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# MANAGED INVESTMENTS

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## WHAT ARE MANAGED INVESTMENTS?

A managed investment involves pooling together money from different investors towards a common investment goal. The pooled money is then invested by a professional investment manager in different asset classes that align with the individual's investment objectives and risk profile.

Managed investments cover a variety of asset classes including, but not limited to:

- cash management trusts
- fixed interest
- property trusts
- Australian shares
- International shares

When you invest in a managed fund, you are allocated a number of 'units'. The value of your units is calculated on a daily basis and changes as the market value of the assets in the funds rises and falls.



There are literally thousands of managed investments on the market and their popularity continues to grow, with the latest report from the Australian Bureau of Statistics (March 2013) putting the figure at \$2.093 trillion in funds under management.

Managed funds allow ordinary 'Mum and Dad' investors can tap into the investing power of millions, under the management of experts in this field. The question is how do everyday, often inexperienced investors choose which managed fund to trust with their money and grow their wealth?

The CANSTAR managed investments ratings have been designed to assist small investors find a fund that best suits their needs and allows them to gain exposure to markets locally and around the world.

## WHY RATE MANAGED INVESTMENTS?

CANSTAR always recommends investors seek the advice and expertise of a licensed financial planner. They can assist in determining your risk profile and your investment objectives. However our research revealed that there are investors, even those with a strong relationship with their financial planner, that still like to make direct investments.



These investments are typically in assets such as property, shares and managed investments. For direct investors, managed investments are appealing because they offer:-

- Investments in wide variety of asset classes in domestic and international markets. So for investors who wish to invest in shares but are not confident to choose their own stocks, they offer a great entrée into the market.
- Low minimum investment amount or a regular investment plan.
- Diversification that typically cannot be obtained by small investors.
- Professional investment managers so you don't have to be an expert in the share market and can leave the stock picking to a professional.

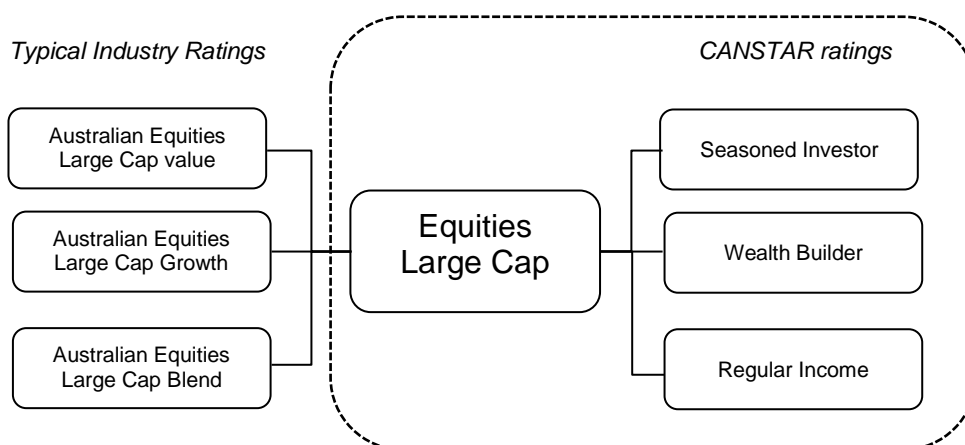
Managed investments also appeal to a variety of investor profiles from the seasoned investors looking for diversification or risk mitigation, to those just starting on their wealth accumulation journey or others looking to supplement their income. On the other hand some investors just like the challenge of doing it themselves.

The CANSTAR managed investment ratings have been designed to assist these direct investors find a fund that best suits their needs.

## WHY OUR RATINGS ARE DIFFERENT

**T**here are a number of managed investment ratings in the market. Most ratings focus on the potential for a fund to outperform in the future. The ratings generally group the funds based on their asset allocation and style of fund such as growth or value.

Our ratings are different because CANSTAR compares investment products according to investor profiles not the industry classification of the fund. Each of our profiles has different investment needs and expectations of their managed investment, and we rate funds according to these needs.



Our ratings do not rate based on performance. While there are funds that will outperform the market or their benchmark, past performance does not guarantee future performance and we are not able to identify future top performers.

Rather we have focused on the price and features of the products. In addition, our rating philosophy is to focus on the needs of consumers. We believe the average investor finds it difficult to differentiate between growth, value or blend funds. So rather than use the traditional segmentation, we have grouped these styles together and based our ratings on investor profiles.

We assessed the price and features of hundreds of managed investment funds to determine which funds best suit the needs of our investor profiles.

As another point of difference we have only rated funds which are offered via a discount broker or can be purchased directly. Discount brokers offer the direct investor a rebate of their entry fees and also rebate a portion of the ongoing fund fees. Based on an investment of \$50,000, and an entry fee of 4%, this means a saving of \$2,000 for the investor. For full details of the research criteria see the research methodology document the end of the results.

## WHICH PROFILE ARE YOU?

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### Profile Descriptions

#### Wealth Builder

**Starting out or saving for future need**

*Looking for a low entry level or opening balance  
Fund must offer a regular investment plan option*



#### Seasoned Investor

**Looking to directly invest part of their portfolio**

*Looking to invest part of their portfolio  
Has a higher minimum investment amount  
Regular investment plan is not mandatory*



#### Regular Income

**Income distributions**

*Looking for an investment to supplement their income  
Fund that provides regular returns to the investor  
Regular withdrawal plan is required*



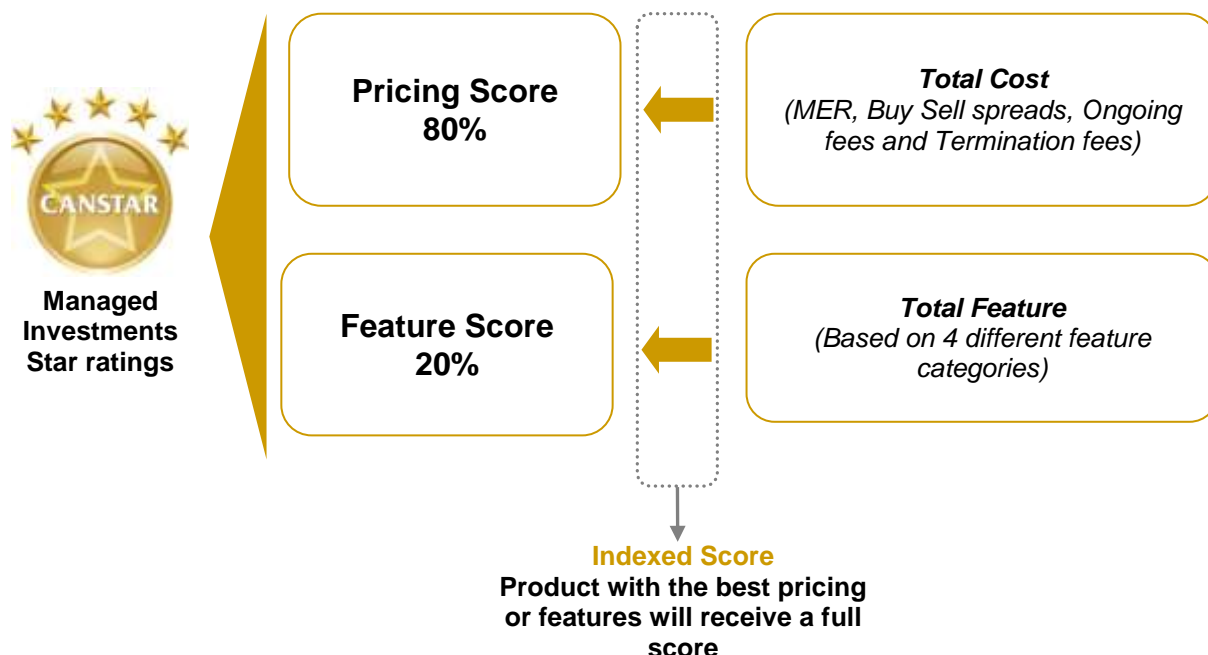
## FUND SELECTION CRITERIA

We have limited our fund selection to funds that are available for purchase directly by the average investor i.e. you do not need to purchase via an intermediary such as a financial planner. In addition, a number of key criteria were taken into account when selecting the funds for our ratings:

- Fund must be listed on a discount broker such as InvestSmart, 2020 DirectINVEST, and CommSec etc. Fund must be either available directly without paying entry fee, or through a discount broker who will rebate the fee.
- Funds were included where the investment manager had more than \$100m FUM, regardless of FUM of the individual investment fund.
- Retail and wholesale funds were included.
- Nil Entry Fee funds where an Entry Fee option is also available. It was assumed consumers could buy the Entry Fee option via a discount broker and receive a rebate on the contribution fee.
- Long Short funds were excluded.
- Fund available directly from the manufacturer i.e. funds distributed via a 3rd party are excluded.
- Funds must have minimum 3 years of performance history

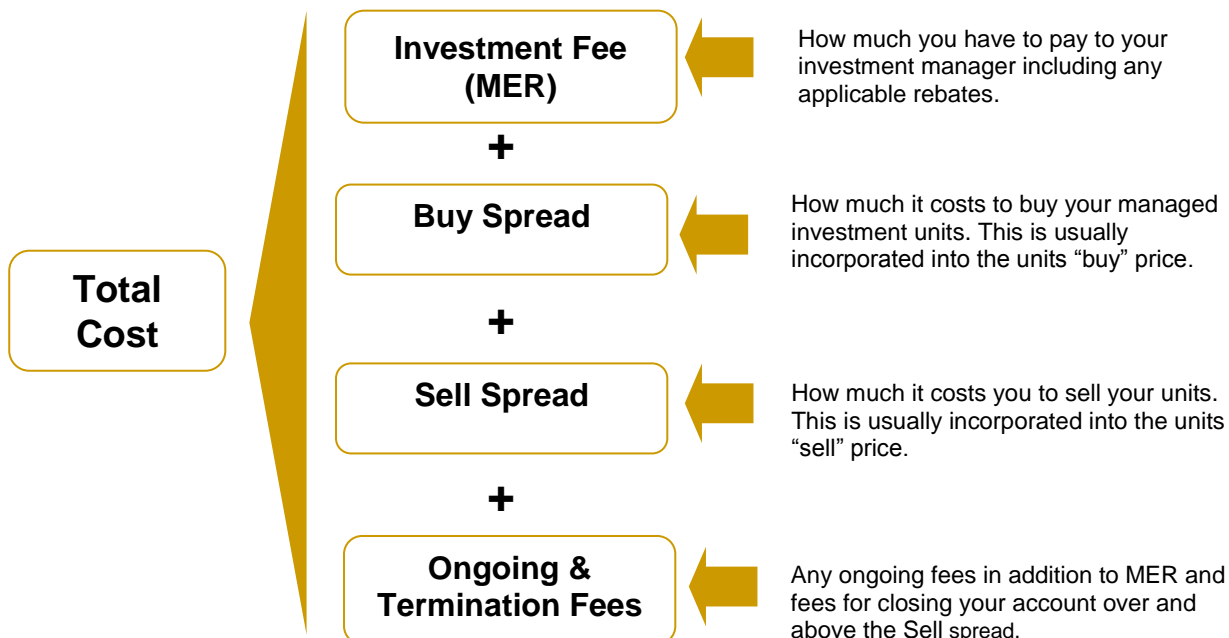
## OVERALL METHODOLOGY

The following methodology applies to both rating profiles:



### Pricing Score

A total cost for 5 years is calculated for each fund. The fund with the lowest cost achieves the highest pricing score.



The pricing score is based on the total cost of the investment over 5 years. Cost includes MER, buy sell spreads, ongoing and termination fees. The lowest price product receives the highest pricing score. All other funds are indexed off the highest pricing score.

Performance fees are not included in the pricing score see "Investment Performance" for further explanation.

We have not included contribution fee in our calculations. If purchasing directly via a discount broker 100% of the contribution fee will be rebated. If purchasing directly with the fund or via a financial planner the investor can negotiate a reduction in the up-front fees.



Profile	Total Investment Amount	Fund Minimum Investment Amount	Total Cost Calculation	Regular Investment Plan	Regular Withdrawal Plan
Seasoned Investor	\$100,000	Up to \$50,000	\$100k x MER over 5 yrs plus ongoing or termination fees plus 1 buy &sell spread	Not mandatory	Not mandatory
Wealth Builder	\$20,000	Up to \$5,000	\$20k x MER over 5 yrs plus ongoing or termination fees plus 1 buy &sell spread	Mandatory	Not mandatory
Regular Income	\$100,000	Up to \$50,000	\$100k x MER over 5 yrs plus ongoing or termination fees plus 1 buy & sell spread	Not mandatory	Mandatory

## Feature Score

Each individual feature is categorised into four different categories and is allocated points. Based on the points received each individual product gets a total feature score. This total score is then weighted against the weights provided in the table below for their respective profile feature score. The feature scores are totaled and indexed to provide overall feature score.

Category	Features Included
<b>Product Conditions</b> 30%	Minimum investment \$ Minimum additional investment \$ Minimum withdrawal amount \$ Regular investment plan available Minimum regular investment amount \$ Regular withdrawal plan available Minimum regular withdrawal amount \$ Payment methods available
<b>Investor Access</b> 20%	Online/phone access – check balance, statements or update personal details Buy Sell requests online or phone Check fund performance online Call center available
<b>Distributions</b> 20%	Frequency of fund distributions e.g. weekly, monthly, quarterly Reinvestment Plan available
<b>Fees and Rebates</b> 30%	Number of free switches per annum Switching fee if applicable Termination fees Performance fees Fee rebates available Fee rebate or discount details



## INVESTMENT PERFORMANCE

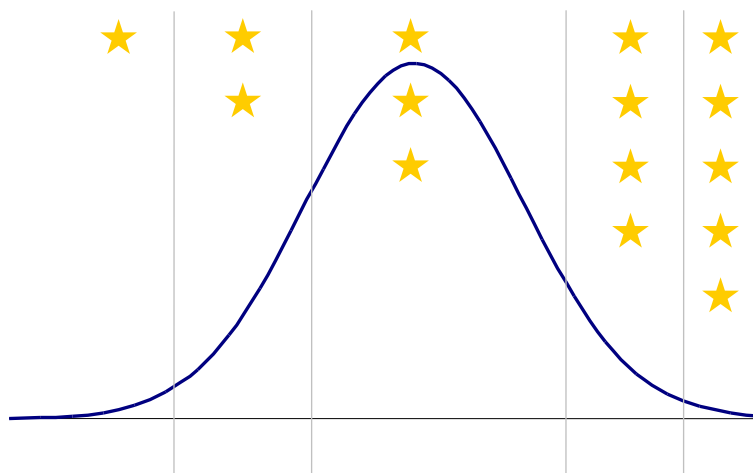
CANSTAR ratings do not include a measure for investment returns. We have taken the decision not to make a judgment on the sustainability of investment returns across the many investment options offered by funds.

How often have we heard the disclaimer “Past performance is no guarantee of future performance”? All funds will have this disclaimer included in their product disclosure statements. There is good reason for this as a wide range of research shows a lack of persistence of investment returns. The consumer cannot reasonably rely upon current top performers sustaining that position.

However, while we have not rated performance we have reviewed the fund performance over the past 5 years for signs of persistent underperformance. Funds that have consistently underperformed in all of the 1, 3 and 5 year performance ratings (i.e. bottom quartile in all 3 performance measures) achieve a rating of no more than 3 stars. We do this because persistent underperformance can be an indicator of broader management or systemic issues which may be impacting the investment performance.

## HOW THE STARS ARE AWARDED

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores according to the following guidelines. As you can see, only the products that obtain a score in the top 5% to 10% of the of the score distribution receive a 5 star rating.



## How often are products reviewed for star ratings purposes?

All ratings are fully recalculated every twelve months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

## Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at [www.canstar.com.au](http://www.canstar.com.au) if you would like to view the latest star ratings reports of interest.



- Account Based Pensions
- Agribusiness
- Business banking
- Business life insurance
- Car insurance
- Credit cards
- Deposit accounts
- Direct life insurance
- Health insurance
- Home & Contents
- Home loans
- Life Insurance
- Managed Investments
- Margin lending
- Online Banking
- Online Share Trading
- Package banking
- Personal loans
- Superannuation
- Travel Insurance



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