



Investment and Investment Strategies

This document contains factual and general information only to assist you in understanding financial planning concepts. It is designed to be used in conjunction with a Statement of Advice.

There are numerous ways to invest across the different asset classes and investment types. This guide provides information on some of the main ways to invest, investment types and strategies.

Once you and your adviser have determined your attitude to investing, risk tolerance and investment profile, it's time to consider the choice of appropriate investment assets and the structures to hold those assets in.

Overall Asset Allocation	Investment Types		Ways to Invest	
Cash	Exchange Traded Funds		Direct Investment	
Fixed Interest	Fixed Interest Investments		Dollar Cost Averaging	Diversification
Equities	Investment Bonds		Investment through a platform (Wrap/Master Trust)	
Property	Property (Listed, Direct Syndicates)			
Global Infrastructure	Direct Shares (Equities)	Managed Funds	Passive Management	Management Active
Alternate	Cash	Term Deposits		

Managed Funds

A managed fund is a managed investment scheme, open to a wide pool of potential investors. The underlying assets of Managed Fund investments can be either diversified - made up of Australian and international shares, property and fixed interest investments - or sector specific, focusing on a particular asset class such as shares or commercial property.

In a managed fund, your money is pooled together with that of other investors. An investment manager then buys and sells shares or other assets on your behalf. The returns of the fund and the tax treatment of the fund are determined at the pooled level and apportioned to the investors.

You are usually paid income or distributions periodically. The value of your investment will rise or fall with the value of the underlying assets and the unit price of the fund is usually calculated daily.

The investment manager may be called a 'fund manager' or 'responsible entity'.

The benefits of investing in managed funds are:

- Access to a broad range of assets or markets with a relatively small amount of cash
- Ability to progressively increase your investment by regular or periodic additions
- Reduce paperwork and make completing your tax return easier.

The risks of investing in managed funds are:

- You may be charged higher fees than other investment types, though fees vary widely (for example, exchange traded funds often have lower fees than traditional managed funds)
- You may not be able to convert your investment to cash at any time.
- You rely on the skills of other people and do not control investment decisions.

Direct Shares

Australian direct shares are investments where you have equity (part ownership) in a company listed on the Australian Securities Exchange. You have purchased rights to participate in the growth and profitability of a company and as a result receive dividends, voting and other rights. Returns on the investment are in the form of increases in the share price, known as capital growth and income in the form of dividends.

Shares can be bought and sold daily, often at differing prices. As such the value of a share can change daily. Share prices can rise as a result of improved company earnings and can fall as a result of negative investor sentiment.

The benefits of investing in shares are:

- Potential capital gains from owning an asset that can grow in value over time
- Potential income from dividends

- Lower tax rates on long-term capital gains
- Shares have historically outperformed other asset classes over the long term and can provide a growing income stream.

The risks of investing in shares are:

- Share prices for a company can fall dramatically, even to zero
- If the company goes broke, you are the last in line to be paid, so you may not get your money back
- The value of your shares will go up and down from day to day, and the dividend may vary.

Exchange Traded Fund (ETF)

An Exchange Traded Fund (ETF) is a type of investment fund that can be bought and sold on the Australian Securities Exchange. In Australia, ordinary ETFs are usually 'passive' investments that track an asset or market index (for example, the ASX200 Australian share index). They generally do not try to outperform the market and will go up or down in value in line with the index they are tracking. An 'active ETF' is when the fund manager is actively trying to outperform the market or index to achieve a different investment objective.

While ETFs may have lower fees compared with other managed investments, management fees can vary and may be higher than the fees of an equivalent unlisted or unquoted index fund.

You will also pay brokerage fees when you buy or sell ETF units. If you want to make a small regular investment in a product that tracks an index, you might be better off using an unlisted managed investment such as an index fund where broker fees won't apply to each contribution, although other fees may apply.

Fixed Interest Investments

Fixed interest investments, like Australian government bonds, can play an important role in a diversified portfolio due to their potential for a low risk, regular interest income, greater diversification, reduced liquidity, potential tax exemptions and capital preservation. Generally these investments are characterised by a fixed income amount or coupon rate and a term or expiry date just like a term deposit. Government or companies can offer these investments.

Investment Bonds

Investment Bonds, often called 'insurance bonds', are life insurance products with a savings component. They operate similarly to a managed fund (unit trust). There are different taxation implications as the taxation is payable at the life company level. Earnings within insurance bonds are taxed at the company tax rate and provided there are no withdrawals, it does not need to be reported on the investor's tax return. On redemption after 10 years, the investment is received tax free. This makes investment bonds a tax effective investment for high income earners or an

effective savings vehicle for minors.

Tax payable on Investment Bonds for early withdrawals:

Withdrawal	Tax Payable
Within 8 years	All earnings are taxed at the investor's marginal tax rate, with a 30% tax offset
During the 9th year	2/3's of the investment earnings are taxed at the investor's marginal tax rate, with a 30% tax offset of the assessable amount.
During the 10th year	1/3 of the investment earnings are taxed at the investor's marginal tax rate, with a 30% tax offset of the assessable amount.
After 10 years	All investment bond earnings are tax free.

Property

There are a number of ways you can invest into property:

- Directly
- As an asset in a managed fund (see above)
- Property Trust (listed or unlisted)
- Property Syndicate.

Direct Property

Direct property involves purchasing a specific property asset. It requires either a large sum of cash to purchase the property and own it outright, or borrowing some or all of the purchase price. For more information on buying and selling direct property refer to the ASIC MoneySmart website.

Property Trusts

To achieve diversification (investment in a range of assets) and reduce the investment threshold required to buy property, many investors gain property exposure via a Property Trust. Depending on the type of property fund you invest in, you might get a regular income (distributions), usually quarterly or half-yearly, and a capital gain on your original investment, if the value of the scheme's underlying investment assets increases.

A property trust is a trust fund, managed by an investment manager who invests in a range of properties which may include residential, industrial, office buildings, shopping centres, hotels and other specialist properties. Income is generated by the assets of the trust and unit values will reflect the value of the trust assets. Some property trusts are listed on the ASX and can be traded on the share market, while others are unlisted. Unlisted trusts may place restrictions on the time it takes to redeem your investment.

Property Syndicates

A Property Syndicate is an investment where investors buy 'units' in an investment usually operated by a professional investment manager. The

syndicate's money is invested in property assets which may include commercial, retail, industrial or other property sector assets. Some property syndicates invest in property development, which means there are extra construction and development risks.

The investment manager selects and buys investment properties and is responsible for maintenance, administration, rental collection and improvements to the properties.

The money usually stays in the property syndicate until it ends, when the properties are sold and the net proceeds are distributed to investors. You may be able to withdraw your money early but there may be penalties. If the scheme is listed, you may be able to sell your units on the public market.

Cash and Terms Deposits

Cash generally earns very little interest but can be backed by the government guarantee meaning it is a relatively safe investment.

Term deposits are the most familiar type of investments paying interest. They are a savings product from a bank, credit union or building society. Your money is invested for a fixed term and you get a fixed rate of interest over that term.

Ways to Invest and Investment Strategies

Direct or through a Platform

When investing you have a choice of investing directly into an investment/share or through a platform, often called a 'wrap'. A platform is simply an administration vehicle that holds all of your investments together for ease of reporting, less paperwork, etc.

We generally recommend platforms for clients unless there is a compelling reason to invest directly for the following reasons:

- Platforms significantly reduce the complexity of administration burden for a portfolio by providing you with consolidated portfolio reporting including tax records and automated cash flow management
- Platforms significantly reduce the complexity of managing your portfolio tax consequences. The platform collects large amounts of investment data and presents it in a single useable tax report, potentially reducing accounting time and costs
- Platforms can access investments at wholesale rates that have lower rates than the rates an individual investor can access at a retail level
- Platforms allow efficient execution of advice strategies that may save investors time, money and/or tax, as well as help accumulate wealth (If changes were made manually, it would be a lot more expensive and error prone).

Investment Strategies

Diversification

To manage the risk of exposure to any one asset or asset class, it is wise to invest in a range of assets. This can be achieved by selecting each individual investment that makes up a portfolio, or by using an investment manager to create the portfolio for you. Diversification can also be achieved by using different investment managers, and by having a mix of Australian and international assets. Diversification is important as some investments do well and others don't. It's hard to know what the future holds, let alone the performance of any one specific investment.

Dollar Cost Averaging

With dollar cost averaging, you can build assets by setting aside funds at regular intervals regardless of market conditions. Thus you buy assets at different market prices, effectively averaging out the cost of your investment. This reduces the risk associated with fluctuating unit prices and trying to time the most appropriate time to invest.

An example of how 'Dollar Cost Averaging' works is shown below:

Month	Amount invested \$	Unit price \$	Units purchased
1	100	100	1.00
2	100	95	1.05
3	100	98	1.02
4	100	92	1.09
5	100	86	1.16
6	100	90	1.11
7	100	85	1.18
8	100	89	1.12
9	100	93	1.08
10	100	95	1.05
11	100	98	1.02
12	100	100	1.00
Total	\$1,200		12.88

	Amount
Total Amount Invested	\$1,200
Total End Value (Total Units Purchased x End Value per unit)	\$1,288
Gross Capital Gain	\$88

A capital gain was achieved without the price per unit ever going above the starting price of \$100.

Capital Gains Tax

Most investments (assets) generally provide you with income on a regular basis. But some investments, like shares and property, can also increase in value. This increase is called growth or capital gain.

If you sell your investment for more than you paid for it then you realise a capital gain and you may have to pay tax on this gain.

$$\text{Sales Price} - \text{Purchase Price} = \text{Capital Gain/Loss}$$

The taxation of a capital gain depends on how long you have owned the asset.

If you have held the asset for less than 12 months the full amount of the gain less any capital losses (from current year or carried forward from previous years) is added to your assessable income in your tax return. This amount is taxed at your marginal tax rate.

If you have held the asset for 12 months or more, capital losses (from current year or carried forward from previous years) are deducted from the capital gain, then only 50% of the net gain is added to your assessable income and taxed at your marginal tax rate.

If your asset was purchased before 21 September 1999 and sold before 1 July 2027, other options may be available to calculate the taxable portion of the gain and professional tax advice should always be sought.

The Government has legislated significant changes to the capital gains tax (CGT) rules from 1 July 2027. For individuals and trusts, the current 50% CGT discount will generally be replaced by an inflation based indexation

method and a minimum 30% tax rate on capital gains. The changes will generally apply only to gains accruing from 1 July 2027, meaning assets acquired before that date may be subject to both the current and new rules when sold.

These reforms may affect the after-tax returns from investments and influence future investment and disposal decisions. The tax outcome will depend on the assets held, future inflation, the timing of disposal and your personal circumstances at the time the gain is realised.

Investment Management Styles

Actively managed funds

Actively managed funds are those where the fund manager aims to outperform the market by frequently buying and selling securities that they think are going to do better than others.

Actively managed funds are more expensive as you are paying for the investment skills of the fund manager and it's important to ensure that any extra profits achieved by active management are not outweighed by extra fees paid to the fund manager.

Actively managed funds are suitable for investors that want to concentrate on certain sections of the market or who want more control over the assets they invest in.

Passive investing

Passive investment funds, also known as index funds, simply buy a portfolio of assets that mimic an index, such as the all ordinaries index or the S&P200 index. Index funds generate a return, before fees, that is almost the same as the index it is tracking (some funds may have timing delays).

Index funds are cheaper as you are not paying for investment expertise.

Investors wanting to invest directly in an index fund have a limited choice of fund managers in Australia, however some exchange traded funds are essentially index funds and they have the advantage of being traded on the ASX.

Portfolio Management

Your overall portfolio can also be managed actively or passively.

Actively managed portfolios are monitored generally more frequently. Changes are actively made to the portfolio to rebalance based on market changes. We frequently use a model portfolio which can be rebalanced on your behalf without any paperwork needed.

Passive management - We can also offer passive investing where your portfolio is only reviewed once per annum. We need to make individual recommendations and you must agree to these for them to be implemented.

To find out which investments are right for your situation, speak to your Adviser.

Factual Information Disclaimer

This information has been provided as factual information only. We have not considered your personal financial circumstances, needs or objectives.

Whilst all care has been taken in the preparation of this material, it is based on our understanding of current regulatory requirements and laws at the publication date. As these laws are subject to change you should speak with an authorised adviser or relevant professional for the most up-to-date information. Any case studies, graphs or examples are for illustrative purposes only and are based on specific assumptions and calculations. Past performance is not an indication of future performance.