

# Morningstar Total Cost Ratio for Australia and New Zealand

1 October 2020

The Morningstar Total Cost Ratio (TCR) is a figure encompassing the total non-discretionary fees and costs, we will refer to throughout as “fees”, associated with managing and administering collective investment products in Australia or New Zealand. The purpose of the TCR is to provide an investor with a figure quantifying the cost of investment across all types of collective investment products.

There are two versions of the TCR:

- ▶ **Prospective TCR** represents the forward-looking fees published in a Product Disclosure Statement.
- ▶ **Realised TCR** represents the actual fees charged over the course of the financial year, as seen in a financial statement.

The Prospective TCR is best applied for assessing the fees that investors are likely to be charged, whereas the Realised TCR is best applied to research the historical experience of investors in the fund.

The TCR includes management or investment fees, performance fees, administration fees and any other fees for underlying funds or similarly outsourced fee arrangements.

The calculation of the TCR differs between Australia and New Zealand. It will also be different between Managed Investment Schemes (MIS) and Superannuation (Super) funds in Australia.

The TCR encompasses the current and all legacy fee disclosures into a single time series. The current fee disclosures regime is under the revised Regulatory Guide 97 (2017) in Australia and the Financial Markets Conduct Act (2015) in New Zealand. The historical figures are backfilled using legacy fee disclosures without making any adjustments. For Australia; *Total Management Costs*, *Indirect Cost Ratio* (ICR) and *Management Expense Ratio* (MER), and New Zealand; *MER*.

## Composition of the Morningstar Total Cost Ratio

### Australia

MIS<sup>1</sup>

The TCR for Managed Investment Schemes, Exchange Traded Products and Investment Bond funds is an addition of the Investment Management Fees and Costs, Performance Fee Costs, and the impact of dollar-based fees<sup>2</sup>.

Super<sup>1</sup>

The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs, Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees<sup>2</sup> and a deduction of Super OTC Derivative Costs.

The treatment of some OTC derivative costs differs between Super and MIS, where MIS excludes some derivative costs. Therefore, if the Registrable Superannuation Entity can specify the costs that would have been excluded under the MIS treatment, we will make an adjustment for Super by deducting this amount.

### New Zealand

The TCR for all New Zealand collective investment products is the reported Total Annual Fund Charge.

## Construction of Historical Data

### Australia

The fee disclosure regime required a MER up to 2005, when the industry started to transition to the ICR. The history of the TCR is constructed using the MER until the ICR was first reported. Subsequently, ICR is used in the TCR until the introduction of the RG97 disclosure regime in 2017. The TCR based on RG97 up until 2020 did not include an adjustment for dollar-based fees and standardised treatment of OTC derivative costs.

Both the Prospective and Realised TCR are back filled using the same history, as this distinction only exists under current fee disclosure regime.

### New Zealand

The fee disclosure regime was MER and replaced in 2015 with Total Annual Fund Charge.

We use the same disclosure for both Prospective and Realised TCR, unless informed by the management firm of an updated prospective fee adjustment within the calendar year.

<sup>1</sup> Please refer to Detailed Composition of Current TCR (see next page) for the specific data points used.

<sup>2</sup> Total Annual Dollar-Based Charges is converted to a percentage by dividing the total annual dollar-based fees on a presumed dollar balance of \$50,000

### Detailed Composition of Current TCR

As of 30 Sept 2020, the construction of TCR in Australia uses the data collected in our RG97 collection form 'MDU01G015':

Prospective TCR for Australian MIS aggregates:

- ▶ Investment Management Fees and Costs—PDS (M010)
- ▶ Performance Fee Costs—PDS (P010)
- ▶ Total Annual Dollar-Based Charges—PDS (D010) divided by \$50,000

Realised TCR for Australian MIS funds aggregates:

- ▶ Investment Management Fees and Costs—Last FY (M015)
- ▶ Performance Fee Costs—Last FY (P015)
- ▶ Total Annual Dollar-Based Charges—Last FY (D015) divided by \$50,000

Prospective TCR for Australian Superannuation funds aggregates:

- ▶ Investment Management Fees and Costs—PDS (M010)
- ▶ Administration Fees and Costs—PDS (A010)
- ▶ Performance Fee Costs—PDS (P010)
- ▶ Total Annual Dollar-Based Charges—PDS (D010) divided by \$50,000
- ▶ *Minus* Super OTC Derivative Costs (O020)

Realised TCR for Australian Superannuation funds aggregates:

- ▶ Investment Management Fees and Costs—Last FY (M015)
- ▶ Administration Fees and Costs—Last FY (A015)
- ▶ Performance Fee Costs—Last FY (P015)
- ▶ Total Annual Dollar-Based Charges—Last FY (D015) divided by \$50,000
- ▶ *Minus* Super OTC Derivative Costs (O020) ■■