FACT SHEET

Equity Trusts

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What are Equity Trusts?

Equity trusts (also known as share trusts) offer the ability to invest in a wide range of shares listed on a stock exchange.

Equity trusts usually aim to provide income and long-term growth.

Many equity trusts are available and their names often indicate the underlying shares traded/held or the country or region in which the trusts invest i.e. Dividend Imputation Trust, Resources Trust or European Share Trust. Many fund managers provide a list of the companies whose shares may be held or traded which investors can research.

Trust investors buy units in the fund at the 'issue or buy price' and may sell them back to the fund manager at the 'redemption or sell price' on the day when a requested withdrawal is paid. On any given day the buy price is usually a little greater than the sell price. The unit price is determined by dividing the total asset value of the fund less costs such as brokerage and management, by the number of units in the fund. As the value of the shares change so do the unit prices. The price of overseas trust units are determined by both the value of the underlying shares and movement in currency exchange rates. Some funds have a currency hedging strategy to help manage the impact of currency movements.

The fund manager is responsible for the research and selection of shares, derivatives, management and administration of the trust.

Features

- Minimum initial investment may be as low as $1,000. Many funds allow regular monthly contributions from $100 per month
- Equity trusts give investors an opportunity for exposure to a wide range of companies and/or markets with a small amount of money
- Some income payments may be tax advantaged (refer Taxation)
- Use of options contracts and other derivatives by the fund can protect investors against loss while benefiting from favourable price movements
- Money is usually available within one week from a redemption request being received by the fund although some can take significantly longer

But Remember...

- The value of individual investments in equity trusts are affected by the volatility of share markets and currencies which can experience substantial falls and rises
- Equity trusts are not capital guaranteed nor are their future returns
- Although futures and options contracts may be used for investment protection, adverse market conditions and volatility may still impact on the value of the investment
- Investors have no direct participation in the selection of shares or timing of trades
- Some equity trusts borrow funds (gear) seeking to increase their performance. The use of borrowings can substantially increase the investment risk

Glossary

Assessable income: *Ordinary income and other amounts included under the Income Tax Assessment Acts.*
Cost base: *The asset cost adjusted for incidental costs in buying, selling, maintaining and preserving the asset.*
Depreciation: *A deduction allowed at specified rates for the decline in value of certain assets held by a taxpayer as determined by the ATO.*
Gearing: *Borrowing money to invest.*
Illiquid: *Not readily convertible to cash.*
Taxable Income: *Assessable income less allowable deductions on which tax is payable.*

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Taxation

Tax implications can be complex. It may be necessary to seek further information from a qualified tax adviser. The income payments (distributions) may include:

- taxable income which is fully assessable
- realised capital gains from trading
- tax free income - the tax treatment varies and is detailed on the distribution notice
- franked dividends which are paid under the dividend imputation system and provide a tax credit (see FID leaflet - Shares)

Capital gains tax may be payable on withdrawals from investments purchased after 19 September 1985 or on income distributions as detailed on the distribution notice.

The fund will provide a tax statement each year to assist with completion of tax returns.

Government Income Support

The full market value of the investment less debt used to purchase the investment, whether secured or not, but not including that secured by the principle residence is assessible as an asset. This is automatically reviewed in March and September.

The full market value of the equity trust is assessed for the income test under the deeming rules but there is no reduction by any associated debt. For further details contact the Department of Human Services' (DHS) Financial Information Service (FIS), the Department of Veterans' Affairs or the Financial Information Desk (FID).

Fees

- Entry fees vary from 0- 5%.
- Management fees are charged as a percentage of the value of the assets of the fund and usually range between 0.7% and 2.5%.

Fixed Level of Income

Some trusts allow investors to receive a nominated level of income e.g. $100 per month. If the investor's share of earnings does not equal or exceed the nominated amount some capital will be returned to make up the agreed payment. Continued drawing of capital in this manner may deplete the investment potentially to zero.

Listed Investment Companies (LICs)

Listed Investment Companies are similar to equity trusts in that they invest in a portfolio of shares. They are listed on stock exchanges and investors purchase shares in the LIC through a stockbroker. The market value of LIC shares will vary with the value of the investments of the company (known as Net Tangible Assets - NTA) and the demand for the shares. This means their price may be above or below their NTA.

Investing With Safety

Due to the volatility of the underlying assets in Equity Trusts they are considered to be higher risk investments. Withdrawing from the investment when the market has fallen can result in a loss. Being aware of the purchase price and the current unit price can minimise the possibility of a loss being incurred.

Performance in these products takes into account positive or negative capital growth and income distribution. A satisfactory distribution can be received even in a low market.

Equity trusts should be viewed as medium to long-term investments and should not be used to place money that needs to be accessed in the short term. Investment details are included in the Product Disclosure Statement (PDS). This document should be read with understanding before investing.

Equity trusts should only form part of an investment portfolio. Investments with exposure to other asset classes should also be made.