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# Glossary of Mutual Fund Terms

*For an explanation of fund types, see pages 3-6.*

**Adviser**—An organization employed by a mutual fund to give professional advice on the fund's investments and asset management practices (also called the investment adviser).

**After-Tax Return**—The total return of a fund after the effects of taxes on distributions and/or redemptions have been assessed. Funds are required by federal securities law to calculate after-tax returns using standardized formulas based upon the highest tax rates. (Consequently, they are not representative of the after-tax returns of most mutual fund shareholders.) These standardized after-tax returns are irrelevant for shareholders in tax-deferred retirement accounts.

**Annual and Semiannual Reports**—Summaries that a mutual fund sends to its shareholders that discuss the fund's performance over a certain period and identify the securities in the fund's portfolio on a specific date.

**Appreciation**—An increase in an investment's value.

**Asked or Offering Price**—(As seen in some mutual fund newspaper listings, see page 14.) The price at which a mutual fund's shares can be purchased. The asked or offering price includes the current net asset value per share plus any sales charge.

**Assets**—The current dollar value of the pool of money shareholders have invested in a fund.

**Automatic Reinvestment**—A fund service giving shareholders the option to purchase additional shares using dividend and capital gain distributions.

**Average Portfolio Maturity**—The average maturity of all the bonds in a bond fund's portfolio.

**Bear Market**—A period during which securities prices in a particular market (such as the stock market) are generally falling.

**Bid or Sell Price**—The price at which a mutual fund's shares are redeemed, or bought back, by the fund. The bid or selling price is usually the current net asset value per share.

**Bond**—A debt security, or IOU, issued by a company, municipality, or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date; the issuer usually pays the bondholder periodic interest payments over the life of the loan.

**Broker/Dealer (or Dealer)**—A firm that buys and sells mutual fund shares and other securities from and to investors.

**Bull Market**—A period during which securities prices in a particular market (such as the stock market) are generally rising.

**Capital Gain Distribution**—Profits distributed to shareholders resulting from the sale of securities held in the fund's portfolio for more than one year.

**Closed-End Fund**—A type of investment company that has a fixed number of shares which are publicly traded. The price of a closed-end fund's shares fluctuates based on investor supply and demand. Closed-end funds are not required to redeem shares and have managed portfolios.

**Commission**—A fee paid by an investor to a broker or other sales agent for investment advice and assistance.

**Compounding**—Earnings on an investment's earnings. Over time, compounding can produce significant growth in the value of an investment.

**Contingent Deferred Sales Charge (CDSC)**—A fee imposed when shares are redeemed (sold back to the fund) during the first few years of ownership.

**Credit Risk**—The possibility that a bond issuer may not be able to pay interest and repay its debt.

**Custodian**—An organization, usually a bank, that holds the securities and other assets of a mutual fund.

**Depreciation**—A decline in an investment's value.

**Distribution**—1) The payment of dividends and capital gains, or 2) a term used to describe a method of selling to the public.

**Diversification**—The practice of investing broadly across a number of securities to reduce risk.

**Dollar-Cost Averaging**—The practice of investing a fixed amount of money at regular intervals, regardless of whether the securities markets are declining or rising.

**Exchange Privilege**—A fund option enabling shareholders to transfer their investments from one fund to another within the same fund family as their needs or objectives change. Typically, fund companies allow exchanges several times a year for a low or no fee.

**Exchange-Traded Fund (ETF)**—An investment company with shares that trade intraday on stock exchanges at market-determined prices. Investors may buy or sell ETF shares through a broker just as they would the shares of any publicly traded company.

**Ex-Dividend Date**—With regard to mutual funds, this is the day on which declared distributions (dividends or capital gains) are deducted from the fund's assets before it calculates its net asset value (NAV). The NAV per share will drop by the amount of the distribution per share.

**Expense Ratio**—A fund's cost of doing business—disclosed in the prospectus—expressed as a percentage of its assets.

**Face Value**—The amount that a bond's issuer must repay at the maturity date.

**Family of Funds**—A group of mutual funds, each typically with its own investment objective, managed and distributed by the same company.

**401(k) Plan**—An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan.

**403(b) Plan**—An employer-sponsored retirement plan that enables employees of universities, public schools, and nonprofit organizations to make tax-deferred contributions from their salaries to the plan.

**457 Plan**—An employer-sponsored retirement plan that enables employees of state and local governments and other tax-exempt employers to make tax-deferred contributions from their salaries to the plan.

**Hedge Fund**—A private investment pool for wealthy investors that, unlike a mutual fund, is exempt from SEC regulation.

**Hybrid Fund**—A mutual fund that invests in a combination of stocks, bonds, and other securities.

**Income**—Dividends, interest, and/or short-term capital gains paid to a mutual fund's shareholders. Income is earned on a fund's investment portfolio after deducting operating expenses.

**Individual Retirement Account (IRA)**—An investor-established, tax-deferred account set up to hold and invest funds until retirement.

**Inflation Risk**—The risk that a portion of an investment's return may be eliminated by inflation.

**Interest Rate Risk**—The possibility that a bond's or bond mutual fund's value will decrease due to rising interest rates.

**Investment Adviser**—An organization employed by a mutual fund to give professional advice on the fund's investments and asset management practices.

**Investment Company**—A corporation, trust, or partnership that invests pooled shareholder dollars in securities appropriate to the organization's objective. Mutual funds, closed-end funds, and unit investment trusts are the three main types of investment companies.

**Investment Objective**—The goal that an investor and mutual fund pursue together (e.g., current income, long-term capital growth, etc.).

**Issuer**—The company, municipality, or government agency that issues a security, such as stocks, bonds, or money market instruments.

**Large-Cap Stocks**—Stocks of large-capitalization companies, which are generally considered to be companies whose total outstanding shares are valued at \$10 billion or more.

**Liquidity**—The ability to gain ready access to invested money. Mutual funds are liquid because their shares can be redeemed for current value (which may be more or less than the original cost) on any business day.

**Long-Term Funds**—A mutual fund industry designation for all funds other than money market funds. Long-term funds are broadly divided into equity (stock), bond, and hybrid funds.

**Management Fee**—The amount paid by a mutual fund to the investment adviser for its services.

**Maturity**—The date by which an issuer promises to repay a bond's face value.

**Mutual Fund**—An investment company that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal. Investors buy shares in a fund, which represent ownership in all the fund's securities. A mutual funds stands ready to buy back its shares at their current net asset value, which is the total market value of the fund's investment portfolio, minus its liabilities, divided by the number of shares outstanding. Most mutual funds continuously offer new shares to investors.

**National Association of Securities Dealers, Inc.**

**(NASD)**—A self-regulatory organization with authority over firms that distribute mutual fund shares as well as other securities.

**Net Asset Value (NAV)**—The per-share value of a mutual fund, found by subtracting the fund's liabilities from its assets and dividing by the number of shares outstanding. Mutual funds calculate their NAVs at least once daily.

**No-Load Fund**—A mutual fund whose shares are sold without a sales commission and without a 12b-1 fee of more than .25 percent per year.

**Open-End Investment Company**—The legal name for a mutual fund, indicating that it stands ready to redeem (buy back) its shares from investors.

**Operating Expenses**—Business costs paid from a fund's assets before earnings are distributed to shareholders. These include management fees, 12b-1 fees, and other expenses.

**Payroll Deduction Plan**—An arrangement that some employers offer employees to accumulate mutual fund shares. Employees authorize their employer to deduct a specified amount from their salaries at stated times and transfer the proceeds to the fund.

**Pooling**—The basic concept behind mutual funds in which a fund aggregates the assets of investors who share common financial goals. A fund uses the investment pool to buy a diversified portfolio of investments, and each mutual fund share purchased represents ownership in all the fund's underlying securities.

**Portfolio**—A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds, and money market securities.

**Portfolio Manager**—A specialist employed by a mutual fund’s adviser to invest the fund’s assets in accordance with predetermined investment objectives.

**Portfolio Turnover**—A measure of the trading activity in a fund’s investment portfolio—how often securities are bought and sold by a fund.

**Prepayment Risk**—The possibility that a bond owner will receive his or her principal investment back from the issuer prior to the bond’s maturity date.

**Principal**—See Face Value.

**Professional Management**—The full-time, experienced team of professionals that decides what securities to buy, hold, and sell for a mutual fund portfolio.

**Prospectus**—The official document that describes a mutual fund to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services, and fees.

**Quality**—The creditworthiness of a bond issuer, which indicates the likelihood that it will be able to repay its debt.

**Redeem**—To cash in mutual fund shares by selling them back to the fund. Mutual fund shares may be redeemed on any business day. An investor receives the current share price, called net asset value, minus any deferred sales charge or redemption fee.

**Redemption Price**—The amount per share (shown as the “bid” in newspaper tables) that mutual fund shareholders receive when they cash in shares. The value of a fund’s shares on any given day depends on the current market value of its underlying investment portfolio at that time.

**Reinvestment Privilege**—An option whereby mutual fund dividend and capital gain distributions automatically buy new fund shares.

**Risk/Reward Tradeoff**—The principle that an investment must offer higher potential returns as compensation for the likelihood of increased volatility.

**Rollover**—The shifting of an investor’s assets from one qualified retirement plan to another—due to changing jobs, for instance—without a tax penalty.

**Sales Charge or Load**—An amount charged for the sale of some fund shares, usually those sold by brokers or other sales professionals. By regulation, a mutual fund sales charge may not exceed 8.5 percent of an investment purchase. The charge may vary depending on the amount invested and the fund chosen. A sales charge or load is reflected in the asked or offering price (see Asked Price).

**Series Fund**—A group of different mutual funds, each with its own investment objective and policies, that is structured as a single corporation or business trust.

**Share Classes (e.g., Class A, Class B, etc.)**—Represent ownership in the same fund, but with different fee charges. This enables shareholders to choose the type of fee structure that best suits their particular needs.

**Shareholder**—An investor who owns shares of a mutual fund or other company.

**Short-Term Funds**—Another term for money market funds.

**Small-Cap Stocks**—Stock of small-capitalization companies, which are generally considered to be companies whose total outstanding shares are valued at less than \$1.6 billion.

**Statement of Additional Information (SAI)**—The supplementary document to a prospectus that contains more detailed information about a mutual fund; also known as “Part B” of the prospectus.

**Stock**—A share of ownership or equity in a corporation.

**Total Return**—A measure of a fund’s performance that encompasses all elements of return: dividends, capital gain distributions, and changes in net asset value. Total return is the change in value of an investment over a given period, assuming reinvestment of any dividends and capital gain distributions, expressed as a percentage of the initial investment.

**Transfer Agent**—The organization employed by a mutual fund to prepare and maintain records relating to shareholder accounts.

**12b-1 Fee**—A mutual fund fee, named for the SEC rule that permits it, used to pay distribution costs, such as advertising and commissions paid to dealers. If a fund has a 12b-1 fee, it will be disclosed in the fee table of a fund’s prospectus.

**Underwriter**—The organization that sells a mutual fund's shares to broker/dealers and investors.

**Unit Investment Trust (UIT)**—An investment company that buys and holds a fixed number of shares until the trust's termination date. When the trust is dissolved, proceeds are paid to shareholders. A UIT has an unmanaged portfolio. Like a mutual fund, shares of a UIT can be redeemed on any business day.

**U.S. Securities and Exchange Commission (SEC)**—The primary U.S. government agency responsible for the regulation of the day-to-day operations and disclosure obligations of mutual funds.

**Variable Annuity**—An investment contract sold by an insurance company; capital is accumulated, often through mutual fund investments, and converted to an income stream later, often at an investor's retirement.

**Withdrawal Plan**—A fund service allowing shareholders to receive income or principal payments from their fund account at regular intervals.

**Yield**—A measure of net income (dividends and interest) earned by the securities in a fund's portfolio less the fund's expenses during a specified period. A fund's yield is expressed as a percentage of the maximum offering price per share on a specified date.