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Understanding Mutual Fund Share Classes

April 27, 2009

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When investing in a mutual fund, you may have the opportunity to choose among several share classes, most commonly Class A, Class B, and Class C. The differences among these share classes typically revolve around how much you will be charged for buying the fund, when you will pay any sales charges that apply, and the amount you will pay in annual fees and expenses. This multi−class structure offers you the opportunity to select a share class that is best suited to your investment goals.

The costs associated with mutual funds

Mutual funds have costs that are passed on to investors. It's important for you to understand what the different costs are, since these are usually deducted from the money you've invested and can affect the return of your investment over time.

Typically, mutual fund costs consist of sales charges and annual expenses. The sales charge, often called a load, is the broker's commission, deducted from your investment when you buy the fund, or when you sell it. The annual expenses cover the fund's operating costs, including management fees, distribution and service fees (commonly known as 12b−1 fees), and general administrative expenses. They are generally computed as a percentage of your assets and then deducted from the fund before the fund's returns are calculated. (To better understand what these charges are, you should review the Fees and Expenses section of the fund's prospectus.)

So which share class should you choose? The answer to that depends on two factors: how much you want to invest and your investment time horizon.

Class A shares

Class A shares may appeal to you if you're considering a long−term investment of a large number of shares. When you purchase Class A shares, a sales charge, called a front−end load, is typically deducted upfront, thus reducing the actual amount of your initial investment. For example, suppose you decide to spend $35,000 on Class A shares with a hypothetical front−end sales load of 5 percent. You will be charged $1,750 on your purchase, and the remaining $33,250 will be invested.

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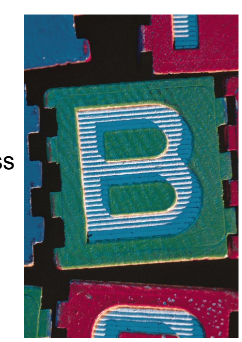
However, Class A shares offer you discounts, called breakpoints, on the front−end load if you buy shares in excess of a certain dollar amount. Typically, a fund will offer several breakpoints, so the more you invest the greater the reduction in the sales load.

For example, let's say that a mutual fund charges a load of 5 percent if you invest less than $50,000, but reduces that load to 4.5 percent if you invest at least $50,000 but less than $100,000. This means that if you invest $49,000, you'll pay $2,450 in sales charges, but if you invest $50,000 (i.e., you reach the first breakpoint), you'll pay only $2,250 in sales charges.

You may also qualify for breakpoint discounts by signing a letter of intent and agreeing to purchase additional shares within a certain period of time (generally 13 months), or by combining your current purchase with other investment holdings that you or your spouse and children have within the same fund or family of funds (called a right of accumulation). Since rules vary, read your fund's prospectus to find out how you may qualify for available breakpoint discounts, or contact your investment advisor for more information.

Class A 12b−1 fees tend to be lower than those of other share classes, thus reducing your overall costs. This may make Class A shares more attractive to you if you wish to hold on to the fund for a longer period of time.

Class B shares



Class B shares may appeal to you if you wish to invest a smaller amount of money for a long period of time. Unlike Class A shares, there is no up−front sales charge, so all of your initial investment is put to work immediately. Class B shares have a back−end load, often called a contingent deferred sales charge (CDSC) that you pay when you sell your shares. The load usually decreases over time (typically 6 to 8 years), although this varies from fund to fund. By the end of the time period no charge applies. At that stage your shares may convert to Class A shares.

For example, suppose you invest $5,000 in Class B shares, with a 5 percent CDSC that decreases by 1 percent every year after the second year. If you sell your shares within the first year, you will pay 5 percent of the value of your assets or the value of the initial investment, whichever is less. If you hold your shares for 6 years, the CDSC will be reduced to zero.

Before you purchase Class B shares, however, make sure that this investment fits in with your overall goals. Class B 12b−1 fees can be considerably higher than for Class A shares, so the cost of investing large amounts over time might be more than you would like. In addition, you don't benefit from the breakpoint discounts available with Class A shares, and you must pay the CDSC if you sell your Class B shares within the time limit. You should also keep track of when your shares convert to Class A shares, especially if your account has been transferred from one brokerage to another.

Class C shares

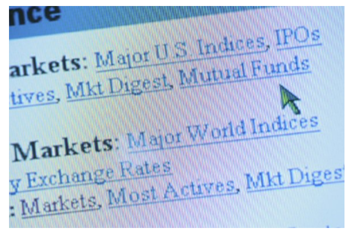
When you purchase Class C shares, a front−end load is normally not imposed, and the CDSC is generally lower than for Class B shares. This charge is reduced to zero if you hold the shares beyond the CDSC period, which for Class C shares is typically 12 months. For those reasons Class C shares may be appropriate if you have a large amount to invest and you intend to keep the fund for less than 5 years.

However, like Class B shares, the 12b−1 fees are greater for Class C shares than for Class A shares. Unlike Class B shares, these expenses will not decrease during the life of the investment, because C Class shares generally don't convert to Class A shares. In addition, there are no breakpoints available for large purchases.

Other options

Some mutual funds may not offer all three share classes and others may offer different classes, such as hybrid load shares or mid−load shares.

Another option you may consider is a no−load mutual fund that you can purchase directly from an investment company or through an investment advisor. As the name implies, these funds have no front−end or back−end loads, and their expenses are typically lower than for other share classes. Before you decide if these shares are suitable for you, you should look at their past performance and also at any expenses that may apply.



Do your homework

- Check out the mutual fund in advance. Read the prospectus carefully, especially the discussion of fund classes and fees and how they apply to you.
- Make sure you understand how breakpoints work and how to take advantage of them.
- Compare the fees and expenses of different fund classes, to see how purchasing different share classes can affect your return. Take into account your investment amount, the length of time you plan to hold the fund, and the expenses and share load per share class.
- Review your mutual fund holdings regularly. Keep yourself informed of possible upcoming deadlines, such as an impending breakpoint, or when any Class B shares you may own are scheduled to convert to Class A shares.
- Keep your broker informed. To take advantage of all breakpoint discounts, you need to tell your broker about (a) your holdings within the mutual fund, and those of your family, (b) your holdings at other brokers, (c) any additional purchases you may have in mind.

For further information on mutual fund classes, log on to the website of the National Association of Securities Dealers (NASD) at www.nasd.com. You can also find information on the Securities and Exchange Commission (SEC) website at www.sec.gov.

As you consider how best to invest in mutual funds, keep in mind that there's no guarantee any mutual fund will achieve its investment objective. You should discuss all of your investment goals with a qualified financial professional.

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