TD Asset Management

Management Expense Ratio Explained

As an investor, it's important to be aware of the costs associated with a mutual fund so you are clear about what you are paying for and the value you receive. It starts with understanding the management expense ratio (MER).

A breakdown of an MER

The MER covers a number of costs involved in the oversight of a mutual fund. The mutual fund company collects the MER, which includes a management fee. From the management fee, a portion called the trailer fee is paid to the investment dealer, who may then pay a percentage of that to the financial advisor that sold you the fund. The MER also goes towards covering costs associated with the day to day administration of the fund, and applicable taxes. Below are some examples of the services and expenses that may be covered by the MER of a typical balanced fund:

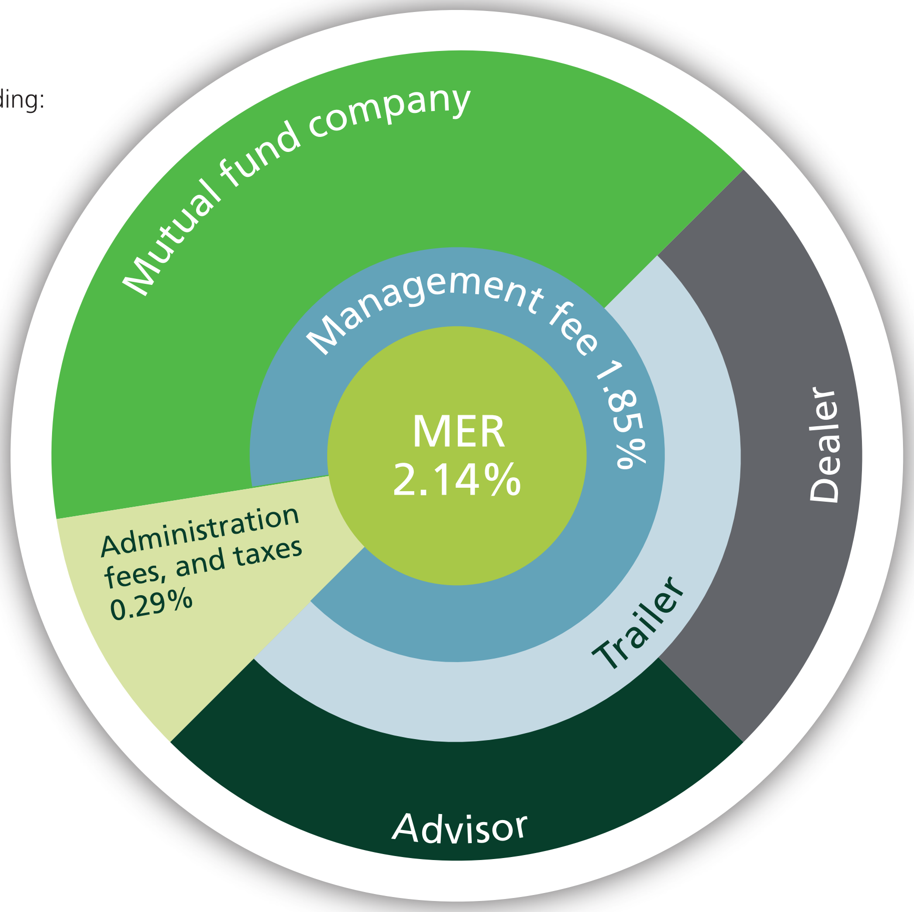
Mutual fund company

- Investment management expertise, including:
  - Investment research
  - Ongoing fund monitoring
  - Security acquisition and disposition
- Investor and advisor education

Administrative fees, and taxes

(paid by the mutual fund company on your behalf)

- GST or HST as applicable
- Custodian services
- Fund accounting
- Auditing
- Record keeping



Dealer

- Account openings
- Transaction processing
- Production, printing, and mailing of account statements and transaction confirmations
- Regulatory compliance
- Physical office space

Advisor

- Financial planning expertise for retirement and other life stages
- Fund recommendations
- Portfolio consultation
- Ongoing portfolio monitoring and rebalancing
- Strategies to help you achieve tax-efficiency
- Estate planning

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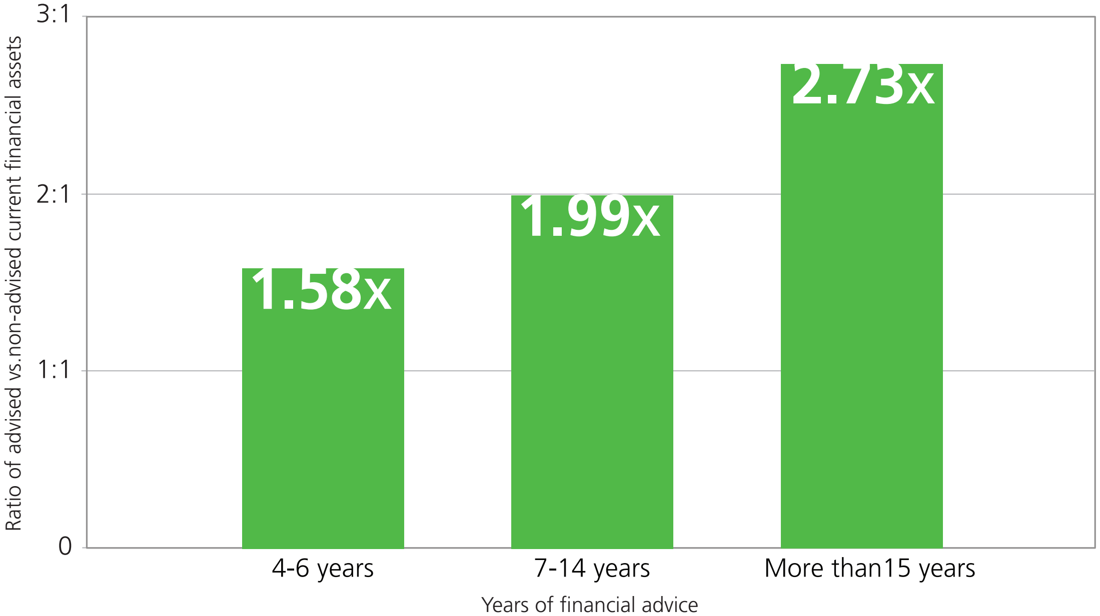
Is advice worth the cost?

Because many of the costs that make up an MER are considered 'fixed', it is often the portion that goes towards paying the trailer fee that investors may have questions about. But, don't underestimate the value of advice.

Advised households are better off

According to a study done for the Investment Funds Institute of Canada (IFIC) by the Center for Interuniversity Research and Analysis on Organizations (CIRANO), "an advised household that has worked with a financial advisor for four to six years has 58% (or 1.58 times) more assets than passive non-advised households that are identical in all other respects".[1] According to the study, the positive correlation is amplified the longer the relationship lasts, as illustrated by the chart below.



Know the facts

- According to the CIRANO research, the increased assets of advised vs. non-advised households cannot be explained by asset allocation alone.[1]
- When working with an advisor, clients may benefit from greater savings discipline. In fact, they have been shown to save at twice the rate of non-advised households.[1]
- More than 56 percent of households who identified working with an advisor feel confident that they will have enough savings to meet their retirement goals; this is compared to 41 percent of those who have no advice relationship.[1]

Your advisor can provide you with an explanation of how fees and expenses work relative to your individual investment portfolio and walk you through other appropriate investment solutions which may provide different fee-structure options.

If you would like more information about fees, speak to your advisor today.

[1]New Evidence on The Value of Financial Advice, The Investment Funds Institute of Canada (IFIC), 2012. The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. This document does not provide individual financial, legal, tax or investment advice and is for information purposes only. Graphs and charts are for illustrative purposes only. TD Asset Management Inc., The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated. All trademarks are the property of their respective owners. TD Mutual Funds are managed by TD Asset Management Inc. a wholly-owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers.

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