

Anatomy of the Management Expense Ratio (MER)



Mutual funds provide important benefits. And like all things that offer value, there's a cost associated with those benefits. The main cost of investing in a mutual fund is captured in the fund's Management Expense Ratio, or MER.

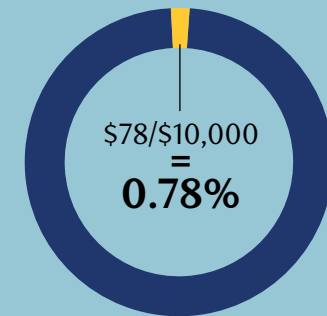
WHAT IS AN **MER?**

An MER is the fee charged to manage the money invested in a mutual fund. It is the total of a fund's management fee, operating expenses and taxes during a given year.

HOW DO MERs **WORK?**

The MER is expressed as an annualized percentage of daily average net asset value during the period. For example if a fund's MER is 0.78%, this means the fund incurs annual costs of \$78 for every \$10,000 invested in a given year.

For illustrative purposes only: Fee-based example shown which does not include the cost of advice.

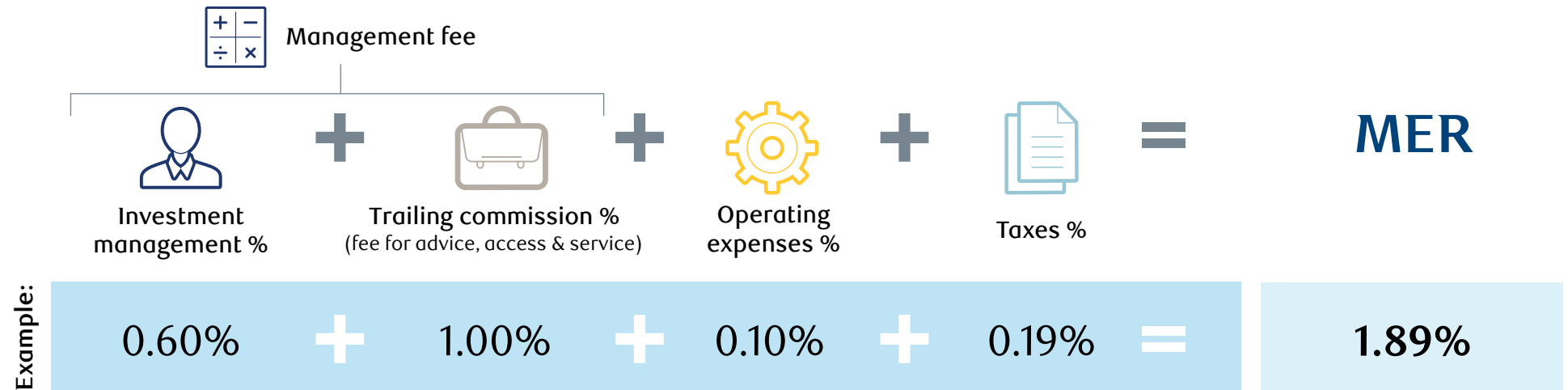


WHAT ARE THE **COMPONENTS** OF AN MER?

An MER is made up of several components. These components may be different across different series of the same fund. To illustrate, we deconstruct a Series F and a Series A MER on the next page.

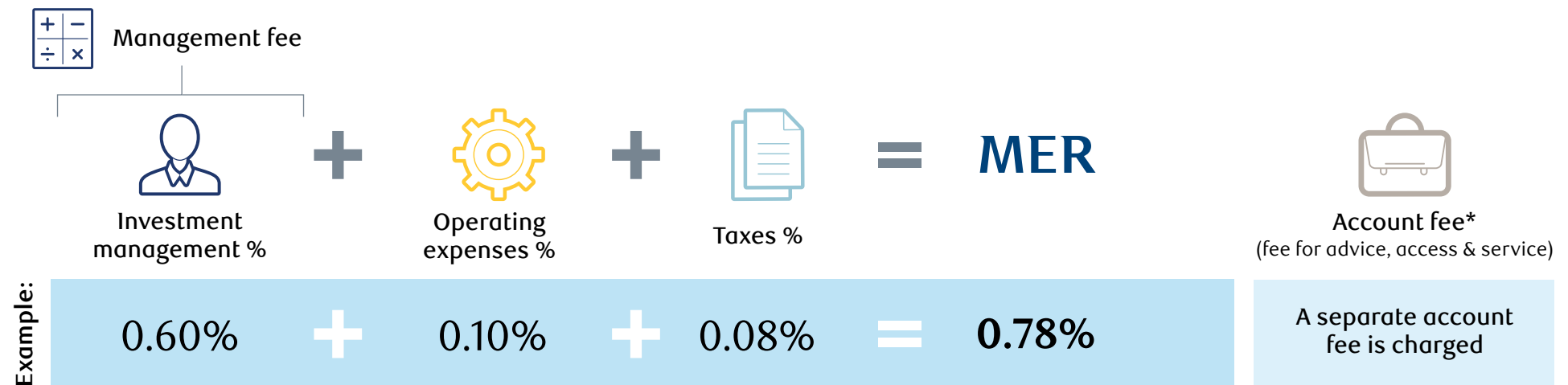
Embedded advice Series (Series A)

Series A mutual funds include a trailing commission paid by the mutual fund company to the investment firm the advisor works for (mutual fund dealer) for ongoing advice, access and service.



Fee-based Series (Series F)

Series F mutual funds are used in fee-based accounts, where the trailing commission is replaced by an account fee. This fee is for advice, access and service, and is charged directly to the investor by the investment firm the advisor works for.



For illustrative purposes only.

*Account fees are subject to federal and provincial taxes.



Management fee



Investment management

Pays for professional investment management, fund supervision, operational administration & service support.

Team

Access to the advanced skills and specialized education, experience and professional designations of the portfolio manager and their team of analysts (if there is a team to support).

Tools

The fund manager and analysts have access to research reports, company executives, competitor information, market data, specialized analysis tools, proprietary tools and other important data.

Time

Mutual fund managers and analysts dedicate their professional lives to researching and analyzing current and potential holdings for the mutual fund allowing investors to enjoy their time doing something else.



Trailing commission*

There are different ways to access and pay for advice depending on the series you invest in.

A trailing commission is paid to the investment dealer organization and financial advisor who sell the fund and provide ongoing financial advice and service to the investor.

Advice

The expertise an advisor provides to an investor, including building financial plans, goal-specific planning, tax planning, fund recommendations, portfolio construction and monitoring and rebalancing.

Access

The infrastructure required of your advisor's firm to support the distribution, sales & servicing of mutual funds.

Service

Trade confirmations, account opening and closing, issuance of statements & communications and regulatory compliance activities.



Operating expenses

(Administrative costs)

Each fund pays an administrative fee that is used to pay for day-to-day expenses including:

- **Record keeping fees** – financial reports, tax slips and statements.
- **Accounting and fund valuation costs** – tracking flows in and out of a fund, calculating net asset values, purchases and sales of investments and related investment income, gains, losses and operating expenses.
- **Custody fees** – holding an investor's securities for safekeeping to minimize the risk of theft or loss.
- **Audit & legal fees**
- **Reports and prospectuses** – preparation of these reports.
- **Filing fees** – cost associated with filing reports and prospectuses with regulators.



Taxes

Each fund is required to pay taxes on its management & administration fees.

*Please note depending on how you work with your advisor the dealer/ advisor compensation may not be included in the management fees ie. for fee-based accounts the dealer/ advisor compensation is not included in the management fee and is negotiated between the advisor and investor.



HOW ARE MERs **SHOWN?**

You pay fees indirectly, as they are automatically deducted from the fund; meaning, the investment return that is reported publicly is shown on an after-fee basis. Performance figures reported on investment statements or in the media are “net” of MERs. Meaning, the fees are deducted from the fund before its performance is calculated.

For example:

$$\begin{array}{r}
 7.00\% \quad - \quad 0.78\% \\
 \text{Performance before fees} \quad \text{MER} \\
 \hline
 6.22\% \\
 \text{Reported investment performance}
 \end{array}$$



WHERE CAN YOU FIND A FUND'S MER?

The MER for a series of a fund is shown on the fund company's website and the most recent Management Report of Fund Performance (MRFP), which is a document that is publicly available on a fund company's website. For a breakdown of a fund's management fee, trailing commissions and operating expenses, see a fund's simplified prospectus.



DOES THE MER INCLUDE **ALL COSTS?**

The MER typically represents the majority of the fees associated with investing in a fund, but not necessarily all of them. For funds that invest in equities, portfolio transaction costs, such as brokerage commissions and any HST applicable to those costs, are not included in the MER. These trading expenses incurred by the fund manager are expressed as the Trading Expense Ratio (TER) and are a cost of doing business. TERs can be found in the Fund Facts document that is provided to all investors prior to investing in any fund.

For more information about the costs of investing in mutual funds, please speak with your advisor.

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