

Understanding the costs of mutual fund investing



There are several different investment options available to help you reach your financial goals. Regardless of which investment you choose, it is important to understand the costs involved and how those costs affect your investment. Not all mutual funds have the same fee structure. The costs of some funds will impact your return more than others.

This brochure will help you make well-informed decisions and enable you to evaluate your mutual fund choices in terms of whether you are getting the value you want for the costs you bear.

RBC Asset Management philosophy on the costs of mutual fund investing

Our aim and long-standing commitment is to provide our clients with a superior investing experience based on our core principles of delivering value, choice and transparency in everything we do. When it comes to costs, we strive to keep MERs equal to or below industry averages, and we monitor the MER of each RBC Asset Management fund versus those of our competitors to ensure we remain a leader in delivering excellent value to the investors of our funds.

- › RBC Funds® have some of the lowest management fees in the industry.
- › 95% of MERs charged to RBC Funds are below the industry median†.
- › Management fees on our index funds are among the lowest in Canada at only 0.50%.

Mutual funds offer many benefits to you as an investor – professional management, investment diversification, easy access to your money and convenience. For most investors, mutual funds provide all of these at a fraction of the cost of creating a portfolio of individual investments.

Operating a mutual fund involves many responsibilities, from the management of the investments to administration and investor reporting. The costs associated with these functions are charged to the fund.

Generally, there are two categories of costs associated with mutual fund investing:

- › Management fees, operating expenses and taxes, as expressed by the management expense ratio (MER)

- › Sales commissions (also referred to as loads)

Management expense ratio (MER)

The MER is the total of the management fee, operating expenses (or administration fee) and goods and services tax (GST) charged to a fund during a year, expressed as a percentage of a fund's

average net assets for that year. All mutual funds have an MER.

The returns you earn as an investor — whether reported on your statement, in newspapers or in other promotional material — reflect performance data that is reported after the fund's MER is deducted. For example, if your fund's investments gained 9% last year and the fund's MER was 2%, the reported return would be 7% for that time period.

Management fees (Fixed %)	+	Operating expenses (Can be variable % or fixed administration %)	+	GST (Fixed %)	=	MER (Fixed or variable %)
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More predictable MERs with RBC Funds

RBC Funds replace certain operating expenses with a fixed administration fee*, and RBC Portfolio Solutions further boast a fixed MER. These fixed fees make costs more stable year over year, lower MERs for the majority of RBC Funds and enable us to more effectively manage your fund's MER.

RBC Funds – fixed administration fee

While management fees and operating expenses are both components of a fund's MER, management fees are fixed percentages and are known ahead of time, while operating expenses can change year over year.

In the past, an investor would not know the operating expenses — and consequently the MER — of a fund until the fund's financial statements were released at the end of each year. Our change to replace certain operating expenses with a new fixed administration fee results in more transparent and predictable costs associated with investing in RBC Funds.

RBC Portfolio Solutions – fixed MER

In addition to using a fixed administration fee for all underlying RBC Funds, RBC Portfolio Solutions are further enhanced by having a fixed MER. The new fixed percentage MER for our Portfolio Solutions includes all fees and expenses paid by the portfolio, and no other fees or expenses are charged. Under this structure, adjustments to the mix of underlying funds held by each portfolio don't impact that portfolio's MER, meaning that the costs of investing are more predictable for investors. Fixed MERs also enable investors to more easily compare the costs of investing in RBC Portfolio Solutions with other options.

The move to a fixed MER model makes the suite of RBC Portfolio Solutions a strong option for addressing the needs of low-involvement investors through a high-value solution. We continue to benchmark portfolio MERs against the marketplace to ensure that we remain a leader in providing significant value for dollars invested.

* The only operating expenses that continue to be paid directly by the funds are costs and expenses related to the Board of Governors of RBC Funds, the cost of any new government or regulatory requirements and any borrowing costs.

Management fees include two components:

The fee paid to the mutual fund manager.

This fee pays for professional investment management, supervision of the fund, administration of fund operations and service support.

The ongoing fee paid to your advisor.

Fund companies pay ongoing fees (known as trailers or trailing commissions) to the firm for which your advisor works.

A portion of this trailer is sometimes paid to your advisor for providing you with ongoing advice and service. Your advisor can tell you if this is the case for this specific instance.

Operating expenses include regulatory filing fees and other day-to-day expenses including:

- › Record keeping
- › Accounting and fund valuation costs
- › Custody fees
- › Audit and legal fees
- › Costs of preparing and distributing annual and semi-annual reports and prospectuses
- › Costs and expenses related to a fund's independent review committee
- › Borrowing costs of the fund

Sales commissions

Sales commissions (referred to as loads) are a one-time fee sometimes paid to an advisor's firm for selling a mutual fund to investors. Loads are separate from the MER, and thus differ from the ongoing trailer that makes up part of the management fee. Mutual funds are sold with one of three sales commission structures:

No-load:

No sales commissions are paid when a no-load fund is purchased or redeemed.

Front-end loads:

You typically pay a commission at the time of purchasing a front-end load mutual fund. This commission is deducted from your initial investment and is paid to your advisor's firm. The commission is often negotiated with your advisor prior to investing and is expressed as a percentage of the amount you invest, ranging from 0% to 5%. (At 0%, meaning the advisor has decided to completely waive the commission, front-end load funds effectively become no-load funds.)

Back-end loads:

With a back-end load, you do not pay a commission at the time of purchase. Instead, the fund company pays a commission to your advisor's firm at the time of purchase. However, if you redeem your mutual fund earlier than the prescribed time limit, you will pay a redemption fee to the fund company.

- › The most common back-end load is known as a deferred sales charge (DSC). The redemption fee rate diminishes to zero over a timeframe of typically six to seven years. The commission paid by the fund company to the advisor's firm at the time of purchase is typically 5%.
- › Low-load is a back-end load similar to DSC, but a lower redemption fee rate diminishes to zero over a shorter timeframe of typically two to three years. The commission paid by the fund company to the advisor's firm at the time of purchase can range between 1% and 3%.

While RBC Funds are available under each of these options, the majority of RBC Funds are sold on a no-load basis. No-load funds pay management fees (which include trailing commissions) and operating expenses as described in the previous section, but no sales commission. Talk to your advisor about the best option for your needs.

Other possible costs of mutual fund investing

Short-term trading fees

Mutual funds that are intended for long-term investing typically charge fees if units are redeemed within a short time period (i.e. 30 days). The proceeds of this fee go directly to the fund benefiting remaining unitholders and are designed to deter excessive trading and offset the associated costs. RBC Funds suitable for short-term investing (such as money market funds) are excluded from these charges.

Trading expenses

All funds, including RBC Funds, pay commissions associated with the purchase and sale of securities they hold. These costs are incorporated into the price that is paid or received by the fund for each security and are expressed as a percentage of a

fund's assets as the trading expense ratio. Information about this ratio is published in the fund's Annual Report. RBC Asset Management focuses on efficient execution in trading in order to minimize these expenses.

Mutual funds held in fee-based accounts

Some series of mutual funds (for example, RBC Funds Series F units) are used exclusively in fee-based accounts where investors are charged an account fee by the advisor's firm directly for advice and service instead of paying commissions on individual transactions. Management fees on Series F units are typically lower than on other series, as there is no trailer component paid by the mutual fund manager to the advisor's firm.

What should I ask my advisor about the costs of investing in mutual funds?

How are you compensated for providing me with investment recommendations?

It is fair to ask how your advisor is compensated and whether the compensation changes depending on the products or series he or she recommends.

How do the fees I am paying compare to other similar investments?

› When comparing the cost of investments, ensure you are comparing similar offerings to fully understand what you will receive for the fees you pay.

- › Understand all transaction costs, including brokerage commissions, when comparing mutual funds to stocks or exchange-traded funds (ETFs).
- › Consider the collective value of the investment: professional management, diversification, the ability to automatically reinvest distributions and rebalance holdings, as well as the investment advice and service you receive from your advisor.

Where can I find information on MERs?

A fund's simplified prospectus discloses the management fee and the preceding year's MER. Alternatively, information about MERs can be found on a mutual fund company's website or at many third-party research sites that provide mutual fund information. For management fee, fixed administration fee and MER information on RBC Funds, please visit the "Prices and Performance" section of our website at www.rbcam.com.

For more information about the costs of investing in mutual funds, please speak with your advisor.



RBC Asset Management®

Please read the prospectus before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed; their values change frequently, and past performance may not be repeated. RBC Funds are offered by RBC Asset Management Inc. and distributed through authorized dealers.

† Measured on an asset-weighted basis based on Morningstar categories and data as of September 30, 2009.

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