



Many investors are familiar with the Management Expense Ratio, or MER, which is one of the costs associated with owning a mutual fund. Separate from the MER, however, is a lesser-known cost – the Trading Expense Ratio (TER).



WHAT IS A TER?

The TER represents the cost of trading the portfolio management team incurs for buying and selling equities (stocks) within a given fund. Already published in regulatory documents like the Management Report of Fund Performance, the TER is also disclosed in the Fund Facts document which is required to be provided at point of sale.



DO ALL FUNDS HAVE A TER?

No, TERs typically only apply to funds that hold equities. Most fixed income funds do not have a TER because commissions for fixed income funds are already embedded in the price of a bond.



HOW DO TERs WORK?

The TER is expressed as an annualized percentage of daily average net asset value during the period. This percentage is determined by dividing the fund's total trading commissions incurred over a reporting period by the fund's total assets.

$$\text{Trading Expense Ratio (TER)} = \frac{\text{Total trading commissions}}{\text{Total assets}}$$

If a fund had \$100 million in assets under management and the portfolio managers incurred trading commissions of \$250,000 for a given year, then the fund's TER would be calculated as:





WHAT DRIVES A FUND'S TER?

Trading activity	Fund asset mix	Fund flows	Liquidity	Trading desk
<p>Trading commissions can vary significantly from fund to fund and from year to year based on market conditions, the fund's investment strategy and asset class.</p> 	<p>Since trading commissions are only incurred on equities and not bonds, balanced funds will generally have lower TERs than equity funds. For example:</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>RBC Balanced Fund</p> </div> <div style="text-align: center;">  <p>RBC Global Equity Leaders Fund CS</p> </div> </div>	<p>The larger the fund's inflows/outflows, the higher its TER will likely be.</p> 	<p>A security's liquidity is determined by the number of investors seeking to buy or sell it relative to how much is available. Less liquid securities can be more expensive to trade than more liquid ones.</p> 	<p>An efficient trading desk can help reduce the total amount of trading commissions a fund pays.</p> 



MANAGING TRADING COSTS

The size and global reach of RBC Global Asset Management offers a number of advantages when it comes to keeping trading commissions low for our unitholders:

Scale

Our trading desk is one of the largest in Canada, providing cost-efficient trading activity within specific areas of expertise.

Global relationships

Our trading desk has relationships with market participants across the globe and is always in search of the best way to execute trades.

Investment in technology

The latest technology enables our trading desk to search available markets for liquidity and best trade execution.

A leading asset manager in Canada

We are a go-to partner for companies looking to issue shares, execute large trades or gauge market activity. As a result, our traders are always on top of market activity and opportunities.

What's most important to keep in mind is that the TER varies from fund to fund and generally funds with a higher TER reflect a higher level of trading activity. Working with an advisor can help you put this cost into context when evaluating a potential investment.



HOW DOES THE MER

COMPARE WITH THE TER?

The table below provides a sample comparison between a fund's MER and its TER. It's important to bear in mind that the TER will vary from fund to fund and from year to year.

	MER	TER
RBC Bond Fund	0.50%	N/A*
PH&N Monthly Income Fund	0.82%	0.03%
RBC Balanced Fund	0.99%	0.03%
RBC Global Equity Leaders Fund C\$	0.99%	0.09%
RBC Emerging Markets Equity Fund C\$	1.00%	0.05%



TER QUICK

Facts

- TER only applies to mutual funds with equity holdings.
- TER is included in published fund performance: mutual fund performance is reported after both the MER and TER have been accounted for (the MER & TER are deducted from the fund prior to calculating and reporting the performance).
- TER may vary from year to year, as it is a reflection of the previous year's trading activity within a fund.
- Generally, a fund with a higher TER reflects a higher level of trading activity in the fund's portfolio.

*The cost of trading a bond is reflected in the bond price, not the TER.
MER and TER is based on actual expenses for the full year period, January 1 to December 31, 2023.
MERs are based on RBC Funds Series F and PH&N Funds Series F.

For more information about the costs of investing in mutual funds, please speak with your advisor.

Please consult your advisor and read the prospectus or Fund Facts document before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. RBC Funds, PH&N Funds and BlueBay Funds are offered by RBC Global Asset Management Inc. and distributed through authorized dealers.

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