

# Mutual Fund Breakpoints / Discounts / Sales Charges

## Disclosure Statement

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you reduce the cost of your investment. This disclosure document will give you general background information about these charges and discounts. However, sales charges, expenses, management fees, and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your account representative and review each mutual fund's prospectus and statement of additional information, which are available from your account representative, to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

### Sales Charges

Investors that purchase mutual funds must make certain choices, including which funds to purchase and which class share is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class. As a general rule, Class A shares carry a "front-end" sales charge or "load" that is deducted from your investment at the time you buy fund shares. This sales charge is a percentage of your total purchase. As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain pre-determined levels of investment, which are called "breakpoint discounts." In contrast, Class B and C shares usually do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A shares. Investors that purchase Class B and C shares may also be required to pay a sales charge known as a contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund.

### 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 your dollars is not invested. Class A shares may impose an asset-based sales charge (often 0.25 percent per year), but it generally is lower than the charge imposed by the other classes (often 1 percent per year for B and C shares). There is typically not a fee charged when A shares are sold.

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

- Make a large purchase.
- Already hold other mutual funds offered by the same fund family.
- Commit to regularly purchasing the mutual fund's shares.

You should ask your financial adviser whether any breakpoint discounts are available to you. For more information, read FINRA's Investor Alert "Mutual Fund Breakpoints: A Break Worth Taking" (<http://www.finra.org/investors/alerts/mutual-fund-breakpoints-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 pay if you purchased Class A shares. Class B shares also normally impose a contingent deferred sales charge (CDSC), which you would pay if you sell your shares within a certain period, often six years. For this reason, these shares should not be referred to as "no-load" shares. The CDSC normally declines the longer you hold your shares and, eventually, is eliminated. Within two years after the CDSC is eliminated, Class B shares often "convert" into lower-cost Class A shares. When they convert, they begin to charge the same fees as 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 are immediately invested. But your annual expenses, as measured by the expense ratio, may be higher. In addition, as noted above, you may pay a sales charge when you sell your Class B shares.

If you intend to purchase a large amount of Class B shares (over \$50,000 or \$100,000, for example), 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 Class B or C shares. The mutual fund also may offer large-purchase breakpoint discounts from the

front-end sales charge for Class A shares. To determine if Class A shares are more advantageous, refer to the mutual fund's prospectus, which will describe the purchase amounts that qualify for a breakpoint discount.

### **If You Buy Class C Shares:**

Class C shares do not impose a front-end sales charge on the purchase, so the full dollar amount that you pay is invested. Often Class C shares impose a small charge (often 1 percent) if you sell your shares within a short time, usually within one year. Furthermore, C shares generally pay a 1% annual trail commission to the broker-dealer every year. This can affect the performance of the fund compared to the other classes if the customer holds it for a very long time. Class C Shares may not be the best choice if you know for sure that you will be holding those funds for many years. In most cases, your total cost would be higher than with Class A shares, and even Class B shares, if you hold for a long time. Also, C Shares generally do not convert into Class A shares, so the 1% trail commissions will not be reduced over time. *C Shares are intended for short-term holding periods.*

### **Breakpoint Discounts**

Most mutual funds offer investors a variety of ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. In fact, the entire sales charge may be waived for investors that make very large purchases of Class A shares. Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through "*Rights of Accumulation*," and future purchases, based upon "*Letters of Intent*." This document provides general information regarding *Rights of Accumulation* and *Letters of Intent*. However, mutual funds have different rules regarding the availability of *Rights of Accumulation* and *Letters of Intent*. Therefore, you should discuss these issues with your account representative and review the mutual fund prospectus to determine the specific terms upon which a mutual fund offers *Rights of Accumulation* or *Letters of Intent*.

*Rights of Accumulation* – Many mutual funds allow investors to count the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase, to qualify for breakpoint discounts. Moreover, mutual funds allow investors to count existing holdings in multiple accounts, such as IRAs or accounts at other broker-dealers, to qualify for breakpoint discounts. Therefore, if you have accounts at other broker-dealers and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your account representative about those balances. You may need to provide documentation establishing the holdings in those other accounts to your account representative if you wish to rely upon balances in accounts at another firm.

In addition, many mutual funds allows investors to count the value of holdings in accounts of certain related parties, such as spouses or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult with your account representative or review the mutual fund's prospectus or statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your account representative about these accounts. You may need to provide documentation to your account representative if you wish to rely upon balances in accounts at another firm.

Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments in determining whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a breakpoint discount based upon previous purchases. You should consult with your account representative and review the mutual fund's prospectus to determine whether the mutual fund uses either NAV or historical costs to determine breakpoint eligibility.

*Letters of Intent* – Most mutual funds allow investors to qualify for breakpoint discounts by signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For example, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign a Letter of Intent at the time of the first purchase and receive the breakpoint discount associated with \$50,000 investments on the first and all subsequent purchases. Additionally, some funds offer retroactive Letters of Intent that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an investor fails to invest the amount required by the Letter of Intent, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13 month period, you should consult your account representative and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

**Multiple Fund Families**

Investors may choose to invest in multiple fund families for purposes of diversification. However, it is important to note that spreading one's investments among different fund families may reduce or eliminate the opportunity to take advantage of breakpoint discounts.

**Potential Conflicts of Interest**

When you receive a breakpoint discount on your mutual fund sales charge, your account representative receives a smaller commission. Breakpoint discounts are not offered with B and C share classes. As a result, your account representative may have an incentive to receive more commission by recommending large trades in B or C shares. Likewise, your account representative may also be incented to recommend investments in multiple fund families, wherein he or she would receive higher commissions because you would not be able to take advantage of breakpoint discounts.

As you can see, understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your account representative and carefully review the mutual fund prospectus and its statement of additional information, which you can get from your account representative, when choosing among the share classes offered by a mutual fund. If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you may wish to review the investor alerts available on the FINRA Web site: [www.finra.org](http://www.finra.org).