

## **Park Avenue Securities LLC**


7 Hanover Square, NY, NY 10004

Phone: 1-888-Guardian (482-7342)

Web: [www.ParkAvenueSecurities.com](http://www.ParkAvenueSecurities.com)

---

# UNDERSTANDING MUTUAL FUND SHARE CLASSES



Most mutual fund companies offer a number of different share classes to meet various investment objectives. Generally, the share classes available for accounts are Class A, Class B, Class C, and Class R shares. Each class of shares has a different fee structure, which is disclosed in the fund's prospectus.

### **Why share classes matter**

Each share class invests in the same group of securities, has the same investment objectives and follows the same investment policies. What is different for each class is how much you pay in fees and when you pay those fees, which can significantly affect long-term investment performance. To determine which share class is appropriate, a number of factors should be considered such as:

- Your holding period – How long will you remain invested in the mutual fund?
- Amount invested – Will the amount of the investment qualify you for a discount? Some fund families offer discounts based on the amount of money invested.
- Future investments – Will you regularly purchase mutual fund shares or make other purchases?
- Other holdings – Do you already hold mutual funds offered by the same fund family? If so, you may be eligible for discounts if you invest in the same fund family.
- Type of account – The account type can determine what share classes and discounts are available. Qualified retirement plans, accounts for charitable organizations, and advisory accounts may offer specialized share classes and/or discounts.

### **Important Resources Available to You**

- Mutual fund companies are required to provide their investors with a prospectus for each mutual fund purchased. The prospectus provides important information about fees, the investment objectives and strategies of a fund, past performance data, expense ratios and other important information. In addition to a prospectus, each fund is required to have a Statement of Additional Information (SAI). The SAI provides more detail on topics that are broadly discussed in the prospectus.
- The Financial Industry and Regulatory Authority (FINRA) also makes available a Fund Analyzer ([www.finra.org/FundAnalyzer](http://www.finra.org/FundAnalyzer)) which can assist you with understanding the impact of fees and potential discounts and how they can impact the value of a fund over time. You can use this tool to determine which funds might best meet your investment needs at the lowest cost while providing the best value.
- Your Financial Professional is also available to answer questions about a particular mutual fund.

**Let's review some basics for common share classes offered by mutual fund companies in retail brokerage accounts.**

# 1. Let's review some basics for common share classes offered by mutual fund companies in retail brokerage accounts.

## (a) A Shares

This share class is generally used by long-term investors as they often are the most economical share class over a longer investment period. Class A shares require the purchaser to pay a front-end sales charge (also called a sales load). The amount of the sales charge is deducted from the initial investment. For example, if you spend \$10000 to purchase shares in a Class A share mutual fund that has a 5% front-end sales load, the actual amount invested is \$9500. Generally, Class A shares have a lower ongoing fund expenses than Class B and C shares. Investors in Class A shares may be eligible for sales charge discounts if they invest an amount over various threshold amounts, or "breakpoints," determined by the mutual fund. If we use the same example above with a \$10000 purchase of Class A shares and, instead of the 5% front-end load the investor is eligible for a breakpoint that reduces the sales load to 3%, the investor would have \$9700 immediately invested instead of \$9500. Investors may also be eligible for sales charge discounts if they invest in other mutual funds from the same mutual fund company, commit to buy additional shares within a specified time period, or aggregate their shares with shares held by other in their household or family members. Investors should read the fund's prospectus to understand all available discounts and breakpoints for which they may be qualified.

## (b) B Shares

Many mutual fund companies have discontinued offering Class B shares, including Park Avenue Securities. This share class is generally used by investors whose investment amount is not enough to qualify for sales charge discounts but who plan to be invested in the fund for longer than about six years. Class B shares do not have a front-end sales load; however, they impose a back-end sales charge, or "contingent deferred sales load" (CDSC), if shares are sold before a specified time period. The longer the shares are held, the lower the back-end sales charge. This share class does not generally offer discounts or breakpoints, and the expense ratio is typically higher with Class B shares than with Class A or C shares. After a specified number of years, Class B shares convert to Class A shares, which tend to have lower annual fees.

## (c) C Shares

This share class is generally used by investors with a shorter investment period. Class C shares do not charge a front-end sales charge and only charge a surrender charge or back-end sales charge (CDSC) if the fund is sold prior to a specific holding period, usually 1 or 2 years. This share class does not typically offer discounts or breakpoints, and the ongoing fund expenses for Class C shares tend to be higher than Class A shares of the same fund. They are often referred to as "level load" funds because there generally is an ongoing annual fee, usually of about 1%, that is paid as long as the fund is held. To illustrate the cost difference, let us assume a \$10,000 lump-sum purchase of a Class A share and another \$10,000 lump-sum purchase in Class C shares of the same mutual fund with an assumed annual rate of return of 5% and compare the hypothetical account balance over time:

Mutual Fund Share Class	Front - End Load	Annual Operating Expenses	Initial Investment	Account Balance after 1 year	Account Balance After 5 years	Account Balance After 10 years	Account Balance after 20 years
A	5.25%	0.87%	\$9475 (\$10,000 minus the \$525 front-end load)	\$9,862.52	\$11,578.04	\$14,147.86	\$21,125.26
C	0%	1.62%	\$10,000	\$10,231.28	\$11,769.83	\$13,852.89	\$19,190.26

As the chart demonstrates, the Class C share performed better in the short term (5 years or less), and the Class A share surpassed the Class C share over a longer period of time because of lower annual operating expenses (10 years +) despite the \$525 front-end sales load paid at the onset of the investment.

(d) I Shares

Institutional shares are a class of mutual fund shares available for institutional investors or individual investors who meet a certain dollar threshold invested in the fund, typically \$1M or more. Institutional mutual fund share classes typically have the lowest expense ratios among all a mutual fund's share classes.

(e) R Shares

Although Class A, Class B, and Class C have historically been known as the most common share classes, it is important to note that mutual fund companies create mutual fund classes for various purposes. Class R shares are generally designated as a retirement class of shares and do not generally have any sales loads; however, they do have annual expenses. These funds are usually available through employer-sponsored retirement plans, such as in a 401(k). Instead of Class R shares, some retirement accounts may offer Class A shares to clients with the front-end sales load waived, so investors should refer to the fund's prospectus for more information.

## 2. What this means for you

The timing and amount of mutual fund fees affects long-term return on investment. If you pay no sales fee at the time you purchase the fund, your full purchase amount is invested for you. On the other hand, paying higher fees over the life of the investment could reduce long-term return.

Mutual fund companies may offer various other share classes, including funds geared toward institutional investors, investment advisory, or retirement accounts. Also, some mutual fund companies offer "no-load" funds, which do not have share classes and are sold without sales charges.

Class	Front-End Sales Charge (or Load)	Back-End Sales Charge (or Load)	Annual Operating Expenses	Other Features*
<b>A</b>	Sales charge is deducted from each purchase. Most companies offer discounts for large purchases at "breakpoints."	None	Yes, but less than the same fee charged to Class B or C shares.	May be eligible for additional discounts if investors intend to make additional purchases within a relatively short period of time (Letter or Intent) or if their mutual fund holdings can be aggregated with the mutual holdings of others (Rights of Accumulation)
<b>B</b>	None	Sales charge is paid when shares are redeemed. The amount of the sales charge decreases over time until it eventually reaches zero.	Yes, typically a higher fee than is charged on Class A shares but may be the same or less than on Class B shares.	Shares may convert to Class A shares after a certain period of time. The annual expenses for Class A shares are usually less than for Class B shares.
<b>C</b>	None	Typically impose a fee if shares are sold within a year or two of purchase.	Yes, typically higher than the same fee charged on Class A shares and may be higher or the same as on Class B shares.	Not generally convertible to another share class, but some exceptions exist.
<b>R</b>	None	None	Yes, expenses vary greatly by mutual fund company.	Generally, only available with employer-sponsored retirement plans.
<b>Other Classes</b>	See the fund's prospectus for other share classes available. Fund families may offer a number of other share classes, such as those intended for retirement accounts, advisory programs, institutional clients, non-profits and charities, or other purposes. If you think one of these classes may be appropriate for your objectives, read the fund's prospectus and discuss the account type that best suits your needs with your Financial Professional.			

\* As previously mentioned, it is always important to refer to a fund's prospectus regarding sales charges, discounts, fees, or the potential to convert to another share class.

Although this disclosure pertains to mutual funds purchased in a retail brokerage account, it is important to note that mutual funds purchased in an advisory account are generally not “loaded” funds as they are in retail brokerage accounts. In an advisory account, Class A shares are generally purchased at net asset value (NAV), which means the investor does not pay any sales charges. It is important to review the Form ADV of the firm managing your account to understand what type of share classes may be recommended for an advisory account.

### **3. A few words about fees and expenses**

In addition to any sales load imposed by the fund’s share class, fees and expenses that are also charged by the mutual fund that may impact your investment return over time. Since these charges vary broadly, it is important to read the fund’s prospectus. The prospectus will indicate how any charges are paid, either directly by the investor or paid from fund assets. Some common fees and expenses are:

(a) 12b-1 fees or Service Fees

These fees are used to pay for the fund’s marketing and distribution costs. The amount of the fee for Class A shares is generally less than for Class B, C or R shares of the same fund. The fee tends to be the highest for Class C shares.

(b) Management Fees

These fees are charged in order to pay the investment advisor who manages the fund’s portfolio.

(c) Operating Fees and Expenses

These fees pay the administrative operating costs and expenses of running the fund.

(d) Redemption Fees

To discourage investors for redeeming shares shortly after purchase, mutual fund companies may charge a redemption fee.

(e) Exchange Fees

These fees are often called a “transfer fee” and are charged when money is transferred between funds within the same mutual fund family.

### **4. Possible risks when investing in mutual funds**

As with any investment, there are risks involved in mutual fund investments. The fund’s performance is dependent on various factors, such as the underlying investments, portfolio management, and the market. The fund’s prospectus discloses how the fund operates, investment strategies, history, and other important factors to help investors make the decision whether or not to invest.

Investments are subject to market risk, which is the risk that the value of the investment will fluctuate with the market. For example, there is a risk that a stock purchased at a higher price will be sold at a lower price when the market is down. For bonds, there is a risk that the investor may receive more or less than was paid for the bond if the bond was sold before it matured or that the bond will default and not pay either principal or interest. With mutual funds, the risks are the same as owning the underlying investments; however, the idea with a mutual fund that is being invested in multiple securities spreads the risk over the range of securities to minimize the impact that a risk posed by one security will negatively affect the fund’s overall performance. Regardless, even with diversification, there are no guarantees that an investment will perform successfully. The risks posed by mutual funds vary widely, so investors must read the prospectus carefully before investing.

## STEP*forward* with Park Avenue Securities

Park Avenue Securities LLC (PAS) is an indirect, wholly-owned subsidiary of The Guardian Life Insurance Company of America (Guardian). PAS is a registered broker-dealer offering competitive investment products, as well as a registered investment adviser offering financial planning and investment advisory services. PAS is a member of FINRA and SIPC.

PAS is located at 7 Hanover Square, New York, NY 10004.

