

# Anatomy of the Management Expense Ratio (MER)



Wealth Management  
Dominion Securities

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



## WHAT IS AN 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 taxes during a given year.



## HOW DO MERs

## WORK?

The MER is expressed as a percentage of the average dollar amount of a fund investment. For example if an investor holds assets of \$10,000 and the fund incurs annual costs of 189, the MER is 1.89%.



For illustrative purposes only: Fee-based example shown which does not include the cost of advice.



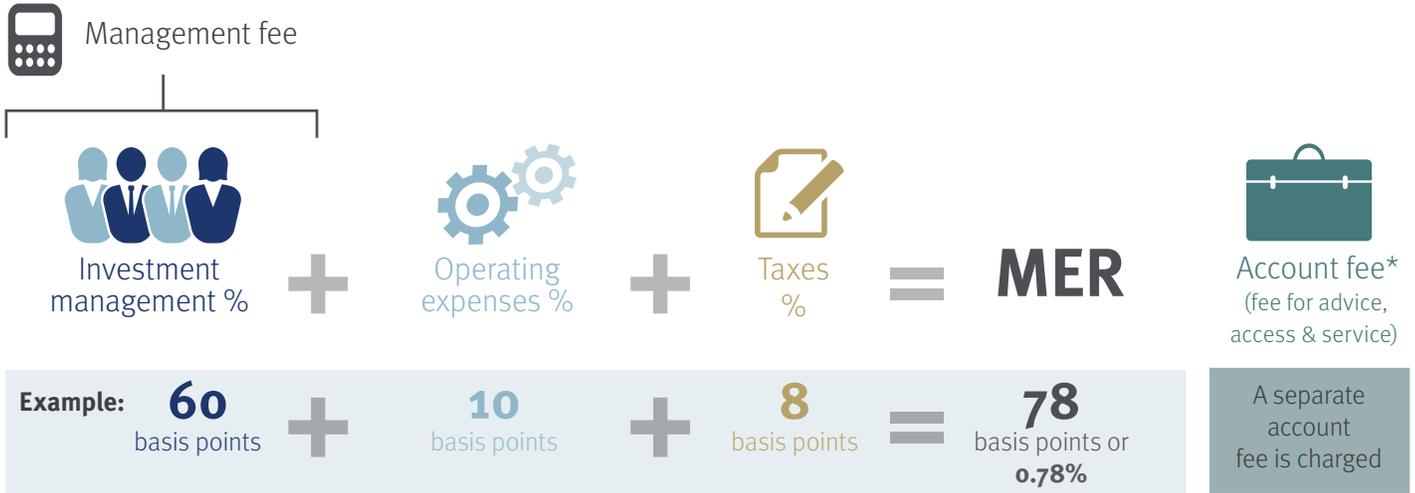
## WHAT ARE THE

## 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 deconstruct a Series F and a Series A MER on the next page.

## 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 (investment dealer) for ongoing advice, access and service.



For illustrative purposes only.

\*Account fees are subject to federal and provincial taxes.

|  <b>MANAGEMENT FEE</b>   |   |  <b>OPERATING EXPENSES</b><br>(Administrative costs)  |  <b>TAXES</b> |
|---|---|---|--|
|  <b>Investment management</b><br><br>Pays for professional investment management, fund supervision, operational administration & service support.<br><br><b>Team</b><br>Access to the advanced skills and specialized education, experience and professional designations of the portfolio manager and their team of analysts (if there is a team to support).<br><br><b>Tools</b><br>The fund manager and analysts have access to research reports, company executives, competitor information, market data, specialized analysis tools, proprietary tools and other important data.<br><br><b>Time</b><br>Mutual fund managers and analysts dedicate their professional lives to researching and analyzing current and potential holdings for the mutual fund allowing investors to enjoy their time doing something else. |  <b>Trailing commission*</b><br><br>There are different ways to access and pay for advice depending on the series you invest in.<br><br>Compensation is paid to the investment dealer organization and advisor (trailing commission) who sell the fund and provide ongoing financial advice and service to the investor.<br><br><b>Advice</b><br>The expertise an advisor provides to an investor, goal-specific planning, tax planning, fund recommendations, portfolio construction and monitoring and rebalancing.<br><br><b>Access</b><br>The infrastructure required of your advisors firm to support the distribution, sales & servicing of mutual funds.<br><br><b>Service</b><br>Trade confirmation, account openings and closing, issuance of statements & communications and regulatory compliance activities. | Each fund pays an administrative fee that is used to pay for day-to-day expenses including: <ul style="list-style-type: none"> <li>▪ <b>Record keeping fees</b> – financial reports, tax slips and statements.</li> <li>▪ <b>Accounting and fund valuation costs</b> – tracking flows in and out of a fund, calculating net asset values, purchases and sales of investments and related investment income, gains, losses and operating expenses.</li> <li>▪ <b>Custody fees</b> – holding an investors securities for safekeeping to minimize the risk of theft or loss.</li> <li>▪ <b>Audit &amp; legal fees.</b></li> <li>▪ <b>Reports and prospectuses</b> – preparation of these reports.</li> <li>▪ <b>Filing fees</b> – cost associated with filing reports and prospectuses with regulators.</li> </ul> | Each fund is required to pay taxes on its management & administration fees.                      |

\*Please note depending on how you work with your advisor the dealer/ advisor compensation may not be included in the management fees ie. for fee-based accounts the dealer/ advisor compensation is not included in the management fee and is negotiated between the advisor and investor.



## HOW ARE MERs SHOWN?

You pay fees indirectly, as they are automatically deducted from the fund; meaning, the investment return that is reported on your account statement is shown on an after-fee basis. Performance figures reported on investment statements or in the media are “net” of MERs. Meaning, the fees are deducted from the fund before its performance is calculated. For example:



## WHERE CAN YOU FIND A FUND'S MER?

The MER for a series of a fund is shown on the fund company's website and the most recent Management Report of Fund Performance (MRFP), which is a document that is publically available on a fund company's website. For a breakdown of a fund's management fee, trailing commissions and operating expenses, see a fund's simplified prospectus.



## DOES THE MER INCLUDE ALL COSTS?

The MER typically represents the majority of the costs charged to the 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. These trading expenses incurred by the fund manager are expressed as the Trading Expense Ratio (TER) and are a cost of doing business. TERs can be found in the Fund Facts document that is provided to all investors prior to investing in any fund.

**For more information about the costs of investing in mutual funds, please speak with your advisor.**