

Mutual Fund Breakpoints

Mutual funds have different ways of charging fees and expenses to investors. Investors who buy Class A shares of a mutual fund usually pay a front-end sales charge or load. Frequently Class A mutual funds offer discounts that reduce and sometimes even eliminate this front-end sales charge for larger investments. **Breakpoints** are the investment amounts at which a fund offers investors these sales charge discounts. The more you invest, the greater the discount to which you may be entitled.

What a Sample Breakpoint Schedule Looks Like

Breakpoint discounts usually start at investment levels of \$50,000, but may begin at \$25,000. Here's a sample breakpoint schedule.

Your Investment	Your Sales Charge
Less than \$25,000	5.00%
At least \$25,000, but less than \$50,000	4.25%
At least \$50,000, but less than \$100,000	3.75%
At least \$100,000, but less than \$100,000	3.25%
At least \$250,000, but less than \$500,000	2.75%
At least \$500,000, but less than \$1 million	2.00%
\$1 million or more	No sales charge

Note: Not all funds have breakpoints. Mutual funds are not required by law to offer breakpoint discounts on front-end load funds, and while many do, some do not. No-load mutual funds and most mutual fund share classes other than Class A shares do not offer breakpoints to investors because such funds do not charge front-end sales loads.

Why Are Breakpoints Important?

Breakpoint discounts increase the potential earning power of your investments by allowing you to invest more of your money in the fund instead of paying it out in sales charges. That's why it pays to know how your fund's breakpoint discount plan is structured so, if you qualify, you can ensure you receive the maximum discount. Because each fund's breakpoint schedule and policies can vary, you should find out how breakpoints work at funds where you and your family have significant investments. Most funds allow you to qualify for a breakpoint discount based on the amount of money you invest in one mutual fund. But there are other ways to earn a breakpoint discount. For example, you may be able to qualify for a breakpoint discount based on combining your current purchases with:

- Purchases you made at different times
- Purchases you intend to make in the future
- Purchases of other funds in the same family of funds
- Purchases you made in several accounts, even accounts at other firms

- Purchases by your close family members, such as your spouse or child

A mutual fund's policies on "rights of accumulation" and "letters of intent" usually explain how you can combine these various mutual fund purchases to qualify for a breakpoint discount.

Your Right of Accumulation

A fund's policy regarding right of accumulation (ROA) details how an investor can combine accounts and which types of accounts are eligible for breakpoints. Why is this important? Suppose you want to invest \$10,000 in Fund XYZ, and its ROA policy tells you that you and your spouse's retirement and non-retirement accounts can be combined with your own to determine whether you qualify for breakpoint discounts. Now suppose you and your spouse each have Individual Retirement Accounts (IRAs) invested in Fund XYZ's Total Market Return Fund and you also have a non-retirement investment in Fund XYZ's Global Growth Fund. If all these investments reach a breakpoint, you should receive a discount on the sales charge you pay on your \$10,000 purchase.

How Funds Value Pre-Existing Holdings

Mutual funds use different methods to value your pre-existing holdings to determine whether you qualify for a breakpoint. Most mutual funds use the current net asset value (NAV) of your holdings, which is the dollar amount for which you could sell your holdings, to determine whether you qualify for a breakpoint discount. However, some mutual funds use the current Public Offering Price (POP), which is the NAV plus the maximum sales load that you would have been paid for the shares. Finally, some mutual funds allow you to use the greater of the market value (NAV or POP) or the historical investment cost, which is the price that you actually paid for the shares. When the stock market is down, historical costs may exceed the market value.

Making Your Investment Intentions Clear

What if you intend to make a series of investments over a period of time – perhaps over the next 13 months – that equals or exceeds the investment amount needed to qualify for a breakpoint discount? You can sign a Letter of Intent (LOI), in which you agree to purchase a specified amount of mutual fund shares over a set period of time. By telling the fund company in writing that you'll invest \$25,000, \$50,000 or more over a specified time period, you may be entitled to count your planned investing as a lump-sum investment now, which may in turn make you eligible for a breakpoint discount now, instead of having to wait.

Note of caution: If you fail to invest the amount stated in your LOI, the fund can retroactively collect the fee.

How To Find Out if Your Fund Offers Breakpoints

You can find a fund's breakpoint schedule and conditions through which the discounts are available in a fund's prospectus or "Statement of Additional Information." Typically, you will find this information in the "sales charges" section of these documents. You can obtain these documents by calling your Registered Representative; calling or writing the mutual fund company; or accessing the mutual fund company's website.

Be Proactive About Breakpoints

There are a number of steps you can take to make sure you are paying the lowest possible price for a fund that charges a front-end sales load:

- **Understand how breakpoints work.** Make sure you understand the fund's breakpoint program. Ask your Registered Representative for an explanation. Go to the fund's website. Read a fund's prospectus and Statement of Additional Information before you make a purchase for information on the terms and conditions of any available breakpoints.

- **Review your mutual fund holdings.** In order to ensure you're not missing any fund investments that could count toward breakpoint discounts, you may wish to collect all monthly and quarterly mutual fund statements. Make sure you include funds held in retirement accounts and college savings vehicles and those held by family members.
- **Keep your broker informed.** If you may be eligible for discounts due to accounts held at other firms or accounts held by family members, you would need to provide that information to your Registered Representative in order to receive a breakpoint discount.
- **Follow up.** After you purchase a mutual fund with a front-end sales load, follow-up to see that any applicable breakpoint discounts are correctly applied. You can do this by reviewing the confirmation or the first subsequent account statement you receive after making a purchase. If you don't think you received the right discount, ask your Registered Representative why you did not receive the right discount. Your account should be credited or an adequate explanation should be provided.