



Managed Investments

Australian and Global Funds

May 2016

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 (December 2015) putting the figure at \$2.649 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.

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

There are a number of managed investment ratings in the market. Most ratings focus on the potential for a fund to outperform in the future.

Our ratings consider three factors: Price, Feature and overall performance of the funds and we group the funds with similar asset class into profiles, such as Australian Fixed Interest & Cash and Australian Share.

Our ratings assess fund performance in their total return as well as their risk using standard deviation. However, we do not rate solely based on performance. While there are funds that will outperform the market or their benchmark, past performance does not indicate future performance; therefore, apart from performance assessment, we also incorporate the price and features of the funds in our rating, which enable our rating to assess the fund thoroughly.

As another point of difference we have only rated funds which exist at least 10 years and have the FUM equal to or greater than \$50 million. Also we only rated funds that 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. For full details of the research criteria see the research methodology document the end of the results.

FUND PROFILES

Our current ratings focus in the Australian and Global funds, and the profiles to be rated are based on the asset class of the funds.

Profile Descriptions

Profile	Detail category	Definition
Australian cash & fixed interest	<ul style="list-style-type: none">•Australian Cash•Australian short term fixed interest•Australian Bond	Funds invested in Australian cash or fixed investments. Suitable for low risk investors or those nearing retirement and looking to secure their return.
Australian Shares – large Cap	<ul style="list-style-type: none">•Equity Australia Large Blend•Equity Australia Large Growth•Equity Australia Large Value	Funds invested in Australian larger-sized stocks with different investment styles
Australian Shares – Mid/Small Cap	<ul style="list-style-type: none">•Equity Australia Mid/Small Blend•Equity Australia Mid/Small Growth•Equity Australia Mid/Small Value	Funds invested in Australian medium-sized and smaller-sized stocks with different investment styles
Global Bonds	<ul style="list-style-type: none">•Bond – Global•Bond – Global/Australia	Funds invested in Global bond. Suitable for low risk investors or those nearing retirement and looking to secure their return.
Global Shares – large Cap	<ul style="list-style-type: none">•Equity World Large Blend•Equity World Large Growth•Equity World Large Value	Funds invested in global larger-sized stocks with different investment styles

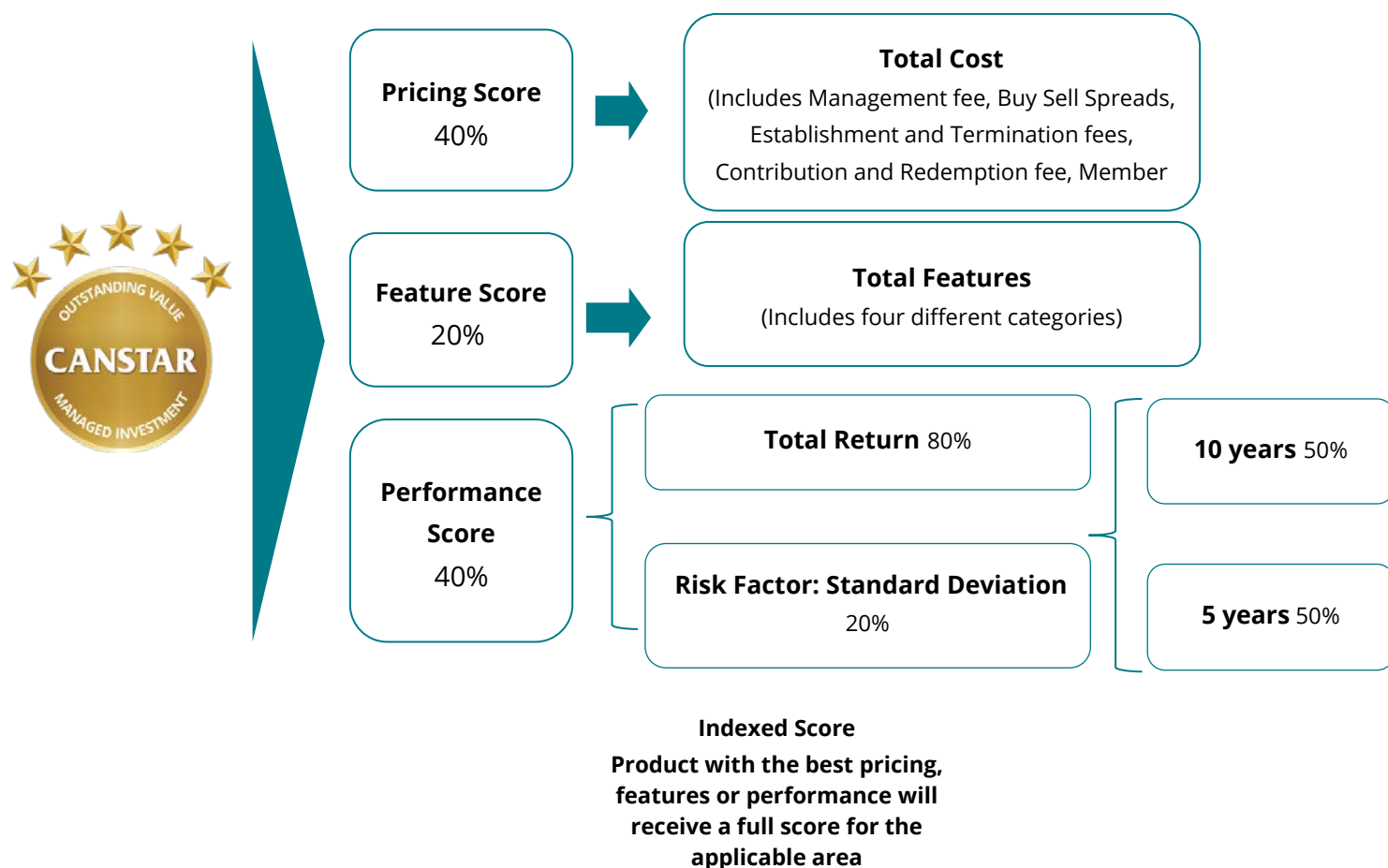
FUND SELECTION CRITERIA

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:

- Funds those are directly available to individual investors without adviser service, which include those via a discount broker, such as Investsmart, 2020 Directinvest, and Commsec, and also those are available via direct application without an entry fee.
- Funds were included where the FUM of the individual investment fund is \$50 million or more.
- Retail and wholesale funds were included, as long as the initial required investment amount is equal to or less than \$20,000.
- All hedged funds were excluded.
- Funds must have minimum 10 years of performance history
- Funds must be open to new investors.
- Not include any ETFs.

OVERALL METHODOLOGY

The following methodology applies to all rating profiles:



Pricing Score

The pricing score is based solely on the total cost (fees) of the investment over 10 years. Cost includes Management Fee, Account Fee (Establishment, Contribution, Redemption and Termination Fee), Ongoing fee (Member and Administrative Fee) and Transaction Fee (Buy/Sell Spread). The lowest price product receives the highest pricing score. All other funds are indexed off the highest pricing score.

Management Fee

- The fees and costs for managing the investment. Calculated daily on the gross assets of the fund.

Account Fee

- Establishment and Termination Fee
- Contribution and Redemption Fee
- The fees and costs for opening/terminating an account

Ongoing Fee

- Member and Administrative Fee

Transaction Fee

- Buy/Sell Spread
- Transaction cost, such as brokerage fees and bank fees, are reflected in a buy/sell spread

Total Investment Amount	Total Cost Calculation (10 Years)
\$50k	$\$50k \times (\text{Establishment Fee} + \text{Termination fee}) + \$50k \times (\text{Initial Contribution Fee} + \text{Redemption fee}) + \$50k \times \text{Buy/Sell spread} + 10 \text{ year} \times \$50k \times (\text{Member fee} + \text{Administrative Fee}) + 10 \text{ year} \times \$50k \times \text{Management Fee}$

Feature Score

Each individual feature is categorized 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.

Feature Category	Weight	Features Included
Distributions	25%	<ul style="list-style-type: none">• Regular distribution available• Frequency of fund distributions (e.g. weekly, monthly, quarterly, etc)• Reinvestment Plan available• Franking credit available
Product Conditions	30%	<ul style="list-style-type: none">• Minimum investment (\$)• Minimum additional investment (\$)• Payment methods available (Cheque/Bpay/Direct Debit)• Regular investment plan available• Minimum regular investment amount (\$)• Regular withdrawal plan available• Minimum withdrawal amount (\$)• Minimum regular withdrawal amount (\$)• The frequency of making regular withdrawals / investments
Investor Access	20%	<ul style="list-style-type: none">• Which channel is available to the investor to access the managed fund?• Online/phone access (to check balance, statements or update personal details)• Buy/Sell requests online or phone• Check fund performance online• Call centre available
Other Fees and Rebates	25%	<ul style="list-style-type: none">• Performance fee• Number of free switches per annum• Switching fee if applicable• Fee rebates available• Fee rebate or discount details

INVESTMENT PERFORMANCE

CANSTAR ratings include a measure for investment returns. We have taken the decision to consider both return and risk for the fund performance. Risk is measured by the Standard Deviation.

Standard deviation is the statistical measurement of dispersion around an average, which indicates how widely a stock or portfolio's returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns which is most likely for a given investment. When an investment has a high standard deviation, the predicted range of performance is wide, indicating greater volatility risk.

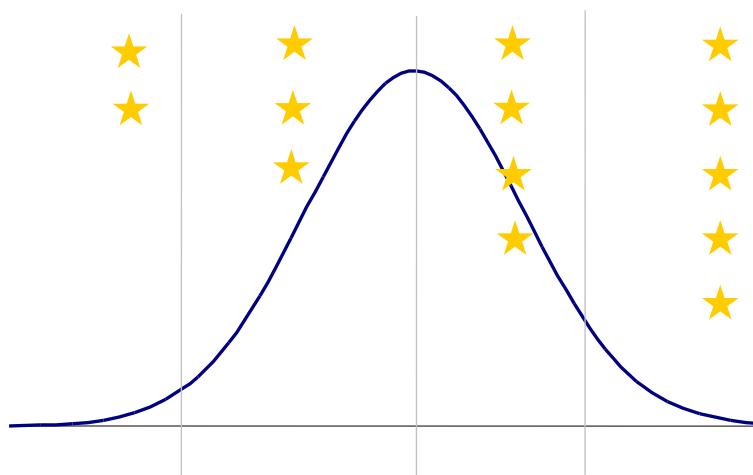
We have assigned 80% weight to Total return and 20% to the Standard Deviation. Both total return and standard deviation are rated equally for up to two periods – 5-years and 10 years.

However, the whole performance measure is based on historic performance and it's meant to provide some insight about how the funds have been performed in the last 5 or 10 years. Investors should always bear in mind that "Past performance is no guarantee of future 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. Only the products that obtain a score in the top 10% to 20% 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 if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Landlord insurance
- Margin lending
- Package Home Loan
- Reward programs
- Travel insurance
- Agribusiness
- Car insurance
- Direct life insurance
- Home & contents
- Life insurance
- Online banking
- Personal loans
- Superannuation
- Travel money cards
- Business banking
- Credit cards
- First home buyer
- Home loans
- Managed investments
- Online share trading
- Pet insurance
- Term deposits
- Youth banking

COMPLIANCE DISCLOSURE and LIABILITY:

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