

# Understanding mutual fund sales charges

When you buy a mutual fund, you may pay a fee (or commission) to the investment professional selling you the fund. This commission is also known as a sales charge or load. There are two basic types of sales charges, but both are calculated as a percentage of your original purchase amount:

- **An initial sales charge (ISC)** is paid by you when you invest in a mutual fund.
- **A deferred sales charge (DSC)** is paid only when you sell your mutual fund investment – the percentage generally declines the longer you hold your investment. If you hold your mutual fund investment long enough, this charge will be reduced to zero.

## An ISC is payable at time of purchase.

- You and your investment professional negotiate the amount you pay.
- The charge is typically between 0% and 5% of your initial investment amount.
- Front-end loads reduce the amount of your initial investment. The fund company deducts the sales charge from the amount you invest and pays it to your dealer (who pays the advisor) as a commission.

Here's how it works:

Original client investment  
**\$10,000**



Based on a **1% ISC**, the advisor earns a **\$100 fee**



From the original amount, **\$9,900 is** invested in the fund

## A DSC is paid by the fund company.

With a DSC, 100% of your money is invested in the mutual fund, and the fund company pays the dealer (who pays the advisor) a commission at the time of purchase. So in this case, you don't pay any fee out of your own money *as long as you hold your mutual fund investment for a pre-determined number of years*. If you redeem your investment before the end of that time, you will pay an early redemption fee based on the original cost of your investment and how long you held it. This fee will be deducted from your withdrawal amount.

The following table shows you a typical example of how this works:

### A Typical Deferred Sales Charge Schedule

IF YOU REDEEM A DSC MUTUAL FUND	YOU'LL PAY A CHARGE OF
During the first year	6.0%
During the second year	5.5%
During the third year	5.0%
During the fourth year	4.5%
During the fifth year	3.0%
During the sixth year	1.5%
After six years	zero

Some DSCs, often referred to as “low load,” have shorter schedules and lower early redemption fees. For example:

### A Typical Low Load Deferred Sales Charge Schedule

IF YOU REDEEM LOW LOAD	YOU'LL PAY A CHARGE OF
During the first year	2.0%
During the second year	2.0%
During the third year	zero

Regardless of any change in the value of the account, the DSC redemption is based on your original investment amount.

For illustrative purposes only we will use the following, an original investment of \$10,000, a 3% DSC and a current account value of \$11,000

**\$11,000** — **\$300** = **\$10,700** which will be paid out to the client.

As you can see, the fees charged on mutual funds and when those fees are paid vary. In addition to these commissions, you will pay fees to the investment manager for managing the fund’s assets, as well as for paying the fund’s operating costs known, as the management expense ratio or MER. It’s important that you understand the fees and the payment process before you commit to a mutual fund investment, to ensure it meets with your investment time horizon.

For more information, ask your advisor or visit [fidelity.ca](http://fidelity.ca)

**Read a fund’s prospectus and consult your financial 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. The indicated rates of return are the historical annual compounded total returns for Series A units (prior to October 10, 2000, the only series) including changes in unit value and the reinvestment of all distributions and do not take into account sales, redemption, distribution, optional charges or income taxes payable by any securityholder that would have reduced returns. On January 10, 2005, we stopped offering Series A with the initial sales charge (“ISC”) option and created Series B, which is only available with the ISC option, and transferred the existing Series A ISC units into the new series. Series B management fees are 0.15% lower than Series A. Performance figures for Series B include the actual performance for units when they were available as Series A ISC units.

