

Investing in managed investment schemes

Are you thinking about investing in property or share trusts or a cash management trust?

There are a few things you should know about these types of investments before you put your money into them. These schemes are called "managed investment schemes" but you will also hear them described as "pooled investments" or "collective investments".

- *What are managed investment schemes?*
- *What types of investments are NOT managed investment schemes*
- *How safe are managed investment schemes?*
- *How can you protect your money?*
- *How do you choose a managed investment scheme?*
- *What about investing in agricultural or film schemes?*
- *What are the tax and social security issues?*

What are managed investment schemes?

Generally in a managed investment scheme:

- people are brought together to contribute money to get an interest in the scheme ("interests" in a scheme are a type of "financial product" and are regulated by the Corporations Act 2001 (the Act).
- your money is pooled together with other investors (often many hundreds or thousands of investors) or used in a common enterprise.
- a "responsible entity" operates the scheme. You do not have day to day control over the operation of the scheme.

Managed investment schemes cover a wide variety of investments. Some of the popular managed investment schemes you may be offered include:

- cash management trusts
- property trusts
- Australian equity (share) trusts
- many agricultural schemes (eg horticulture, aquaculture, commercial horse breeding)
- international equity trusts
- some film schemes
- timeshare schemes
- some mortgage schemes
- actively managed strata title schemes

What types of investments are NOT managed investment schemes

Generally, only investments which are "collective" are managed investment schemes.

Some examples of investments that are not managed investments schemes include:

- regulated superannuation funds;
- approved deposit funds;
- debentures issued by a body corporate;
- barter schemes;

- franchises;
- direct purchases of shares or other equities;
- schemes operated by an Australian bank in the ordinary course of banking business (eg: term deposit).

How safe are managed investment schemes?

Generally a scheme must be registered with us if it has more than 20 members or the scheme is promoted by someone who is in the business of promoting investment schemes.

Registered managed investment schemes must operate within the Act. We have been given special powers to supervise the operation of these schemes. To be registered, a scheme must:

- be operated by a responsible entity (who has sole responsibility for the operation of the scheme and must be a public company holding a licence authorising it to operate the scheme); and
- have a "constitution" (this document outlines the rules of the scheme); and
- have a "compliance plan" (this document outlines how the responsible entity will ensure the scheme complies with the constitution and the Act).

Registered schemes must also:

- issue a product disclosure statement (PDS). This document must be issued by a scheme wanting to raise money from the public. It must clearly and concisely set out enough detail about the product for you to compare a range of similar financial products so that you can make an informed decision about which ones to invest in;
- conduct independent audits of the scheme and the responsible entity;
- keep the scheme's property separate from the property of the responsible entity and other schemes;
- have a procedure for removing the responsible entity.

Constitution and compliance plan

The constitution sets out the rules of the investment scheme including matters like:

- how much it costs to buy interests in the scheme;
- the investment powers of the responsible entity;
- how to resolve complaints by investors;
- the rights of investors to withdraw from the scheme.

The compliance plan sets out how the responsible entity will make sure the scheme complies with the Act and the scheme's constitution.

You may ask if your money is safe even though there is no separate trustee for every managed investment scheme. Parliament considered this issue in detail. After examining the arguments and evidence, it decided that the changes made to the Act in 1998 do offer adequate protection for investors. The Act contains safeguards for your protection which are set out in this information sheet.

How can you protect your money?

The promoters and operators of a registered managed investment scheme must meet their legal obligations. However, this does not guarantee the return from, and the safety of, your investment. All investments carry some risk. If you are thinking about investing in a managed investment scheme you should try to protect your interests by:

- getting good advice;
- checking that the responsible entity is licensed;
- reading the product disclosure statement;
- checking the constitution and compliance plan
- knowing what to do if you have a complaint after you become a member of a scheme.

If you want more detail about how the scheme operates you can obtain copies of the constitution and compliance plan.

1 Getting good advice

You can do your own investing without licensed financial advice. However, you must do your homework.

If not, you'll need a licensed financial adviser. To find out how to choose the right financial adviser, read our booklet "Getting advice".

It is a good idea to get legal advice if you are uncertain about any of the documents you receive from the managed investment scheme.

2 Checking that the responsible entity is licensed and/or the scheme is registered

A responsible entity must be a public company with a licence issued by us. You should check whether they have a licence from us to operate a managed investment scheme. You can do this by:

- checking our databases
- phoning our Infoline on 1300 300 630.

When they apply to us for this licence they must satisfy us that they have the capacity and expertise, assets and independence to operate a scheme. In addition, they must show that they:

- can carry out their duties efficiently, honestly and fairly in a number of areas;
- have assets of between \$50,000 and \$5 million (depending on the value of scheme assets);
- have access to enough assets to make sure that the scheme can continue to operate;
- have adequate insurance;
- have a majority of "external" directors. If it doesn't it must have a "compliance committee" with a majority of external members. This means that the people supervising the responsible entity are independent of the people operating the

responsible entity.

It is also a good idea to check whether a scheme is registered with us. You can do this by:

- checking our databases
- phoning our Infoline on 1300 300 630.

3 Reading the product disclosure statement (PDS)

A PDS sets out, clearly and concisely, enough detail about the product for you to compare a range of similar financial products so that you can make an informed decision about which ones to invest in.

Responsible entities must issue a PDS about each registered managed investment scheme. You should ask for a copy of the PDS to read before investing in any scheme. For listed managed investment schemes (ie those that can be traded on a financial market), search our OFFER list database to see whether a PDS has been lodged with us.

You may be offered an investment in a managed investment scheme without being offered a PDS. Before you invest in such a scheme, you should get legal advice or contact our Infoline on 1300 300 630.

4 Checking the constitution and compliance plan

A responsible entity must ensure that it operates within the Act and the scheme's constitution. The way it will do this is described in its compliance plan. Responsible entities must give us a copy of this plan as well as the constitution. You can get a copy of any constitution and plan from our database. The fee for getting this copy is \$32 if it is 10 pages or more (cost at July 2001). You can purchase a copy by contacting an ASIC Service Centre or an ASIC information broker.

5 Knowing how to complain

After you become a member of a scheme you are entitled to raise with the responsible entity any complaints you have about how a scheme operates. The constitution for a registered managed investment scheme must set out how members' complaints are handled.

The scheme must also be a member of an independent complaints scheme which you can use if you are dissatisfied with how your complaint has been dealt with.

You may also have the right to participate in, or to call, meetings of scheme members where concerns can be expressed publicly. Again, you should look at the details of the scheme's constitution to find out what rights you have to attend or to call such meetings.

If you think that your complaint has not been properly dealt with by the responsible entity you may complain to us. Contact Infoline on 1300 300 630.

How do you choose a managed investment scheme?

Choose an investment which suits your short and long term investment plans. The more effort you put into choosing a managed investment scheme, the better chance you have of choosing a scheme that is suitable for you.

You should ask yourself many questions when reading the PDS and other documents and when speaking to your adviser. The information you need to know will depend on your circumstances and investment plans. However, here are some questions that you might want answered.

Do you know what is being offered?

- Do you know exactly what types of schemes are being offered?
- Do you understand the underlying investment?

Do you know how secure your money is?

- Can your investment lose value and how could this happen?
- What are the risks of making this type of investment?

What will your return be?

- Are returns certain or uncertain? What does this depend on?
- How has the scheme performed in the past? Over what period was this return made?
- Is there a minimum period that your money must remain in the scheme?
- How and when are returns calculated and paid?
- What entry fees must you pay? Do these reduce your initial investment?
- What charges will be deducted from your returns?
- What are the implications for tax and social security?

Use our managed funds calculator to see the effect of:

- fees
- regular contributions
- changing funds
- different investment options.

What if you want to change your investment?

- Can you reinvest returns?
- Can you withdraw your money?
- What is the cost of doing this?
- Can you change or move your investment to another scheme?

Can you get information from the responsible entity?

When and how will you get a report on how the scheme is performing?

What about investing in agricultural or film schemes?

Before you invest in an agricultural (eg pine trees or ostriches) or in a film scheme, you should read our information sheets Agricultural investment schemes and Investing in films for tax relief.

What are the tax and social security issues?

You should get advice before investing in a scheme which focuses on the implications for tax or social security. For example, ask:

- Will the stated benefits actually apply to me?
- Will the tax benefit be as attractive over the whole life of the scheme as they are at the beginning?

You should also read **Investing to reduce your tax**. (Watch out!) and **Borrowing money to reduce your tax** which give you some guidelines about investing in, and borrowing money to invest in, schemes to get a tax benefit.

Source: Monday, February 27, 2006 download from ASIC website.