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Guide To…

Australian Managed Share Funds

What are Australian Managed Share Funds?

Australian Managed Share Funds are unit trusts that allow you to pool your money with other investors and purchase a portfolio of Australian shares. They provide investors with the opportunity of participating in the share market without the need to purchase shares directly.

Why invest in a unit trust?

A share trust allows you to have a portfolio of Australian shares which is managed by a group of professionals who are skilled in this area.

Some investors choose to have a mix of direct shares and share trusts. For example, it might be appropriate for some investors to have a core portfolio of blue-chip shares producing relatively high levels of tax effective income plus several actively managed share trusts for longer term growth.

Are there different types?

There are many different types of share trusts which aim to achieve different results for their investors. Some of the main types are:

- *Market leaders trust* - generally only invests in leading companies on the share market.
- *Imputation trust* - has a bias towards companies which pay relatively high levels of franked income.
- *Specialist trust* - only invests in a particular area of the market such as industrial shares, resources, smaller companies etc.
- *Index trust* - invests in whatever shares make up a particular index on the share market, such as the All Ordinaries, S&P/ASX 50 or S&P/ASX 200.

What is the tax treatment?

Share trusts distribute the income they receive each year to their investors. These payments are called distributions.

A distribution from an Australian share trust may generally include three types of payments;

- Interest earned on cash held in the trust
- Dividend income from the trust's portfolio of shares
- Capital gains made from the sale of shares in the portfolio

Interest income is fully taxable in your hands. Dividend income from the trust will generally include some imputation credits because the shares in the trust's portfolio may have paid franked dividends. The imputation credits are passed on to you with the income distribution from the trust for inclusion in your tax return.

For investors on a lower marginal tax rate than the company tax rate (which is currently 30%), the imputation credits will be greater than the tax payable on the dividend income. In these instances the imputation credits can then be used to offset tax on other income or refunded where the investor's tax liability is reduced to zero.

Profits made from the sale of shares in the trust's portfolio are generally distributed as realized capital gains. In broad terms these are subject to ordinary capital gains tax provisions in the hands of the investors. You may wish to discuss this aspect with your financial consultant.

What are the risks?

Investors should understand that the share market is volatile. This means that the value of any share can fall quickly with no guarantee that it will rise again. By investing in a professionally managed diversified share trust you can reduce the impact of changes in the value of individual shares in a portfolio, however your investment may still be subject to volatility.

If you have any queries in relation to the content of this material, please do not hesitate to contact Kate Kimmorley the Principal Financial Adviser at Kimmorley Financial Management on (07) 5591 1725.