



## Managed Funds: What are they?

By Joy Scandlyn, New Zealand Financial Planning Co. Ltd

### ***Negative comments about Managed Funds abound. But is this negativity well founded .....or are they simply misunderstood?***

Many people refer to managed funds as a homogeneous group, however, akin to treating all cars like BMW's or Ladas. References to "managed funds" implies that they are an asset class of their own. This is incorrect and clearly, as an industry, we need to do more to educate the public and professionals so that they are seen, in a context that reflects their strengths.

### **So what are managed funds?**

Simply, they are a group of investments managed by professionals that pools groups of investors' funds. This fund manager invests in a range of assets according to a mandate – the Trust Deed and this Trust Deed sets out the operating rules. Trustees oversee the operation to ensure the fund is managed appropriately. For example, their role is to ensure the fund is appropriately valued and that accounting and other statutory duties are undertaken accurately and in a timely manner. Another important role for Trustees is as custodian of the underlying fund assets which safeguards investor interests.

You can have managed funds invest solely in cash or fixed interest. In fact they could be in any of one of the four main asset classes, (the other two being property and shares). Some managed funds have a percentage allocated to each of the four asset classes, giving small investors an easy alternative to acquire a balanced or diversified mix. The allocation will vary according to risk profile i.e. higher growth would mean a greater weighting in property and equities.

Higher exposure to growth assets lends to higher volatility both up and down as has been experienced in the technology boom and during the early 2000's negative performance in times of world uncertainty.

Reported articles lump all managed funds together and make negative comments regarding to poor performance and drawing attention to fees charged.

Yet not all funds have poor performance and not all charge fees. Some managed funds have very low

fees. Typically these funds simply invest according to the index.

With index funds, assets are simply purchased according to a predetermined formula – that of the index. These are passive funds and as there is significantly reduced decision making, time involvement is less when compared to a fund manager who manages an active portfolio with a multitude of decisions to be made on a regular basis.

All professionals charge higher fees for more complicated work and, actively managed funds are no different. These fees are used, in part, to pay the professional fund manager to research, analyse fair value opportunities and ultimately make hard decisions on which assets to purchase, which to sell and when. Their reward for all this – a percentage of the fee levied on the individual investor based on the amount of monies being managed.

Managed funds can't be lumped together when discussing performance because they operate in all four main asset classes both separately and together.

Generally funds will replicate what is occurring in the marketplace. If the share market is booming a good fund manager should also show positive returns and vice versa.

Not always, but often, the main determinant in a decline in pricing is the impact of market conditions as opposed to fund managers decisions.

If you want no or little volatility then a managed fund with investment holdings purely in the asset classes of cash and fixed interest is for you. But be prepared for the holdings not keeping pace with inflation. If you want some growth in your investments to keep ahead of inflation, then you would be wise to invest in a diversified portfolio having some in all the four main asset classes, or a mixture of funds that specialize in each.

Managed funds in any of the asset classes can assist many people to attain their long term goals, but like everything in life, they are not for everyone. However, they do have many virtues and simply abandoning this method of investing with a glib comment which embraces them as a group is to do them, and the many talented fund managers a grave disservice.