FP INVESTING

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Low fund management fees do not necessarily make better performance

Exploding fund myths

By ***Jade Hemeon***

David Feather, president of Mackenzie Financial Services Inc., is fighting back against publicity that he believes is unfair to mutual funds in relationship to the exchange-traded funds (ETFs) with which they compete.

Certainly, there is a case to be made that index-based funds, like ETFs, have a place in some portfolios.

However, as their popularity has soared during the past five years, their performance has lagged the biggest actively managed mutual funds in Canada. And getting lost in the debate is the fact that ETFs also have costs, such as trading commissions.

"There is a lack of balance in the public argument about the merits of ETFs," Mr. Feather says.

"At Mackenzie, we felt intuitively that the major funds in the industry were performing relatively well but we decided to do our homework and put some facts around the issue.

"Mackenzie examined the average annual returns for the top Canadian broadly based equity funds for the five years ended June 30.

It found that of the largest funds, seven out of 10 beat the benchmark index.

All of the funds have at least $2-billion in assets and the list includes popular offerings from major fund companies such as AIM Trimark Investments, Royal Bank Asset Management Inc., Mackenzie Financial Corp. and Fidelity Investments Canada Ltd.

For the seven funds that outperformed the TSX Composite Total Return Index's average annual gain of 5.7%, the positive difference ranged from 3.8 percentage points for AGF Canadian Stock to 0.29 of a percentage point for Mackenzie Ivy Canadian. Laggards included Investors Retirement Growth, which under performed the index by 1.7 percentage points a year, AID Diversified by 1.2 percentage points and AGF Canadian Large Cap Dividend by 0.76 of a point.

Returns were calculated after management fees but did not include any commissions, as the funds are available on a deferred or no-load basis.

Global equity funds did even better against the benchmark Morgan Stanley World Index (in Canadian dollars).

GLOBAL EQUITY

Top-10 global equity funds

Fund	Assets $ millions	5 year avg. annual return	Outperformance %
MSCI World TR Index (Can.$)		-3.24	
Templeton Growth	$6,754	0.66	+3.90%
Trimark Select Growth	$6,128	6.88	+10.12%
AGF International	$4,941	3.16	+6.40%
MD Growth	$3,875	1.09	+4.33%
Fidelity International Portfolio	$3,681	-2.04	+1.20%
Trimark Fund	$3,371	7.71	+10.95%
Ivy Foreign	$2,648	4.27	+7.51%
CI Global	$1,747	-0.71	+2.53%
Investors Global	$1,265	-0.98	+2.26%
Cundill Value	$1,249	10.89	+14.13%

All beat the Benchmark
5 Year Performance to June 30, 2004

SOURCE: MACKENZIE FINANCIAL NATIONAL POST

CANADIAN EQUITY

Largest Canadian Equity Funds vs. ETFs and Composity Index

Fund	Assets $ millions	Since inception of iUnits avg. annual %	Outperformance %
iUnits S&p/TSX 60	$5,375.4	5.42%	
Ivy Canadian	$5,324.1	7.40%	1.98%
Trimark Select Canada Growth	$3,588.1	7.94%	2.52%
RBC Canadian Equity	$3,479.6	7.59%	2.17
AIC Diversivied Canada	$3,112.9	6.05%	0.63%
Fidelity True North	$2,924.0	8.85%	3.42%
Investors Retirement Growth	$2,596.1	5.44%	0.02%
CI Harbour	$2,396.1	9.47%	4.05%
AGF Cdn. Large Cap Dividend	$2,339.0	6.03%	0.61%
Fidelity Cdn. Growth Companies	$2,224.0	9.06%	3.63%
AGF Cdn. Stock	$2,143.0	10.13%	4.71%

S&P/TSX Composite TR Index not available in an ETF
Performance period Sept 30, 1999 to June 30, 2004

SOURCE: MACKENZIE FINANCIAL NATIONAL POST

GLOBAL EQUITY

Largest Global Equity Funds vs. ETFs and Benchmark

Fund	Assets $ millions	Since inception of iShares avg. annual %	Outperformance versus ETF %
iShares S&P Global 100 Index	$246	-7.2%	
Templeton Growth	$6,754	-0.8%	6.4%
Trimark Select Growth	$6,128	5.2%	12.4%
AGF Internarional	$4.941	-2.7%	4.5%
MD Growth	$3,875	-1.5%	5.7%
Fidelity International Portfolio	$3,681	-4.7%	2.5%
Trimark Fund	$3,371	5.8%	13.0%
Ivy Foreign	$2,648	2.2%	9.4%
CI Global	$1,747	-7.9%	-0.7%
Investors Global	$1,265	-3.7%	3.5%
Cundill Value	$1,249	9.5%	16.7%

Assets of iShares estimate in C$, iShares ETF available only in US
Performance period Dec 31, 2000 to June 30, 2004

SOURCE: MACKENZIE FINANCIAL NATIONAL POST

All 10 of the largest global equity funds did better than the index's loss of 3.2%. And while the index showed a negative return for the five-year period, seven of the 10 funds had positive results. The out performance ranged from 14 percentage points for Mackenzie Cundill Value and 11 percentage points for Trimark Fund, to 2.5 percentage points for CI Global and 1.2 points for Fidelity International Portfolio.

"The U.S. stock market is extremely efficient but other markets such as Canada and Europe have glaring inefficiencies that can be exploited, and the top fund managers have proven their ability to consistently and repeatedly outperform the market, "Mr. Feather says.

Mr. Feather also compared the largest Canadian mutual funds directly to the Barclays S&P/TSX 60 iUnits -- the most popular ETF in Canada.

His analysis covered the period beginning Sept. 30, 1999, when the ETF units were launched by Barclays, to June 30, 2004.

The S&P/TSX 60 units had an average annual gain of 5.42% but this was topped by all 10 of the big mutual funds.

The out performance ranged from 4.7 percentage points for AGF Canadian Stock to 0.61 of a point for AGE Canadian Large Cap Dividend. Mr. Feather's research also showed that ETFs tend to show their best relative performance in bull markets, when a rising tide raises all boats, even those of lesser quality.

Based on rolling 12-month returns, in bull markets the universe of actively managed Canadian equity funds captured more than 77% of the market's average rise during the five years ended June 30, but in down markets matched only 54% of the market's average fall.

The Mackenzie Financial Services executive has been sharing his research with advisors in recent speaking engagements. He has also sent a letter and some illustrative charts to more than 40,000 investment advisors across Canada.

Mr. Feather says that what many clients do not realize is that ETFs have associated costs in addition to their low management fee, including brokerage commissions charged when the units are bought and sold, or an annual fee based on a percentage of assets that is charged by fee-based planners.

"There is a tremendous value proposition offered by mutual funds and advisors that needs to be communicated, "Mr. Feather says. "There is a misunderstanding that the lower the fund management fee, the better the performance, and its simply not true.

"Investors in regular mutual funds not only have access to a selection of top managers, with a proven ability to beat the market, but they also have the benefits of personalized advice and tax deferral through funds that are available inside a capital class structure, Mr. Feather says.

He stresses that clients need to know the relationship between fees and benefits received, and the fund industry must strive to lower costs when economies of scale permit.