Executive Summary
The Morningstar Fee Level for mutual funds was developed to help investors compare an investment vehicle’s relative level of fees with those of similar investment vehicles. This methodology is being introduced for Canada-domiciled open-end funds, including ETFs, starting in 2022.

There are two Morningstar Fee Levels for Canada: Morningstar Fee Level—Broad and Morningstar Fee Level—Distribution, using category groupings based on Morningstar categories. Morningstar Fee Level—Broad ranks funds using only the Morningstar category groupings as comparison groups to determine the rank of each fund. Morningstar Fee Level—Distribution further isolates mutual funds by distribution channel in each category grouping. The distribution classes are Commission-Based Advice, Do-It-Yourself, and Fee-Based Advice as defined by the Distribution Channel (Canada) data point, and Exchange-Traded Funds, or ETFs.

Frequently Asked Questions

Why have some Morningstar categories been combined to form category groupings?
In most cases, those Morningstar categories have relatively few share classes compared with most Canadian categories. With a small number of share classes, the interpretation of the ranks can be affected by a few share classes with an extremely high or low Management Expense Ratio, or MER. More share classes generally means a more even distribution of MERs. Still, it’s important that the categories that are combined generally have similar ranges of MERs, otherwise some of the categories may dominate either the higher or lower ends of the range.

The Alternatives grouping is self-explanatory, as are Asian Equity and Target Date. Specialty Equity combines most of the smaller, narrower, or niche-focused equity categories. Individually, the number of share classes ranged from 11 to 193 and averaged 87. Combined, there are around 1,000 share classes. Likewise, Specialty Fixed Income combines some of the narrow-focused, fixed-income categories.
Individually, the number of share classes ranged from 13 to 432 and averaged 115. Combined, there are around 700 share classes.

**Why doesn't my share class have a Fee Level?**

Unlike Morningstar Ratings, where some Morningstar categories aren’t rated because the funds in them are not comparable due to differing focus (such as Geographic Equity, where funds don’t all invest in the same regions), Fee Level simply ranks funds on their Management Expense Ratios (MER, as measured by Representative Cost). The most likely reason then that a share class doesn’t have a Fee Level is that it has not reported an MER in the last 15 months or is too new to have been able to state an MER in an annual or semiannual report.

Several types of share classes are also not assigned a Fee Level: institutional, fee negotiable, and restricted share classes. To access sometimes significantly lower fees, institutional share classes typically have very high minimum investment requirements that may make them inaccessible to many investors. Some institutional share classes also have negotiable fees and may have other restrictions beyond high minimum investment amounts that leave them available to very specific investors only. Investors in fee-negotiable share classes are usually charged separate fees that are not captured in the MER, and restricted share classes are not available to all investors.

**Why are ETFs considered a separate distribution class?**

Since ETFs can be used by all the distribution channels, this presents a problem under the current methodology as the distribution classes are mutually exclusive. But since there are well over 1,000 ETFs available in Canada, many category groupings have enough ETFs for a useful ranking of fees. Think of it as Fee Level—Broad just for ETFs.

**How often are Fee Level ranks calculated?**

Fee Level—Broad and Fee Level—Distribution are both calculated monthly as part of regular month-end production.

**On what basis are Fee-Level ranks calculated?**

Fee-Level ranks are calculated using Representative Cost, which is a time series that is updated from the annual report Management Expense Ratio for Canada.