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ASX: MVW – VANECK VECTORS AUSTRALIAN EQUAL WEIGHT ETF

Vector Insights: The true cost of investing

Fees and costs have always been a hot topic when it comes to investing and it's getting hotter as we approach 1 October 2017. This is the date ASIC's regulatory guidance on fees and costs disclosures (RG 97) comes into full effect. Many fund managers are worried about the changes as it will require them to quantify the full costs of managing investments. For some the true costs will be significantly higher than they are currently disclosing to investors. The RG 97 intends to ensure full transparency and comparability between products. Understanding the total cost of investing will benefit consumers. Here we give them a head start.

From 1 October 2017, ASIC's RG 97 requires all managed investment and superannuation product issuers to provide more detailed disclosure about fees and costs.

It's important to note that this is not about new costs. RG 97 is about costs investors are already incurring but don't know about. ASIC is implementing the new requirements because the disclosure obligations that have existed under the Corporations Act Regulations for over 10 years have failed to achieve their goals of transparent and comparable costs disclosure. This means for over 10 years investors have been making decisions based on incomplete information.

The changes are designed to create a more level playing field by giving customers more meaningful comparisons between products through greater transparency. These changes will impact almost all categories of fees and costs. Actively managed unlisted funds and ETFs generally have different costs so the impact of these changes will be different.

The following table sets out a hypothetical example of current investments costs incurred for an Australian equity investor in an ETF versus an unlisted managed fund and how they are currently disclosed:

Costs and fees	ETF Investor buying MVW now	Current disclosure	Active fund investor buying an 'average' fund now	Current disclosure
Buy/sell spread	0.09% ¹	The buy/sell spread is the difference between the 'bid' and the 'ask' price. This is established between the investor and their counterparty on ASX just like shares. It is not a fee charged by the fund and so is not in the PDS.	0.45% ²	Disclosed in the PDS. These are designed to capture the costs the fund manager will incur for buying and selling the underlying securities as a result of your transaction. The buy and sell spreads are retained within the Fund.
Brokerage for buying	Flat or tiered	Paid to your broker	n/a	n/a
Management costs	0.35%	Disclosed in PDS	1.3% ²	In many cases fees for external advisers or interfunding arrangements are not included in this amount.



Transactional and operational costs	0.05%	Not currently quantified. This is our current estimate of the total transactional and operational costs which is brokerage on share transactions in managing the fund.	Unknown	Not currently quantified. Dependent on many factors including turnover. Expected to be higher for active funds than passive funds.
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1 – Source: ASX Investment Products Monthly, updated, March 2017

2 – Source Morningstar, VanEck. As at 31 March 2017. Average calculated from primary funds within Australian Equity Large Blend, Australian Equity Large Value and Australian Equity Large Growth funds.

What is immediately clear from the above is that the management costs and the buy/sell spreads active unlisted funds charge are higher than a comparable ETF. This is important as money lost to fees compounds over time. In other words, you don't just lose the tiny amount of fees you pay—you also lose all the growth that money might have had for years into the future.

ETFs are passive funds and much has already been written about their lower management costs compared to active unlisted funds. To date, comparisons have been based on incomplete information. From 1 October RG 97 will further highlight the difference in fees and ETFs will become even more popular.

For more information:

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