

Understanding Mutual Fund Classes

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.

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.

You should ask your financial adviser whether any breakpoint discounts are available to you.

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.

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!

A Word About Mutual Fund Expenses

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

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%, 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% represents an annual charge to the fund's net assets – including your proportional interest in those assets – of 1% 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%. 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.