

# **CSA Point of Sale Disclosure Project: Fund Facts Document Testing**

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September 2012**



# Contents



	<b>Page</b>
Background & Research Objectives .....	6
Research Methodologies .....	7
Overview of Fund Facts .....	13
Summary & Conclusions .....	16
Detailed Findings .....	27
<b>SECTION 1: QUALITATIVE RESEARCH</b> .....	<b>28</b>
1.0 Current Mutual Fund Purchase Experience .....	29
2.0 Initial Impressions of Fund Facts .....	31
3.0 Fund Facts – Page 1 [What are the risks of this fund?].	33
4.0 Fund Facts – Page 2 [How has the fund performed?].	39
5.0 Fund Facts – Page 3 [Costs & Trailing commission] .....	44
6.0 Fund Facts – Page 4 [What if I change my mind?& More Information]	49
7.0 Fund Facts: The Ideal Process .....	54

<b>SECTION 2: QUANTITATIVE RESEARCH</b> .....	58
1.0 Financial Background .....	59
▪ Financial knowledge: Self-report [Q. Screener] .....	60
▪ Types of investments held [Q. Screener] .....	61
▪ Companies used most often for mutual funds [Q. Screener] .....	62
2.0 Understanding Risk .....	64
<b>What are the risks of this fund?</b> .....	65
▪ Understanding Risk: True/false statements [Q.1/6] .....	66
▪ Identifying the risk rating of the mutual fund [Q.2] .....	68
▪ Clarity of explanation of risk [Q.3] .....	69
▪ Understanding other specific risks [Q.4] .....	70
▪ Action needed to make 'Other specific risks' more useful [Q.5] ...	71
▪ Actions would definitely take [Q.7] .....	72
▪ Words not understood in this section [Q.8a] .....	73
▪ Suggestions to improve the section on risk [Q.8b] .....	74

## SECTION 2 cont'd

3.0 Understanding risk vs.. Performance .....	75
<b>How has the fund performed?</b> .....	76
▪ Understanding the bar graph: True/false statements [Q.9] .....	77
▪ Clarity of relationship between risk and return [Q.10] .....	79
▪ Usefulness of choice of GIC [Q.11a] .....	80
▪ Vehicle preferred to GIC [Q.11b] .....	81
▪ Reasons for choosing a different vehicle [Q.11c] .....	82
▪ Reactions to best and worst 3-months return [Q.12, 13] .....	83
▪ Reactions to showing average return of GIC [Q.14] .....	85
▪ Performance of the fund: True/false statements [Q.15] .....	86
▪ Words not understood in this section [Q.16] .....	88
4.0 Understanding the Trailing Commission .....	89
<b>Trailing commission</b> .....	90
▪ Trailing Commission: True/false statements [Q.17] .....	91

# Contents cont'd



## SECTION 2 cont'd

5.0	Using Fund Facts .....	93
	▪ Preferred time of delivery [Q.18] .....	94
	▪ Preferred term for dealer representative [Q.19] .....	97
	▪ Suggestions for improving Fund Facts [Q.20] .....	98
6.0	Description of Sample .....	99
	▪ Overview of Sample .....	100
	▪ Profile of Sample [Q.A, B, C, D1, I, J, K, L] .....	101
	Appendix .....	105
	▪ Fund Facts document	
	▪ Qualitative Interview Guide	
	▪ Quantitative Questionnaire	

# Background and Research Objectives



- The Canadian Securities Administrators [CSA] regulate capital markets in Canada. The Council of ten provincial and three territorial securities regulators is committed to fostering fair and efficient capital markets and to protecting investors from unfair, improper, or fraudulent practice.
- The CSA is working to improve sales disclosure for Canadian investors. As part of this initiative, CSA developed Fund Facts for mutual funds, a plain language, two-page summary of key information about mutual funds. This document provides a basic description of a class or series of a specific fund, an explanation of expenses and fees, and the investor's rights. The document was tested with investors in 2006. Since then a number of changes have been made and additional changes proposed.
- The CSA requested document research to test retail investors' understanding of the proposed changes to Fund Facts with particular emphasis on risk disclosure and performance reporting. Consistent with this focus, in both the qualitative and quantitative research, online respondents were shown the entire document, but asked to read only 'what are the risks of this fund?' 'How has this fund performed?' and 'Trailing Commission'. All investors were invited to scan the remaining sections of Fund Facts and could revisit or scroll back through any sections they wished. No changes were made to the document between the two stages of research.

# Research Methodologies: Qualitative Research



- 21 one-on-one in-depth interviews, lasting 1 hour each, were completed:
  - 13 in Metropolitan Toronto [English]
  - 8 in Montreal [French]
- Demographically, respondents were well distributed by gender, age, income, and occupation, including teachers, engineers, IT specialists, sales, government staff, communications, a dental technician, translator, and technical accountant.

Demographics Total = 21	Total	Toronto [English]	Montreal [French]
Men	11	7	4
Women	10	6	4
≤ 49 years	10	5	5
≥50 years	11	8	3
\$30 - \$49k	4	4	-
\$50 - \$99k	10	7	3
\$100 - \$149k	5	2	3
\$150-\$200k	2	-	2

# Qualitative Sample cont'd

- All participants were retail investors who hold some mutual funds and are the decision maker or key influencer for investments in their household. They were also screened for investment knowledge. The categories are self-reported.

Financial Background	Total	Toronto [English]	Montreal [French]
Not very/not at all knowledgeable	7	4	3
Somewhat/Fairly knowledgeable	10	7	3
Very knowledgeable	4	2	2
Total	21	13	8

- Respondents were screened to give consideration to those who use members of the Investment Industry Regulatory Organization of Canada [IIROC], both full service and discount brokerage channels, and members of the Mutual Fund Dealers Association [MFDA]. A few invest only through banks or insurance companies, but many use a variety of institutions.



# Research Methodologies

## Qualitative Approach



- Document research was used to analyze the proposed changes to Fund Facts with emphasis on the sections dealing with risk and performance reporting.
- Some sections of Fund Facts were not tested to allow time for this detailed analysis, but all sections were briefly reviewed so that respondents could comment on the document as a whole.
- The document was tested in French and English.
- The report which follows [Section 1: Qualitative Research] uses the English document as the basis for the main commentary. Reference is made to the French document wherever differences occur. Both documents can be found in the Appendix.

# Research Methodologies

## Quantitative Approach



- A random sample of 1603 Canadians from an online panel responded to an invitation to participate in the research. This contact sample was weighted to Statistics Canada data by age within sex within region. From this initial sample, the final sample of 532 online respondents across Canada was screened according to criteria given by the CSA:
  - Retail investors who –
  - Are men and women, aged 18 to 70 years
  - Are the person in the household responsible for or an equal decision maker in the purchase of investments
  - Are holders of mutual funds
  - Have personal incomes of less than \$200,000 or household incomes of less than \$300,000.
- Respondents were identified to give consideration to those who use IIROC members, both full service and discount brokerage channels, and MFDA members.
- Respondents who advise or sell stocks, bonds, or mutual funds were screened out.
- Interview dates: October 24 – October 26, 2012

# Distribution of Quantitative Sample



- Mutual fund holders -- aged 18 to 70 years, who are decision makers or key influencers for household investments and who do not sell or advise investors on stocks, bonds or mutual funds and have personal incomes of less than \$200,000 or household incomes of less than \$300,000 -- skew to men, aged 35 to 54 years. More detailed demographics can be found in Section 2: 6.

% out of 100%	Canada Gen pop 2010	Mutual Fund Holders*
Men	49	56
Women	51	44
18 - 34 years	32	28
35 - 54 years	38	47
55 – 70	30	25
Maritimes/ Labrador/Newfoundland	7	6
Quebec	23	15
Ontario	39	44
The West	31	35

\*As defined above.

# Quantitative Results



- In the summary tables, some columns may not add to 100% because of 'don't knows' or multiple mentions.
- Unweighted bases are given in the report for statistical testing. The margins of error at the 95% confidence level for different random sample sizes are given below.

Sample size	50	100	150	200	300	500
	$\pm 14.1$	$\pm 10.0$	$\pm 8.2$	$\pm 7.1$	$\pm 5.8$	$\pm 4.5$

- For example, if the finding on a sample size of 500 is 50%, then there is a 95% probability that the true answer falls between 45.5% and 54.5%.

# Overview of Fund Facts

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# Overview



- Fund Facts is valued by both naïve and sophisticated mutual fund investors. For those less knowledgeable, it provides needed basic information, while for those more knowledgeable, it offers a foundation to build on.
- Equally important, from the qualitative research, we know that it reflects well on the financial adviser who offers it to clients and on the industry as a whole. It is regarded as honest and straightforward.
- Document research shows that Fund Facts is seen as well organized, uncluttered and easy to read. The information it provides is important and expressed in plain language. The graphs are helpful, the titles, colours, use of bolding and formatting are appealing to investors. The length is acceptable.
- At the same time, from both research components, it is clear that enhancements can be made to make Fund Facts as informative and appealing as possible.
- The qualitative research indicated some sentences and phrases that confuse some retail investors. Some graphics and the locations of key information can be improved.

# Overview cont'd



- The quantitative research shows very clearly that while mutual fund investors can often 'read' Fund Facts accurately they do not always know how to apply this information to their own decision making. They may misuse historical data to predict future results. Implications need to be spelled out. There are some paragraphs that mutual fund investors seem to ignore because of placement.
- The issue is less that of plain language than of ensuring the appropriate emphasis, placement, and framework.

# Summary & Conclusions

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This section of the report provides a high level summary of findings by Fund Facts section and is drawn from both the qualitative and quantitative research. The findings of the quantitative research support and enhance those of the qualitative research, while the qualitative research often explains why the document has been misread. Each summary is followed by conclusions and recommendations so that the reader can follow the logic involved.

## **Page 1: What are the risks of this fund?**

- Mutual fund investors understand fairly well the relationship between risk and return, but they are less certain about how to apply this information to future performance and investment decisions.
  - Overall 94% believe that this section explains the relationship between risk, return and losses very clearly.
  - More than eight out of ten mutual fund investors report that the value of a mutual fund can go up or down, that higher risk usually means the chance of greater losses and greater returns and vice versa. They also understand that risk may affect the future performance of the mutual fund, though many seem to forget this when responding to ‘How has this fund performed?’

## What are the risks of this fund? cont'd

- Problem areas
  - 20% of mutual fund investors believe that some mutual funds carry no risk.
  - 18% believe that level of risk can never change over time.
  - 45% believe that the risk level tells whether or not the mutual fund will make or lose money in the future.
  - 18% cannot correctly identify the medium risk level of the mutual fund despite the graph.
  - Half of all retail investors [50%] are not very or not at all clear about what other specific risks are.
  - 83% want a brief explanation of other specific risks.
- As currently written, only 26% say they would rely only on Fund Facts to understand the risk of this mutual fund.
  - 70% would ask their adviser to explain the risks of the mutual fund to them; 50% would read the Simplified Prospectus. Obviously some would take more than one approach.

## What are the risks of this fund? Cont'd

- The qualitative research supports many of the points made above, but in addition provides insight into why these issues arise:
  1. Throughout the section, many investors who were interviewed wanted to know what is generic and what refers to XYZ Fund.
  2. Although it can be read and the relationship between risk, return, and losses understood, the density of text and length of sentences in paragraph 3 make it difficult.
  3. The bar graph currently fails to communicate as a graph. Some see the arrow simply as highlighting the mid-point of a system of generic risk levels.

## Page 2: How has the fund performed?

### Bar Graph

- The bar graph was well liked, but it was not always interpreted as desired.
- Mutual fund investors clearly read the bar graph as an illustration of performance, *but do not always read it also as an illustration of risk.*
- 94% - 96% agree that the bar graph helps them compare the past performance of the mutual fund and GIC and that the mutual fund can have higher and lower returns in different years.

➤ Problem areas

- In the qualitative research until prompted, few retail investors saw the use of GIC data as a comparison intended to illustrate a safe investment.
- 39% believe it tells everyone the mutual fund is the better investment for them.
- 18% believe it tells them how the mutual fund will perform in the future.

From the qualitative research, there is evidence to understand why some of these reactions have occurred.

➤ The qualitative research shows clearly that mutual fund investors focus on performance in this section as directed by the title. They read the bar graph as focused on performance and make few comments about risk or the risk-return relationship. Some also thought the bar graph was for all mutual funds.

## **Worst and Best Returns**

- Again mutual fund investors want this information and ‘read’ it correctly as historical data, but do not understand the implications.
- 73% of mutual fund investors believe it is extremely or very important to see the worst 3-months return for the fund; 66% also believe seeing the best 3-months return is important.

## Average return

- 87% want to see the average return of the GIC.
- Problem areas
  - 82% of mutual fund investors believe because the mutual fund has a higher average return they should invest in it.
  - 34% believe the worst return tells them how much they could lose in the future.
  - 29% believe that they will earn 6.8% in the future if they invest in the mutual fund.
  - 21% believe because the GIC has a return of only 1.6% no one should invest in it.

## Page 3: Trailing Commission

- Investors interviewed for the qualitative information struggled with this information. They had not heard of a 'Trailing commission' and weren't sure how it differed from their adviser's regular commission.
- In the quantitative research, eight out of ten mutual fund investors believe they need to know about trailing commissions and understand well from this section that this mutual fund pays a trailing commission to cover the services of the dealer and adviser, and that it can influence a financial adviser's mutual fund recommendation.
- Problem areas
  - 54% believe the trailing commission is in addition to all other fees.
  - 25% believe it is a one-time payment.



# Conclusions



## Words not understood in Fund Facts

- Mutual fund investors identified very few words they did not understand in Fund Facts. With the exception of the other specific risks which many investors did not understand clearly, the other words were cited by very few.

From qualitative and quantitative research: Specialized risk Equity risk Active management risk Maturity amount	Annual compounded Worst returns Interesting strategies Prospectus
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- Although ‘dealer representative’ is the more accurate term, 91% of mutual fund investors prefer the term ‘adviser’ to ‘dealer representative’.

# Conclusions & Recommendations cont'd



## Using Fund Facts

- 52% of mutual fund investors want Fund Facts sent to them before meeting with their adviser.
- 33% want it to be presented by the adviser during the meeting but prior to purchase.
- Very few suggestions for improvement were offered.
- Some like the document very much and want to see more like it. [7%]
- Others wanted more detailed information, especially a further discussion of risk. [5%]
- Some asked for less or clearer information or more graphics. [2%]

# Detailed Findings

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# **CSA Document Testing – Point of Sale Disclosure Project**

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## **Section 1: Qualitative Research**



# 1.0 Current Mutual Fund Purchase Experience



- Some of the retail investors interviewed in Montreal and Toronto buy mutual funds through their banks. A few invest through insurance companies, while others use a variety of institutions. There were also a few retail investors who do their own investing.
- Many of those who use an adviser seem to have similar experiences. They learn about the investment vehicle and purchase on the advice of their adviser in the same meeting. The information their adviser gives them is paramount and trust is a key part of the decision process. Some spoke of looking at material on the computer while in the adviser's office. Sometimes investors are given material to take home to read, sometimes not. If given materials, many report that they read or at least scan it. The amount of print material seen, however, seems limited.
- More cautious investors do some preparation before their meeting. They ask the advice of friends and family, go on the Internet, or receive materials in advance from their adviser which they read. Some more knowledgeable investors mentioned using Morningstar, researching the investments they see on Morningstar and the fund managers. Some also mentioned newspapers and business programs on television as sources of information.

# Purchase Experience cont'd



- Those seeking information report looking for what the fund invests in, how long it has been established, and its historical performance record. They also look for some sense of how risky the fund is, though they may deduce this based on the investment mix shown. A number mentioned filling out a questionnaire to determine their risk level. Several retail investors said that safety is their primary concern.

*“The financial adviser knows more than I do.”*

*“The adviser recommends a fund, tells me the returns and rates and I trust Manulife.”*

*“I feel comfortable because it’s my bank.”*

*“I rely on my financial adviser. I’ve been with him for 15 years. He’s a friend.”*

- In this environment, few retail investors suggested any reservations or concerns about the decision process. Nor could they identify any information they do not have or cannot get. When asked about the process, one investor noted –

*“I don’t know what to ask.”*

## 2.0 Initial Impressions of Fund Facts



- Initial impressions of Fund Facts were positive in Toronto and Montreal. Retail investors responded particularly well to the clear organization of the different sections, the use of the pie chart and bar graph, and the colourful presentation.
- There were also positive comments on the use of bolding and formatting to highlight information, the clear titles, and the size of the font, although a few wanted the font to be a little larger.
- Several retail investors also commented that there was enough white space so that the document does not look cluttered. The section on risk is an exception to this; the first column seems textually dense.
- Respondents were told that the document would appear on two pages printed back and front. No one described it as too long.
- Sections that stood out as especially interesting were 'What does this fund invest in' and 'How has the fund performed'. This immediate interest in each case was largely driven by the graphics.
- Overall, retail investors thought that Fund Facts is easy to read. If given to them by their financial adviser they all said that they would read it.

# Initial Impressions cont'd



*“I like the coloured graphs and that they break it into sections. It doesn't seem so dense.”*

*“It's clean, nice, well structured....It's not difficult to read. I've seen these types of document often.”*

*“It looks pretty organized. I like the way it flows. It looks easy to read. I'd read all the titles and then the section if interested.”*

*“It gives everything. A nice layout...fact sheet...Pertinent information at a glance.”*

*“It doesn't look complicated. It's better than the other information sheets with a lot of small print. This is print I can see.”*

*“I like the green block....I can see what I'm reading.”*


*“It's relatively easy compared to other stuff I've read...more legible than most.”*

*“It's very explanatory. It's laid out like a course, not what I got before.”*



# 3.0 Fund Facts – Page 1 Overview





## FUND FACTS

XYZ Canadian Equity Fund – Series B  
June 30, 20XX  
Fund Code: XYZ123


This document contains key information you should know about XYZ Canadian Equity Fund. You can find more details in the fund's simplified prospectus. Ask your dealer representative for a copy, contact XYZ Mutual Funds at 1-800-555-5556 or investing@xyzfunds.com, or visit www.xyzfunds.com.

Quick facts	
Date series started:	March 31, 2000
Date fund started:	January 1, 1996
Total value of series on June 1, 20XX:	\$350 million
Total value of fund on June 1, 20XX:	\$1 billion
Management expense ratio (MER):	2.25%

**What does this fund invest in?**  
The fund invests in Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund's investments on June 1, 20XX. The fund's investments will change.

Top 10 Investments (June 1, 20XX)	
1. Royal Bank of Canada	7.5%
2. Toronto-Dominion Bank	7.1%
3. Canadian Natural Resources	5.8%
4. The Bank of Nova Scotia	4.1%
5. Cenovus Energy Inc.	3.7%
6. Suncor Energy Inc.	3.2%
7. Enbridge Inc.	3.1%
8. Canadian Imperial Bank of Commerce	2.9%
9. Manulife Financial Corporation	2.7%
10. Canadian National Railway Company	1.9%

The top 10 investments make up 42% of the fund.  
Total number of investments: 93



Industry	Percentage
Financial services	34.0%
Energy	26.6%
Industrial goods	16.9%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

**What are the risks of this fund?**  
All investments involve risks. Understanding these risks can help you choose the right fund for you.


**Investment risk.** When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means low or risk and low or returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.

**Other specific risks.** To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. XYZ Mutual Funds has identified these top risk factors for the fund:

- Active Management Risk
- Equity Risk
- Specialization Risk

For a full list of this fund's risk factors and details about them, see the Risk section of the fund's simplified prospectus.




The risk category shown is not fixed and may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

- Page 1 and Page 2 of Fund Facts are the pages most valued by retail investors. Together they contain most of the information about the XYZ Mutual Fund that potential buyers want to know – what the fund invests in, its historical performance, its level of risk, and who it is intended for.
- Quick Facts and the description of investments are much liked.
- On this page, the risk section is the weakest section. It seems cluttered, textually dense and requires repeated reading to understand.
- It is also less immediately valued since investors are not sure it is about the XYZ Fund. Throughout the document the line between the generic and the specific is often blurred.

# Fund Facts – Page 1



- The first three sections of Fund Facts were not tested. Nevertheless when reviewed quickly by the moderator, retail investors in Toronto and Montreal offered several comments:



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Quick facts	
Date series started:	March, 31, 2000
Date fund started:	January 1, 1996
Total value of series on June 1, 20XX:	\$350 million
Total value of fund on June 1, 20XX:	\$1 billion
Management expense ratio (MER):	2.25%
Fund manager:	XYZ Mutual Funds
Portfolio manager:	Capital Asset Management Ltd.
Distributions:	Annually, on December 15
Minimum investment:	\$500 initial, \$50 additional

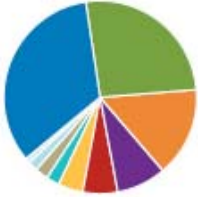
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The fund invests in Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund's investments on June 1, 20XX. The fund's investments will change.

**Top 10 investments (June 1, 20XX)**

1. Royal Bank of Canada	7.5%
2. Toronto-Dominion Bank	7.1%
3. Canadian Natural Resources	5.8%
4. The Bank of Nova Scotia	4.1%
5. Cenovus Energy Inc.	3.7%
6. Suncor Energy Inc.	3.2%
7. Enbridge Inc.	3.1%
8. Canadian Imperial Bank of Commerce	2.9%
9. Manulife Financial Corporation	2.7%
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**Investment mix (June 1, 20XX)**



Industry	%
Financial services	34.0%
Energy	26.6%
Industrial goods	16.5%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

1. Some respondents did not know what a 'MER' is.
2. 'Distributions' was interpreted as when the fund report comes out or when it is possible to buy more units.
3. Some respondents understood that the initial investment required is \$500, but then guessed '\$50 additional' meant they would owe \$50 a month or 'regularly'.
4. A few investors wanted risk level and average return of the fund added to Quick Facts.

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34



XYZ Mutual Funds

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Total value of series on June 1, 20XX:	\$350 million	Distributions:	Annually, on December 15
Total value of fund on June 1, 20XX:	\$1 billion	Minimum investment:	\$500 initial, \$50 additional
Management expense ratio (MER):	2.25%		

### What does this fund invest in?

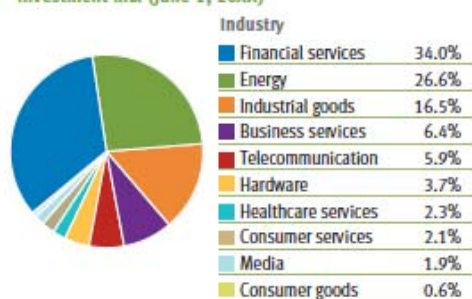
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#### Top 10 investments (June 1, 20XX)

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The top 10 investments make up 42% of the fund.  
Total number of investments 93

#### Investment mix (June 1, 20XX)



- Although not analyzed, the section 'What does this fund invest in' was among the most valued sections.
- Several retail investors had seen this type of information before. More knowledgeable investors spent some time studying the companies and sectors to judge how risky the fund is and how well diversified it is. For several, this was key information for their investment decision.
- The pie chart was much liked as quick and easy to read and colorful.

## What are the risks of this fund? - Tested

- Retail investors agreed that the section on risk is very important and should be retained. However, as a section it is textually dense and difficult to read. Several respondents had to read the third paragraph two and sometimes three times before they understood it.

### First Column:

**What are the risks of this fund?**  
All investments involve risks. Understanding those risks can help you choose the right fund for you.

**Investment risk.** When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.

Low    Low to medium    Medium    Medium to high    High

← typically lower returns and less chance of losses    typically higher returns and greater chance of losses →

The risk category shown is not fixed and may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

- The first sentence stood out as particularly important 'All investments involve risks'. The second was not always fully understood.
- The speed of change is an important and sometimes new concept.
- The relationship between risk, returns, and the possibility of losses is understood, but only with repeated reading.  
*"Too many words."*

## First Column cont'd:

### What are the risks of this fund?

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XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.



The risk category shown is not fixed and may change over time.  
The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

- Clear but unsure what to do with this statement.
- The last two sentences are very important. Perhaps only these sentences should be bolded -- *“They are not trying to hide anything.”*

Many investors did not realize that ‘medium’ applies to the XYZ Canadian Equity Fund. They simply saw the black triangle as the mid-point on the graph.

- The labels on the X-Axis were described as very clear. Some suggested dropping the text and expanding the bar graph and the labels of the Axis as a clear explanation. If larger a few would also add colour coding to the graph.

- A few wanted to know how risk is calculated.

## What are the risks of this fund? Second column:

**Other specific risks.** To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. XYZ Mutual Funds has identified these top risk factors for the fund:

- **Active Management Risk**
- **Equity Risk**
- **Specialization Risk**

For a full list of this fund's risk factors and details about them, see the Risk section of the fund's simplified prospectus.

- The idea of a 'full list' made investors wonder just how many risks there could be.
- Some of the retail investors interviewed were prepared to guess what the three risks itemized here mean, but none was sure.
- Investors were frustrated by this lack of knowledge and while some said they would look the risks up, many were unwilling to do so. If not explained, they should be deleted, leaving only the reference to the simplified prospectus.
- The idea of a 'simplified prospectus' also brought negative comments especially in Montreal – *"My God, more? How much more detailed than this can it be and still be called simplified?"*

# 4.0 Fund Facts – Page 2 Overview



**XYZ Mutual Funds** **XYZ Canadian Equity Fund – Series B**

**How has the fund performed?**  
 This chart shows you:  
 • how the fund has performed over the past 10 years  
 • how the fund's return compares to the return of a one-year Guaranteed Investment Certificate (GIC). GIC data is from the Bank of Canada.

Year	GIC Rates (%)	Fund Returns (%)
2000	1.8	2.8
2001	1.7	26.9
2002	1.2	12.9
2003	1.1	18.7
2004	1.0	11.2
2005	1.0	1.7
2006	2.4	20.9
2007	5.4	26.1
2008	5.4	-22.9
2009	1.0	11.9
2010	1.0	-1.2

**Notes:**  
 • This chart does not tell you how the fund or GIC will perform in the future.  
 • Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.  
 • The fund's returns are after expenses have been deducted.  
 • Your actual after-tax return will depend on your personal tax situation.

**Things you should know:**

**a) Worst return**  
 The fund dropped in value in 3 of the last 10 years.  
 The worst quarterly return (3 months) of the fund since its start date was a drop in value of -24.7% in the 3-month period ending November 30, 2008. If you had invested \$1,000 in the fund at the start of this period, your investment would have dropped to \$753 after 3 months.

**b) Average return**  
 In the last 10 years, the fund generated an annual compounded return of 6.8%. This means if you had invested \$1,000 in the fund 10 years ago, your investment would now be worth \$1,930.  
 In comparison, the annual compounded return of a GIC for the same period, was 1.6%. If you had invested \$1,000 in a one-year GIC 10 years ago and kept reinvesting the maturity amount from one year to the next, you would now have \$1,172.

**Are there any guarantees?**  
 Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

**Who is this fund for?**  
**Investors who:**  
 • are looking for a long term investment  
 • want to invest in a broad range of Canadian companies  
 • can handle the ups and downs of the stock market.  
 ❗ Don't buy this fund if you need a steady source of income from your investment.

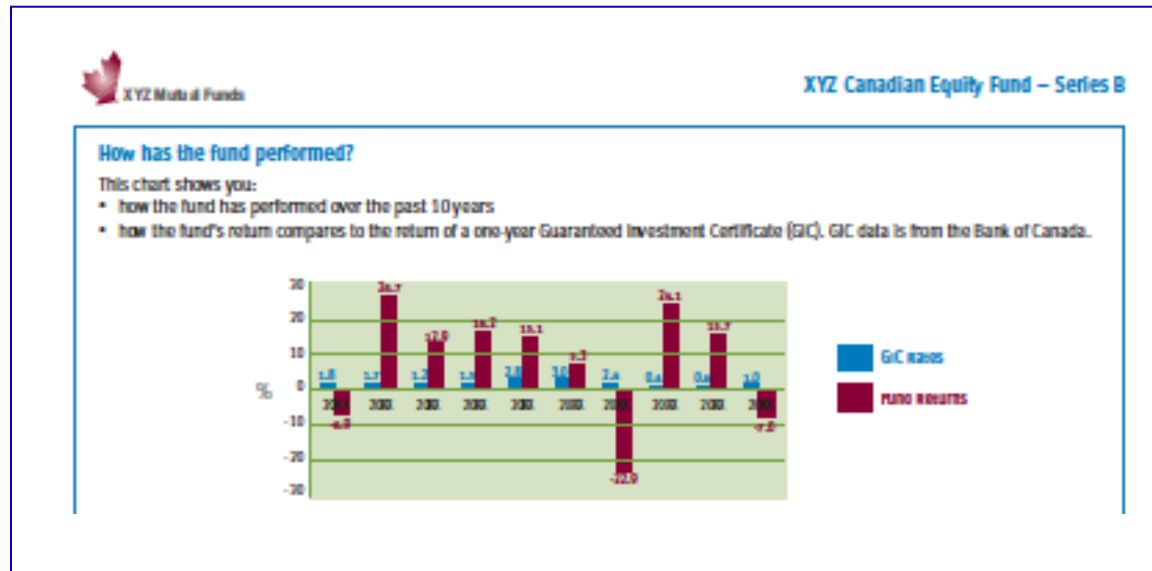
**Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.**

**A word about tax**  
 In general, you'll have to pay income tax on any money you make on a fund. How much you pay depends on the tax laws where you live and whether or not you hold the fund in a registered plan, such as a Registered Retirement Savings Plan or a Tax-Free Savings Account.  
 Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

- To retail investors, Page 2 is another very important page, especially the bar graph.
- Retail investors, however, see the bar graph as explaining performance only. There were very few comments about the risk of the mutual fund. Even when comparing it to the GIC, investors' comments focused only on the stronger performance of the mutual fund.
- There was little association of the content of Page 2 with that of Page 1 until prodded. Investors need to be better directed to benefit fully from the information on Page 2 as a presentation of performance and risk.

## Top of Page 2

- This section was fully analyzed.

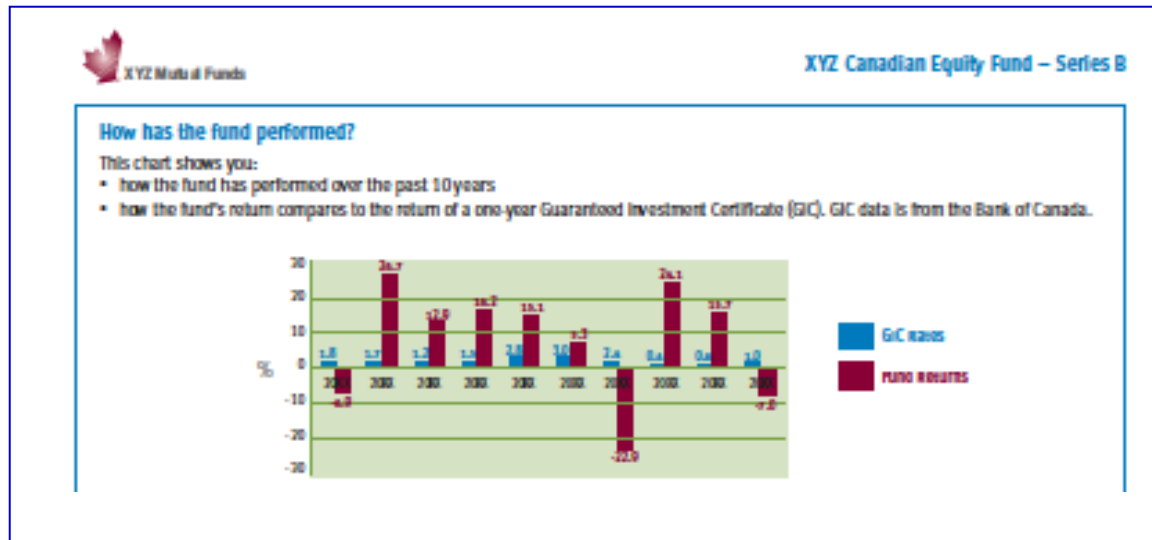


“It’s all mutual funds in Canada.”

- The bar graph was much liked, but it was not always interpreted as desired.
- Many retail investors interpreted the bar graph as a presentation of the positive returns of the XZY Mutual Fund, though some again thought the graph was generic. For them the graph supported purchase of the fund. Only investors who admitted to being risk adverse talked to any degree about the risk as well as the returns.
- Until prompted, few questioned the use of the GIC data as a comparison intended to illustrate a safe investment. Instead they registered only how much better the mutual fund was doing -- *“At a glance you can see the fund has done exceptionally well and how much better than the GIC.”*



Top of Page  
2 cont'd



- When asked if other comparisons would be more helpful, a few asked for the TSX Index or S&P Index or comparison with a different mutual fund with the same level of risk. Many wanted this as a third comparison and not as a replacement for the GIC. The GIC was liked as a conservative investment and as something many investors are familiar with. A few objected to the GIC because it is not stock-market based.
- Suggested improvements included adding average returns to the legend as well as labeling each fund as low or medium risk in the legend.
- When asked, several investors also agreed to a different title, one that focuses on risk vs. return rather than on performance alone. They need a pointer to interpret the graph more carefully.

Clear, but not always read.

Highly valued.

**Notes:**

- This chart does not tell you how the fund or GIC will perform in the future.
- Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.
- The fund's returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

**Things you should know:**

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Read with great interest, especially the dollar figures. The comparison in real dollars proves the mutual fund is better.

- 'Worst return' was much liked because it provides actual dollar figures. Percentages are abstract figures to many investors. Some investors described 'Worst return' as 'scary' but still wanted to see it.

*"This is really good. Some people don't understand percents. When you give the amount in dollars it's really clear."*

*"Very honest...people can be prepared if they don't get the return suggested."*

*"It's very important. It highlights the thing you should know."*

## Bottom of Page 2 - Not Tested.

**Are there any guarantees?**  
Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

**Who is this fund for?**  
Investors who:

- are looking for a long term investment
- want to invest in a broad range of Canadian companies
- can handle the ups and downs of the stock market.

**!** Don't buy this fund if you need a steady source of income from your investment.

Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.

**A word about tax:**  
In general, you'll have to pay income tax on any money you make on a fund. How much you pay depends on the tax laws where you live and whether or not you hold the fund in a registered plan, such as a Registered Retirement Savings Plan or a Tax-Free Savings Account.  
Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

- The rest of Page 2 was quickly skimmed by the moderator.
  - Nevertheless, retail investors liked the statement about lack of guarantees. Some wanted this bolded.
  - Investors also picked up on 'Who is this fund for' and thought it important.
  - This statement was seen as important and some would bold it or add it to the performance section.
  - There was little comment on the tax section.
- More knowledgeable investors noted that the discussion of the bar graph should have emphasized that mutual funds are for long-term investors as an aspect of judging risk.

# 5.0 Fund Facts – Page 3 Overview



**XYZ Mutual Funds** **XYZ Canadian Equity Fund – Series B**

**How much does it cost?**  
The following tables show the fees and expenses you could pay to buy, own and sell Series B units of the fund. The fees and expenses are different for each series. Ask about other series that may be suitable for you.

**1. Sales charges**  
You have to choose a sales charge option when you buy the fund. Ask about the pros and cons of each option.

Sales charge option	What you pay		How it works
	in per cent (%)	in dollars (\$)	
<b>Initial sales charge</b>	0% to 4% of the amount you buy	\$0 to \$40 on every \$1,000 you buy	<ul style="list-style-type: none"> <li>You and your dealer representative decide on the rate.</li> <li>The initial sales charge is deducted from the amount you buy. It goes to your dealer as a commission.</li> </ul>
<b>Deferred sales charge</b>	<b>If you sell within:</b> 1 year of buying 6.0% 2 years of buying 5.0% 3 years of buying 4.0% 4 years of buying 3.0% 5 years of buying 2.0% 6 years of buying 1.0% After 6 years nothing	\$0 to \$60 on every \$1,000 you sell	<ul style="list-style-type: none"> <li>The deferred sales charge is a set rate. It is deducted from the amount you sell.</li> <li>When you buy the fund, XYZ Mutual Funds pays your dealer a commission of 4.9%. Any deferred sales charge you pay goes to XYZ Mutual Funds.</li> <li>You can sell up to 10% of your units each year without paying a deferred sales charge.</li> <li>You can switch to Series B units of other XYZ Mutual Funds at any time without paying a deferred sales charge. The deferred sales charge schedule will be based on the date you bought the first fund.</li> </ul>

**2. Fund expenses**  
You don't pay these expenses directly. They affect you because they reduce the fund's returns. As of March 31, 2000, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

Annual rate (as a % of the fund's value)	
<b>Management expense ratio (MER)</b> This is the total of the fund's management fee and operating expenses. XYZ Mutual Funds waived some of the fund's expenses. If it had not done so, the MER would have been higher.	2.25%
<b>Trading expense ratio (TER)</b> These are the fund's trading costs.	0.05%
<b>Fund expenses</b>	2.30%

**Trailing commission**  
XYZ Mutual Funds pays your dealer a trailing commission for as long as you own the fund. The trailing commission is paid out of the management fee. It is for the services and advice that your dealer provides to you. The rate depends on the sales charge option you choose:

- Initial sales charge** – up to 1.0% of the value of your investment each year. This equals \$10 each year for every \$1,000 invested.
- Deferred sales charge** – up to 0.50% of the value of your investment each year. This equals \$5 each year for \$1,000 invested.

These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.

- It is clear that retail investors want information about the fees and expenses that they will have to pay, but it is not possible to provide a full overview of this page since only the section 'Trailing commission' was fully tested.
- Several asked for a bottom line – what in total the sales charge and fund expenses will cost for this mutual fund, preferably a dollar figure.
- Investors were not sure if these costs are for all mutual funds or for XYZ Mutual Fund.
- The overall impression of this page, however, is that it contains a lot of information, will be difficult to understand, but is 'very important', 'honest' and should be part of Fund Facts.

## Costs – Not fully tested.

XYZ Canadian Equity Fund – Series B

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- The first part of Page 3 was not tested.
- Instead investors were told that on this fund they would pay a sales charge and fund expenses. They would discuss with their adviser whether to pay an initial sales charge or a deferred sales charge.

## Costs Bottom Half of Page 3

**2. Fund expenses**  
You don't pay these expenses directly. They affect you because they reduce the fund's returns.  
As of March 31, 2000, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

	Annual rate (as a % of the fund's value)
<b>Management expense ratio (MER)</b> This is the total of the fund's management fee and operating expenses. XYZ Mutual Funds waived some of the fund's expenses. If it had not done so, the MER would have been higher.	2.25%
<b>Trading expense ratio (TER)</b> These are the fund's trading costs.	0.05%
<b>Fund expenses</b>	<b>2.30%</b>

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These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.

- The moderator reviewed briefly '2. Fund Expenses' down to 'Trailing Commission'.
- Investors particularly liked the opening sentences of the section, especially the dollar figures –  
*"Very good. I know what's going on."*  
*"It's a good thing. The numbers work."*  
*"Upfront... very honest."*  
*"Should be bolded."*
- There was no discussion of MER or TER, but investors were told the 2.3% was a total and it matches the opening sentences of the section.

## Costs

### Bottom Half of Page 3 cont'd

**2. Fund expenses**  
You don't pay these expenses directly. They affect you because they reduce the fund's returns.  
As of March 31, 2000, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

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- Retail investors were asked to comment in detail on 'Trailing commission'.
- There were several areas of confusion in this section:
  1. Some asked if a 'trailing commission' is the same thing as a 'commission', a term they are more familiar with.
  2. Investors were divided about whether the trailing commission is included in the 2.3% or is additional to other charges.
  3. The references to 'Initial sales charge' and 'Deferred sales charge' were confusing. Again they wondered if the 1% and 0.50% were additional charges.

## Costs

### Bottom Half of Page 3 cont'd

**2. Fund expenses**  
You don't pay these expenses directly. They affect you because they reduce the fund's returns.  
As of March 31, 2000, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

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■ The sentence 'These trailing commission payments may create a conflict of interest...' was seldom understood. It generated confusion and suspicion. Only a few investors understood the implied comparison that other mutual funds might have lower or no trailing commissions.

*"I don't like this statement but I need to know. I want no surprises."*

■ Several investors said they would ask their adviser, but a few were hesitant. It means asking the very person who benefits from the conflict of interest – *"I couldn't ask. He's too nice."*



# 6.0 Fund Facts – Page 4 Overview



XYZ Mutual Funds XYZ Canadian Equity Fund – Series B

How much does it cost? cont'd

3. Other fees  
You may have to pay other fees when you buy, hold, sell or switch units of the fund.

Fees	What you pay
Short-term trading fee	1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.
Switch fee	Your dealer may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.
Change fee	Your dealer may charge you up to 2% of the value of units you switch to another series of the fund.

**What if I change my mind?**  
Under securities law in some provinces and territories, you have the right to:

- withdraw from an agreement to buy mutual fund units within two business days after you receive a fund facts document or
- cancel your purchase within 48 hours after you receive confirmation of the purchase.

In some provinces and territories, you also have the right to cancel a purchase, or in some jurisdictions, claim damages, if the simplified prospectus, annual information form, fund facts document or financial statements contain a misrepresentation. You must act within the time limit set by the securities law in your province or territory.

For more information, see the securities law of your province or territory or ask a lawyer.

**For more information**  
Contact XYZ Mutual Funds or your dealer representative for a copy of the fund's simplified prospectus and other disclosure documents. These documents and the fund facts make up the fund's legal documents.


XYZ Mutual Funds  
123 Asset Allocation St.  
Toronto, ON M1A 2B3

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Email: [investing@xyzfunds.com](mailto:investing@xyzfunds.com)  
[www.xyzfunds.com](http://www.xyzfunds.com)

To learn more about investing in mutual funds please see the brochure *Understanding mutual funds* which is available on the website of the Canadian Securities Administrators at [www.securities-administrators.ca](http://www.securities-administrators.ca)

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- On this page, only the sections ‘What if I change my mind’ and ‘For your information’ were tested briefly. Both contain useful information.
- Many investors were surprised and pleased to learn that some provinces and territories provide a cooling off period after the purchase of a mutual fund.
- Very few of the retail investors in this small sample had heard of the Canadian Securities Administrators, but several claimed that they would go online to see the *Understanding mutual funds* brochure.

 XYZ Mutual Funds XYZ Canadian Equity Fund – Series B

**How much does it cost? cont'd**

**3. Other fees**  
You may have to pay other fees when you buy, hold, sell or switch units of the fund.

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Toll-free: 1-800-555-5556  
Email: [investing@xyzfunds.com](mailto:investing@xyzfunds.com)  
[www.xyzfunds.com](http://www.xyzfunds.com)

To learn more about investing in mutual funds please see the brochure *Understanding mutual funds* which is available on the website of the Canadian Securities Administrators at [www.securities-administrators.ca](http://www.securities-administrators.ca)

© Registered trademark of XYZ Mutual Funds.

- Some wanted the words ‘without penalty’ added.

*“It’s a good idea. You get overwhelmed and also act on impulse and do it [purchase] for the wrong reasons.”*  
*“They [the financial advisers] don’t tell you that.”*

XYZ Mutual Funds  
XYZ Canadian Equity Fund – Series B

How much does it cost? cont'd

3. Other fees  
You may have to pay other fees when you buy, hold, sell or switch units of the fund.

Fees	What you pay
Short-term trading fee	1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.
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- Very few investors had heard of the Canadian Securities Administrators, but the name clearly generated trust. Almost all of those in Toronto said they would go to the brochure *Understanding mutual funds*, usually before seeing their advisers.

*“Absolutely I’d go – reputable, authorized. I could gain knowledge before going to the bank.”*

- Reactions in Montreal were quite different. ‘OPC’ confused them; a few guessed it was the consumer protection bureau. None had heard of CSA. The brochure is translated ‘les organismes de placement collectif’, focusing on the organizations not mutual funds. Because of this confusion, none would go to the website or consult the brochure.

*“I don’t know what this is.”*

- On Page 4 and throughout the Fund Facts document, the mutual fund representative is referred to as the 'dealer representative' or in French 'le représentant de votre courtier'.
- In Toronto, retail investors reacted negatively to this term. It reminded them of a car dealer, a casino dealer, someone who 'wheels and deals'. It suggests someone who represents the mutual fund dealer instead of them.

*"It suggests someone who represents the company first and foremost. It should be the consumer."*

*"They only represent their shop, only what they want to push."*

*"It's a strange term."*

- The person they currently buy mutual funds from is usually called bank representative, banker, insurance agent, broker, investment or financial adviser.
- 'Financial adviser' sounds more professional, someone with a wider brief than mutual funds and therefore more expert, and someone who is working for them, not the financial institution.

- In Montreal, 'le représentant de votre courtier' was a more neutral term than the English 'dealer representative' and raised no comment.

## 7.0 Fund Facts: The Ideal Process

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## 7.0 The Ideal Process



- Overall, the retail investors at the end of each interview continued to speak positively about Fund Facts. They liked the way it is organized into sections, the use of graphs and colours and the plain language. Because of the graphs, in Montreal some investors were more likely than those in Toronto to say that they already get similar materials from their banks.
- Fund Facts seems to cover most of the information retail investors in mutual funds want to know in a way that is clear and easy to understand, except for costs and 'Other specific risks'. As a source of information it seems trustworthy, straightforward and useful.

*"I love it. I'd be well informed, not hoodwinked."*

*"I'd definitely read it [Fund Facts]. I'd have more information. Now I just go by the broker."*

*"It's reassuring, informative, something is a known fact. The assessment of the fund is truthful [e.g., the performance section]."*

- Retail investors did not want to drop any information and agreed that the length was about right.
- No one said they did not want Fund Facts, although more knowledgeable investors will continue to do further due diligence beyond reading Fund Facts. It is an additional resource of basic information for them.

# Ideal Process cont'd



- Many retail investors wanted to receive Fund Facts 1 to 3 weeks in advance of meeting with their adviser. They would then make notes on it and prepare questions for their meeting.

*“Ideally I want to read this before the meeting. I’d be more educated about my money...I’m very excited that they are doing this.”*

*“The adviser should recommend 3 or 4 funds and give me [Fund Facts for them]. I’d go home and discuss it with my wife. Then I’d like to go back and discuss it with him [FA], circle different points. Then I’d go home again, check with my wife and decide.”*

- A few wanted to read Fund Facts at the meeting with the adviser and have him or her go over it with them.

*“It’s an educational tool. I want the adviser to go over it with me as we are talking. It’s almost like taking course.”*

- For many retail investors, Fund Facts plus the advice of their trusted adviser would be enough to make a decision. They argued that having Fund Facts would make the decision easier for them and the job easier for their advisers.



# Ideal Process cont'd



- More knowledgeable investors want to look at more than one mutual fund using Fund Facts, their adviser's comments and their own research on the internet, in newspapers and Morningstar. Fund Facts would be very valuable for considering multiple mutual funds, because using the clear structure of the document they could easily compare the different funds section by section.
- Fund Facts provides needed information to investors and as well reflects well on the financial industry that provides it. As a group both in Toronto and Montreal, retail investors had a positive response to financial advisers [FA] who would give them Fund Facts.

*"If the [FA] gave it to me I would think he was very professional and...feeling comfortable with what he was doing."*

*"If the FA gives me this, it's a basic thing ....It makes life easier for both of us."*

*"If the FA gave me this I'd think he was looking after my interests for a change."*

# **CSA Point of Sale Disclosure Project: Fund Facts Document Testing**

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## **Section 2: Quantitative Research**

# 1.0 Financial Background

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# Financial knowledge: Self-report



- Although self-reporting can be distorted positively or negatively, the overall sample shows a good distribution of investment knowledge. However, significantly more respondents who completed the survey in French claimed to be fairly knowledgeable investors compared to those who completed the survey in English.\*

	Total 532	English 410	French 114
Very knowledgeable	6	7	6
Fairly knowledgeable	31	29	46
Somewhat knowledgeable	44	44	38
Not very knowledgeable	16	18	9
Not at all knowledgeable	2	2	-

\*Eight respondents reported speaking and reading most easily in a language other than French or English. They are included in the Total only.

Q [Screener]. As an investor are you...?

# Types of investments held



- Respondents were asked about selected investment vehicles.
- Mutual fund holders who see themselves as very or fairly knowledgeable are more likely to hold equities than other investors and are also more likely to hold GICs.
- French speaking investors are more likely than their English counterparts to hold corporate or provincial bonds.
- Data exclude investments held In company plans.

	Total 532	English 410	French 114	Very/fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ at all knowledgeable 95
Mutual funds	100	100	100	100	100	100
Stocks or equities	40	41	37	55	36	19
Corporate or provincial bonds	21	19	34	31	18	8
GICs	43	43	43	51	41	30

\*Multiple mentions; may not add to 100%

Q [Screener]. Which of the following types of investments do you hold whether in a registered or non-registered account? Please exclude any investments you hold in a company plan.

# Companies used most often for mutual funds



- Mutual fund investors may use more than one type of financial institution or company to purchase mutual funds:
  - 81% invest through banks
  - 45% through insurance companies
  - 59% use mutual fund companies, brokers or investment companies.

Q [Screener]. From what company do you purchase your mutual funds? ACCEPT MORE THAN ONE COMPANY.

Mentions less than 5% not shown.	Total 532
Banks/ credit unions [net 81%]	
TD/Canada Trust	27
RBC	17
CIBC	15
BMO	14
Scotiabank	12
ING	7
Credit unions	6
Desjardins Caisse populaire	5
National Bank	5
Insurance companies [net 45%]	
SunLife	13
Manulife	10
Canada Life	8
AIG	7
Great-West Life	7

# Companies used most often for mutual funds



Mentions less than 5% not shown	Total 532
Mutual Fund companies/brokers/investment companies [net 59%]	
Investors Group	8
Mackenzie	7
BMO Nesbitt Burns	6
RBC Dominion Securities	6
TD Greenline	6
AIC	5
AGF	5
AIM Trimark	5

Q [Screener]. From what company do you purchase your mutual funds? ACCEPT MORE THAN ONE COMPANY.

## 2.0 Understanding Risk

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# What are the risks of this fund?



## Fund Facts Page 1

### ! What are the risks of this fund?

All investments involve risks. Understanding those risks can help you choose the right fund for you.

**Investment risk.** When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.



The risk category shown is not fixed and may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

**Other specific risks.** To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. XYZ Mutual Funds has identified these top risk factors for the fund:

- Active Management Risk
- Equity Risk
- Specialization Risk

For a full list of this fund's risk factors and details about them, see the Risk section of the fund's simplified prospectus.

- Online respondents were asked to read this section.

# Understanding Risk: True/false statements



- Overall mutual fund investors absorb well some of the important content of ‘What are the risks of this fund?’, but not all of it. There is less difference by knowledge level or language.
- However, fully 20% of mutual fund investors believe that some mutual funds carry no risk.
- Only 88% of the most knowledgeable investors believe the second statement relating higher risk to greater returns and greater losses.

% answering ‘True’	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The value of any mutual fund can go up or down.	97	99	96	98
The higher the risk rating of a mutual fund usually the greater the chance of larger returns and the greater the chance of losing money.	92	88	94	98
The ‘investment risk’ of a mutual fund depends on what the fund is invested in.	87	86	87	87
A lower risk rating usually means lower returns and a lower chance of losses.	84	87	80	87
The risks described here may affect the performance of the fund in the future.	82	85	82	78
Some mutual funds carry no risk.	20	22	20	15

Q1. Which of the following statements are true? Which are false?

# Understanding Risk

## True/false statements cont'd



- For the statements below, understanding is more mixed.
- Almost a quarter of fairly/very knowledgeable investors believe that the risk ratings of mutual funds can never change over time. French investors are more likely than English investors to believe the risk of a mutual fund can change over time [French 90% vs. 81%].
- Almost half of the mutual fund investors believe this section describes all of the risks of this mutual fund and that understanding risk can tell investors whether the fund will make or lose money in the future.

% answering 'True'	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The risk rating of a mutual fund can never change over time.	18	24	13	14
This section -- 'What are the risks of this fund' -- describes all the risks associated with this mutual fund.	56	56	55	60
Understanding the fund's risks tells investors whether this mutual fund will make or lose money in the future.	45	50	41	42

Q1. Which of the following statements are true? Which are false?

# Identifying the risk rating of the mutual fund



- In the qualitative interviews a number of investors had difficulty identifying the risk of the mutual fund because they failed to understand the bar graph. In the quantitative research, some 82% described the risk level of the fund as medium.
- Those least likely to report medium risk were the very/fairly knowledgeable investors. In the interviews these investors often did not read the bar graph but tried to work out the risk based on what the fund is invested in. French investors were less likely than English investors to describe the risk as medium [French 77% vs. English 83%.]

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
High risk	2	3	1	-
Medium to high risk	10	16	7	5
Medium risk	82	76	85	88
Low to medium risk	3	3	4	2
Low risk	*	*	-	-
Don't know/not sure	3	2	3	5

Q2. What is the risk rating of this fund?

\*less than 0.5%

# Clarity of explanation of risk



- More than nine out of ten mutual fund investors [94%] believe that this section explains the relationship between risk, return and losses very or fairly clearly. There are no differences by level of financial knowledge.

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Very clearly	41	42	42	38
Fairly clearly	53	53	54	54
Not very/not at all clearly	6	6	4	9

- However, French investors are less likely to rate the explanation as very or fairly clear than are English respondents [85% vs. 96%].

Q3. In purchasing any mutual fund, investors should consider the relationship between the risk of the investment, its potential returns and the chance of losses, i.e., higher risk means potentially higher returns with a greater chance of losing money. Does this section explain this relationship...

# Understanding of 'Other specific risks'



- Half of all mutual fund investors [50%] are not very or not at all clear about what other specific risks are. Lack of understanding increases with a decrease in level of investment knowledge. Some 77% of those who are not very or not at knowledgeable do not understand clearly what other specific risks are.

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Very clearly	10	18	6	-
Fairly clearly	41	49	40	23
Not very clearly	38	28	43	47
Not at all clearly	12	5	11	30

- English speakers [51% (not very/not at all)] are more confused than French speakers [40%]. Women are less likely to understand than men [59% vs. 43%]. Those 55 and older are less clear than those younger [60% vs. 46%].

Q4. Do you understand what the three other specific risks – 'Active Management Risk', 'Equity Risk', and 'Specialization risk' – are ...

# Action needed to make 'Other specific risks' more useful



- Eight out of ten mutual fund investors want a brief explanation of the three risks.

	Total 532
Keep the section 'Other specific risks' just as it is	14
Keep this section but explain briefly each of the three risks	83
Drop this section but keep the reference to the Simplified Prospectus	3

Q5. To be most useful to you, the CSA should...

# Actions would definitely take



- Investors were able to choose one or more actions they would take before purchasing the mutual fund. Overall seven out of ten potential investors said they would ask their adviser to explain the risks of the fund, while 50% would read the Simplified Prospectus. Some clearly want to do both. Only about a quarter [26%] would rely only on the Fund Facts document. A third would turn to the Internet.
- Women are more likely than men [77% vs. 64%] to ask their adviser to explain the risks as are older rather than younger investors [ 55+: 83% vs. 35-54: 69% vs. 18-34: 58%].

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Ask my adviser to explain the risks of this fund to me	70	60	75	77
Read the Simplified Prospectus to learn about all of the risks of this fund	50	61	46	39
Look for more information about mutual fund risks on the Internet	34	35	34	32
Only read this Fund Facts document carefully to learn as much as I need to know about this fund's risks.	26	33	21	21

\*Multiple mentions; may not add to 100%.

Q7. If considering investing in this fund which of the following actions would you definitely take? Please check all that apply.



# Words not understood in this section



- In spite of the fact that 8 out of 10 want an explanation of the three ‘Other specific risks’, only 10% or fewer mention these terms as words they do not understand. They may feel they have already made this point.
- Some 80% report no words in this section that they would like their adviser to explain.

Mentions less than 1% not shown.	Total 532
Specialization risk	10
Active management risk	10
Equity risk	7
Other risks/types of risks	4
Prospectus	1
None	80

Q8a. If there are any words in this section you would like your financial adviser to explain, please list them. If none, enter none.

# Suggestions to improve the section on risk



The most frequently offered suggestion to improve the section on risk is to provide explanations of the other types of risk.

Mentions less than 1% not shown.	Total 532
Explain the other types of risk	17
Show past performance/projections	3
Use simpler/clearer language	3
More information/details/examples	2
More graphics	1
Links to more information	1
No suggestions	72

Q8b. Can you suggest any changes to this section to make it clearer or more useful to you in understanding the risk of investing in this mutual fund?

## **3.0 Understanding risk vs. performance**

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# How has the fund performed?



## Fund Facts – Page 2

- Respondents were asked to read this section.

XYZ Mutual Funds
XYZ Canadian Equity Fund – Series B

### How has the fund performed?

This chart shows you:

- how the fund has performed over the past 10 years
- how the fund's return compares to the return of a one-year Guaranteed Investment Certificate (GIC). GIC data is from the Bank of Canada.

Year	GIC Rates (%)	Fund Returns (%)
2008	1.8	-6.9
2009	1.7	26.7
2010	1.2	12.9
2011	1.5	16.2
2012	2.8	15.1
2013	3.0	5.3
2014	2.4	-22.9
2015	0.4	24.1
2016	0.6	15.7
2017	1.0	-7.0

**Notes:**

- This chart does not tell you how the fund or GIC will perform in the future.
- Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.
- The fund's returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

**Things you should know:**

**a) Worst return**  
The fund dropped in value in 3 of the last 10 years. The worst quarterly return (3 months) of the fund since its start date was a drop in value of -24.7% in the 3-month period ending November 30, 2008. If you had invested \$1,000 in the fund at the start of this period, your investment would have dropped to \$753 after 3 months.

**b) Average return**  
In the last 10 years, the fund generated an annual compounded return of 6.8%. This means if you had invested \$1,000 in the fund 10 years ago, your investment would now be worth \$1,930. In comparison, the annual compounded return of a GIC, for the same period, was 1.6%. If you had invested \$1,000 in a one-year GIC 10 years ago and kept reinvesting the maturity amount from one year to the next, you would now have \$1,172.

**Are there any guarantees?**  
Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

# Understanding the bar graph: True/false statements



- For the most part, mutual fund investors understand how to read the bar graph:
  1. They understand it compares the mutual fund to a GIC.
  2. The mutual fund may have higher returns in some years than in others.
- Almost 9 out of 10 also report that the bar graph helps them to consider whether they are more comfortable with low steady returns or higher variable returns.
- Some 86% of mutual fund investors also understand that risk is usually related to return.
- Reactions to these statements vary little by level of investment knowledge or language of the document seen.

% answering 'True'	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The bar graph helps you compare the past performance of a GIC and this mutual fund.	96	97	95	95
This mutual fund may have higher returns in some years and lose money in other years.	94	92	94	98
This bar graph succeeds in making you consider whether you are more comfortable with low and steady returns or higher but more variable returns.	88	87	87	89
The returns of an investment are usually related to the risk of the investment.	86	87	85	86

Q9. Which of the following statements are true? Which are false?

# Understanding the bar graph cont'd



- The statements below identify some areas of weaker understanding.
  1. Only 7 out of 10 believe the graph helps them compare the risk levels of the two investments. Neither the bar graph nor its legend uses the word 'risk'.
  2. Almost 4 out of 10 believe that the graph shows that the mutual fund is the better investment in all instances.
  3. Almost a fifth [18%] of total investors and 28% of those who believe they are very or fairly knowledgeable think the chart shows how the mutual fund will perform in the future.

% answering 'True'	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The bar graph helps you compare the risk level of a GIC and this mutual fund.	70	69	68	74
The bar graph tells everyone the mutual fund is a better investment for them because it had higher returns.	39	43	37	39
The chart tells you how each investment will perform in the future.	18	28	14	9

Q9. Which of the following statements are true? Which are false?

# Clarity of relationship between risk and return



- Some 89% of mutual fund investors report that the performance section of the Fund Facts document explains the relationship between risk and return very or fairly clearly.
- Those who believe they are most knowledgeable are twice as likely to say ‘very clearly’ [34%] as those with the least knowledge [16%].
- By language groups results are similar. Some 89% of English speakers agree that the section is very or fairly clear, compared to a similar proportion of French speakers [87%]. When only ‘very clearly’ is analyzed, French speakers, who are disproportionately more knowledgeable, are more positive [39% vs. 24%].

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Very clearly	26	34	23	16
Fairly clearly	63	56	66	67
Not very/ not at all clearly	12	12	11	17

Q10. The performance of the mutual fund is compared to the lower risk GIC to show the fund’s performance relative to its higher risk. Overall does this section explain the relationship between risk and return...?

# Usefulness of choice of GIC



- Some 86% of mutual fund investors agree with the use of the GIC to illustrate the relationship between risk and return.
- There is no difference in approval ratings by level of investment knowledge or by sex or age.
- French speakers are only slightly less likely than their English counterparts to approve of the usefulness of the GIC [82% vs. 87%].

Q11a. Usefulness of using the GIC	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Yes, the GIC is useful	86	87	85	88
No, the GIC is not useful	14	13	15	12

Q11a. The CSA chose to show a GIC. Is it useful to compare this mutual fund to a GIC in order to show the relationship between risk and return?



# Vehicle preferred to GIC



- Some 15% of those who do not think the GIC useful recommend another mutual fund. Other suggestions are shown below.

Vehicles preferred to GIC Mentions less than 2% not shown.	Those disapproving of the GIC 72
Another Mutual Fund	15
Bonds	9
Stocks	7
Range of high to low risk investments	7
Relevant index	5
Money market	4
Dividend fund	2
Don't know/ no answer	51

Q11b. IF NO: Instead of the GIC what would you recommend as a comparison with this mutual fund?

# Reasons for choosing a different vehicle



- Those who argue for a different comparison primarily believe it would be a fairer comparison or want to see a similar risk level.

	Those disapproving of the GIC 72
Unfair comparison/apples to oranges	15
Similar risk level	14
Better investment	8
Return	7
GIC makes the fund look unrealistically good	5
More comparisons	3
True performance relative to the market	2
Don't know	43

Q11c. Tell us briefly why you think this is a better comparison.

# Reactions to best and worst 3-months returns



- Some 73% of investors believe it is very or extremely important to see the worst 3-month return for the mutual fund. It is particularly important to those who believe they are very or fairly knowledgeable about investments.
- Women are more likely than men to regard the worst return as extremely or very important [77% vs. 69%], as are English speaking investors compared to French investors [74% vs. 67%].

Worst Return	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Extremely important	26	31	23	23
Very important	47	47	47	46
Somewhat important	23	18	26	26
Not very important	3	3	3	3
Not at all important	1	1	1	2

Q12. The example of the 3-months 'Worst return' is intended to illustrate the potential risk of loss for this mutual fund. In deciding whether or not to invest in this mutual fund is this information...?

# Best and worst 3-months returns cont'd



- Some 66% of mutual fund investors believe it is very or extremely important to see the mutual fund's best 3-months return compared to 73% who want to see the worst 3-months return.
- Again, those most knowledgeable are the most likely to argue for this [69%] as are English speakers compared to French speakers [67% vs. 61%].
- Similar to reactions to worst 3-months return, women are more likely than men to want to see best 3-months return too [71% vs. 62%

<b>Best Return</b>	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Extremely important	22	27	17	20
Very important	44	42	46	44
Somewhat important	27	22	29	32
Not very important	6	6	7	4
Not at all important	1	3	1	1

Q13. How important is it to also see an example of the 3-months 'Best Return'?

# Reactions to showing average return of GIC



- Some 87% want to see the average return of the GIC.
- There is little difference by sex, level of investment knowledge or language.

	Total 532
Yes want to see average return	87
No do not want to see average return	13

Q14. The average return is given for the GIC. Do you want to see this information?

# Performance of the fund: True/false statements



- Mutual fund investors understand that the worst return shown is based on historical data and that the average return assumes the GIC was held for 10 years.

% answering 'True'	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The "Worst Return" shows you the greatest loss in a 3-month period that this fund has experienced in the past 10 years.	90	89	90	90
The average return assumes that you invested in this mutual fund and the GIC 10 years ago and did not sell the investments.	83	82	83	85

Q15. Which statements are true? Which are false?

# Performance of the fund: True/false statements cont'd



- Despite their ability to ‘read’ the section, mutual fund investors do not always understand the implications of the information for the future and their investment decisions:
  1. A fifth believe no investor should choose the GIC because its return is so low.
  2. Two fifths believe they should invest in the mutual fund because its returns are higher.
  3. A third believe the worst return in the past 10 years predicts the future.
  4. Almost 3 out of 10 believe the mutual fund will earn another 6.8% in the next 10 years.
- The most knowledgeable investors are most likely to endorse these views.
- The important issue of risk is ignored.

% answering ‘True’	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The higher average return for the mutual fund compared to the GIC means you should invest in the mutual fund.	42	51	35	41
The “Worst Return” tells you the most money you could lose in the future if you invest in this mutual fund.	34	39	30	32
If you held this mutual fund for another 10 years you would earn another 6.8%	29	33	27	22
Because the GIC has a return of only 1.6% no investor should choose it.	21	28	17	16

Q15. Which statements are true? Which are false?

# Words not understood in this section



- Some 95% report that there are no words in this section that they need their adviser to explain to them.
- Of the remaining 5% of respondents, 1 to 4 people each mention --
  - Annual compounded
  - Fees and commissions
  - Investing strategies
  - Worst returns
  - Returns
  - How is average return calculated
- Five people say they don't understand anything or feel lost.

Q16. If there are any words in this section you would like your financial adviser to explain please list them.



## 4.0 Understanding the Trailing Commission

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# Trailing Commission



Fund Facts – Page 3

## Trailing commission

XYZ Mutual Funds pays your dealer a trailing commission for as long as you own the fund. The trailing commission is paid out of the management fee. It is for the services and advice that your dealer provides to you. The rate depends on the sales charge option you choose:

- **Initial sales charge** – up to 1.0% of the value of your investment each year. This equals \$10 each year for every \$1,000 invested.
- **Deferred sales charge** – up to 0.50% of the value of your investment each year. This equals \$5 each year for \$1,000 invested.

These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.

- Respondents were asked to read this section.

# Trailing Commission: True/false statements



- Mutual fund investors seem to have learned a lot about trailing commissions from the Fund Facts document. Some 8 out of 10 or more understand that this mutual fund pays a trailing commission for the advice of the dealer and financial adviser and that it can influence the adviser’s recommendation.
- Importantly 8 out of 10 also believe that investors need to know this information.

% answering ‘True’	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
This mutual fund pays a trailing commission.	91	88	92	94
Trailing Commissions cover the services and advice your dealer and financial adviser give you.	85	81	86	88
The Trailing Commission can influence a financial adviser to recommend this mutual fund over another investment that has a lower or no trailing commission.	81	77	84	80
A portion of the trailing commission is paid to your financial adviser.	79	75	79	87
Investors do not need to know about Trailing Commissions.	17	23	16	9

Q17 Which statements are true? Which are false?

# Trailing Commission: True/false statements cont'd



- Mutual fund investors are less clear about the following statements. Just over half believe the trailing commission is in addition to all other fees; a quarter believe it is a one-time payment

% answering 'True'	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
The Trailing commission is in addition to all the other fees.	54	55	54	54
The trailing commission is a one-time payment.	25	28	24	18

Q17 Which statements are true? Which are false?

## 5.0 Using Fund Facts

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# Preferred time of delivery



- Half of mutual fund investors would like to have Fund Facts sent to them before meeting with their advisers. A third would like it presented by their adviser during the meeting but before purchase.
- There are few differences in approach by level of investment knowledge, but those least knowledgeable are somewhat more likely to want their adviser to present Fund Facts to them.

	Total 532	Very/Fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95
Sent to you before meeting with your adviser	52	49	54	52
Presented by your adviser during your meeting but before deciding to purchase	33	34	30	39
Given to you to take home after deciding to purchase but before the 48 hours cancellation period expires	8	9	8	4
Don't want the fund facts document	7	8	8	5

Q18. Thank you for looking at Fund Facts. Now we want to know how you would use it. Do you want the Fund Facts document to be...?

# Preferred time of delivery cont'd



- French speakers are more divided with a third wanting to see the document in advance but 4 out of 10 preferring to have it presented at the meeting. Some 15% of French speakers do not want to see the document.

	Total 532	English 410	French 114
Sent to you before meeting with your adviser	52	54	35
Presented by your adviser during your meeting but before deciding to purchase	33	32	44
Given to you to take home after deciding to purchase but before the 48 hours cancellation period expires	8	9	6
Don't want the fund facts document	7	6	15

Q18. Thank you for looking at Fund Facts. Now we want to know how you would use it. Do you want the Fund Facts document to be...?

# Preferred time of delivery cont'd



- More than half of retail investors [52%] prefer to have Fund Facts sent to them before meeting with the adviser. This desire is somewhat greater among women than among men and increases among those 35 and older.
- Interestingly among the youngest group some 15% want to take Fund Facts home after purchase with 48 hours to decide whether to cancel or not.

	Total 532	Men 290	Women 242	18-34 155	35-54 222	55-70 155
Sent to you before meeting	52	49	54	41	55	58
Presented by your adviser during your meeting	33	35	31	34	34	30
Given to you to take home before the 48 hours cancellation period expires	8	8	8	15	6	4
Don't want the fund facts document	7	8	7	10	5	9

Q18. Thank you for looking at Fund Facts. Now we want to know how you would use it. Do you want the Fund Facts document to be...?



# Preferred term for dealer representative



- Regardless of sex or age, level of investment knowledge or language, the term 'Adviser' is preferred to 'Dealer representative'.

	Total 532	Men 290	Women 242	18-34 155	35-54 222	55-70 155
Adviser	91	88	96	92	90	93
Dealer representative	9	12	4	8	10	7
	Total 532	Very/fairly knowledgeable 211	Somewhat knowledgeable 226	Not very/ not at all knowledgeable 95	English 410	French 114
Adviser	91	90	91	95	92	89
Dealer representative	9	10	9	5	8	11

Q19. Which of these terms do you prefer in describing the person who helps you with your investments?

# Suggestions for improving Fund Facts



- Some 84% of mutual fund investors did not offer any suggestions for improvement. Of those who did, however, several comments are interesting.

Comments less than 1% not shown	Total 532
Liked the document/very informative/like to see more like this	7
More detailed information/description	3
Further discussion of risk	2
Need adviser to explain everything completely/want a second opinion	2
Be more clear/less information/more graphics	2
Explain fees and charges	1
Have content online	1

Q20. Thinking about your own needs as an investor in mutual funds, do you have any further comments or suggestions for improving Fund Facts?

## 6.0 Description of Sample

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# Overview of sample



- The survey sample consists of Canadians, aged 18 to 70, who hold mutual funds, are the decision maker or a key influencer for household investment decisions, and do not provide advice or sell stocks, bonds or mutual funds. They have personal incomes of \$200,000 or less or household incomes of \$300,000 or less.
- This population skews slightly to males [56%], those aged 35 to 54 [47%], with an average age of 44.
- Four out of ten have some university or have completed university, and live in Ontario. Eight out of ten are English speakers.
- These mutual fund investors come from a wide range of industries from teaching to transportation, business services, government, healthcare, IT, and others. They have an average household income of \$80,374, an average personal income of \$62,019.

# Profile of Sample



	Total 532	English 410	French 114
Sex			
Male	56	56	60
Female	44	44	40
Age			
Under 35 years	28	291	21
35 to 54 years	47	46	57
55 to 70 years	25	25	22
Average age	44	43	45
Language most easily read & spoken			
English	83	100	-
French	16	-	100
Other	2	-	-

# Profile of Sample cont'd



	Total 532	English 410	French 114
Education			
Some/ completed high school or less	14	15	12
Some College or Technical School	14	16	10
Completed College or Technical School	28	27	32
Some/ completed university	37	37	38
Some/completed post graduate	6	6	9
Region			
Maritimes/Labrador/Newfoundland	6	7	2
Quebec	15	*	96
Ontario	44	50	3
Prairies	7	8	-
Alberta	13	15	-
BC	16	19	-

\*less than 0.5%.

# Profile of Sample



	Total 532	English 410	French 114
Income [HH/Personal]			
Less than \$50,000	35	33	42
\$50,000 - \$99,999	46	46	43
\$100,000 - \$149,999	15	16	12
\$150,000 - \$300,000	4	5	2
Average	\$71,500		
Income [HH]	[271]	[209]	[56]
Less than \$50,000	25	24	29
\$50,000 - \$99,999	49	49	49
\$100,000 - \$149,999	20	20	20
\$150,000 - \$300,000	6	7	2
Average	\$80,374		
Income [Personal]	[261]	[201]	[58]
Less than \$50,000	46	43	54
\$50,000 - \$99,999	42	44	38
\$100,000 - \$149,999	9	10	6
\$150,000 - \$200,000	3	3	3
Average	\$62,019		

# Profile of Sample



Mentions of 2% or less not shown	Total 532	English 410	French 114
IT/Technical	9	10	6
Business services	8	9	4
Education	8	7	12
Government	7	6	9
Manufacturing	7	6	9
Retail sales	6	7	2
Healthcare	6	6	5
Student	5	6	4
Transportation	5	5	3
Financial	3	3	5
Homemaker	7	8	3
Unemployed	3	3	3
Retired	13	12	18



# Appendix

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# Fund Facts [English]



**XYZ Mutual Funds**

## FUND FACTS

**XYZ Canadian Equity Fund – Series B**  
June 30, 20XX  
Fund Code: XYZ123

This document contains key information you should know about XYZ Canadian Equity Fund. You can find more details in the fund's simplified prospectus. Ask your dealer representative for a copy, contact XYZ Mutual Funds at 1-800-555-5556 or investing@xyzfunds.com, or visit [www.xyzfunds.com](http://www.xyzfunds.com).

Quick facts	
Date series started:	March 31, 2000
Date fund started:	January 1, 1996
Total value of series on June 1, 20XX:	\$350 million
Total value of fund on June 1, 20XX:	\$1 billion
Management expense ratio (MER):	2.25%
Fund manager:	XYZ Mutual Funds
Portfolio manager:	Capital Asset Management Ltd.
Distributions:	Annually, on December 15
Minimum investment:	\$500 initial, \$50 additional

**What does this fund invest in?**  
The fund invests in Canadian companies. They can be of any size and from any industry. The charts below give you a snapshot of the fund's investments on June 1, 20XX. The fund's investments will change.

**Top 10 Investments (June 1, 20XX)**

1. Royal Bank of Canada	7.5%
2. Toronto-Dominion Bank	7.1%
3. Canadian Natural Resources	5.8%
4. The Bank of Nova Scotia	4.1%
5. Cenovus Energy Inc.	3.7%
6. Suncor Energy Inc.	3.2%
7. Enbridge Inc.	3.1%
8. Canadian Imperial Bank of Commerce	2.9%
9. Manulife Financial Corporation	2.7%
10. Canadian National Railway Company	1.9%

**Investment mix (June 1, 20XX)**

Industry	Percentage
Financial services	34.0%
Energy	26.6%
Industrial goods	16.5%
Business services	6.4%
Telecommunication	5.9%
Hardware	3.7%
Healthcare services	2.3%
Consumer services	2.1%
Media	1.9%
Consumer goods	0.6%

The top 10 investments make up 42% of the fund.  
Total number of investments: 93

**What are the risks of this fund?**  
All investments involve risks. Understanding these risks can help you choose the right fund for you.

**Investment risk.** When you invest in a fund, the value of your investment can go down as well as up. In some cases, you may see large changes in value. These changes can happen quickly.

XYZ Mutual Funds is required to rate the level of risk of its funds. The scale ranges from Low to High based on how the fund is invested and the level of risk and return involved. In most cases, a lower rating means lower risk and lower returns, with a lower chance of losses. A higher rating generally means higher risk and higher returns, with a greater chance of losing money.

Low

Low to medium

Medium

Medium to high

High

← typically lower returns and less chance of loss

→ typically higher returns and greater chance of loss

The risk category shown is not fixed and may change over time. The lowest category does not mean there is no risk. A fund that is rated on the low end of the risk scale can still lose money.

**Other specific risks.** To understand risk better, you may also want to look at the specific risks for this fund and how they could affect its value. XYZ Mutual Funds has identified these top risk factors for the fund:

- **Active Management Risk**
- **Equity Risk**
- **Specialization Risk**

For a full list of this fund's risk factors and details about them, see the Risk section of the fund's simplified prospectus.

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series B

**How has the fund performed?**  
This chart shows you:

- how the fund has performed over the past 10 years
- how the fund's return compares to the return of a one-year Guaranteed Investment Certificate (GIC). GIC data is from the Bank of Canada.

**Notes:**

- This chart does not tell you how the fund or GIC will perform in the future.
- Since the fund holds investments that are riskier than a GIC, it may have a higher return in some years and lose money in others.
- The fund's returns are after expenses have been deducted.
- Your actual after-tax return will depend on your personal tax situation.

**Things you should know:**

**a) Worst return**  
The fund dropped in value in 3 of the last 10 years.  
The worst quarterly return (3 months) of the fund since its start date was a drop in value of -24.7% in the 3-month period ending November 30, 2008. If you had invested \$1,000 in the fund at the start of this period, your investment would have dropped to \$753 after 3 months.

**b) Average return**  
In the last 10 years, the fund generated an annual compounded return of 6.8%. This means if you had invested \$1,000 in the fund 10 years ago, your investment would now be worth \$1,930.  
In comparison, the annual compounded return of a GIC, for the same period, was 1.6%. If you had invested \$1,000 in a one-year GIC 10 years ago and kept reinvesting the maturity amount from one year to the next, you would now have \$1,172.

**Are there any guarantees?**  
Like most mutual funds, this fund doesn't have any guarantees. You may not get back the amount of money you invest.

**Who is this fund for?**  
Investors who:

- are looking for a long term investment
- want to invest in a broad range of Canadian companies
- can handle the ups and downs of the stock market.

Don't buy this fund if you need a steady source of income from your investment.

**Before you invest in any fund, you should consider how it would work with your other investments and your tolerance for risk.**

**A word about tax**  
In general, you'll have to pay income tax on any money you make on a fund. How much you pay depends on the tax laws where you live and whether or not you hold the fund in a registered plan, such as a Registered Retirement Savings Plan or a Tax-Free Savings Account.  
Keep in mind that if you hold your fund in a non-registered account, fund distributions are included in your taxable income, whether you get them in cash or have them reinvested.

# Fund Facts [English] cont'd



XYZ Mutual Funds

XYZ Canadian Equity Fund – Series B

### How much does it cost?

The following tables show the fees and expenses you could pay to buy, own and sell Series B units of the fund. The fees and expenses are different for each series. Ask about other series that may be suitable for you.

#### 1. Sales charges

You have to choose a sales charge option when you buy the fund. Ask about the pros and cons of each option.

Sales charge option	What you pay		How it works
	in per cent (%)	in dollars (\$)	
<b>Initial sales charge</b>	0% to 4% of the amount you buy	\$0 to \$40 on every \$1,000 you buy	<ul style="list-style-type: none"> <li>You and your dealer representative decide on the rate.</li> <li>The initial sales charge is deducted from the amount you buy. It goes to your dealer as a commission.</li> </ul>
<b>Deferred sales charge</b>	<b>If you sell within:</b> 1 year of buying 6.0% 2 years of buying 5.0% 3 years of buying 4.0% 4 years of buying 3.0% 5 years of buying 2.0% 6 years of buying 1.0% After 6 years nothing	\$0 to \$60 on every \$1,000 you sell	<ul style="list-style-type: none"> <li>The deferred sales charge is a set rate. It is deducted from the amount you sell.</li> <li>When you buy the fund, XYZ Mutual Funds pays your dealer a commission of 4.5%. Any deferred sales charge you pay goes to XYZ Mutual Funds.</li> <li>You can sell up to 10% of your units each year without paying a deferred sales charge.</li> <li>You can switch to Series B units of other XYZ Mutual Funds at any time without paying a deferred sales charge. The deferred sales charge schedule will be based on the date you bought the first fund.</li> </ul>

#### 2. Fund expenses

You don't pay these expenses directly. They affect you because they reduce the fund's returns. As of March 31, 2006, the fund's expenses were 2.30% of its value. This equals \$23 for every \$1,000 invested.

Annual rate (as a % of the fund's value)	
<b>Management expense ratio (MER)</b>	2.25%
This is the total of the fund's management fee and operating expenses. XYZ Mutual Funds waived some of the fund's expenses. If it had not done so, the MER would have been higher.	
<b>Trading expense ratio (TER)</b>	0.05%
These are the fund's trading costs.	
<b>Fund expenses</b>	2.30%

#### Trailing commission

XYZ Mutual Funds pays your dealer a trailing commission for as long as you own the fund. The trailing commission is paid out of the management fee. It is for the services and advice that your dealer provides to you. The rate depends on the sales charge option you choose:

- Initial sales charge** – up to 1.0% of the value of your investment each year. This equals \$10 each year for every \$1,000 invested.
- Deferred sales charge** – up to 0.50% of the value of your investment each year. This equals \$5 each year for \$1,000 invested.

These trailing commission payments may create a conflict of interest by influencing the dealer or its representatives to recommend the fund over another investment. Ask your dealer representative for more information.

XYZ Mutual Funds

XYZ Canadian Equity Fund – Series B

### How much does it cost? cont'd

#### 3. Other fees

You may have to pay other fees when you buy, hold, sell or switch units of the fund.

Fees	What you pay
Short-term trading fee	1% of the value of units you sell or switch within 90 days of buying them. This fee goes to the fund.
Switch fee	Your dealer may charge you up to 2% of the value of units you switch to another XYZ Mutual Fund.
Change fee	Your dealer may charge you up to 2% of the value of units you switch to another series of the fund.

#### What if I change my mind?

Under securities law in some provinces and territories, you have the right to:

- withdraw from an agreement to buy mutual fund units within two business days after you receive a fund facts document or
- cancel your purchase within 48 hours after you receive confirmation of the purchase.

In some provinces and territories, you also have the right to cancel a purchase, or in some jurisdictions, claim damages, if the simplified prospectus, annual information form, fund facts document or financial statements contain a misrepresentation. You must act within the time limit set by the securities law in your province or territory.

For more information, see the securities law of your province or territory or ask a lawyer.

#### For more information

Contact XYZ Mutual Funds or your dealer representative for a copy of the fund's simplified prospectus and other disclosure documents. These documents and the fund facts make up the fund's legal documents.

XYZ Mutual Funds  
123 Asset Allocation St.  
Toronto, ON M1A 2B3

Phone: (416) 555-5555  
Toll free: 1-800-555-5556  
Email: [investing@xyzfunds.com](mailto:investing@xyzfunds.com)  
[www.xyzfunds.com](http://www.xyzfunds.com)

To learn more about investing in mutual funds please see the brochure **Understanding mutual funds** which is available on the website of the Canadian Securities Administrators at [www.securities-administrators.ca](http://www.securities-administrators.ca)

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# Fund Facts [French]



Les Fonds XYZ

## APERÇU DU FONDS

Fonds d'actions canadiennes XYZ – Série B  
au 30 juin 20XX  
Code du fonds : XYZ123

Ce document contient des renseignements essentiels sur le Fonds d'actions canadiennes XYZ que vous devriez connaître. Vous trouverez plus de détails dans le prospectus simplifié du fonds. Pour en obtenir un exemplaire, communiquez avec le représentant de votre courtier ou avec Les Fonds XYZ au 1-800-555-5556 ou à l'adresse placement@fondsgay.com, ou visitez le www.fondsgay.com.

### Bref aperçu

Date de création de la série :	31 mars 2000	Gestionnaire du fonds :	Les Fonds XYZ
Date de création du fonds :	1 <sup>er</sup> janvier 1996	Gestionnaire de portefeuille :	Gestion de capitaux libé
Valeur totale de la série au 1 <sup>er</sup> juin 20XX :	350 millions de dollars	Distributions :	Annuelles, le 15 décembre
Valeur totale du fonds au 1 <sup>er</sup> juin 20XX :	1 milliard de dollars	Placement minimal :	500 \$ (Initial), 50 \$ (additionnel)
Ratio des frais de gestion (RFG) :	2,25 %		

### Dans quoi le fonds investit-il?

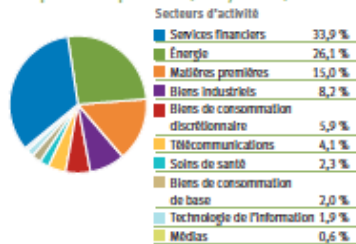
Le fonds investit dans des entreprises canadiennes de toutes les tailles et de tous les secteurs. Les graphiques ci-dessous donnent un aperçu des placements du fonds au 1<sup>er</sup> juin 20XX. Ces placements changeront au fil du temps.

#### Dix principaux placements (au 1<sup>er</sup> juin 20XX)

1. Banque Royale du Canada	7,5 %
2. Banque Toronto-Dominion	7,1 %
3. Canadian Natural Resources	5,8 %
4. La Banque de Nouvelle Écosse	4,1 %
5. Énergie Conarus Inc.	3,7 %
6. Suncor Énergie Inc.	3,2 %
7. Enbridge Inc.	3,1 %
8. Banque Canadienne Impériale de Commerce	2,9 %
9. Financière Manuvie	2,7 %
10. Compagnie des chemins de fer nationaux du Canada	1,9 %

Les 10 principaux placements représentent 42 % du fonds.  
Nombre total de placements : 93

#### Répartition des placements (au 1<sup>er</sup> juin 20XX)



### Quels sont les risques associés à ce fonds?

Tous les placements comportant des risques. Comprendre ces risques peut vous aider à choisir le bon fonds pour vous.

**Risque de placement.** Lorsque vous investissez dans un fonds, la valeur de votre placement peut augmenter ou diminuer. Dans certains cas, les fluctuations de valeur peuvent être grandes et se produire rapidement.

Les Fonds XYZ doivent évaluer le degré de risque de leurs fonds. L'échelle classe les degrés de risque de faible à élevé, selon les placements du fonds et le degré de risque et de rendement attendus. En général, plus le degré est faible, plus les risques, les rendements et les probabilités de perte le sont aussi. Inversement, plus le degré est élevé, plus les risques, les rendements et les probabilités de perte le sont aussi.



**Le degré de risque indiqué n'est pas fixe et peut changer avec le temps. Un degré de risque faible ne signifie pas qu'il n'y a aucun risque. Le fonds dont le degré de risque est faible sur l'échelle peut quand même subir des pertes.**

**Autres risques particuliers.** Pour mieux comprendre les risques, vous pourriez aussi vouloir prendre en considération les risques particuliers à ce fonds et leurs effets possibles sur sa valeur. Les Fonds XYZ relèvent les risques suivants comme principaux facteurs de risque du fonds :

- le risque de gestion active
- le risque sur actions
- le risque de spécialisation

Pour la liste complète et une description détaillée des facteurs de risque, consultez la rubrique Risques du prospectus simplifié du fonds.



Les Fonds XYZ

Fonds d'actions canadiennes XYZ – Série B

### Quel a été le rendement du fonds?

Ce graphique montre :

- le rendement annuel du fonds au cours des 10 dernières années
- une comparaison du rendement du fonds avec celui d'un certificat de placement garanti (CPG) de un an. Les données du CPG proviennent de la Banque du Canada.



Notes :

- Le graphique ne vous indique pas quel sera le rendement futur du fonds ou du CPG.
- Comme le fonds détient des placements plus risqués qu'un CPG, il pourrait avoir un rendement plus élevé certaines années négatif d'autres années.
- Les frais du fonds ont été déduits du rendement agrémenté.
- Le rendement réel après impôt dépendra de votre situation fiscale personnelle.

### Ce que vous devriez savoir :

#### a) Pire rendement

La valeur du fonds a diminué pendant trois des 10 dernières années.

Depuis sa création, le pire rendement trimestriel (3 mois) du fonds a été une baisse de valeur de 24,7 % durant la période de 3 mois terminée le 30 novembre 2008. Si vous aviez investi 1 000 \$ dans le fonds au début de cette période, votre placement aurait chuté à 753 \$ après 3 mois.

#### b) Rendement moyen

Au cours des 10 dernières années, le fonds a généré un rendement annuel composé de 6,8 %, ce qui signifie que si vous aviez investi 1 000 \$ dans le fonds il y a 10 ans, votre placement vaudrait aujourd'hui 1 930 \$.

En comparaison, le rendement annuel composé d'un CPG sur la même période a été de 1,6 %. Si vous aviez investi 1 000 \$ dans un CPG de un an il y a 10 ans et que vous aviez réinvesti le montant reçu à l'échéance d'une année à l'autre, vous auriez aujourd'hui 1 172 \$.

### Y a-t-il des garanties?

Comme la plupart des OPC, ce fonds n'offre aucune garantie. Vous pourriez ne pas récupérer le montant investi.

### À qui le fonds est-il destiné?

Aux investisseurs qui :

- recherchent un placement à long terme;
- désirent investir dans un large éventail d'entreprises canadiennes;
- peuvent supporter les hauts et les bas du marché boursier.

❗ N'investissez pas dans ce fonds si vous avez besoin d'une source de revenu régulier.

**Avant d'investir dans un fonds, vous devriez évaluer s'il cadre avec vos autres investissements et respecte votre tolérance au risque.**

### Un mot sur la fiscalité

En général, vous devez payer de l'impôt sur l'argent que vous rapporte un fonds. Le montant à payer varie en fonction des lois fiscales de votre lieu de résidence et selon que vous détenez ou non le fonds dans un régime enregistré, comme un régime enregistré d'épargne retraite ou un compte d'épargne libre d'impôt.

Rappelez-vous que si vous détenez votre fonds dans un compte non enregistré, les distributions du fonds s'ajoutent à votre revenu imposable, qu'elles soient versées en argent ou réinvesties.

# Fund Facts [French] cont'd



Fonds d'actions canadiennes XYZ – Série B

## Combien cela coûte-t-il?

Les tableaux qui suivent présentent les frais que vous pourriez avoir à payer pour acheter, posséder et vendre des parts de série B du fonds. Les frais sont différents pour chaque série. Informez-vous sur les autres séries qui pourraient vous convenir.

### 1. Frais d'acquisition

Lorsque vous achetez des parts du fonds, vous devez choisir le moment où les frais d'acquisition seront payés. Informez-vous sur les avantages et les inconvénients de chaque option.

Option de frais d'acquisition	Ce que vous payez		Comment ça fonctionne
	En pourcentage (%)	En dollars (\$)	
Frais d'acquisition initiaux	De 0 % à 4 % du montant investi	De 0 \$ à 40 \$ sur chaque tranche de 1 000 \$ investie	<ul style="list-style-type: none"> <li>Vous choisissez le taux avec le représentant de votre courtier.</li> <li>Les frais d'acquisition initiaux sont déduits du montant acheté et sont remis à votre courtier à titre de commission.</li> </ul>
Frais d'acquisition reportés	Si vous vendez : moins de 1 an après l'achat 6,0 % moins de 2 ans après l'achat 5,0 % moins de 3 ans après l'achat 4,0 % moins de 4 ans après l'achat 3,0 % moins de 5 ans après l'achat 2,0 % moins de 6 ans après l'achat 1,0 % 6 ans ou plus après l'achat 0,0 %	De 0 \$ à 60 \$ sur chaque tranche de 1 000 \$ vendue	<ul style="list-style-type: none"> <li>Les frais d'acquisition reportés sont à taux fixe. Ils sont déduits du montant vendu.</li> <li>Lorsque vous investissez dans le fonds, Les Fonds XYZ versent à votre courtier une commission de 4,9 %. Les frais d'acquisition reportés que vous payez sont remis aux Fonds XYZ.</li> <li>Vous pouvez vendre jusqu'à 10 % de vos parts chaque année sans frais d'acquisition reportés.</li> <li>Vous pouvez échanger vos parts contre des parts de série B d'un autre fonds des Fonds XYZ n'importe quand sans frais d'acquisition reportés. Le calendrier des frais d'acquisition reportés est établi selon la date où vous investissez dans le premier fonds.</li> </ul>

### 2. Frais du fonds

Vous ne payez pas ces frais directement. Ils ont cependant des conséquences pour vous, car ils réduisent le rendement du fonds. Au 31 mars 2006, les frais du fonds s'élevaient à 2,30 % de sa valeur, ce qui correspond à 23 \$ sur chaque tranche de 1 000 \$ investie.

	Taux annuel (en % de la valeur du fonds)
<b>Ratio des frais de gestion (RFG)</b> Il s'agit du total des frais de gestion et des frais d'exploitation du fonds. Les Fonds XYZ ont renoncé à certains frais. Dans le cas contraire, le RFG aurait été plus élevé.	2,25 %
<b>Ratio des frais d'opérations (RFO)</b> Il s'agit des frais de transactions du fonds.	0,05 %
<b>Frais du fonds</b>	2,30 %

### Commission de suivi

Les Fonds XYZ versent à votre courtier une commission de suivi tant que vous possédez des parts du fonds. La commission de suivi est payée avec les frais de gestion. Elle couvre les services et les conseils que votre courtier vous fournit. Le taux dépend de l'option de frais d'acquisition que vous choisissez :

- Frais d'acquisition initiaux – jusqu'à 1,0 % de la valeur de votre placement annuellement, ce qui correspond à 10 \$ pour chaque tranche de 1 000 \$ investie.
- Frais d'acquisition reportés – jusqu'à 0,50 % de la valeur de votre placement annuellement, ce qui correspond à 5 \$ pour chaque tranche de 1 000 \$ investie.

Le versement de ces commissions de suivi peut entraîner un conflit d'intérêts en incitant le courtier ou ses représentants à recommander le fonds plutôt qu'un autre placement. Pour plus de renseignements, communiquez avec le représentant de votre courtier.



Fonds d'actions canadiennes XYZ – Série B

## Combien cela coûte-t-il? suite

### 3. Autres frais

Il se pourrait que vous ayez à payer d'autres frais lorsque vous achetez, conservez, vendez ou échangez des parts du fonds.

Frais	Ce que vous payez
Frais de négociation à court terme	1 % de la valeur des parts que vous vendez ou échangez dans les 90 jours de leur achat. Ces frais sont remis au fonds.
Frais d'échange	Votre courtier peut demander jusqu'à 2 % de la valeur des parts que vous échangez contre des parts d'un autre fonds des Fonds XYZ.
Frais de changement	Votre courtier peut demander jusqu'à 2 % de la valeur des parts que vous échangez contre des parts d'une autre série du fonds.

### Et si je change d'idée?

En vertu des lois sur les valeurs mobilières de certaines provinces et certains territoires, vous avez le droit :

- de résoudre un contrat de souscription de parts d'un fonds dans les deux jours ouvrables suivant la réception de l'aperçu du fonds;
- d'annuler votre souscription dans les 48 heures suivant la réception de sa confirmation.

Dans certaines provinces et certains territoires, vous avez également le droit de demander la nullité d'une souscription ou de poursuivre en dommages-intérêts si le prospectus simplifié, la notice annuelle, l'aperçu du fonds ou les états financiers contiennent de l'information fautive ou trompeuse. Vous devez agir dans les délais prescrits par la loi sur les valeurs mobilières de votre province ou territoire.

Pour de plus amples renseignements, reportez-vous à la loi sur les valeurs mobilières de votre province ou territoire, ou consultez un avocat.

### Renseignements

Pour obtenir un exemplaire du prospectus simplifié et d'autres documents d'information du fonds, communiquer avec Les Fonds XYZ ou avec le représentant de votre courtier. Ces documents et l'aperçu du fonds constituent les documents légaux du fonds.

Les Fonds XYZ  
23, rue Répartition d'actif  
Montréal (Québec)  
H1A 2B3

Téléphone : 514-555-5555  
Sans frais : 1-800-555-5556  
Courriel : placement@fondxyz.com  
www.fondxyz.com

Pour en apprendre davantage sur les placements dans les OPC, consultez la brochure intitulée **Comprendre les organismes de placement collectif**, accessible sur le site Web des Autorités canadiennes en valeurs mobilières à l'adresse [www.autorites-valeurs-mobilieres.ca](http://www.autorites-valeurs-mobilieres.ca).

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# Interview Guide



## Investors Interview Guide

### 1. Introduction to Research [2 minutes]

- Role of interviewer
  - Facilities – audio/videotaping, one-way mirror, confidentiality
  - Purpose of Research: The Canadian Securities Administrators in conjunction with the Ontario Securities Commission are working to improve sale disclosure practices for Canadian investors. They want to make sure that Canadian investors receive the information they need to make a decision when choosing investments and that that information is provided in a way that is easy to understand and use.
- I want to examine with you a document they are developing to describe specific mutual funds. We will look at all the document, but concentrate especially on two sections. I am not testing you in any way. Together we are testing the document to make sure that it is clear and meaningful to you and fairly easy to understand. I also want to know whether you would actually use it or not, and, if so, how. Your feedback will be used to consider possible changes to the Fund Facts document.

### 2. Background of investor [5 minutes]

- Just to understand your background a bit, what types of investments do you have?  
PROBE: GICs, Mutual Funds in an RSP, outside an RSP, equities, bonds, anything else
- When did you last make a MF investment?  
PROBE: institution, role of adviser, information and advice sought, information about the fund?
- Receipt of information from institution or FA?  
What kind? Did you read it? Useful?
- What information were you looking for? [3 or 4 specific points?]
- Did you feel you had enough information to make a good decision?
  - Too much? Too little? Anything missing?
- What was the key fund information for you? In the end what finally drove your decision?

### 3. Initial Reactions to Fund Facts [3 minutes]

EXPLAIN: THIS IS A FACT SHEET FOR INVESTORS TO SEE WHEN THEY FIRST INVEST IN A MUTUAL FUND THEY DO NOT CURRENTLY HOLD. IMAGINE YOU ARE THAT INVESTOR AND THIS IS PART OF THE INFORMATION YOU ARE GIVEN ABOUT THE FUND.

SHOW FUND FACTS BRIEFLY.

- Initial impressions
  - What stands out to you?
  - Reactions to titles, font size, layout, length
- 
- What information would you expect to find here?
  - How likely to read this? Why or why not? PROBE FULLY.

### 4. Detailed Reactions to Fund Facts

PAGE 1 – 10 minutes

#### Masthead/ Quick Facts / What does this fund invest in?

PLEASE SCAN THE FIRST THREE SECTIONS OF FUND FACTS AS I WALK YOU THROUGH THEM. *POINT OUT EACH SECTION.*

The heading identifies the mutual fund in question. The first sentence tells you that this document contains key information about a specific mutual fund and where you can find more information.

Quick Facts tells you when the series and fund started, the value of the fund and series, who the fund and portfolio managers are, when distributions are given and the minimum investment required.

'What does this fund invest in' lists the top ten Canadian companies the Fund is invested in and what industry sectors it invests in.

- Any comments or questions on these sections?

# Interview Guide cont'd



What are the risks of this fund? VERBAL PROTOCOL

Let's spend a little more time on the next two sections.

¶1 Can you explain in your own words what the first sentence means?/ Why is it important for you to understand the risk of the mutual fund?

¶2 Investment risk – please explain in your own words./ What is meant by investment risk?

¶3 XYZ Mutual Funds... - Understanding? [If a fund has a high risk rating, what kind of returns is the owner hoping for?/ What is the relationship between risk and losses?

Chart - Walk me through the bar graph, please. /Discuss the risk scale/ what does the risk scale mean to you?

➤ What is the risk rating of this fund? What does medium risk mean?

¶4 The risk category shown ... Explain. Do any mutual funds carry no risk?

¶5 Other specific risks – What are the specific risks for this Fund? Can you tell me in your own words what they are? *Overall there are four risks for this fund – can you tell me what they are?*

➤ Overall how helpful or not is this section to you in making a decision? Do you understand the relationship between risk and losses? Should the section have stronger language? 'Volatility'? Other words?  
➤ Anything you would do to improve this section?

- Look back over Page 1. Is there anything you would change?
- Drop or add?
- What section is most interesting to you? Why?

PAGE 2 – 12 minutes

How has the fund performed? - VERBAL PROTOCOL

Review this section to the end of the Notes. Stop before 'Things you should know'

- Clarity of title
- Purpose of this section?
- Tell me what you have learned here.

PROBE:

Discuss the chart

- Chart: Length of time covered?
- \*\*What is being compared? – GIC rates vs. Fund returns. Is this a useful comparison? Would another comparison be more useful?
- Take an example, the bar that is 26.7 – what happened that year?
- And the -22.9 – What happened that year?
- \*\*How does this section relate to the previous section on risk? How does the comparison illustrate the risk/reward trade-off of investing in a mutual fund?
- Overall how would you say this fund has performed?

Notes

➤ Review the notes. Any questions here? Any information here you did not think about when reviewing the graph? Would you keep the notes or drop them?

Things you should know:

- a) Worst return - explain. Is this supported by the graph? [no – but do they hunt for it?] Why is this information here? [To show investor possible loss of investing in a MF]
- b) Average return – what does this tell you? How clear is it? Discuss average return.

➤ Looking at this section, 'How has the fund performed', how do you feel about this information?  
➤ Did you learn anything?  
▪ How helpful is it to your decision making? Does the information help you to make an investment decision?  
▪ When you think about the performance of your mutual funds is this the kind of information you want and need?

Anything you would change, drop or add? Improvements?

# Interview Guide cont'd



LET'S QUICKLY SCAN THE REST OF THIS PAGE.

Are there any guarantees? Who is this fund for? A word about tax

EXPLAIN:

Are there any guarantees if you invest in a mutual fund?

The next sections tell you that this mutual fund is for those who want a long-term investment, want to invest in a broad range of Canadian companies and can handle the ups and downs of the stock market. It also tells you that you will have to pay income tax on any money you make from the fund.

- Looking back over this page, would you actually on your own read all of this? Why or why not?
- Any suggestions for this page?

PAGE 3 – 8 minutes (Detail depending on time available)

How much does it cost?

PLEASE TAKE A MOMENT AND READ DOWN TO '2. FUND EXPENSES'.

Just to review this material briefly.

1. Sales charges

- What are the two kinds of sales charges?
- Can you tell me briefly how each one works?

2. Fund expenses

TAKE A MOMENT TO READ THE REST OF THE PAGE.

EXPLAIN: This mutual fund has several expenses --

- Management expense ratio (MER) to cover the fund's management fee and operating expenses and the
- Trading expense ratio (TER) which is the fund's trading costs.
- The two together equal the Fund expenses of 2.30%

\*\*Trailing commission - VERBAL PROTOCOL

- What is a trailing commission?
  - Review final paragraph – Is this clear? How can a trailing commission create a potential conflict of interest for the dealer or its representatives?
  - Any suggestions to improve this section?
- 
- Thinking about the whole of Page 3, any overall comments?
  - Do you now understand what you would pay if you took this investment? What does this mutual fund cost?
  - ❖ What suggestions do you have to improve this page or make it easier to understand?

PAGE 4 – 5 minutes

How much does it cost cont'd

3. Other fees

THIS SECTION DESCRIBES FEES THAT APPLY ONLY WHEN YOU DO CERTAIN THINGS.

- Very briefly, what are some of the other fees and what causes them to apply?

What if I change my mind?

This section applies consumer law to securities purchases – the time limits when you can withdraw or cancel your purchase without penalty.

Review briefly.

For more information

Review briefly.

Is this the contact information you need?

\*\*CSA Brochure *Understanding mutual funds* is available on the web – is this a useful link? Would you go there?

5. Review of Document – 7 minutes

TAKE A MOMENT AND LOOK BACK OVER THE FUND FACTS DOCUMENT.

- What do you like about it?
- What do you dislike about it?
- What information is particularly helpful? Anything drop?
- What about the order – any changes there?
- Length of the document?
  - To cut the length what sections would you drop?
- As an investor how useful is it to you in making your decision about the Fund?
- Would you be more comfortable investing in this fund with Fund Facts or without it or does it make no difference?
- Any other comments on 'What are the risks of this fund?' or 'How has the fund performed?'
- What would you think of an FA who gave you this document?



# Interview Guide cont'd



- In truth, how likely would you be to read this document carefully? Scan it? Or not read it at all? Before making your decision?
  - If you were trying to choose among several mutual funds at the same time?
  - If using this document, what do you see as the ideal process? When receive – do you want it before you make your decision, at the time of making the decision or to review after making the decision?
  - Desired role of FA with respect to Fund Facts document, amount of discussion about it?
  - Throughout the document, the term 'dealer representative' is used instead of 'adviser'. SHOW PLACES IN DOCUMENT. Which do you prefer? Why? What do you normally say?
6. Conclusion – 3 minutes
- What other comments or suggestions would you like to make?

# QT Questionnaire



**SCREENER**

We would like to invite you to participate in a survey sponsored by the Canadian Securities Administrators (CSA). The CSA wants your opinion about a document they have developed called Fund Facts. It is intended to provide Canadian investors with information they should consider before deciding whether or not to invest in a specific mutual fund.

You do not need any specialized financial information to answer this survey. The survey takes no more than 20 minutes and is interesting and easy to complete. Our purpose is education and research only; no sale is involved and there will be no follow-up emails or calls.

To begin, please tell us a little about yourself.

A. Are you

Male	1
Female	2

B. In what year were you born? *[MUST BE BETWEEN 1942 TO 1994]*

C. Where do you live?

Newfoundland and Labrador	1
The Maritimes	2
Quebec	3
Ontario	4
Prairies	5
Alberta	6
BC	7

D1. What industry do you work in?

Agriculture or Fisheries	1
Business services	2
Education	3
Entertainment	4
Financial	5
Government	6
Healthcare	7
Hospitality	8
IT/ technology	9
Legal	10
Manufacturing	11
Mining or Forestry	12
Pipeline	13
Research	14
Retail sales	15
Social services /Counseling/Religion	16
Transportation	17
Wholesale	18
Unemployed	19
Retired	20
Homemaker	21
Student	22
Disabled	23

D2. IF FINANCE: Do you yourself sell or advise investors about stocks, bonds, or mutual funds?

Yes	1 TERMINATE
No	2

# Questionnaire cont'd



E. Are you the person in your household who is responsible for or an equal influencer in the purchase of investments?

Yes	1 CONTINUE
NO	2 THANK AND TERMINATE

F. Which of the following types of investments do you hold whether in a registered or non-registered account? Please exclude any investments you hold in a company plan.

Mutual funds	1 IF NO MFs TERMINATE
Stocks or equities	2
Corporate or provincial bonds	3
GICs	4
NONE	5 TERMINATE

G. From what company do you purchase your mutual funds?  
ACCEPT MORE THAN ONE COMPANY.

INSURANCE COMPANIES	Investments
AIG	1
Canada Life	2
Empire Life	3
Freedom 55 Financial	4
London Life	5
Great-West Life	6
Industrial Alliance /National Life	7
Manulife/Clarica/Maritime Life	8
Standard Life	9
SunLife	10
Transamerica	11
<b>BANKS</b>	
Bank of Montreal	12
CIBC	13
HSBC Bank Canada	14
ING	15
Laurentian Bank of Canada	16
National Bank of Canada	17
President's Choice PC Financial	18
Royal Bank/Royal Trust/RBC Financial	19
Scotiabank	20
TD/Canada Trust	21
Desjardins/Caisse populaire	22
Credit Union	23
<b>DIRECT INVESTMENT COMPANIES</b>	

Altamira	24
Phillips, Hager & North	25
Saxon Mutual Funds	26
<b>MUTUAL FUND COMPANIES</b>	
AIC	27
AGF	28
AIM TRIMARK	29
MACKENZIE	30
TEMPLETON	31
<b>BROKERS</b>	
BMO Nesbitt Burns	32
Canaccord	33
CI/Assante	34
CIBC/WoodGundy	35
Evergreen CT/TD	36
Investors Group	37
Merrill Lynch	38
RBC Dominion Securities	39
Scotia McLeod	40
TD Greenline	41
Quadrus Investment Services	42
Other SPECIFY	98

H. As an investor are you:

Very knowledgeable	5
Fairly knowledgeable	4
Somewhat knowledgeable	3
Not very knowledgeable	2
Not at all knowledgeable	1

I. And before taxes was your income in 2011:

Less than \$30,000	1
\$30,000 to \$49,999	2
\$50,000 to \$99,999	3
\$100,000 to \$149,000	4
\$150,000 to \$199,000	5
\$200,000 to \$300,000	6
Over \$300,000	7 TERMINATE

# Questionnaire cont'd



J. Is this personal or household income? MISSING DELETE household at Qi

Personal	1 IF > \$200,000 TERMINATE
Household	2 IF > \$300,000 TERMINATE

K. What is the language you speak and read most easily?

English	1
French	2
Other WRITE IN	

L. What is your highest level of education?

Primary School or less	1
Some/ Completed High School	2
Some College or Technical School	3
Completed College or Technical School	4
Some university	5
Completed university	6
Some/ Completed post-graduate university	7

**MAIN QUESTIONNAIRE**

Now Let's look at the Fund Facts Document.

Please imagine you are considering investing in a mutual fund. The first 3 sections of the document identify the specific mutual fund you are considering purchasing. They provide a quick description of the mutual fund, and then explain what it invests in.

PLEASE DO NOT READ THESE SECTIONS, BUT TAKE ONLY A MOMENT OR TWO TO SCAN THEM. There are no questions on these sections.

**SCREEN A Masthead down to What are the risks of this fund?**

SCAN QUICKLY THEN CLICK CONTINUE

**CONTINUE**

**PLEASE READ THIS SCREEN.**

**SCREEN B: What are the risks of this fund? SHOW TO BOTTOM OF PAGE.**

1. Which of the following statements are true? Which are false?

	True	False
The value of any mutual fund can go up or down.		
The higher the risk rating of a mutual fund usually the greater the chance of larger returns and the greater the chance of losing money.		
A lower risk rating usually means lower returns and a lower chance of losses.		
Some mutual funds carry no risk.		
The 'investment risk' of a mutual fund depends on what the fund is invested in.		
The risk rating of a mutual fund can never change over time.		

2. What is the risk rating of this mutual fund?

High risk	1
Medium to high risk	2
Medium risk	3
Low to medium risk	4
Low risk	5
Don't know/not sure	6

**CONTINUE**

# Questionnaire cont'd



**REPEAT SCREEN B**

3. In purchasing any mutual fund, investors should consider the relationship between the risk of the investment, its potential returns and the chance of losses, i.e. higher risk means potentially higher returns with a greater chance of losing money. Does this section explain this relationship...

Very clearly	4
Fairly clearly	3
Not very clearly	2
Not at all clearly	1

4. Do you understand what the three other specific risks -- "Active Management Risk", "Equity Risk" and "Specialization Risk" -- are ...

Very well	4
Fairly well	3
Not very well	2
Not at all well	1

5. To be most useful to you, the CSA should...

Keep the section 'Other specific risks' just as it is	1
Keep this section but explain briefly each of the three risks	2
Drop this section but keep the reference to the Simplified Prospectus	3

6. Which of the following statements are true? Which are false?

	True	False
This section -- 'What are the risks of this fund' -- describes all the risks associated with this mutual fund.		
Understanding the fund's risks tells investors whether this mutual fund will make or lose money in the future.		
The risks described here may affect the performance of the fund in the future.		

7. If considering investing in this fund which of the following actions would you definitely take? Please check all that apply.

Only read this Fund Facts document carefully to learn as much as I need to know about this fund's risks.	
Read the Simplified Prospectus to learn about all of the risks of this fund	
Ask my advisor to explain the risks of this fund to me	
Look for more information about mutual fund risks on the Internet	
None of the above	

8a. If there are any words in this section you would like your financial adviser to explain, please list them. If none, enter none.

\_\_\_\_\_

8b. Can you suggest any changes to this section to make it clearer or more useful to you in understanding the risk of investing in this mutual fund?

\_\_\_\_\_

**CONTINUE**

# Questionnaire cont'd



PLEASE READ THIS SCREEN.

Screen C: How has the fund performed? [STOP AT bottom of notes.]

9. Which of the following statements are true? Which are false?

	True	False
The bar graph helps you compare the past performance of a GIC and this mutual fund.		
The bar graph helps you compare the risk level of a GIC and this mutual fund.		
The bar graph tells everyone the mutual fund is a better investment for them because it had higher returns.		
The chart tells you how each investment will perform in the future.		
This mutual fund may have higher returns in some years and lose money in other years.		
The returns of an investment are usually related to the risk of the investment.		
This bar graph succeeds in making you consider whether you are more comfortable with low and steady returns or higher but more variable returns.		

10. The performance of the mutual fund is compared to the lower risk GIC to show the fund's performance relative to its higher risk. Overall does this section explain the relationship between risk and return...

Very clearly	4
Fairly clearly	3
Not very clearly	2
Not at all clearly	1

11a. The CSA chose to show a GIC. Is it useful to compare this mutual fund to a GIC in order to show the relationship between risk and return?

Yes	1 GO TO Q12
No	2

11b. IF NO: Instead of the GIC what would you recommend as a comparison with this mutual fund?

11c. Tell us briefly why you think this is a better comparison.

**CONTINUE**

PLEASE READ THIS SCREEN.

Screen D: How has the fund performed [Expand to 'Are there any guarantees?']

12. The example of the 3-months 'Worst Return' is intended to illustrate the potential risk of loss for this mutual fund. In deciding whether or not to invest in this mutual fund is this information...

Extremely important	5
Very important	4
Somewhat important	3
Not very important	2
Not at all important to you	1

13. How important is it to also see an example of the 3-months 'Best Return'?

Extremely important	5
Very important	4
Somewhat important	3
Not very important	2
Not at all important to you	1

14. The average return is given for the GIC. Do you want to see this information?

Yes	1
No	2

# Questionnaire cont'd



15. Which statements are true? Which are false?

	True	False
The "Worst Return" shows you the greatest loss in a 3-month period that this fund has experienced in the past 10 years.		
The "Worst Return" tells you the most money you could lose in the future if you invest in this mutual fund.		
If you held this mutual fund for another 10 years you would earn another 6.8%		
Because the GIC has a return of only 1.6% no investor should choose it.		
The higher average return for the mutual fund compared to the GIC means you should invest in the mutual fund.		
The average return assumes that you invested in this mutual fund and the GIC 10 years ago and did not sell the investments.		

16. If there are any words in this section you would like your financial adviser to explain please list them.


CONTINUE

The Fund Facts document also describes all of this fund's costs.

It shows you that If you decide to invest in this mutual fund you will pay a **sales charge and some fund expenses**. Your dealer representative will discuss with you whether you want to pay an initial sales charge or a deferred sales charge and how much each will cost.

Fund expenses include the Management Expense Ratio to cover management fees and operating expenses and a Trading Expense Ratio to cover the fund's trading costs. **These total 2.3% for this fund.**

PLEASE DO NOT READ THESE SECTIONS. JUST TAKE A MOMENT OR TWO TO SCAN THEM. There are no questions on these sections. Your Financial Advisor can help you with any questions you may have about costs.

**Screen E: Costs [SHOW ALL OF DOCUMENT, PAGE 3]**

CONTINUE

**PLEASE READ THIS SCREEN**

**Screen F: Trailing Commission [REPEAT THIS SECTION FROM PAGE 3]**

17. Which of the following statements are true and which are false?

	True	False
This mutual fund pays a trailing commission.		
The Trailing commission is in addition to all the other fees.		
Trailing Commissions cover the services and advice your dealer and financial advisor give you.		
Investors do not need to know about Trailing Commissions.		
The trailing commission is a one-time payment.		
A portion of the trailing commission is paid to your financial advisor.		
The Trailing Commission can influence a financial advisor to recommend this mutual fund over another investment that has a lower or no trailing commission.		

# Questionnaire cont'd



YOU DO NOT NEED TO READ THIS SCREEN, BUT JUST TAKE A MOMENT OR TWO TO SCAN IT. THERE ARE NO QUESTIONS ON THIS SCREEN.

Screen G: What if I change my mind? + For more information

All of the Funds Facts document is shown below. It will be two pages only, but each page printed back and front to total four sides. PLEASE DO NOT READ IT, BUT SCAN ONLY. The final questions are general.

Screen H. Overview *Show all four pages - FAN*

18. Thank you for looking at Fund Facts. Now we want to know how you would use it. Do you want the Fund Facts document to be...

Sent to you before meeting with your advisor	1
Presented by your advisor during your meeting but before deciding to purchase	2
Given to you to take home after deciding to purchase but before the 48 hours cancellation period expires	3
Don't want the fund facts document	4

19. Which of these terms do you prefer in describing the person who helps you with your investments?

Advisor	1
Dealer Representative	2

20. Thinking about your own needs as an investor in mutual funds, do you have any further comments or suggestions for improving Fund Facts?


THANK YOU FOR YOUR OPINIONS.