

## Mutual Fund Fee Disclosure: FAQs

# Frequently Asked Questions About Mutual Fund Fee Disclosure

## How can investors find out about a mutual fund's fees?

Mutual funds are subject to more exacting regulatory standards and disclosure requirements than most other financial products. Every mutual fund must disclose all of its fees, as well as its expense ratio (described below), in a standardized table at the front of the fund prospectus (and summary prospectus, if the fund makes one available).

US Securities and Exchange Commission (SEC) rules prescribe the format and content of the prospectus fee table.<sup>1</sup> The fee table aims to provide information that is comprehensive and understandable, and that allows investors easily to compare the costs of owning different mutual funds. Written descriptions accompanying the fee table must be concise and in plain English.

Mutual funds also must provide information about fund expenses in annual and semiannual shareholder reports, as discussed further below.

## How do funds disclose fees in the prospectus fee table?

The fee table section of the prospectus provides four types of fee-related information to investors. First, it identifies shareholder fees that may apply, such as sales charges. Second, it lists all of the fund's annual operating expenses. Third, it presents an illustrative example that focuses an investor's attention on the total cost of investing in the fund over various periods. Finally, it provides information about the fund's "portfolio turnover" rate, which affects the transaction costs, such as commissions, that a fund pays when it buys or sells portfolio investments. More detailed descriptions of each of these elements follow:

- **Shareholder Fees (fees paid directly from shareholders' accounts)**
  - **Maximum Sales Charge Imposed on Purchases** (also known as a "front-end load"). Front-end loads are "transactional" fees that some—but not all—funds collect. The fee table identifies whether a fund charges a load when an investor purchases shares. It shows the amount of the load as a percentage of the offering price of fund shares. Funds most often charge a front-end load to compensate a financial professional when one assists in the sale. Many mutual funds with front-end sales loads offer discounts or "breakpoint discounts" to investors who invest certain amounts of money. In this case, the fee table will highlight this fact and direct the shareholder elsewhere for more information.
  - **Maximum Deferred Sales Charge** (also known as a "back-end load"). Back-end loads are transactional fees that some funds may charge when investors redeem their shares within a certain time period after purchase. The deferred sales charge percentage starts at a specified level and decreases annually until it reaches zero at the end of the period. Similar to the front-end load, funds generally use a back-end load to compensate the broker who sold fund shares to the investor.
  - **Redemption Fee.** Redemption fees are similar to back-end loads, except that the fund charges the fee to defray fund costs associated with the shareholder's redemption, rather than as broker compensation.
  - **Exchange Fee.** Some funds impose an exchange fee when a shareholder exchanges or transfers his or her investment to another fund within the same fund group.
  - **Account Fee.** Some funds charge a fee in connection with maintaining a shareholder's account. For example, a fund may impose an account fee on accounts with low balances below a certain dollar amount.
- **Annual Fund Operating Expenses (fees paid out of a shareholder's fund investment each year)**
  - **Management Fees.** The fund pays its investment adviser to manage its investment portfolio. This fee category also includes administrative fees payable to the investment adviser that are not included in the "Other Expenses" category (discussed below).
  - **Distribution and/or Service Fees** ("12b-1" fees). Most funds pay fees to cover the costs of marketing and selling fund

shares, including fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. These fees sometimes also include the costs of providing shareholder services, including fees paid to those who respond to investor inquiries and provide investors with information about their investments

- **Other Expenses.** These expenses include all expenses not otherwise disclosed in the table that are deducted from the fund's assets or charged to all shareholder accounts. Examples of other expenses are shareholder service expenses that are not included in the 12b-1 fee category, custodial expenses, legal and accounting expenses, transfer agent expenses, and other administrative expenses.
- **Total Annual Fund Operating Expenses.** This line of the fee table provides the overall expense ratio for the fund, which is expressed as a percentage of the fund's average net assets.
- **Illustrative Example Showing Fund Costs over Time.** A fund must provide an illustrative example showing how much an investor would pay in fees over periods of one, three, five, and 10 years, assuming an investment of \$10,000 and an annual return of 5 percent. The cost calculation includes shareholder fees and annual fund operating expenses.
- **Portfolio Turnover.** A fund must disclose its annual portfolio turnover rate—the rate at which the fund buys and sells portfolio securities (or “turns over” its portfolio)—and explain that portfolio turnover rate may affect fund costs and performance, as well as taxes in the case of a taxable fund.

## How can investors find out how much it would cost to own a fund in dollar terms?

Investors can find fund expense information in dollar terms in each of their funds' prospectuses and shareholder reports.

This information is included in the prospectus as described above (Illustrative Example Showing Fund Costs over Time).

Similarly, mutual fund shareholder reports include: (1) the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses and return for the period; and (2) the cost in dollars associated with an investment of \$1,000, based on the fund's actual expenses for the period and an assumed return of 5 percent per year. The first figure provides investors with an estimate of the actual costs, in dollars, of their fund investment over the reporting period. The second figure provides investors with a basis for comparing the level of current period expenses of different funds.

## Are there costs that are not included in the fee table?

The fee table generally includes all of the fees that a mutual fund may charge. Some investors may pay fees to a financial intermediary, such as a brokerage firm for maintaining an account, or to an investment adviser. These fees are not included in the fee table because they are not charged by the fund.

## Where can investors find a mutual fund's prospectus?

The law requires that every mutual fund investor must receive a mutual fund prospectus (or summary prospectus) no later than the time he or she receives confirmation of a purchase. Individuals also can request a prospectus from the [fund company](#), or from a broker or other financial professional offering the fund for sale. Most fund companies offer downloadable versions of the prospectus (and often a summary prospectus) on their websites. Individuals who invest in a fund through an employer-sponsored retirement plan also may request the prospectus from their plan administrator.

## Where can I get additional information on mutual fund fees?

- In addition, investors can turn to many other useful resources about mutual fund fees, including the following:
- Mutual fund company websites often make the fee tables for all their funds available online, along with other key information from the prospectus.
- Toll-free investor information centers, which many fund companies make available 24 hours a day, provide trained experts who can discuss a fund's fees with both current and prospective investors.
- The SEC's [Mutual Funds and Exchange-Traded Funds \(ETFs\): A Guide for Investors](#) contains information about comparing mutual fund costs.
- The Financial Industry Regulatory Authority (FINRA) offers a [fee calculator](#) on its website. The fee calculator allows investors to estimate the impact of fees and expenses on an investment and also allows investors to look up applicable fees and available sales charge discounts for funds.

- Educational brochures that explain and describe the key elements of fund investing, including fees, are widely available.

## ENDNOTES

<sup>1</sup>After extensive testing with investor focus groups, the SEC most recently revised the rules governing the fee table in 2009.

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