

# Understanding mutual fund share classes and fees

## Highlights

- Mutual funds may offer different share classes—most commonly in retail brokerage accounts, Class A, B and C shares. Other share classes may be offered without upfront, ongoing or back-end sales charges in advisory accounts
- In retail brokerage accounts, the share class you choose affects when and how much you pay in sales charges and fees, which in turn can significantly affect your return on investment
- Your Financial Advisor can help you determine whether you qualify for a discounted sales charge
- It is important to understand how UBS and your Financial Advisor are compensated when you purchase mutual fund shares

This overview broadly describes mutual fund share classes most commonly offered in retail brokerage accounts, including their effect on the fees you pay and the return your investments earn. Because every mutual fund family is different, we recommend that you refer to a fund's prospectus for details on that fund's share classes and fees.

Please contact your Financial Advisor with questions. Additional information is available from the Financial Industry Regulatory Authority (FINRA), an independent regulator, at [www.finra.org](http://www.finra.org).

**Offshore funds.** Most of the information in this overview also applies to unregistered (offshore) mutual funds, with these differences:

- Offshore funds have an offering document. This document may be called a prospectus or offering statement
- Sales charges for offshore funds may be negotiable
- Offshore funds may offer discounts which differ from discounts commonly available in onshore funds
- Offshore funds may be free from U.S. withholding tax on income earned on investments and excluded from U.S. estate tax calculations

## Why share classes matter

A mutual fund may offer different types, or classes, of shares. Each share class invests in the same group of securities, has the same investment objectives and follows the same investment policies.

What's different for each class is *how much* you pay in fees and *when* you pay those fees, which can significantly affect long-term return on your investment.

To determine what share classes a mutual fund offers, ask your Financial Advisor and review the fund's prospectus. The prospectus contains fee tables, details on waivers and discounts, examples and other useful information. Then, to choose the appropriate share class, consider the following:

- How long you plan to hold the investment
- How much you plan to invest
- Whether you qualify for any discounts
- Whether the investment will be made in a brokerage or advisory account

## Types of fees

To understand the differences among share classes, you should first review the types of mutual fund fees:

*Upfront sales charge or front-end sales charge* – A fee you pay at the time you purchase mutual fund shares. This fee is deducted from your initial investment amount. In many cases, you can qualify for discounts, as described in "Discounts and Breakpoints" on page 3.

*Surrender charge or back-end sales charge* – A fee you pay when you redeem your shares, it is also known as a "contingent deferred sales charge," or CDSC.

*Management and administrative fees* – Management fees are paid by the fund itself to the investment adviser who manages the fund's portfolio. Administrative fees cover other operating expenses.

*12b-1 distribution fees* – Named after a Securities and Exchange Commission (SEC) rule, this annual fee is paid from the fund's assets to cover marketing and distribution costs.

Many mutual fund families also charge a redemption fee (typically 1.00% to 2.00%) if you redeem shares shortly after purchasing them. See the mutual fund’s prospectus for details.

### Common share classes

Following are brief, general descriptions of common mutual fund share classes. Because the specifics of Class A, B, and C shares can vary significantly, it is important to review a fund’s prospectus before investing.

#### Class A shares

- Generally have an upfront sales charge, deducted from your initial investment amount
- May offer discounts if you invest a large amount, hold related mutual funds, commit to buying more shares or aggregate your holdings with those of qualifying family members
- Generally have lower 12b-1, management and administrative fees than Class B and Class C shares
- Class A shares purchased in advisory programs are typically offered at net asset value (NAV), free of any sales charges

*Why choose Class A in brokerage accounts?* Class A shares are usually the most economical over the long term because ongoing fees are lower than for other classes and because they offer sales charge discounts or breakpoints for quantity purchases.

Class A shares may be especially suited for investors who:

- Plan to hold the investment more than four years
- Can invest more, taking advantage of quantity discounts

#### Class B shares

- Generally have a surrender charge or back-end sales charge, called a “contingent deferred sales charge” (CDSC), which you pay when you redeem your shares
- Typically offer decreasing CDSC each year you hold the shares, until it reaches zero (usually after six years)
- Generally have 12b-1, management and administrative fees that are higher than Class A shares and the same as Class C shares

- Normally convert automatically to Class A shares, with lower annual fees, if you hold them long enough (generally eight years)

*Why choose Class B?* Investors who want to avoid a sales charge upfront may choose Class B shares. Class B shares may be especially suited for investors who:

- Plan to hold shares longer than six years. Otherwise, a sales charge will be assessed
- Are investing smaller amounts, generally less than \$50,000—not enough to qualify for the Class A discounts (and thus Class A’s lower ongoing fees)

#### Class C shares

- Generally do not have an upfront sales charge
- May have a small surrender charge or back-end sales charge (CDSC) when you sell your shares. The CDSC for these shares typically decreases to zero within 12 to 24 months, except for reinvested dividends or capital gains
- May impose sales and 12b-1 fees that are usually higher than for Class A and the same as for Class B
- Generally do not convert to Class A shares, which means higher operating expenses continue for as long as you hold the shares

*Why choose Class C?* Class C shares may be less expensive than Class A or B shares if you have a shorter investment timeline, because you will pay little or no upfront sales charge. If you hold your shares for several years, however, your annual expenses could be higher than Class A shares and even Class B shares. Class C shares may be especially suited for investors who:

- Plan to hold the investment less than four years, or are uncertain about their time horizon
- Have smaller amounts to invest—less than \$250,000
- Prefer to avoid an upfront sales charge

Some funds may offer Class C shares with no CDSC. These shares are commonly known as “liquid C shares.” We recommend that you consider how the fee structure for “liquid C shares” might impact the overall fees you pay and the return your investments earn.

### Mutual Fund Classes Comparison Chart

|   | Class A   | Class B   | Class C  |
|---|---|---|--|
| Front-End Load                          | Initial sales charge. Can be reduced or eliminated by breakpoint discounts. | None.   | Generally none.  |
| Contingent Deferred Sales Charge (CDSC) | None.   | Declines over several years   | A lower CDSC than Class B and eliminated after one year. |
| 12b-1 Fees                              | Typically, lower than Class B and C shares.                                 | Typically, higher than Class A shares.  | Typically, higher than Class A shares.                   |
| Converts to Class A Shares              | N/A   | Converts to Class A shares after several years, thereafter reducing expenses. | Generally no. Annual expenses remain at Class C level.   |

Source: FINRA

## Other share classes

Fund families may offer a number of other share classes, intended for retirement accounts, advisory programs, institutional clients 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 Advisor.

## 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 up front, 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.

Your Financial Advisor uses an automated Mutual Fund Cost Calculator to evaluate the relative costs of A, B and C shares over the time you intend to hold the investment. You can find a similar calculator called the Fund Analyzer at [www.finra.org](http://www.finra.org).

## Discounts and Breakpoints

You have several ways to reduce the upfront sales charge on Class A shares. Discounts are generally available if you:

- *Make a large investment.* The more you invest, the lower your sales charge. There are usually several thresholds, called "breakpoints," typically starting at \$50,000, with no charge for investments of \$1 million or more
- *Hold mutual funds in the same fund family.* You can generally get a sales charge discount by purchasing various mutual funds from the same fund family, even if they're different share classes, for different account types (IRA, trust, etc.), or held at a firm other than UBS
- *Sign a letter of intent.* If you commit to buy a specified dollar amount of additional shares within a specific period, usually 13 months through a letter of intent, some mutual funds let you apply the discount retroactively. If you do not make your purchase within the specified time, the fund family will sell shares in your account to make up for the discount you received and restrict you from selling fund shares in that amount
- *Aggregate your shares with other shares in the fund held by qualifying family members.* To make sure you receive all applicable breakpoint discounts, ask your Financial Advisor to link, or "household," all your accounts (i.e., individual, pension, 401(k), IRA, trust and investment clubs) and related accounts such as those of immediate family members. With these accounts linked, UBS can aggregate your holdings and determine your eligibility for breakpoint discounts

- *Reinvest dividends and capital gains, or earlier redemptions.* Mutual funds may waive sales charges when you reinvest dividends and capital gains. Some fund families offer a "reinstatement privilege," waiving sales charges when you reinvest proceeds from an earlier redemption of a specific share class in the same fund or fund family. They may also offer a "NAV transfer" privilege, in which you can use the redemption proceeds to buy funds in a different mutual fund family. Time limits and other conditions may apply; refer to the prospectus for details

## Working with your Financial Advisor

Your Financial Advisor can help you determine which mutual fund share classes are most appropriate for your specific situation. He or she will consider your investment objectives, risk comfort level, liquidity needs, current holdings, tax situation and other factors.

In particular, your Financial Advisor will look at your time horizon, the amount you have to invest, and the fund's share class fees, using the UBS Mutual Fund Cost Calculator to evaluate the relative costs of A, B and C shares over the time you intend to hold the investment.

Be sure to tell your Financial Advisor about any mutual funds you and your immediate family currently hold, through UBS or through other financial institutions. These holdings may qualify you for sales charge discounts on a new purchase. As a matter of course, your Financial Advisor also checks for other discounts to which you may be entitled.

## How UBS Financial Services Inc. and your Financial Advisor are compensated when you buy mutual funds

The mutual fund type and share class you buy, as well as the type of account you have, affect how UBS Financial Services Inc. and your Financial Advisor are compensated. Please contact your Financial Advisor if you are interested in obtaining more information. Additional information is available in "[Understanding our fees, charges and other compensation.](http://www.ubs.com/guidetofees)" ([www.ubs.com/guidetofees](http://www.ubs.com/guidetofees))

## Fees you pay

*Sales charges.* When you pay an upfront sales charge, or sell shares and pay a contingent deferred sales charge, the mutual fund company typically keeps a small portion of that charge and pays the rest to UBS, which in turn pays your Financial Advisor.

For example, if you buy \$10,000 of Class A mutual fund shares with a 5.75% upfront sales charge, you would pay a sales charge of \$575. Typically, the mutual fund company would keep \$75. UBS would receive \$500 and pay part of that amount to your Financial Advisor, based on a standard compensation formula. The formula is the same for every mutual fund family we offer.

If you have a fee-based account, you do not pay a sales charge on your mutual fund purchase. Instead, the purchase is added to the total value of your account, on which we charge an account fee. UBS keeps part of this fee and pays the rest to your Financial Advisor.

*12b-1 fees.* Mutual funds pay a 12b-1 annual distribution fee to UBS, directly from the fund's assets. In turn, we generally pay part of this fee to your Financial Advisor. The amount varies among funds and share classes, but it typically is 0.20% to 1.00% per year of the fund's total assets. The exact amount is disclosed in the fund's prospectus.

*Processing and networking fees.* UBS charges a \$5.25 processing and handling fee on the purchase and sale of most mutual fund shares in commission accounts, to defray transaction processing costs. No part of this fee is paid to Financial Advisors. If a mutual fund company does not pay UBS networking or revenue sharing fees, described in the following section, UBS may charge you a \$75 transaction fee.

### **Fees paid by the mutual fund, fund distributor and/or adviser**

*Networking or omnibus fees.* UBS receives networking or omnibus fees for services we provide in supporting mutual fund transactions for registered funds only. These fees generally are paid from the fund's assets but may be partly subsidized by affiliates of the mutual funds. Networking fees are generally calculated by applying our standard networking rate of \$12 each to clients' mutual fund investments that exceed \$500 and are held at UBS Financial Services Inc. For omnibus processing, the rate is generally higher than \$12 (typically \$16 to \$22) depending on the share class and level of services provided. A portion of the payments we receive for omnibus processing is paid to the transfer agent. Your Financial Advisor does not receive a portion of this compensation.

*Revenue sharing.* UBS receives revenue-sharing compensation from certain distributors or advisers of mutual funds we sell. Revenue-sharing payments may present a conflict between our interests and those of our customers, because the payments give us an incentive to recommend that our customers buy and hold shares of those funds that we maintain on our distribution platform and for which we receive revenue-sharing payments. These compensation amounts are based on two components:

- The amount of sales by UBS of a particular mutual fund family to our clients, and
- The asset value of a particular mutual fund family's shares held at the firm

Revenue-sharing payments are one factor among many we use to determine a fund's access to our branches.

UBS evaluates mutual fund families to see how their funds fit our investment models. We require that these payments be made directly from the distributor or adviser, not from the mutual funds or indirectly through mutual fund portfolio trading commissions, because revenue-sharing payments are intended to compensate us for ancillary sales services. Except as noted below, these amounts are not rebated to you or paid to Financial Advisors.

In general, we charge each mutual fund family the following amounts:

- 0.08% per year (paid quarterly) on all sales of mutual fund shares (excluding sales through wrap-fee programs)
- Up to 0.18% per year (paid quarterly) of the asset value of all equity mutual fund shares held at UBS Financial Services Inc.
- Up to 0.10% per year (paid quarterly) of the asset value of all fixed income mutual fund shares held at UBS Financial Services Inc.

Except as noted below, this calculation includes shares of affiliated and non-affiliated funds in our wrap-fee programs, but does not include UBS PACE Money Market investments or mutual fund assets held at other financial institutions or ERISA assets held in discretionary advisory programs.

We may institute caps at certain asset and sales levels, including comprehensive caps (the total amount we can receive from a particular fund company), and may exclude certain mutual fund shares from the above calculations.

Although we seek to apply a level payment schedule for all the companies whose funds we sell, we recognize that some mutual fund companies may decline to pay revenue sharing exactly at the levels previously listed or at all. This may present a financial disincentive for us to promote the sale of those funds.

Although approximately 5,000 mutual funds from nearly 300 different mutual fund families are available through our distribution platform, this is only part of the universe of mutual funds available in the marketplace. Our clients may purchase certain other mutual funds through the FundConnect system at a charge of \$75 per transaction, plus other customary sales charges.

The revenue sharing information above is current as of the date of this brochure and can be changed at our discretion. For updates, visit [www.ubs.com/mutualfundrevenuesharing](http://www.ubs.com/mutualfundrevenuesharing).

*Finder's fees.* Our Financial Advisors may receive "finder's fees" from certain mutual fund companies, up to 1.00% of sales of a particular mutual fund. Generally, these finder's fees offset other fees payable to UBS Financial Services Inc. by the client purchasing the particular mutual fund.

*Affiliate payments.* Our affiliate, UBS Global Asset Management (US) Inc., may make payments out of its own resources for the sales of Class Y shares in certain Global Asset Management funds. We pay a portion of these

payments to the Financial Advisor who originates the sale. These payments, detailed in the fund's prospectus, may create a financial incentive for our brokers to recommend Class Y shares of these UBS proprietary funds over non-proprietary products.

*Non-cash compensation.* UBS and our Financial Advisors may receive non-cash compensation from mutual fund companies, in the form of:

- Occasional gifts
- Occasional meals, tickets or other entertainment

- Sponsorship support of training events for our employees
- Various forms of marketing support

### Questions

If you have questions about mutual funds, please contact your Financial Advisor.

Mutual funds are sold by prospectus. More complete information about the funds including information on investment objectives, risks, charges and expenses is detailed in the prospectus. Please read the prospectus and consider this information carefully before investing.

Neither UBS Financial Services Inc. nor its Financial Advisors provide tax or legal advice. Please consult your personal tax and/or legal advisors regarding your individual situation.

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110203-2770-006

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