



## How Is My 401(k) Plan's Mutual Fund Platform Priced?

**MUTUAL FUND BASICS.** A mutual fund is an investment company that continuously offers new equity shares in an actively managed portfolio of securities. All shareholders participate in the fund's gains or losses. The shares are redeemable on any business day at the net asset value. Each mutual fund's portfolio is invested to satisfy the objective as stated in the fund's prospectus. In addition, the prospectus describes the pricing of the fund and the risks of investing in the fund. A mutual fund may have several different share classes reflecting different cost structures, and each of these must also be identified in the fund's prospectus.

**PRICING.** With the buying power of many investors (i.e. customers) and professional money management the mutual fund offers diversification of investment options, better risk management and potentially larger returns than what investors can do on their own. The mutual fund charges a fee for these investment services. The fee is taken as a percentage of the pooled assets, and is called the Expense Ratio.

The Expense Ratio typically covers the fund's management expenses, and the fund's marketing and distribution expenses (12b-1 Fees). The Expense Ratio is reflected in the daily performance and closing price of the fund's shares. The fund's Net Asset Value (NAV) is calculated daily by dividing the fund's total worth by the number of shares issued. The NAV is calculated before adding any sales charges. The Public Offering Price (POP) is the result of adding sales charges to the NAV.

Mutual funds that are sold through outside brokers are generally offered in three different share classes—Class A, Class B and Class C. A fourth class, Class R, is sold primarily institutionally, inside 401(k) plans.

- **Class A** shares typically charge a *front-end* load in addition to the fund expenses. The fee is used to compensate the Registered Representative. The maximum load is 8.5% of the NAV. Class A shares generally have lower Expense Ratios and surrender charges than Class B and Class C shares.

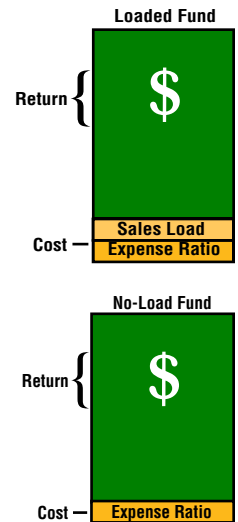
- **Class B** shares have a *back-end* sales load known as a Contingent Deferred Sales Charge (CDSC), which is assessed when shares of the fund are sold within a certain period of time. In order to pay broker commissions, Class B shares generally have higher Expense Ratios than Class A shares. The CDSC will most often decline over time. Class B shares will revert to Class A shares if held long enough, reducing ongoing expenses.

- **Class C** shares typically have no front-end load and generally impose a 1-year CDSC. Class C shares have the highest Expense Ratios among non-institutional share classes. Unlike Class B shares, they typically do not convert to Class A shares.

- **Class R** shares generally have no front-end sales loads. They typically have higher annual expenses than Class A shares, but lower annual expenses than Class B or C shares. Class R shares are not generally available to retail non-retirement accounts. Under Class R shares the mutual fund provider is compensated for the extra recordkeeping and compliance issues associated with 401(k) plans, in addition to product platform features like participant web-access to accounts, 24-7 telephone VRU, quarterly participant and plan statements, fiduciary and performance monitoring tools.

Mutual funds that do not pay commissions to brokers, and do their own advertising are often called no-load funds. No-load funds may or may not have lower Expense Ratios. Many 401(k) products offered by no-load fund families often have high asset requirements to offset their low Expense Ratios.

Many mutual fund 401(k) products will require that all plan assets be invested in their own proprietary funds. However, under pressure from plan sponsors that do not want to be limited to a single fund family, mutual fund providers are increasingly bringing outside fund providers into their platform. Assets invested in these non-proprietary funds may be subject to additional management fees.



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