Mackenzie INVESTMENTS

FEES AND MUTUAL FUND INVESTING: THE FACTS

Insights into the value of advice

Newly revised

Thanks for taking the time to learn more about your mutual fund investments.

Mutual funds were introduced in Canada in 1932, providing investors with an easy way to diversify their savings in stocks, bonds and other securities without having to be experts. Today, half of all adult Canadians invest in mutual funds, and they do so for the very same reasons they did when funds were introduced: convenience, security, affordability, diversification and expert management.

One thing that has changed dramatically since 1932 is the amount of information investors have to cope with. At Mackenzie alone, we have a website with thousands of pages of information on our funds. Add this to the business headlines and opinion pieces we see in newspapers, and it's easy to see how some of the basic, important questions – the questions that start with, "Can someone just tell me..." – get lost in the shuffle.

One of those important questions is, "What am I paying to invest in mutual funds, and what am I getting in return?"

This booklet will answer this question, with illustrations and tips. We hope you find it useful, and invite you to discuss it with your financial advisor as you move toward your financial goals.

Contents

BUILDING AN INVESTMENT PORTFOLIO IS LIKE BUILDING A HOME

In many ways, building an investment portfolio is a lot like building a home. If designed skillfully and carefully maintained, both provide comfort, protection, security and eventually, a solid return on investment.

Just as the ongoing care, upkeep and improvements to your home over time help grow its value, the ongoing improvements and additions to your portfolio help you realize your financial and lifestyle goals and pave the way towards a good retirement.

Some people are very comfortable managing their investments. They have identified their financial goals and have the time, knowledge and motivation to research, construct and track their investment portfolios.

However, if you're like most Canadians, you don't have the time or expertise to navigate through a growing range of investment options, or make the decisions without help. In this case, seeking the help of a financial professional might prove to be the most important decision you'll ever make.

Let's return to the example of building a house for a moment. Just as you would expect to know what you get for fees paid to a builder, you should also understand the fees associated with mutual funds.

In the next two sections of this booklet, we'll focus on the two types of mutual fund fees you typically pay.

First, we'll cover fees you pay to mutual fund companies that create and manage funds. Second, we'll cover the fees you pay to your investment advisor who works with you to develop a financial plan, and construct and manage a portfolio for you.

Finally, and most importantly, we'll cover the benefits you receive for paying these fees, from your advisor and your mutual fund company.

UNDERSTANDING MUTUAL FUND FEES

What is an MER?

(MANAGEMENT EXPENSE RATIO)

Each year, a fund company will add up the costs associated with running a mutual fund and report those costs as a percentage of the assets in the fund. This is called the Management Expense Ratio (MER). The returns you earn as an investor are reported after the fund's MER is deducted.

While MERs vary with each type of fund, you can always find out what they are by asking your financial advisor or by looking in the fund's management report of fund performance (MRFP).

The four things that make up an MER

1. The **management fee** covers the cost of paying the mutual fund company and investment professionals that decide how and in which securities the fund will invest. This fee may also cover compensation to the investment dealer organization and financial advisor who sell the fund and provide ongoing financial advice and service to the investor.

2. The **fixed rate annual administration fees** cover operating expenses incurred in conjunction with the operation of the funds by the fund manager and directly by the funds. Services provided by the fund manager include unitholder processing and client services, fund administration, legal, tax and financial reporting. Direct fund expenses include custodian safe keeping fees, audit, prospectus filing fees, mailing and expenses related to the funds' Independent Review Committee.

3. **Other fund costs** include applicable taxes (e.g., capital taxes), interest, borrowing costs and any other new governmental fees. These other fund costs are very small and, on average, represent less than 0.02% of the MER.

4. **Taxes** are paid on the management fee and certain operating costs and are therefore included in the MER.

Why do MERs vary from fund to fund?

Generally, MERs are lower for bond and money market funds and higher for equity funds. Why? Equity funds generally have higher research and security selection costs. In addition, international and global funds may have higher administration costs and may also use international sub-advisors to assist with research and security selection in other countries.

How do they vary?

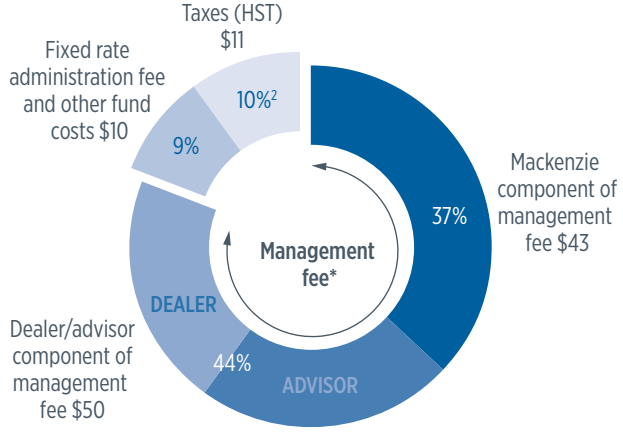
Type of fund	Median MER
Canadian money market	0.75%
Canadian fixed income	1.60%
Canadian neutral balanced	2.35%
Canadian equity	2.48%
Global equity	2.59%

Source: Investor Economics. Median MERs of Canadian Series A mutual funds in 2013.

How are MERs calculated and stated?

A MER is expressed as a percentage of the fund's total assets. For example, if you invested $5,000 in a series A Canadian balanced fund with a 2.28% MER[1], you would pay $114 in fees for management, administration and taxes for a given year.

The following chart illustrates how the fees you pay are calculated, and put to work.



The fund returns you see listed in the newspaper or on your statements are what you get after the fund has paid the MER.

* The 2% management fee represents 81% of the total 2.28% MER. 50% of Mackenzie management fees are paid out to dealers in some form of compensation: trailers, commissions, co-op marketing.

[1] Represents the MER of a typical Canadian balanced fund.

[2] The applicable tax rates are calculated by taking a weighted average of the tax rates applicable to the province of residence of the investors of the Fund. An assumed tax rate of 10.6%, reflecting the current blend of Mackenzie Investments investors in HST and non-HST provinces, was used for the purposes of calculating the MER. The actual tax rate may differ.

A closer look at the fixed rate administration fee

Here are the kinds of services you're paying for, and what you get:

Transfer agency

Each time you and your financial advisor decide to buy or sell fund units, a transfer agent processes the transactions and maintains records of those transactions. The transfer agent also processes and pays dividends and distributions to investors on behalf of the mutual fund company. Transfer agents specialize in these activities, leaving fund companies and financial advisors free to focus on maximizing your returns.

Fund administration

Administration fees generally cover the time and costs incurred by employees and external service providers who work on the funds, including fund administration, daily valuation and accounting, bookkeeping, legal and finance.

Custodian services

In Canada, securities law requires that an independent custodian hold a fund's assets, maintaining them separately to protect investor assets. This virtually ensures that the entire current market value of your investment is protected against business failure.

Production, printing and mailing costs

Producing, printing and mailing account statements, prospectuses, management reports of fund performance (MRFP), financial statements and other important information to investors are expensive but essential undertakings. They are also required by law. That's why Mackenzie is continually exploring new ways to help minimize these costs.

UNDERSTANDING FEES PAID TO YOUR FINANCIAL ADVISOR

Why is it necessary to have a variety of compensation models? The simplest reason is that financial advisors provide different types of services. There are more than 30,000 financial advisors across Canada who distribute Mackenzie funds, including salaried, commission-based and fee-for-service providers. To accommodate different compensation models, Mackenzie offers different versions of the same funds.

How is your financial advisor paid?

There are various compensation models operating in the investment industry, but the most common is a combination of commissions and service fees. That is, financial advisors receive one-time commissions and ongoing fees based on the investment assets they oversee. These ongoing fees, which are a part of an advisor's compensation, are generally included in the management expense ratio (MER) you pay to the mutual fund company.

In return for commissions and fees, the advisor develops financial strategies that reflect your goals, helps you choose the appropriate mutual funds, tracks the progress of your investments and suggests changes to your portfolio as your financial needs change.

In the following section, we'll explain sales commissions (known as *loads*) and service fees (*trailers*), and what you need to know about each.

Commissions

(FEES KNOWN AS LOADS)

What is a load?

A load is a one-time fee. Loads can be front-end (also known as sales charges) or back-end (also known as deferred sales charges).

Front-end loads (Sales charges)

If a mutual fund has a front-end load, you pay a fee that is usually taken from your total purchase amount. This fee generally ranges from 0% to 5% of the amount invested. You can negotiate this fee with your financial advisor, and they are often waived.

Back-end loads (Deferred sales charges or DSC)

When you purchase a fund with a back-end load, the mutual fund company pays your advisor's firm a fee on your behalf, typically 5% for an equity fund. There is no fee until you withdraw your money. And the amount, if any, of this fee that you pay back to the mutual fund company depends on how long you stay invested in the fund. Since most mutual funds are managed to generate performance over the long term, the back-end arrangement encourages investors to stay invested for a set period of time (usually between five and seven years). If you sell your units before the end of that period, you pay a fee that typically declines each year that you stay invested. If you stay invested for the full schedule, there is no fee when you sell your units.

Most Mackenzie equity funds carry a 5.5% fee for redemptions in the first year following purchase. This fee declines to zero after seven years.

FRONT-END: HOW IT WORKS

Let's say you buy $1,000 worth of units front-end in a fund and agree on a fee of 2%. Your advisor's firm receives $20 (the advisor receives a pre-determined proportion of that amount) and $980 is deposited into the fund.

BACK-END: HOW IT WORKS

If you purchase a fund with a back-end load, or deferred sales charge (DSC), your entire $1,000 is invested immediately and your advisor's firm receives a fee from the mutual fund company of about $50, of which your advisor receives a pre-determined proportion.

The following is an example of redemption charges that apply to most equity funds offered by Mackenzie.

First year	5.5%
Second year	5.0%
Third year	5.0%
Fourth year	4.0%
Fifth year	4.0%
Sixth year	3.0%
Seventh year	2.0%
Thereafter	nil

Low-load: Mackenzie also offers low-load options on virtually all Mackenzie funds that offer a back-end load. These include two-year or three-year declining redemption schedules that are often suited for investors who have a shorter investment horizon.

You can also redeem 10% of your investments annually without penalty on new low-load purchases.

No loads

Some mutual fund companies offer no-load funds, which do not require you to pay any commission. However, there is usually a trade-off to consider. No-load funds are not always supported with the investment advice you would receive from your financial advisor. This means that while you may save paying a sales commission, you don't get the expert advice that can protect and maximize your investment in the long run. (See "What's in it for you?" on page 15 for more information)

How do I choose the right load?

Whether you purchase funds with front-end or back-end loads depends on the number of investment years that lie ahead of you (often called your investment horizon) and the flexibility you desire. Talk to your financial advisor about your options.

BACK-END LOAD FLEXIBILITY WITH MACKENZIE FUNDS

Over the course of your life, there's a strong chance your risk profile, investment goals, and market conditions will change. That's why Mackenzie offers two valuable options for those who buy mutual funds with a back-end load arrangement.

DIFFERENT FUNDS, SAME SCHEDULE

If your investment goals change, you may switch your investment to another Mackenzie fund and maintain the existing schedule.

10% FREE OPTION

To give you added flexibility, Mackenzie and most fund companies offer what is called a 10% free option. This means that if you purchase your fund using a back-end arrangement, you can sell up to 10% of your units annually without incurring a sales charge. So once a year, you gain instant liquidity for such things as home repairs, a child's education and other planned or unforeseen needs.

Service fees

(KNOWN AS TRAILERS)

What is a trailer?

A trailer is compensation that your financial advisor receives from the mutual fund company. The amount of this trailing commission varies, usually from 0.25% to 1% of assets per year, and details can be found in the fund's prospectus.

Why are trailers paid?

The trailing commission compensates your advisor for providing you with ongoing advice about the mutual fund investment. Trailers are not an additional fee; they are already built into the cost of the fund.

REQUIRED READING: FUND FACTS

Within two days of investing in a mutual fund, you will receive Fund Facts to help you understand your investment.

Each Fund Facts is in plain language, and no more than two pages double-sided. The document highlights key information for investors, including past performance, risks, and the costs of investing in the mutual fund.

You can also obtain detailed information about your mutual funds by viewing a longer-form legal document, the simplified prospectus. This is available on the fund company's website.

WHAT'S IN IT **FOR YOU?**

The fund advantage

The preceding pages explained how fund fees work: fund MERs cover the cost of the fund company's investment management and the financial advisor's various services. Let's take a closer look at what you get from a mutual fund investment.

- **Access to investment opportunities around the world** that are researched, purchased for the fund and monitored by knowledgeable investment professionals within a well-regulated environment.
- **Proven investment management expertise** from world-class professionals supported by a disciplined approach to investing.
- **Performance** potential as professional investment managers work on your behalf to beat their benchmarks' returns over the long term.
- **Tax-efficient** products, such as corporate class funds and funds with tax-efficient income streams, can help you minimize taxes and maximize your investment returns.
- **Wide choice**, from money market funds to gold bullion funds.
- **Cost efficiencies** that allow you to invest in a sophisticated range of domestic and foreign securities and markets easily and affordably. It would be extremely costly, time-consuming and, in some cases, impossible for you to access a similar portfolio of investments on a stand-alone basis.
- **Flexibility** in offering relatively low initial or monthly purchase amounts.
- **Liquidity** that allows you to readily redeem your shares at current prices (plus any fees and charges payable upon redemptions) at any time.
- **Technology** to provide you with timely, accurate reporting on your investments.
- **Investment and financial planning tools** for both you and your financial advisor. Fund companies can help advisors and clients invest effectively by providing informative brochures, newsletters and online planning tools, including investment calculators. Visit *mackenzieinvestments.com*.

What you get from your financial advisor

- **Investment discipline.** Money is an emotional issue, and perhaps the single greatest benefit to using a financial advisor is their independent, impartial advice.
- **Experience.** Imagine what it's like to spend your day working with clients, and talking with them about their financial situations. Over time, advisors develop a base of experience that enables them to steer clients through various life stages and business cycles. Whether it's saving for retirement or a child's university years; whether you're starting a business or dissolving one – your advisor can help.
- **Balancing risk and reward.** Advisors add value in many ways that do not show up in client portfolio statements. For example, they can prevent clients from taking on undue risk or point out the clients' self-destructive investment habits. The flip side of controlling risk is ensuring that clients do take some risks so they are positioned to participate in good opportunities, particularly in equities.
- **The value of time.** An advisor enables busy people to focus on their careers and families.
- **Tax efficiency.** Advisors can help clients maximize their investment returns by keeping them abreast of tax rules and learning about tax-efficient products offered by fund companies.
- **Consolidated information.** Advisors consolidate massive amounts of financial information to help investors stick to the basics (such as diversification) and watch the details (such as avoiding overlap in fund holdings).
- **Referrals.** An advisor can put you in touch with other financial services providers, such as tax and estate specialists.

Why do financial advisors and mutual fund companies still get paid when my investments decline?

It's easy to see why investors sometimes ask this question, but there are some important considerations behind the fees you pay to financial advisors and mutual fund companies.

The fixed costs don't change

Financial advisors and mutual fund companies provide the same services to investors in up markets as they do in down markets. And they also must meet many fixed cost obligations that come up monthly.

World events do change

Mutual fund managers and financial advisors strive to help your investment portfolio perform well. However, performance can be affected by many factors including business and world events that are beyond the control of your advisor or mutual fund company.

For example, in 1973 and 1974, the Standard & Poor's (S&P) 500 market index lost a total of 37% of its value and declined for 24 consecutive months. Like investors, financial advisors and mutual fund companies were hurt by the decline, but most resolved to stay in business. The bear market ended and markets returned to their former strength.

Softer landings

Even in down markets when most investments are underperforming, it's important to remember that mutual fund companies and investment advisors can help provide a softer landing for your portfolio.

Historically, markets have always bounced back, but in the meantime your advisor and fund company are providing you with the impetus to stay the course and avoid hasty decisions that could cause serious damage to your investment portfolio. When you receive advice on a continual basis, you are more likely to see the "big picture" and understand what it takes to achieve your long-term goals.

Think long term

An advisor or fund manager may decide to sell or invest in a stock based on the best information available and sometimes, despite that person's professional training and expertise, hindsight confirms it would have been best to do otherwise. For an advisor or mutual fund manager, these situations are the toughest part of the job. If you're wondering whether financial services professionals should get paid when you lose money, look at any fund or investment portfolio with a strong, long-term track record. You'll see periods of underperformance, with few exceptions. That's why it's important to assess long-term performance when evaluating a fund manager or financial advisor.

ADVISOR AND FUND COMPANY INTERESTS ARE ALIGNED WITH YOURS

Investors are not the only ones to feel the negative effects of market downturns. Financial advisors and fund companies see their income fall as the total value of the assets they manage declines.

For advisors, this is partly because they receive trailer fees that are based on a percentage of the total value of the assets managed by the fund. As the value of assets invested in the units or shares of the fund company fall, the value of the trailer fees paid to advisors declines accordingly.

The same is true for fund companies. As assets decline, the company's management fee revenue decreases.

It's clearly in the best interests of both advisors and fund companies to see their investors' portfolios perform.

INSIGHTS INTO THE **VALUE OF ADVICE**

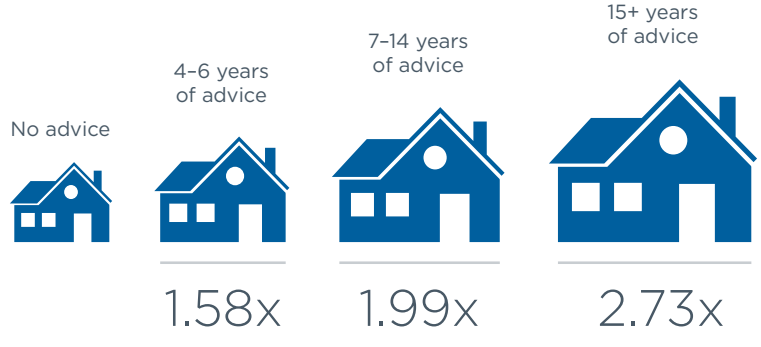
Financial planning brings increased wealth and peace of mind

As a society we trust professionals to plan many things for us, whether it's designing a new subway, a new healthcare system or even an addition to our homes. When that same trust is extended to include financial planners, it can result in a secure future as your personal wealth increases.

According to a groundbreaking research study, advised households have approximately twice the level of financial assets as their non-advised counterparts, and this advantage grows over time. Canadians who rely on advice to guide their financial decisions are wealthier, more confident and better prepared for the financial implications of marriage, a new child, their children's education, retirement and other life events.

The value of advice increases over time

Difference in household financial assets attributable to financial advice



Source: An econometric analysis of the value of advice in Canada, by Claude Montmarquette, CIRANO, 2012

Financial advisors can help investors avoid emotional decisions and mistakes that occur during exuberant or difficult markets. They do this in the following ways:

Systematic investment: Fixed, monthly investments into a fund (e.g., $500/month) allow investors to buy more units when prices fall and fewer units when prices rise. This can smooth out volatility.

Plan: When advisors provide a plan, they often specify an asset allocation that is suitable to the investor's needs (for example, 40% fixed income, 10% cash, 10% gold/precious metals, 40% equities). So, if a certain category falls, the advisor rebalances to keep categories at their target weights. This provides a discipline that can help investors through difficult markets.

Sounding board: Often, the key role of the advisor is to provide a "big picture" view of a portfolio. At times, certain elements of the portfolio will perform better than others, but those different performance patterns combine to produce a smoother overall experience. That's the goal of proper diversification.

Staying the course: When markets are volatile, many investors panic and head for the exits. Oftentimes, that's exactly the wrong time to sell. Advisors can talk through what's happening in the markets and help their clients stay the course.

Conclusion

In this brochure, we have compared the building of a home to building an investment portfolio. Just as you would expect to pay fees to your builders and architects for their expertise, so too do you pay fees to the people that manage and advise you on mutual funds.

From the examples in this brochure, you can see that advice is worth the cost. On the upside, you have the potential to outperform. On the downside, you face far less volatility.

Mutual funds are an efficient and flexible option for investors who want to participate in the rewards historically enjoyed by long-term market investors.

The wide variety of mutual funds offered today means that your financial advisor can create a portfolio that's just right for you – whatever your income, investment goals or age.

At Mackenzie Investments, we have a broad line-up of funds that you can choose from. Whether you're looking for domestic or foreign, income or equity, general market or specialty, value or growth, tax-efficient or currency-hedged, you'll find it here.

Thanks to a history of long-term performance and product innovation, Mackenzie is a favourite among investors and advisors alike. Our funds are sold through more than 30,000 independent financial advisors across Canada, and over 1.4 million Canadians already own Mackenzie mutual funds. Our assets under management have surpassed the $70 billion mark.

Talk to your financial advisor about Mackenzie mutual funds today. Because building financial independence doesn't mean you have to do it on your own.

GENERAL INQUIRIES

For all of your general inquiries and account information please call:

ENGLISH	1-800-387-0614
BILINGUAL	1-800-387-0615
ASIAN INVESTOR SERVICES	1-888-465-1668
TTY	1-855-325-7030 416-922-4186
FAX	1-866-766-6623 416-922-5660
E-MAIL	service@mackenzieinvestments.com
WEB	mackenzieinvestments.com

Find fund and account information online through Mackenzie Investments' secure InvestorAccess.
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