

# FACT SHEET

## Investment Fees

### What Fees Can I Expect to Pay?

All investments incur costs and fees of some sort. Costs and fees are deducted to cover the initial and ongoing administration services as well as the management of the investment. Many investments are expressed in units, with each unit being a share in the investment. The costs and fees for these are included in calculations to determine the unit price or are recovered by the repurchase of units held. If the investment is not unitised, costs and fees will either be debited to the account directly or taken from the earnings of the fund.

The fees must be outlined in the Product Disclosure Statement (PDS), Prospectus or Offer document. They may not all be listed together so it is important to check the entire document.

Different investment options require different levels of management so fee structures may vary. Be careful to only compare fees on similar types of investments. Usually, the more complex and active the management, the higher the fees charged.

The net return after fees should be of greater importance to the investor than the actual fees.

### Entry Fees

Entry fees are charged on the amount deposited to an investment product. This is charged as a percentage of the amount lodged and is deducted from the money invested. Entry fees vary from 0 - 5% and may be charged on the initial and additional contributions made. In some cases this fee may be negotiable or rebates offered.

### Management Fees

Responsible Entities\* charge a fee for their services. This fee is usually called a management fee. It is usually a percentage of the total daily value of the fund and is not related to the performance of the entity or the return received. The Responsible Entity is paid even when the return is negative.

The fee varies according to the type of fund, the policy of the Responsible Entity, and is usually between 0.5% and 2.5% of the asset value of the fund.

In unitised products this fee is usually taken into account in calculating the unit price and investment returns are quoted after the fee has been deducted. The dollar amount of the fee should be disclosed on the statement of the investment. It is not usually tax deductible.

\* In managed investment products the positions of fund manager and trustee were amalgamated. In non-superannuation investments the role is known as the 'Responsible Entity' while in superannuation products, it is termed 'Trustee'.

### Direct Investment Fees

Buying and selling shares (known as trading) can incur brokerage while agent's fees/commissions, legal fees and stamp duty can apply to property investments. The costs vary depending on the service provided.

### Performance Fees

Where a pre-set disclosed benchmark is exceeded an additional performance fee may also be charged for the particular period. This incentive for the manager is received only when the investor has also received a better than anticipated return.

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Where a performance fee applies the standard management fee may be lower. It is prudent to check the benchmark is set at a reasonable level.

## Account Fees

Some investments, such as superannuation products, may have annual account fees. They are a nominated dollar amount (e.g. \$60 per annum) and may be indexed. These fees are deducted from the investment balance and appear on the statement. For unit based investments such fees effectively reduce the number of units held.

## Unit Price Spread

When investing in a managed fund investors are allocated a number of units to represent their share of the investment fund assets.

The value of units in the trust is usually calculated daily to reflect the total value of all investments held on that day.

The issue (buy) and repurchase (sell) prices usually differ on any given day and reflect the costs of making transactions for the trust such as brokerage, stamp duty etc. The difference (spread) is the charge applied to cover these costs. This only becomes a cost to the investor if the units are sold when the sell price is less than the original buy price.

## Exit Fees

Some funds charge exit fees usually as a percentage of the amount withdrawn. The fee generally varies from between 0 - 5%. This may apply on all withdrawals or to withdrawals made during a specified number of years from commencement. Exit fees do not generally apply when entry fees have been charged.

## Switching Fees

A manager may charge a fee when unit holders request changes to their investment options e.g. transferring funds from capital secure to balanced etc. This may be a set dollar amount per transaction or a percentage of the amount switched.

## Management Expense Ratio (MER)

Managed funds incur ongoing administration costs which are paid out of the fund. The Management Expense Ratio (MER) indicates the percentage of the average balance the investment fund needed to cover fees and charges (including the annual management fees). The MER aims to show what extra costs are incurred in using a managed fund structure instead of direct investments by the investor. This ratio can be used to compare the costs of similar funds with different product providers. It is not an additional fee.

## Other Costs

A fee refers to payment to the product provider for their service while charges refer to costs imposed on product providers by other organisations – e.g. tax. Following the introduction of GST some duties and taxes were abolished. Other services may attract fees and together with any charges imposed are recovered from the investors.

## Advisor Fees & Commissions

Advice providers usually charge their clients a fee for giving advice and preparing and presenting a Statement of Advice. If a client opts for ongoing services such as reviews, maintenance and other advisory services, advisers may charge an ongoing service fee. All these fees may be negotiated or rebated.

The government banned commissions on new investments from 1 July 2013. Refer to our booklet A Guide to the Financial Planning Process, for further details on fees received by financial planners.

## Investing With Safety

Remember all product providers need to charge fees to cover costs and be profitable. Compare similar investments and their net return.

Be cautious and check for hidden fees. A choice of how fees are charged may be available. The final cost may be very similar despite the fee structure chosen. Always read all documents carefully and thoroughly. Fees on different investment types vary. Refer to our leaflets on the relevant product type.

