TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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In a managed fund you pool your money with others and have somebody else manage it all. So managed funds are a form of managed pooled investment schemes.

Managed Funds

Managed funds are wide and varied. There are thousands and many like Vanguard and Colonial FirstChoice have become household names. But how exactly do they work?

This is the question we asked Daniel Mikhail of Partners Wealth Group in Sydney. Here is what we learned but please listen in as Daniel Mikhail explains all this much better than we ever could.

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Managed Funds

A managed fund is a form of managed investment. To invest into a managed fund, you acquire 'units' in the fund from the fund manager and – when you are ready to sell – sell these back to that same manager. The fund manager re-calculates the value of units at the end of each trading day.

Terminology

Terminology varies from country to country and this can make it very confusing. While Australians tend to refer to managed funds, the US calls these investment funds. Other common names are investment pools, collective investment schemes or simply funds.

Active Funds

Managed funds are either actively managed or passive funds. In active fund the fund manager tries to outperform the market. Active funds are therefore a lot more labour intensive, hence the much higher fees.

Passive Funds

Passive funds aka index funds simply buy a portfolio of assets that mimic an index, for example the ASX. This takes a lot less skill and labour, hence passive funds have much lower fees than active funds.

Managed Investments

Managed funds are one form of managed investments, but there are others, such as ETFs, LICs and SMAs.

ETF

Exchange traded funds (ETFs) are a type of managed investment. Most ETFs track an index, for example the ASX or a bond index, but not necessarily. Just like in a managed fund, the investor is not the owner of the underlying securities.

LIC

Listed investment companies (LICs) are incorporated companies, usually listed on the ASX, and operate similar to a managed fund. But different to managed funds, LICs are close-ended, so they don't issue new shares or cancel existing ones as investors come and go. If an investor wants to leave an LIC, they have to sell their shares on the ASX. LICs pay dividends to investors, often with attached franking credits.

Just like in a managed fund (and different to an SMA), the investor is not the owner of the underlying securities.

SMA

Separately managed accounts (SMAs) are a type of managed investment scheme and are also just referred to as managed accounts. Different to managed funds, ETFs and LICs, SMAs are not a form of pooled investment. So the investor is the owner of the underlying securities.

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Taxable Importations

Wrap and Managed Accounts

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