

# INSIDE **TERs**

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Understanding the trading  
expense ratio



Many investors are familiar with the Management Expense Ratio, or MER, which is one of the main costs associated with owning a mutual fund. Separate from the MER is a lesser-known cost – **the Trading Expense Ratio (TER)**.

# What is a TER?

TERs are the annual trading expenses incurred in a fund as a percentage of the fund's total assets. These costs are incurred when the portfolio management team buys and sells equities (stocks) within a given fund.

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## Do all funds have a TER?

No, TERs typically only apply to funds that hold equities. Most fixed income funds do not have a TER because commissions for fixed income funds are already embedded in the price of a bond.

## How do TERs work?

The TER is expressed as a percentage of total assets. This percentage is determined by taking the fund's total trading costs incurred over a reporting period divided by the fund's total assets.

Total Trading Costs / Total Assets = **Trading Expense Ratio**

If a fund had \$50 million in assets under management and the portfolio managers incurred trading costs of \$125,000 for a given year, then the fund's TER would be calculated as:

$$\text{\$125,000} / \text{\$50,000,000} = \text{0.25\%}$$



This means that 0.25% of the fund's total assets for the year went to pay for trading expenses.

## Where can I see a fund's TER?

TERs are disclosed in the Fund Facts document, which is required to be provided at point of sale and it is also published in other regulatory documents like the Management Report of Fund Performance.

## What are the contributors to a fund's TER?



### Trading activity

Trading costs incurred by the fund when the portfolio manager buys or sells equities can vary significantly from fund to fund and from year to year. Market conditions, investment strategy and asset class are a few examples of circumstances that may lead a portfolio manager to trade a security.



### Fund asset mix

Trading costs are only incurred on equities, not bonds. Bond funds do not have a TER as commissions are embedded in a bond's spread. Balanced funds will generally have a lower TER than equity funds.

For example:

Balanced Fund	Global Equity Fund
TER = 0.04%	TER = 0.09%
Portfolio turnover rate = 16.6%	Portfolio turnover rate = 12.2%



### Fund flows

The larger the fund's inflows/outflows due to unit purchases or redemptions, the higher the TER. When portfolio managers receive new assets to manage, they must buy securities, and when unitholders redeem holdings, the portfolio managers must sell securities thus incurring trading costs.



### Liquidity

A security's liquidity is determined by the number of investors seeking to buy or sell it relative to how much is available. Less liquid securities can be more expensive to trade than more liquid ones.



### Trading desk

Access to an efficient trading desk can help reduce the total amount of trading commissions a fund pays.

## How does the MER compare with the TER?

Below is a sample comparison between a fund's Series A MER and TER and a Series F MER and TER. It's important to remember that the TER will vary from fund to fund and from year to year and that both MER and TER are deducted before a fund's published performance.

<b>Fund/Series</b>	<b>MER</b>	<b>TER</b>
Canadian Bond Fund Series A	1.34%	0.00%
Canadian Bond Fund Series F	0.74%	0.00%
Balanced Portfolio Series A	2.25%	0.04%
Balanced Portfolio Series F	1.15%	0.04%
Global Equity Fund Series A	2.27%	0.09%
Global Equity Fund Series F	1.10%	0.09%

For illustrative purposes only. Not intended to represent any single mutual fund managed by SLGI Asset Management Inc.

### TER quick facts

- The TER generally only applies to funds with equity holdings.
- The TER is deducted from published fund performance: Mutual fund performance is reported after MER and TER costs have been deducted.
- The TER may vary from year to year, as it is a reflection of the previous year's trading activity in a fund.
- Generally a fund with a higher TER reflects a higher level of trading activity in the fund's portfolio.

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