

# CADIZ UNIT TRUST FUND TOTAL EXPENSE RATIOS: UPDATED TO 31 DECEMBER 2011

In April 2007, the Collective Investment Schemes industry introduced a new measure - the Total Expense Ratio (TER). The TER was introduced to assist investors to better understand the cost of their unit trust investment(s). This is in recognition of the fact that it is critical that investors understand the fees that they pay and the value for money that they receive from their unit trust Manager.

While the South African unit trust industry has led the way in terms of fee disclosure, in particular the most important, and largest, component of fees: the unit trust fund's annual management fee, which is charged by the unit trust Manager to cover the costs of investment management, and fund and client administration; this fee is not the only cost of investing in a unit trust. The introduction of the TER has quantified the impact of these other costs, which include custody fees, trustee fees, audit fees and bank charges.

## SO, WHAT IS A TER?

Simply, a TER is a measure of the unit trust fund's assets that have been incurred and therefore forfeited as payment for services rendered in the management of the fund. It is expressed as a percentage of the average daily market value of the unit trust fund, and is calculated over a one year period. Importantly, TERs include the costs at all levels of structured collective investments, such as the costs of the underlying funds held by a fund of funds.

Performance based management fees, if incurred, are also included in the TER and disclosed separately, with the objective of enabling investors to distinguish between costs that may be charged irrespective of the fund's performance and a performance fee that may vary significantly from one period to the next. By way of example, the TER of the Cadiz Mastermind Fund for the year to 31 December 2011 is 1.51%. This includes all costs (including VAT) that the fund incurred and means that an investor in the fund for the full year would have paid 1.51% of the average market value of his/her investment during the year for the fund's operating expenses. Specifically included in this TER is a performance fee of 0% of the Net Asset Value of the fund.

## WHAT ARE THE TERS OF THE CADIZ UNIT TRUST FUNDS?

The following table shows the annual management fees and TERs for each of the Cadiz unit trust funds, including performance fees (where charged).

Cadiz unit trust fund	Annual management fee (incl. VAT)	TER	Performance fee component
Cadiz Money Market Fund	0.29%	0.29%	-
Cadiz Absolute Yield Fund	0.91%	0.88%	-
Cadiz Managed Flexible Fund	1.43%	1.56%	-
Cadiz Inflation Plus Fund	1.43% + 15% of outperformance of CPI+5%, limited to 3.42%%	1.44%	0.00%
Cadiz Equity Ladder Fund	1.43% + 20% of outperformance of CPI+6%, limited to 3.42%	1.06%	-0.39%
Cadiz Mastermind Fund	1.43% + 15% of outperformance of FTSE/JSE SWIX, limited to 3.42%	1.51%	0.00%

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## WHAT FEES ARE NOT INCLUDED IN THE TER?

In addition to excluding brokerage and associated costs, TERs normally exclude the initial administration cost of investing into unit trusts (**note that Cadiz does not charge an initial administration fee**), and any initial and ongoing (that is not included in the fund's annual management fee) financial advice fee, as well as any client costs eg bank charges, exit costs and costs of other product structures eg Retirement Annuities, where these invest in unit trust funds.

Some other important points to note:

- A (relatively) high TER is not necessarily an indication of a bad investment choice and should not be viewed negatively if a fund outperforms its target return or adds additional value for the higher costs incurred. However, a high TER is also not necessarily an indication of superior performance
- As is the case in calculating fund performance, a TER is calculated using historical data. As past performance is not necessarily indicative of future performance, so too past expenses are not necessarily indicative of future expenses. However, the information used in the TER calculation is based on real, incurred costs ie what was paid out of the fund and are not projections based on assumptions
- Investments in unit trust funds that have tiered structures, such as funds of funds, are likely to have higher TERs than single funds, due to the multi-layering of fees inherent in these investment structures
- In all likelihood, funds with lower assets under management will reflect a higher TER, as their fixed cost per unit will result in higher TERs compared to that for funds that have large assets under management. This is due to economies of scale
- When comparing TERs it is important to compare 'apples with apples'. Consideration must also be given to:
  - The type of fund one is investing in eg an equity versus a fixed interest fund
  - The fund's investment objective
  - The structure of the fund ie a single fund or a fund of funds
  - Costs – both those included in the TER and those not included

## IN CONCLUSION

Costs, while very important when making an investment decision, are only part of the decision-making process; the fund's anticipated performance, net of fees, being arguably the more important consideration. Cadiz has always reported its unit trust funds' performances and values net of the annual management and other portfolio fees.

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January 2012