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Distributions – your questions answered

Ever wondered how distributions affect unit prices or why there may be end of financial year delays to unit prices and transactions? We answer some common distribution questions and outline what to expect.

What is a distribution?

A distribution is profit earned by a managed fund and paid to investors. Throughout the financial year, a managed fund will earn income from its investments. These could be in the form of dividends, interest and foreign income. The managed fund may also make gains or losses on investments sold. Depending on which tax regime the managed fund operates under, referred to below, and the terms of its trust deed, the managed fund must either pay all of this income and realised capital gains to investors as a 'distribution', or 'attribute' that income to investors which may or may not include an associated cash payment.

When cash is paid to investors, including where that cash is reinvested via additional units, the unit price of the managed fund will usually decrease by an amount equal to the payment at the time.

With the introduction of the Attribution Managed Investment Trust (AMIT) regime, fund managers may now attribute income to investors without an associated, or with a lower, cash distribution. This means that investors still include the income earned by the managed fund in their income tax return but may not receive the cash as they did under the distribution method. If cash is paid, the unit price will generally decrease by this amount.

Why do unit prices fluctuate?

When you invest in a managed fund, you are allocated a number of units in each of the funds you have selected. Each of these units represents an equal part of the market value of the portfolio of investments that the managed fund holds. As a result, each unit has a dollar value or 'unit price'.

This unit price is calculated by taking the total market value of all of a managed fund's assets on a particular day, adjusting for any liabilities, and then dividing the net fund value by the total number of units held by all investors on that day. Although your unit balance in a fund will stay constant (unless there is a transaction on your account), the unit price will change according to changes in the market value of the investment portfolio.

End of financial year unit price and transaction delays

At the end of the financial year there may be delays in fund managers issuing unit prices as they finalise financial year-end income calculations. While unit prices are unavailable, we won't be able to process certain transactions including switches and withdrawals.

We will be able to process pension payments during this time.

As prices are finalised, we will process transaction requests as quickly as possible. We expect to have most 30 June unit prices available for all investments, superannuation and retirement products by late July.

Why do managed fund unit prices decrease after 30 June?

A unit price reflects the value of a fund's investments, including any income accrued but not yet distributed.

The unit price will usually decrease by an amount equal to the cash paid at the time.

Why is there a delay in releasing unit prices after 30 June?

Finalising year-end unit prices is a detailed process and takes time due to distribution calculations and auditing requirements of the fund manager. We rely on external fund managers to provide the information to us. We expect most unit prices for external fund manager investment options to be available by late July.

Why is the delay longer for some managed funds compared to others?

Managed funds invest in many underlying assets. This may include Australian or international shares, property, bonds, cash, or other types of assets. Fund managers must wait until they have all of the relevant end of financial year information from each underlying asset before the unit prices and attributions, or distributions, of the managed fund can be finalised.

Any delay the fund manager experiences in receiving the information they need results in a delay to calculating unit prices, attribution, and distributions. The fund manager can only work as quickly as the slowest underlying asset.

How does the income of my 30 June distribution get invested?

Initially, the 30 June cash payment or distribution will be credited to your Cash Account. It will then be invested as per your relevant investment instructions (if applicable).

Why is the 30 June distribution often much larger than the other distributions received through the financial year?

In general, cash distributions that occur during the year reflect income only, although with the introduction of AMIT the cash paid may not reflect all of the income attributed to the managed fund. If capital gains have been realised during the financial year, and the fund manager decides to distribute these, they are generally distributed in the June distribution. Managed funds generally distribute monthly, quarterly, half-yearly or annually. Most funds distribute at least annually, although with the introduction of AMIT it is possible no cash may be distributed by the fund.

Why are there delays in processing withdrawals at the end of the financial year?

At the end of the financial year there may be delays in fund managers issuing unit prices as year-end distributions are finalised. While unit prices are unavailable, we are not able to process transactions, including withdrawals.

When are the other distribution periods during the year?

Distributions for funds may be paid on a monthly, quarterly, half-yearly or yearly frequency, depending on the fund. Quarterly distribution dates in a financial year are 30 September, 31 December, 31 March and 30 June.

Half-yearly distribution dates in a financial year are 31 December and 30 June.

My fund didn't pay a distribution – why?

A fund will not necessarily pay a distribution at the end of its scheduled distribution period for a variety of reasons, including but not limited to, the following:

- International assets producing lower levels of income, possibly due to losses on currency hedging foreign exchange transactions, which are then absorbed generally by fund expenses/fees.
- A capital loss may have been made on the sale of assets within the fund. The loss can vary depending on a number of factors including what the asset was, its market value when disposed of, the original purchase price etc.
- The fund may have current or prior year capital or revenue losses that are being offset against income.
- The fund manager has utilised the AMIT regime such that the cash distribution is less than the attributed income of the Fund.

It is important to understand that even if a cash distribution is not made, the fund may still have experienced positive performance.

How does a fund generate income and capital gains to be distributed?

In general, a fund generates income, including capital gains, for unitholders in two ways – by earning incoming from investing in other funds, receipt of direct dividends, direct interest on cash, or by selling investments that may have increased in value.

Please contact us for more information.

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