Kenmar Associates
The Voice of Retail Investors

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Secretariat of the Joint Forum (BCBS Secretariat),
Bank for International Settlements,
CH-4002 Basel, Switzerland.
e-mail baselcommittee@bis.org

Subject :Point of Sale disclosure in the insurance, banking and securities sectors - consultative report http://www.bis.org/publ/joint32.htm *Point of Sale disclosure in the insurance, banking and securities sectors* http://www.bis.org/publ/joint32.pdf

A word about our firm. Kenmar Associates is dedicated to investor protection and education. We maintain a website www.canadianfundwatch.com and publish a bi-weekly publication the Fund OBSERVER. Kenmar is actively works with seniors groups, regulators, politicians and the media in trying to represent the interests of Main Street. Our firm assists retail investors in preventing broker or salesperson malfeasance or by assisting investors in obtaining restitution when unsuitable investments have been made. We regularly publish articles in the Canadian MoneySaver and elsewhere. Most of our attention is directed at investment funds as that is where Canadians invest most of their savings.

We are pleased to comment on the Consultation paper. POS disclosure is critical to make an informed investment decision. Ideally, it is not merely a administrative routine but rather there is constructive client-advisor dialogue and interaction. In Canada, mutual fund Prospectuses/Fund Facts do not need to be delivered on or at the point of sale. They must be delivered 2 days **after the sale** which of course negates the purpose of a POS document. Investors do have rescission rights under certain conditions.

We agree that Jurisdictions should consider implementing a concise paper or electronic POS disclosure document for the product sample identified in subject report, taking into account the jurisdiction's regulatory regime. If delivery is electronic, than a direct link should be provided or a pdf file attached. Clients should determine if they wish to accept electronic delivery. Rules should apply as to when or under what conditions the document will be updated .There should be an obligation placed on the investment dealer to update investors if there is a material change in the POS document.

As the POS consultation Paper does not mandate physical client-salesperson interaction we suggest a page 1 Header in bold RED - IMPORTANT**: READ THIS DOCUMENT BEFORE PURCHASE –** AND a Footer –DATE RECEIVED: dd/mm/yyyy. This will help in ensuring delivery and help prevent the POS disclosure document from getting lost in a blizzard of glitzy marketing materials and " Free lunch" seminars.

It is essential that the document actually be read so thought is required in its design and format. Charts , tables , bolding , highlighting,color should be used to make the disclosure client-friendly. We concur that the POS disclosure document should be provided to consumers free of charge, prior to sale . This is crucial. Trade confirmation slips should also be free of charge and available by mail or email. They should be posted on the issuers website in an easy to navigate location. POS disclosure documents shall be available in all the official languages of the Jurisdiction. It should be made clear that the disclosure has potential legal implications should a dispute arise. Care should be taken to ensure that any terms used, especially as they relate to risk, are defined and common across all account documentation. including the New Account Application Form and KYC document.

POS disclosure should consider requiring that a POS disclosure document disclose key characteristics including costs, risks and financial benefits or other features of a given product and any underlying or referenced assets, investments or indices, irrespective of the financial sector from which the products are derived. POS disclosure documents must require benchmarks lined up against performance for each reporting period-this should motivate investors to ask intelligent questions. We regard this as an **essential disclosure** element It should include all costs for each class of the product. Costs should include price break points if applicable Liquidity Restrictions or fees related to redemption should be revealed. The order of presentation is important **with costs and risks coming ahead of performance.**

An April 2010 paper **Worthless Warnings? Testing the Effectiveness of Disclaimers in Mutual Fund Advertisements by** Molly Mercer DePaul University, Alan R. Palmiter Wake Forest University - School of Law and Ahmed Taha Pepperdine University School of Law found that mutual fund investors flock to funds with high past returns, despite there being little, if any, relationship between high past returns and high future returns. Because fund management fees are based on the amount of assets invested in their funds, however, fund companies regularly advertise the returns of their high-performing funds. The U.S. Securities and Exchange Commission requires these advertisements to contain a disclaimer warning that past returns don't guarantee future returns and that investors could lose money in the funds. This paper presents the results of an experiment that finds that this SEC-mandated disclaimer is completely ineffective. The disclaimer neither reduces investors' propensity to invest in advertised funds nor diminishes their expectations regarding the funds' future returns. The experiment also suggests, however, that a stronger disclaimer – one that informs investors that high fund returns generally don't persist – would be much more effective. This is the key reason we recommend that cost and risk information be provided ahead of performance data in POS disclosure documents.

Risks should not be defined solely by a numerical scale or word scale . A brief enumeration of the principal risks of the product should be provided. **Volatility (standard deviation) should not be a proxy for investment risk.** Our recommendations for risk disclosure would require the disclosure of item 1. and at least one other measure as below:

1. year-over-year returns in graphic form [NOTE: Pre-tax return not always a reliable measure outside a tax-deferred account]
2. **worst 12-month performance would be a very good indicator of risk** [by fund or category; we believe investors will relate better to this than a volatility scale]
3. Beta [use plain language equivalent to describe relative market risk] if there is at least 5 years of performance history
4. maximum Drawdown [a fundlibrary.com metric; also a good risk indicator] if there is a 5-year performance history

In any event, there should be a reference in the disclosure document to the prospectus for those wanting a more detailed description of the qualitative and quantitative risks of investing in a particular security .

Past performance should be provided for up to 10 years (p.a.) and compound annual returns provided for periods typically used by the jurisdiction for performance reporting. As taxation is a key element of investing, some commentary on taxes should be included with the POS disclosure document.

The POS disclosure document should be clear, fair, not misleading and written in a plain language designed to be understandable by the average consumer. Industry jargon and legalese should be avoided. Compensation to intermediaries, if any, should be disclosed with a note that such compensation could create a conflict of interest. The POS disclosure must make it sufficiently clear that the MER expense deduction from mutual fund assets contains a provision for paying salespersons sales commissions and trailer commissions. Too often there is the false impression created that the " advice" being provided is "free" Font size shall be such that the elderly can easily read it.

While we agree in principle that the POS disclosures should include the same type of information to facilitate comparison of competing products , this may not always be possible. It is however a worthy goal. The question is , who would enforce this? In Canada this would be near impossible. We do not have a national securities regulator. Each province and Territory has its own securities regulator. The suitability standard is used extensively- Canadian regulators are just now exploring a fiduciary standard for advisers. Except for 2 provinces, each province also has a separate regulator for insurance products including Segregated Funds and annuities. Regulatory arbitrage is a standing threat between similar products under different regulatory regimes. Most "advisors" are dual licensed by separate regulators. Banks are regulated as to capital reserves but not for market conduct. The Federal Ministry of Finance may intervene if things get out of control. Banks are not required to use a national ombudsman- in fact, they may contract with a for-profit entity to provide this service. This entity must be approved by a small regulatory Agency, the Financial Consumer Agency of Canada. Overall, the regulatory regime of financial services is dysfunctional and thus responsive investor protection is limited. Lack of coordination, communication ,cooperation and turf protection between regulators is the root cause .

We agree that the POS disclosure document should be concise, set out key information about a product and could include, as appropriate, web links or refer to other information. Any applicable guarantees should be explained It should be made <u>very clear</u> that the POS disclosure document does not provide exhaustive information and that the core document (Prospectus or equivalent) should be consulted for additional details.

We agree that allocation of responsibility for preparing, delivering and/or making available the POS disclosure document should be clearly established, and the POS disclosure document should identify which entity is responsible for its content. All documents should carry an effective date and who to contact for further information.

We strongly believe that regulators using POS disclosure should provide guidance to investors on how to use the document effectively. A 2 page brochure should do the job. We have prepared a more comprehensive Guide that combines investor education with a User guide (see Appendix I).

In summary, we fully endorse the BIS POS initiative but would like the initiative to also focus on the **long-term** impact of fees (decompounding) and to highlight the possible conflicts- of- interest due to embedded sales commissions and especially ongoing embedded [opaquely disclosed] trailer commissions. The application of a benchmark to returns is essential so investors can better conceptualize the impact of fees and the contribution of professional active management and investment advice. The POS initiative must be part of an integrated approach to disclosure to protect small retail investors, including in particular, post-sale fee and personalized rate of return information.

This initiative is critical and long overdue. Sophisticated marketing and sales techniques are employed that can and do hijack the minds of financially illiterate, trusting retail investors. Seniors and retirees are especially vulnerable and are a growing target of unscrupulous "advisers". Retail investors are losing billions annually due strictly to the asymmetric information between them and those selling them financial products. The undue financial losses are so huge that retirement and savings plans are being seriously compromised . Robust POS disclosure is one tool that can help but it should be coupled with good regulation, effective regulatory enforcement and a A class Ombudsman Service. We support increased financial literacy but are convinced by academic research that this is no solution or panacea.

We hope that this Commentary will prove useful as it provides some recommendations to better protect retail investment investors at the point –of- sale and at points thereafter.

Should you require any additional information, do not hesitate to contact us.
Approval is granted for public posting.

Sincerely,
Ken Kivenko P.Eng.
President and CEO, Kenmar Associates
(416)-244-5803
kenkiv@sympatico.ca

APPENDIX I

COMPANION GUIDE FOR FUND FACTS

[How to make sense of it all]

The Fund Facts document is a highly abbreviated version of the so-called Simplified prospectus - you have to read the prospectus if you want more details. The prospectus contains important information regarding the costs , risks , performance and management of this fund. Failure to digest its contents

may result in an unsuitable investment , an inferior rate of return , excessive fees and/or undue exposure to income taxes. It’s your nest egg that's at risk here.

INTRODUCTION

This Companion Guide is designed to help retail investors make better investment decisions using Fund Facts (FF). Fund Facts is a 2-4 page document written in plain language that securities regulators require fund companies and dealers to give you prior to selling you a mutual fund. Fund Facts compresses many pages of prospectus information, so some important information is now found only in the prospectus . If interested in the fund after reading Fund Facts you can then read the more detailed so-called Simplified Prospectus to complete your analysis. Remember, it's your savings and retirement that's at stake here.

The prior disclosure system required dealers to mail you a Simplified Prospectus but only after the sale, which didn't make sense. The Simplified Prospectus is regarded by many as complex, lengthy and written in legalese although it contains a lot of very useful information. Under the new rules you will only get the Simplified Prospectus if you request it. For best financial results, there should be an actual dialogue between the investor and the adviser, with Fund Facts front and center, to ensure the fund is a good fit and the investor understands what he or she is being sold. Never forget the old industry adage `Mutual funds are sold, not bought`. If all you get is an email with a link to Fund Facts or Fund Facts as an email attachment, you’re likely being short-changed on disclosure/professional advice.

According to the regulators, money market funds do not have to be provided to you with Fund Facts before you invest. This is because they believe these funds to be safe and merely as short term holding places for cash. In fact, money market funds ran into trouble when the non-bank Asset Backed Commercial paper fiasco hit. Some have an early redemption penalty if you bought them on a Deferred Sales Charge (DSC) basis. And finally, if interest rates are relatively low and the fees relatively high, you could end up earning nothing. Why not ask for the Fund Facts or Simplified prospectus to satisfy yourself that the potential returns, fees, risks and contractual terms and conditions are acceptable to you?

http://www.getsmarteraboutmoney.ca/Pages/default.aspx , which is funded by the Ontario Securities Commission (OSC), has a section on mutual funds . It’s well worth taking the time to read it before accepting a buy recommendation.

There is no requirement for the firm to record the fact they delivered Fund Facts to you. The Canadian Securities Administrators allow a salesperson to not send you Fund Facts if he classifies the purchase as “investor -initiated”. This could lead to problems if it’s incorrect should a dispute arise. It could be alleged that you acted entirely on your own in making the decision to buy the fund. If you incur losses, you will be entirely responsible, not your salesperson. You should keep a note of your conversation and check your transaction slip. The OSC provides a handy Guide *When your broker calls, take notes!* at http://www.osc.gov.on.ca/Investor/Resources/res_index.jsp for this purpose.

If the transaction slip says they acted solely as an agent, the dealer is saying you initiated the purchase.

Let's start on page 1:

On the Right hand side the fund's name and series is provided. Different series of a fund carry different MER's. The date of the document is also provided. The copy you get should be fairly current. A Fund Code (like a stock symbol) is not provided so ask your salesperson for the specific code applicable to the fund he/she is selling you.

Quick facts

Across the top of the form you will see the date the fund became available for sale , who runs it , the total value of money invested in it (its assets) , how often the fund makes payments (called distributions) and the MER [the management expense ratio] .The MER is sum of the management fee and other fund expenses as a % of fund assets . The Transaction Expense Ratio (TER) which is the cost the fund spends on brokerage trading commissions expressed as a % of fund assets is an additional cost. The total annual cost of owning the fund is the sum of the MER and TER. A recent study Mutual Fund Fees Around the World http://icf.som.yale.edu/pdf/seminars05-06/Servaes.pdf placed Canadian fund fees among the highest in the world, so pay attention to total costs.

A figure is also provided which says what is the minimum dollar amount you can invest in the fund. RRSP eligibility is assumed unless specifically stated otherwise .If the fund is relatively new, there will be little historical performance or volatility data .You may have to depend on the track record of the identified portfolio manager.

Mutual fund categories hold stocks and other securities that don't always match the name of the fund. For instance, the Category Canadian Fixed Income category allows the fund to hold up to 30% of a Fund's assets in Foreign Fixed Income products which will be treated as Canadian content provided that the currency exposure on those holdings is hedged into Canadian Dollars. All funds hold some cash to meet redemption needs and finance new purchases. That's why mutual fund impurity is such an important issue in establishing the proper asset allocation between stocks, bonds and cash. Ask your adviser what category of fund you are being sold. See www.cifsc.org for the definition of fund categories in Canada.

The investment objectives and strategies of the fund are not provided. You will need to consult the Prospectus.

What does the Fund Invest In?

The next section *What does the Fund Invest In?* is designed to provide you with an idea of what the fund invests in to meet its objectives. You can independently check out some of the companies in the top 10 holdings to see if you're comfortable with them. Fund Facts does not detail the percentage of each holding but you can easily find this out by visiting www.fundlibrary.com , www.globeinvestor.com , or www.morningstar.ca Fund Facts does state what percentage is represented by the top 10 investments. You can also obtain this information in the Management Report of Fund Performance or online. Cash is excluded from Holdings but since it can be material you may want to check the most recent MRFP or go on-line. FF does not include any policy statements regarding the percentage allowed in cash. For this information, you will have to refer to the prospectus.

A pie chart gives you a visible picture on how the fund has diversified its investments by industry sector. The less diversified the holdings the more likely fund returns will be jumpy. Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or sector fails. Sector funds which concentrate on a narrow slice of the market, such as biotechnology, can show huge returns in any given year. Inexperienced investors tend to be attracted to the impressive growth. The problem with sector funds is that they cater to the most counterproductive elements of investor psychology in terms of chasing recent past returns, and tapping into greed. Sector funds tend to be launched at the top of their sector cycles only to disappoint investors. If investors bought technology funds at the peak of the market and held them since, they are still worth a fraction of what they were worth.

Asset mix is not included in FF. Some argue that this should be disclosed. As an example , a so-called Bond fund may contain small but significant exposure to equities or income trusts in order to boost returns. A review of the Annual financial statements would reveal the extent to which this practice is employed. FF does not require disclosure of currency risk. Due to the high volatility of the Loonie, it seems that the hedging policy of the fund should be clearly disclosed. Currency has been a major determinant of fund performance and volatility for a number of fund Categories with significant foreign assets. Don't hesitate to ask about this.
Overall, this section of Fund Facts provides limited information .To truly understand the fund manager's investment approach and the fund's investment objectives you will need to read the Simplified Prospectus.

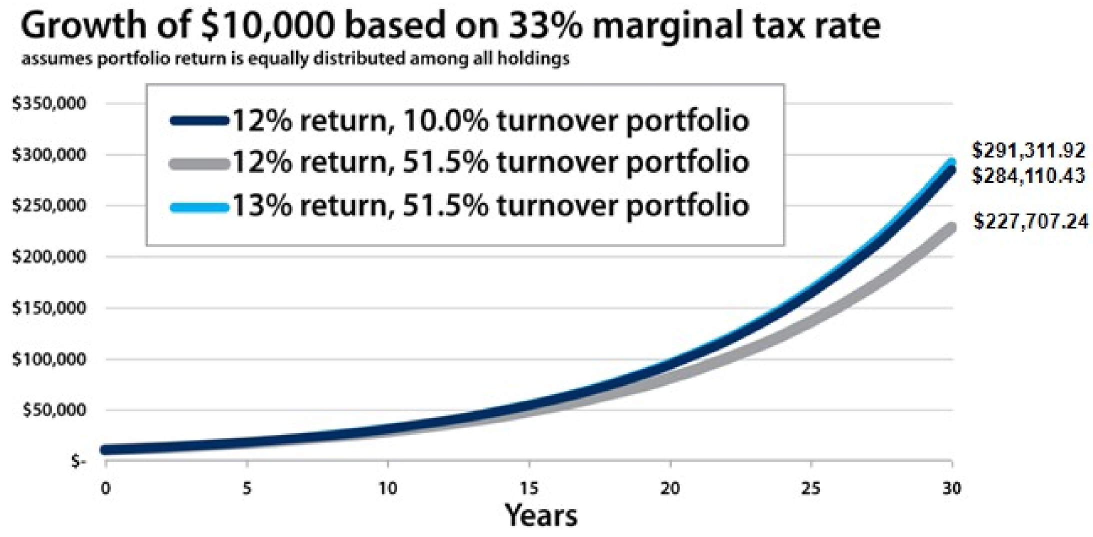
How has the fund performed?

[We recommend you skip to page 2 and examine costs and risks , then return to this section]
On the left- hand side we see the section *How has the fund performed?* It provides a visible depiction of pre-tax returns (after the MER has been

deducted) for each year covering the most recent 10-year period. These returns assume you paid no front –end load, reinvested all distributions and didn't pay any tax on the distributions. These assumptions may not apply to you. If, for instance, you were sold a front-end load fund, your returns will be lower than the published results.
The year-by-year returns shows how volatile the fund is. Take note of the worst year- are you comfortable with the maximum potential downside risk? If not, look for a fund with less extreme variability. You may have to trade- off potential return vs. stability of returns. Fund Facts does not provide annual compound rates of return for different time periods. It does provide a 10 year average compound pre-tax return where the performance history is available. You can easily obtain this information via www.globeinvestor.com or by reading the Management Report of Fund Performance (MRFP) which your adviser can provide you. Do not fall into the trap of chasing recent attractive short-term returns. Too often, you'll be buying in after most of the gain has been achieved.

FF does not provide portfolio turnover, an indicator of the manager's trading strategy. However, the MRFP will tell you the fund`s portfolio turnover ratio a copy of which is available upon request. If a mutual fund had $100 million in the fund and there were $50 million dollars worth of sales and $50 million worth of purchases (with those proceeds) in a given year, the turnover would be 50%. A turnover rate of 100% would indicate that the manager has effectively sold the entire portfolio and bought new holdings during the course of the year. Another way of viewing it is to say that a fund manager with portfolio that has a turnover rate of 50% has an average holding period of two years for each stock the manager buys. A portfolio that has a turnover rate of 100% has an average holding period of 1 year of each holding within the fund, etc. Other than increasing broker costs and taxes, there`s no evidence that a high turnover ratio is related to superior mutual fund performance.

To illustrate the negative impact of portfolio turnover we quote from www.wheredoesallthemoneygo.com an investor-friendly website. `Tax drag is the other biggie. Let's assume that you have a taxable account portfolio that you are managing yourself. We will also assume a 33% Marginal Tax Bracket. Take a look at the following chart put together by a third party.



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Source: Fundlibrary, Research Affiliates LLC, Pertrac - As of June, 2007

I'll cut to the chase: A portfolio with lower performance, but low turnover managed to keep pace with a portfolio with higher performance, but higher turnover. `. At lower rates of return, high turnover may be even more destructive of your portfolio.

If you hold the fund in an RRSP, RRIF or Tax-Free Savings Account, income taxes are not an issue. But in a taxable account, taxes will reduce the published return, sometimes significantly. Canadian securities regulators do not require the after-tax returns to be revealed to investors. You can however get an idea of after-tax returns by visiting www.morningstar.ca . The higher your tax bracket the more adverse the impact will be. Income tax issues can be serious outside of a registered plan and can sometimes lead to some unpleasant year- end tax surprises. In fact, a fund can lose money during a calendar year [because its unit value dropped] but also pay out significant distributions to unitholders because the fund realized some net capital gains by selling stocks/bonds. These are unfortunately usually paid out in December but you won't get your T3 form until February. Some fund companies may be able to provide you an indication of expected distributions near calendar year end. You will have to pay taxes on those capital gains and any interest /dividend income distributed during the year.

For whatever reasons there is no requirement for Fund Facts to tell you the index benchmark against which you can gauge the fund's performance. Critics believe that the fund industry prefers this because most mutual funds fail to meet their benchmarks over time due to fees. You can get this information by visiting www.globeinvestor.com . You can also compare the historical performance of the fund to a benchmark of your choosing using the charting function. If your fund is what is known as a closet indexer, you may discover that the fund performance and the benchmark overlay each other on the chart. This suggests you may be paying too high a fee for professional management and that a lower cost ETF or Index fund will obtain the same results.

The dictionary defines a benchmark as "a point of reference for measurement." Investment performance cannot be measured without a benchmark. Market benchmarks are used by individual investors, portfolio managers, and market researchers to determine how a particular market or market sector performs. Often cited in news reports, market indexes can be especially helpful to mutual fund investors by offering market "standards" to help them evaluate the risk and the return history of their own investments. A good benchmark should be unambiguous, investable, measurable, appropriate, reflective of current investment opinions and specified in advance. Of course, past performance is not indicative of future results. Also, investors should remember to compare their mutual fund to the index that best tracks securities comparable to the fund's holdings, and to use an appropriate time frame. For example, for a Canadian equity fund, the S&P/TSX Total Return Index is a recognized benchmark. Know the type of fund that you own. If it is a stock fund, find out if it is large, mid or small cap. Find out if the fund is a value or a growth fund. You will need to know the type of fund to use benchmarks to compare the fund returns. Your salesperson should be able to provide a relevant benchmark for the fund he/she is selling you.

Historically, the majority of actively- managed mutual funds have not been able to match their performance benchmarks over the long-term (greater than 10-years). This has lead to increased attention to Index funds and Exchange Traded Funds (ETF's) that carry much lower MER`s and are more tax-efficient. Such funds just try to track an index benchmark. Trailer commissions on Index funds are generally lower than on actively-managed funds so attract relatively little attention from dealer representatives paid on the basis of sales commissions. If you want an adviser with no conflicts-of-interest, you would need to engage a fee-only adviser.

Now we move to the last section on page 1.

How risky is it?

On the crucial question of risk, the regulators found it difficult to boil it down in simple terms. Risk is not as easy to measure as you'd think but it's generally agreed that risk and potential return are related. The less risk, the less the potential for high returns. The regulators have allowed a 5-point scale, centered on Medium , to classify risk. Each fund company gets to make its own call – there is no defined standard , so comparing fund risks using FF's is near impossible. One's firm interpretation could mean a 25 % loss is possible while another may use Medium to mean a loss of 40 % or more. In most cases, the "risk" disclosed is actually volatility rather than the specific risks of the fund. e.g. Currency risk [Other measures of risk such as Beta are provided at www.fundlibrary.com]

A detailed enumeration of all the fund's specific risks can be found only in the Simplified Prospectus. These typically include market risk, currency risk, foreign investment risk etc. Note that most client complaints are due to unsuitable investments and excessive risk is the primary cause of unsuitable investments. Remember that what really counts is a balanced **portfolio** of funds. The idea is that the portfolio of funds interact in such a way to reduce volatility without too much impairment of returns.

The rest of page 1 goes on to say that mutual funds are not generally guaranteed against loss. If a guarantee is provided, it will be explicitly stated. Mutual funds are also not covered by Canada Deposit Insurance Corporation insurance or any other government agency - even if you buy through a bank and the fund carries the bank's name.

Income tax is a very important consideration. FF reminds us that fund distributions are included in your taxable income in non-registered accounts , whether you received them in cash or reinvested them.

Who is this fund for?

The last section on the page provides a few meaningless words on suitability. A fund is suitable for you of it fits in with your objectives, risk tolerance, loss tolerance and time horizon. Many consider " long-term" to mean greater than 10 years. Simply buying funds without regard of a possible bear market can result in panic selling later. You need to set your own specific criteria for suitability in conjunction with your salesperson /adviser. This is known as Know- Your- Client and is documented so both parties are clear on your personal information such as age , investing experience , risk tolerance , loss capacity and investment objectives .Be sure to retain a copy and update your salesperson as your personal situation changes.

There's a good Guide on investment suitability that offers some useful insights –it can be found at http://www.mfda.ca/regulation/notices/MR-0069.pdf Suitability Guidelines .The Mutual Fund Dealers Association of Canada (MFDA) is a self-regulatory organization (SRO) for the distribution side of the Canadian mutual fund industry.

An Investment Policy Statement (IPS) helps investors avoid unduly risky ventures. The IPS provides the general investment goals and objectives of a client and describes the strategies that the salesperson should employ to meet these objectives. Specific information on matters such as asset allocation (the split between bonds, stocks, real estate and cash), risk tolerance, and liquidity requirements would also be included in an IPS. –Do you and your salesperson have agreement on the goals of your account and the type of investments that will be pursued? Try filling in Morningstar's form http://im.morningstar.com/im/InvestPolicyWS.pdf , it'll give you a good idea as to how your mutual fund portfolio should be constructed. See also *how Do I Build an Investment Portfolio?* At http://www.getsmarteraboutmoney.ca/managing-your-money/planning/investing-basics/Pages/how-do-i-choose-investments-for-my-portfolio.aspx A number of academic studies have suggested that asset allocation is even more important than the specific mutual funds you own. An easy to read explanation of asset allocation can be found at http://en.wikipedia.org/wiki/Asset_allocation or simply googling the term ``asset allocation `. You ignore asset allocation at your peril.

A professional adviser has all the tools and templates to provide an IPS, so why not make use of it. After all, you're paying for it.

Now, on to page 2 of Fund Facts.

How much does it cost?

Most of page 2 is dedicated to costs and fees. A number of research studies have found that the most important determinant of fund performance is expenses. Why should a harmless looking 2.5 % per year concern you? - because the MER is directly deducted from your investments and therefore lowers your returns. Suppose, your return before MER is 7.5% and the MER is 2.5%. This lowers your return by some 33 %. The long-term decompounding impact of fees is the real threat to a retirement portfolio. High MER's gnaw away each year at your ability to recognize the full benefit of growing economies and successful companies. The drag caused by fees is not obvious over short time frames. As the months and years pass , the impact of fees becomes more apparent. Performance comes and goes, but fees are forever. Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. An excellent description on how fund fees work and how they impact returns can be found at http://www.mackenziefinancial.com/eprise/main/MF/DocLib/Public/MF3873.pdf

A no-load mutual fund in one in which units are sold without a commission or sales charge. The reason costs tend to be lower is that the units are distributed directly by the bank or fund company, instead of going through an intermediary like a broker or adviser. Because there is no transaction cost to purchase a no-load fund,all of the money invested is working for the investor. For example, if you purchase $10,000 worth of a no-load mutual fund, all $10,000 will be invested into the fund. On the other hand, if you buy a load fund that charges an initial sales charge (front-end load) of 5%, the amount actually invested in the fund is only $9,500. If the load is back-ended, when units of the fund are sold, an amount comes out of the proceeds of redemption if you redeem within the redemption penalty period. The justification for a load fund is that investors are compensating a sales intermediary (broker, financial planner, adviser, etc.) for his or her time and expertise in providing advice and other services. It should be noted that research shows that load funds don't outperform no-load funds.

Don't hesitate to ask if there are price breakpoints if you invest large amounts of money.

As with all products, price is important. With mutual funds there is a general observation that high fees lead to lower returns. **Costs count**- Try out the mutual fund fee impact calculator at http://www.getsmarteraboutmoney.ca/tools-and-calculators/mutual-funds/default.aspx to see the erosion.

This calculator will help you understand how fees and other expenses can affect your mutual fund investments. You can also use it to compare different funds. As you might expect, fees and expenses vary from fund to fund. A fund with high costs must perform better than a low-cost fund to generate the same returns for you. An actively-managed fund with a 2.5% MER will cost you $2500 in fees per year if you have $100, 000 invested.

Even small differences in fees can translate into large differences in returns over time. For example, if you invested $10,000 in a fund that produced a 10% annual return before expenses and had a 1.5%, MER then after 20 years you would have roughly $49,725. But if the fund had an MER of only 0.5%, then you would end up with $60,858. It takes only minutes to use the fee impact calculator to compute how the costs of different mutual funds add up over time and eat into your returns. The "foregone earnings" slice represents the portion of returns that could have been earned if the fees had been invested on your behalf instead of paid out. The "return to the investor" is your piece of the pie to keep. Most investors are shocked to see how much of the return has been swallowed up by fees and expenses.

Equity Mutual fund MERs typically weigh in from 200 to 300 basis points (2%-to-3%).By contrast, most exchange traded funds (ETF`s) have MERs that range between 10 and 75 basis points (0.1%-to-0.75%).ETF`s rarely pay ongoing trailer commissions so salespersons tend to ignore them in their recommendations . ETF`s are known for low cost and tax-efficiency but they are designed to match the underlying index, not beat it. Also, persons licensed to sell only mutual funds are not permitted to sell you an ETF. They therefore will not likely make you aware of their availability. Note that to purchase or sell an ETF you will incur a brokerage commission, about $10.00 at an on-line discount broker. The Toronto Stock Exchange has a portal dedicated to ETF`s http://www.tmxmoney.com/en/sector_profiles/exchange_traded_funds/index.html where you can find additional information about these alternative low cost, tax-efficient products.

Cost has a significant impact on both reward and risk. Lower costs make it possible to earn a higher return without assuming higher risk, or to hold reward constant and reduce risk. And because the passage of time multiplies the aggregate reward, moderates the volatility risk, and magnifies the burden of cost, time interacts with each of the three special dimensions of investing. Bond funds are especially vulnerable to high fees. On rare occasions you might find a fund with a slightly higher MER (and slightly lower return) but if it manages volatility better, it might actually be more suitable for an anxious investor.

Mutual funds typically pay their regular and recurring fees and expenses out of fund assets, rather than by imposing separate fees and charges on investors. (Keep in mind, however, that because these expenses are paid out of fund assets, investors are paying them indirectly.) Management fees are fees that are paid out of fund assets to the fund's investment adviser (or its affiliates) for managing the fund's investment portfolio , and operating expenses are for such things as legal fees, audit fees, GST/HST and other administrative expenses. Sometimes they are all lumped together as one item, administrative expenses. GST HST are not broken out as identifiable costs as is the case for other products .

One of the major components of management fees is the sales commissions embedded in the management fee. Salespersons / advisers don't work for free; they need to be paid. Trailers are paid to the dealer and salesperson for as long as you own the fund whether or not you make money. You are charged for "advice "whether or not you want it, need it or use it. In fact, it's the relatively high trailer commissions that make Canadian mutual funds so expensive. Because the representative is paid by the fund company there is a potential conflict –of-interest. Lucrative trailer commissions are designed by the fund companies to motivate salespersons to keep you invested so they can continue to collect management fees. These trailers are opaquely disclosed in FF and even in the prospectus so many investors fail to make the connection between the incentive payment motivator and the recommendations made. The trailer is subsumed in the MER thus increasing the management fee and reducing your returns. A salesperson that's more focused on his fees and sales commissions is a BIG risk, especially for small / financially-challenged investors, perhaps even more significant than market risk. Be aware – these salespersons are not fiduciaries.

Salespersons who recommend unduly risky funds, load you up with Deferred Sales Charge funds and high MER funds or, encourage excessive switching or leveraging (borrowing money to invest) increase the likelihood that your investment returns will be sub –optimal or that you will lose money. Be aware. While you're at it, ask for the professional qualifications/designation of your salesperson- some are merely salespersons masquerading as professionals ; also check the salesperson's registration status with regulators .

Front-end load fees can often be negotiated -they are often zero %. If you purchase a fund on a front- load basis, you should have a relatively long holding period to recover the money you paid upfront as a sales commission. The MER for a front-end load fund should be lower than for a Deferred Sales Charge (DSC) fund but it rarely is. The key point to keep in mind about a front-end sales load is it reduces the amount available to purchase fund shares. For example, if an investor writes a $10,000 cheque to a fund for the purchase of fund shares, and the fund has a 5% front-end sales load, the total amount of the sales load will be $500. The $500 sales load is first deducted from the

$10,000 cheque (and typically paid to a selling dealer/broker), and assuming no other front-end fees, the remaining $9,500 is used to purchase fund shares for the investor.

Fund Facts provides an overview of the DSC sold fund and explains how the deferred sales charge works. The DSC is an alternative to a front-load sales charge where the sales commission is paid to your salesperson at the time you are sold the fund. The funding for the commission of a DSC sold fund is embedded in the management fee .The DSC is a redemption charge the unitholder pays when redeeming (selling) mutual fund units sold on a back-end load basis. The deferred sales charge is usually expressed as a percentage and typically decreases each year you hold the fund until eventually after 6 or seven years it reaches zero. Check to see if the charge is applied to current value or original purchase value. Most funds allow up to 10% of units to be sold each year free of any early redemption penalty charge. The DSC is never waived, but upon death, there are two possible outcomes that determine whether the DSC is paid or not. If the funds are not redeemed (and transferred to a named beneficiary or estate upon death), then no DSC would be applied. If units were redeemed by the beneficiary or estate, then applicable DSC fees would be charged.

Canadian DSC-sold fund MER's contain a portion that pays back the mechanism that pre-funded the up-front payment of a 5% DSC sales commission to the selling dealer. The investor may not be aware his salesperson is paid a sales commission because there is no mention of it on transaction confirmation slips or statements. Critics believe that such charges have a potential to damage investor returns because it encourages investors to stay in the fund even when conditions indicate they should redeem their units. The DSC is applied even if funds merge, increase fees or change managers. Sure, ostensibly unitholders may vote on such matters but in practical terms these changes occur leaving the investor with a fund he or she may be uncomfortable with but feeling locked in.

If you take the time to turn percentages into dollars and cents you will get an idea what fund ownership is costing you. Many investors are often surprised at how many dollars of potential returns are lost due to fees. If however, your adviser is providing you good service, your portfolio performance is meeting objectives and he/she is acting ethically, the costs may be worth it. Do-It-Yourself investing isn't for everyone. Another alternative is to pay a fee-only adviser who will not have any conflicts-of interest but you'll need a sizable account to attract real professionals.

Other fees

Fund Facts also lists other fees that you might need to pay as a mutual fund investor when you sell or switch funds. These could include a short-term trading fee (This fee is intended to allow funds to recoup some of the direct and indirect costs incurred as a result of short-term trading strategies, such as market timing), a change fee (a fee associated with switching to another series of the fund) or a switch fee (a fee to switch to another fund in the fund family). You may also be exposed to additional fees which may include such fees as performance fees, maintenance fees, trustee fees, registered plan fees, NSF cheque charges, wiring fees, account transfer fees and other fees as these may also be relevant to investors in deciding to purchase a fund. Check the Simplified prospectus for a full list for all applicable fees. None of these so-called optional fees are reflected in the published returns of the fund. They come straight out of your pocket. Some may be tax deductible.

What if I change my mind?

This portion of the form deals with what is known as a cooling off period. This is the period in which you have the opportunity to change your mind concerning the purchase. In most provinces and territories you can cancel an agreement to buy a mutual fund by giving written notice to your dealer within two business days after receiving the fund's prospectus. This is known as the right of withdrawal. If you exercise this right, you are entitled to receive the full purchase price paid, plus any sales commission or fees that were charged to you. Ask your salesperson what conditions apply in your province.

For More Information

The very last block of the form provides addresses, phone/FAX # and website of the fund Company. It tells you to contact the fund Company or the dealer representative for a copy of the Simplified Prospectus . While the introduction states that the Fund Facts contains key information you should know about the fund , rest assured that it is incomplete. The information has been dumbed down so as to fit on 2-4 pages. Fund Facts is only a brief plain language summary of what’s contained in the Simplified Prospectus. If you are really interested in the fund after reading Fund Facts, it would be most prudent to take the time to read the Simplified Prospectus. Remember, this is your nest egg –you need to know what you're buying-costs and risks.

Kenmar Associates Staff
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the services of a competent professional should be obtained.