



Understanding the costs of investing in ETFs

Generally speaking, ETFs can offer lower management fees than other investment solutions. Let's explore the expenses associated with investing in ETFs to help you decide if ETFs are right for your portfolio.

ETF Fees

All exchange traded funds incur expenses related to the management of the fund. Perhaps the most common expression of the fees associated with an ETF is the Management Expense Ratio (MER).

$$\begin{matrix} \text{Management fees} & + & \text{Operating expenses} & + & \text{Taxes} & = & \text{MER} \\ (\%) & & (\%) & & (\%) & & (\%) \end{matrix}$$

Management Expense Ratio (MER):

The percentage of a fund's average net assets paid out of the fund each year to cover the day-to-day and fixed costs of managing the fund. The figure is reported in the Fund's annual management report of fund performance. MER includes all management fees and GST/HST paid by the fund for the period, including fees paid indirectly as a result of holding other ETFs.

Management Fee:

The annual fee payable by the fund to the manager of the fund (e.g. RBC Global Asset Management) for acting as trustee and manager of the fund. This fee forms the largest portion of the MER. Included in the Management Fee are the costs associated with paying the custodian and valuation agents, registrar and transfer agents, and any other service providers retained by the manager.

Operating Expenses:

Other operating costs such as fees associated with complying with national regulations and the fees payable to members of the board of governors of the ETFs.

Other Costs of ETFs

In addition to the above mentioned costs, ETFs also incur several costs that may not be as easily identifiable but may be equally important. These costs are generally incurred when buying or selling an ETF and are not collected by the ETF Manager.

Brokerage Commissions

Since ETFs trade like stocks on an exchange they may be subject to brokerage commissions. These commissions can be significant, especially for smaller trades. For example, buying \$3,000 of an ETF through a discount broker could cost \$30 in commissions or 1% of the value. Furthermore, a similar commission may be charged when selling the ETF.

Of course, commission rates vary and some investors trade less frequently than others. However, commissions should always be considered when calculating the total cost of investing in an ETF.

RBC Global Asset Management offers a comprehensive lineup of ETFs and mutual funds designed to deliver effective investment solutions to help investors build better portfolios. Our investment solutions are backed by the strength of an experienced investment team at RBC Global Asset Management Inc.

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