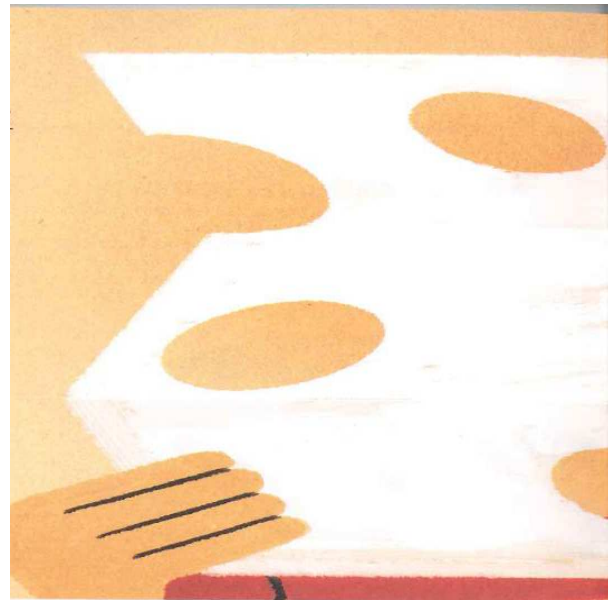


Complicated and incomplete

MANY INVESTMENT STATEMENTS SHOW NEITHER
MANAGEMENT FEES NOR RETURN ON INVESTMENT.
AND THEY'RE SUPPOSED TO BE USEFUL TO YOU?



According to a survey by Ontario's Investor Education Fund, seven investors out of 10 find their monthly or quarterly statements incomplete or hard to understand. This is hardly surprising: many statements consist of a series of transactions presented in impenetrable language. Since they're not regulated, just about anything can go into them.

We analysed the investment statements of 10 financial institutions. Most were for mutual funds and segregated funds. We also showed them to staff at Option Consommateurs and the Canadian Foundation for Advancement of Investor Rights (FAIR Canada), who gave us their comments.

"It's very hard to make sense of them, to see which information is important," commented Jean-François Vinet, financial services analyst at Option Consommateurs. "They flood you with numbers and transactions."

"What surprises me are the huge differences among the statements," said Ilana Singer, Associate Director at FAIR Canada. "In most cases there is important information missing. In fact, most of the figures are not helpful to the investor."

Too much information kills information

By flooding you with information of varied utility, financial institutions may be hoping to make you forget the main point: your portfolio's return on

investment and the fees charged to it. In short, a kind of shell game.

When did you start investing? How much have you invested in total? What is your return on investment compared to benchmark indexes? How much do your investments cost you in management fees? Many statements do not show this crucial information. "The statements look very professional, very detailed," Ms. Singer says. "People think the important information is there when it isn't. They don't dare ask questions."

Statements reviewed

- Acuity
- Fidelity Investments
- Fonds de solidarité FTQ
- Investors Group
- Industrial Alliance
- London Life
- CI Investments
- CIBC Securities
- Sun Life Financial (CI and Acuity funds)
- Robert Gagnon Planificateurs financiers (Empire Life funds)

Where are the fees?

Mutual fund and segregated fund statements may leave you thinking your investments don't cost you anything, which is false. A study carried out in 16 countries by Morningstar, the financial

information firm, reports that management expense ratios (MERs) in Canada and Japan – 2% to 2.5% for equity funds – are among the world's highest. By way of comparison, U.S. MERs are generally less than 1%. These fees have direct consequences on fund returns.

"We encourage fund companies in Canada and Japan to lower their fees and expenses for the benefit of the investors," notes Morningstar's *Global Fund Investor Experience* report of May 2009.

In the statements and websites reviewed, annual management fees have already been deducted from the amounts and returns indicated. For example, if a fund shows an annual return of 7.5% and its MER is 2.5%, its original return was 10%. Over the long term, these fees have a major impact on your investment (see table on next page).

FAIR Canada and Option Consommateurs believe fees should appear on investment statements, in percentages and in dollars – a simple matter of transparency. "When I get my bank statement, I see right away what the fees are. Why not for investments?" asks Jean-François Vinet.

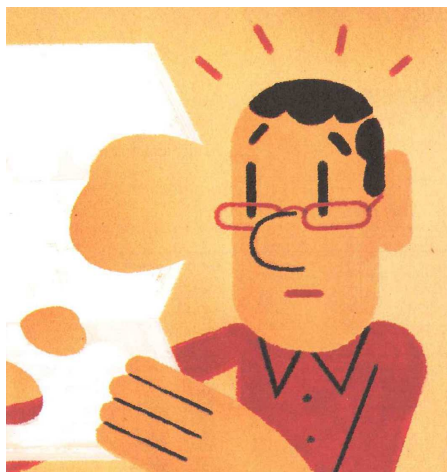
What fees are you paying?

- Annual **management fees** cover most of a fund's expenses, such as managers' salaries, administration fees, advertising and marketing, taxes, etc. They include a **trailer fee** of 0.25% to 1% of the value of your assets, paid to your

advisor. The fund pays him this commission for the services and advice he can provide to you over the year.

- You generally also pay an **acquisition fee** (front load) or an **exit fee** (back load). The front load applies each time you buy fund units. It is usually 5% of the amount invested, but you can negotiate a lower percentage with your advisor. Most funds have exit fees, which you pay only if you sell your units before the end of a specified period, generally five to seven years. The percentage decreases over time. For example, you pay 5.5% if you sell after one year but nothing after seven years. Some funds have no acquisition or exit fees.

These fees are detailed in the prospectus the advisor is required to give you upon purchase of a fund.



What is your return on investment?

In general, statements do not show portfolio performance from the beginning of your investment. You can call your advisor to try to get this information. Alternatively, you can generally find the return of your fund on the website of your financial institution, in the “Fund Filter” section of the Globefund.com site, and in the “Funds” section of Morningstar.ca. The last two sites allow you, among other things, to search and compare funds for return and fees. On the same sites, you can find the composition of funds and their performance relative to a benchmark index such as the S&P/TSX of the Toronto Stock Exchange.

In the long term, most mutual funds deliver a mediocre return relative to their benchmarks, for reasons including high management fees. According to the financial information company Standard & Poor’s, only 6% of Canadian equity mutual funds beat the S&P/TSX index over the five years ending September 2009.

Alternatives

To lower management fees, the two main alternatives to mutual funds and segregated funds are index funds and exchange-traded funds (ETFs). Index funds are mutual funds that replicate stock, bond or other indices. They thus provide much the same results as the indexes at less cost (average MER 1%, according to Morningstar).

ETFs, as the name indicates, trade on stock exchanges like equities. They replicate index results while charging MERs as low as 0.15%.

Your advisor has never mentioned this type of fund to you? Maybe it’s because they’re not profitable for them. “Mutual fund ‘advisors’ are really salespeople,” says Ken Kivenko, founder of the website Canadianfundwatch.com. “They are in a conflict of interest. They don’t push ETFs because most ETFs pay no trailer fee. This is a big problem for Canadians, because ETFs cost much less and, over the long term, they beat the returns of most mutual funds.”

“What surprises me are the huge differences among the statements”, Ilana Singer, FAIR Canada

A brief glossary

Mutual fund: Fund in which investors’ money is pooled and invested in various financial assets (stocks, bonds, etc.), in accordance with the fund’s objectives.

Labour-sponsored fund: Fund with income tax advantages for its investors and having the creation or maintenance of jobs as one of its objectives.

Segregated fund: Insurance-industry equivalent of a mutual fund. Includes a guaranteed minimum value (generally 75%) on the holder’s death or on maturity of the contract (10 or 20 years).

Index fund: Mutual fund that replicates a stock, bond or other index.

Exchange-traded fund: Fund whose units trade on the stock market like equities. Copies a stock, bond or other index.

Long-term impact of management fees*

Management expense ratio	Value after 30 years	% of value spent on management fees
0%	\$174,490	0%
1%	\$132,680	24%
2%	\$100,630	42%
2.5%	\$ 87,550	50%
3%	\$ 76,120	56%
3.5%	\$ 66,140	62%

* \$10,000 invested at 10%. Table inspired by Ken Kivenko (www.canadianfundwatch.com).

A “good” example

Industrial Alliance is one of the few financial institutions to present the investor’s personal percentage return over the previous 12 months. This statement would be even more useful if it also showed personal return since the beginning of the investment and acquisition and management fees.



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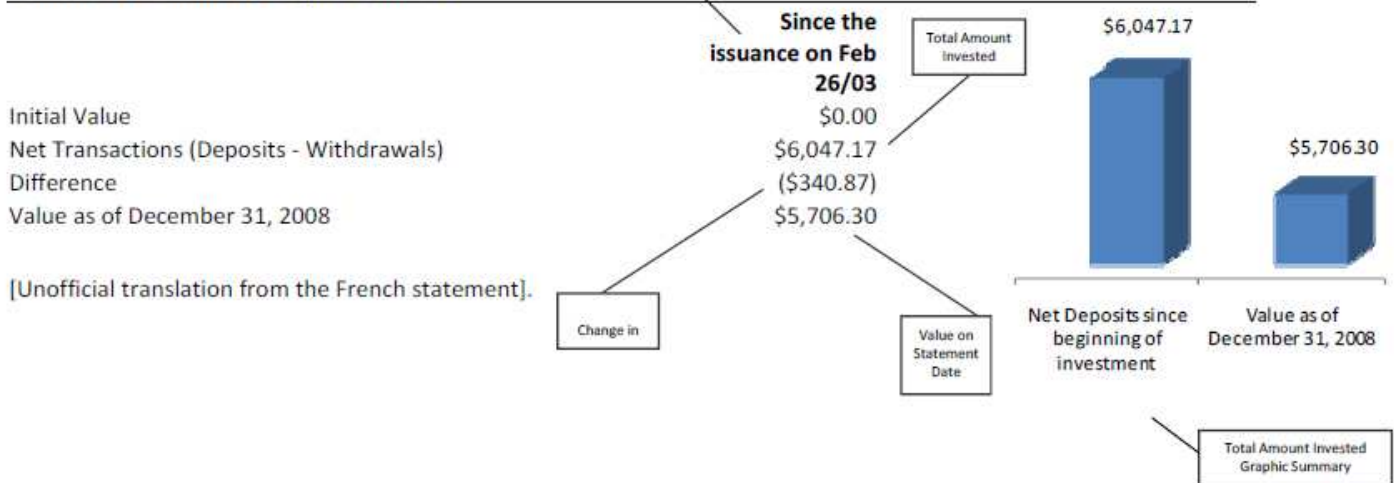
Your Investment Statement for December 31, 2008

Summary of your contract

	Value as of Dec 31/07	Value as of Dec 31/08	Your Yield as of the last 12 months
Daily Interest Funds	\$0.00	\$0.00	0.00%
Placement Funds	\$4,774.47	\$5,706.30	-14.00%
Guaranteed Interest Funds	\$0.00	\$0.00	0.00%
Total Value	\$4,774.47	\$5,706.30	-14.00%

Investment Start Date

Variation in the value of your contract



Resources	www.canadianfundwatch.com
Guide pratique de l'investisseur	www.faircanada.ca www.globefund.com
Protégez-vous collection, 2010, 72 pp., \$9.95	www.medac.qc.ca
	www.morningstar.ca
	www.sedar.com
www.protegez-vous.ca/boutique	For more information on mutual funds and their alternatives, see Protégez-vous, February 2007.