

June 16, 2007

GREEN THUMB

## Wallet Watch: Look Again at Fund Fees

By DIVYA GULLAPALLI

June 16, 2007; Page B1

Investors have a new way to keep tabs on the fees charged by a popular type of mutual fund. Some of the numbers might come as a shock.

This year, the Securities and Exchange Commission began requiring the investments known as "funds of funds" to disclose more information about their total expenses. Funds like these invest in the shares of other funds, and include many so-called lifecycle retirement products, which are designed to automatically shift toward more conservative holdings as an investor ages.

### FEE SURPRISE

What changes in fund fee disclosures mean for you:

- **Fund-of-fund** investors should check fee tables for new information.
- **Such tables** can be found in fund prospectuses.
- **The added** disclosure is intended to provide investors with a fuller picture of costs.

These funds are increasingly being offered in 401(k) plans, often as a default investment option.

The move is an important change intended to provide investors with a fuller picture of these products' costs. It's also a rude awakening for many investors -- because the numbers show that they may have been paying a lot more for these funds than they thought.

The reason: Historically, funds-of-funds showed an expense figure that didn't always include the fees of the underlying funds. Now these expenses can be seen in a line in the prospectus typically called "Acquired Fund Fees and Expenses," or AFFE. The new rules took effect for prospectuses filed starting January.


Take the \$830 million Maxim Aggressive Profile II Fund, which combines several stock funds and showed a total annual portfolio operating expense of 0.10% last year. That figure jumped to 1.14% in a May filing because it included the 1.04% in AFFE. Other Maxim Profile portfolios showed AFFEs from 0.73% to 0.99%.

Another fund, UBS Multi-Strat Fund, showed a 12.11% total annual expense last year, compared with about 2% for the prior year, thanks mostly to 9.47% in AFFE. The fund hasn't actually upped its fees, but simply looks pricier because it must disclose more information. The filings for this fund, which is a "closed end" fund, also note the figure could change based on performance of the underlying managers.

FORMAT FOR  
PRINTING  
sponsored by



### DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: [www.djreprints.com](http://www.djreprints.com).

- See a sample reprint in PDF format.
- Order a reprint of this article now.

Funds of funds have seen tremendous growth in recent years, increasing to about 615 products recently from 357 in early 2005, and more than doubling in assets to \$480 billion in that time, according to Morningstar Inc.

The new rules have been tricky for fund companies to apply. Last month, the SEC released guidance clarifying questions about the new disclosures. Still, "sunlight is a very powerful disinfectant," says Susan Wyderko of a fund director's association, the Mutual Fund Directors Forum, and previously with the SEC.

The change has been more of a headache for smaller fund firms. The roughly \$40 million Teberg Fund expects its expense ratio to go up more than 0.75 percentage point to about 3.25% when it files its prospectus this year. It is using fewer real estate and energy funds in its portfolio, which can be pricier.

"If this rule had been in effect five years ago, I probably never would have put this fund together," says manager Curtis Teberg. It's been "too complicated, too much extra expense" to disclose the added information, he says. In addition, "from a marketing perspective it's going to be a real uphill battle."

- Email to [diya.gullapalli@wsj.com](mailto:diya.gullapalli@wsj.com)<sup>1</sup>

**URL for this article:**

<http://online.wsj.com/article/SB118195356319437357.html>

**Hyperlinks in this Article:**

(1) <mailto:diya.gullapalli@wsj.com>

**Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved**

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our **Subscriber Agreement** and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).