

# Total Expense Ratio Primer

## Anatomy of an expense ratio: traditional offerings

Majority of mutual funds use a simplified fee table in their prospectus to breakout and identify the main sources of fees charged to shareholders. Further details on fees can be found in the Statement of Additional Information.

### Domestic Equity Fund Example – Prospectus Fee Table

Shareholder Fees (fees paid directly from your investment)	Class A	Class I
Management Fee	0.50%	0.50%
Distribution (12b-1) Fee	0.25%	None
Other Expenses	0.28%	0.28%
<i>Administrative</i>	0.15%	0.15%
<i>Operational</i>	0.13%	0.13%
Total Annual Fund Operating Expenses	1.03%	0.78%
Fee Waiver and Expense Reimbursement	(0.03%)	(0.03%)
<b>Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement</b>	<b>1.00%</b>	<b>0.75%</b>
Stated Total Expense Ratio Cap	1.00%	0.75%

### Key terminology

#### Management fee

Payment to the adviser for managing the fund

#### Distribution (12b-1) fee

Distribution and shareholder servicing expenses, typically paid to distributors

#### Other expenses

*Administrative* – Payment to the adviser that covers recordkeeping costs that are not included in operational expenses (e.g., sub-TA)

*Operational* – Ongoing operational expenses (e.g., legal, audit, fund admin, custody, TA)

#### Fee waiver and expense reimbursement

Portion of management fee that is waived or expenses reimbursed to bring total expense ratio in-line with stated expense cap

#### Stated total expense ratio cap

Contractual obligation by the adviser to keep total expenses at or below a stated level

## Understanding “other expenses”

Other expenses include both fixed and variable costs. As a fund increases in size, fixed costs become a smaller percentage of total assets, decreasing the total expense ratio.

### Operational expense are made up of:

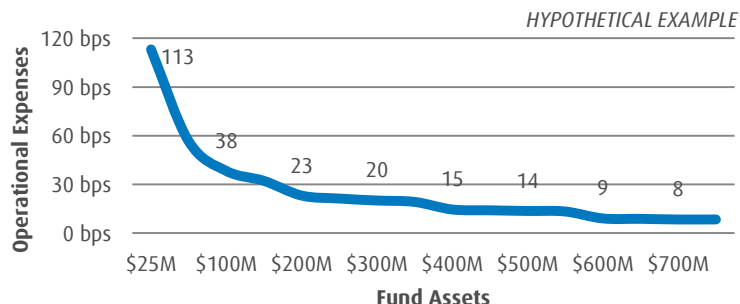
#### Fixed costs

Legal, audit, tax, director’s fees, transfer agent (when charged on a per account basis)

#### Variable costs

Fund administration, custody, transfer agent (When charged on an assets)

### Operational expenses (and waivers) decline with asset growth



## Understanding caps and waivers

To ensure the total expense ratio of a fund remains competitive relative to peers in its respective category, many mutual fund companies place a contractual cap on the total expenses that can be charged to investors. These caps are contractual and are typically reviewed and renewed regularly.

### How waivers are applied

- If the gross total expense ratio is greater than the stated expense cap, the adviser will waive a portion of its management fee to bring the total expense ratio in-line with the stated cap
- If the gross expenses are large enough, the adviser may have to pay expenses out of pocket in addition to waiving its entire management fee
- Only certain expenses are typically subject to being capped

### Expenses subject to cap

- Advisory fee
- Administrative fee
- Distribution (12b-1) fee
- Operational expenses

### Expenses outside the cap: included in fee table




- Acquired fund fees
- Interest expense
- Dividend and interest expense on short sales
- Extraordinary expense

## Investment cost detail: how are different costs reflected?

Not all costs incurred in the management of a fund are reflected in the prospectus fee table. Some expenses, like commissions and transaction fees, are netted out from a security's purchase or sale price. Others, like bid/asked spreads, simply represent the price at which a security can be purchased or sold where a securities dealer captures the difference (or spread). These expenses impact the performance of the fund, but are captured in the NAV rather than the fee table.

### A deeper look into investment costs

Some investment expenses are not reflected in the prospectus fee table, but are embedded in the fund's NAV performance. Dividend & Interest Expense and Acquired Fund Fees are actually captured in both places. Given that these expenses have already been captured in the NAV, disclosure in the fee table can cause confusion.

Investment	Costs	Treatment
Stocks	Commissions	NAV
Bonds	Bid/Ask	NAV
Futures	Bid/Ask Commissions	NAV NAV
Options	Bid/Ask	NAV
Forwards	Transaction Fee	NAV
Swaps	Transaction Fee	NAV
Short Sales	Commissions Dividend & Interest Expense	NAV 
Mutual Funds	Acquired Fund Fees	
ETFs	Acquired Fund Fees Commissions	

## Fee table nuances

Funds that include investments in ETFs, mutual funds, or have the ability to short securities are required by the SEC to provide additional details about costs that are incurred.

### Acquired fund fees and expenses

#### Definition

Funds are able to invest in other funds (including money market funds) or ETFs, which have fees and expenses of their own. This fee represents the pro-rata charges absorbed by the fund when it invests in these products.

#### Acquired fund fee example

- Fund invests 10% of portfolio in Utilities ETF to gain exposure to sector
- Utilities ETF total expense ratio: 15 bps
- Acquired fund fee:  $10\% \times 15 \text{ bps} = 1.5 \text{ bps}$

EXPENSE FALLS  
OUTSIDE OF TOTAL  
EXPENSE RATIO CAP

### Fund of Mutual Funds Example – Prospectus Fee Table

Shareholder Fees (fees paid directly from your investment)	Class A	Class I
Management Fee	None	None
Distribution (12b-1) Fee	0.25%	None
Other Expenses	0.22%	0.22%
<i>Administrative</i>	0.15%	0.15%
<i>Operational</i>	0.07%	0.07%
<b>Acquired Fund Fees and Expenses</b>	<b>0.62%</b>	<b>0.62%</b>
Total Annual Fund Operating Expenses	1.09%	.84%
Fee Waiver and Expense Reimbursement	(0.14%)	(0.14%)
<b>Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement</b>	<b>.95%</b>	<b>.70%</b>
Stated Total Expense Ratio Cap	0.95%	0.70%

### Dividend and interest expenses

#### Definition

Funds that have the ability to short securities also incur the extra “cost” of paying back any dividends received to the lender of the security.

#### Short sale dividend expense example

- Short one stock at \$50
- Stock pays \$1 dividend
- Stock declines to \$49 ex-dividend
- Fund incurs 2% in dividend expense ( $\$1 / \$50$ )
- Fund has 2% unrealized gain from short sale (offsetting expense)

EXPENSE FALLS  
OUTSIDE OF TOTAL  
EXPENSE RATIO CAP

### Alternative Fund Example – Prospectus Fee Table

Shareholder Fees (fees paid directly from your investment)	Class A	Class I
Management Fee	1.00%	1.00%
Distribution (12b-1) Fee	0.25%	None
Other Expenses	0.90%	0.90%
<i>Administrative</i>	0.15%	0.15%
<i>Operational</i>	0.75%	0.75%
<b>Dividend and Interest Expenses</b>	<b>0.55%</b>	<b>0.55%</b>
Total Annual Fund Operating Expenses	2.70%	2.45%
Fee Waiver and Expense Reimbursement	0.55%	0.55%
<b>Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement</b>	<b>2.15%</b>	<b>1.90%</b>
Stated Total Expense Ratio Cap	1.60%	1.35%

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