

Mutual Fund Costs:

Understanding Management Expense Ratio (MER)

Mutual fund investors benefit from professional management and can choose from a wide selection of funds to make it easier to build a diversified portfolio. Many of the fees and expenses associated with mutual fund investments are embedded in the product so it's important to understand how they work.

Management Expense Ratio (MER) Calculation

Mutual fund fees and expenses are represented through the Management Expense Ratio (MER). The MER is the percentage of the annual fees plus the annual expenses, divided by the average net assets of the fund. Typically, MERs in Canada are below 3%.

$$\text{MER} = \frac{\text{Annual fees + expenses}}{\text{Average net assets of the fund}}$$

You don't pay for the MER directly. It is built into the fund.

How do I pay the MER?

The MER is accrued in the fund before the returns are calculated and reported. Investment returns reflect performance reported after the MER is deducted.

Fund Facts:

A quick way to obtain fund specific information

All mutual funds have a Fund Facts document which details pertinent information about the fund. You can find the MER for any mutual fund on Fund Facts.

Fund Facts also lists the Trailing Commission (where applicable). Both the MER and Trailing Commission are shown as a percentage, and also in dollars per \$1,000 invested.

New

Your annual investment statement from BMO Investments Inc. now shows the exact dollar amount of the Trailing Commission/Service Fee for the total of your investments in the account.

What value do I receive for these mutual fund fees and expenses?

The MER covers three crucial elements of managing your mutual funds: Management Fees, Operating Expenses and Taxes on both of these.

Hypothetical Example: MER 2.49%, \$20,000 investment

\$20,000 in a mutual fund with a hypothetical MER of 2.49% = \$498

*Percentage allocation of MER is hypothetical - for illustration purposes only

Management Fees (2% or \$400)

a. **Investment Management Fees** (1% or \$200)

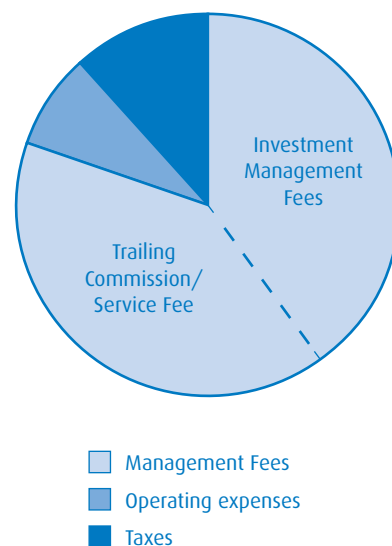
Fees paid to the asset management firm that manages the fund. Covers investment research, strategy development and implementation, investment selection, portfolio management and monitoring, and governance and risk management involved with managing all of the money in the fund.

b. **Trailing Commission/Service Fee** (1% or \$200)

Compensation to the firm that sells the fund. Fees paid for the investment advice and service provided to you.

Operating Expenses (0.2% or \$40) – Covers costs associated with regulatory requirements and day-to-day expenses of operating the fund. These can include regulatory document filings, transaction processing, client reporting, audit and legal fees, and custodial fees.

Taxes (0.29% \$58) – Each fund is required to pay sales tax on management fees and operating expenses.



Have more questions about your mutual funds?
Talk to an investment specialist today!

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1-800-665-7700

Learn more
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Mutual Funds

Please refer to Page 3 for footnotes and important disclaimers.

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