

NATIONAL POLICY No. 7
MUTUAL FUNDS: MANAGEMENT FEES

A. Prospectus Disclosure

1. The prospectus of a mutual fund shall disclose in a clear and plain manner details of management fee and other expenses charged to the fund or charged directly to all its security holders.
2. Each fund prospectus shall also contain in the narrative portion, in tabular form, a management expense ratio comprising the aggregate for all fees and other expenses paid or payable by the fund during each of the last five completed financial years as a percentage of average net assets under administration during each of those periods. The disclosure should also include a brief description of the method of calculating the percentage.

Where management fees are changed or are proposed to be changed and where such change would have had an effect on the management expense ratio for the most recent financial year, if the change had been in effect throughout that year, the prospectus should disclose the effect of such change.

Where the financial year is other than a full year, the ratio should be annualized and there should be a reference to a footnote specifying the period covered and that the ratio is annualized.

For the purposes of this Policy:

- i. “average net assets” should be calculated to be the average of the net assets determined at each evaluation dated of the fund;
- ii. the term “other expenses” means all other expenses incurred in the course of ordinary business relating to the organization, management and operation of the fund with exception of the commissions and brokerage fees on the purchase and sale of portfolio securities and taxes of all kinds, other than penalties, to which the fund is subject.

A note should be added to the effect that the management expense ratio may vary from mutual fund to mutual fund.

Where a fund invests in another mutual fund the management expense ratio shall be calculated on the basis of those assets of the fund on which a management fee is charged.

3. Financial statements forming part of the prospectus should set out in appropriate detail the amounts of the management fee and other expenses, if any, which have been charged to the fund.
4. The basis or rates of charges levied against security holders rather than the fund for special services such as trustee fees for R.R.S.P.s, redemption fees, conversion of investments from one

fund to another within a mutual fund group, or any other specific service charge to a class of investors, should be disclosed separately, in a single table in the narrative portion of the prospectus, and should not be included as part of the management expense ratio.

B. Proposed Changes in Management Fee: Security Holders' Approval

Each fund prospectus shall include a provision to the effect that any change in the basis of the calculation of management fees and other expenses which would or could result in an increase charges to the fund may be made only after having met the following security holders' approval requirements:

- a) Obtain the approval of the change by a majority of the securities represented at a meeting by security holders in person or by proxy provided that such securities represent at least 10 per cent of the issued and outstanding securities of the fund on the date notice of meeting was mailed;
- b) Mail a notice at least twenty-one days prior to such meeting, which shall include:
 - (i) a description of the change proposed and the effect that it would have had on the management expense ratio had the change been in force throughout the immediately preceding financial year;
 - (ii) the date of the proposed implementation.

This section does not apply to:

1. a fund which contracts at arm's length for all its management services. The prospectus shall make reference to the fact that security holders' approval will not be sought before entering into new agreements but they should be advised if it results in an increase;
2. a fund which has no sales charge or redemption fee, if in lieu of security holders' approval, the fund prospectus contains a provision that security holders will be given 60 days notice of any proposed increase.

C. Disclosure of Management Fee and Other Expenses: Annual Report

The information required by paragraph 3 of Part A should be set out in the annual financial statements, and the management expense ratio required by paragraph 2 of Part A should be set out as a note to the annual financial statements for a period of two years or such longer period as required by law or regulations for financial statements in any province.

D. Advance Notice Re: Changes in Charges for Special Services

A 60 day advance notice shall be given to security holders affected by any change in the charges for special services referred to in paragraph A.4 above.

E. Performance or incentive fees

The administrators are attempting to formulate guidelines as to fees based on the performance of the fund being managed. Following preliminary discussions there are two principal points requiring further consideration.

The first of these is the appropriate benchmark or relevant index against which performance should be measured (risk-adjusted market index being one of them). Secondly, while there was agreement that there should be a reduction of fees symmetrical with the potential bonus for good performance, if the fund under performs the index, the range and details are under discussion.

Until a policy is agreed upon, each province will consider prospectuses contemplating the use of incentive fees on case-by-case basis.