

Mutual Funds



Mutual funds can be an effective way to help you save for important future goals. Like all investments, there are costs and risks involved.

Whenever you buy a mutual fund, the person and firm you deal with must be registered with FCNB. To check if a firm or individual is registered, you can visit aretheyregistered.ca or contact us directly.

What is a mutual fund?

A mutual fund is a collection of shares, bonds or other types of investments. Different types of mutual funds are available, including money market funds, bond funds, growth or equity funds, and balanced funds, among others.

Why buy mutual funds?

When you buy a mutual fund, you are pooling your money with many other investors. Mutual funds allow you to invest in a variety of investments at a relatively low cost. They are professionally managed and are widely available, so investors can buy or sell funds at any time.

Are there risks?

A mutual fund's value will change as the value of what it invests in goes up and down. The amount of risk associated with a particular fund depends on what the fund invests in. Details about the risk associated with a particular fund can be found in its *Fund Facts* document or the *simplified prospectus*.



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Remember, the higher the potential return, the higher the risk. Make sure you are comfortable with the risk level involved before purchasing any investment. Unlike some other investments, mutual funds are not protected by the [Canada Deposit Insurance Corporation \(CDIC\)](#) or the [Autorité des marchés financiers's Fonds d'assurance-dépôts \(Québec\)](#).

Are there costs?

Costs are associated with every fund, although they can vary. Details about a fund's cost can also be found in the *Fund Facts*. It is important to understand not only what the costs are, but also how they affect your investment's return.

Costs may include:

- **Sales charges:** These are commissions you may have to pay when you buy or sell a fund. If paid when you buy the fund, they are called an initial sales charge, or front-end load; if they're paid when you sell, they are called a deferred sales charge, or back-end load.
- **Administrative costs:** These cover legal and accounting fees, as well as other expenses.
- **Management fees:** The fund manager is compensated by management fees.

You don't pay management fees or administrative costs directly. The fund pays these fees. They affect you because they reduce the fund's returns - what you get on your investment. Most funds are offered in different series or classes, usually for different types of investors. The fees and expenses will be different for each series. Look into the other series and ask about what may be suitable for you.

How you make money

You will make money if the fund's value increases and you sell it for more than you paid. This is called a capital gain. (If the value drops and you sell it for less than you paid, this is called a capital loss.) Depending on the type of fund, you can also receive a distribution of dividends, capital gains, interest or other income types the fund earns on its investments. Most mutual funds will reinvest any earnings to buy more units of the fund for you. If you would rather receive the earnings in cash, you should talk to your adviser.

How mutual funds are taxed

In general, you'll only have to pay tax on the money you make from the fund. The various income types earned are taxed differently. It is important to know that distributions are taxed in the same year you receive them. If the mutual fund is held in a registered plan, such as a Registered Education Savings Plan (RESP), Registered Retirement Savings Plan (RRSP) or a Registered Retirement Income Fund (RRIF), then you won't pay income tax until the money is withdrawn. Talk to a qualified tax expert about how your investment choices may impact your taxes.



What if I change my mind?

If you change your mind about purchasing a mutual fund after you have already made the purchase, you have some options:

- You have the right to withdraw from an agreement to buy mutual funds within two business days after you receive a *Fund Facts* document.
- You can cancel your purchase within two business days of receiving confirmation of your order, or within 60 days after receiving the confirmation for the initial payment under a contractual plan.
- You can cancel your purchase, or claim damages, if the *simplified prospectus* or the *Fund Facts* document contains information that is not true.

Disclosure

By law, a mutual fund company must prepare and file important disclosure documents with the securities regulator, including a *Fund Facts* and a *simplified prospectus*.



Fund Facts

The *Fund Facts* document is an easy-to-read, three-page summary of the fund. Mutual fund companies are required to give investors a copy of *Fund Facts* before they

decide to purchase a conventional mutual fund. *Fund Facts* includes information about:

- **Your costs:** They provide information on how much it costs to buy and own a fund.
- **What you're paying for:** Find out what portion of your fund fees are going to pay your investment adviser.
- **The fund's risk level:** Find out how your fund ranks on a scale ranging from low to high risk.
- **What you own:** Check out the stocks and bonds your fund holds, and what percentage may be held in foreign securities.
- **The fund's history:** Check out how volatile the annual returns have been over the past 10 years. It may help you manage your expectations of the fund during market shifts.

Simplified prospectus

The *simplified prospectus* is a legal document that gives investors important information about the mutual fund. It includes information about a fund's:

- Investment objectives and strategies
- What the fund invests in
- Who manages the fund
- Risks
- Suitability
- Distributions
- Sales charges
- Management fees
- Operating expenses
- Income tax considerations

Simplified prospectuses are no longer required to be sent automatically to investors; instead, they are available by request. Investors may also ask for a copy of the *simplified prospectus* before they invest.

Before you invest in any fund, it's important to consider how it would work with your other investments and your risk tolerance. For more information on mutual funds and other types of investment funds available, visit fcnb.ca/savingandinvesting.html.

