

A guide to your questions on CRM2

August, 2016

Under new industry regulation—Client Relationship Model, Phase 2 (CRM2)—all investment dealers in Canada will provide two new detailed reports to clients regarding their account performance and fees by early 2017.

This is good news for investors and our industry in general because it will result in more information and enhanced transparency for investors. For some, it may be a level of detail on the performance and fees of their portfolios that they have not seen before.

To help answer any questions you may have about these new reports, we have prepared some straightforward factsheets with helpful answers to questions such as:

“Why am I getting all this paper?”

The regulators have requested that you receive two separate reports for each and every account that you hold – one Annual Performance Report and one Statement of Charges and Compensation. Clients with multiple accounts will receive multiple reports.

“Are these new fees I’m paying?”

It is important to know that there is no change to the costs that you are paying as a result of these new reports. They are meant to provide a detailed and transparent disclosure of the cost of investments.



What is CRM2?

Answering your questions about new investment industry regulations coming into effect

Providing investors with greater transparency about the cost and performance of their accounts is the driving force behind new industry-wide regulations, known as the Client Relationship Model II (CRM2). Top of mind for investors is how CRM2 will affect them as the regulatory changes are implemented over the coming months.

What is CRM2?

- New industry-wide regulations that improve how the financial industry reports and discloses information to investors.
- Changes are now being phased in, with full implementation at RBC Dominion Securities by early 2017. It includes two new reports: (1) account costs and (2) account performance.
- Applies to all investment dealers and advisors in Canada, including:
 - Investment dealers regulated by the Investment Industry Regulatory Organization of Canada (IIROC), such as RBC Dominion Securities
 - Firms regulated by the Mutual Fund Dealers Association (MFDA), such as the respective mutual fund distributor of each of the major banks
 - Investment counselling firms regulated by provincial securities commissions in Canada

Why is CRM2 being implemented?

- CRM2 is part of a global shift towards increased disclosure and transparency in the investment industry
- To provide investors more details on the fees and performance of their investment accounts
- To improve investors' ability to assess how they are progressing towards their financial goals

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For more information on CRM2 basics, ask for our “What is CRM2?” factsheet.



Wealth Management
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“Why don’t my returns match up?”

If the performance return shown on your new report doesn’t match up with your existing account statement, it may be because the new performance reports are required to use the “money-weighted rate of return” calculation method as opposed to the “time-weighted rate of return” calculation method which has been widely used as the industry standard for reporting performance in the past. Both are valid measures of performance, but use different calculation methods to generate your rate of return.

“What are these trailing commissions I’m paying?”

A trailing commission can be included as a component of the mutual fund MER fee for some mutual funds. In these instances, fund companies pay ongoing fees called trailing commissions, to the firm for which your advisor works - in our case RBC Dominion Securities. The trailing commission pays for value-added activities that your advisor and their firm provides with respect to the mutual fund including: the infrastructure required of your advisor’s firm to support the distribution, sales and servicing of the mutual fund, monitoring and portfolio re-balancing, and ongoing and regulatory client communications and activities.

“What do my investment costs pay for?”

There are a host of benefits and functions that are covered by the costs that you pay for your investment accounts. The advice and service provided to you on a day-to-day basis, the protection and privacy of your information and assets, the ability to access accounts online, capital markets research, back-office transaction processing, custody statements, tax reporting, risk controls and regulatory compliance to name a few. We are focused on achieving the best results for your wealth management experience and infrastructure we have in place provides a premiere offering to help you realize your financial goals.



Time-weighted vs. money-weighted rates of return

Understanding the differences

While there are a number of ways to calculate an investment rate of return, the time-weighted rate of return calculation is the more common method used in the investment industry. However, by early 2002, all investors will receive an annual money-weighted rate of return, included with a new annual investment performance report. Both are valid and acceptable calculation methods, but each has different uses and can be appropriate in different circumstances.

Introduction
In new annual performance reports that investors will receive by early 2002, rates of return will reflect the mathematical money-weighted calculation, versus the more commonly used time-weighted calculation. The new regulatory requirement according to Canadian investment regulations is that all investors in Canada will receive this new report with the money-weighted rate of return.

This article is a general and non-mathematical explanation of the differences between money-weighted and time-weighted rates of return, and provides examples of when you may see a difference in the rate of return for a given portfolio over the same time period.

Time-weighted
The time-weighted calculation is the financial industry and RBC Dominion Securities standard method to measure performance. For example, the methods most commonly used to calculate the

A quick summary

- The timing of cash flows that you direct, such as contributions (which includes transfers in-kind) and withdrawals, can affect your portfolio’s rate of return
- Time-weighted rate of return calculation **does not** include the effect of these cash flows
- Money-weighted rate of return **includes** the effect of these cash flows
- If there are no cash flows, the two methods will produce the same rate of return

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For more information, ask for our factsheet “Time-weighted vs. money-weighted rates of return”.



Anatomy of the Management Expense Ratio (MER)

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

WHAT IS 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 sales charges (if any).

HOW DOES IT WORK?
The MER is expressed as a percentage of the average value of assets in a fund. For example, if a fund has assets of \$10,000 and the fund incurs annual costs of 0.7%, the MER is 0.7%.

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 deconstructed a Series F and a Series A MER in the infographic.


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.

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).

Example for Series F:
Management fee (60 basis points) + Operating expenses (10 basis points) + Sales charges (8 basis points) = **78 basis points** (MER)

Example for Series A:
Management fee (60 basis points) + Trailing commission (100 basis points) + Operating expenses (10 basis points) + Sales charges (19 basis points) = **189 basis points** (MER)

For more information, ask for our factsheet “Anatomy of the Management Expense Ratio” or “Understanding the Costs of Mutual Fund Investing”.



What’s included in your relationship with us?

Our commitment to providing value

We are pleased to offer you a wide range of investment and wealth management services, many of which are complementary to you as a valued client.

Discovery

- Explore your current financial situation, portfolio and investment objectives
- Establish your investment and wealth management goals
- Determine your tolerance for risk and market fluctuation

Strategy

- Develop your individual Investment Policy Statement
- Build customized portfolio designed to meet your investment goals
- Establish your needs for tax, estate, insurance and charitable gift planning
- Provide research, commentary and information on specific holdings, markets or economies
- Collaborate with your existing professional advisors, such as lawyers and accountants, to integrate your investment plans

Enhanced wealth management services

- Introduce, as appropriate, a full suite of services from our RBC partners
- Benefit from the expertise of our RBC Wealth Management Services team, which includes specialists in financial planning, estate law and taxation
- Comprehensive financial planning (Complex Financial Plan)
- Family Snapshot™ Wealth Management Opportunities Report
- Will and estate consulting
- Insurance-based wealth enhancement assessment
- Business succession planning
- Corporate re-organization advice
- Family wealth management

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For more information, please contact me and we can discuss. We can start with our factsheet “What’s Included in your relationship with us”.

Please contact me if you would like to discuss any questions or if you would like to discuss anything further about these new reports. Together we can help you understand these these new reports and what they mean for you.