

How advisors get paid

Many Canadians admit that they don't know exactly how their advisor gets paid. New regulations aim to clear up some of this confusion. The following scenarios¹ break down the costs of investing, using a hypothetical \$10,000 mutual fund investment.

So how does your advisor get paid?

Usually it's in one of two ways: through a fee embedded in the cost of your mutual fund, or a separate fee paid directly by you.

The costs charged by the mutual fund (expressed as a management expense ratio, or MER) will vary depending on how your advisor is paid. The MER is lower under the direct model because it does not include your advisor's compensation.

Costs charged through the mutual fund²

Cost of professional investment management and operating expenses ...

plus GST/HST paid by fund company

Embedded compensation paid to dealer, through mutual fund (1%)

Direct compensation paid by investor to dealer (1%), plus taxes (0.1%)

GST/HST paid by dealer

Amount retained by dealer for services provided to advisor, such as:

- administration
- compliance and oversight
- client reporting
- privacy enforcement
- money laundering protection

Investment dealership



Amount paid by dealer to advisor for services provided to client, such as:

- financial planning
- annual review
- retirement planning
- educational planning
- tax & estate planning
- investment planning
- cash management
- trust planning

Advisor



\$10,000 mutual fund investment

Embedded
(MER: 2.5%)

Direct
(MER: 1.4%)

\$250

\$140

\$130

\$130

\$20

\$10



\$100



\$110

-

\$10

\$35

\$35

\$65

\$65

Total annual cost of your mutual fund

\$250

\$250

Regardless of how an advisor is paid, it is important to provide you with choice and transparency. If you understand the services your advisor provides and the costs of those services, the value of the advice you receive will be evident.



Does the MER include all costs?

The MER typically represents the majority of the costs paid by the fund, but not all.

Portfolio transaction costs, such as brokerage commissions and any HST applicable to these costs, are not included in the MER. These trading expenses are expressed as the Trading Expense Ratio (TER). While the MER differs from series to series, the TER relates to the fund as a whole.

Both the MER and the TER are expressed as an annualized percentage of daily average net assets of the fund during the period.

Total fund expenses:

Example - Trimark Global Balanced Fund, Series A[†]

MER = 2.62%

TER = 0.04%

Total fund expenses = 2.66%

[†] As at December 31, 2014.

What are the components of a TER?

- Brokerage commissions
- Portfolio transaction costs
- Related HST

Choosing your investments

Your investment goals, time horizon and risk tolerance are important factors to consider when making an investment decision. While MERs may be a part of the investment decision-making process, they shouldn't be the primary factor in choosing a fund. Even though MERs reduce the value of your investment, paying less does not always mean you're getting better value.

Talk to your advisor to determine which funds are best suited to meet your investment needs and then consider the level of the MER.

Why do MERs change from period to period?

Some of a fund's operating expenses are fixed, with little variance from period to period. Other costs can fluctuate considerably depending on factors such as the number of unitholders, assets under management, fund holdings and the number of transactions processed during a given period.

The MER is calculated for each series of shares or units of a given fund, reflecting different costs associated with each series.

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¹ Assumes the value of the hypothetical investment averages \$10,000 over the course of the year. While the management expense ratios (MERs), compensation rates and percentages retained by the dealer cited are representative of real-world costs, they are highly variable.

² This is the total of the mutual fund's management fee (which includes any dealer compensation), operating expenses and GST/HST. There is no dealer compensation paid through the Direct model.

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