

The POSITION on FEES

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The Beaujolais Challenge: Make Investment Management Fees Transparent

IN A RECENT PAPER, a group of prominent academics concluded that Canadians pay the highest fees for mutual funds in the western world. Indeed, at 2.68%¹, the average Total Expense Ratio for mutual funds is high. But, the bigger problem is not that the fees are high. The problem is that, in Canada, mutual fund clients don't know what they are paying for.

The investment industry does not spell out its fees sufficiently. Investors do not receive a breakdown of fees and expenses with their normal reports. The lack of fee disclosure is a particularly glaring shortfall in light of the fact that other industries are improving their accountability and transparency. If you look at any hydro or phone bill, you will see a line-by-line account of each component of the fee. Canadians can see what they are paying for and decide if they are getting value. Shouldn't the information about the fees on your hard-earned savings be at least that good?

The industry does spell out fees in the simplified prospectus, but that is not sufficient disclosure. First, even if investors read the prospectus, they usually do so only at the time they make their initial investments. There is no ongoing reminder of the breakdown of fees after that. Second, the high fee usually includes additional services provided by commissioned-based advisors who sell mutual funds. If fees are not broken down into the individual components, investors cannot decide if they need all of the services or even if they are receiving value for them.

Beaujolais and Burgundy believe that transparency with clients is always the best policy, and therefore, we provide an exact break-out of the management fee on a quarterly basis. This is easy for us because we have a simple, low fee – the average fee at Beaujolais is almost 50% less than the average mutual fund! Offering a low and easy-to-understand fee structure is a business decision that serves clients well.

We are not advocating that people simply choose their investments based on the lowest fee. The quality of the investment management and the customer service provided are of paramount importance. By offering pooled funds managed by Burgundy Asset Management, Beaujolais provides its clients with high quality, proven investment management. By dealing directly with its clients, Beaujolais offers valuable, accountable service that eliminates superfluous services and fees. It's a simple, fair model that we are happy to discuss with any client.

We challenge the rest of the industry to follow our lead. Show the clients exactly what they are paying and what they are getting in return. Break out the management fee on client statements and outline those additional fees that are used to compensate advisors. Make fees transparent. Then, as informed consumers, they can make their own decisions about the level of mutual fund fees in Canada.

¹ Ajay Khorana, Henri Servaes and Peter Tufano, "Mutual Fund Fees Around the World – Working Paper." May 7, 2006.

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