

- Management Expense Ratio (MER) - the platform operator should calculate the total MER including both the scheme and the underlying investments. Where there is a different MER for each of the underlying investments, these should be shown in a range from the lowest to the highest of the available options.

Government Income Support

The full market value of the investments through the platform is counted as an asset for the assets test. If borrowed funds not secured against primary residence are used for investment, the net asset value is assessable. Investments through these structures are generally financial assets and are assessed under the deeming rules for the income test.

For further information contact your nearest Centrelink's Financial Information Service (FIS) Officer or Department of Veterans' Affairs office.

Taxation

All income, including capital gains realised by the platform is fully assessable in the year earned whether it is distributed or reinvested.

Because of the diverse nature of the investments that can be held within these platforms, issues such as capital gains tax, foreign income, franking credits and pay as you go (PAYG) tax may arise. The taxation implications of investments held in a platform can be complex. It is important that professional advice be sought if you do not fully understand the taxation implications of your investments.

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Glossary

Consolidated/Simplified Reporting - the process where information from all investment managers is collated into a single report to the investor.

Law - Corporation Law including the Managed Investments provisions.

Managed Investment Schemes - where people contribute money to be pooled to acquire financial benefits for the investors in the scheme.

Management Expense Ratio (MER) - Extra expenses incurred in the management of an investment scheme, not including expenses that a direct investor would incur in dealing with the same assets.

Retail - Investment funds structured to accept money direct from individuals.

Passive investor - an investor who buys and holds an investment without altering them as circumstances change.

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Master Trusts & Wrap Accounts



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Investment Product Series

INFORMATION CURRENT FROM 21/01/08



What are Master Trusts and Wrap Accounts?

Master Trusts and Wrap Accounts are structures used by industry to deliver services known as Investor Directed Portfolio Services (IDPS) under Australian Securities and Investments Commission (ASIC) policy. They are often described as 'Platforms'.

They generally offer a menu of preselected investments/investment managers the investor can distribute funds to. They are investment schemes where the investor has the ultimate responsibility for investment manager choice with guidance from a financial planner in most cases. Access is generally gained through a financial planner. In some cases it is possible to deal directly with the platform operator.

Wrap Accounts differ from Master Trusts in that direct investments such as shares, property etc. can be included.

These structures provide a service for acquiring and retaining investments within a single administration arrangement that provides a *consolidated simplified report* on the investments held. They can cover both superannuation and non-superannuation investments. Superannuation Master Trusts/funds are regulated under the Superannuation Industry (Supervision) Act and non-superannuation investments are regulated under the Corporation Law.

Key Aspects

- Platform operators are required to hold an Australian Financial Services Licence (AFSL) that specifically authorises them to operate an IDPS.
- The products are regulated under the licensing provisions of the *law* and where referred to as a *managed investment scheme* the Managed Investment provisions do not apply.
- Clients of both Master Trusts and Wrap Accounts must be provided with a Product Disclosure Statement that contains similar disclosure information provided to investors when they receive investment advisory services from a financial planner or investment adviser at a *retail* level.
- The investment managers of these products are required to provide investors with quarterly statements that detail transactions, assets, income and expenses or to provide them with electronic access to the information.
- Operators of these schemes will be able to communicate with their investors electronically if the investor has agreed to receive the information in this form though generally the communication would be through the financial planner.
- It is possible to change financial planners without disturbing investments provided they use the same platform operator.

Features

- *Simplified reporting* - the administrator provides a single report on all investments through the service.
- Records are all in one place and reports are provided in a form to make the compilation of a tax return simpler.
- Flexible - investors are able to switch between managers and investments at a reduced cost.
- The platform operators fee is usually tax deductible.

But Remember...

- Investors invest in the IDPS and not the underlying investments. There is no direct contact with different fund managers.
- Investments in Master Trusts are held in the name of the trust while investments in Wrap Accounts are held in the investors name.
- While platforms provide a greater level of flexibility (see features above) *passive investors* may pay a higher level of management and administration fees.

Fees

- Establishment fees of up to 5% may apply.
- Administration fees apply and are deducted from the account. These fees vary between administrators.
- Where entry is through a financial planner the fees may be negotiated. Where entry is directly through the platform operator the full fee usually applies.