PICTON INVESTMENTS

# UNDERSTANDING INVESTMENT FEES

## IT'S NOT ABOUT WHAT YOU'RE PAYING, BUT WHAT YOU'RE PAYING FOR

Fees are often misunderstood as something to minimize. At PICTON Investments, you only pay more when your investments perform.

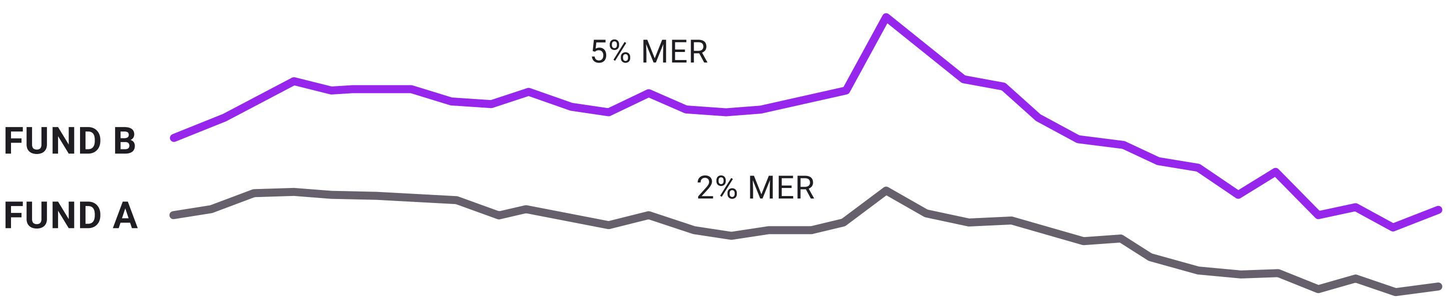
Let's say you're comparing two funds:

- **Fund A** reports a 2% Management Expense Ratio (MER)
- **Fund B** reports a 5% Management Expense Ratio (MER)

**At first glance, you might pick Fund A because of its lower cost.**

*A **Management Expense Ratio (MER)** is the annual fee a fund charges to cover its operating costs, expressed as a percentage of your investment.

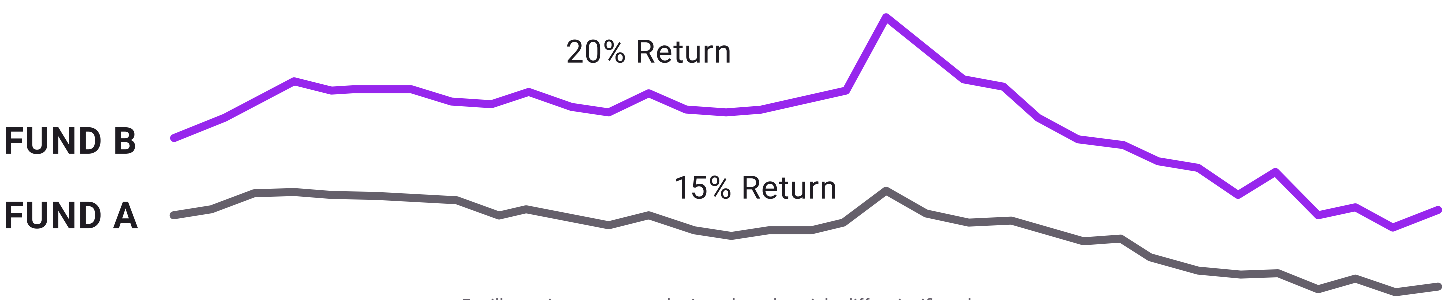
### Management Expense Ratio (Fund Fees)




**Now look at each fund's performance. Fund B's performance is better.**

Fund B has a higher MER because of strong performance that triggered performance fees, meaning the fund generates excess return for investors. When the net-of-fee performance is superior, the fund is providing greater value for the cost.

### Performance (Net of Fees)




For illustrative purposes only. Actual results might differ significantly

# WHY PERFORMANCE FEES **CAN HELP ALIGN INTERESTS**

**Performance fees are earned** only when a fund exceeds a specific return threshold, such as a hurdle rate or benchmark. Unlike **management fees, which are charged regardless of return,** performance fees reward managers for strong performance and ensure investors only pay when they benefit. This helps align the interests of fund managers and investors.

| | WHAT IT IS | WHY IT MATTERS TO YOU |
|---|---|---|
| 01. | Alignment of Interests | Managers are only paid when the fund delivers a return above a hurdle rate. |
| 02. | Pay Only for Success | If the fund doesn't exceed the target, no performance fee is charged. |
| 03. | Incentive to Outperform | Rewarding performance motivates managers to work harder to achieve results. |

# REAL EXAMPLE: **HOW IT WORKS**

## HURDLE RATE

The minimum return the fund must earn before any performance fees are charged.

**Example:** If the hurdle is 2%, and the fund gains 5%, a performance fee would apply only on the 3% excess.

## HIGH-WATER MARK

The highest value your investment has previously reached.

Managers must exceed this level before charging performance fees again.

This ensures you don't pay fees on "recovery" gains—only on true new growth.

## PERFORMANCE FEE

An additional fee (e.g., 20%) charged on investment return only when fund return exceeds both the hurdle rate and the high-water mark.

Let's say you invest **$100** into a fund:

| Year | Fund Value | Return (%) | Hurdle Rate | High-Water Mark | Fee Applied? | Performance Fee Details |
|---|---|---|---|---|---|---|
| Year 1 | $105 | +5% | 2% | $100 | Yes | Fee on 3% excess return (5% - 2%) |
| Year 2 | $101 | -3.8% | 2% | $105 | No | No fee due to loss |
| Year 3 | $105 | +4.0% | 2% | $105 | No | No fee–only recovered prior losses |
| Year 4 | $110 | +4.8% | 2% | $105 | Yes | Fee on 4.8% excess over $105 |

# THE BOTTOM LINE:

At PICTON Investments, we believe fees should work for you, not against you. Performance fees are designed to reward results, not effort. You're not paying for activity, you're paying for results and outcomes. So don't just ask, "*What am I paying?*" Ask, "*What value am I getting in return?*"

With the right strategy and the right incentives, the answer is often: more than you expected.