MERs:
What It Costs You To Invest In Mutual Funds

What does MER mean?

The MER, or management expense ratio, measures the total cost of operating a fund as a percentage of the average total assets in that fund. This, essentially, is the cost to the client to own this type of investment.

The MER of a fund consists of two main components:

1. The advisor's fees

- This is primarily how your advisor receives their compensation. Also known as *'Trailer Fees,'* this includes the services they provide to the fund's unitholders, including advice; on-going account monitoring; financial planning work; and all other services provided to you by your advisor. This fee can range from of 0.25% (cash investments) to 1.25% (certain equity funds) depending on the type of mutual fund in question.

2. The fund company's fees

- *Investment management*: This is the cost of managing the portfolio including securities research, analysis and selection, investment strategy, and portfolio management.
- *Administrative & operating Expenses*: The costs associated with operating the fund including:

  - Transfer agency, fund pricing and bookkeeping (including the processing of transactions and the calculation of the fund's unit price).
  - Preparing and submitting financial statements and other regulatory reports or filings
  - Filing fees (paid to Canadian regulators)
  - Taxes (HST is paid on the management fees and expenses)

How do you calculate the MER?

The MER and the figures used to calculate it are shown in the fund's annual reports.

It is calculated by dividing the total expenses of the mutual fund for the financial year as shown on its income statement, by the average net asset value of the mutual fund for the financial year.

How and when am I charged these MER fees?

MERs will be deducted directly from the fund holdings. In many cases fund companies will apply these MER fees on a daily basis and they will be paid out monthly from the fund.

**Please note:* Performance is most often listed net of MER expenses.

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Why does the MER sometimes vary to such a large extent from one fund to another?

Some funds are less expensive in their operational expenses than others. Regarding advisor series funds (*those containing trailer commissions embedded into the fund's MER*); the following is a general guideline for the MERs typically found on some commonly used fund categories:

Fund Category	MER
Money Market funds	0.75% - 1%
Bond funds	1% - 2%
Balanced funds (mix of equity and bonds)	2% - 2.75%
Equity funds	2% - 3%
Sector Equity funds	2.25% - 3.5%

**Please note:* These figures are to be used only as a general guideline and do not reflect all Mutual Funds available in Canada. The above figures were gathered from Morningstar's PALTRAK.

Are the costs to own mutual funds worth the advantages?

It should first be noted that not all financial planning practices use the embedded fee system. An equity mutual fund that costs only 1.5% may not have the advisor's fee encorporated yet. Knowing how your advisor is compensated first is key in assessing the value and cost of the product that is being recommended.

It's important to keep in mind the range in price, as noted above, that can be found in the Canadian mutual fund market. An equity fund on the higher end of 2-3% may not always have superior management to that at the lower end of the cost spectrum. Our practice puts great effort into researching all available mutual fund products and keeping investment cost for our clients low, but not at the expense of good management.

In some areas of your potfolio, it may be advantageous to cut management costs in the investments you own. In others, it may expose you to higher levels of risk or hinder potential gains in the long run.

Mutual funds can provide valuable diversification and help gain well-managed exposure to sectors and regions that can be difficult to attain otherwise. Contact our office for more information.