Business / Personal Finance / Spending & Saving

# Mutual funds fees: Readers want details

Mutual fund buyers pay high annual management fees, but don't know where the money goes. Regulators want to see more disclosure.

SHUTTERSTOCK

Customers want to know exactly how much money their advisers receive from mutual fund companies.

By: Ellen Roseman On Your Side, Published on Sun Oct 28 2012

Fund managers pay annual fees to advisers for ongoing service to clients. Known as trailer fees, these payments come out of the fund's MER (management-expense ratio), which is also expressed as a percentage.

Last week, I wrote about a proposed requirement that mutual fund managers show how much money is paid to financial advisers in dollars and cents.

Many readers said they had been hankering to get more details about the annual payments that advisers receive from fund companies.

"I am paying a fee for my investment in mutual funds and I want to know how much. Nothing could be simpler from a customer's point of view," said Patrick Bruce. "Showing a percentage for MER means nothing to the customer. Percentage of what? When and how is it calculated? What is the base?"

"The MER sounds as if it's the seller's expense. But we customers pay for it and we're not allowed to know how much we're paying."

Philip Strecker also has an issue with the MER. Instead of a fixed percentage that comes out of a fund's assets year after year, he wants to see managers and advisers get a lower percentage when clients lose money.

"In other businesses, you are paid for performance. If I lose on my portfolio and have to pay the MER, it is most unfair," he said.

"The so-called experts are advising clients that there is a risk in investing in mutual funds, yet they receive their share of the management fee. Nice work if you can get it."

Diane Urquhart, an independent financial analyst, points to the fact that Canada's mutual fund fees are among the highest in the world. Trailer fees help bloat the MER.

In her view, mutual fund fees won't come down without government action. She wants to let Canadians buy foreign-sponsored mutual funds and remove the requirement for foreign-sponsored funds to be registered in Canada.

"If Canada intends to remove farm marketing boards and the quota system for poultry and dairy products, then it should open the marketplace for mutual funds to international competition first," she said.

"Alternatively, the Canadian mutual fund fees should be regulated, just as utility rates are in this country."

Trailer fees can be hard to decipher unless you manage or sell mutual funds. In my last column, I said that trailer fees were paid to advisers.

"Investors should be aware that the adviser does not get the full trailer fee," said Liana George, a spokeswoman for Mackenzie Investments, whose fund was used as an example. "In fact, the trailer is paid to the dealer and the adviser will only get a share of that fee."

I also said that trailer fees were shown only in a lengthy prospectus. In fact, they are shown in the plain language Fund Facts document (which I missed).

If you own mutual funds, I'd like to hear your views on trailer fees. Are they a form of deferred commissions, not a fee for ongoing service? And is it fair for discount brokers to charge trailer fees, since they offer no advice?

"Why would anyone pay a commission, deferred or otherwise, on a product that wasn't even sold by a representative?" says adviser John de Goey in his book, *The Professional Financial Advisor III* (Insomniac Press).

"If one were to use other investment vehicles, there would be a cost saving associated with forgoing advice. The practice is nothing short of outrageous. In fact, the current industry structure is decidedly against do-it-yourself investors."

*Ellen Roseman writes about personal finance and consumer issues. You can reach her at eroseman@thestar.ca or www.ellenroseman.com*