

INSIDE **MERs**

Understanding the management expense ratio

The main cost of investing in a mutual fund is captured in the fund's **Management Expense Ratio**, or MER. From investment management to performance reporting, it's important to know where your money goes – and what you can expect in return.

What is an MER?

An MER is the total cost of running a mutual fund for a year, expressed as a percentage. The MER is the total of the fund's management fee, operating expenses (or fixed administration fee) and provincial/federal taxes charged to the fund during that year.

How does an MER work?

The MER for a given fund "series" is based on the series' total value and is expressed as a percentage. You do not pay the MER directly, but it reduces your annual return.

For example, if a fund's MER is 2.25%, this equals approximately \$22.50 for every \$1,000 invested in a given year.

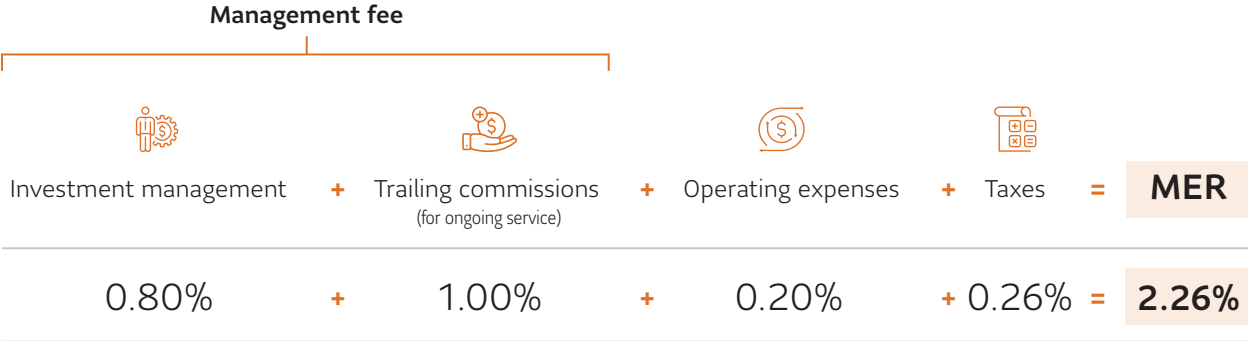


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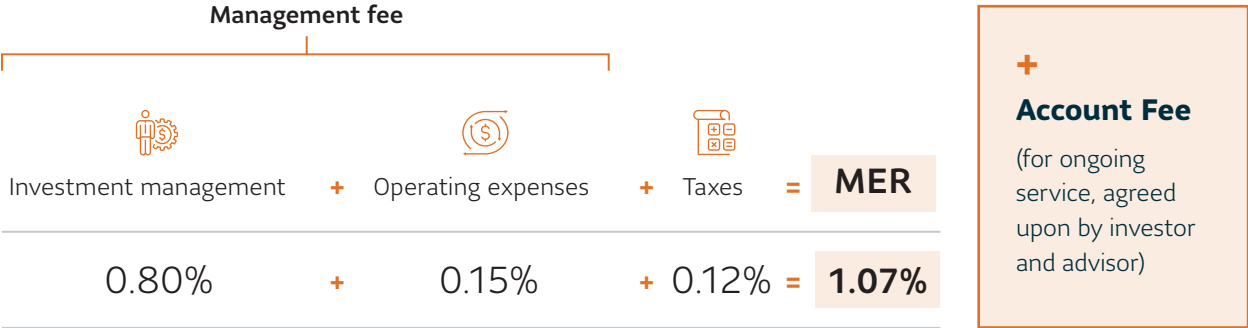
The elements of an MER

An MER is made up of several components. These components may be different across different series of the same fund. For example, a Series A fund has an embedded trailing commission versus a Series F fund that does not. To illustrate, we analyse a hypothetical Series A and a Series F MER below:

Series A – Transaction-based (Trailing commission)



Series F – Fee-based*



For illustrative purposes only and not intended to represent any single mutual fund managed by SLGI Asset Management Inc., assuming a provincial/federal tax rate of 13%. Mutual funds calculate a blended GST/HST (or QST) tax rate that takes into consideration the tax rates for all investors based on what province they live in. *Series A securities are available to all investors while Series F is only available to investors who have a fee-based account with their representative's firm and whose representative's firm has an agreement with a fund company. Investors may pay a fee to their representative's firm for investment advice and other services. This fee is negotiated between the advisor and investor.

The elements of an MER defined:

Management fee



Investment management

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

Benefits include:

- Experienced investment management and daily monitoring
- Access to a wide range of global investments, research reports, company executives, market data, competitor information and other important data



Trailing commission (for ongoing service)

Fund companies pay ongoing fees called trailing commissions to the firm for which your advisor works. A portion of the trailing commission may be paid by the advisor's firm to its representatives.

The fund pays this ongoing commission for as long as you own it. To earn his or her portion of the commission, your advisor may provide you with any number of services:

- Helping set and review financial goals
- Helping with investment selection
- Retirement planning
- Budgeting
- Insight into the markets
- Portfolio rebalancing
- Performance updates



Operating expenses

Each fund pays an administrative fee that is used to pay for day-to-day expenses. Services include auditing, accounting and fund valuation, record-keeping, custody, filing and legal and compliance.



Taxes

Each mutual fund is required to pay provincial/federal taxes on management and administration fees charged to the fund. Mutual funds calculate a blended provincial/federal tax rate that takes into consideration the tax rates for all investors based on what province they live in.

Where can I find the MER for a mutual fund?

The MERs for a series of a mutual fund are shown in several places, including:

Fund company website

Management Report of Fund Performance (MRFP)

Fund Fact document

Simplified prospectus (outlines the fund's management fees, trailing commissions and operating expenses)

How does the MER affect my return?

A fund's MER is paid indirectly, as it is automatically deducted from the fund's assets. This means that the investment return that is reported on your account statement is shown after the deduction of fees and expenses. This means that the fees are deducted from the fund before its performance is calculated. For example:

Performance before fees	-	MER	=	Reported investment performance
5.00%	-	2.25%	=	2.75%

Is the MER the only cost?

The MER typically represents the majority of the costs incurred by a fund, but not all. 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. A value called the trading expense ratio (TER) aggregates all of the trading costs incurred by a fund over the course of a year and is expressed as a percentage of assets.

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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