

# RESERVE

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Financial Consulting

## FREQUENTLY ASKED QUESTIONS

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## What are the key benefits of the Vanguard Diversified Index funds?

- 1. Low cost.** As these funds are indexed they are much lower cost when compared to actively managed funds with an MER of between 0.33% p.a. (Conservative Index Fund) and 0.37% p.a. (High Growth Index Fund). This compares with a typical actively managed fund MER of around 1.00% p.a. Index funds also have lower portfolio turnover than most active funds, resulting in lower trading costs.
- 2. Less tax.** Index funds “buy and hold” approach makes the most of CGT concessions which makes them more tax efficient than actively managed funds with higher portfolio turnover.
- 3. Investment performance.** Index funds have competitive long-term performance as historically few active managers have been able to sustain consistent above index returns after costs and tax over the long term.
- 4. Diversification.** The funds have broad portfolio diversification as they invest in several different asset classes including Australian and International shares, Australian and International fixed interest, Australian and International property securities and small allocations to International small companies and Emerging markets. The overall effect of this diversification is to moderate the volatility of the portfolio and “smooth out” investment returns over time. In each asset class the fund invests in a wide selection of securities in the relevant index therefore minimising stock specific risk.
- 5. Matches risk profile.** There are four funds in the range each designed to match a different clients’ risk profile.

Vanguard Fund	Income Assets <sup>1</sup>	Growth Assets <sup>2</sup>	Risk Profile Rating
Conservative Index Fund	70%	30%	Cautious
Balanced Index Fund	50%	50%	Balanced
Growth Index Fund	30%	70%	Assertive
High Growth Index Fund	10%	90%	Aggressive

<sup>1</sup>Australian fixed interest, International fixed interest (Hedged) and Australian Cash

<sup>2</sup>Australian and International shares, Australian and International property securities (Hedged), International small companies (Hedged) and Emerging markets shares.

- 6. Automatic rebalancing.** The funds automatically rebalance to its asset allocation in an efficient manner so removing the need for you to constantly rebalance your portfolio.
- 7. Reduced person risk.** There is reduced key person risk as the fund is more process dependant than active managers, who rely more heavily on the individual skill of portfolio managers.
- 8. Highly rated.** The funds are well rated by independent researchers.

Zenith – Recommended

Morningstar - Gold

Lonsec – Investment Grade

**9. Financial Strength.** Vanguard Investments Australia Ltd is a wholly owned subsidiary of The Vanguard Group, Inc., which is based in the US. Vanguard offers a wealth of global experience, managing nearly US\$1.9 trillion (A\$2.0 trillion) for nearly 25 million institutional and personal investors as at 30 June 2011. They have been helping advisers and their clients to build successful investment portfolios for over 14 years in Australia and 35 years worldwide.

## **What are the key benefits of the Macquarie Wrap Super and Pension Manager?**

1. **Leading Wrap solution.** Macquarie Wrap is one of Australia's leading providers of Wrap-style solutions, offering investment and administration solutions to investors since 1999.
2. **Ease of administration.** Super and Pension Manager is a wrap-style account which provides extensive investment choice around a central cash hub, the Cash Account. This cash hub allows for easy administration of your account, as all buying, selling, reporting and maintenance of investment choices occur in one place.
3. **Investment choice.** Extensive investment selection of managed investments, shares and other ASX listed securities
4. **Access to wholesale funds.** It allows you to access a wide range of managed funds at wholesale rather than retail fee rates reducing the cost of investing. (For example the MER for the Vanguard High Growth Index Fund is 0.37% p.a. for the Wholesale fund compared to 0.90% p.a. for the retail equivalent (for the first \$50,000))
5. **Online transactions.** The Wrap has excellent online transacting flexibility which allows your instructions to be acted upon in a quick and efficient manner.
6. **Online reporting.** Comprehensive online reporting which gives you and your adviser up-to-date information on your account at any time.
7. **Individual tax processing.** This enables you to benefit from the individual investment decisions that you make. Depending on your circumstances, you may benefit from certain capital gains treatment or franking credits from your investments.
8. **Automated plans.** The ability to set up automated plans to help ensure investment objectives are met. These plans include:
  - Automatic cash management
  - Automatic rebalancing
  - Dollar cost averaging
9. **Competitive fees.** The fees that Macquarie Wrap charges for the Super and Pension Manager are competitive in the Australian platform market especially if you have only one or two investment holdings and you are unlikely to transact frequently.

### **What is actually included in the ongoing monthly advice fee?**

If you become a client of Reserve Financial Consulting, I expect that it will be a long term, ongoing relationship. As time passes, your personal or financial circumstances may change and this may have an impact upon your financial plan.

The ongoing advice service includes the following benefits:-

1. Ongoing monitoring of your investment portfolio.
2. An annual review meeting with me to check progress against your objectives, update your situation for any changes in your circumstances and review your strategy accordingly. (i.e. there is not an additional review fee as this is included in the ongoing monthly fee)
3. Easy access to me when required for any additional questions or advice that you may have in such areas as investments, insurance, superannuation, additional paperwork and movements in the investment markets.
4. Proactive contact from me when required in response to changes in legislation or new market opportunities that may impact on you.
5. Invitations to my biannual client seminars.
6. A personal quarterly newsletter from me to update you on developments in superannuation, investments and insurance markets.
7. Any assistance you require in the implementation of any changes to your strategy.

### What would be the typical total ongoing annual fees?

The following table illustrates the total ongoing annual fee payable for a typical investor invested in the Vanguard High Growth Index fund, accessed via Macquarie's Wrap Super and Pension Manager and paying the standard ongoing advice fee.

Fee element		\$300,000 Account balance	\$500,000 Account balance	\$1,000,000 Account balance	\$1,500,000 Account balance
Vanguard High Growth Index Fund (MER 0.37% p.a.)		\$1,110	\$1,850	\$3,700	\$5,550
Macquarie Wrap administration fee per investment option	0.77% p.a. on first \$50,000	\$385	\$385	\$385	\$385
	0.10% p.a. on amounts over \$50,000	\$250	\$450	\$950	\$1,450
Ongoing advice fee of \$200 (plus GST) per month		\$2,640	\$2,640	\$2,640	\$2,640
Total annual fee (\$)		\$4,385	\$5,325	\$7,675	\$10,025
Total annual fee (as % of Account balance)		1.46%	1.06%	0.77%	0.67%

Please note that the Macquarie Wrap platform also has transaction fees. For example, there is a \$20.50 per transaction fee for buying and selling managed investments, shares and other approved securities. I have ignored transaction fees in the table above. Full details of all the fees and charges for the Macquarie Wrap Super and Pension Manager can be found in the PDS.

**Important information.** This document has been prepared to provide you with general information only. It is not intended to take the place of professional financial and taxation advice and you should not take action on specific issues in reliance on this information. In preparing this information we did not take into account the investment objectives, financial situation or particular needs of any particular person. The case studies in this document are hypothetical and are not meant to illustrate the circumstances of any particular individual. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances. You should obtain a copy of the relevant Product Disclosure Statement (PDS) before making a decision to invest in any financial product. This information is provided for persons in Australia only and is not provided for the use of any person who is in any other country.

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