ICI Investor Awareness Series

Frequently Asked Questions About Mutual Fund Fees

INVESTMENT COMPANY INSTITUTE®

To the Reader:

As an investor, you have many choices when it comes to your money and the different investments you can make to help reach your long-term financial goals. Each investment choice has a cost, and as an investor in mutual funds you have many options about how to pay these costs. No matter what investment you choose—stocks, bonds, and investments in investment companies, including mutual funds—it is important for you to understand how fees and expenses affect your investment and return.

Selecting the appropriate fund to meet your investment objectives, of course, involves much more than looking at fees. You also need to consider the fund's investment objective and policies, its risks, and the types of services offered by the fund. Before investing in a mutual fund, you should read the fund's prospectus carefully to learn about the fund's goals to determine if they match your own. In addition to providing a fee table, the
prospectus will outline the fund's investment goals and strategies, including the types of securities it emphasizes, how it selects them, and the investment practices the fund may use.

The benefits of mutual fund investing are many—professional management, diversification, choice, liquidity, convenience, and ease of recordkeeping. For most investors, mutual funds provide professional management and diversification at a fraction of the cost of making such investments independently.

Another advantage of mutual funds is the complete disclosure of all fees. Standardized tables and plain-English descriptions give you, and those who may advise you, the tools to make informed investment decisions. In fact, more than two-thirds of individuals who invest outside of retirement plans choose to rely on the advice and services of a financial professional, such as a broker, financial planner, or adviser, to help identify the funds that will help them reach their long-term investment goals. Innovations in the mutual fund industry have given you many choices about how you compensate sales professionals for their advice and services.

The Investment Company Institute, the national association of the investment company industry, is pleased to offer the following information about mutual fund fees and expenses. We hope you will use this information to make appropriate and informed decisions for your future.

Paul Schott Stevens
President, Investment Company Institute
www.ici.org

Frequently Asked Questions About Mutual Fund Fees

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Q: Do all mutual funds charge fees?

A: Yes. All mutual funds have fees and expenses that are paid by investors. These costs, like all investing costs, are important because they affect the return on your investment. All funds have ongoing expenses that you will pay as long as you have an investment in the fund. Some funds also require that you pay a sales commission when you buy, sell, or exchange the fund. The charges you pay to buy or sell shares of a fund, plus the annual costs you pay that are associated with operating the fund, affect how much you receive from your investment.

Because investors have many different needs, there are many different types of mutual funds. And the costs you pay for investing in funds take different forms. Understanding these costs, and how they affect your investment, is an essential step in becoming an informed investor.

Q: Why do mutual funds charge fees?

A: Mutual funds provide a variety of investment-related services and benefits that help make saving and investing simple, accessible, and affordable. These benefits and services, however, have a cost. The fees you pay help cover the costs of managing the fund's portfolio of securities. They also are used to pay for producing account statements, computerized account services, recordkeeping, legal services, printing, and mailing. Some fees also compensate an investment professional for his or her services, especially for the advice he or she provides in helping you select a fund to meet your investment goals.

Q: How do fees affect returns on my mutual fund?

A: The fees you pay for owning a mutual fund will affect your return from the fund over time. Before investing, you must decide if this cost is acceptable to you. And, it's a good idea to check your fund's fees when you review an investment you already have made. Keep in mind that a fund's returns are always stated *after expenses*.

Q: What are the main types of mutual fund fees?

A: Even if you do not memorize the name of every mutual fund fee, you should understand what you are paying for. Even more important, you should understand that the amount you pay in fees affects the return on your investment.

Mutual fund fees generally fall into two categories. Both categories, "shareholder fees" and "annual fund operating expenses," are disclosed in the fee table in the front of a fund's prospectus.

Loads or sales charges

Some funds charge a commission to be paid to brokers when you buy or sell your shares. In the prospectus, these charges, commonly known as "loads," are included in "shareholder fees." By law, total front-end and back-end loads, which are explained below, may not exceed 8.5 percent of your initial investment, although most funds charge far less than the maximum.

- Front-end load (sales charge when you buy)
  A "front-end load" is the mutual fund industry's term for a sales charge that you pay when you buy shares of a fund. This fee

usually compensates an investment professional for his or her services, especially for the advice he or she provides in selecting a fund to meet your investment goals.

> EXAMPLE: On a $10,000 investment, a 4.5 percent sales charge would equal $450, making the value of your initial investment $9,550.

- ### Back-end load (sales charge when you sell)

  Another kind of load may be charged by some funds when you sell your shares. This fee, known as a "back-end load," or technically as a "deferred sales charge," is an alternative way to compensate financial professionals for their services. A common type of back-end load, a contingent deferred sales charge, typically is calculated as a percentage of assets and applies only for the first few years that you own your fund. The fee decreases over time in steps until it disappears.

- ### No-load (no sales charges)

  No-load funds do not have sales charges. When you invest in a no-load fund, you make your own decisions usually without the advice of a financial professional. Although a no-load fund does not charge a fee to buy, sell, or exchange shares, no-load funds may have a distribution or service fee of up to 0.25 percent of average net assets each year to compensate sales professionals for providing ongoing services to you or for your account. In addition, all funds, including no-load funds, have ongoing expenses that are paid by investors. These costs are called "annual fund operating expenses."

Annual Fund Operating Expenses

Annual fund operating expenses pay for the ongoing costs of running a fund and other services. They are shown in a fund's prospectus expressed as a percentage of the fund's average net assets as "total annual fund operating expenses." These expenses also are broken down into certain categories, including those described below.

- ### Management fee

  The largest component of a fund's total operating expenses usually is the management fee, which is an ongoing fee charged by the fund's investment adviser to manage the fund and select its portfolio of securities.

- ### Distribution (12b-1) fee

  This fee is named for a rule under the Investment Company Act of 1940 that authorizes mutual funds to pay for marketing and distribution expenses, such as compensating sales professionals, directly from a fund's assets. This fee can be thought of as an alternate way of paying sales-related expenses because it allows shareholders to pay for the service they receive from sales professionals through installment payments rather than in a single upfront payment. Many investors prefer this option, as it allows their entire investment to be put to work for them immediately instead of having it reduced initially by a sales commission.

  By law, 12b-1 fees used to pay marketing and distribution expenses cannot exceed 0.75 percent of the fund's average net assets per year. There is also a lifetime cap based on the fund's overall sales. In addition, a fund may pay a service fee up to 0.25 percent of average net assets each year to compensate sales professionals for providing ongoing services to you or for your account. A fund can have 12b-1 fees only if it has adopted a 12b-1 plan, approved by the fund's directors, authorizing their payment.

Rule 12b-1 permits a fund to spread its distribution expenses over several years. When a fund is closed to new investors it may continue to pay 12b-1 fees in order to compensate the distributor for past distribution efforts. However, a fund that does not make new sales eventually must reduce or eliminate its 12b-1 fee.

Q: What is an expense ratio?

A: This is a good gauge of the ongoing fees you will pay to own a particular fund. Technically, a fund's expense ratio is its total annual fund operating expenses as a percentage of the fund's assets. This includes management fees, 12b-1 fees (if any), the cost of shareholder mailings, and other administrative expenses. The expense ratio allows you to make simple but exact comparisons of annual expenses among different funds.

Q: Do I have a choice in how I pay for my fund investment?

A: Yes. Mutual funds offer different pricing arrangements to meet the needs of different investors. Many mutual funds make this possible by offering investors various "classes" of shares. Share classes represent ownership in the same mutual fund but offer investors a choice in how to pay for the fund. Share class names vary depending on the fund. For example, a fund may offer Class A, Class B, and Class C shares:

- Class A shares generally have a front-end sales charge ("load") and no, or a low, 12b-1 fee.
- Class B shares usually have no upfront sales charge but do have a back-end load, if shares are sold before a certain number of years, and a 12b-1 fee. After a period of time, B shares may convert to A shares.
- Class C shares typically have a higher 12b-1 fee, but no front-end or back-end loads.

Some funds may offer additional classes, such as a class sold without a sales charge for tax-deferred retirement plans. You should review a fund's share classes to determine which option is right for you. Your professional financial adviser or broker is responsible for recommending the share class most suitable for you.

Q: How can I learn which fees a fund charges?

A: Mutual fund fees are subject to more exacting regulatory standards and disclosure requirements than any comparable financial product offered to investors. No other similar investment product has this degree of disclosure. You can easily learn which fees your fund charges by looking at the fee table in the front of the fund's prospectus, which can be secured directly from the fund company or, in many cases, by visiting the fund's website. For example, if a fund has a 12b-1 fee, it will be clearly identified in the fee table as part of the fund's annual operating expenses, which, unlike shareholder fees, are not charged directly to an investor but are deducted from fund assets before earnings are paid to shareholders. Because mutual funds buy and sell securities, they incur brokerage costs. These costs vary and are difficult to predict. As a result, they are not included in the fee table. However, they are included in any computations of a fund's performance that appears in advertising.

If you are among the about 70 percent of mutual fund shareholders who primarily use a professional adviser when buying mutual funds outside of employer retirement plans, your adviser will be an important source of information about a fund's fees. Before investing in a particular mutual fund, you should have a discussion with your financial adviser about all of the fund's fees and how these costs affect the return on your investment.

Q: How do I read a fee table?

A: The fee table is the key to helping you understand fees. This standardized table is always at the front of a fund's prospectus and lists all fees charged by a fund. Reading the fee table allows easy comparison of the costs of one fund versus another.

Every fee table is broken into two sections. The first section describes "shareholder fees" and details any sales commissions or transaction fees you will pay when you buy, sell, or exchange your shares. The second section describes "annual fund operating expenses" and lists all of the ongoing fees you will pay each year for as long as you own shares in the fund.

The fee table also includes a hypothetical example that tells you in dollars and cents what a $10,000 investment would cost based on a 5 percent return. This cost includes shareholder fees, if any, and the fund's annual operating expenses.

The following table illustrates the different types of fees a fund may charge. Not all funds charge all of these fees.

Mutual Fund Fee Table Required by Federal Law

(example is hypothetical; estimated expenses are based on the U.S. Securities and Exchange Commission's Mutual Fund Cost Calculator, www.sec.gov/investor/tools/mfcc/get-started.htm)

Maximum Sales Charge (Load) Imposed on Purchases

The maximum "front-end load" or sales charge that may be attached to the purchase of mutual fund shares. This fee compensates a financial professional for his or her services. By law, this charge may not exceed 8.5 percent of the investment, although most fund families charge less than the maximum.

Maximum Deferred Sales Charge (Load)

The maximum "back-end load" or sales charge that a fund may impose when shares are redeemed or sold; an alternative way to compensate financial professionals for their services. A common type of deferred sales charge is a "contingent deferred sales charge," which typically applies for the first few years of ownership, declining until it disappears.

Maximum Sales Charge (Load) on Reinvested Dividends

The maximum fee charged by a fund when dividends are reinvested in the purchase of additional shares. Most funds do not charge a fee for this service. Beginning in April 2000, new funds were prohibited from charging this fee.

Redemption Fee

Like a contingent deferred sales charge, this fee is another type of back-end charge when an investor redeems shares. Unlike contingent deferred sales charges, this fee is paid to the fund. It covers costs, other than sales costs, involved with a redemption. The fee is expressed as a dollar amount or as a percentage of the redemption price.

Exchange Fee

This fee may be charged when an investor transfers money from one fund to another within the same fund family.

Annual Account Maintenance Fee

This fee may be charged by some funds, for example, to maintain low-balance accounts.

Shareholder Fees are charged directly to an investor for a specific transaction, such as a purchase, redemption, or exchange.

Shareholder Fees

Maximum Sales Charge (Load) Imposed on Purchases *(as a percentage of offering price)*	**4.5%**
Maximum Deferred Sales Charge (Load)	**None**
Maximum Sales Charge (Load) on Reinvested Dividends	**None**
Redemption Fee	**None**
Exchange Fee	**None**
Annual Account Maintenance Fee	**None**

Annual Fund Operating Expenses

reflect the normal costs of operating a fund. Unlike transaction fees, these expenses are not charged directly to an investor but are deducted from fund assets before earnings are distributed to shareholders.

Annual Fund Operating Expenses

Management Fee	**0.52%**
Distribution (12b-1) Fee	**0.25%**
Other Expenses	**0.20%**
Total Annual Fund Operating Expenses (Expense Ratio)	**0.97%**

Example

This example is intended to help an investor compare the cost of investing in different funds. The example assumes a $10,000 investment in the fund for one, three, five, and 10 years and then a redemption of all fund shares at the end of those periods. The example also assumes that an investment returns 5 percent each year and that the fund's operating expenses remain the same. Although actual costs may be higher or lower, based on these assumptions an investor's estimated expenses would be:

1 year	**$547**
3 years	**$754**
5 years	**$977**
10 years	**$1,617**

Management Fee

This is a fee charged by a fund's investment adviser for managing the fund's portfolio of securities and providing related services.

Distribution (12b-1) Fee

This fee, if charged, is deducted from fund assets to pay marketing and advertising expenses or, more commonly, to compensate sales professionals. By law, 12b-1 fees cannot exceed 1 percent of a fund's average net assets per year. The 12b-1 fee may include a service fee of up to 0.25 percent of average net assets per year to compensate sales professionals for providing services or maintaining shareholder accounts.

Other Expenses

These expenses include, for example, fees paid to a fund's transfer agent for providing fund shareholder services, such as toll-free phone communications, computerized account services, website services, recordkeeping, printing, and mailing.

Total Annual Fund Operating Expenses (Expense Ratio)

This represents the sum of all a fund's annual operating costs, expressed as a percentage of average net assets. Total annual fund operating expenses are also known as the fund's expense ratio.

Example of the effect of expenses on a $10,000 investment

This is a hypothetical illustration required by the SEC in every fund's fee table. It is presented in a standardized format and based on specified assumptions (5 percent annual return, expenses unchanged) in order to make it easier for investors to compare different funds' fees.

Here are three things you can look for in a fund's fee table:

- Does the fund have a front-end or deferred sales charge, a redemption fee, or an exchange fee?
- What is the fund's "bottom line"—the fund's annual expense ratio, or annual operating costs? It is important to consider the size of the expense ratio as well as the cumulative impact over time.
- What does the "example" show? The example is intended to help you compare the cost of investing in the fund with the cost of investing in other mutual funds. However, the example is not meant to represent your actual investment results or expenses, which may vary.

Q: How can I estimate how much I will pay in fees?

A: One way is to read the fee table at the front of your fund's prospectus, or ask your broker or professional financial adviser, if you purchased your fund in that manner. Every fund prospectus must include in its fee table an example showing the dollar amount of expenses you would pay on a $10,000 investment that earns 5 percent over various time periods, listed in 1-, 3-, 5-, and 10-year increments. Remember that this amount will not reflect what you will actually pay, except in the unlikely event that you invest exactly $10,000 and your investment earns exactly 5 percent. But the dollar amount can be a useful way for you to compare the effect of the overall fees for different funds.

You can also perform cost calculations and comparisons on your own based on your own investments. Some websites offer cost calculators, like the one found on the U.S. Securities and Exchange Commission's website (www.sec.gov/mfcc/mfcc-int.htm), that allow you to make cost comparisons. For example, assume you invest $10,000 in a fund with an annual return of 5 percent. Also, assume your fund has annual operating expenses of 1.50 percent and no shareholder transaction costs. Using the SEC's fee calculator, your costs, based on these assumptions, would be:

1 Year	$158
3 Years	$513
5 Years	$929
10 Years	$1,841

Q: Should I consider fund fees in making my investment decision?

A: Yes. Fund fees are one of many important elements that should be considered when you are making a decision about whether to purchase a particular fund. It is important to remember that a fund's fees and expenses represent the cost you will incur for the services that you receive from the fund. You also need to consider the fund's investment objective, policies, and its risks. If two funds were *identical*, except for the fees and expenses they charge, the lower-cost fund would be a better option. But rarely, if ever, are funds identical. For example, equity funds typically cost more than bond and money market funds, but equity funds historically have provided a significantly higher long-term return—even after expenses are deducted. Even different types of stock funds, U.S. or foreign, typically vary in cost.

In short, there are many factors that affect the fees and expenses a fund charges. Certain types of funds, such as international funds, may have higher expenses because they require additional work by their managers. You may also pay higher fees for funds that provide advice or extra shareholder services, such as toll-free telephone numbers, Internet access, checkwriting, and automatic investment plans. Neither higher nor lower expenses guarantee better performance. A fund with lower expenses may perform better than a fund with higher expenses. And the opposite may be true. Only after weighing all of the relative benefits of different funds, including an analysis of their costs, can you decide if owning a particular fund is acceptable to you.

Q: Does anyone oversee the fees a fund charges?

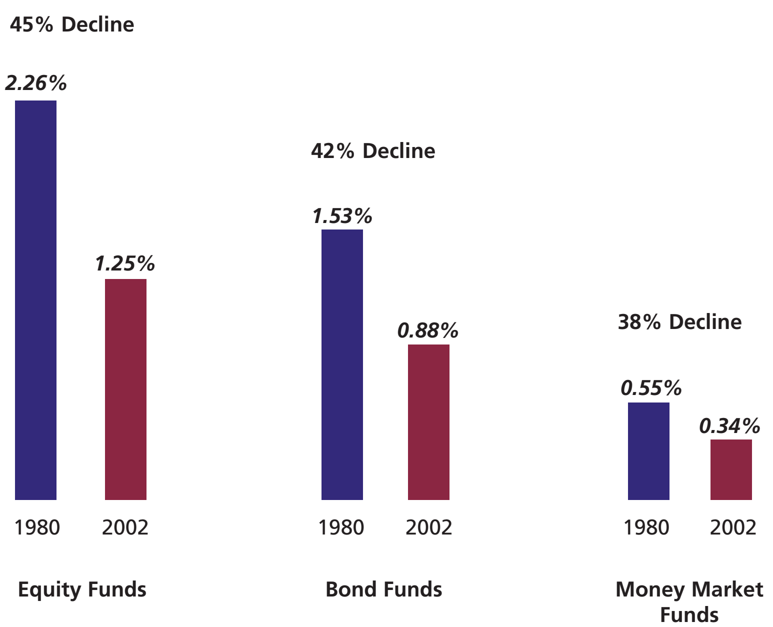
A: Yes. The fees you pay as a mutual fund shareholder are subject to ongoing oversight and review by the fund's board of directors, including its independent directors. Directors have a responsibility under the law to protect the interests of shareholders. A majority of a fund's board generally consists of directors who are independent of the fund's adviser. A mutual fund's directors, including the fund's independent directors, annually review the fees paid to manage the fund. Any change in these fees must be approved by holders of the majority of a fund's shares and a majority of the fund's directors.

Funds with 12b-1 fees have additional board oversight requirements. Under Rule 12b-1, a mutual fund must have a written plan, approved by the fund's directors and independent directors, outlining all significant aspects of the proposal to finance distribution. Directors must consider whether the use of fund assets to finance distribution is reasonably likely to benefit fund shareholders, and must review the amounts spent under the 12b-1 plan and the reasons for these expenditures. Directors also approve annually the 12b-1 fee and shareholders must approve any material increase in a fund's 12b-1 fee.

Q: What are recent mutual fund fee and expense trends?

A: The cost of investing in mutual funds continues to decrease significantly and shareholders continue to benefit from intense competition in the mutual fund industry. Over the past 24 years, vibrant competition has produced substantially lower costs and an array of innovative investment products and services that make saving and investing simpler, accessible, and affordable. Recent research by the Investment Company Institute found that since 1980, the average cost of equity mutual funds has decreased 45 percent; bond funds, 42 percent; and money market funds, 38 percent. The Institute evaluated fee trends using a comprehensive measure called *total shareholder cost.* This measure represents the cost that an investor would expect to incur in purchasing and holding mutual fund shares.

Mutual Fund Fees Decrease Since 1980



Distribution Cost Trends. Since Rule 12b-1 was adopted in 1980, the cost of distribution incurred by mutual fund shareholders has fallen significantly, reflecting both substantially lower distribution costs and significant industry competition. The distribution cost, which may be either in the form of a sales charge or a 12b-1 fee (or both), arises among funds that package investment advice with the sale of their shares.

Before 1980, virtually all distribution costs were paid as part of a fund's front-end load. As funds adopted 12b-1 plans and expanded distribution payment options, front-end loads declined sharply, while 12b-1 fees absorbed a larger portion of the distribution costs. By 1998, for example, 12b-1 fees amounted to almost 40 percent of the total distribution cost of load funds. Overall, the decline in loads more than offset growth in 12b-1 fees, leading to the substantial decline in distribution costs.

Additional Resources

You can learn about the fees charged by a particular fund by reviewing the mutual fund listings published daily in most newspapers. Several national and daily financial newspapers also include a listing of fund expense ratios on a weekly basis. A newspaper's listings offer information about a fund's fees by using a series of symbols next to the fund's name. The following illustration highlights the fee symbols and how they appear in many newspapers.

Apzbc:				
Axyte	9.95	10.73		...
Bxy Xer	10.37	11.33	–	.01
Dar Rppe	7.38	8.07	+	.09
Income	3.16	3.45	+	.01
Tbq Ratl	9.97	10.47	+	.01
Tbqr Dt	10.19	10.70	–	.02
Xypr Ap r	10.05	10.98	–	.01
Brlkd:				
Blgr Dfr	15.64	16.46	–	.03
Bmo Pnc	8.54	N.L.	–	.06
Bto Bmd	7.27	7.65		...
Cmyog:				
MIA p	11.86	12.79	+	.01
MIX	11.44	12.33	+	.03
MIY r	9.70	10.46	–	.01
MBF	11.58	12.49	+	.04
MBI	14.77	15.92	+	.20
MBR	11.99	12.93	+	.03
MRI	13.47	14.52	–	.04
MII	7.66	8.26	+	.02
MDX	10.00	10.50		...
DMX p	9.74	10.23		...
GYI	6.93	7.47	–	.03
JAM	10.01	10.79	–	.02
JEL	10.09	10.59	–	.06
MTNC	10.25	10.76	–	.02
MPRS r	10.12	10.62	+	.02
Jellies	20.33	N.L.	+	.01
Sulter	23.81	N.L.	+	.13
Drxpg:				
Bakc Jau	15.45	16.52	+	.06
Cryl Ba t	20.68	22.12	+	.05
Gryd 3	12.10	12.60	–	.04
Frp Dup	9.80	10.45	–	.11
Fye Pm	12.61	N.L.		...
Hy Finc	8.19	8.53	–	.01
Hx Papie	10.96	11.42	–	.06
Lerl Eiy p	10.02	10.95	+	.02
Jxt RP	10.90	11.12	–	.04

NL Indicates funds that do not charge a load. This abbreviation is listed in the offering price column.

r Indicates a redemption fee or deferred sales charge.

p Indicates 12b-1 distribution charges.

t Indicates both redemption and 12b-1 fees are charged.

You can also use a newspaper's daily listing of mutual fund quotes to determine the sales charge of a particular fund.

Here's how:

> Each day, newspapers publish tables of mutual fund quotations. These tables generally carry two "prices" for mutual funds—a price to buy and a price to sell each share. If the prices are the same, that tells you the fund does not charge a front-end "load." If the prices are different, the fund carries a "load."
>
> You can determine a fund's "load," or sales charge, by taking the difference between the sell price and the buy price, and then dividing by the buy price. For example, a fund with a $13.47 sell price and a $14.18 buy price has a 5 percent sales charge.

Free information about mutual fund fees is available from a variety of sources, including mutual fund companies, publications found at your library, and through the federal government. Much of this information is available on the Internet.

U.S. Securities and Exchange Commission
Office of Investor Education and Assistance
450 Fifth Street, NW
Washington, DC 20549
202/942-7040 or 800/SEC-0330
www.sec.gov

SEC Online Publications for Investors
www.sec.gov/investor/pubs.shtml

SEC Investor Education and Assistance
www.sec.gov/investor.shtml

The **Department of Labor** publishes information about how fees affect your 401(k) investment. The document is available online at:
www.dol.gov/ebsa/publications/401k_employee.html

Mutual Fund Fee Checklist

Use this checklist to compare the fees of different mutual funds. All of this information is readily available from the fee table at the front of a fund's prospectus.

	Fund A	Fund B	Fund C
Shareholder Fees			
Maximum Sales Charge (front-end load)	________	________	________
Maximum Contingent Deferred Sales Charge (back-end load)	________	________	________
Redemption Fee	________	________	________
Exchange Fee	________	________	________
Account Maintenance Fee	________	________	________
Annual Fund Operating Expenses			
Management Fee	________	________	________
12b-1 Fee	________	________	________
Other	________	________	________
Total Operating Expenses (Add all operating expenses.)	________	________	________

The Investment Company Institute is the national association of the investment company industry. The Institute's website, **www.ici.org,** is an educational and reference tool for individuals seeking information about the mutual fund industry. Hyperlinks at the site enable users to go directly to the SEC, NASD, and other sites for additional information about mutual funds.

This guide is the latest in the Institute's Investor Awareness Series, which helps investors build an understanding and set realistic expectations about mutual funds, unit investment trusts, and closed-end funds. If you would like to know more, please visit our website or write for a catalogue of additional investor awareness materials to:

ICI Investor Awareness Program
P.O. Box 27849
Washington, DC 20038-7850
www.ici.org

Other Publications in the ICI/ICI Education Foundation Investor Awareness Series

- A Guide to Mutual Funds
- A Guide to Closed-End Funds
- A Guide to Bond Mutual Funds
- A Guide to Unit Investment Trusts
- A Guide to Understanding Mutual Funds
- Questions You Should Ask Before You Invest in a Mutual Fund
- A Guide to Understanding 529 Plans
- Understanding the Role of Mutual Fund Directors
- Facts About Funds
- The Importance of Being an Informed Investor
- Understanding the Risk & Reward Relationship
- The Benefits of Diversification
- Developing Realistic Expectations
- The Importance of a Long-Term Perspective
- The Benefits of Dollar-Cost Averaging
- Investing for Your Future
- The Importance of Starting Early

INVESTMENT
COMPANY
INSTITUTE®

1401 H Street, NW
Suite 1200
Washington, DC 20005-2148
202/326-5800

www.ici.org