

FACT SHEET

Unit Trusts

Introduction

A Unit Trust pools money to purchase and trade assets on behalf of its investors, with the aim of achieving certain objectives as described in the Product Disclosure Statement (PDS). The Single Responsible Entity (SRE) or fund manager administers the fund.

Investors are allocated units, based on the daily issue (buy) price and the amount they invest. Each unit is an equal share in the trust's investments. The unit price is determined by the value of the investments and can rise or fall depending on market forces.

Fluctuations in exchange rates also affect the prices of units in trusts with exposure to overseas investments.

The unit prices of the trust are usually calculated daily to reflect the total net value of all investments held on that day.

The initial buy price is marginally higher than the repurchase (sell) price on any given day and reflects the costs associated with investment transactions.

Ideally, over time, investors want the sell price to exceed their initial buy price showing a positive return. This is referred to as capital growth.

The number of units allocated to an investor is worked out by dividing the money invested in the fund, after paying any entry fees, by the unit buy price on the day of investment.

Fixed Level of Income

Some trusts allow specified income payments e.g. \$100 per month.

Regular income payments are made from income distributions and where necessary, the repurchase of units. This reduces the number of units in the investors' holding.

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Features

- Unit trusts allow investors to spread their money over a large number of asset classes
- Investment decisions are made by professionals
- Access to large investments which may not be affordable personally e.g. shopping malls.
- Regular savings plans may be available
- Income distributions are usually made half yearly.

But Remember...

- The value of individual investments in unit trusts is subject to market volatility. This may cause the value to rise or fall
- Income received each period may vary. It is not fixed unless specifically requested
- Neither capital nor income is guaranteed.
- Investors have no direct participation in the selection of underlying investments.

Fees

- Entry fees may vary between 0% and 5%.
- The Management Expense Ratio (MER) captures expenses incurred by the operation of the fund. It aims to show the additional cost of using a managed investment compared with the same assets being purchased and held by a direct investor.
- Some funds may charge withdrawal (exit) fees.

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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.*

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 principal residence is assessable as an asset. This is automatically reviewed in March and September.

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

Taxation

Distributions are fully assessable in the year for which they apply whether reinvested or received personally and pay as you go (PAYG) withholding payments may apply. Some unit trusts may have taxation advantages which can reduce the amount of tax payable.

Capital Gains Tax (CGT) may be payable when withdrawals are made from investments purchased after 19 September 1985. It may also be payable on distributions received, as a result of gains realised by the fund manager through trading assets of the fund.

Listed/Unlisted Trusts and Master Trusts

Unlisted Trusts - Investors buy and sell units in the trust through the fund manager.

Listed Trusts - Units are bought and sold on the stock market through a stockbroker.

Master Trusts - These are usually unlisted trusts which allow diversification across a number of different funds and fund managers. See FID leaflet 'Master Trusts & Wrap Accounts'.

Types of Unit Trusts

There are many types of unit trusts. The differences are mainly in the types of investments the manager buys. This may be indicated by the name of the trust, e.g. share trust or property trust. Some trusts may have a mixture of investment types and are often called balanced or managed trusts.

Investors should look carefully at the types of investments the manager buys and the proportion of the fund in each type. These details can be found in the PDS.

Trusts can be designed to provide income, capital growth or a combination of both. The PDS will describe the aim of the investment.

For further information, leaflets on the main types of unit trusts are available from FID.

Investing With Safety

Investment information and applications are found in the current PDS. This document should be carefully read and understood before investing as this may avoid problems in the future.

Different unit trusts are suitable for different investment time frames, risk levels and taxation objectives. Investors should seek to invest in funds whose objectives are as closely aligned to their own objectives.

The value of the investors' holdings in a unit trust are affected by market forces and currency fluctuations causing the balances to rise or fall.

It may also be wise to spread investments between different providers and types of unit trusts to provide greater diversification across asset sectors and fund managers to reduce risk.

Our 'Risk Meter' describes risk and potential time frames for the asset classes.

