

Mutual Fund Guide

Important Information on Mutual Funds

Mutual Funds offer the benefits of diversification, professional management, liquidity, choice and convenience. Before you invest, it is important to have a general understanding of mutual funds and to be aware of the costs associated with them.

Although this guide will give you a general understanding of mutual fund costs, each fund's cost structure is different. Also, the overall cost of investing in mutual funds will vary depending on whether you purchase funds in a traditional brokerage account, or investment advisory account. For more information about a mutual fund's costs, you should read the fund's prospectus and discuss any questions you have with your Investment Executive. Together, you and your Investment Executive can select the appropriate mutual funds, share class, and type of investment account that best matches your unique investment goals and objectives.

Mutual Fund Terminology

Net Asset Value (NAV): The value of one fund share generally is calculated at the end of each business day. The NAV is determined by totaling the value of the fund's assets, deducting from the total all expenses, and dividing this figure by the number of shares outstanding. A fund's NAV will increase or decrease with market fluctuations.

Mutual funds may be purchased at NAV under certain conditions, (with no front-end sales charge or CDSC) however a short-term redemption fee may apply if the shares are not held for a specified period.

Asset-Based Fees: The operating expenses and service fees associated with managing a mutual fund. The primary asset-based fee is the management fee, which is an ongoing fee charged by a fund's investment adviser, and a marketing and distribution fee, commonly referred to as a "12b-1" fee. These ongoing fees are deducted from the fund's assets and may be used to pay for marketing costs or to compensate brokerage firms for maintaining the accounts of current shareholders. By reducing the amount of a fund's assets (that otherwise would be available for investment), the fees may reduce the return on your investment. Most funds, regardless of share class, charge asset-based fees. Share classes with back-end sales charges (e.g., Class B or C shares), often have higher asset-based fees than share classes with front-end sales charges (Class A); however, share classes with back-end sales charges may, in some later year, convert to a share class with lower asset-based fees.

Expense Ratio: The percentage of a fund's assets used to pay for operating expenses, management fees, 12b-1 fees, and administrative expenses incurred by the fund, with the exception of transaction costs. These expenses are deducted from the fund's assets; therefore, they lower the value of your investment. A fund's expense ratio will help you compare the annual expenses amongst various funds.

- When analyzing expenses, consider the fund's objective and its size.

- Certain funds, such as foreign equity funds, have higher costs; and, therefore, higher expense ratios.
- On average, smaller funds may have higher expense ratios than larger funds because they do not benefit from economies of scale.

Understanding Share Classes

A single mutual fund may offer more than one “class” of its shares to investors. Each class will invest in the same portfolio of securities and will have the same investment objectives and policies; however, each class will have different shareholder services and/or distribution arrangements with different fees and expenses; and, therefore, different performance results.

When deciding which share class is best suited for your individual needs, investors should carefully consider the following questions:

- How long do you plan to hold the fund?
- What is the size of your investment?
- Do your family members have existing holdings in this fund family?
- Do you plan to take any distributions in the near future?
- Does your purchase qualify for a breakpoint (discussed below) discount?
- What are the expenses that you will pay for each share class?
- Are you purchasing the fund through a traditional brokerage account, fee-based brokerage account or investment advisory account?

Based on the answers to questions such as these, you may find one share class more appropriate than another. The most common classes of mutual funds are “Class A,” “Class B,” and “Class C.” Although most mutual funds adhere to the following general definitions, it is important to note that share classes may differ among funds. You should review each mutual fund’s prospectus and Statement of Additional Information for specific information regarding the fees and expenses associated with each mutual fund. Both the prospectus and Statement of Additional Information are available from your Investment Executive and from the respective fund companies.

Class A shares usually charge a one-time, front-end sales charge or “load” that is deducted from your initial investment. In addition to the front-end sales charge, Class A shares also impose asset-based fees. The asset-based fees for Class A shares are often lower than those charged for Class B and Class C shares, which generally means the annual expense ratio for Class A shares tends to be lower. Class A shares may offer a discount, called a “breakpoint,” on the front-end sales charge if you:

- **Already hold other mutual funds offered by the same fund family (Rights of Accumulation).**
- **Commit to purchasing mutual fund shares over a specified period of time (Letter of Intent).**
- **Have certain family members who hold funds in the same fund family.**

Usually there are several breakpoint levels. The more money you invest, the greater the breakpoint reduction. Please see a sample breakpoint schedule on the next page.

Sample Breakpoint Schedule

< 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%
250,000 but less than 500,000	2.50%
500,000 but less than 1,000,000	1.50%
1,000,000 and above	0.00%
This is merely a sample schedule of Class A Shares.	

Breakpoint Examples

An investor decides to purchase \$15,000 in Class A shares. Using the sample breakpoint schedule provided, the investor would encounter a 5.00% sales charge. Therefore, \$14,250 will be immediately invested and \$750 will be paid as a fee and, therefore, will not be invested.

The breakpoints offered by fund companies vary. Mutual fund companies are not required to offer breakpoint discounts on front-end load funds, and breakpoint schedules are set by each fund company. Breakpoint schedules, if offered, will vary among fund companies. Please obtain a fund prospectus to review the breakpoints offered.

Breakpoint Discounts

It is important to understand the availability of breakpoint discounts because they may allow investors to purchase Class A shares at a lower price. Mutual funds typically provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales charge decreases. In some cases, the entire sales charge may be waived for investors who make very large purchases. Most mutual fund companies offer investors a variety of ways to qualify for breakpoint discounts on Class A share purchases. For example, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases, through “Rights of Accumulation,” and based upon future purchases through “Letters of Intent.”

Although we are providing general information on some of the various ways to qualify for a breakpoint, please keep in mind that all mutual fund companies do not have the same rules regarding the availability of Rights of Accumulation and Letters of Intent. Therefore, you should discuss these issues with your Investment Executive and review the mutual fund prospectus to determine the specific terms upon which a mutual fund company offers these privileges.

Rights of Accumulation (ROA) may allow investors to reach a breakpoint by:

- Combining both the current and previous fund transactions made in the same mutual fund or different funds within the same mutual fund family.
- Including the value of holdings in accounts of certain related parties, such as a spouse or minor children.

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Under their ROA policy, mutual fund companies typically allow investors to include existing holdings in multiple accounts, such as IRAs or accounts at other brokerage firms, to qualify for breakpoint discounts. Some fund companies may even allow holdings of all share classes including B and C shares to be included for the purposes of breakpoint calculation.

ROA Example:

An investor currently owns \$18,000 of Class A shares in the XYZ Fund and wishes to purchase \$10,000 of Class A shares in another fund offered by the same fund company. Using the sample breakpoint schedule the charge would be 4.25% on the \$10,000 investment, not 5.00% (based on total aggregate amount of \$28,000).

Breakpoints described earlier apply to ROAs.

Letters of Intent (LOI) may be beneficial to investors who intend to invest a certain amount over a specified period of time (usually 13-months) and the total investment will be equal to or exceed the amount needed to qualify for a breakpoint discount.

Signing an LOI commits an investor to purchase a specified dollar amount of Class A shares within a defined period of time. If investors fail to invest the amount stated in their LOI, the fund will retroactively collect the applicable higher fee as indicated in the breakpoint schedule.

**ROA - If you have accounts at other firms and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your Investment Executive about the balances in those accounts.*

LOI Example:

An investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months (investing approximately \$3,847 a month). Signing an LOI will entitle the investor to the \$50,000 breakpoint for each purchase rather than paying the higher sales charge.

Additionally, some funds offer retroactive LOIs that may permit investors to use recently purchased funds to qualify for a breakpoint discount. If you intend to make several purchases within a 13-month period, you should consult your Investment Executive and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

Class B Shares typically do not impose a front-end sales charge; therefore, all of your money is immediately invested. Class B shares usually have higher asset-based fees than Class A shares. This means that your overall annual expenses (as measured by the total expense ratio) are usually higher, which will reduce the return on your investment. If you sell your Class B shares within a certain number of years you may encounter a contingent deferred sales charge (CDSC). This means that you will incur a fee to sell your mutual fund. Typically, the CDSC is reduced each year you hold your shares and eventually is eliminated. Most Class B shares “convert” into Class A shares after a pre-determined time period. Once converted, these shares charge the same annual operating expenses as Class A shares. Therefore, Class B shares may be more suitable for long-term investors making smaller investments that would not be eligible for a breakpoint. In light of this, most fund companies have a maximum dollar amount for B share purchases. Selling Class B shares during the period in which the CDSC applies can significantly diminish the overall return on your investment, especially when you consider the higher annual expenses charged on Class B shares.

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Class C Shares—The full dollar amount is immediately invested because typically these shares do not impose a front-end sales charge. However, Class C shares generally impose a contingent deferred sales charge (CDSC), usually 1%, if you sell your shares within a short time (usually one year) after purchase. Typically, Class C shares impose higher annual operating expenses than Class A shares primarily due to higher asset-based sales charges. Usually, Class C shares do not convert to Class A shares; rather, they continue to charge higher annual expenses for as long as the shares are held. Therefore, Class C shares may be more appropriate for investors with a short-term or uncertain holding period. Investors should recognize they are paying higher expenses for greater liquidity.

Class C shares may be less expensive than Class A or B shares if you have a shorter-term investment period, because you will pay little or no sales charge. If you hold your shares for a longer time period your total expenses will likely be higher than Class A or B shares. When purchasing Class B or C shares, investors cannot take advantage of breakpoint discounts generally available on purchases of Class A shares.

Other Sales Charge Waivers

Right to Exchange: Most mutual fund companies offer investors a right to exchange their holdings of one fund for another fund within the same fund family without incurring an additional sales charge. Various conditions and restrictions may apply, depending on the fund company. The prospectus will outline the terms governing whether or not an investor can avoid paying a sales charge on an exchange. Please note that an exchange may be considered a taxable event.

Reinstatement Feature: Most fund companies allow investors who previously owned shares in a mutual fund to repurchase shares in the same fund (or in another fund within the same fund family) without paying an additional sales charge. Some restrictions may apply, such as time limitations in which the reinstatement privilege may be exercised (for example, within 90 days of the redemption). Depending on the terms stated in the prospectus, a CDSC paid by the investor at the time of sale may be reimbursed upon reinstatement.

Additionally, a limited number of fund families offer a NAV transfer privilege that allows investors to purchase shares at NAV if the monies being invested are the proceeds from the sale of shares of a different fund family on which the investor previously paid a sales charge.

Investment Advisory Accounts

Mutual funds may be purchased in certain investment advisory accounts, where available, with no front-end sales charge or CDSC. (A short-term redemption fee may apply.) Instead of paying a sales charge on each transaction, you pay an annual fee to Davenport based on a percentage of the value of the assets held in the account in addition to the mutual fund's annual expense ratio. Many mutual fund companies offer share classes other than A, B, or C for use in fee-based advisory programs. The share classes available to fee-based accounts may have different cost structures and characteristics from those described above. The total cost of investing and holding mutual fund shares through a fee-based account may be more or less than investing in mutual fund shares in a traditional brokerage account, depending on the amount of the asset-based fee, the specific mutual fund shares in which you invested and the level of activity in your account. Your Investment Executive will be happy to answer any questions you may have about investing in mutual funds through an investment advisory account.

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Davenport & Investment Executive Compensation

In accordance with standard industry practice, Davenport and its Investment Executives receive compensation from the mutual fund companies in which you invest. Typically, compensation is received at the time a purchase is made. This amount may vary among fund families and likely will be different depending on the share class purchased. Additional ongoing compensation (commonly known as “12b-1 fees” or “trails”) may be received if mutual fund shares are held for more than one year. Similar to the initial compensation received, the amount of the 12b-1 fees likely will vary by fund company and by share class. Please feel free to ask your Investment Executive how he or she will be compensated on any particular transaction.

Stay Involved and Be Proactive

Determining which share class is most suitable for you is an ongoing process. Therefore, we encourage you to regularly practice the following:

- Review a copy of the fund’s prospectus
- Carefully consider your investment time horizon
- Understand how breakpoints work
- Communicate with your Investment Executive about changes in your objectives and holdings

To learn more about mutual funds and their costs, visit the following websites:

- Securities and Exchange Commission at www.sec.gov
- FINRA at www.finra.org
- Securities Industries and Financial Markets Association at www.sifma.org
- Investment Company Institute at www.ici.org

Your Davenport Investment Executive is available to provide you with any additional information you may need or to answer questions you may have regarding investing in mutual funds.