



## Guide To...

### Researching Managed Investments

#### ***Why Is Research Necessary?***

There are over 4,000 individually managed funds in the Australian managed investment market available for investment and these funds are offered by over 100 investment management companies.

The proliferation of products and managers means that, without formal training and lots of spare time, it can be very difficult for investors to make the right choices. Past performance figures might make interesting reading; however such historical data is not normally a reliable indicator of future performance.

Investors have a right to expect financial advice which is relevant and appropriate to their circumstances. In fact, financial planners have a legal obligation to provide such advice. Therefore high quality investment research is essential to the process of providing sound financial planning advice to clients. We aim to provide our clients with access to researched, high quality managed fund investments that meet their ongoing needs.

#### ***How Are Products Researched?***

A high quality, comprehensive research process is used by your financial planning dealership when determining an approved list of investments, both in the initial analysis and the ongoing monitoring of investment products.

At a high level, there are two key components of the process and these may be regarded as a qualitative component as well as a quantitative component. It is very important that an appropriate blend of both qualitative and quantitative analysis is used when assessing fund managers and their products. For example, when conducting quantitative analysis it is important to assess what the performance has been in the context of the manager's investment style, and whether the fund manager's investment team or processes have changed or remained stable.

The in-depth research of fund managers and products is based on several factors and these are weighted according to their importance in the overall research process. Within the qualitative component of the research process, these include:

- The strength and experience of the fund manager's investment team
- The decision making process employed by the team
- The team's research capabilities (e.g. stock analysis)
- The risk controls used by the team

Within the quantitative component of the research process, some of the key factors reviewed include:

- The fund's historical performance characteristics
- The consistency of the fund's returns
- The amount of risk which the fund manager has employed to generate its returns

The above factors are in addition to assessing a fund manager's overall corporate strength and stability, and factors such as a manager's administrative capability and a fund's fees. Our assessment is based on examination of written materials and responses to questions, in-depth interviews with the fund manager and analysis of quantitative data. This assessment is carried out before a product is approved for use and it is also conducted on a regular basis to ensure that our standards continue to be met.

## ***Implications For Portfolios***

Where an investor invests their money is a very important issue. A formal process exists to ensure that any managed fund investments which are approved for investment by your financial planning dealership are well researched, soundly based and in the interests of our clients.

Recommendations are made for the addition of new investments to our Approved Investment List as well as for the downgrading or removal of investments which fail to meet our expectations and requirements.

The managed funds Approved Investment List contains 3 categories:

- **APPROVED:** These are investments that we expect to provide consistent and competitive returns (over an appropriate time frame) compared to alternative funds of the same type.
- **HOLD:** Some products that may have been previously recommended to a client may be given a HOLD status. This may be because there has been a change in the product or the key staff of a fund manager. This requires further investigation before either restoring it to an APPROVED status or suggesting clients SELL their holding. Alternatively, there may be another product available that will better meet a client's needs going forward, and we would prefer clients maximise their opportunities and re-aligned their investments accordingly.
- **SELL:** This means that there are fundamental concerns about the product or manager and we strongly suggest clients redeem these investments. We cannot continue to actively research products with a SELL status.

It is our preference that clients only be invested in products with an APPROVED or HOLD status because these continue to be actively researched by us. However, in some circumstances it is acknowledged that there may be valid reasons for clients to retain other investments. This decision should only be taken after thorough discussion of the issues with your financial adviser.

Because the status of products on our Approved Investment List will change from time to time, there may be occasions when investments will need to be redeemed with the proceeds reinvested into products which are approved. In this way we can ensure that our ongoing service produces portfolios which continue to meet the individual circumstances and requirements of our clients.

*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.*

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