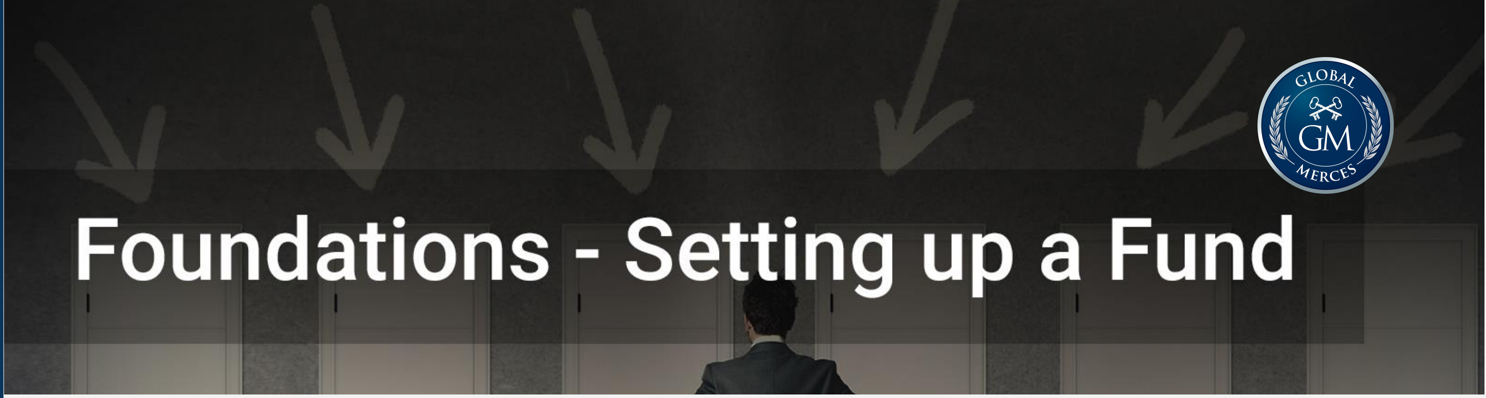

To get the right answers, you first need to ask the right questions. For any Investment Structure to survive it must be built on solid foundations.

Foundations: Setting up a Fund
Joanne MacDonald - Adviser

There is a very big difference between ***strategic*** **and** ***ad hoc*** investing.

When starting a Fund I look at it from two streams.

The first is around the actual product itself, whilst the second concerns the administering of the product.

If you have a great idea for an investment fund you want to take to market you must first be very clear about what that product is and who it's aimed at.

What is the asset class and what is your market?

Are you appealing to retail or non-retail investors - high net worth (sophisticated) investors or the institutional market?

You then need to look at the *duration* of the fund and that's a really important consideration because it ties into things like how you're going to measure performance and what kind of benchmark you will need to do that.

You also need to determine how you're going to *price* the asset. The valuation methodology is vital because it reflects the value for potential investors.

Related to that is the *fee structure*. Here you again need to keep your potential investors in mind because fees will vary between retail and non-retail clients.

You need to be very aware of how you will then make that fee structure work.
Will you need to think about buy/sell spread and recovering costs if there are any gearing ratios available within the fund?

It's about making sure you can recover your operating costs for running the vehicle.

In doing that *you need also to think about your competitors.* Managed investments have been around for a couple of hundred years so do you have a niche product, or does the big end of town already have similar products out there already?

The duration will depend very much on the product.

More traditional asset classes are aimed at between 3 (with fixed interest) -15 years (with equities) and that relates to the level of risk involved. But when you get into things like alternative asset classes (infrastructure, property and bespoke classes like media and currency vehicles) you can sometimes be looking at much longer in order to produce income returns and capital appreciation.

For instance, an infrastructure fund might have a 30 year duration whereas with a currency fund you can be in and out pretty quickly.

Valuation of assets within the fund is integral to all of this and best practice is to have independent, third party involvement. For example, with real estate, you'll have a professional valuer who has expertise in that area. It might be a commercial office building or a retail shopping centre. Even residential properties. For things like equities and fixed interest you're typically using the data feed that's coming from markets (Bloomberg etc).

Regarding fees, for non-retail investors you're looking at anywhere between 25 and 100 basis points (depending on the asset) and that relates to the economies of scale that flow from investors into the non-retail market.

From a retail perspective fees generally range between 2-4% and it's normally an entry fee and as you invest there might be, say, a 2.5% fee for $5,000 or $10,000 invested into the product. They're usually one-off fees and can be done as an exit fee. During the year there will be the ongoing management expense ratio and they vary a little depending again on the asset class but it's generally around 1-1.5% on a retail product.

It's really important to be crystal clear about fees and to provide work dollar examples which gets to what's involved in administering a fund and what's involved in terms of getting something to market.

If you'd like to talk about any of this please contact me at any time. All the details are on our website:

www.globalmerces.com.au