

Key Topics:

- Mutual Funds
- Classes
- Breakpoints
- No Load
- Fees and Expenses

WHAT'S INSIDE

What Are Mutual Fund Classes?

What Types of Fees and Expenses Will I Pay?

A Word About Mutual Fund Expenses

Glossary of Terms: Fees and Expenses

Understanding Mutual Fund Classes

As an investor, you may have read about “Class A,” “Class B,” Class C”, or other classes of mutual fund shares. If you are thinking about choosing one of these classes, it is important for you to understand the differences between them.

FINRA regulates broker-dealers and their registered representatives, and we provide investors with information about securities products and services. We hope that this communication will answer many of your important questions about mutual fund classes. If you have more questions, please consult with your financial adviser.

What Are Mutual Fund Classes?

A single mutual fund, with one portfolio and one investment adviser, may offer more than one “class” of its shares to investors. Each class represents a similar interest in the mutual fund’s portfolio. The principal difference between the classes is that the mutual fund will charge you different fees and expenses depending upon the class that you choose.

For your convenience, we have provided a glossary of fee and expense terms at the end of this document. For additional terms and a full glossary, visit www.finra.org/investor.

What Types of Fees and Expenses Will I Pay?

Check the fee table in the mutual fund’s prospectus to find out the precise amount of the mutual fund’s fees and expenses.

If You Buy Class A Shares:

Class A shares typically charge a front-end sales charge. When you buy Class A shares with a front-end sales charge, a portion of the dollars you pay is not invested. Class A shares may impose an asset-based sales charge, but it generally is lower than the asset-based sales charge imposed by the other classes.

A mutual fund may offer you discounts, called breakpoints, on the front-end sales charge if you:

- make a large purchase;
- already hold other mutual funds offered by the same fund family; or
- commit to regularly purchasing the mutual fund's shares.



Good idea. You should ask your financial adviser whether any breakpoint discounts are available to you. For more information, read our

Investor Alert: *Mutual Fund Breakpoints: A Break Worth Taking.*

If You Buy Class B Shares:

Class B shares typically do not charge a front-end sales charge, but they do impose asset-based sales charges

that may be higher than those that you would incur if you purchased Class A shares. Class B shares also normally impose a contingent deferred sales charge (CDSC), which you pay when you sell your shares. For this reason, these should not be referred to as “no-load” shares. The CDSC normally declines and eventually is eliminated the longer you hold your shares. Once the CDSC is eliminated, Class B shares often then “convert” into Class A shares. When they convert, they will begin to charge the same asset-based sales charge as the Class A shares.

Class B shares do not impose a sales charge at the time of purchase. So unlike Class A purchases, all of your dollars would be immediately invested. But your expenses, as measured by the expense ratio, may be higher. You also may pay a sales charge when you sell your Class B shares.

A Word About Mutual Fund Expenses



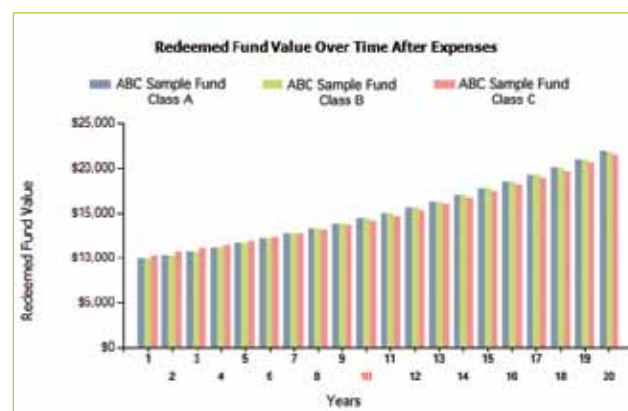
Alert. Like most investments, all mutual funds charge fees and expenses that are paid by investors. These fees and expenses can vary widely from fund to fund or fund class to fund class.

Because even small differences in expenses can make a big difference in your return over time, we've developed an expense analyzer to help you compare how sales loads, fees, and other mutual fund expenses can impact your return. To compare funds visit www.finra.org/FundAnalyzer

The screenshot shows the FINRA Fund Analyzer interface. It includes a search bar, a list of selected funds (ABC Sample Fund Class A, B, and C), and a table of results. The table has columns for Fund Name, Class, Date as of, Expense Ratio, and Front-End Load. The results show that Class A has a 0.00% front-end load and a 0.00% expense ratio, while Class B and C have higher loads and expense ratios.

Fund Name	Class	Date as of	Expense Ratio	Front-End Load
ABC Sample Fund Class A	Class A	06/30/11	0.00%	0.00%
ABC Sample Fund Class B	Class B	06/30/11	0.00%	0.00%
ABC Sample Fund Class C	Class C	06/30/11	0.00%	0.00%

Mutual Fund Expense Analyzer Sample Search



Mutual Fund Expense Analyzer—
Sample Chart Data analyzing sample Class A, Class B
and Class C funds over a 20 year period



Good idea. If you intend to purchase a large amount of Class B shares, you may want to discuss with your financial adviser whether

Class A shares would be preferable. The expense ratio charged on Class A shares is generally lower than for the Class B shares, and the mutual fund may offer large-purchase breakpoint discounts from the front-end sales charge for Class A shares.

To determine if Class A shares may be more advantageous refer to the mutual fund's prospectus, which may describe the purchase amounts that qualify for a breakpoint discount.

If You Buy Class C Shares:

Class C shares usually do not impose a front-end sales charge on the purchase, so the full dollar amount that you pay is immediately invested. Often Class C shares impose a small charge if you sell your shares within a short time of purchase, usually one year. Class C shares typically impose higher asset-based sales charges than Class A shares, and since their shares generally do not convert into Class A shares, their asset-based sales charge will not be reduced over time. Class C shares are often used for asset-allocation purposes.

Class C shares do not impose a sales charge at the time of purchase, but they may impose a CDSC or other redemption fees. Additionally, in most cases your expense ratio would be higher than Class A shares, and even than Class B shares if you hold for a long time!

Glossary of Terms: Fees and Expenses

Contingent Deferred Sales Charge (CDSC). This fee is charged when you sell your mutual fund shares. For example, if you redeem shares valued at \$1,000, and the mutual fund imposes a CDSC of 1 percent, you would receive \$990. This CDSC normally declines the longer the shares are held and eventually is eliminated after a number of years, often in the seventh year that you own the shares.

Expense Ratio. A mutual fund's expense ratio measures the fund's total annual expenses expressed as a percentage of the fund's net assets. For example, an expense ratio of 1 percent represents an annual charge to the fund's net assets—including your proportional interest in those assets—of 1 percent every year.

The expense ratio includes the asset-based sales charge and other ongoing fees that are deducted from a mutual fund's assets to pay for the services of the mutual fund's investment adviser or transfer agent or for other expenses. Front-end sales charges and CDSCs are not included in the expense ratio because they are charged directly to the investor.

The fee table in the front of a mutual fund's prospectus provides the amount of a mutual fund's expense ratio and its front-end sales charge and CDSC.

Front-End Sales Charge. This fee is charged when you purchase mutual fund shares. For example, suppose you wish to spend \$1,000 to purchase Class A shares, and the mutual fund imposes a front-end sales charge of 5 percent. You will be charged \$50 on your purchase, and you will receive shares with a market value of \$950. Depending on the size of your purchase, a breakpoint discount can lower this sales charge.

Breakpoint. A mutual fund may offer you discounts, called breakpoints, on the front-end sales charge if you:

- want to make a large purchase;
- already hold other mutual funds offered by the same fund family; or
- commit to regularly purchasing the mutual fund's shares

Asset-Based Sales Charges. These are fees that you would not directly pay, but which are taken out of mutual fund's assets to pay to market and distribute its shares. For example, asset-based sales charges could be used to compensate a broker/dealer for the sale of mutual fund shares, for advertisements, and to print copies of the prospectus. Asset-based sales charges include "Rule 12b-1" fees, which are dedicated to these types of distribution costs.

More Information

- *Notice to Members 02-85* Requiring Immediate Member Firm Action Regarding Mutual Fund Purchases and Breakpoint Schedules
- *SEC Transmittal Letter*
- Mutual Fund and Exchange Traded Fund Expense Analyzer
- Investor Alert: *Mutual Fund Breakpoints: A Break Worth Taking*
- *Joint Report of Examinations of Broker-Dealers Regarding Discounts on Front-End Sales Charges on Mutual Funds*
- News Release: *Release Findings of Breakpoint Examination Sweep; Broker-Dealers to Review Transactions*
- Investor Alert: *Class B Mutual Fund Shares: Do They Make the Grade?*

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Investor Resources

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- Fund Analyzer
- Smart Bond Investing
- Smart 401(k) Investing
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Website: www.finra.org/investor
Phone: (202) 728-6964

FINRA Market Data—Data on equities, options, mutual funds and a wide range of bonds, including real-time corporate bond prices and FINRA-Bloomberg Bond Indices.

Website: www.finra.org/marketdata

FINRA BrokerCheck—Check the background of a broker or brokerage firm.

Website: www.finra.org/brokercheck
Toll-free: (800) 289-9999

FINRA Investor Complaint Center—If you feel you've been treated unfairly.

FINRA Investor Complaint Center
9509 Key West Avenue
Rockville, MD 20850-3329

Website: www.finra.org/complaint
Fax: (866) 397-3290

FINRA Dispute Resolution—If you seek to recover damages.

FINRA Dispute Resolution
One Liberty Plaza
165 Broadway, 27th Floor
New York, NY 10006

Website: www.finra.org/ArbitrationMediation
Phone: (212) 858-4400
Fax: (212) 858-4429

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FINRA, the Financial Industry Regulatory Authority, is an independent regulatory organization empowered by the federal government to ensure that America's 90 million investors are protected. Our independent regulation plays a critical role in America's financial system—at no cost to taxpayers. We register brokers and brokerage firms, write and enforce rules governing their activities, examine firms for compliance, and foster market transparency and educate investors. For more information, visit www.finra.org.