

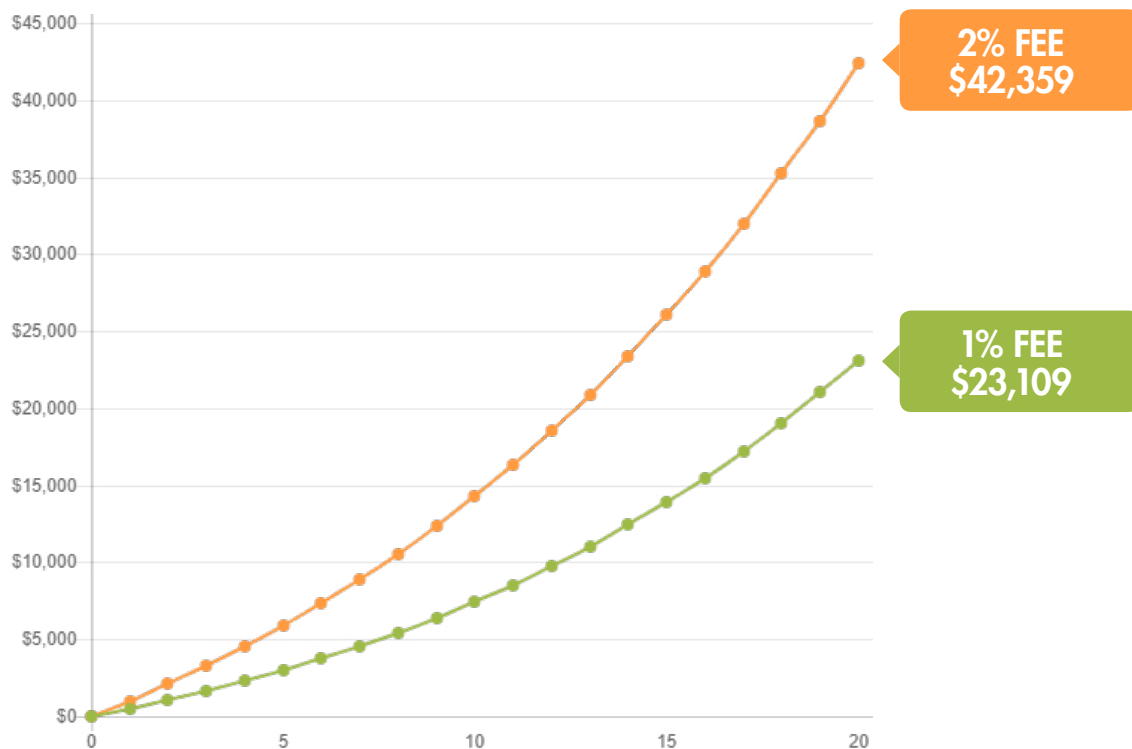
Mutual Fund Fees

Fees matter

The amount of fees you pay when investing has a significant effect on the performance of your investments. Seemingly small differences can have a big effect on your overall long-term investment returns.



Compare a 2% vs a 1% annual fee on a \$50,000 investment with an annual average return of 5% over 20 years. An investor paying 2% would pay \$19,250 more in fees than an investor paying a 1% fee.



Simply put, fees reduce an investment's return to you, and over time this can really add up!

So what do I need to know about mutual funds fees?

Mutual fund fees can be complicated and there's a lot to know so let's start with some basics.

1 Sales Charges

There are several sales charges that may be charged when you purchase, sell or switch mutual funds.

Front-end Sales Commission

Front-end sales commissions are paid from your initial purchase before your money is sent to the fund manager. For example if you have \$2500 to invest in a mutual fund with a front-end sales commission of 1% then \$25 will go to the dealer and \$2,475 will be invested in the mutual fund. **Clients can negotiate front-end sales commissions.** Rates can vary and be as low as 0% commission.

Deferred Sales Charge or Low Load Charge

With a deferred sales charge ("DSC") fund you do not pay a sales charge when purchasing a mutual fund. Instead, you pay a sales charge when you sell your mutual funds. The longer you hold a DSC fund the lower the sales charge becomes. Here is an example of a DSC sales charge schedule:

WHEN YOU SELL UNITS OF YOUR MUTUAL FUND	YOU PAY:	
	In percent	For every \$1,000 you sell
Within 2 years	5.5%	\$55
During the 3rd year	5%	\$50
During the 4th year	4.5%	\$45
During the 5th year	4%	\$40
During the 6th year	3%	\$30
During the 7th year	1.5%	\$15
More than 7 years after buying	0%	\$0

The example above is a seven year schedule. Some funds have a shorter fee schedule such as three years which is sometimes referred to as a **low load charge**.

Using the schedule above as an example if you held the mutual fund for three years and at that time it was worth \$5000 you would pay a deferred sales charge of 5% of \$5000 which is \$250. \$250 would be deducted from your \$5000 redemption and you would receive \$4750 from the proceeds of the sale.

Many fund companies allow you to move a certain amount, usually 10% annually, out of a DSC fund without a charge. These funds no longer attract DSC fees when you redeem them so make sure you take advantage of this feature.

Switch Fees

A switch fee is a fee which may be charged by the dealer or fund manager when you switch from one fund to another within the same fund family. **Clients can negotiate switch fees.**

No-Load Funds:

There are no sales commissions on No-Load funds but these funds may still pay a trailing commission to your dealer.

2 The Management Expense Ratio or MER

The first thing you need to know is that the MER is not paid directly by you “out-of-pocket”. It is a fee that is collected directly from the mutual fund and is paid to:

- 1 **The fund manager** who receives fees for investment management of the fund, and pays for fund operations and related taxes.
- 2 **The dealer/advisor** in the form of **trailing commissions** for providing individual financial advice.

↳ A **trailing commission** is the annual service commission paid by the mutual fund company to your dealer for ongoing service. It is paid to the dealer out of the MER and is paid for as long as you hold units in the fund. Commission rates can range from between 0.25% and 1%. Part of the trailing commission may be paid to your advisor by the dealer to monitor your account and provide you with ongoing advice.

The MER is expressed as a percentage of a mutual fund’s average net assets for a year. The money collected by the fund manager to pay the MER reduces the value of the mutual fund. An important fact to understand is that mutual funds report their value **after the MER is deducted**. This means that if a mutual fund unit has a value of \$50 and an MER of 2% then the reported value of each unit of that mutual fund that you would see on account statements, or published online would be \$49 per unit. In this example \$1 from each mutual fund unit goes towards the MER.



You should compare the MER of each fund before you decide which one to buy.

Know how you pay your fees

Make sure you understand how much you pay in fees as well as how these fees are paid by you.

It is important to have a fulsome discussion about fees with your advisor so that you fully understand the amount of fees you pay and how you pay the fees.

There are two primary ways investors can pay fees for investment advice when investing with a mutual fund dealer:

1 Sales Charges and Trailing Commissions

If you own front-end load, DSC, or low-load charge funds then you pay fees through a combination of sales charges and trailing commission which are paid to your dealer indirectly through the MER. If you own a No-Load fund then you do not pay any sales charges but you may be paying a trailing commission.

2 A fee based account

In a fee based account you pay an annual fee based on a percentage of the value of the money you have invested in the account. For example, an investor with \$100,000 invested may be charged an annual fee of 1% or \$1000 by the dealer directly. This fee is paid directly by you to the dealer generally by withdrawing money from your account. If you are in a fee based account your dealer will not receive a trailer commission and you will not be charged any sales commissions. Because no trailer fee is paid by the fund the MER of funds held in a fee based account should be lower than the same mutual fund held in a non-fee based account.



Good to know

Even if you do not pay any sales commissions directly to your dealer you may still be paying your dealer for servicing your account through an ongoing trailing commission.

Speak to your advisor about how you are charged fees and which fee options are best for you given the value of your account and the services you receive. Don't be afraid to ask whether fees are negotiable. If you are investing in mutual funds with a DSC fee be aware that you will have to pay a fee if you redeem your funds prior to the end of the sales charge schedule.

Every year you will receive a Charges and Compensation report from your dealer which provides important information on the amount of fees you paid to the dealer in the year. Make sure you review and understand this report and discuss any questions or concerns you may have with your advisor. For more information on the Charges and Compensation Report please visit: www.mfda.ca/wp-content/uploads/CRM2-InvestorsGuide.pdf.

Checklist

Questions to ask your advisor about fees:

- ✓ How much am I paying in fees every year?
- ✓ Do I pay fees through commissions or through a fee based account?
- ✓ Are any of the fees I'm paying negotiable?
- ✓ Are fee based accounts available?
 - Would a fee based account be better for me?
 - Is the cost of a fee based account negotiable?
- ✓ Are there other ways for me to lower the fees I pay?
- ✓ What is the MER of the mutual fund you are recommending or what are the MERs of the mutual funds I own?
 - Are there similar options with a lower MER?



Good to know

The Charges and Compensation Report does not provide you with a breakdown of all of the costs of owning a mutual fund. Two costs that are not shown are the fund management fee and the fund operating expenses which are components of the MER.

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