

Case Study

Using index funds to lower portfolio costs

In difficult financial markets, every extra basis point of return counts more than ever. Reducing portfolio costs is a simple, tangible way for financial advisers to add value for clients during times of negative or low absolute market returns.

Index funds are among the world's lowest-cost investment products and with annual management fees starting at 20 basis points, BlackRock's core index fund range is significantly cheaper than most Australian managed funds.¹

Index funds typically have lower fees and costs for three main reasons:

- ▶ **Management costs:** Index funds generally have lower overheads than other types of funds including active funds that often employ large research teams.
- ▶ **Transaction costs:** Index funds typically have lower portfolio turnover than active funds that may buy and sell securities more frequently in seeking to outperform their index.

Other than the buying and selling resulting from client applications and redemptions, index funds usually only buy and sell securities when index composition changes, or to achieve better index replication, thus reducing turnover and transaction costs.

- ▶ **Manager scale and expertise:** Large global managers typically use an internal marketplace to cross security trades where possible, matching security buy orders in one fund with sell orders in another fund, thus reducing the costs of trading externally.

Adviser checklist – Index funds and capital gains tax

- ▶ The lower turnover inherent in most index funds translates into more tax-effective funds.
- ▶ Lower turnover in index funds may also help to maximise the level of franking credits distributed.
- ▶ Compared to actively managed funds where portfolios may experience higher turnovers in order to achieve stated objectives, index funds may prove more tax efficient.

BlackRock index funds offer the best of both worlds:

- ▶ BlackRock is the world's largest index provider with unrivalled experience and expertise in index funds.
- ▶ BlackRock offers market leading low cost index funds in Australia.

This table shows annual fees on key BlackRock index funds:

Fund name	Benchmark	Management costs (p.a.)
BlackRock Indexed Australian Equity Fund	S&P /ASX 300 Accumulation Index	0.20%
BlackRock Indexed International Equity Fund	MSCI World ex-Australia Index (unhedged in Australian dollars and net dividends reinvested)	0.20%
BlackRock Indexed Hedged International Equity Fund	MSCI World ex-Australia Index (hedged in Australian dollars and net dividends reinvested)	0.20%
BlackRock Indexed Australian Listed Property Fund	S&P/ASX 300 A-REIT Accumulation Index	0.20%
BlackRock Indexed Australian Bond Fund	UBS Composite Bond All Maturities Index	0.20%
BlackRock Global Bond Index Fund	Barclays Capital Global Aggregate Index (hedged in Australian dollars and net dividends reinvested)	0.20%

For further information about fees and costs (including transaction costs) please refer to the PDS for the Fund.

Annual fees on BlackRock index funds compare favourably to other managed fund products:

0.20%	0.35%	0.07 – 0.82%	1.0 – 2.0%
BlackRock index funds	Cost of BlackRock's nearest index fund competitor ²	Fee range for ASX-listed Exchange Traded Funds ³	Fee range for typical active managed fund

1. As at 20 February, 2012.

2. Comparison is with respect to management costs. As at December 31, 2011.

3. Based on ASX ETF Monthly Report, December 30, 2011.

Case Study: Why every extra basis point counts on management fees

A fraction of a percentage can make a big difference to investment returns over time. Compare the difference between an investor:

- ▶ who invests \$100,000 over 20 years using a BlackRock index fund that tracks the S&P/ASX 300 Accumulation Index with an annual fee of 20 basis points; and
- ▶ another investor who invests the same amount over the same period using an index fund that tracks the S&P/ASX 300 Accumulation Index with an annual fee of 35 basis points.

Using the market returns from the past 20 years, the investment balance for the investor who chose the BlackRock Index Fund is \$538,194. The investment balance for the investor who chose the more expensive index fund is \$522,292.

In this example, using a BlackRock Index Fund (and reducing annual fees by 15 basis points) adds another **\$15,902** to the first investor’s investment balance after 20 years.

The table below shows how fee savings boost returns over time, and why every extra basis point counts.

	0.35%	0.20%	Difference
10 Years	\$175,239	\$177,886	\$2,647
15 Years	\$297,560	\$304,330	\$6,770
20 Years	\$522,292	\$538,194	\$15,902

For illustrative purposes only.

Past performance is not a reliable indicator of future performance.

Past performance is based on an investment amount of \$100,000 with no ongoing contributions and the historical average returns of the S&P/ASX 300 Accumulation Index, net of fees and excluding transaction costs and taxes as at 31 December 2011. The actual performance of an index fund may differ from the underlying performance of the Index due to tracking error.

To learn more about index funds, please contact your BlackRock Account Manager, speak to our Adviser Services Centre on **1300 366 101** or visit www.blackrockinvestments.com.au/advisers

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