The Australian Finance Podcast Episode Transcript

Episode: Managed funds: the good, the bad and what to look for
Release Date: 15/11/2021
Speakers: Kate Campbell & Owen Rask
Duration: 50:18

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Episode transcript:

Owen Raszkiewicz:
Kate Campbell. Welcome to this episode of the Australian Finance Podcast.

Kate Campbell:
It's good to be back Owen, in a slightly different and darker location today. I've seemed to have lost a few light bulbs-

Owen Raszkiewicz:
Yes.

Kate Campbell:
... in the move, so.

Owen Raszkiewicz:
Yes, you have indeed. You are recording remotely.

Kate Campbell:
Yes.

Owen Raszkiewicz:
I'm from down by the beach. I'm recording remotely from Sydney. Up here doing a bunch of interviews and working on some education stuff. Today we're talking about manage funds. And manage funds are something that we should have talked about anytime over the past three years, because we've had a lot of questions on them. And so this has been a long time coming. Today we're going to talk about what are manage funds, how are they different to ETFs, why you would consider investing in one, the different types, how much they cost and some of the things that you need to know before you invest. We might even run over a quick checklist that will help you navigate through, and provide some examples of managed funds that are pretty accessible to people. So maybe to start off with, Kate, let's just talk about why managed funds? Why is this something that's interesting to investors?

Kate Campbell:
Yeah. I think a lot of the time especially on the podcast and in our community, ETFs are the topic that we talk about at the moment, even more than individual share investing. And I think that's because it's really simple and easy to understand and they're low cost products. But we definitely should have talked about managed funds earlier because they've been around for quite a long time, much longer than ETFs. They've got a bit of a bad rap over the last few years because there is the... not misconception because in cases it is true that they do underperform things like ETFs over a longer period of time. And it's very hard for an active fund manager because instead of your ETF like VDHG or A200 where a human isn't selecting the individual companies, it's via the benchmarks and it's a very passive strategy.

Kate Campbell:
With active funds, most of the time there are humans, analysts like Owen. Owen, doesn't do this but he could as an analyst. Actually researching companies and choosing what goes in the portfolios. And managed funds aren't just share managed funds. You can have property managed funds, there's bond managed funds, even cash managed funds, if you really want that. So there's a lot of different options out there. So I think it's really good to talk about it a little bit more because they're not necessarily always a terrible product. And a lot of people are invested, billions and probably trillions of dollars in managed funds. And before ETFs were around, financial advisors would put their clients into managed funds. So they are a lot of older Australians who do probably have quite large positions in managed funds as well.

Owen Raszkiewicz:
Yeah. Managed funds are massive. So let's just talk about I guess why, not necessarily why you'd invest in one. But a managed fund is like you saying, "I don't want to invest in the shares myself, I don't want to know when to buy and when to sell, I don't want to think about investing more than I have to. So what I'm going to do is I'm going to give the money to a professional investor. And that investor is the person that I trust to invest my money for me." In return, that investor gets a percentage of whatever's inside the fund, so it might be, say 1%. And if there's a hundred million dollars from all the investors invested in that managed fund, the business that they work for would take $1 million per year and that would pay for their salaries. It would pay

for their licencing, their compliance and just offering the investment strategy. And so that's the basic mechanics of it all.

Owen Raszkiewicz:
And you're right Kate, in the past, before we had ETFs as popular as they are today, almost everyone would use managed funds. The big problem though, was that managed funds were inaccessible to a lot of people. So particularly younger people that wanted to start investing. You've got to remember, it was only the past 20 years where even brokerage accounts became a popular thing. Before that you would have to see a financial advisor and the financial advisor would have a relationship with a fund manager, and they would organise for your money to be put in, you'd fill out paperwork and so on and so forth. And more recently we found a more convenient way to invest, and that is through ETFs. And you know, and I know that we just put our money in a brokerage account and we fund the brokerage account and then we click which ETF we want to buy.

Owen Raszkiewicz:
But how we can close the loop here is that ETFs and manage funds are actually the same thing, it's just the way you access them that's different. So what I mean by that is inside an ETF, it's a fund, it's an Exchange-Traded Fund. If we just use that label, a managed fund is the same thing, it's just, you access it a different way. And I think this is important for us, you and I to talk about because people tend to think that all ETFs are passive ETFs. And what we mean by that is they're like A200 or VDHG or STW or IVV or NDQ, the big ETFs. And they just track the ASX 200, the S&P 500 or whatever. There's no human involvement, as you say. But there are some ETFs that are more like traditional managed funds, and they're called active ETFs. Maybe I can let you explain just basically what an active ETF is.

Kate Campbell:
Yeah. I think active ETFs is almost a cross between your more traditional managed fund where you would have to apply to the fund manager, and the passive ETFs... So instead of just getting the A200 ETF, where you're just getting all of the top 200 Australian companies, if you invested in an active ETF, there's still a fund manager and a company behind it that has a strategy. It might be using a benchmark plus putting a few extra filters, or it actually might be a team that are selecting 20 companies that they think are going to outperform over the next 10 years. But often these will cost a little bit more, but it gives you a way to have an exposure to this particular fund manager's active strategy, which might be investing in small caps, or it might be investing in international shares that it thinks will outperform over the coming years. So I think it is or going to become a more popular method of investing, active ETFs will start to pop up more and more. And I think they only got introduced five to 10 years ago. They're pretty new.

Owen Raszkiewicz:
Not even, I don't even think there was that, maybe five years ago. I think Magellan, for those of you that know Magellan Funds Management, they have heaps of managed funds. So you can go to their website and you can fill out the form. That's how you invest in a managed fund. You fill out the paperwork, either online or actually a form, and you send that to the fund manager,

you deposit your money and that's how you get invested. Obviously we know ETFs are a little bit different, you just click by or sell. It's like virtual paperwork basically. And Magellan have actually changed many of their funds to ETFs. So you can still... or it's like an ETF structure, if you think about it like that. It's maybe not called ETF, from the ASX wouldn't want us just to call it a straight up ETF because of the misunderstanding.

Owen Raszkiewicz:
But that's an example of a big fund manager that said, "Hey, instead of getting everyone to fill out this paperwork all the time, we'll just offer our fund through the ASX or through the Chi-X and let investors just invest for their brokerage account." And so that's like a slight digression, but active ETFs are something that can be invested just like a managed fund can, it's just, you access it through your brokerage account. But if we just unwind this a bit, Kate, let's go back to Vanilla managed funds. We've said that the way you invest in them is you find the fund manager, you fill out the paperwork, you BPAY, or you direct deposit your money. One of the things that we tend to get confused about, at least new investors do, is the difference between a share price and a unit price. Can you explain what a unit price is and why that's relevant for a managed fund?

Kate Campbell:
Yeah. So once you've selected your managed fund, you've done all the paperwork, you've showed your ID docs. So it is a little bit of a slower process to open up an account. You usually can't get this whole account opened within the same day, because there are checks and balances they have to do, and then you have to transfer the money across. But once you have sent the money across, you've chosen the fund, the fund will invest your money into that fund and you'll be allocated a unit price. So every day generally for a managed fund, they'll calculate the unit price, which looks at... they'll get everything underneath in that fund for the day, including the cash, and they'll total all that up and divide it across all of the different units on offer.

Kate Campbell:
And so when you are a new investor, you'll get allocated units in that fund at that particular unit price for the day. And some people, I guess, try to time that and send their money across on a particular day, but you can't always get it right, because sometimes the fund won't invest your money for a couple of days. And then it happens on the same way, if you want to leave the fund or take some money out, you have to fill in an application form to withdraw money. And then on the day that your application to withdraw funds is processed, your money will be calculated based off that unit price or that exit price for the day. So that's probably something else that's a little bit tricky. There's usually a unit price, but there'll also be an entry price and an exit price. And the unit price might be a dollar, but the entry price might be a dollar... what am I saying?

Owen Raszkiewicz:
$1.3 or something like that. Yeah.

Kate Campbell:

I was going to get them backwards. Yeah. And then, so they add on a little bit of a fee to process because they would be having admin costs and brokerage costs for investing your money and processing the application and withdraw. So most funds, you'll be able to see on their website, it might say unit price somewhere, and there'll be this huge long list. And it will tell you what the fees are for entry and exit. So it could be yeah, 0.03% or something like that.

Owen Raszkiewicz:
Yeah. And that's perfectly summed up. So basically if I could summarise your summary, what happens is the fund manager every day calculates all of the investments that they have made, and then they say, "Okay, for Kate Campbell she invested on this day, so the value of her investments are now worth this amount." And the way they calculate that is per unit, which makes sense. If you invest $100,000 and the unit price is $1, you get 100,000 units. But then in a year, if that's at 120,000, all of a sudden your unit is worth $1.20. So if you only wanted to sell 10 of those or 50 or 50,000, you could do that without having to sell the whole thing. And that's the point of a unit price.

Owen Raszkiewicz:
And the name actually comes from a unit trust, which is basically just a way that money is held for you and is broken down into individual units. And that's a type of legal structure that most trusts and most ETFs and funds use that structure, which we'll get to in a moment when it comes to taxes, why that's important. And so Kate, there are two types of fees that people typically pay in a managed fund, and this is automatically taken out, so you don't have to get out your chequebook or send in some money for this. Both of these fees automatically come out of the unit price. So can you explain what the two fees are for managed funds?

Kate Campbell:
Yeah. So the first fee that ETF investors are probably quite familiar with is the management fee. And that's the cost for running the fund, for paying the staff, for doing all of the day to day admin. Now for a managed fund, that's probably going to be on the higher side, so say 1% per year is your management fee. So I'm not good at math on the spot, but if you had $10,000 invested in a managed fund, at 1% per year management fee, that would be, Owen?

Owen Raszkiewicz:
About 100 bucks.

Kate Campbell:
Okay. And then if you had invested in, what are we saying? Like A200, which is the only one I can remember right now, which is 0.07%, [crosstalk 00:12:35] that is about $70?

Owen Raszkiewicz:
$7. Yeah. It's a lot less.

Kate Campbell:

Oh gosh. Yeah. So you can see it's significantly different with a $10,000 balance per year. And obviously if you're going to be invested over a 10 year timeframe, that does add up over time, which is why you do have to be careful of the fees. So when you read the product disclosure statement, or you're just looking at the website for either an ETF or a managed fund, look for what's called the management fee, and that will tell you what they're going to charge each year. And yep, as Owen said, they don't send you a bill, it all just happens automatically. And when you get your statement at the end of the year, they do send you a fee statement, which tells you what's being taken out during the year. And then the other fund, which is a little bit different to ETFs is a performance fee. And I'd say most managed funds charge a performance fee.

Owen Raszkiewicz:
Most properly active funds charge a performance fee. And not all of them, they don't have to, some people are against performance fees and some people are pro performance fees. Maybe you can explain what they are, and then we can dive into that.

Kate Campbell:
Yeah. So performance fee really rewards the fund management team for doing their job better than they were supposed to do it. They're getting paid to do their job really well. Just think of a bonus at the end of the year. If your company's done really well and they're really happy with all the staff performance and they've had heaps of customers and heaps of revenue, they might give everyone a bonus. So with a active managed fund, if their benchmark was the ASX 200, like say that was I don't know numbers... 7% benchmark for this financial year, and this fund performed and it did 20% returns. And so this exceeded the benchmark. So the fund gets to choose the benchmark as well, what it aims to track. And so if the fund does really well, they have great returns for investors and they well and truly top their benchmark, then they may be able to charge if they've written it up front in the product disclosure statement, a performance fee. So they get rewarded for doing really well with your money. So you get the extra performance, but they get to take a cut of that as well.

Owen Raszkiewicz:
Yeah. And so this is where fund managers can make a lot of money. And-

Kate Campbell:
This is how they buy the boats.

Owen Raszkiewicz:
This is how they get the yachts. Yeah. So you said there that typically nowadays it's pretty common for a fund manager of a managed fund to charge 1%. There are some ETFs that charge more than that by the way, but an index fund.

Kate Campbell:
Yeah. Some of those thematic ones we looked at.

Owen Raszkiewicz:

Yeah. They charge a hefty amount. But the managed funds typically charge 1% today. They used to charge something called two and 20, and this is an old hedge fund thing, which is a type of managed fund. And two and 20 effectively mean, we'll charge you 2% per year in management fee, and we'll take 20% of the out-performance. And as you can imagine those old school Wolf of Wall Street kind of, the wall street movies, almost all of them feature hedge fund managers who did this type of thing. And one of the things that they could do is they could say, "Oh, we've got a hundred million dollars invested and we're going to charge 2%. So we're going to collect 2 million for our business regardless of how you perform."

Kate Campbell:
Yeah. Even if you do really badly that year and you underperform.

Owen Raszkiewicz:
... "We're going to take the money, every day automatically taken out, and you'll barely notice it because it's only a small percentage and it comes out every day." And then the other thing that they would do is they would shoot the lights out one year. So one year they would do really well, and you'd think, "Wow, this is great performance," but they would be taking 20% of that out-performance. And so they would be getting filthy rich based on that. And the next year they could do horribly. They could just go straight down the [gubler 00:16:26] with their performance, but they don't really care because they just made a huge amount of performance fees. And they're like, "We made so much money last year, we're happy for it to come back to earth this year."

Owen Raszkiewicz:
But you as an investor, you're like, "Well, I want to keep, you to perform." And there is a thing that was introduced quite a few years ago called a high watermark. And as you can imagine, if you're at the jetty or the pier and you see the water going up and down on the posts holding up the jetty or pier, the high water mark is basically saying, "Our fund and how we perform when we get to that high water mark, only from that point up can we charge a performance fee. So if we do really well this year and we charge you a fee, but then next year it falls back down and we do well, we're not going to charge you a performance fee down there. We have to get back above that original level before we can do that."

Owen Raszkiewicz:
There are some more innovative funds in Australia that have even more I guess, honest performance measurement. And some of those funds, for example say, "We won't charge management fees unless we are returning a certain amount." So that adds more desperation for the fund manager because they're like, "Well, if we don't perform at all, we're not going to get any money, not even management fees." So they're pretty rare, those types of fund managers, because none of them want to take that risk, but some of them do exist. There are other fund managers... and this is the final thing I'll add. There are other fund managers who have said, "We're not going to track a benchmark. We're just going to say, we want to perform at 10% per year, for example."

Kate Campbell:
Oh the old, benchmark unaware fund.

Owen Raszkiewicz:
Yeah. That's it. So they just say, "We're going to try and achieve 10% per year. So to keep it really simple. And then that way you're not left guessing about what our performance fee might be, what our target is. We're just going to say 10% a year, that's it. That's what we're going for." And just be really careful if someone promises you more than say 10%, I'd start to raise my eyebrows beyond that. Like if they're saying, "We're going to go to 12 or 15, 20% a year." I'd be like, "Whoa, okay. What's going on here?" Because the reality is that's very, very rare for them to achieve that over a long period of time. So most of the good ones, they say, "We're going to target eight to 10% or something, or seven to 10% in that range." And that's pretty common too.

Kate Campbell:
Yeah, I guess the important thing to differentiate there is, sometimes the marketing material might say, "We're targeting 7% returns for investors per year."

Owen Raszkiewicz:
Good point.

Kate Campbell:
And I see this a lot with property related funds because they can guesstimate their rental income a little bit more. But that's the marketing material. You really need to go and see what the product disclosure statement says is the official benchmark and what they are targeting, because they might say a nice thing on the cover, but it might not be what they're actually doing or they might have a much lower benchmark in there. And I think, managed funds, it's even more important to read the product disclosure statement because they can do some different things that ETFs might not necessarily do. And because with an ETF, if I want to sell my units in my ETF today, I can just... what, it's past 10 o'clock, I can go into my brokerage account right now and place a cell order and I can have the funds in the next three days.

Kate Campbell:
But with a managed fund, they might have capped withdrawals. So they might only let you take... this is not all of them, but they might only let you take a certain amount out each quarter, or you have to have your withdrawal application in by a certain date for it to be processed. So they might not do daily redemptions, they might do monthly or quarterly. So there's a few little niche things that you should know about there. And also most of them will have a minimum investment amount. So you might have to invest five grand or 25 grand to get started. And then they might have a minimum additional investment. So you can't just put $5 in when you feel like it, it might have to be an additional thousand dollars or $10,000, and the same on withdrawing funds from that.

Kate Campbell:

So they might only let you take a minimum of $5,000 out at a time. So there is a little bit less flexibility there when it comes to that. You can't just go straight into your brokerage account. Which is, I guess, one of the benefits of those active ETFs.

Owen Raszkiewicz:
It is, yeah.

Kate Campbell:
Like you mentioned with Magellan, when they're bringing their active strategy onto the ASX, so you can just buy and sell it on the same day. Makes it a lot easier.

Owen Raszkiewicz:
Yeah. And some of the funds choose to list... this is a bit complicated. But some of the funds are on the Chi-X, which is like a different type of stock exchange here in Australia. If you use CommSec, you can access it the same way you wouldn't know. But the basic idea of ETFs is just to make that buying and selling process easier. But let's say for example... I'm glad you brought up property managed funds. To be honest, I'm always very sceptical of property managed funds. I'm not saying that they're bad, I'm just saying that I'm sceptical. And I'm very sceptical of small providers of property managed funds. I would say be very sceptical. That's healthy to be very sceptical. Not cynical or anything like that, just sceptical. Because as you said Kate, the things that you want to see are things that make it easier for you and are really transparent.

Owen Raszkiewicz:
If the fund manager comes out with a marketing document and they say, "Hey, look at this tremendous manage fund, we're targeting 10% returns per year." But then you go into the PDS and it says, "Our benchmark is inflation. As in, all we have to do is beat inflation." That creates a big mismatch. So let me give you an example. Let's say you want to invest in a managed fund that invests in the share market, as we know the share market should, it's not guaranteed, but it should go up somewhere between four and 10% per year, on average, over the next 10 years say, this is as a guess. But if the fund manager says, "We're going to charge a performance fee for anything above inflation," which is like one and a half percent, 2%, whatever, then they're just going to make so much money off of your money because all they have to do is basically do nothing and they can make a performance fee.

Owen Raszkiewicz:
So you've got to make sure that the performance fee matches what's actually marketed to you. And the other thing is, and just circling back to the property stuff, is, it's hard to sometimes mark the unit price to get that unit price for property, because sometimes that relies on valuations that may not necessarily be always accurate. And so you've got to be mindful of those two. So that's why I say, if you're going to think about different types of things inside of managed fund, go with reputable providers for those types of things. For shares, most of them are pretty reputable if they've got an AFSL and whatever. So [crosstalk 00:23:12].

Kate Campbell:
Yeah, just on that. Just thinking logically about what's in that managed fund and going... because that will dictate a lot of that withdrawal timeframes and how easy it is to get your money in and out. Because if you're investing in big office buildings, if all the investors want their money at once, they can't just sell that office building immediately. And even with some smaller companies, if a lot of investors want their money out at once, that can sometimes be a little bit more difficult, because some of these companies are illiquid. So if you're investing in large international managed funds or large Australian managed funds, that's often a lot easier to get your money in and out on a speedy basis. So just thinking a bit logically about what you're actually investing in and how easy it is for that fund manager to get the money in and out of that asset.

Owen Raszkiewicz:
And this is why when you look at ETFs, you see most of the ETFs are invested in shares. So not all of the ETFs invest in shares, but most of them do. And the reason for that is that the fund manager can quickly go and buy and sell all the shares inside the ETF if you need your money back. Whereas say you don't see many property ETFs because you'd have to sell a property in order to give the investors their money back. And that's why you don't see that. So that's why if you look on the ASX, most of the ETFs are pretty liquid, meaning that you can get in and out pretty seamlessly and typically at a good price. Kate, so I think just people are probably asking us like, "This is pretty confusing, it's a lot of information here." Just in summary, why would I, or you or anyone invest in a managed fund over an ETF?

Kate Campbell:
Yeah. So I think that links back to what we just said, but it does give you specific exposure to different asset classes that you might not be able to invest in otherwise. So if you do want to invest in certain emerging markets, if you want to invest in foreign bonds or a specific country, or you want to invest in office buildings and you want an expert team, well, hopefully you can check them out, you can read their bio. You can use a managed fund to do that. Because you might not be able to get exposure to this specific asset class that you want through an Exchange-Traded Fund or something a little bit more simpler. There also might be a specific fund manager, and so you might've heard of Magellan or Platinum and you might go, "Oh, I really love that fund manager and that management team and that portfolio manager, and I'm just going to go into this managed fund because I like their investment style." So some people do it based off that.

Kate Campbell:
And also you might be potentially wanting to outperform the benchmark through active management. And so I'd really recommend if you're thinking about that, looking at their long-term performance, not just one year, because a lot of funds have had a good year, and really looking, you can look at the reports and everything like that. See what kind of companies they actually invest in, they'll often disclose their top five or top 10 holdings. You can even, if you read their monthly or quarterly reports, you can get an understanding of why they choose the

companies they do. Or I guess if it's office buildings, they might have some sort of valuation report or something there that you can have a look at.

Owen Raszkiewicz:
Yeah. And even if you don't invest in managed funds, I think it's really valuable just to go and read... The fund managers are required to tell you what they're invested in and how they've performed. They don't have to tell you everything. Unlike an ETF, which is publicly available in an ETF provider's website, you can go in and you can click view all holdings. So if you're invested in say the Vanguard VSA ETF, you can go on the Vanguard website and say, "View holdings." And then you can see a full list of all 300 or thereabouts companies. Fund managers don't have to go to that level of disclosure, so it's not as transparent, but they typically will say, "These are our top 10 positions, or these are the regions that we're invested in, and here's why." And just reading those letters and those monthly or quarterly reports is so valuable for people.

Owen Raszkiewicz:
It's particularly, if you're invested in one of these funds. Like if you're invested in Magellan, you should be reading the quarterly report because these are the people that are investing your money and they're telling you why they're doing certain things. Whereas a lot of investors, and not just in managed funds but in most things, tend to just go, "Oh, my shares are down 10%, therefore I must sell." But if you think about it, you wouldn't want to sell necessarily if it's down 10% and they've said, "Hey, we knew this was going to happen, we told you this was going to happen. And now is the time to invest more, not less." And this goes back to the point of, and which we didn't cover at the top of the show, but a lot of fund managers, cup a lot of criticism, because they underperform versus a benchmark.

Owen Raszkiewicz:
You mentioned A200 versus say an active fund manager. A200 as an example would be the passive ETF, and the fund manager would be the active side of that. Most reports show that on average, the active fund managers underperform the passive portfolios in ETFs. But what the reports also show is that people that chase returns tend to do worst. So if you invest in... oh, you go, "Oh, my fund manager is down 10% this year, but that one's up 20%. I'm going to go with that one." Well, the studies seem to show that that's the worst possible thing that you can do. And so one thing that I often say is, when you invest in anything... so whether you're a member of our services or you're invest in a Superfund or you're invest in a managed fund or an ETF, what you're paying for is you're paying for the process of that investor or that investment product.

Owen Raszkiewicz:
So, "What are they doing and what are they doing repeatedly?" That's what you're getting. You're not getting what happened in the past. That just gives you some sort of insight into how they'd done in the past, but that might not happen in the future, which is why we have the warnings. So make sure you read the letters, make sure you understand what you're investing in and how they're doing it. I think that's just a good exercise, even if you don't have five or 10 or $20,000 to invest right now. Kate, just quickly here, we've got some things that we want to talk

about on the end. How do you invest in a managed fund? I think we covered it, but just succinctly, how do you invest in a managed fund?

Kate Campbell:
Yeah. So if you find a managed fund that you like, if it is a retail managed fund... and I don't want to go into it today, but there are many wholesale managed funds where you have to fulfil a certain amount of tests that even Owen and I don't fulfil, so we can't invest in them. But if you want to invest in a retail managed fund, it might say minimum $5,000. And if you're happy with all of the details, you've read the product disclosure statement, there'll be some sort of button that says invest now. Or if it's a bit more old school, you might have to fill in a form, you'll have to provide ID documents, send the money across and that's about it. And then you'll just have to keep it in mind, if there's a distribution at the end of the year, because that'll have to go into your tax return. But you can choose often to reinvest that distribution of the managed fund, which is if you are trying to invest over a long period of time and build your investment, that can often be a good idea.

Owen Raszkiewicz:
So let's say you want to invest Kate, in something like Magellan, Forager, Australian Ethical, like there's a heap of list of names, we [inaudible 00:30:19] get to in a minute. But let's say you want to invest in one of these fund managers, the managed funds. If I want long-term growth from these fund managers, but then you receive a distribution, now that's like a dividend from a managed fund. Why am I required to do that? Is there any reason that you can think of? Otherwise, I can riff on this.

Kate Campbell:
Yeah. I'm pretty sure because, the unit trust structure, they have to pay out their capital gains to investors, they can't just keep it in that fund forever. So they do pay most of the gains in the fund out, as a distribution, so you might see really significant distributions in years of really strong performance where the fund has sold some of their high performing positions. And so at that case, you might actually see most of your return actually paid out as a distribution. So if you don't reinvest it, you might end up with a very similar starting balance at the end of 10 years, if you keep getting that money paid out to you in cash.

Owen Raszkiewicz:
Yeah. So, and this comes back to what we talked about, about the unit structure. If you invest with a management fund, typically you're not giving them your money for them to own, you're not just gifting them money. That's still your money being invested on your behalf. So you're a beneficial owner, or you're the rightful owner as well. So what happens is, they invest it for you basically on trust and you are responsible for the money that's generated because it's your money. So you still need to put that into your tax return. So the ATO says, "Hey, if you invest in that, you still need to record. If you have made any income, if you've made short term capital gains, long-term capital gains, that's your money, so you need to record that."

Owen Raszkiewicz:

And so the fund manager says, "Okay, we've got to distribute that out." And that's why Kate says here that it's really interesting, you can do a distribution re-investment plan. It's like a DRP for shares, it's the same thing, dividend reinvestment plan, distribution re-investment plan. You can go to the fund managers website typically, or can you do that via a share registry as well? How did you set up yours?

Kate Campbell:
Yeah. So the fund I have invested in uses sort of a registry, a fund registry, and so you just go through that, though I think actually some of them are still pretty old school. I might've had to tick a box on a form, because some of them do have the option where you can reinvest 50% of the distribution and you can have 50% pay out. So for a lot of investors closer to retirement, they actually may want some of that cash. So you can also change that. You just have to make sure [inaudible 00:32:58] the lead times a bit longer. So if you know it's 30 days before the next distribution is getting paid, then maybe think about changing your settings then, because there is a longer lead time for all of this stuff.

Owen Raszkiewicz:
And all of this information is included in the PDS, the Product Disclosure Statement. And oftentimes you have to read that in order to fill out the form anyway. So the thing to keep in mind here is that if you are investing for the long term, you still need to record your taxable income, your taxable gains, just like you would if you had an ETF. You'd get that statement at the end of the year, it's the same thing. The way you check, how often a fund pays out its distribution is, you go to the website and you go to the fund page basically, and it shows you, "We pay out our distributions annually or semi-annually," which means half yearly or quarterly, depending on the type of managed fund.

Owen Raszkiewicz:
Kate, real quick, we want to go through two final things. One of them is just a really brief selection criteria for picking a managed fund and just some examples of funds. So they're just strictly examples for you to go out there and just see what managed funds are and how they differ to ETF. So firstly, Kate, let's just talk about some very high level stuff that you could do. If you're think you're picking a managed fund and investing say 10 or $20,000, $25,000, whatever, what are some things that we could do?

Kate Campbell:
[inaudible 00:34:20] and if it's a retail managed fund, because it might just be completely out of reach for me. There's a lot of retail managed funds with a $25,000 minimum investment amount, which for me would probably be a lot, a bit too much in any one thing. So that would probably turn me off straight away. But there are managed funds with much lower investment amounts, which we'll get into. The next thing, if say that was a reasonable minimum investment amount, I was comfortable with that, I would definitely look at some of the teams. So I'd look at who the portfolio manager is, some of the key staff members and look at, what have they been doing over the rest of their career?

Kate Campbell:
Have they been running other successful managed funds? Can I read some of their [log pros 00:35:10]? Can I read their fund management reports? Can I get an idea of the way they invest? Can I watch one of their webinars? Most of these funds, the portfolio manager will go off on the speaking tour at least once a year, and there'll be podcasts or webinars or something online that you can find out more about them and their style.

Owen Raszkiewicz:
Mm-hmm (affirmative). Yep. That's fantastic. So we've [inaudible 00:35:31] is it a retail fund? So then that means that the minimums will be lower and you can actually invest in it, you don't have to be a big shot investor or have a lot of money. Find out who's running the fund, I think that's really very good. For the Australian Investors Podcast, you can go on there and you can see some of the interviews that I've done with fund managers, there's many of them on there. And you can see what we talk about, how they invest, how they think. Try and find all that, read the literature around that. Then we can look at things like, how the fund has performed? If you go onto websites like their website, you can see how has the fund perform over a long period of time.

Owen Raszkiewicz:
Just be mindful that you don't want to look at one year returns, please do not look at anything shorter than three years. I don't just say this stuff to be compliant with the law, this is actually a legitimate thing. If you're investing for the longterm, study the long-term results, not the short-term. Because you might look at one of these fund managers and you're like go, "Oh, they've done really well over the last 12 months." And then really not carefully think that the last 12 months has been an outstanding year for certain types of investors, but not for others. And so that might not be the same next year. So long-term. One thing on that, Kate touched on the benchmark, make sure you know what the benchmark is. So what are they trying to outperform? And-

Kate Campbell:
And look at the long-term performance of that particular benchmark [crosstalk 00:36:54].

Owen Raszkiewicz:
Exactly. The first thing I go to when I look at a managed fund is since inception returns. So this is like an annual figure, typically. It would be like say 12%, 9%, whatever. And then in the next column, they'll have since inception for the benchmark. That's the first thing I go for, then I go 10 year, then I go five year, then I go three years, and I don't even look at anything less than that, unless I'm just trying to figure out how stressed out the fund manager is right now. [crosstalk 00:37:20].

Kate Campbell:
Yeah, I just mentioned, always look at the, since inception date, because some of these funds have only been around for one or two years. So you might think you're looking at this really long period of time, but it's actually only since inception was since 2019.

Owen Raszkiewicz:
Yeah, that's it. So typically, for financial advisors, they don't invest in a managed fund. This is not all financial advisors, but typically they won't invest in a managed fund unless it's been around for at least three years, because the financial advisors know that three years is the minimum. If a fund manager makes it to three years, that's like a tick of approval for that fund manager, because some of them don't make it that long, even if they have decent performance. The next thing that we've got here is the size of the fund. So we're going to just list some names here of pretty big fund managers. There are many small fund managers that we call boutique fund managers. So let's say for example, there was the Kate Campbell and Owen Raszkiewicz fund and we wanted to launch it today, but we're not part of Magellan and we're not part of AMP, we're not part of these big names.

Owen Raszkiewicz:
We just want to go and invest our money together and we want to allow other people to join us, we would be called a boutique fund manager. And typically a boutique fund manager is smaller, it only has one or two strategies. And so if you're new to investing, I would say maybe start with the names that have been around for a while, just so you're comfortable with that process before you go and try and pick one out like a needle in a haystack. And they will disclose this, won't they, Kate, they'll disclose how much money they have invested in their funds on their website hopefully.

Kate Campbell:
Yeah. So looking for funds under management is important. There are some funds that manage to stay in the life for quite a long time, with maybe only $10 million under management. And you just need to think about, is the fund sustainable long-term, is it likely to close? Can they afford to keep... because you want good analysts and good portfolio managers running the fund. So can they afford to pay them based off the management fee and the funds under management? So that's something to have a look at as well.

Owen Raszkiewicz:
That's often called the F-U-M, FUM. So if Kate and I ever say FUM, that's what we mean, Funds Under Management. So there's no really hard and fast rule here, but if you look at all of the different managed funds that the provider has, you could go into the monthly updates or the quarterly updates and somewhere in a table is typically FUM. If they're not disclosing FUM, the number, it means it's probably not that big. And I typically want to see that over a hundred million. That's not a hard and fast rule, it's just, I typically want to see it over that. Because if you think about it, if you've got a hundred million dollars and you're charging 1%, that means your business is earning $1 million. And it's a lot of money to you and I Kate, but if you're a fund manager, you've got to pay yourself, you've got to pay maybe two or three analysts, you've got to pay a marketing coordinator, someone that deals with clients, all of a sudden that's gone. And you've got all the usual costs, like offices and that sort of stuff. So you want to make sure that it's sustainable.

Owen Raszkiewicz:
And finally, just on this, just compare like for like managed funds. So you want to compare... If you look at Magellan, maybe compare that to Forager, compare it to Platinum, compare it to, insert name of any other global fund. Look at all these different fund managers side-by-side and then say, "Okay, the fees on this one is this, the long-term performance is that, I think this about the fund manager, I like these companies that this fund manager has invested in and not so much this one." And weigh them up side-by-side. Okay, Kate, Last thing. Just some examples of managed funds with low fees. So not all of us have 20... Not low fees, of low minimums. That's what I'm trying to get to. So can you give us some examples of managed funds that might be able to take less than say $20,000? If we've only got $30,000, I don't want to put it all in one managed fund. So I want to spread it across a few. What are some examples of places that I can look just to get started on that research journey?

Kate Campbell:
No, I looked these up a few weeks ago, so hopefully none of them have changed their minimum investment amounts since then. And I haven't really looked into all of their performance, so I'm just telling you these names based off minimum investment amounts. But some include Forager, Platinum, Australian Ethical, Platypus, BT, Pengana and Bennelong. And a lot of these do have multiple funds, but a couple of them do have minimum investment amounts that are less than 25,000, so that could be something to have a look at. And I think managed funds do have a place and they can have a role in your portfolio, but it wouldn't be something I'd put all of my money in, but it might be something you put some of your money in for a particular asset class or an exposure that you really want.

Owen Raszkiewicz:
I think, yeah. I think once you get to say $50,000, $100,000 of investible money, for some people that sounds like a long way away, but it tends to creep up on you quicker than you expect. You tend to get to that level and then you think, "Okay, I love my ETFs." And sure they're great. "And I like my individual stocks as well, but maybe I'll just try these managed fund things." And some people do like to do that. They do like to move into this. I think by the time I go into the dirt, I will have invested in a lot of managed funds myself. And the reason is sometimes you come across investors and you're like, "Wow, they are impressive people. Yes, I know that many managed funds underperformed, but I think that this person is an impressive investor, so I'm going to give them a little bit of my money to invest for me."

Owen Raszkiewicz:
And that's reasonable. Just follow the checks and balances, make sure they've got an AFSL, they issue a PDS, all of those things that we would normally suggest, and go out and learn about these interesting investors and these interesting companies that they're buying for you or bonds or whatever. Kate, I know that you have some investments in managed funds. [crosstalk 00:43:01] I don't have any currently, but I do have ETFs that do something similar. Just one final question on this is how do you treat your managed fund positions? Do you think of them as core positions or do you think of them as those satellite, those smaller positions around the outside?

Kate Campbell:
I think in particular managed funds, because they're not too niche, they are international managed funds. Because I, at the time, this is going back a few years, one I started in 2017. I did all my research, I liked the team and I wanted exposure to the international market. I didn't know that much about ETFs at the time, but I did like their approach and everything like that. And they did allow me to set up a regular contribution plan. So every month I was able to make direct debit at $200, which I think was the minimum at the time. And so this is slowly, it built up from $1,000 with a 200 regular contribution plan, I stopped it at sometimes when I couldn't afford it. I restarted it, so you can do things like that.

Kate Campbell:
I reinvested the distributions and it's just slowly been growing over time. But I don't know, I don't... probably part of the core, I don't think it is as speculative as some of the small cap investments or other things I've made. So yeah, I'd probably say it's the core of my portfolio, but it would really depend what it's investing in.

Owen Raszkiewicz:
I agree totally. I think if it's a very established managed fund, I think it can find a place in the core, like for that long-term, steady as she goes, hold it in there. And for the more exotic managed funds and there are heaps of them by the way, maybe even small cap managed funds or fund managers that do weird and wonderful things, they would maybe be in the satellite for me. But I just think it's what you're comfortable with. If you're comfortable to own something and back an investment for five to 10 years, that's probably where it sits in that core position, that bottom drawer. But if it's a bit more exotic, maybe push it out into the satellite and keep a closer watch on it and just regularly check in with it because you might find that you got it wrong and it's okay to move on then. So just to wrap up Kate, did you want to just give us maybe a 60 second wrap up of this episode?

Kate Campbell:
Yep. So I think we introduced managed funds, how they could be used as part of your portfolio, that maybe they do underperform, but not necessarily. And they can give you exposure to certain asset classes. When you invest in a managed fund, you get a unit price depending on the day you invest in and you'll get units in the fund. So that's something to look at at the website, especially reading the product disclosure statement, to find out the minimum investment amounts, how you apply for units in the fund and how you withdraw units in the fund, which I think is probably the more important one. Finding out how it's managed, finding out the team. Even words you've heard before like custodian, finding out where the money's held because the fund manager, it's not all in their individual bank account. So they'll have their company bank account and they'll also have the funds usually under different bank accounts, so they'll have a custodian overseeing the funds.

Kate Campbell:
Looking at the team. And even just doing your research, even just for fun reading some of these reports, even if you're never going to invest in managed funds, just to get an insight to how other

people invest. I know a lot of our analysts do read these managed fund reports, even if they have nothing to do with that managed fund, just to get an insight into the companies they're looking at. And sometimes you can get a sneak peek into some particular stocks that you might be interested in.

Owen Raszkiewicz:
Yeah. I find them fascinating to read. I have a certain number of fund managers, about five of them that I just love, and I just follow them religiously. Just to confirm or just to summarise that little checklist that we had here, you want it to be a retail fund, so it needs to be open to retail investors. That would mean it has a PDS and you can see that on the website. Watch some interviews with the staff members or read their letters to get familiar with them. Typically, there are often on social media, like LinkedIn or Twitter and those types of things. Look at the long-term returns and the long-term risk of the fund. You can find that in the monthly or quarterly reports, or on their website. Paying attention to the benchmarks, some fund managers omit their benchmark from their fancy charts and everything. Make sure you look at the benchmark.

Owen Raszkiewicz:
The fourth thing would be the size of the issuer, the size of the fund manager. Maybe start with a more established provider, you can always go into boutique or smaller funds later if you're comfortable. And the final thing would be just compare apples to apples. Don't go and compare a Magellan to then a bond fund manager, or don't compare Australian Ethical to a property fund. Compare similar fund managers in the industry to look at fees, performance, the team, all that sort of stuff, and see what you're comfortable with. And so that's that Kate. Of course, you can learn more about investing on our Rask education website. We've just crossed 11,000 students.

Kate Campbell:
It's crazy.

Owen Raszkiewicz:
It's huge. It's wonderful. We are on a mission with this and we have more courses in the works, and there are more and more coming and we want to keep serving you and helping you invest. So go check out our ETF and share investing courses, if you're new to investing, they provide a great primer on what is the stock market and how you can get involved. And of course, we have our memberships. If you want to learn more ETFs and see what we're investing in, you can join Rask ETFs or Rask Invest. And of course our free Facebook community, totally free. We'd just love to hear from you. We occasionally post videos, comments, and such, and it's a great thriving community.

Owen Raszkiewicz:
If you've invested in managed funds, personally, I'd love to know which funds you're invested in and why, because when we sit down and do these podcast, Kate, we just pick a bunch of fund managers in this instance, and we think, "This might be an interesting list of things for our community to get excited about," but they might be excited about something totally different. So if someone else in the community has an idea, any of us can go in there and learn from you. So

please jump into the community, say, "Good day," tell us what you're invested in and why, and we'd love to hear from you. Kate, as always, thanks for joining me.

Kate Campbell:
Thanks for listening.