

([www.dollarDEX.com](http://www.dollarDEX.com), December 2001)

## How much are you really making?

Investors often ask how they should calculate the gains on an investment. This is not a silly question because the answer is not always as straightforward as it may seem.

### Bid-to-bid gains

When you see charts of fund performance they almost always compare bid to bid pricing, which leaves out the sales charge. This can be misleading because sales charges can have a big impact on your returns. For example, if you paid 5% sales charge and held the fund for 5 years you will be down 8.1% (see table below) compared with a zero sales charge. This despite the bid-bid returns being equal for all three scenarios.

Net Investment Amount	Sales Charge	End value	Investors total gain	Annualized gain
\$ 1,000.00	0%	\$ 1,610.51	61.1%	10.00%
\$ 975.00	2.5%	\$ 1,570.25	57.0%	9.44%
\$ 950.00	5%	\$ 1,529.98	53.0%	8.88%

**Effect of sales charges on your total return**  
5 year period with 10% annual returns on \$1000 investment

The reason bid-bid comparisons are popular is because they reflect the performance of the fund itself, whereas actual gains (including sales charges) are in part a reflection of the charges of your distributor. Bid-bid performance is thus useful in doing peer fund comparisons.

### Underlying gain v investor gain

How about if you bought a fund that tracks the S&P 500, and you know that the index has gone up 100% since you bought your fund. Does that mean your fund also went up 100%?

Even leaving aside the sales charges and the idiosyncrasies of individual fund performance, you can't expect to have made 100%! This is because of the associated expenses of unit trusts, which erode the performance you actually enjoy.

Expenses that hit your fund NAV	Expenses not in fund NAV
Management fee	Front-end sales charge
Trustee fee	Redemption fees
Performance fee	Distributor Transaction fees (if any)
Accounting and valuation fees	Distributor Account maintenance fees (if any)
Registrar fees	
Custodian & depository fees	

Legal, audit and professional fees	
Amortized marketing expenses*	
Printing and distribution costs	
Brokerage costs	
Misc transaction costs	
Interest costs	

### Typical Unit Trust Expenses and Fees

Shaded expenses are used to calculate expense ratios

\*Increasing numbers of fund managers exclude this expense

A way to know roughly how much you are “losing”, compared with the underlying gain is the expense ratio. The expense ratio tells you how ongoing expenses impact your return, and they are already deducted on a daily basis during the NAV calculation.

One ongoing expense that is not typically included in the expense ratio is the brokerage cost incurred by a fund as it buys and sells securities. These costs are listed separately in a fund's annual report, sometimes as a percentage and sometimes as a dollar amount. These shouldn't be significant unless the fund manager is doing an excessive amount of buying and selling.

So what kind of difference can you expect between the underlying gain and your gain? The expense ratio is a rough guide, and for funds under CPFIS varies from 0.6% to a huge 5.6%! This means the raw performance of the underlying securities could be eroded by up to 5.6% each year, before it passes into your pocket.

Below are the Top 5 and Bottom 5 expense ratios for CPFIS funds.

[\(Note: Please click here for an updated list of funds with the highest/lowest expense ratios\)](#)

Fund	Expense Ratio (%)
Optimix Continuous Click Fund S&P 500-SGD	0.6
DBS UP Guaranteed Fund - 5.0/2	0.8
DBS UP Guaranteed Fund - 7.0/2	0.8
SGY S\$ Return Guaranteed Fund	0.8
Deutsche Lion Bond Fund	0.8

### Top 5 funds under CPFIS, by expense ratio

Source: Mercer, 3Q01 Report

<b>Fund</b>	<b>Expense Ratio (%)</b>
DBS Mendaki Global Fund	5.6
ABN Amro Star Europe Equity Fund	4.2
Franklin Templeton F-Thailand Fund	4.0
UOB United Millennium Trust I	3.9
Franklin Templeton F-Asian Development Equity Fund	3.8

**Bottom 5 funds under CPFIS, by expense ratio**

Source: Mercer, 3Q01 Report

Remember though that if you made direct investments yourself, you would also incur many of the same expenses, sometimes a lot higher -- especially if you are investing in overseas markets. So don't feel too bad that the fund manager is "taking away" some of your gain!

**True gain**

The simplest way to calculate your true gain is to use this formula:

Unrealized Gain = Unrealized value – Investment amount

Example: You bought a fund using \$10,000. This entitled you to 8,000 units. The current bid/NAV is 1.3, so your unrealized (paper) gain is  $8,000 \times 1.3 - \$10,000 = \$400$ .

This assumes there are no redemption fees, and the bid price is identical to the NAV price (usually it is, but sometimes there may be slight differences). The same formula is the one we use in our site.

References:

1. Expense Ratios: Analysis of Trends, Mercer Article No. 5 – October 2001
2. Mutual Funds Expenses, David Harrell, morningstar.com