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Managed investment closures and terminations explained

Shadforth Portfolio Service has an investment menu that is designed to help you reach your financial goals. To ensure you have the choice of the most appropriate investment options, we review our investment menu on a regular basis.

From time to time, investment options on our investment menu may be terminated or closed.

Why would a managed investment be closed or terminated?

There are many reasons why a fund manager may choose to close or terminate a managed investment or we, as the Trustee or Service Operator¹, may choose to remove the managed investment from the menu.

Here are some examples of why a fund manager may decide to close or terminate a managed investment:

- There are too few people choosing the managed investment and the fund size is too small. This along with the ongoing management and administration costs of the investment, may lead to the fund manager being unable to effectively manage the portfolio in accordance with its investment objective.
- The managed investment may not be meeting its investment objective.
- The managed investment can't be managed in a cost-effective manner without the fund manager needing to increase the fees charged to investors.

If we, as the Trustee or Service Operator¹, deem a managed investment to be no longer suitable, we will close or terminate the fund on our investment menu. Here is an example of why we may decide to close or terminate an a managed investment:

- The research rating is downgraded by a provider who has decided there is a lower probability that it will meet its stated investment objective. The research rating could be provided by the Insignia Financial Group Research Team and/or an independent research organisation.

This is just one example – there may be other reasons why a fund is closed or terminated.

What happens when you hold a managed investment that is closed?

When a managed investment is closed, it can be either a soft closure or a hard closure.

A **soft closure** means the managed investment is closed to all new investors, however existing unitholders can continue to hold the managed investment in their account and are able to purchase additional units or redeem units.

A **hard closure** occurs when the managed investment is closed to all further investments. This means existing unitholders can continue to hold the managed investment in their account and can redeem units but will not be able to reinvest earnings or purchase additional units.

¹ IOOF Investment Management Limited (IIML) ABN 53 006 695 021, AFSL 230524, is Trustee of the IOOF Portfolio Service Superannuation Fund ABN 70 815 369 818 and Navigator Australia Limited (NAL) ABN 45 006 302 987, AFSL 236466, is Service Operator of each Investor Directed Portfolio Service

What happens when you hold a managed investment that is terminated?

When a managed investment is terminated, it is no longer available for investment and all units are redeemed. This means you will no longer hold the managed investment in your account and your units will be sold down to cash and placed in your Cash Account.

What happens if a terminated or hard closed managed investment formed part of the investment instructions on your account?

We offer different kinds of investment instructions for various actions that you may want to do, such as informing us how you'd like your deposits invested and how you would like to manage your Cash Account. Some examples are shown below but we recommend you read the disclosure documents carefully to understand the impact on your account. These can be found at portfolio.sfg.com.au

You should carefully consider whether the new instructions will continue to meet your investment strategy and objectives. If you would like to discuss or change your investment instructions, please speak with your financial adviser.

The below examples are types of Standing Instructions

1. Deposit Instruction

A Deposit Instruction tells us how you would like new deposits to be invested. If a terminated or hard closed managed investment formed part of your Deposit Instruction, the percentage of your deposit that you allocated to invest in that managed investment will be retained in the Cash Account. The terminated or hard closed managed investment will still appear in your instructions until you update them, however it will not accept any purchases. Please see example below which shows how a deposit of \$1,000 would be invested after a managed investment has been terminated or hard closed.

Managed investment	Deposit Instruction	\$1,000 deposit
Cash Account	1%	\$510
Investment A – Terminated/closed	50%	No purchases accepted
Investment B	10%	\$100
Investment C	20%	\$200
Investment D	19%	\$190

2. Income preferences

If a terminated or hard closed managed investment formed part of your income preferences the percentage of your deposit that you allocated to invest in that managed investment will be retained in the Cash Account.

The terminated or hard closed managed investment will still appear in your instructions until you update them, however it will not accept any purchases.

3. Cash Account top up instructions

If a **hard closed** managed investment forms part of the Cash Account top up instruction, there will be no change. The managed fund will continue to be part of the instruction and can be sold down to top up the Cash Account as required.

A **terminated** managed investment, however may change the Cash Account top up instructions. The table below explains how the different types of instructions may be affected when a managed investment is terminated.

Cash Account top up method	Terminated managed investment
Pecking order	If a terminated managed investment forms part of the pecking order, the next managed investment on the list will be sold down to top up the Cash Account. If there are no other managed investments listed in the pecking order, the Cash Account top up method will revert to the default option.
Pro-rata	A terminated managed investment will no longer be held in your account. The remaining managed investments held will be redeemed according to the proportion invested in each managed investment.
Redemption Instruction – Percentage	If the terminated managed investment formed part of your Redemption Instruction – Percentage, the remaining managed investments in these instructions will be used to top up your Cash Account. If there are no remaining managed investments, your Cash Account top up method will revert to the default Pro-rata option.

4. Automatic Re-weight facility

You can establish an Automatic Re-weight instruction on your account. Where a managed investment is terminated or hard closed the percentage allocated against it will be allocated to the other remaining eligible investments in your portfolio. When this occurs we recommend speaking with your financial adviser to update your Automatic Re-weight facility.

For further information please contact your financial adviser or refer to the product disclosure statements available at portfolio.sfg.com.au. Alternatively, contact Shadforth ClientFirst on 1800 931 792 or portfolioservice@sfg.com.au



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