

Understanding the Difference Between Gross and Net Expense Ratios

A mutual fund's Total Annual Fund Operating Expenses is also known as its expense ratio. The expense ratio tells investors the percentage of the mutual fund's total assets that goes to paying its recurring fees every year. The expense ratio is provided in the fund's prospectus and in literature that discusses the fund's performance. All mutual funds have two expense ratios, the Gross Expense Ratio and the Net Expense Ratio.

What is the difference between the Gross Expense Ratio and the Net Expense Ratio?

- The **Net Expense Ratio** is what will determine an investor's real return. It is the actual expense ratio that investors paid during the fund's most recent fiscal year. It is the gross expense ratio of a fund less any waivers or reimbursements made to the fund.
- The **Gross Expense Ratio** is the fund's total annual operating expense ratio. It does not take into account any fee waivers or expense reimbursements.

Why would a mutual fund company waive its fees or reimburse the fund for its expenses?

Many funds with smaller assets waive their management fees or reimburse the fund for expenses. This is because there are certain fixed costs of running a fund, such as legal and custodian fees, which have a disproportionate impact on the expense ratio of a smaller fund than for a larger fund. Expenses matter to today's investors, and mutual fund families know that waiving their fees may make a fund more attractive from a competitive standpoint.

If the net expense ratio is what an investor actually pays, why is the gross expense ratio shown in literature and on websites?

Several years ago the National Association of Securities Dealers (NASD), which is now known as the Financial Industry Regulatory Authority (FINRA), enacted a requirement (NASD Rules 2210 and 2211) to show the gross expense ratio to the public; showing the net expense ratio is optional. They did this to help provide information and greater uniformity across the mutual fund industry. Before the new rules were put in place, many fund companies only showed the net expense ratio. If a fund company chooses to show the fund's net expense ratio, it must identify whether the fee waiver/reimbursements are contractual or voluntary and the length of time that the waiver/reimbursement will be in place.

How can I learn more about mutual fund expenses?

Each mutual fund's prospectus details the fund's fees and expenses. In addition, websites of the Securities and Exchange Commission (www.sec.gov) and FINRA (www.finra.org) provide information that can help investors understand expenses.

Past performance is not a guarantee of future results. For ActivePassive Fund performance, visit www.activepassivefunds.com.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1-877-273-8635 or visiting www.activepassivefunds.com. Read it carefully before investing.

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