

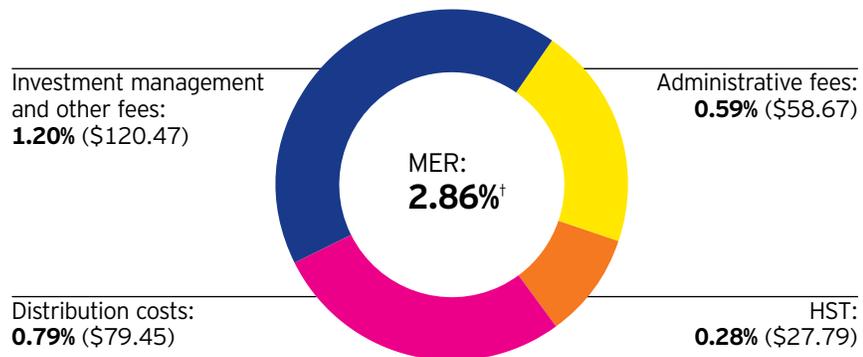


Understanding the management expense ratio

As with any product or service you buy, it's important to know how much you're paying. In the case of mutual funds, it's also important that you understand how that cost is determined. The following explains what a management expense ratio (MER) is and how it is calculated.

The MER for a series of a fund represents almost all of the expenses of that series for a given financial period, as shown on its last management report of fund performance (MRFP). The MER is made up of two broad-based components – management and advisory fees (MAFs) and operating expenses. Each consists of different costs:

Example, \$10,000 invested in Trimark Fund, Series A



† MER is as at December 31, 2013.

What are the components of an MER?

Like the price of gasoline, which consists of a variety of costs (crude oil, refining, delivery, gas station operating costs and taxes), an MER is made up of separate cost components. The MER of a typical retail mutual fund sold in Canada can be broken down into the following cost components:

MAFs:

- Investment management of the fund
- Distribution (e.g., advisor and dealer compensation)
- Marketing and promotion of the fund
- Any financing services provided to the fund

Some of the costs included in the MAFs are subject to HST.

Operating expenses:

- Operating and administrative costs
- Registrar and transfer agency fees
- Accounting, audit and legal fees
- Contact Centre operations
- Regulator-mandated documents, such as financial reports, MRFPs and the prospectus
- Other operating costs
- HST applicable to the operating expenses

Why do MERs change from period to period?

Some of a fund's operating expenses are fixed, with little variance from period to period. Other costs can fluctuate considerably depending on factors such as the number of unitholders, assets under management, fund holdings and the number of transactions processed during a given period.

The MER is calculated for each series of shares or units of a given fund, reflecting different costs associated with each series.



Does the MER include all costs?

The MER typically represents the majority of the costs paid by the fund, but not all.

Portfolio transaction costs, such as brokerage commissions and any HST applicable to these costs, are not included in the MER. These trading expenses are expressed as the Trading Expense Ratio (TER). While the MER differs from series to series, the TER relates to the fund as a whole.

Both the MER and the TER are expressed as an annualized percentage of daily average net assets of the fund during the period.

What are the components of a TER?

- Brokerage commissions
- Portfolio transaction costs
- Related HST

Total fund expenses:

Example - Trimark Fund, Series A[†]

MER = 2.86%

TER = 0.05%

Total fund expenses = 2.91%

[†] As at December 31, 2013.

Choosing your investments

Your investment goals, time horizon and risk tolerance are important factors to consider when making an investment decision. While MERs may be a part of the investment decision-making process, they shouldn't be the primary factor in choosing a fund. Even though MERs reduce the value of your investment, paying less does not always mean you're getting better value.

Talk to your advisor to determine which funds are best suited to meet your investment needs, and then consider the level of the MER.

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