INTEGER WEALTH GLOBAL

Share Classes Explained

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Investing in mutual funds through a broker or other investment professional sometimes means choosing among different fund classes. One of the main differences among these classes is how much you will pay in expenses and how much your broker will be paid for selling you the fund. Before deciding on a share class within a fund, it is important for you to understand the differences between them.

What Are Fund Share Classes.?

A single fund, with one investment portfolio and one investment adviser, may offer more than one "class" of its shares to investors. Each class represents a similar interest in the fund's portfolio. The fund will charge you different fees and expenses depending on the class you choose. Some classes provide rights or benefits that others do not.

When deciding which share class is best for you, carefully consider:

- How long you plan to hold the investment into the fund.
- The size of your investment.
- Whether you qualify for any sales charge discounts or other fee waivers.

You can find out whether a mutual fund has different classes by looking at the prospectus. The most common share classes being either A, B, C, and Transaction (or "clean") shares.

What Types of Fees and Expenses Will I Pay.?

All mutual funds charge fees and expenses, some of which you pay directly (like sales charges and redemption fees) and others that come out of the fund's assets (to pay for such things as managing the fund's portfolio, or marketing and distribution). These fees and expenses can vary widely from fund to fund or fund class to fund class. Even small differences in expenses can make a big difference in your return over time

> *'When choosing among different fund share classes, be aware that your investment professional might receive higher (or lower) commissions or payments from the sale of one share class relative to another.'*

Class A Shares

Class A shares typically impose a front-end sales charge, which means a portion of your money is not invested and is instead paid in part to the brokerage firm selling you the fund. Let's say you spend €1,000 to purchase Class A shares, and the fund imposes a front-end sales charge of 5 percent. You pay the 50 (5% of €1,000) up front and receive shares with a market value of €950.
Class 'A' shares may impose an asset-based sales charge (often from 0.25 percent upwards per year), but it generally is lower than the charge imposed by the other classes (often 1 percent per year for Class B and C shares).

Depending on the size of your purchase, the mutual fund might offer you discounts, called breakpoints, on the front-end sales charge. For example, a fund may charge a smaller percentage front-end sales charge (4.5 percent instead of 5 percent if you invest at least €50,000 in the fund.

There are different ways you can qualify for a sales charge breakpoint. Often you can qualify for a breakpoint in your sales charge if you:

- Make a large purchase.
- Already have investments in the same fund or other funds offered by the same fund family, which count toward the investment amount needed to get a breakpoint (Rights of Accumulation).
- Have family members (or others with whom you may link according to fund rules) who have invested in the same fund family.
- Commit to regularly purchasing the mutual fund's shares over a specified time period with a Letter of Intent (LOI).

Another way to invest in Class 'A' shares without paying a front-end sales charge is by exchanging your investment in one fund for an investment in another fund in the same fund family.
For example, let's say you redeem (sell) €25,000 of your Class A Shares of the ABC Growth Fund and invest the proceeds in Class 'A' Shares of the ABC International Fund. Since you already paid a sales charge when you invested in the Growth Fund, you won't be charged a new sales charge for your €25,000 investment in the International Fund.

Always ask your investment professional whether any breakpoint discounts or sales charge waivers are available to you.

Class 'A' shares also charge management fees and 12b-1 fees. Management fees are the same for all share classes of any fund, but different funds often have different management fees. However, 12b-1 fees for Class 'A' shares are generally lower than the 12b-1 fees for class 'B' and 'C' shares. Because of lower 12b-1 fees, total operating expenses on class 'A' shares, over time, are generally lower, too.

Class 'B' Shares

Class 'B' shares typically do not charge a front-end sales charge when you buy shares, but they normally impose what's called a contingent deferred sales charge (CDSC) if you sell your shares within a certain period, often six years.
Sometimes called a 'back-end load', the CDSC normally declines the longer you hold your shares and, eventually, is eliminated. Within two years after the CDSC is eliminated, Class 'B' shares often "convert" into lower-cost Class 'A' shares. When they convert, they begin to charge the same fees as Class 'A' shares.

Because Class 'B' shares do not impose a sales charge at the time of purchase, all of your dollars are immediately invested — unlike Class 'A' shares. But your annual expenses, as measured by the expense ratio, may be higher. You also may pay a sales commission when you sell your Class 'B' shares. 'B' shares generally impose a 12b-1 fee that is higher than what you would incur if you purchased class 'A' shares.

If you intend to purchase a large amount of Class 'B' shares (over €50,000 or €100,000, for example), you may want to discuss with your investment professional whether Class 'A' shares would be preferable. The expense ratio charged on Class 'A' shares is generally lower than for Class 'B' or 'C' shares. The mutual fund also may offer large-purchase breakpoint discounts from the front-end sales charge for Class A shares.

Most mutual funds no longer offer Class 'B' shares, so they may not be an option for you.

Class ‘C’ Shares

Class ‘C’ shares do not impose a front-end sales charge on the purchase, so the full Euro amount that you pay is invested. Often Class ‘C’ shares impose a small charge (often 1 percent) if you sell your shares within a short time, usually one year. They typically impose higher asset-based sales charges than Class ‘A’ shares. Unlike ‘B’ shares, they typically do not convert to class ‘A’ shares and, instead, continue to charge higher annual expenses (including 12b-1 fees) for as long as the shares are held.

Like class ‘B’ shares, ‘C’ shares typically impose higher annual operating expenses than class ‘A’ shares due, primarily, to higher 12b-1 fees.
Class ‘C’ shares may be less expensive than class ‘A’ or ‘B’ shares if you have a shorter-term investment horizon because you will pay little or no sales charge. However, your annual expenses could be higher than class ‘A’ shares, and even class ‘B’ shares, if you hold your shares for a long time.

Transaction (‘Clean’) Shares

‘Transaction Shares’ is a term that applies to a class of fund shares without any front-end load, deferred sales charge, 12b-1 fees, or other asset-based fee for sales or distribution. Even though ‘Transaction Shares’ do not impose any sales charges, in some cases, a brokerage firm may separately require you to pay a sales commission when you invest in these shares. If your trades generate a commission, work with your financial professional to estimate your trading frequency (also called annual turnover) for the fund. This frequency may be related to how often you rebalance, reallocate, or redeploy assets in your portfolio.
Also, if you invest in ‘Transaction Shares’ through an investment advisory account, normally you will pay the investment adviser a fee equal to a percentage of your assets in the account for providing ongoing advice to you.

There is no ‘one-size-fits-all’ when it comes to these shares, so you should talk to your financial professional about what rights and benefits you are eligible for. It is also important to know that with ‘Transaction Shares’, some brokerage firms may not offer sales charge breakpoint discounts or waivers that would be available if you invested in Class ‘A’ shares, such as through rights of accumulation, letters of intent, and exchanging shares of one fund for shares of another fund in the same family.

The Pro’s and Con’s of Different Share Classes

Class A Shares

A-shares charge an upfront sales fee, or front-end load, that is deducted from your initial investment.

Pros

- Lower 12b-1 Fees: Class A shares tend to have lower 12b-1 fees, which are marketing and distribution fees included in the fund's expense ratio. If you plan on holding these shares for several years, then a front-end load might be beneficial in the long run.
- Breakpoints: These provide a discount off regular front-end load rates each time your investment reaches a certain amount in a series. If the first breakpoint is €25,000, you could invest that amount initially to receive the first discount. Breakpoints clearly favour those with more money to invest.
  (12b-1 fees are fees paid out of mutual fund or ETF assets to cover the costs of distribution – marketing and selling mutual fund shares – and sometimes to cover the costs of providing shareholder services.)

- Rights of Accumulation: You get a discount on the front-end load if you reach the first breakpoint with subsequent instalments. Suppose that the first breakpoint is €25,000, but your initial investment was €10,000. If you invest another €15,000 to reach the breakpoint, you will receive a discounted front-load fee. This is helpful when saving for retirement because working-age adults generally are able to invest more year by year.
- Letter of Intent: Some companies offer front-end load discounts upfront to individuals who initially express the intent to invest more. They must indicate the intention to invest an amount over a specific breakpoint by a particular time.

Cons

- A High Initial Investment: Investors who do not have a high enough balance to reach a breakpoint before the deadline indicated by a letter of intent have to pay regular front-end fees.
- A Long Time Horizon: These funds are not optimal for investors hoping to cash in soon. Suppose that your initial investment is €4,750 after €250 in front-load fees, and your investment increases by 3% during the course of a year. If you sell at the end of the year, you would have actually lost money: (€4,750 x 1.03) - €5000 = - €107.50, or a loss of 2.15%.

Class B Shares

B-shares have a back-end or contingent deferred sales charge. This fee is paid when you sell shares a specified period of years after the original purchase. These shares are typically good for investors with limited cash to invest and a long investment horizon.

Pros

- No Front-End Fees: Your entire initial investment contribution benefits from capital gains and interest income. That is a substantial benefit for new investors saving for retirement because of the power of compound returns. Consider a stock fund that earns 10% per year over 30 years. The initial investment will be worth over 17 times as much in the end. A few hundred dollars saved in front-end fees means a few thousand dollars at retirement time.
- Deferred Sales Charges: The longer you hold the shares, the lower your deferred sales charge. That is another benefit for investors with long time horizons.
- Conversion to Class A: Class B shares automatically convert to Class A shares after a specific holding period. This conversion is beneficial because Class A shares have a lower yearly expense ratio than Class B shares.

Cons

- Long Time Horizon Required: If you withdraw funds within a certain period of time, you will be charged a back end or deferred sales charge. One must typically remain in the fund for five to eight years to avoid the exit fee.
- No Breakpoints: Class B shares do not provide breakpoints on the deferred sales charge. Regardless of how much you invest, there is no discount on these charges. That can be a significant drawback for wealthy investors.
- Higher Expense Ratios: Class B shares charge higher expense ratios than both Class A and Class C shares until shares are eligible to be converted to Class A.

Class C Shares

Class C shares are a type of level-load fund, which charges an annual fee. This class works well for individuals who could be redeeming their shares in the short term.

Pros

- No Front-End Fees: Your entire initial investment contribution earns interest income.

- Small Back-End Load: The back-end load is typically a modest 1%.
- Opportunity to avoid ‘Back-End Load’: The back-end load is usually removed after the shares have been held for one year.

Cons

- Back-End Load: A back-end load—although small—is typically charged if funds are withdrawn within the first year.
- Higher Expense Ratios: Even though the expense ratios of Class C shares are lower than those of Class B shares, they are still higher than those for Class A shares.
- No Conversion: Unlike Class B shares, Class C shares cannot be converted into Class A shares. That removes the opportunity for lower expense ratios. If you have a long-time horizon, Class C shares are not for you as the higher management fees continue indefinitely. In fact, your investment returns will be reduced the longer you stay invested because the fees will add up over time.
- No Discounts: Class C shares do not offer discounts on expenses when the account reaches certain levels.

The Disappearing Middle Class

Although we've looked at all three classes, the middle class of mutual funds—the B-shares—have been disappearing from the mutual fund industry.
There are several reasons for this, but chief among them was more regulatory focus on fees. 12b-1 fees have been a source of shareholder lawsuits against fund companies for alleged misuse.

As a result, many funds companies are dropping these fees and shrinking the class offerings to compete with exchange-traded funds (ETF’s).
ETFs themselves put pressure on Class B shares by providing a low-fee alternative for investors with limited investment capital. In short, Class B shares still exist, but they are a dying breed.

Applying the Pros and Cons

See how the characteristics and pros and cons described above work in the following share classes of the hypothetical ‘ABC’ Company Bond Fund

ABC Company Bond Fund, ‘A’ Versus ‘C’ Comparison

Class	Symbol	Front End	Back End	12b-1 Fees	Details
A	PAEMX	3.75%	1%	0.25%	- 2021 total yearly return = 8.86% - expense ratio = 1.2% - €1,000 min investment
C	PEBCX	n/a	1%	1.00%	- 2021 total yearly return = 9.35% - expense ratio = 1.95% - €2,500 min investment

In this example, you can see how these two share classes are better for different types of investors and situations.

Suppose that you plan on investing in this fund for retirement and your retirement is 20 years away. Class A shares would work best because they offer costs that decline over time.

If you plan to invest just one lump-sum amount and it is enough to qualify for a breakpoint discount, Class A would also be the best over time. With a large initial investment, you would get a discount on the load. Your yearly expense ratio and 12b-1 fees would also be very low, allowing your investment to grow.

Class C shares would work best if you were planning to invest for a limited period of more than one year but less than three. This way, you avoid both front-end and back-end loads.

Although your expense ratio will typically be higher than Class A shares, your full investment will gain interest while it is invested. Since you are only in the fund for a few years, the yearly fees do not have a chance to pile up.