Understanding management expense ratios

When you invest in a mutual fund, you and everyone else invested in it help pay for the administration and expertise to manage that fund. You don't pay these fees and expenses directly, however they do reduce your overall rate of return. These fees are collected at the fund level and are expressed as a percentage of the total fund assets, and this number is known as the management expense ratio (MER).

What makes up the MER?

A mutual fund's MER consists of three main components:

- a management and advisory fee
- a fixed administrative fee
- sales tax

The **management and advisory fee** relates directly to the costs of paying the people who manage the mutual fund – the fund manager(s) and other members of the investment team. The managers use the management fee to pay expenses like employee salaries, research costs, trailing commissions (fee to pay the dealer/advisor compensation) and distribution costs (sales and marketing).

Many fund managers, including Fidelity, will pay all of the operating expenses, except for Fund Costs, in exchange for a fixed rate **administration fee** that is paid by each mutual fund. These operating expenses include pricing and bookkeeping fees, legal and audit fees, filing fees and the costs of preparing and distributing a fund's financial reports, simplified prospectus, fund facts and other investor communications. This practice is widely used in the Canadian mutual fund industry. Some companies still charge the individual operating expenses directly to their funds, so the fees can vary year to year.

Mutual funds are required to pay the **harmonized sales tax (HST)** on management and advisory fees, administration fees as well as certain fund costs. The HST rate paid by the series of the fund depends on the portion of the net asset value of the series attributable to investors resident in each province and/or territory and the applicable HST rate of those provinces and territories.

Additional Fund Costs include Independent Review Committee (IRC) fees, taxes, portfolio transaction costs, interest and borrowing charges, and new fees related to external services that were not commonly charged in the Canadian mutual fund industry as of September 10, 2009; and the costs of complying with any new regulatory requirements, any new fees introduced after September 10, 2009.

Some of the Fund Costs such as the IRC fees are included in the calculation of the management expense ratio while others such as portfolio transaction costs are including in the calculation of the trading expense ratio.

How is the MER calculated and paid to the fund?

The total MER is calculated as a percentage of the average net assets in the series. The fees represented by the MER are not billed directly to investors. The fund company deducts these fees from the fund.

You can easily learn the MER of any fund on a fund company's website, by searching the fund facts and financial statements documents. MERs vary depending on the fund and the fund company.

For more information, ask your advisor or visit *fidelity.ca*

Read a fund's prospectus and consult your advisor before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions and may experience a gain or loss.

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