

William Blair & Company[®]

A Guide to Mutual Fund Investing

Important Aspects to Consider When Investing in Mutual Funds

A mutual fund is an investment company that pools money from many investors and invests on their behalf in a portfolio of securities. Mutual funds offer investors some attractive attributes, such as professional management, diversification, daily pricing, and potential for growth and profits. Like other investments, however, mutual funds carry fees and expenses and a risk of loss, which affect investment performance.

For an investment plan to be successful and suitable, it is essential that the investor understands the characteristics of the investment products being considered. With mutual funds, as all other investments, the prospectus contains information about the fund's investment objectives, investment strategy, risk considerations, and fees and expenses, to name just a few. It is in the best interest of clients to read the prospectus carefully before investing.

This brochure provides a basic comparison of some of the share classes generally available from many mutual fund families as well as information about how an investor might obtain reduced sales charges.

Share Classes

Each share class invests in the same assets and will have the same investment objectives and policies. The differences between share classes are found in their shareholder services, distribution arrangements, and fees and expenses. Fees and expenses can vary significantly depending on the share "class" the investor buys, and they therefore affect performance.

Class "A"

Class A shares are known as "front-end load" shares because an upfront commission is paid by the investor when the shares are purchased. Part of the front-end load is paid as a commission to the financial advisor. Class A shares may also be subject to annual expenses, such as management fees or distribution fees (referred to as 12b-1 fees), but these ongoing/annual expenses are typically lower for Class A shares than they are for other share classes. Lower expenses over longer time frames can have a significant impact on investment returns. Purchases of Class A shares may qualify for commission discounts based on a number of factors, such as the dollar amount of the purchase, the amount of shares already owned by the investor and his/her family, or the investor's intent to purchase more shares in the future.

Class "B"

Class B shares typically do not have any front-end load, but rather carry a "back-end load," or a contingent deferred sales charge (CDSC). A CDSC is a sales charge the investor pays *only* when the shares are sold or redeemed. The CDSC amount declines over time, eventually decreasing to zero if the investor holds the

shares long enough, typically six to eight years. Class B shares carry higher annual expenses and 12b-1 fees than Class A shares, in part to pay a commission to the financial advisor. Some Class B shares convert automatically to Class A shares (which carry lower annual expenses) if held long enough by the investor.

Class "C"

Class C shares typically do not have any front-end load and may carry a CDSC for a shorter required holding period, typically one year, than Class B shares. Class C shares have higher annual expenses and 12b-1 fees than Class A shares, in part to pay a commission to the financial advisor. Unlike Class B shares, Class C shares do not automatically convert into Class A shares, and therefore the annual expenses and 12b-1 fees for Class C shares will not be reduced over time.

Fees and Expenses

As we have stated, fees and expenses can vary between share class types. Fees and expenses are very important factors, as these directly affect the return on investment. The NASD Web site (www.nasd.com) offers the Mutual Fund Expense Analyzer (http://apps.nasd.com/investor_information/ea/nasd/mfetf.aspx) to help investors compare fees and expenses between different share classes of the same fund as well as between mutual funds. In addition, the SEC website (www.sec.gov) also offers this service via its Mutual Fund Cost Calculator, which can be found at <http://www.sec.gov/investor/tools/mfcc/mfcc-intsec.htm>. Although this site is not as user friendly as the NASD site, it provides a useful comparison for investors.

Breakpoints - Reduced Sales Charges

Most mutual fund companies offer discount commission programs (i.e., reduced sales charge) with their Class A shares. Sales loads are calculated based on a percentage of the dollar amount invested. By offering breakpoints, the sales charge percentage decreases as the investment dollars get larger. An example of a mutual fund breakpoint schedule illustrates how an investor might reduce sales charges by reaching a breakpoint.

<u>Investment Amount</u>	<u>Sales Load</u>
Less than \$25,000	5.00%
\$25,000 but less than \$50,000	4.25%
\$50,000 but less than \$100,000	3.75%
\$100,000 but less than \$250,000	3.25%
\$500,000 but less than \$750,000	2.75%
\$750,000 but less than \$1 million	2.00%
\$1 million +	none

Actual breakpoint schedules will vary by fund or fund family.

The NASD Web site (www.nasd.com) has a mutual fund breakpoint search tool that should be used when comparing different mutual funds. The tool can be found at the following link: <http://tools1.nasd.com/nbst/>

Rights of Accumulation (ROA)/Letters of Intent (LOI)

Breakpoints can be used to reduce sales charges for a single transaction *or* in a combination of transactions by using Rights of Accumulation (ROA) or a Letter of Intent (LOI).

Rights of Accumulation (ROA)

Mutual fund companies allow investors to combine the value of their purchases and their existing holdings in the same fund family to reach a breakpoint

discount. Investments that may be combined for ROA purposes usually include the investor, his/her immediate family (spouse and children living in the same household), and any retirement accounts or trust accounts for the benefit of the investor and his/her immediate family. For example, an individual has a \$35,000 investment in the ABC Growth Fund, which was sold with a 4.25% front-end load. The investor intends to purchase \$25,000 of the ABC Technology Fund. Using ROA, the new \$25,000 investment is combined with the existing \$35,000 investment to reach the \$50,000 breakpoint, and the sales charge on the new investment is 3.75% (rather than the 4.25% for a single transaction amount).

Letters of Intent (LOI)

Investors can take advantage of breakpoints without immediately investing the entire amount required by a breakpoint schedule. By signing a letter of intent (LOI), the mutual fund company will allow the investor to commit to a purchase amount over a 13-month period, and the individual transactions will be charged at the breakpoint level of the entire commitment amount. For example, an investor has \$2,500 to invest in the ABC Fund, but intends to invest an additional \$2,500 per month for the next 13 months. Based on the above breakpoint schedule, by signing the LOI, the investor pays a front-end load of 4.25% rather than 5.00%. If the investor fails to meet the intended LOI amount in the 13-month period, however, the mutual fund company will charge the higher sales load retroactively.



Investors are advised to carefully consider the mutual fund's investment objectives, risks, charges, and expenses before investing. This and other information is contained in the fund's prospectus which you may obtain from your financial advisor. Please read the prospectus carefully before you invest.

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