

# Explanatory guide to new fees and costs disclosure requirements —investor statements

As at 14 September 2021

Regulatory Guide 97 (RG 97) is guidance from the Australian Securities and Investments Commission (ASIC) on how investment managers like Vanguard are required to disclose fees and costs in periodic statements and product disclosure statements (PDSs).

The guidance is intended to create consistency and improve transparency in how fees are disclosed for investors in investment, superannuation and pension products.

To meet our obligations under RG 97, we disclose fees and costs in two categories:

- **Management costs:** Include the management fee and other indirect investment costs such as those associated with over-the-counter derivatives. You can find details of these costs in the PDSs, factsheets and on website product pages.
- **Transaction costs:** Include the costs incurred in managing the assets of the funds, or underlying funds where relevant. These costs arise whenever the funds buy or sell assets to invest your applications, fund your withdrawals or generally manage the fund in accordance with its investment objective. Most of these costs would be incurred when investing in the underlying securities directly. Transaction costs will vary over time, from country to country, and will differ depending on the types of assets in which a fund invests. You can find details of these costs in the Transaction & Operational Costs Guide on our website.

In 2019, ASIC released an update to the guidance which came into effect on 1 July 2021 for periodic statements and will become effective for PDSs from 30 September 2022. This guide explains more about the update and how it helps improve transparency for investors.

# What do these changes mean for you?

From 1 July 2021, you will notice a change in how fees and costs are presented in periodic statements.

**Vanguard is not charging any new fees or increasing existing fees.  
However, periodic statements will include costs that were not previously disclosed in statements.**

In addition, an explanation about what each heading represents is now included directly in the fees and costs summary table.

The presentation of the fee and cost disclosures in periodic statements will contain the following:

FEE & COST TYPE	DESCRIPTION	EXPLANATORY NOTE
<b>Fees deducted directly from your account</b>	This amount is deducted directly from your account (reflected in the transactions listed on this statement).	Management fees are deducted from the fund's pool of assets, not your individual account, so this section will be nil.
<b>Fees and costs deducted from your investment</b>	This approximate amount has been deducted from your investment and covers amounts that have reduced the return on your investment and that are not reflected as transactions listed in this statement or in the additional explanation of fees and costs.	<p>This section has always shown the estimated Management Costs attributable to your investment.</p> <p>From 1 July 2021, it now also includes:</p> <ul style="list-style-type: none"><li>• The estimated Net Transaction Costs associated with your investment during the period. Details of these transaction costs are available in the Transaction &amp; Operational Costs Guide on our website.</li><li>• Any buy/sell spreads associated with transactions you initiated during the period. Buy/sell spreads do not apply to ETFs.</li></ul>
<b>Total fees and costs you paid</b>	This approximate amount includes all the fees and costs which affected your investment during the period.	This section is a sum of the two amounts calculated above.

# Fees and costs

Fees and costs deducted from the investment now include:

- **Management fees and indirect costs**
- **Performance fees** (*note these fees are only applicable to Vanguard's Manager Select series of funds and are already included in the management fee cost*)
- **Net transaction costs** (*net transaction costs are calculated as total transaction costs less recovered costs, i.e. the buy/sell spread*)

Transaction costs for the funds include:

- Explicit costs that are defined costs deducted from the assets of the fund, or underlying fund where relevant, for a particular transaction, such as brokerage, commission and stamp duties; and
- Implicit costs, which unlike explicit costs are generally more likely to require a level of estimation. Implicit costs can arise as a result of bid/offer spreads being applied by trading counterparties to securities traded by the fund, or underlying fund where relevant, or a material change in security market prices due to increased trading volumes.

The total transaction costs will depend on the actual turnover of assets. At times where there is higher trading activity, such as to implement a change of index or asset allocation, or changes in market opportunities, there may be a higher than usual turnover of assets and consequently a temporary increase in transactional costs. This cost is determined based on the transactions of the entire fund for the previous financial year and is not specific to your individual transactions during the period.

- **Buy/sell spread costs (do not apply to ETFs)**

The buy/sell spread costs and net transaction costs were not previously disclosed in periodic statements. In this context, the buy/sell spread costs is the actual impact of the buy/sell spread on transactions you initiated during the period. The buy/sell spread for each fund is our reasonable estimate of the transaction costs that the fund may incur to buy and sell assets when investing applications and funding withdrawals. If you did not transact during the period, there are no applicable buy/sell spread costs for you.

# How will the new disclosures appear on periodic statements?

The following example uses the Vanguard Balanced Index Fund to illustrate the changes in disclosure for the period Q3 2021. Costs are based on a balance of \$500,000 and a \$5,000 investment during the period.

## Previous fees and costs disclosure in periodic statements:

Fees and cost summary for the period 01-Jul-2021 to 30-Sep-2021		Amount
Directly charged management costs		Nil
Indirect costs of your investment		\$362.00
<b>Total fees and costs you paid</b>		<b>\$362.00</b>
Less accrued rebate amount		Nil
<b>Adjusted total fee you paid</b>		<b>\$362.00</b>

## New fees and costs disclosure in periodic statements:

Total fees you paid for the period 01-Jul-2021 to 30-Sep-2021		Amount
Fees and cost summary		
<b>Fees deducted directly from your account</b>		Nil
This amount has been deducted directly from your account (reflected in the transactions listed on this statement)		
<b>Fees and costs deducted from your investment</b>		\$541.00
This approximate amount has been deducted from your investment and covers amounts that have reduced the return on your investment and that are not reflected as transactions listed on this statement or in the Additional explanation of fees and costs		
<b>TOTAL FEES AND COSTS YOU PAID</b>		<b>\$541.00</b>
This approximate amount includes all the fees and costs which affected your investment during the period		

### Note:

Costs calculated based on a balance of \$500,000 and a \$5,000 investment during the period. This illustration includes buy/sell spread costs which are not applicable to ETFs. Also, for the purpose of the illustration, no rebate is included, however investors should note that this may not apply to their individual circumstances. Net transaction costs are as at 30 June 2020. In this example, the fees and costs deducted from your investment in the new periodic statement are \$541. They are made of the management fees and indirect costs: \$362, the net transaction costs: \$174 and the buy/sell spread costs: \$5.

# When do the changes take effect?

The new fees and costs disclosure requirements apply to any periodic statements for reporting periods on or after **1 July 2021**.

## Why do fees and costs appear to be higher for some funds?

As a result of the new disclosure requirements, the fees and costs presented in periodic statements may appear higher than they did previously for some funds.

For managed funds this is due to the inclusion of net transaction costs and buy/sell spreads under the new disclosure format. For ETFs this is due to the inclusion of net transaction costs (buy/sell spread costs do not apply) under the new disclosure format.

Net transaction costs and buy/sell spread costs can include items such as brokerage, stamp duty, market spreads (the difference between the bid and ask price of securities), and settlement and exchange fees. These costs are deducted from the fund's investments rather than charged directly to investors. Importantly, investors would typically incur these costs if they were to trade similar assets directly.

Higher disclosed fees and costs will be evident in products with higher asset turnover and higher transaction costs over the reporting period. Transaction costs also vary depending on the asset class being traded.

During times of higher trading activity, such as when a fund needs to implement an index rebalancing or asset allocation change, there may be a higher than usual turnover of assets. This can result in a temporary increase in net transaction costs.

## What is Vanguard's commitment to transparency?

Vanguard believes investors should understand all fees and costs associated with investing in order to make informed decisions. The intention of this new guidance is to provide investors with a consistent disclosure format so that fees and costs are more comparable, which Vanguard supports.

It is also important to note that the methodologies used by different fund managers to calculate transaction costs may include estimates and can in any event vary significantly based on the methodology used and also the trading strategies used to achieve a fund's objective.

Where there is unclear direction on what costs should be disclosed, Vanguard has erred on the side of inclusion in our disclosure.

# Where can you go for more information?

For more information on the fees and costs associated with Vanguard's products, please refer to the [Transaction & Operational Costs Guide](https://api.vanguard.com/rs/gre/gls/1.3.0/documents/11412/au) (<https://api.vanguard.com/rs/gre/gls/1.3.0/documents/11412/au>).

If you would like to speak to our Client/Advisers Services team, please use the contact details below:

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