Where are the brokers' fees?

Michael Lang takes a look at the fees and costs of share brokers.

BY MICHAEL LANG

	PORTFOLIO MANAGEMENT, ADVISORY & CUSTODY	BROKERAGE	CASH MANAGEMENT	FOREIGN CURRENCY	UNDERLYING FEES ON MANAGED FUNDS
FORSYTH BARR LIMITED	Up to 1.5% p.a	Up to 1.5% per transaction	Up to 1.25%	Up to 1.0% per transaction	Up to 2.0% p.a. Disclosed at time of investment
CRAIGS INVESTMENT PARTNERS	Up to 1.25% p.a.	Up to 1.0% per transaction	Up to 1.25%	Variable fee charged	Disclosed at time of investment
JARDEN SECURITIES LIMITED	Typically up to 1% p.a.	Up to 1.5% per transaction	n/a	Not disclosed	Disclosed at time of investment
JB WERE (NZ) PTY LIMITED	Up to 1.5% p.a (equities) Up to 0.3% p.a. (fixed interest) Up to 0.45% p.a. (managed funds)	Up to 2.0% per transaction	Up to 0.90%	Up to 0.22% per transaction	Disclosed at time of investment
HOBSON WEALTH PARTNERS	Up to 1.25% p.a.	Up to 1.5% per transaction	n/a	Up to 1% per transaction	Up to 2.0% p.a. Disclosed at time of investment

Source: NZ Funds. Individual broker secondary disclosure statements. Prepared using data as of 16 June 2020. Charges may be subject to minimum amounts.

In New Zealand, on the front page of the Financial Markets Authority's (FMA) website, you will find an orange box titled "How much of your KiwiSaver return is made up of fees?". It sits just under the tagline "Promoting fair, efficient and transparent financial markets". What you will not find is anything on how much a share broker charges to manage your retirement savings.

Fees, or how much a client is charged to have their money managed, is an important ingredient to consider if New Zealanders are to make informed investment decisions. Fortunately, fees are also one of the few variables in finance which are relatively certain (performance fees are of course an exception).

For many years New Zealand was the 'wild west' of fee calculations and disclosure. Even if investment organisations had wanted to disclose what they were charging their clients, there was no single set of rules which others were obligated to follow. This made comparing managers' fees and costs an exasperating and ultimately futile exercise. And without 'transparent' there can be little chance of 'efficient'.

Fortunately, in 2013 one of the first things the new regulator did was establish a single set of rules for disclosing fees and costs. The measure labelled 'Total Annual Fund Charges' covers managers' base fees, performance fees, portfolio expenses, underlying manager costs and many more factors besides. It does not take entry and exit fees, brokerage or currency translation 'mark-ups' into account. But as all managers must now follow the same set of rules, it does for the first time in New Zealand's history allow for an 'apples to apples' comparison of the costs of having your money managed. Well, almost.

Missing from New Zealand's regulatory regime is the multi-billion-dollar share broker industry. New Zealand's share brokers have long since evolved from promoting individual shares to managing sophisticated, highly diversified investment accounts which contain local and international shares, bonds, ETFs and managed funds. Many also include alternative assets like private equity and hedge funds. In short, exactly the same investments a fund manager provides, but without the obligation to calculate fees and expenses using the same set of rules everyone else in the market follows.

Sooner or later every financial adviser, whether they work for a broker or fund manager, will be asked by a client to review either their managed fund or broker-built investment portfolio. Without forensic analysis the adviser will find comparing the costs of two – almost identical investment portfolios impossible. How then can the adviser provide their client with an informed investment recommendation?
They just can't.

To illustrate the problem, NZ Funds analysed the secondary disclosure statements of the five major share brokers. The results are shown below.

Unlike managed funds, there is no consistency and the disclosures are difficult to understand, even for a market participant. There is also no example of the likely costs an investor may pay. In some client reports, NZ Funds found the estimated fees and costs to be higher than the fees and costs disclosed in the report.

One area that was not disclosed in some client reports was the costs associated with investing in ETFs. This was not surprising as there is currently no requirement to disclose the fees of the underlying managers of ETFs, listed funds, managed funds, and private equity.

The share broking industry advises on an estimated $50 billion of New Zealanders' savings. It is directly comparable to the managed funds industry, providing access to exactly the same underlying investments. At the age of 65, the billions accumulated in KiwiSaver will become eligible for withdrawal and re-investment into what may appear to be cheaper share broker accounts.

The regulator has already done the hard work of designing a single set of rules for fee and cost disclosure. Now, all that remains to be done to facilitate "fair, efficient and transparent financial markets", is to ensure it is applied equally to the share broking industry in New Zealand, as it already is in Australia. ✚

Michael Lang is Chief Executive of NZ Funds and his comments are of a general nature.