

InvestNow Workshop:

Portfolio Optimisation



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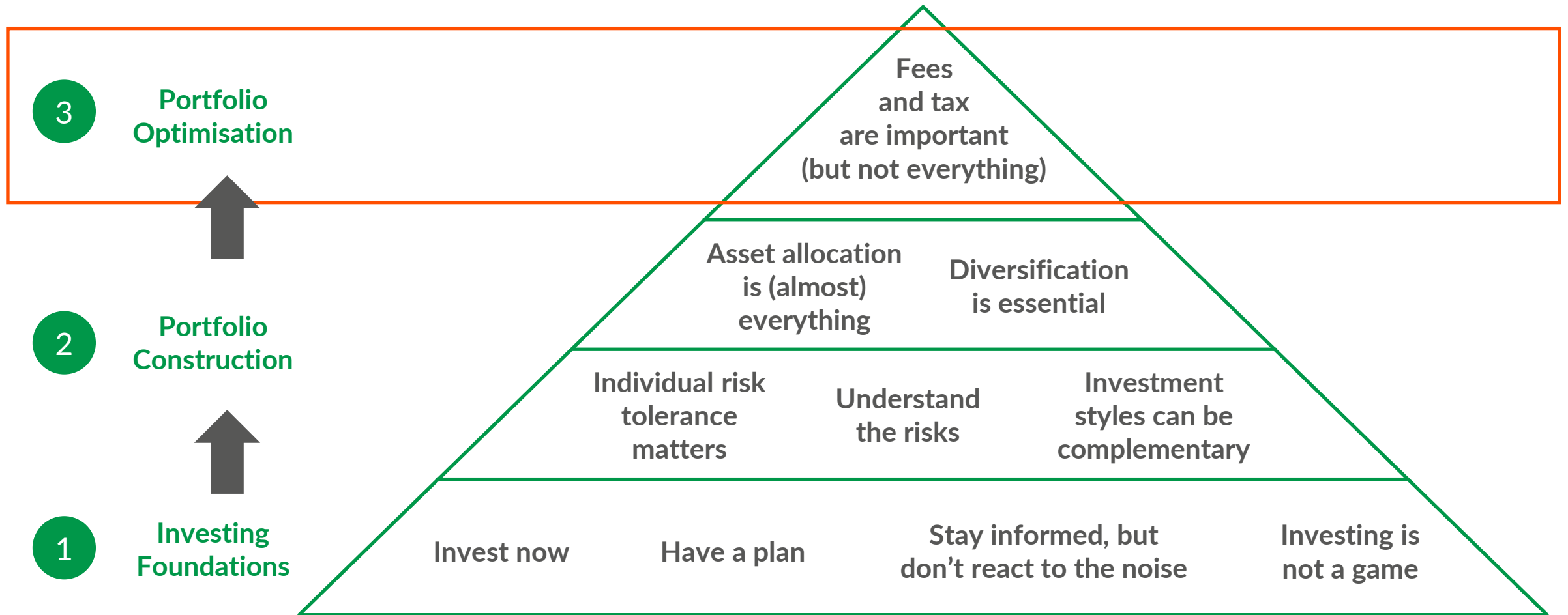
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01 InvestNow's Investing Principles For Long-Term Success

InvestNow has codified 10 Investing Principles to help guide Kiwi investors towards long-term investment success.



02 Principle: Fees and Tax are Important (But Not Everything)

While future investment returns are unknowable, costs are upfront and ongoing. Since the details can be complex, investors need to understand the particular impact of fees, taxes and other costs of any fund or trading platform they use.

As investors, the ultimate return we receive from investing is driven by three key factors:



Gross Returns

Gross returns from the investment



Fees

Fees paid to access the investment



Tax

Tax paid on investment returns

Net Returns rather than Gross Returns are what matter – don't ignore fees and taxes!

03 Investment Fees: Explained

There are always fees associated with investing, which can have a significant impact on your returns.

It is important to understand all fees involved with the investment, which can be categorised into:

Ongoing Fees

Charged each year, typically as a % of your portfolio

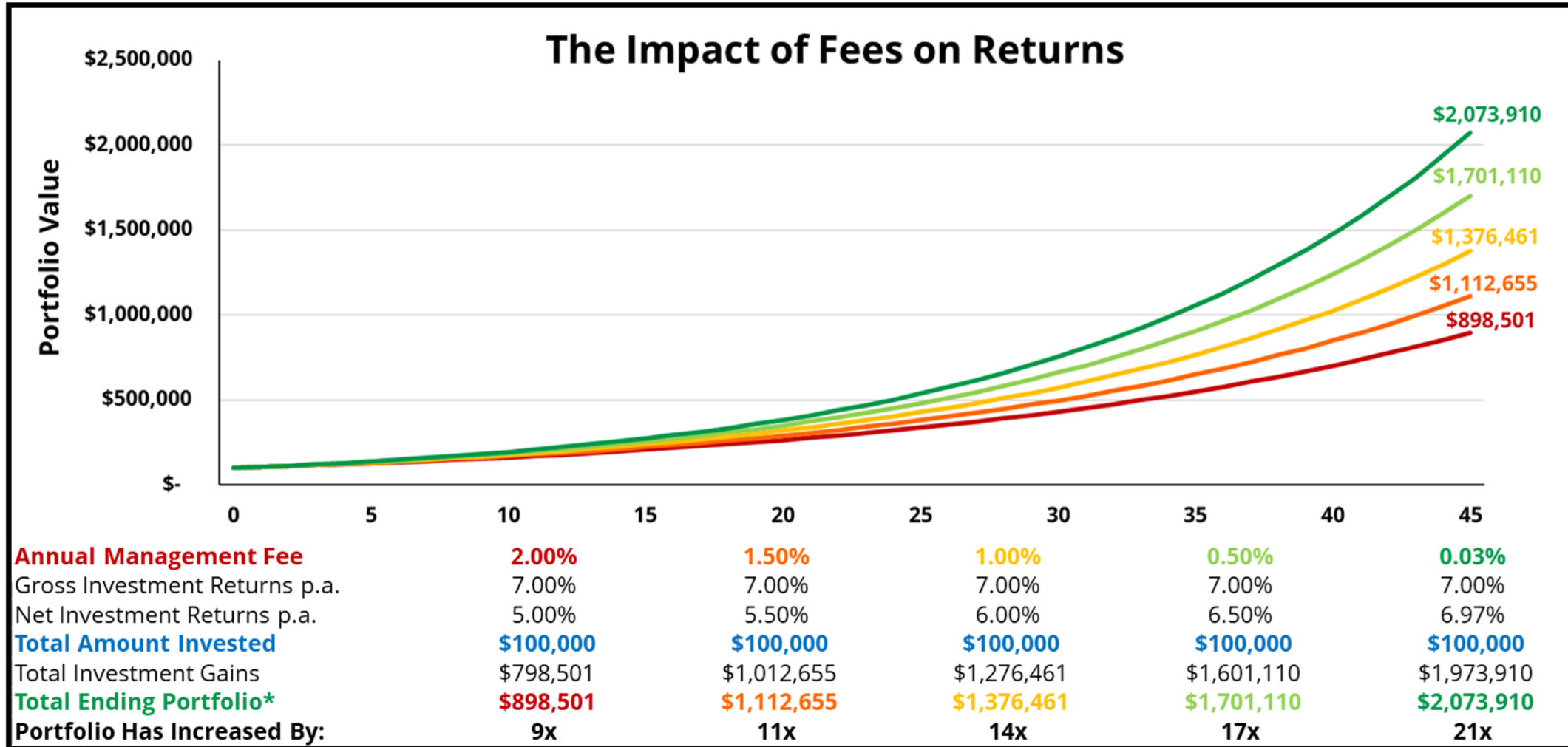
- **Management Fees** – Fees charged as a % of the fund's assets each year by the fund manager to cover the costs of running the fund
- **Performance Fees** – Additional % fee charged by some active funds in years where the fund outperforms a certain benchmark or threshold
- **Platform Fees** – % or \$ Fees charged by a specific investment platform or provider each year to access the investment service/offerings

Transaction-Based Fees

Charged each time you buy or sell an investment

- **Buy/Sell Spreads & Swing Pricing** – Reduces the amount you buy/sell by a certain %, which is retained by the fund to cover trading costs
- **Entry/Exit Fees** – Reduces the amount you buy/sell by a certain %, which is paid to the fund manager to cover fund management costs
- **Brokerage and Commissions** – % or \$ Fees charged by a specific investment platform or provider each time you buy/sell a product

03 Impact of Fees: Small Fees can have Big Impacts



* Note that this is a hypothetical worked example on the impact of fees only, based on the following assumptions: a gross annual return of 7% applying each year; and a single \$100,000 lump sum invested right at the beginning of the 45 year period; no consideration has been given to the impact of tax or whether the investment is actively or passively managed. Actual returns will be subject to market events and there is no guarantee the hypothetical return presented will be achieved nor a guarantee that outlined fees remain the same and may be subject to change.

03 Fee Assessment: Value for Money is Important

While fees are important – they are not everything – and should not be viewed in isolation. What's most important is the overall value you are getting out of the fees that you pay.

Assessing whether you are receiving commensurate value from the fees being charged will depend on the specific investment product or service and what it's attempting to achieve:



Passive Investments

Value = Being able to closely track the index and doing so at a reasonably low price point



Active Investments

Value = Outperforming its benchmark by at least the additional fees charged by active managers



Non-Financial Factors

Value = Addressing any non-financial factors (e.g. ESG investing, good UI, etc) at a reasonable price point

04 Tax on Investments: Explained

Tax can seem overly complicated – but like fees – it can have a significant impact on your returns.

It is important to understand at a high-level how tax is treated on any potential investments, with there being different tax obligations depending on the type and structure of the investment:

PIE Investments

Taxed at your Prescribed Investor Rate (PIR)

- **Maximum Tax Rate of 28%** – PIEs provide tax-efficiencies for those with RWT rate over 30%
- **No Tax Admin** – The PIE investment structure will take care of all tax admin for investors, with no additional tax returns or filing required.
- **Fixed FDR Approach** – PIE must use the Fair Dividend Rate (FDR) method to calculate foreign investment tax (**1.40% p.a. capped tax bill**)

Non-PIE Investments

Taxed at your Resident Withholding Tax (RWT)

- **Maximum Tax Rate of 39%** – No capped tax rate for direct investors, which align with RWT
- **Potential Tax Admin** – Depending on the nature of the investments, investors may be required to file tax returns on their income
- **FDR or CV Method** – Can choose the FDR or Comparative Value (CV) methods to calculate foreign investment tax (**1.95% capped tax bill**)

04 Tax on Investments: Overview of Tax Rules

Tax rules can get complex very quickly and depends on your investment type, structure and purpose.

At a high level though, direct (non-PIE) investors should be aware of the following tax rules:

- 1 Fixed Interest** = Interest and/or capital gains from bonds and TDs are taxed at your RWT rate

- 2 NZ Shares** = Only dividends received are taxable at your RWT, with no capital gains tax applicable, unless you are a deemed a trader (i.e. if you had the intent to sell for profit).

- 3 Foreign Investment Funds (FIFs)** = FIFs are any non-PIE structured international investments you hold (e.g. direct shares, offshore ETFs, Australian Unit Trusts). Your FIF income is taxed at your RWT, and you have a choice to calculate your FIF taxable income either through:
 - **De Minimis Exemption: FIF Taxable Income** = Dividends received from FIF investments. (Note you can only choose this option if the cost of your FIFs are less than NZ\$50,000)
 - **Fair Dividend Rate (FDR):** FIF Taxable income = 5% of your opening FIF portfolio value
 - **Comparative Value (CV):** FIF Taxable Income = Actual gains/losses from FIFs for the year

04 Tax on Investments: Overall Tax-Efficiency is Important

Utilising tax-efficient investments can lead to significant benefits for end-investors.

In assessing the tax-efficiency of any potential investments, consider the following:



Tax Rate

If the investment has a PIE-equivalent, then there are potential tax-efficiencies for investors with a RWT of over 30% due to the PIE structure's capped 28% PIR



Tax Leakage

Tax leakage occurs when underlying investments have not been efficiently structured to claim back the tax credits that they would otherwise be entitled to, which acts as a drag on investor returns



Tax Admin

All tax admin is taken care of with PIE funds, while direct investors will need to manage their own tax admin, which requires the requisite knowledge, records or access to professional tax advice to facilitate.

05 Putting it All Together: Impact of Fees and Taxes on S&P 500

Vanguard S&P 500 ETF (VOO) Investment Options in NZ	Foundation Series US 500 Fund	Kernel S&P 500 Fund	Smart US 500 ETF	Vanguard S&P 500 ETF (VOO)			
Investment Platform	InvestNow	Kernel	Sharesies	Interactive Brokers	Hatch	Sharesies	Stake
Total Transaction-Based Cost	0.50%	–	\$25 NZD	\$3 USD	0.50% + \$3 USD	0.50% + \$5 USD	1.01%
<i>Currency Exchange Fee</i>	–	–	–	\$2 USD	0.50%	0.50%	1.00%
<i>Brokerage</i>	–	–	\$25 NZD	\$1 USD	\$3 USD	\$5 USD	0.01%
<i>Entry/Exit Fee or Buy/Sell Spread</i>	0.50%	–	–	–	–	–	–
Total Ongoing Annual Costs	1.43%	1.65%	1.74%	1.98%	1.98%	1.98%	1.98%
<i>Management Fee (p.a.)</i>	0.03%	0.25%	0.34%	0.03%	0.03%	0.03%	0.03%
<i>Tax Cost (p.a.)</i>	1.40%	1.40%	1.40%	1.95%	1.95%	1.95%	1.95%
<i>Tax Leakage (p.a.)</i>	–	–	–	–	–	–	–
Portfolio Value after 10 yrs. (Net of All Fees and Taxes)	\$205,337	\$202,143	\$200,498	\$196,903	\$194,753	\$194,580	\$192,776
<i>Total Return*</i>	105.34%	102.14%	100.50%	96.90%	94.75%	94.58%	\$92.78%

* Note that this is a hypothetical worked example based on the impact of fees and tax only, based on the following assumptions: a gross annual return of 7% applying each year alongside 2% p.a. in dividends; a single \$100,000 lump sum invested right at the beginning of the 10-year period; and 28% PIR and 39% RWT tax rates applying. Actual returns will be subject to market events and there is no guarantee the hypothetical return presented will be achieved nor a guarantee that outlined costs remain the same and may be subject to change.

The cost and tax-efficiency of the Foundation Series US 500 Fund provide investors with long-term returns that could be up to 15% higher compared to equivalent investment options in NZ

06 Applying to your Investing Journey: **How to Take Action Today**

Optimise your investment portfolio by keeping these key considerations in mind:

1

Compare the Fees Involved

All investments come with fees – make sure you understand what fees may apply by referring to **Section 5 of the PDS** and the investment platform or providers' **website** for more details

2

Understand the Tax Rules

Tax is unavoidable, but understanding how tax is treated and the efficiencies of different tax structures such as **PIE Funds** can help boost returns – see the **InvestNow Tax Guide** for a good starting point

3

Tailor to your individual circumstances

There is no one-size fits all approach – the cost-effectiveness of any investment will depend on your individual circumstances, such as your investment **timeframe**, investment **frequency** and **tax rate**

4

Optimise the Value for Money toward your investment goals

While fees and taxes are important – **they are not everything**. Ultimately, optimising your portfolio involves getting the **most value out of investments** that will actually help you **achieve your goals**.

Q&A

Take Control of Your Investing Journey Today with InvestNow's Investing Principles

SEARCH

InvestNow's Investing Principles



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