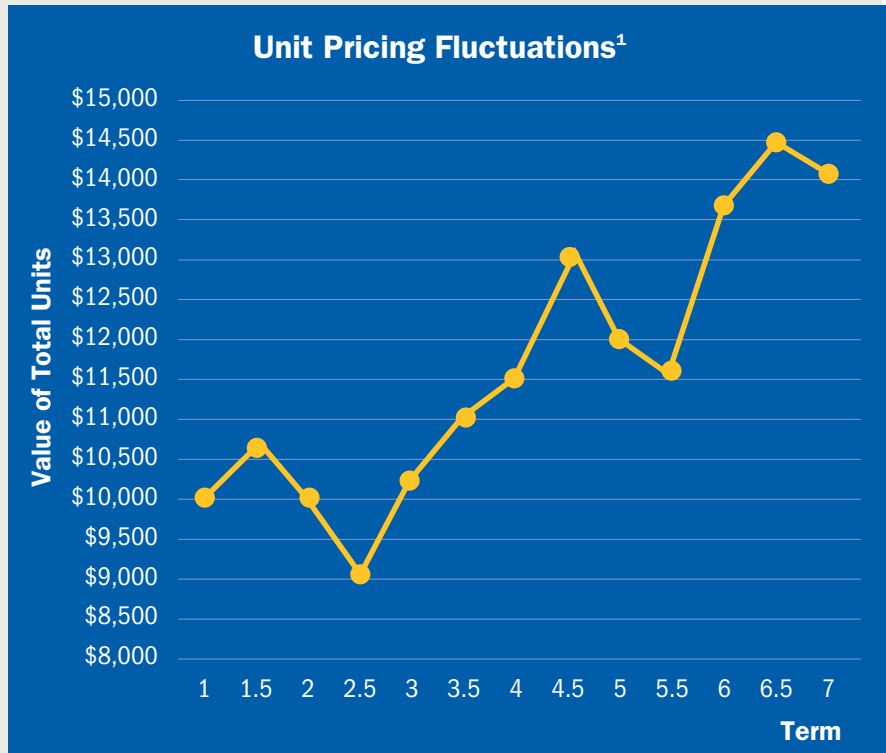
Sean purchased 10,000 units at a cost of \$10,000 in the ABC Managed Fund. The chart below shows the impact the value of a unit has on the value of his investment over a seven year period.



Some managed funds have a fixed unit price which means that the value of your investment will stay the same but you will receive income via regular distribution payments.



Term	Value per unit
1	1
1.5	1.06
2	1
2.5	0.9
3	1.02
3.5	1.1
4	1.15
4.5	1.3
5	1.2
5.5	1.16
6	1.37
6.5	1.45
7	1.41



<sup>1</sup> This example is for illustrative purposes only and assumes annualised capital returns of 5% per annum over seven years.

All managed funds have different investment strategies and objectives. Where one fund may seek to provide investors with regular income, others may strive for capital growth or even a blend of both.

You'll find details about a fund's investment strategy, objectives, features, risks and fees in its product disclosure statement. You need to read the product disclosure statement in detail, before you invest in a managed fund so you understand exactly what you're investing in.

# Why invest in managed funds?

When you invest in a managed fund, your investment is managed by a professional fund manager.

These trained investment specialists research and monitor investment markets to determine the best possible investment opportunities in line with the fund's objectives and strategies.

Depending on the fund's investment strategy, they may review hundreds of different assets and companies across many different asset classes and industry sectors.

Sandhurst Trustees has appointed fund managers which, in its view, have the necessary experience, expertise and resources to invest your money on your behalf.



*It's about time  
in the market  
— not timing  
the market.*



## Greater diversification

In investment terms, diversification means spreading your investments so you don't have all your money in one place, which could increase your investment risk.

Because different types of investments perform better under different market conditions, it's very difficult to predict how the financial market will perform. But by diversifying your investments you can take advantage of the 'ups', while limiting the impact of the 'downs'.

By their very nature, managed funds can help you to diversify, by investing in more than one type of asset class.

This is possible because your money is pooled with that of other investors. With increased buying power, you may have access to a much wider range of investments than you would if you were investing yourself.

By diversifying across a range of fund managers (sometimes referred to as multi-manager funds) you can potentially reduce the level of volatility and improve long-term returns.

## A regular income

Managed funds can provide a regular source of income and depending on the fund you choose, you will receive either monthly, quarterly, six-monthly or annual distributions. You can generally take these distributions as cash payments or reinvest them.

If you choose to reinvest your distribution income you'll benefit from the power of compound interest – which allows you to earn income on your reinvested distributions to maximise your investment earnings over the long-term.

## Growth opportunities

Investments in growth-oriented managed funds should generally be considered a long-term investment. Why? Because combined, a longer-term outlook, an emphasis on capital growth and the benefits of compounding income can make a big difference to your investment outcomes.

## A flexible investment option

When you invest in managed funds (outside of superannuation) your funds can typically be accessed when you need them – although most funds will require some form of notification before you withdraw funds. Remember to check the costs and any terms and conditions involved in redeeming your investments in the product disclosure statement.

# Types of investments

When it comes to investing in managed funds there are a wide range of investment options to choose from – from income assets to growth assets, or diversified funds that offer a combination of both.

The right type of investment for you will depend on your investment objectives, timeframe and appetite for risk.

## Growth Assets

Both shares and property are classified as growth assets. Over time they generally provide returns in the form of capital growth.

Growth assets can be considered higher in risk and may feature:

- > Capital growth over the long-term with some income.
- > Fluctuating returns generally over the short-term, levelling out over the long-term.
- > The potential to produce higher returns compared to other asset classes – balanced with higher risk.

## Australian and International Shares

For long-term investors.

Potential for higher returns, and capital growth compared to other asset classes, with higher risk.

Potential for income through payment of distributions.

Potential for tax benefits in the form of dividend imputation credits.

Diversification benefits when investing across countries, industries and companies.

## Property

For medium to long-term investors.

Includes property, property trusts and other securities across residential, commercial, retail and industrial property investments.

Generally a lower risk growth asset than shares, but riskier than cash and bonds.

Returns may include regular income and capital growth.

## Income Assets

Cash, bonds and mortgage securities are considered income assets. They typically deliver returns in the form of income (ie pay regular income or interest payments to the customer).

Income assets are generally more stable and may feature:

- > Typically lower returns than growth assets.
- > Generally less fluctuations in returns over the short-term when compared with growth assets.
- > Returns are generally lower than growth assets over the medium to long-term, balanced with lower risk.

## Cash

For short-term investors.

Usually includes bank accounts and term deposits and may include higher interest paying securities.

Provides the lowest risk of all asset classes, and provides a regular income stream.

## Fixed Interest

For short to medium-term investors.

Fixed interest investment such as bonds have low to medium risk, provide a reliable income stream and potential for some capital growth.

They usually offer a higher return than cash investments.

Bonds can be issued by a corporation, bank or government body in return for cash.

Yet bonds that deliver higher returns are generally accompanied by higher risk.

## Mortgage Securities

For short to medium-term investors.

Generally have a low to medium risk and provide a reliable income stream.

They usually offer a higher return than cash investments.

Again, mortgage securities that deliver higher returns are generally accompanied by higher risk.



## What type are you?

Our quick quiz has been designed to help you demonstrate the difference between investment profiles.

Of course, there are many things that should be considered when developing an investment strategy – and like most things, there's no substitute for expert advice.

If you'd like to discuss your financial needs and objectives in more detail you can make an appointment with a qualified Bendigo Financial Planner via your local Bendigo Bank branch or call **1300 BENDIGO**.

**CIRCLE ONE TO TWO ANSWERS IN EACH SECTION THAT BEST SUITS YOU**

### When considering my investments:

A It's important that I retain the value of my initial investment

---

B I need easy access to my funds

---

C I'd like them to at least increase with or exceed inflation

---

D Short-term volatility is okay as long as the long-term average returns are good

---

E I'm willing to take on more risk in order to achieve higher returns

---

F I know I'm considering investing over the long-term

---

### I'd like my investments to help me:

A Save for a holiday, car or house in the next couple of years

---

B Achieve a steady, reliable income

---

C Increase my investment portfolio as I'm nearing retirement

---

D Pay for a medium to long-term goal in three to five years (eg a new house or children's education)

---

E Pay for a long-term goal in five or more years (eg retirement)

---

F Achieve high returns on a short or medium-term investment knowing that I may experience volatility

---

### It's important that my investments:

A Provide a regular income

---

B Suit an investment timeframe of 1 to 3 years

---

C Provide a regular income and capital growth

---

D Suit an investment timeframe of 2 to 5 years

---

E Provide high growth and some income

---

F Suit an investment timeframe of more than 5 years

---

Mainly As and Bs

### Conservative/Defensive

If your answers were mostly As and Bs you may be a conservative/defensive investor. Such investors generally don't like to take risks and want their investments to provide a regular income and capital stability. Such investors would typically favour income assets with some exposure to growth assets.

Mainly Cs and Ds

### Moderate/Balanced

If your answers were mostly Cs and Ds you may be a moderate/balanced investor. Such investors may be happy to invest in potentially higher return investments, but they like to balance these growth assets by maintaining 30-50% of their funds in lower risk, income generating investments.

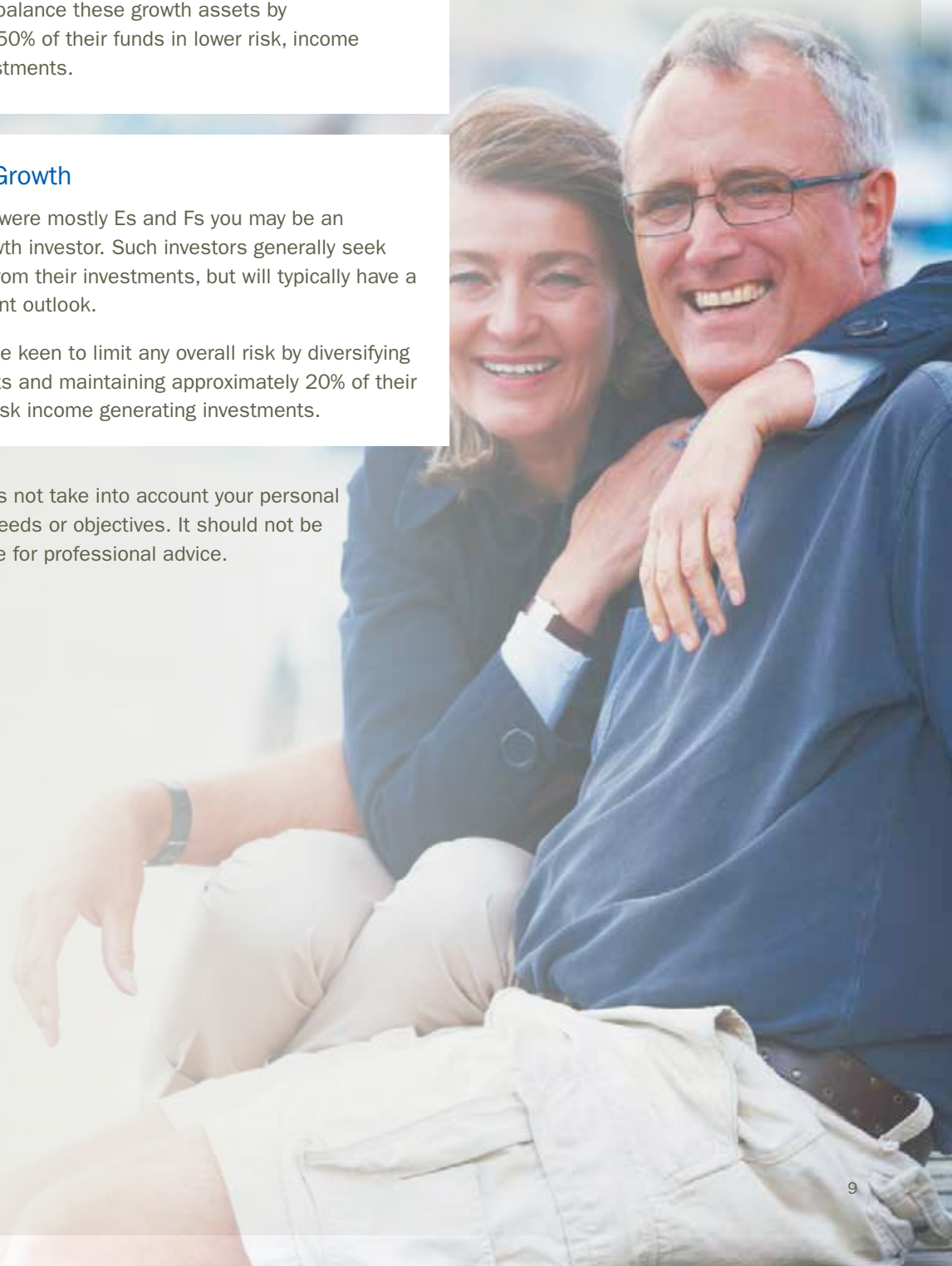
Mainly Es and Fs

### Aggressive/Growth

If your answers were mostly Es and Fs you may be an aggressive/growth investor. Such investors generally seek higher returns from their investments, but will typically have a longer investment outlook.

They may also be keen to limit any overall risk by diversifying their investments and maintaining approximately 20% of their funds in lower risk income generating investments.

Please note, this quiz does not take into account your personal circumstances, financial needs or objectives. It should not be relied upon as a substitute for professional advice.



## Growth tip

Investment markets move up and down over time. In fact, on average, the Australian Securities and Investments Commission<sup>1</sup> suggests that you can expect a negative return on share investments every four years – and every six years for property and every eight years for fixed interest investments.

<sup>1</sup> Source [www.fido.gov.au](http://www.fido.gov.au)  
– negative returns: the dark side of investments

# Choosing the right managed fund

You should consider the following when choosing a managed fund to suit you.

## 1 Appetite for risk

All investments carry risk – and managed funds are no different.

Perhaps the biggest risk when investing in managed funds is the volatility of returns and capital growth. However, interest rate changes, inflation, market conditions and poor investment decisions can also impact performance.

Just as you should be aware of the benefits that come with investing, you should also fully understand the risks, act to minimise them and select a suitable investment for your financial goals.

So what type of investor are you? Are you willing to accept added risk for the opportunity to earn greater returns – and potentially greater losses? Are you more comfortable with less risk and lower returns? Or would you prefer a more balanced approach?

## 2 Investment objectives

If you're planning to invest you need to think about why you are investing. Are you looking to build wealth for the long-term? Are you saving for a holiday? Or are you retired and looking for a regular income?

All managed funds have different investment strategies, so having a clearly defined objective will help you make the right choice.

## 3 Investment timeframe

When setting your investment objective it's important to consider your ideal investment timeframe.

For instance, if you're investing for the longer-term, you may be more attracted to higher risk investments that offer the potential for higher returns. That's because over a longer period, although you may experience short-term fluctuations you are likely to be rewarded with a higher growth to your wealth.



# Make the most of your investments

So you've determined your investment objective, appetite for risk and how long you're looking to invest. You're now in a good position to choose the right managed fund for you.

Like everything though, there are a few simple tips to help you get more from your managed fund – or any other investment.

## The power of now

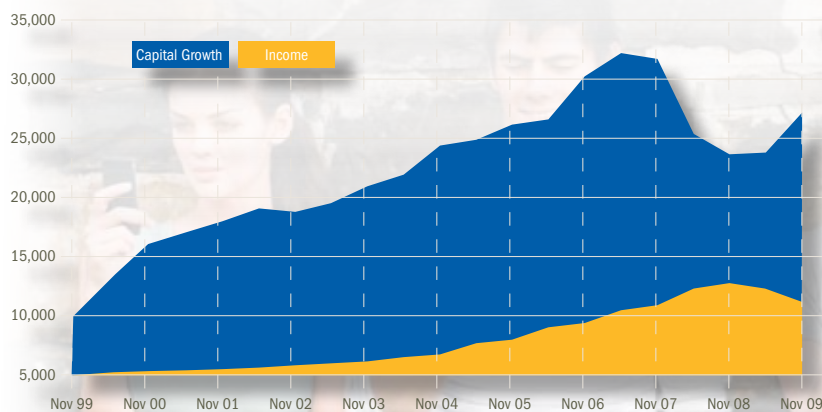
There's always a reason to delay investing for the future, but the earlier you start the better off you'll be. And the secret is compounding.

The benefits of compounding occur when you reinvest any income earned back to your principal investment. This means that you may have a higher investment balance on which to earn more income in the future.

## The power of growth

The following example shows how investing in a fund which provides income, capital growth and reinvested distributions can grow an investment over time.

A \$10,000 investment in the XYZ Fund, since 30 November 1999, has paid income distributions totalling \$12,427, while the capital value has grown to \$14,316. By reinvesting distributions investors will have increased the value of this investment by \$2,309 over the period which equates to 23% of the original investment.



This example excludes any tax payable and assumes a compound annualised return of 10.2% for the period.

## Growth tip

The performance of any managed fund will only be as good as its underlying investments. You can find a great overview of things to consider when choosing a managed fund on [www.fido.gov.au](http://www.fido.gov.au), the federal government financial information website.

## Diversify your investment

One of the most common mistakes made by investors is to have too much money invested in one single asset or asset type. The risk is that if one asset fails to perform, a substantial part of your portfolio will be affected.

In ordinary terms, diversification means spreading your investments so you don't have all your eggs in one basket. That way, if an investment does perform poorly, you still have other investments to offset the loss.

That's why a managed fund can be a good investment option. Because most managed funds invest in a range of individual investments within an asset class or across asset classes – cash, bonds, property and shares – you are automatically diversifying your investment. And for most of us, that means sleeping better at night.

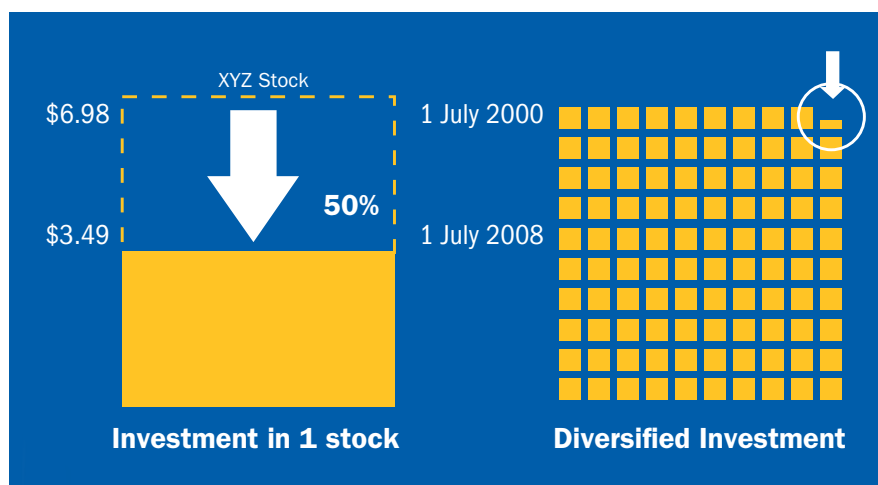


# indication

## diversification

Let's say you had all your money invested in just one investment and that investment didn't perform – you'd make a loss. However, if you spread your money across different types of investments you might still make a loss on some investments, but you'll probably also have some investments that perform well.

Impact of 50% drop in the value of 1 stock



Investing in just one stock carries greater risk as you're more sensitive to market volatility. If the value of the stock decreases the impact on your portfolio is felt immediately.

On the other hand, by diversifying into a variety of investments and across investment managers you'll reduce the impact of any significant movements to individual investments.

## Growth tip

Once you've chosen your managed fund and have determined the regular monthly amount you'll be investing, put it on auto-pilot. Set up a periodical payment and have the amount you're investing taken directly from your bank account.

By purchasing additional units with a regular savings plan, you should end up paying less per unit over time.

This is called 'dollar cost averaging' – and it takes into account that while some units will be purchased at a higher price (meaning you'll purchase less units at these times) others will be purchased at a lower price (meaning you'll buy more). Over a period of time, this means you should pay a lower average price per unit, and take the worry out of trying to time the market.

growth tip

# Managed fund checklist

If you're looking to invest in a managed fund, keep in mind that different managed funds will suit different people. What might appeal to one person may not suit or appeal to you.

Our handy checklist will help guide you through the decision making process.

## Your budget

- Review your budget**  
You may be surprised to find you have extra money to invest.
- Know how much you want to invest**  
Decide if you want to make regular contributions to your investment.  
You'll need to figure out how much you can invest on a regular basis.

## Your needs

- Determine your appetite for risk**  
Use our quick quiz on page 8, which will help you identify types of investors.
- Understand your investment objectives**
- Know how long you are investing for**  
This way you can choose the right investment to suit your needs.

## Choosing the right fund and fund manager

- Understand the investment strategy of your managed fund**  
Does this investment strategy match your objectives?
- Ensure the fund manager has the necessary experience and expertise**
- What are the underlying investments of the fund and do they match your appetite for risk?**
- Do you know if the fund generates income and/or capital growth and does this meet your needs?**  
Remember, past performance is not necessarily indicative of future returns.
- Understand the fees charged by the fund**  
Not all funds charge the same fees. Make sure you know if there are entry, establishment, contribution, exit, termination, switching or any other fees. Higher fees can eat into your investment returns.

If you'd like to discuss your financial needs and objectives in more detail, speak to your financial adviser or make an appointment with your local Bendigo Financial Planner.

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# Keeping you informed

At the Bendigo, we think it's important that you understand all the options open to you when it comes to investing your money. Because the better informed you are, the better off you'll be.

Written in simple, easy to understand language, Growth Guides are a valuable source of information on a range of popular investment topics. They've been designed to help you make informed investment decisions.

Sandhurst Trustees has a range of managed funds that may suit your needs including:

- > Cash Funds
- > Mortgage Funds
- > Multi-Manager Diversified Funds
- > Australian Share Funds
- > International Share Funds

You can find out more about these funds by obtaining a Product Disclosure Statement at any Bendigo Bank branch or by calling Sandhurst Trustees on 1800 634 969.

Of course, if you'd like to discuss your options and investment strategies, a Bendigo Financial Planner is available to help. You can make an appointment with your local Bendigo Financial Planner at your nearest Bendigo Bank branch.

