



Vanguard INVESTMENTS®

MEDIA RELEASE

Great Australian Tax Bite Eats Away Investors' Savings

Melbourne, 15 August 2007 – The latest analysis of fund management returns by Vanguard Investments has revealed the full impact of tax management issues on investors' real returns for the last financial year.

Based on Morningstar return data Vanguard compared the after tax return for a top marginal taxpayer with the average return achieved by Australia's 15 largest Australian share funds.

Using Vanguard's low turnover Australian Shares Index Fund as the benchmark an individual who invested \$500,000 on 1 July 2006 at the start of the financial year could be \$38,000 worse off by 30 June 2007 simply because of the amount of tax that has to be paid on the fund's distributions.

While the top 15 Australian equity funds delivered a great headline return for investors of 26.8% that result was soured for top marginal taxpayers because 76% of the return was paid out to investors as income distributions and was therefore taxable.

From the 26.8% total return 21.4% was delivered as taxable income by Australia's largest share funds.

Compare that with a total return of 28.8%* delivered by Vanguard's Australian Shares Index Fund for the last financial year. Not only did the index fund outperform its major fund competitors in a total return sense the distribution amount was 6.2%. On a pre-liquidation** basis Vanguard's Australian share fund delivered an after tax return of 22.4%.

Jeremy Duffield, Managing Director of Vanguard said, "Many investors will have received their annual tax statements recently and got a rude shock when they realised what the tax impact of their fund distributions were.

"This is an issue of transparency and investors should be able to get solid information before choosing to buy an investment fund."

* Past performance is not a reliable indicator of future performance. Assumed 100% re-investment of distributions.

** Vanguard provides after-tax returns on both a pre-liquidation and post-liquidation basis. This allows investors to see the net return if the investment continues to be held and tax is payable only on distributions versus if the entire investment was sold and the full capital gains tax liability was crystallised.

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MEDIA RELEASE

Fund managers who did not consider tax management issues could have cost investors more than 9% in after tax return according to the analysis by Vanguard that looks at three model portfolios with low, medium and high tax efficiency.

Vanguard has led the Australian industry since it began reporting after-tax returns in October 2004 and has welcomed the moves by other leading fund managers and research group Morningstar to provide investors and advisers with the after tax information to help them make better-informed investment decisions.

“Tax is the biggest cost any investor – even inside a super fund – will typically have to pay so it makes a lot of sense for investors to be able to see how their money is being managed from a tax-efficiency perspective,” Vanguard’s Head of Retail, Robin Bowerman, says.

Super funds enjoy concessional tax rates but even within a self-managed super fund the difference between efficient tax management of a fund portfolio and an inefficient approach is slightly more than 4% for the last financial year.

Table 1. Large Australian Equity Funds, 1 Year Return to 30 June 2007*

Fund Name	Total Return	Income Return	Growth Return	Fund size (\$M)
Perpetual's Wholesale Industrial Fund	28.1	20.8	7.4	5,551.51
CFS WS - WS Imputation Fund	22.1	22.2	-0.2	3,535.25
Suncorp Metway IMT - Australian Equities Trust	29.5	22.6	6.9	3,133.84
Investors Mutual Wsale - Australian Share Fund	26.8	8.6	18.3	2,886.00
Perpetual's Wholesale Australian Fund	23.1	13.5	9.6	2,477.49
Russell Australian Share Fund - Class A	26.4	15.8	10.6	2,394.59
Ausbil - Australian Active Equity Fund	24.9	8.0	16.9	2,284.00
Schroder - Australian Equity Fund S Class	27.5	28.2	-0.7	2,175.24
Perennial Value Shares Wholesale Trust	28.3	20.2	8.1	1,927.32
Tyndall - Australian Share Wholesale Portfolio	26.4	21.2	5.2	1,709.50
Barclays Managed Inv - Australian Share Fund	28.8	32.1	-3.3	1,610.83
Maple-Brown Abbott - Australian Equity Trust	29.3	33.3	-4.1	1,589.50
Schroder - Australian Equity Fund W Class	27.2	20.8	6.4	1,492.56
Advance Wsale Australian Shares Multi Blend Fund	27.6	33.0	-5.4	1,459.49
Average top 14 (active managers)	26.8	21.4	5.4	
Vanguard® Wholesale - Aust'n Shares Index Fund	28.8	6.2	22.6	1,631.69

*Source: Morningstar. Past performance is not a reliable indicator of future performance.

Table 2. The tax cost of high portfolio turnover

Real after-tax returns: WHOLESALE	Vanguard®	Turnover impact on average fund		
		Low efficiency	Medium efficiency	High efficiency
Investment amount 1 July 2006	\$500,000	\$500,000	\$500,000	\$500,000
Total return %	28.8%	26.8%	26.8%	26.8%
Growth return %	22.6%	5.4%	5.4%	5.4%
Income return %	6.2%	21.4%	21.4%	21.4%
Growth on investment amount	\$113,000	\$27,064	\$27,064	\$27,064
Income earned on investment amount	\$30,900	\$107,182	\$107,182	\$107,182
Income tax payable	\$11,891	\$49,081	\$39,098	\$29,115
After-tax value of investment 30 June 2007	\$632,009	\$585,165	\$595,148	\$605,131
After-tax return year ended 30 June 2007	26.4%	17.0%	19.0%	21.0%
		9.4%	7.4%	5.4%

Past performance is not a reliable indicator of future performance. Assumptions as per presentation for each fund including Vanguard Investments Australia

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Vanguard Investments Australia

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In Australia, Vanguard has established a reputation as a specialist indexer, managing more than A\$65 billion in index funds, for both institutional and retail investors.

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