

Invest in your future

Educational series



For you and many other Australians, a secure financial future is a top priority. Why? Because financial security brings choice. And choice allows you to achieve your goals, live your dreams and realise your ambitions, whatever they may be.

What is a managed fund?

There are many different investment options such as property, shares, bonds and cash. Many people invest in just a couple of these options. There are also managed funds which can give you access to all these investments.

A managed fund pools the money of many individual investors which is then used to buy assets according to the investment objective of the fund. The fund is then professionally managed with the aim of producing income, growth or both.

When you invest in a managed fund, you are allocated a number of units based on the entry unit price at the time you invest. Your units represent the value of your investment, which will change over time as the market value of the assets in the fund rises and falls.

Why invest in a managed fund?

These days, time rivals your health as your most important asset. Taking advantage of a team of investment professionals helps you to make the most of your time, and importantly your money. Some of the benefits of managed funds include:

Diversification – managed funds can reduce your risk by spreading the investment across companies, industries, sectors and countries.

Get someone else to do the work – by investing with Colonial First State, you tap into our active and disciplined approach to managing quality assets, coupled with a solid performance history.

Compound returns – you can increase the potential for compound returns by reinvesting the investment earnings. This compounding effect means that a small improvement in your investment returns could make a big difference over time.

Invest regularly – you can choose to invest a regular amount each month. By investing regularly you can smooth out the impact of fluctuations in the market and reduce the risk of investing large quantities of money at an unfortunate time.

Choose income or growth – the return from a managed fund can come in two forms – income (paid to you as a ‘distribution’) and changes in the unit price (which can provide capital growth).

Low minimum investment – investing in property and certain asset classes often involves large sums of money. Colonial First State’s managed funds generally have a minimum investment of \$1,000.

Asset allocation refers to the way that your investments are spread across different asset types

Shares – shares are generally considered a growth asset (that is, they grow your capital), but can also provide income through the payment of dividends.

Property securities – this is a part ownership in a property trust or company, generally listed on a stock exchange. Because the property securities are traded like shares, their value can rise and fall according to market conditions. Property can offer both capital growth and income.

Fixed interest and cash – this is where you lend a company, semi-government or government authority a sum of money and, in return, receive regular interest payments. Each fixed security has a ‘term to maturity’ which is the period of time over which you receive income payments before capital is returned to you.

Identify your attitude to investing

How do I know which type of fund is right for me?

Everyone has different investment needs and there are funds to suit almost everyone.

When deciding on how and what to invest in, you need to consider your personal investment objectives, financial situation and investment timeframe. No one solution can fit all needs.

But where do you begin? This three step process can help you understand the most important factors as a starting point.



Step 1: Clarify your risk profile

Read the following questions and think about which description you feel most closely resembles your investment objectives.

- Q Are you happy with low growth investments that provide returns marginally above inflation for very low risk or are you prepared to take more risk with your investments to potentially achieve significantly higher returns?
- Q Are you security-conscious or are you prepared to accept short-term volatility?

Investing is like climbing a ladder, the higher you go, the more you can accomplish but the riskier the venture becomes.

The higher the level of risk you are willing to accept, the higher the potential returns may be. Conversely, if you prefer to take less risk, you may be more willing to accept lower return for less fluctuation.

Now go to the chart above and select your risk profile – low, medium or high risk.

Step 2: Set your investment objectives

Next you need to look at your investment objectives and expectations. Are you building wealth so that you can retire sooner or do you want your investments to provide a regular income stream? Or perhaps you are looking for both. Different funds aim to provide varying levels of income and growth.

Generally speaking, investments that aim to provide an income stream are more conservatively invested (for example, cash and fixed interest), whereas those that focus on growth invest more aggressively in Australian and international shares.

Now choose the point across the chart which best describes the levels of growth and/or income you wish to achieve.

Step 3: Decide how long you wish to invest for... 1, 3 or 5+ years

Think about what your objectives are. Are you saving for a holiday or a deposit on a new home and will you need the money in the next year or so? Or, are you saving for retirement and don't need to access the money for at least five years? The timeframe of your goals will help you decide how to invest your money.

Now choose the place on the chart that best suits your timeframe for investing. Remember, the longer you have to invest the more risk you may wish to take and vice versa.

Now that you have identified your level of risk, investment objectives and timeframe for investing, you can plot them on the diagram. The next step is to read a product disclosure statement and speak to your financial adviser to understand what types of funds are available and whether they suit your investment objectives.



NUMBER OF YEARS OF REGULAR INVESTING, FOLLOWING A \$1,000 INITIAL INVESTMENT

	1 year	2 years	3 years	5 years	7 years	10 years	
Amount invested each month	\$100	\$2,171	\$3,441	\$4,769	\$7,611	\$10,717	\$15,928
	\$200	\$3,342	\$5,837	\$8,446	\$14,026	\$20,127	\$30,362
	\$300	\$4,513	\$8,233	\$12,122	\$20,441	\$29,537	\$44,797
	\$400	\$5,685	\$10,629	\$15,799	\$26,857	\$38,947	\$59,231
	\$500	\$6,856	\$13,025	\$19,475	\$33,272	\$48,357	\$73,665
	\$600	\$8,027	\$15,420	\$23,151	\$39,687	\$57,767	\$88,100
	\$700	\$9,198	\$17,816	\$26,828	\$46,103	\$67,177	\$102,534
	\$800	\$10,369	\$20,212	\$30,504	\$52,518	\$76,587	\$116,968
	\$900	\$11,541	\$22,608	\$34,180	\$58,934	\$85,997	\$131,402
	\$1,000	\$12,712	\$25,004	\$37,857	\$65,349	\$95,407	\$145,837

This table has been based on a hypothetical (non-actual) managed fund which returns 8% each year, assuming an ongoing management fee of 1.75% and an entry fee for the initial and regular investment of 4%. All income is reinvested. Source: Colonial First State. Figures are adjusted for inflation at 3% to be shown in today's figures. This does not represent the actual or expected return of any Colonial First State fund. All investments are subject to risk and may rise and fall in value over time.

Another benefit of making a regular contribution to your investment is that you can actually reduce the impact of market fluctuations on your investment by employing the concept known as 'dollar cost averaging'.

Why invest regularly?

By investing regularly and reinvesting your returns you get the benefits of compound returns. This is really just when you earn interest on your interest. Each dollar you invest earns a return. If you reinvest these returns, these returns can also earn a return. This compounding effect allows your investment the potential to grow much faster.

The table above shows how much you could earn if you invested \$1,000 and set up a regular investment plan. The figures are based on a hypothetical (non-actual) return of 8% each year.

Need more information?

Please speak with your financial adviser or visit our website at colonialfirststate.com.au.

Alternatively, you can contact us:

Enquiries about existing investments, please call 13 13 36

Enquiries about new investments, please call 1300 360 645