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%.

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

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.

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As of December 31, 2016, your annual investment statement from BMO Investments Inc. will show 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.



BMO Mutual Funds offer a broad range of investment solutions managed by BMO Global Assets Management.

The BMO Mutual Funds advantage

BMO

- One of top 50 asset managers in the world¹
- 7th largest mutual fund company in Canada²
- Professional investment management
- Award-winning mutual funds and customer service³

Have more questions about your mutual funds? Talk to an investment specialist today! Talk with us 1-800-665-7700

Learn more www.bmo.com/mfessentials

Mutual Funds

¹Pensions & Investments 2014

² Morningstar Direct, December 31, 2014

³ Dalbar: BMO Mutual Funds #1 in Customer Service 2006-2014. Dalbar's Key Honors serves to designate those firms who demonstrate their commitment to customers by providing consistently solid service, Recipients of this designation have the proven ability to provide good service to their customers as tested by Dalbar's rigorous service evaluations of telephone communications. FundGrade A+ Rating 2014 for 6 Mutual Funds: identifies funds with not only the best risk-adjusted returns but also those demonstrating the highest level of consistency through an entire calendar year. The FundGrade A* Rating is awarded annually to funds that achieve consistently high FundGrade scores. It is a mark of distinction and readily identifiable bt advisors and their clients as a symbol of excellence within the Canadian fund universe, Lipper Fund Awards 2014: BMO North American Dividend Series A awarded Best North American Equity Fund over 3 years, BMO Global Energy Class Series A awarded Best Mutual Fund in the Energy Equity Space. The Lipper Fund Awards. Granted annually, are part of the Thomson Reuters Awards for Excellence awarded by Lipper Inc., and highlight funds that have excelled in delivering consistently strong risk-adjusted performance relative to their peers. The Lipper Fund Awards are based on the Lipper ratings for Consistent Return, which is a risk-adjusted performance measure calculated over 36,60 and 120 month periods. The highest 20% of funds in each category are named Lipper Leaders for Consistent Return and receive a score of 5, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2 and the lowest are scored 1. The highest Lipper Leader for Consistent Return in each category wins the Lipper Fund Award. Lipper Leader ratings change monthly. For more information, see www.lipperweb.com. Although Lipper makes reasonable efforts to ensure accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. This content is for informational purposes only.

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