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Investments

Dealer Relations

Death of a sales option



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Death of a sales option

We knew the day would come; the end of the Deferred Sales Charge (DSC) option for mutual funds. The CSA and the OSC made a joint announcement that, effective June 1, 2022, fund companies may no longer pay upfront sales commissions to dealers. The decision was motivated by a desire to protect investors¹ from biased fund recommendations for investment products that provide advisors with an upfront commission from the fund company.

History of the DSC purchase option

The Deferred Sales Charge option was introduced by Jim O'Donnell, founder of Mackenzie Financial back in 1987 with the launch of the Industrial Horizon Fund.² At the time, front-load funds were the only serious contenders in the market. Most had a load of 9% that declined based on the amount invested. Given that scenario, the decision to sell DSC funds was easy. The investor did not have to pay an upfront sales commission in exchange for holding the fund for seven years and in return the mutual fund sales person (advisor) was paid upfront for their services by the fund company. What a great idea!

Were there any benefits to offering DSC funds?

Absolutely! For an advisor, the premise was to encourage long term investing and to discourage investors from selling their investments at the wrong time. For an investor with a limited amount to invest, they were able to get financial advice without having to worry about how they would pay their advisor. For a newly independent advisor, they knew they could rely on an income while building their books for the long term. It was a win-win for everybody.

However, while advisors could rely on consistent commissions, it could incentivize them to promote these funds over more suitable funds. Investors, in-turn, may not be placed into the most suitable fund for their situation. Furthermore, they would need to pay a discharge fee for early redemptions. Over time, new low load funds were introduced that were more beneficial to investors as they had a shorter redemption fee schedule. This allowed investors to redeem earlier with a lower fee.



What happens next?

The end of the DSC was a bitter pill to swallow for the industry. To assist, the regulators gave two years for the industry to adapt their business and align with the requirement. Today we see more and more fund companies and dealers that have already decided to move away from the DSC purchase option and transition to front-end funds or a fee-based model. The advisors who come out on top will be the ones who differentiate themselves and add value through their expertise and additional services.

Value of advice

Advisors have an opportunity to differentiate themselves through their service offering. A study of Canadian families³ confirmed that working with an advisor has a positive and significant impact on financial assets. A holistic approach that considers providing timely advice to clients during financial challenges, life milestones, as well as tax and estate planning will stand out as thoughtful, professional advice.

The value of financial advice is as strong as ever⁴ and studies show that early to mid-life investors who use an advisor are further ahead in their investment goals than those who chose to do-it-themselves. This demonstrates that there are long-term benefits of wealth generation with the guidance of a financial advisor.

DSC funds originally offered retail investors a new avenue to invest with advice. However, as the industry has evolved, so to did fund offerings. With the end of the DSC, advisors now must enhance their service offerings to meet the needs of investors.

Talk to your dealer relations account manager for more information on how to manage the DSC closure and the value of advice to help improve your business.

¹ <https://www.advisor.ca/news/industry-news/dsc-ban-coming-in-2022-as-osc-proposes-restrictions/>

² <https://bondsareforlosers.com/the-genesis-of-dsc-mutual-funds/>

³ <https://www.advisor.ca/sun-life-retirement/market-insights-sun-life-retirement/3-ways-to-show-clients-your-value/>

⁴ <https://www.investmentexecutive.com/news/research-and-markets/study-shows-value-of-financial-advice/>

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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