



THE INVESTMENT FUNDS INSTITUTE OF CANADA  
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA  
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**BY E-MAIL**

**Peter Tufano**

Sylvan C. Coleman Professor of Finance Management; Senior Associate Dean  
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**Henri Servaes**

Professor of Finance  
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Dear Professors:

The Investment Funds Institute of Canada appreciates the opportunity to comment on your recent draft paper, *Mutual Funds Around the World*. As the voice of the mutual fund industry in Canada, IFIC fully supports the dissemination of accurate information on mutual fund products and services, including MERs and the value of informed advice.

It is our understanding that your study is in draft form and that it has not been peer reviewed nor formally published. Regrettably, we have found many Canadian readers and commentators giving the study a “fact status” that you may not have intended and that in its current form it does not warrant.

Much can be learned through a comparison of investment product features, fees, delivery methods and consumer satisfaction levels between countries. Such a comparison can only be done with an accurate interpretation of each country’s circumstances and a full consideration of all components.

At the moment, we would contend that the Canadian circumstance has been significantly misinterpreted in a number of areas within your current draft.

In reviewing your draft paper we focused our attention on comparative items between Canada and the United States to illustrate some major distortions.

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**Low-fee Canadian funds excluded, low-fee US funds included.**

In the calculation of average expenses, you use data which exclude certain low-fee funds for Canada but include the similar low-fee funds for the US. Funds held by US investors through workplace savings plans, for example, which carry lower fees than funds sold through advisors, are generally included in Morningstar's US data, but excluded from the Canadian data. The inclusion of Canada's institutional pension investments in the overall Canadian costs would have significantly lowered the reported fees.

**Published maximum loads are not representative of the Canadian investor experience.**

In Canada, it is the practice that loads are negotiable but disclosed at their maximum rates. The front-end load charged to the investor is typically lower than the published rate, and is most often not charged at all, while back-end loads may be rebated in the case of fund transfers, subject to a 10% annual free sale, or avoided entirely if the investment is held to the load date. The Canadian published loads, used in this study, do not reflect the most typical Canadian investor's experience.

**Average holding periods are longer in Canada than in the US**

You calculate average loads as the sum of front-end and back-end loads amortized over an assumed holding period of 5 years. The assumed 5-year holding period, however, is shorter than the average Canadian holding period of 6 to 7 years, and longer than the average US holding period of 3 to 4 years. This results in an overstatement of Canadian potential loads and an understatement of US charges.

**Canadians strongly prefer an advisor**

Most Canadians purchase mutual funds with the help of an advisor following a thoughtful discussion of risk, past performance, and reputation of the fund company involved. Recent research conducted in the Canadian funds market showed that 85% of Canadian investors purchase their funds through an advisor, and in the vast majority of cases they rate the advice experience very highly. When investors were asked their level of satisfaction with their financial advisor, 85% indicated they were satisfied or completely satisfied. 94% indicated that their advisors had discussed investment objectives and risk tolerance, and 90% indicated they had discussed suitability of the investments with respect to objectives. The use of advisors is much less prevalent in the US market. The greater use of advisors by Canadian investors compared to the United States leads to a very different mix of business and price structure.

**Pricing is more all-inclusive with net return fund performance in Canada**

It is very rare in Canada for additional fees to be charged over and above the MER by either the fund company or the advisor working with the client. This leads to very transparent net return performance reporting. Your study observed this distinction to some degree but dismissed any attempt to correct your analysis for this difference between countries.

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**Much more Money Market fund use in the United States.**

Based on your sampling it appears that Americans use their Money Market funds, which have a much lower fee in both countries, to a much greater degree than in Canada. Canadians are invested much more heavily than Americans in pure equity funds and within that grouping in international funds which are more expensive. These differences have a significant impact on the average costs presented.

Country	Money Market %	Bonds %	Balanced %	Equity %
Canada	0.8%	32.6%	6.1%	57.0%
United States	8.9%	27.3%	22.5%	39.6%

Source: Mutual Funds Fees Around the World, Draft Paper, May 7, 2006

**Comparisons already dated.**

For the study's conclusions to have any relevance to current market conditions, every effort should be made to use the most recent data available. Comparisons made on the basis of the 2002 data used in this study are already out of date. In the time period between 2001 and 2005, MERs in Canada are known to have fallen between 3% and 11%, depending on the fund category.

**Summary**

We are interested in an accurate depiction of mutual fund features and costs in the Canadian environment. There are other factors not highlighted here such as the federal tax on management fees in Canada (7% at the time of this study, now 6%) that also contribute to differences between the countries.

We have taken this opportunity to communicate a number of the most obvious concerns with your draft paper. Please take these observations into consideration to the extent you intend to publish a subsequent version of this paper.

Sincerely,



Joanne De Laurentiis  
President & CEO