Investor Fees Explanation Booklet

Version 1.01

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Know Your Fees?

It is vitally important to know exactly what fees you are paying when making an investment.

As you have probably heard or read in various papers or online etc, fees deducted from your portfolio can make a significant difference to ongoing as well as to the ultimate return and value realised in your portfolio.

The better your understand Investment Fee structures and what a reasonable fee is to pay for a service, the better you will be able to manage your portfolio and returns.

How Fees are "generally" structured.

Fees are normally paid for 3 and sometimes 4 different levels of service when you make an investment.

They are "normally" as follows:

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① Adviser Fee:

This is the fee that your Financial Adviser will charge you in order to provide a Financial Plan and or guidance of sorts and then to implement and manage your portfolio on an ongoing basis.

The Adviser Fee is broken down into 2 parts:

1 – **Initial or Up Front Planning and Implementation Fee.**

This fee would cover the cost of the adviser to collect relevant information from you in order to assess your requirements as well as various other factors which would influence the advice/ Plan that he/she would then provide to you.

This fee would generally also cover the implementation of the investment/policy.

This fee is normally charged in one of 2 ways:

1 – as a percentage of the portfolio that is invested

or

2 – as a set amount that you will agree with your adviser.

Note: Always check with your adviser as to what options they offer.

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The Adviser Fee Continued:

2 – **Ongoing Management Fee.**

This fee would cover the advisers cost to manage your portfolio, report to you and give advice on your portfolio an ongoing basis.

If your adviser did a comprehensive planning exercise initially, changes to your portfolio and costs thereof would generally be included in the Ongoing management fee cost.

This fee is normally charged in one of 2 ways:

1 – as a percentage of the value of the portfolio that is managed

or

2 – as a set amount that you will agree with your adviser.

Note: Once again, always check with your adviser as to what options they offer.

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② Administrator Fee:

This is the fee that your Administrator will charge you in order to provide administration services such as, keeping account of your investments and transactions, providing statements and reporting on and confirming any changes you implement in your portfolio. The administrator will not provide any advice but will ensure that your portfolio is managed and accounted for from an administrative perspective.

The Administrators Fee is broken down into 2 parts:

1 – **Initial or Up Front Implementation Fee.**

This fee would cover the cost of initial implementation of the portfolio.

This fee is normally charged:

1 – as a percentage of the portfolio that is invested.

Note: **Most administrators do not charge Initial or up front fees any more.**

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The Administrator Fee Continued:

2 – **Ongoing Administrator Fee.**

This fee would cover the ongoing cost of managing your portfolio, reporting to you on a regular basis and ensuring that your portfolio is accounted for correctly on an ongoing basis.

Once again, no advice is offered by the administrator. There function is purely to implement the instructions they are given and hence provide a support service to you and your adviser.

This fee is normally charged:

1 – as a percentage of the value of the portfolio that is administered by them.

Note: Their fees are generally charged on a sliding scale basis based on the size of your investment or total funds invested with them. The larger your investment/s value, the smaller the fee percentage payable.

Typically, Administration fees vary between 0.75% and 0.2%pa.

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3 Asset Manager Fee:

The Asset manager is the team that provide the growth or return on your investment. Ultimately, this is what investing is all about, getting a respectable REAL (greater than inflation) return on your funds invested.

The Asset manger will typically run a number of different Funds (Unit Trust Funds also known as Collective Investment Scheme or Mutual Funds).

The Asset manager/Fund Managers Fee is broken down into 2 parts:

1 – **Initial or Up Front Implementation Fee.**

This fee would cover the cost of initial implementation of the portfolio.

This fee is normally charged:

1 – as a percentage of the portfolio that is invested.

Note: Most Asset/Fund Managers do not charge Initial or up front fees any more.

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The Asset/Fund Manager Fee Continued:

2 – **Ongoing Asset / Fund Manager Fee.**

This fee would cover the ongoing cost of research, analysis and managing the fund.

Their fee is normally charged:

1 – as a percentage of the value of the portfolio that is managed by them.

Note: Asset management fees often also include "Performance" fees. These performance fees would come into effect on the fund reaching and exceeding a specific benchmark performance level.

It is very important to read the Fund fact sheet of the fund you are looking at investing into prior to making your investment.

The 'factsheets' contain all the information and disclosures as required by the Financial Service Board (FSB) to be included in minimum disclosure documents and general investor reports. They set out the characteristics and objectives of each unit trust to help you understand the nature and risks of the unit trusts so that you can make informed investment decisions. You should ensure that the unit trusts you select are appropriate for your needs and objectives.

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The Asset/Fund Manager Fee Continued:

Asset manager fees vary based on the type of fund.

The cheapest fund would be cash type or Money Market funds which charge from around 0.3%pa upwards.

More specialist Asset Allocation, Fund of Funds and Equity funds can charge up to over 3%pa inclusive of performance fees.

It is therefore vitally important to know and understand what costs you can expect based on the fund choices you are making.

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④ Discretionary Investment Manager Fee:

What is a Discretionary Investment Manager (DIM)?

As an investor or adviser, you may prefer to delegate the responsibility of choosing funds for your portfolio, to a professional team/company who specialise in blending funds and building portfolios based on specific mandates.

A Discretionary Investment Manager is a professional investment management team that invests on behalf of their clients through a variety of securities or funds. The term "**discretionary**" refers to the fact that investment decisions are made at the investment manager's judgement.

The investment management company has a continuing responsibility to ensure that an investment portfolio is suitable for the client's attitude to risk and investment objectives (mandate).

You or your Investment adviser would then use one or a number of these portfolios within your Investment portfolio based on your specific needs and cash flow planning outcomes.

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Discretionary Manager Fee Continued:

1 – **Initial Discretionary Investment Manager Fee.**

Discretionary Investment managers typically do not charge initial fees.

2 – **Ongoing Discretionary Investment Manager Fee.**

This fee would cover the ongoing cost of research, analysis and managing the Discretionary fund.

Their fee is normally charged:

1 – as a percentage of the value of the portfolio that is managed by them. Typically below 0.35%pa

It is very important to read the Fund fact sheet of the DIM fund you are looking at investing into prior to making your investment. The fees specific to the fund will be disclosed in the fact sheet.

The 'factsheets' contain all the information and disclosures as required by the Financial Service Board (FSB) to be included in minimum disclosure documents and general investor reports. They set out the characteristics and objectives of each unit trust to help you understand the nature and risks of the unit trusts so that you can make informed investment decisions. You should ensure that the fund/s you select are appropriate for your needs and objectives.

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