Colonial First State

We want what you want

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Things to watch for when you withdraw from your investment.

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Are you confident that you understand all the implications of making a withdrawal from your managed investment?

There are two main reasons why you would sell a managed investment – either you want to buy something or you need to pay off debts. Whatever the reason, we want to make sure that you are aware of some of the implications. So read this flyer and talk to your financial adviser.

Will you be liable for capital gains tax?

When you sell some or all of your Colonial First State managed investment, or even if you switch the money to a similar or different type of investment, you may create a capital gains tax event.

This means that you may pay tax on the difference between the original cost and its sale value. This tax could be as high as 46.5%. If you have owned the investment for more than 12 months, the tax liability may be cut in half, but it's still worth checking with your tax adviser to assess any potential tax liability.

Selling 'crystallises' a loss

Most managed investments fluctuate in value, often sharply. When you make a switch or a withdrawal, the possibility of the investment recovering is lost forever. So, it's important that you weigh up the chances of an investment recovering.

You lose the potential long-term benefits of compounding

In order to show you the potential financial consequences of a relatively small transaction and the effects of compounding over time, take a look at the example of Erica and Steve.

It is important to remember that past performance is no indication of future performance. This example has been provided only to demonstrate the mathematical effect of compounding over time and should not be taken in any way as an indication of how your investment will perform.

Erica and Steve – a case study

Erica and Steve both invested $30,000 in a managed fund. Steve was going on an overseas trip and needed to pay for it so he withdrew **$5,000** from his investment.

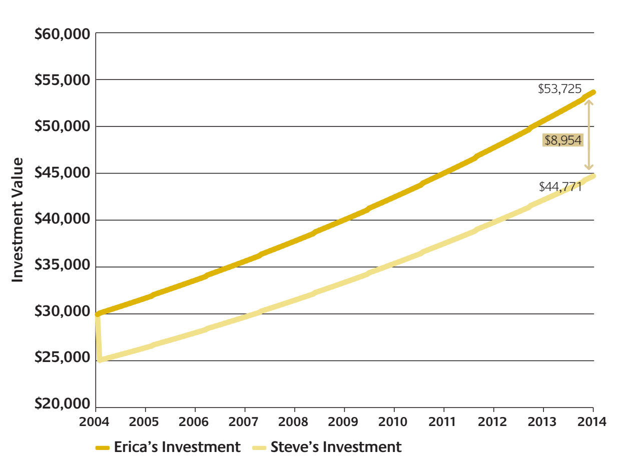
Steve enjoyed his holiday but lost the investment power of his $5,000.

As you can see from the graph, after 10 years assuming an average return of 6% pa for both investments, Erica's investment has grown from $30,000 to $53,725 whereas Steve's $25,000 has only grown to $44,771, which is **$8,954** less than Erica.

Of course, for shorter periods, say 6–7 years, the difference is less but the message is clear – staying invested can have positive results for your investment.

The returns used are illustrative only and do not represent actual returns of funds offered by Colonial First State. Fund returns however generally fluctuate during the investment period.

Disadvantages of withdrawing $5,000 from invested funds



Returns indicated are before fees and taxes. Please remember that all investments are subject to risk. This means that you can lose money on your investments or that they may not meet your objectives. The value of your investment can rise and fall over time too.

Mis-timing investment markets

If you are cashing out because of disappointing results, you may be leaving the fund at an inappropriate time.

The table to the right shows how much markets can fluctuate from year to year. Even experienced investors will find it almost impossible to successfully predict the movements of investment markets.

Over the last 20 years, the best performing asset class to June 2006 has been property securities. Australian shares also performed strongly over the last 20 years. However, take a look at the period between 1987 and 1993 when the market was up one year and down the next, usually by a substantial amount. Making the right buy/sell decisions is a difficult task.

The bolded numbers in the table also show that it's difficult to predict which asset class will perform best and that each asset class has performed strongly at different times.

Market movements are almost impossible to predict						
	Australian shares	Global shares	Property securities	Fixed Interest	Cash	Diversified
Last 20 yrs	**11.82%**	**8.40%**	**12.74%**	**10.08%**	**8.17%**	**10.96%**
Jun 1987	**54.01%**	32.92%	41.31%	12.86%	15.87%	35.40%
Jun 1988	-8.61%	-9.91%	-2.79%	**17.16%**	11.60%	1.70%
Jun 1989	3.53%	**17.85%**	-1.09%	5.32%	15.95%	7.94%
Jun 1990	4.09%	1.95%	15.24%	17.28%	**18.48%**	8.93%
Jun 1991	5.86%	-1.84%	7.70%	**22.36%**	13.51%	9.12%
Jun 1992	13.04%	7.22%	14.74%	**22.05%**	9.00%	13.93%
Jun 1993	8.66%	**31.34%**	17.08%	13.93%	5.91%	16.37%
Jun 1994	**15.52%**	0.21%	9.81%	-1.13%	4.93%	6.56%
Jun 1995	6.44%	**14.07%**	7.90%	11.88%	7.10%	10.07%
Jun 1996	**14.32%**	6.67%	3.62%	9.45%	7.75%	9.88%
Jun 1997	26.84%	28.46%	**28.53%**	16.76%	6.77%	23.95%
Jun 1998	0.96%	**41.58%**	9.97%	10.88%	5.11%	14.11%
Jun 1999	**14.14%**	8.21%	4.31%	3.28%	5.04%	8.74%
Jun 2000	18.15%	**23.69%**	11.91%	6.17%	5.58%	15.44%
Jun 2001	9.11%	-5.82%	**13.91%**	7.42%	6.08%	5.39%
Jun 2002	-4.54%	-23.26%	**14.85%**	6.21%	4.66%	-4.65%
Jun 2003	-1.61%	-18.28%	**12.15%**	9.78%	4.97%	-1.53%
Jun 2004	**21.73%**	19.38%	17.24%	2.33%	5.30%	14.88%
Jun 2005	**26.03%**	0.57%	18.10%	7.79%	5.64%	12.98%
Jun 2006	**24.02%**	19.97%	18.05%	3.41%	5.76%	16.25%

Percentage return over 1 year to 30 June each year. Source: UBS Australia Bank Bill Index (91 day Commonwealth Treasury Note Index pre Jan 1999), UBS Australian Composite Bond Index, S&P/ASX 200 Property Accumulation Index (ASX Property Accumulation Index pre April 2000), S&P/ASX 300 Accumulation Index, (ASX All Ordinaries Accumulation Index pre April 2000), and the MSCI World Net Index in $A. All dividends reinvested excluding fees and charges. Diversified portfolio based on: 35% Aust Shares, 25% Global Shares, 10% Property Securities, 25% Fixed interest, 5% Cash.
Past returns are no indication of future performance for any asset class.

Switching to ‘a better performing fund’

It is virtually impossible for a manager to deliver superior performance all the time. This is because all managers usually have a particular philosophy and process they use to buy and sell assets. It is inevitable that there are times when the market situation does not suit that philosophy, and one manager may not perform as well as another.

Fees and charges

If you are moving money from one of our managed investment funds to another fund, make sure you know what fees and charges apply. Every fund is different so please ask your financial adviser or our investor services team what fees and charges apply to you.

Withdrawal and contribution fees

In certain circumstances, there may be withdrawal fees payable on your Colonial First State investment so make sure you check before completing the transaction.

If you are moving your funds to another manager you should also find out what fees you will be paying in your new fund. Is there a contribution fee? Some funds have a contribution fee of up to 4%, sometimes more. Others may not have an contribution fee, but there could be withdrawal fees if you withdraw your money in the first five years or so.

Annual fees

It is also important to weigh up the annual fees. Many funds have complex layers of fees including administration, management, trustee and expense recovery fees.

Buy/sell spreads

You may also be affected by transaction costs (commonly called 'buy/sell' spreads). A buy/sell spread is the difference between the entry unit price and the exit unit price. This is effectively a charge to cover the costs associated with buying and selling units in a fund, and can be as much as 1% of the transaction value. The buy/sell spread is separate from any withdrawal fees which may be charged to you.

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Is withdrawing from your managed investment the best option?

Have you considered whether you have given the investment enough time to perform? Most of our funds have a suggested timeframe, because investment markets do fluctuate markedly over shorter time periods. If the investment was part of a long-term strategy to achieve future goals maybe it's worth considering whether you should persevere with the strategy.

Do you have all the information?

Before you make a decision to withdraw, make sure you understand the effects on your personal financial situation. Your financial adviser can be invaluable in this process as they can review your situation and help you:

→ assess the effects of the proposed changes
→ explain what may happen and discuss alternative options with you
→ assist you in balancing your short-term goals with your long-term retirement needs

Any questions?

If you have any questions please contact your financial adviser or call us on 13 13 36, Monday to Friday, 8am to 7pm, Sydney time.

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