

The advantages of Portfolio Investment Entities

What is a Portfolio Investment Entity (PIE)?

The Funds are a type of portfolio investment entities ('PIEs') known as a multi-rate PIE. All of the Funds' taxable income (or loss) will be allocated between unitholders based on their proportionate interest in the Funds. The Manager calculates tax (payable)/receivable on income/(loss) allocated to each unitholder at their nominated prescribed investor rate.

What are the advantages of the PIE regime?

Tax advantages

Investing in a PIE can provide tax advantages relative to direct investment. Capital gains made on most investments in New Zealand shares, and most Australian listed shares, are not taxable irrespective of the level of trading undertaken. In addition, because the prescribed investor rates at which tax is paid on PIE income are capped at 28%, and no other tax is generally payable by individual unitholders, there can be tax advantages if a unitholder is on a higher marginal tax rate.

New Zealand resident individual investors can elect their rate on PIE income allocated to them, provided the following conditions can be met in either of the two immediately preceding Income years:

	10.5% PIR	17.5% PIR
1. Taxable income did not exceed:	\$14,000	\$48,000
and		
2. Combined taxable income and PIE income did not exceed:	\$48,000	\$70,000

Diversification

Smaller portfolio investors or regular savers can access a diversified equity investment at low cost by investing in a PIE fund.

Active management

Active management of investments by a professional fund manager.

EXAMPLE ONE

This shows the tax benefit of investing in a PIE fund at the 10.5% rate vs investing directly, based on taxable income less than \$14,000 and with a combined taxable and PIE income between \$14,000 and \$48,000.

A resident individual is eligible for a 10.5% rate in a PIE fund if their taxable income did not exceed \$14,000 and their combined taxable and PIE income did not exceed \$48,000 in either of the two preceding income years.

	Sum invested	Marginal tax rate on investments	Net investment income*
Investing in a PIE	\$100,000	10.5%	\$4,475
Investing directly	\$100,000	17.5%	\$4,125
Benefit of investing in a PIE fund			\$350

* Based on a 5% investment income (\$5,000 interest on \$100,000), minus tax on your investment income.

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EXAMPLE TWO

This shows the tax benefit of investing in a PIE fund at the 17.5% rate vs investing directly, based on taxable income between \$14,001 and \$48,000 and with combined taxable and PIE income of \$70,000 or less.

A resident individual is eligible for a 17.5% rate in a PIE fund if their taxable income did not exceed \$48,000 and their combined taxable and PIE income did not exceed \$70,000 in either of the two preceding income years.

	Sum invested	Marginal tax rate on investments	Net investment income*
Investing in a PIE	\$100,000	17.5%	\$4,125
Investing directly	\$100,000	30%	\$3,500
Benefit of investing in a PIE fund			\$625

EXAMPLE THREE

This shows the tax benefit of investing in a PIE fund at the 28% rate vs investing directly, based on taxable income greater than \$48,000 or with combined taxable and PIE income greater than \$70,000.

A resident individual is eligible for a 28% rate in a PIE fund if their taxable income exceeded \$48,000 or their combined taxable and PIE income exceeded \$70,000 in both of the two preceding income years.

	Sum invested	Marginal tax rate on investments	Net investment income*
Investing in a PIE	\$100,000	28%	\$3,600
Investing directly	\$100,000	33%	\$3,350
Benefit of investing in a PIE fund			\$250

* Based on a 5% investment income (\$5,000 interest on \$100,000), minus tax on your investment income.

Octagon Investment Funds

Octagon offers a range of PIE-compliant Investment Funds.

New Zealand Equities Fund

Australian Equities Fund

Listed Property Fund

Global Equities Fund

New Zealand Fixed Interest Fund

Income Fund

Balanced Fund

Growth Fund

The key benefits to you from investing in Octagon Investment Funds are:

You can choose from a range of investment options - single-asset class and multi-asset class funds:

- **Single-asset class funds** invest in a collection of assets that have similar characteristics – for example, the Listed Property Fund; and
- **Multi-asset class funds** invest in a variety of assets chosen to meet a particular investment approach – for example, the Income Fund

Each fund gives you access to a portfolio of investments selected by our team of investment professionals who actively monitor and manage the investments.

You can make a lump sum investment at any time and establish a regular contribution plan.

You can switch your investments between different funds at any time.

You can apply to withdraw your money from the funds at any time.

For more information on the Octagon Investment Funds, please contact Octagon on 0800 628 246 or visit www.octagonasset.co.nz/our-funds.