Glossary of Key Mutual Fund Terms

www.sec.gov/investor/pubs/inwsmf.htm

12b-1 fees — fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. “Distribution fees” include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. “Shareholder service fees” are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

Account fee — a fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.

Back-end load — a sales charge (also known as a “deferred sales charge”) investors pay when they redeem (or sell) mutual fund shares, generally used by the fund to compensate brokers.

Classes — different types of shares issued by a single fund, often referred to as Class A shares, Class B shares, and so on. Each class invests in the same “pool” (or investment portfolio) of securities and has the same investment objectives and policies. But each class has different shareholder services and/or distribution arrangements with different fees and expenses and therefore different performance results.

Closed-end fund — a type of investment company that does not continuously offer its shares for sale but instead sells a fixed number of shares at one time (in the initial public offering) which then typically trade on a secondary market, such as the New York Stock Exchange or the Nasdaq Stock Market. Legally known as a “closed-end company.”

Contingent deferred sales load — a type of back-end load, the amount of which depends on the length of time the investor held his or her shares. For example, a contingent deferred sales load might be (X)% if an investor holds his or her shares for one year, (X-1)% after two years, and so on until the load reaches zero and goes away completely.

Conversion — a feature some funds offer that allows investors to automatically change from one class to another (typically with lower annual expenses) after a set period of time. The fund’s prospectus or profile will state whether a class ever converts to another class.

Debentures — written acknowledgments of debt.

Deferred sales charge — see “back-end load.”

Distribution fees — fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as “12b-1 fees.”

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Diversification — Spreading your investments across a wide range of products, companies and industry sectors can help lower your risk if a company or sector fails.

Dollar cost averaging — the practice of investing equal amounts of money at regular intervals

Exchange fee — a fee that some funds impose on shareholders if they exchange (transfer) to another fund within the same fund group.

Exchange-traded funds — a type of investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares, for example).

Expense ratio — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

Front-end load — an upfront sales charge investors pay when they purchase fund shares, generally used by the fund to compensate brokers. A front-end load reduces the amount available to purchase fund shares.

Index fund — describes a type of mutual fund or unit investment trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

Investment adviser — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

Investment company — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts.

Liquidity — the ease of exchanging an investment for cash.

Load — see "Sales charge."

Management fee — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other expenses" category. A fund's management fee appears as a category under "Annual fund operating expenses" in the fee table.

Market index — a measurement of the performance of a specific "basket" of stocks considered to represent a particular market or sector of the U.S. stock market or the economy. For example, the Dow Jones Industrial Average (DJIA) is an index of 30 "blue chip" U.S. stocks of industrial companies (excluding transportation and utility companies).

Mutual fund — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

NAV (Net asset value) — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

No-load fund — a fund that does not charge any type of sales load. But not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

Open-end company — the legal name for a mutual fund. An open-end company is a type of investment company

Operating expenses — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.

Preferred shares — A special variety of stock that (usually) pays a fixed dividend, and whose holders have a claim on the company's earnings and assets that precedes the claim of those who hold common stock.

Principal — the actual money at risk, your original investment.

Portfolio — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

Profile — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

Prospectus — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

Purchase fee — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.

Redemption fee — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.

Sales charge (or "load") — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but the NASD's rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.

Shareholder service fees — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

Statement of additional information (SAI) — conveys information about an open- or closed-end fund that is not necessarily needed by investors to make an informed investment decision, but that some investors find useful. Although funds are not required to provide investors with the SAI, they must give investors the SAI upon request and without charge. Also known as "Part B" of the fund's registration statement.

Total annual fund operating expense — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

Unit investment trust (UIT) — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

For more information on this and other topics, see: www.ag.ndsu.nodak.edu

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