

A Guide to Investing in Mutual Funds

What You Should Know Before You Buy

Our brokerage firm wants to ensure that you are investing in the mutual funds and the share classes that best suit your investment objectives, risk tolerance, time horizon, and diversification needs. This guide will help you better understand the features and costs associated with the various share classes, as well as how your financial professional and our firm are compensated when you invest in mutual funds. It will also help you take advantage of all available discounts as you work with your financial professional.

As always, if you have any questions about your mutual fund investments, please contact your financial professional.

What is a Mutual Fund?

A mutual fund is a company that pools money from many investors and invests it in a single portfolio of securities that is professionally managed. The mutual fund company owns the underlying investments, and the individual investors own shares of the fund. The fund manager is responsible for selecting and diversifying the fund's investments to meet the fund's investment objective while managing risk. Funds generally invest in a variety of investments, including U.S. or international stocks, bonds, money market instruments, or in any combination.

Since the first U.S. mutual fund appeared in 1924, investors have entrusted their savings for homes, education, retirement, and other financial goals to mutual funds. As of early 2017, more than 8,000 mutual funds hold about \$16 trillion in assets for approximately half of all American households.*

Today, a wide variety of mutual funds are available and many funds are increasingly complex or specialized or employ complicated investment strategies, such as leverage and short selling. In addition, complex funds more commonly invest in alternative investments, such as commodities, foreign currencies, and derivatives.

It is important to have a complete understanding of the investment strategies and underlying products to understand the mutual fund's value to associated risks. For example, the level and type of risk associated with mutual funds may vary significantly from one fund to another. Complex funds in particular are subject to a number of risks, including increased volatility and greater potential for loss, and are not suitable for all investors. Before investing in any mutual fund, you should read about these risks, which are explained in detail in each mutual fund's prospectus, and discuss your investment goals and objectives with your financial professional.

**Source: icifactbook.org*

Investment and Insurance Products:

► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value

Like all mutual funds, money market funds are sold by prospectus. It is important to consult the prospectus when considering whether or not to invest in a fund. The prospectus contains information on the fund's investment objectives or goals, principal strategies for achieving those goals, principal risks of investing in the fund, fees, charges and expenses, past performance, and other important information you should know before investing.

Types of Mutual Funds

Money market mutual funds

A money market mutual fund is an open-end mutual fund that is required to invest in low-risk short-term securities, which may include municipal securities. Money market mutual funds are generally liquid due to the short-term nature of their underlying investments and are typically used by investors who have a low risk tolerance. Investors interested in a conservative alternative for their discretionary money may find that money market mutual funds may allow for preservation of capital, liquidity, and return on principal.

On July 23, 2014, the U.S. Securities and Exchange Commission (SEC) adopted amendments to the rules that govern money market funds. These rules became effective on October 14, 2016. The amended rules are designed to reduce the risk of investor runs on money market funds in times of financial crisis and increase the transparency of these funds to investors.

A key element of the reform is the establishment of three categories of money market funds: retail, government, and institutional. There are a variety of changes and distinctions within these categories, based on the type of fund, including restrictions on who can invest in retail money market funds and the requirement that institutional prime (funds that invest in corporate debt) and municipal money market funds move from a stable \$1 price per share net asset value (NAV) to a floating NAV.

In addition, the reform includes provisions requiring the funds (excluding government funds) to impose liquidity fees and possibly suspend or limit share redemptions when a fund's portfolio fails to meet certain liquidity thresholds. These new rules allow for redemption fees of up to 2% and the suspension of share redemptions for up to 10 business days during a 90-day period if the fund's board determines it is in the fund's best interests to do so. This must be promptly and publicly disclosed.

Differences between the three types of money market funds

Retail money market funds must have policies and procedures reasonably designed to limit beneficial ownership to natural persons, meaning individual investors. The definition of natural person includes participants in certain tax-deferred accounts, such as defined contribution plans. Institutional investors currently in these funds will be required to exchange their shares. These funds transact at a stable \$1.00 NAV and may be subject to the imposition of a mandatory or discretionary liquidity fee and redemption gate during periods of extreme market stress if the fund's board determines it is in the fund's best interests to do so.

Government money market funds are available to both retail and institutional investors. These funds are required to invest at least 99.5% of their total assets in cash, government securities, or cash. They trade at a stable \$1.00 NAV and are not required but have the option to, voluntarily adopt the liquidity fee/redemption gate provisions if previously disclosed to investors.

Institutional prime and institutional municipal money market funds (tax-exempt funds) are required to maintain a floating NAV for sales and redemptions based on the current market value of the securities held in the fund. Share prices fluctuate depending on market conditions and are rounded to the fourth decimal place (\$1.0000). These funds may have multiple intraday price times to accommodate same day settlement. And these funds are subject to liquidity fees and the temporary suspension of withdrawals.

In addition, institutional money market funds no longer support certain account features, such as check writing.

Risk considerations

- You could lose money by investing in a money market fund.
- Although stable value money market funds seek to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so.
- Alternatively, because the share price of floating NAV money market funds will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them.
- The fund may impose a fee of up to 2% upon the sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors.
- An investment in a money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.
- The fund sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

For more information, contact your financial professional, or read *A Guide to Investing in Cash Alternatives* by First Clearing.

Target-date mutual funds

A “target-date” mutual fund (also known as a “life-cycle” or “age-based” fund) is designed to provide a more simplified investment strategy through a single investment. The fund manager focuses on a particular time horizon in the future (such as 2030, 2040, or 2050) and adjusts the underlying portfolio and asset mix to manage the level of risk and the volatility as the target date approaches.

Target-date funds generally consist of a blend or bundle of existing mutual funds. This “fund of funds” concept may provide greater diversification, but it may do so at the cost of higher ongoing fees and expenses associated with the underlying investments. Because each mutual fund manager's approach to investment strategy and risk will differ, two different funds with the same targeted date may have noticeably different allocations and performance from each other. These funds should be reviewed on a periodic basis to ensure that they remain consistent with your overall investment objectives.

Risk considerations

Target-date funds should not be selected based solely on age or retirement date. Be sure to assess the fund details and make sure that its objectives and holdings are consistent with your risk tolerance and objectives.

- Target-date funds do not provide a guaranteed return and do not guarantee protection of principal at any time including at its target date.
- Target-date funds are subject to the risks associated with the underlying funds in which they invest. These risks change over time as the fund's asset allocation strategy adjusts as it approaches its target date. They may not meet their stated investment objectives and goals, and may lose money.

Fixed income mutual funds

Fixed income funds, or bond funds, are a type of mutual fund that primarily invests in a specific type of bond, or a mix of bonds or investments, such as government, municipal, convertible, and zero-coupon bonds, as well as mortgage-backed securities.

Risk considerations

- Bond funds can lose value especially in periods of rising interest rates. The inverse relationship (associated with traditional bond prices and yields) also applies to bond funds. When interest rates rise, the bond prices fall and correlated bond fund values may drop as well. The opposite is true as well; if interest rates and bond yields fall, then bond prices could rise.
- As a result, the underlying bonds held in a bond fund are subject to credit, interest rate, reinvestment, prepayment, and liquidity risks, which may be reflected in the bond funds NAV.
- The fees and expenses of the mutual fund can erode the interest rate and NAV of a bond fund, which reduced the return to the investor.
- Bond funds do not have a fixed maturity date. The lack of a fixed maturity date and potential investors' demands for redemption are factors that may also have a negative impact on the fund's NAV and share price. The NAV of a bond fund may be affected by factors related to the underlying securities including but not limited to, credit quality, duration, liquidity, and security structure.

Municipal bond funds

Municipal bond funds are fixed income funds that invest primarily in tax-free municipal securities and are subject to the creditworthiness of their issuers. Although income from municipal securities is generally free from federal taxes and state taxes (for residents of the issuing state), capital gains and capital gains distributions, if any, will be subject to taxes. Income for some investors may also be subject to the federal Alternative Minimum Tax (AMT). You should not buy a fixed income fund based solely on the yield. It is important to consider all risks and characteristics of a bond fund when making your investment decisions.

Risk considerations

- Municipal bond funds are subject to the same risks as their underlying municipal securities. Economic issues may impact the performance of the municipal bond issuer. As a result, principal is at risk or subject to fluctuation. For instance, if the underlying municipality defaults or the security is downgraded, the value of your portfolio may also decrease.
- Some single-state municipal bond funds may lack the diversification of a fund that invests in multiple-state issues, such as a multi-state or national fund.
- Municipal bond funds often hold securities from outside their designated country or state (including securities from U.S. territories, such as Puerto Rico).

Funds for sophisticated investors

Nontraditional mutual funds are not suitable for all investors. They are designed for sophisticated investors who:

- Understand the risks associated with the use of leverage and other complex strategies
- Understand the consequences associated with daily leveraged investment results
- Accept the risks and volatility associated with investing in complex mutual funds
- Intend to actively monitor and manage their investments on a daily basis

High yield and floating rate mutual funds

High yield and floating rate mutual funds are both fixed income funds that invest primarily in *below investment grade* securities (sometimes called junk bonds). The securities held within high yield and floating rate funds are often rated below investment grade by one or more of the nationally recognized statistical rating organizations or may not be rated by a rating agency.

These funds take on the risks of the underlying instruments held in the fund portfolio. For instance, the “floating rate” indicates that the interest rate tied to the underlying instruments will rise and fall, or float, with the variable rate changes and market conditions. These interest rates usually adjust every 30–90 days. Investors should take interest rate spreads, credit quality, and collateral into account when considering the fund’s portfolio.

Risk considerations

- High yield and floating rate funds are considered speculative and carry increased risks of price volatility, underlying issuer creditworthiness, illiquidity, and the possibility of default in the timely payment of interest and principal, which may impact the value of your portfolio.
- These funds do not maintain a stable NAV and should not be considered cash alternative funds. You can lose money in these funds.

For more information about individual high yield bonds, please read *A Guide to Investing in High Yield Bonds* by First Clearing. For more information about floating rate securities, please read *A Guide to Investing in Floating Rate Securities* also by First Clearing.

International funds

Mutual Funds may invest in foreign securities and currencies of developed, emerging market, and frontier market countries.

Risk considerations

- International investments (equity and fixed income) may be subject to increased risks and could lose value as a result of political, financial, and economic events in foreign countries.
- Foreign investments typically have less publicly available information than U.S. investments, are subject to less stringent foreign securities regulations than domestic securities, and are influenced by different factors than in the U.S.

Complex mutual funds

Some mutual funds employ complex and specialized investment strategies. These funds commonly invest in alternative investments, such as commodities, foreign currencies, and derivatives, and may employ a flexible approach to invest widely across asset classes and use complicated and aggressive investment strategies, such as leveraging and short selling to manage their portfolios.

Risk considerations

- Complex funds are subject to increased volatility and greater potential for loss.
- The level and type of risk associated with complex mutual funds may vary significantly from one fund to another. It is important to have a broad understanding of the investment strategies and underlying products from which a complex mutual fund derives its value in order to evaluate its risks.

Nontraditional mutual funds

These funds are speculative in nature and seek to replicate the market performance of an underlying index or benchmark. They use sophisticated investment strategies to provide a positive (or negative) multiple of that index or benchmark's performance on a daily/monthly basis. Nontraditional mutual funds commonly use short selling and leverage through total return swaps, futures contracts, and options.

These nontraditional mutual funds are complex financial instruments designed to meet a stated investment objective, although their performance can change significantly from their stated objective on a daily or monthly basis, depending on the trading session. They generally rebalance daily, although some rebalance monthly.

- **Leveraged mutual funds.** Leveraged mutual funds attempt to track a multiple of the daily (or monthly) returns of the index or benchmark they track, usually by using total return swaps. A leveraged mutual fund attempts to provide a daily return or loss respectively, as measured by a positive multiple, for example two-times (2x), two-and-a-half times (2.5x), or three-times (3x) leverage. For instance, the two-times leveraged mutual fund seeks to provide a 2% gain on that daily return for each 1% gain in the fund's return. Conversely, if the fund drops 1%, your loss, in theory, would be 2% for that given day, assuming the mutual fund is rebalanced daily.
- **Inverse mutual funds.** Some leveraged mutual funds are inverse, or "short" funds, meaning they seek to deliver the opposite of the performance of the index or benchmark they track. Inverse mutual funds generally engage in trading strategies, such as short selling or enter into total return swap agreements and futures contracts. They seek to deliver a return (or loss) measured by an inverse negative multiple, for example negative one-time (-1x), negative one-and-a-half times (-1.5x), or negative two-times (-2x) multiple that is opposite of the index's performance.

Risk considerations

Nontraditional mutual funds have a number of risks that differ significantly from traditional mutual funds. Both leveraged and inverse nontraditional mutual funds are speculative trading vehicles, which are not suitable for investors who are interested in a buy-and-hold strategy, particularly in volatile markets.

- The fund's performance can differ significantly from the performance of their underlying fund or benchmark during the same period of time, caused by the effects of mathematical compounding over the long run.
- Nontraditional mutual funds are not long-term investments and are not suitable for investors who are interested in a buy-and-hold strategy, particularly in volatile markets.
- The funds generally may have restrictions on exchange privileges, such as holding period limits or transaction fees.

Expense fund analyzer

To compare expenses by share class, you may want to use the Fund Analyzer tool provided by the Financial Industry Regulatory Authority (FINRA) at <http://apps.finra.org/fundanalyzer/1/fa.aspx>. This fund and expense calculator is not available for offshore funds.

- The funds generally have higher transaction costs because investors will frequently redeem or exchange shares of the funds causing high portfolio turnover. Large movements of assets into and out of the funds may negatively impact a fund's ability to achieve its investment objective.

Alternative mutual funds

Alternative mutual funds (Alt funds) are designed to seek the fund's objectives through nontraditional trading strategies and investments, such as global real estate, commodities, leveraged loans, start-up companies, and unlisted securities that offer exposure beyond traditional stocks, bonds, and cash. To gain exposure to commodities, a fund may utilize an offshore subsidiary that is wholly-owned by the fund. A change in tax law or regulation could adversely affect the way the fund is taxed, operated, and managed.

Alt fund strategies may be complex including hedging and leveraging through derivatives, short selling, and "opportunistic" strategies that change with market conditions. Some Alt funds employ a single strategy, while others may use multiple strategies within the same fund.

Alt funds are managed to a wide range of investment objectives. In some cases, the fund's primary objective may be to generate above-market returns. In other cases, a fund's main goal may be to help investors better manage risk with strategies designed to smooth out volatility or offer greater diversification.

Risk considerations

- Alt funds are not suitable for all investors, and it's important to understand the strategy of the fund you are purchasing.
- Alt funds may have relatively higher expense ratios when compared to traditional funds. Please see the fund's prospectus for details, as well as other characteristics and potential risks.

Costs of Investing in Mutual Funds

A fund's prospectus provides information about a fund's objectives, risks, and other characteristics, as well as the fee and charges you pay, including sales charges and annual operating expenses. Depending on the share class you choose, charges can be paid in a variety of ways.

Sales charges

These charges provide compensation for the fund company, our firm, and your financial professional who helps you select funds to pursue your investment objectives. Most sales charges are either "front-end" (charged when you buy shares) or "back-end" (charged when you sell). A back-end charge is also called a Contingent Deferred Sales Charge (CDSC) because as you hold your shares for longer periods your charge is reduced or eliminated.

Which share class is right for you?

Before choosing a share class, consider the following questions:

- How long do I plan to hold the fund?
- How much money do I intend to invest?
- Will I be purchasing more shares in the future?
- What expenses will I pay for each class?
- Do I qualify for any sales charge discounts?

Talking with your financial professional about these questions will help you make an informed decision when determining which share class(es) match your needs, resources, and time horizon.

Operating expenses

Many of the costs associated with running a mutual fund are operating expenses—or, simply put, the cost of doing business. Operating expenses are not paid directly as a fee, but they are deducted from the fund's assets, so they reduce investment returns. Operating expenses include management fees, 12b-1 fees,* (for marketing and distribution expenses, which may include compensating financial professionals or other investment professionals), shareholder mailings, and other expenses.

It is important to note that, generally, nontraditional mutual funds incur higher overall expenses due to periodic rebalancing and the use of complex investment strategies. This is also true for Target Date Funds and Asset Allocation Funds that invest in underlying mutual funds of the fund company. The fund's prospectus will include the fund's expense ratio (a measure of what it costs an investment company to operate a mutual fund, expressed as a percentage of the fund's net assets), which helps you compare the annual expenses of various funds.

Redemption fees

Redemption fees, which discourage frequent trading in mutual funds and offset the associated trade costs, may be charged when shareholders redeem their mutual fund shares before a specified period defined by the mutual fund company. These fees are paid directly to the mutual fund company and not to the financial professional and are charged in addition to the initial sales charge paid. Because each fund's rules vary, be sure to check the mutual fund's prospectus for the specific redemption period and schedule of fees.

Share classes

Typically, a mutual fund offers more than one “class” of its shares to investors. Each class represents a proportionate amount of ownership in the mutual fund's portfolio. Depending on the class you choose, each share class will charge different fees and expenses, which can affect the return of your investment over time. Although there are different classes, the most common are “Class A,” “Class B,” and “Class C.”

Class A shares typically charge a front-end sales charge when you first buy a mutual fund that is deducted from your initial investment. Operating expenses of the fund are generally lower for A shares than for B or C shares. Be aware that most funds offer “breakpoint discounts” on the front-end sales charge for large investments, so as the size of your total investment within a fund family increases, the sales charge may decrease.

Also, most domestic mutual fund families allow investors to aggregate holdings in related accounts to reach a breakpoint (and receive a discount). This is called rights of accumulation (ROA). Those breakpoints typically occur at \$25,000, \$50,000, \$100,000, \$250,000, \$500,000, and \$1 million but may vary with the fund.

* The fund company takes 12b-1 fees out of the fund's assets each year for marketing and distribution expenses, which may include compensating financial professionals or other investment professionals.

Feel free to ask your financial professional how he or she will be compensated for any mutual fund transaction.

Finally, most fund families permit investors to sign a letter of intent (LOI) to invest a certain amount in the fund over a certain period of time, entitling them to a breakpoint discount at lower initial levels of investment. Each fund's rules about ROAs and LOIs differ, so be sure to speak with your financial professional before investing to make sure you receive any available discounts.

Class B shares typically have no front-end sales charge and impose higher annual operating expenses than A shares. However, Class B shares are not “no-load” funds because B shares normally impose a CDSC, which you pay if you sell your shares within a certain number of years. The CDSC generally gets smaller each year and is usually eliminated after the seventh or eighth year. At that point, some B shares may convert to A shares.

Investors may find B shares to be most appropriate when investing modest amounts for longer periods. However, if the B shares do not convert to A shares and the operating expenses remain at a higher level, B shares may not be the most economical choice over longer holding periods. Many fund companies permit investors to aggregate B share and C share positions with new A-share purchases to obtain breakpoint discounts. As a best practice, our firm has set limits to help ensure that the best interest of clients is served whatever the purchase size may be.

Class C shares do not have a front-end sales charge and generally impose a lower CDSC than B shares, often 1% for one year. Like B shares, C shares normally impose higher annual operating expenses than A shares, but unlike some B shares, they typically do not convert to A shares. Investors who want flexibility and who have a shorter investment time horizon may find that C shares best meet their needs; however, not all fund families offer C shares.

C shares are generally most appropriate for investors who want more flexibility in constructing and managing a diversified portfolio. When taking into consideration the total costs and expenses of C shares, investors should think carefully about whether C shares are an appropriate investment class for their investment goals, especially for investors intending to hold the C shares for a longer period of time. Once again, our firm has set limits to help ensure that the best interest of clients is served, regardless of the purchase size.

Class I shares are an institutional share class that is typically sold without a sales charge and with lower annual costs and management expenses than traditional share classes (like A, B, and C shares). Because I shares generally do not feature a CDSC for the sale of your shares, they have lower costs and expenses and are typically offered at a much higher minimum investment amount (than class A, B, or C shares).

No-load shares do not carry either front- or back-end sales charges; however they do impose ongoing fees and expenses. If you purchase or sell no-load funds through a brokerage account, you may pay a transaction fee to our firm to cover trade costs (with the mutual fund company on your behalf), and sending trade confirmations and statements. Keep in mind that other fees and expenses apply to ongoing investment in mutual fund shares and that these are described in the fee table in the prospectus.

Advisory fee-based accounts

Investors can also buy mutual funds through investment advisory fee-based programs for their discretionary or nondiscretionary accounts. Instead of paying a sales charge or commission on each transaction, you pay an annual fee based on a percentage of the account's value, which is billed quarterly. Annual fund operating expenses still apply.

These programs offer a variety of share classes (institutional, advisory, no-load shares, or A shares) and waive the front-end sales charge. I and Advisory share classes are commonly offered in advisory programs.

These programs and accounts also provide additional benefits and features that may not be available in a traditional brokerage account. Therefore, the total cost of purchasing and holding a fund in these programs may be more than in a traditional brokerage account.

Fee-based programs are generally not designed for excessively traded or inactive accounts and may not be suitable for all investors.

Mutual fund switches

As your objectives change, you can switch among other mutual funds in the mutual fund family whose objectives most closely meet your needs, without incurring an additional sales charge. Staying within the same mutual fund family may be preferable, because switching from one mutual fund family to another may involve additional costs or fees.

However, when the original mutual fund family does not offer the type of investment product you are interested in, it may be appropriate to switch to another mutual fund family or another type of investment product (such as a variable annuity or unit investment trust).

If you choose to switch to another fund family (or investment type) and your account is commission-based, you will most likely:

- Incur a sales charge on the new investment
- Be subject to a new redemption period (if you switch into share classes that have CDSCs, such as B and C shares)

In these instances, you will receive a mutual fund switch letter, which discloses information regarding your switch, including the potential availability of an exchange within your existing open-end mutual fund family, and the possibility of additional costs and expenses.

Be aware that tax consequences related to your sale, redemption, or exchange of mutual fund shares, could result. For questions regarding tax consequences, consult your tax advisor prior to making any such investment decision.

Additional considerations when purchasing mutual funds

How you invest in mutual funds affects your costs. For example:

- If you open and maintain your retirement account directly with a mutual fund company, you may qualify for benefits, such as NAV privileges, ROA, and breakpoint discounts (described above).
- However, if you open and maintain your retirement account with our firm, you may forfeit your right to these benefits and privileges. As a result, your costs associated with the retirement plan and mutual fund purchases may be greater if you invest through our firm.

Other fees. You will be assessed a transaction fee when you buy and sell load or no-load mutual funds through our firm and a separate accommodation fee (for no-load funds purchases only). This fee does not apply to eligible trades in advisory program accounts. Keep in mind that mutual funds offered by our firm may be purchased in an advisory account without incurring a transaction fee or by purchasing directly through the mutual fund company. Your financial professional does not receive compensation from the transaction fee or accommodation fee.

Sales Charge Reductions for Specific Types of Accounts

Certain mutual fund companies waive sales charges on purchases of front-end loaded share classes (i.e., Class A share or equivalents) for qualified retirement plans (QRPs such as 401(k)s, 403(b)s, or profit-sharing and defined benefit plans), SIMPLEs, SEPs, and charities (including foundations and nonprofits) and allow the trades to be placed at NAV subject to specific eligibility requirements as disclosed in the prospectus. Fund families and sometimes, individual mutual funds within a fund family have their own unique requirements for sales charge waivers including minimum plan asset amounts, number of eligible employees, or plan participants. Review the prospectus and contact your financial professional for more information.

Risks

Here is a summary of risks to consider as you plan your investments in mutual funds:

- The fund may hold securities even though their market value and dividend yields may have changed. This may be true even though funds are generally actively managed (which means managers may purchase or sell securities in the fund portfolio to attempt to take advantage of changing market conditions).
- A mutual fund may carry the same investment risk as the securities within the fund. Securities in a fund portfolio may depreciate, and the fund may not achieve its intended objective. In addition, each mutual fund is subject to specific risks that vary depending on the fund's investment objectives and portfolio composition.
- A mutual fund that invests in foreign including emerging and frontier markets have certain risks not associated with domestic investments, including currency fluctuation, political and economic instability, and different accounting standards, which may result in greater share price volatility.

These risks are heightened in frontier and emerging markets.

- Nontraditional mutual funds are complex products and subject to a number of additional risks beyond those of traditional mutual funds and other risks discussed in this guide. Consequently, these funds should only be purchased by sophisticated investors who understand the speculative nature of these investments in volatile markets.
- Periodic rebalancing may increase or decrease your exposure in response to the day's gains or losses. Some funds are not intended to be held long term and some nontraditional mutual funds may be thinly traded, which could impact your ability to quickly sell shares.
- There is additional risk in nontraditional mutual funds because of total return swap agreements with different counterparties. If the counterparty becomes unable to deliver its share of the contract, it will default on the swap, which will negatively affect the nontraditional mutual fund value.
- Mutual funds that invest using alternative strategies are more complex investment vehicles, which generally have higher costs and substantial risks. They tend to be more volatile and present an increased risk of investment loss. Compared with broad, long-only traditional asset class mutual funds, alternative mutual funds may employ more complex strategies, investments, and portfolio structures. As a result, some of these strategies may expose investors to additional risks, including but not limited to the following: short selling, leverage risk, counterparty risk, liquidity risk, commodity price volatility risk, and/or managed futures roll yield risk.

Please refer to each fund's prospectus for additional details.

Investor Characteristics

Selecting the appropriate program and mutual funds for your investment objectives involves many factors, such as fund strategies, fund performance history, risks, investment time horizon, fees and expenses, and portability. To fully evaluate your options, you should review any program's disclosure document and the fund's share classes, as detailed in the fund prospectus.

In addition, be aware that certain mutual funds may not be transferable from one investment firm to another. As a result, if you or your financial professional change investment firms, you may need to liquidate these products, which may incur additional fees or tax consequences. In some cases, it may be prudent to leave these mutual funds at the previous firm rather than transfer them.

Remember, you are not required to sell such mutual funds when you or your financial professional changes firms. You can open an account with the new firm and transfer only the mutual funds you choose. You are not required to move everything in your previous account or liquidate mutual funds that are not transferable.

Consult with your financial professional to make the most appropriate decision for your financial needs.

Offshore mutual funds. Certain mutual funds are domiciled and operated outside of the United States and are only available to people or entities that do not qualify as "U.S. persons" under Reg S of the Securities Act of 1933. These funds are called "offshore" mutual funds and, although they are not registered as securities in the United States, they function similarly to U.S. mutual funds in terms of structure, investments, operations, risks, and costs.

How Your Financial Professional and Our Firm are Compensated on Mutual Funds

Our firm and your financial professional receive payments depending on the type of fund (equity or fixed income), amount invested, and share class that you select.

- Our firm is paid by the fund family from the fees you pay. Part of that payment then goes to your financial professional.
- For most purchases, a financial professional's compensation is based on a formula applied (for A shares) to the front-end sales charge, or (for B and C shares) to the selling fee (known as a "sales concession"), which is set and paid by the fund family.
- Financial professionals receive ongoing payments (known as "residuals" or "trails") on mutual fund shares, as set by the fund family and generally paid (excluding advisory programs).
- In certain fee-based accounts, financial professionals' compensation is based on a percentage of the assets in the account rather than on concessions or trails, as mentioned above.

The compensation formula to determine the amount of payment to your financial professional is the same for all mutual funds. However, some funds may carry higher sales charges than others, which may create incentive for financial professionals to sell such funds.

Offshore mutual funds also normally carry asset-based service fees. These service fees are assessed by the mutual fund company and paid to us, which may pass them to your financial professional as part of their compensation. These fees vary by fund company, fund, and share class, and can be as low as 0.25% or as high as 1.5% annually. For more information, please read the prospectus carefully.

Additional Compensation Received by Our Firm from Mutual Fund Companies

In addition to transaction-based commissions received by our firm and your financial professional, we may receive compensation paid by the fund complexes, not related to individual transactions, for the ongoing account maintenance, marketing support, educational, and training services performed by our firm in support of mutual fund sales. This "non-commission" compensation received by us from mutual fund complexes can be broken down into six general categories:

- Networking and omnibus platform services compensation
- Revenue sharing
- Intra-company compensation arrangements
- Training and education support
- Additional compensation for general services provided to funds
- Data agreements

This additional cash compensation may influence the selection of mutual funds that we make available for recommendation. Our firm reserves the right to restrict the mutual fund companies that we offer to clients based on payment of additional cash compensation.

Please note that these compensation arrangements are described in the prospectus and the Statement of Additional Information (SAI), a supplementary document to the prospectus, for each mutual fund offered by our firm. We included this section to provide you with enhanced disclosure about the compensation arrangements between our firm and mutual fund companies and any associated potential conflicts of interest.

Networking and omnibus platform service fees

These fees are designed to compensate First Clearing for providing varying degrees of customer account and administrative services for those customer accounts holding mutual funds. In recent years, fund companies have outsourced many of these operations functions to broker/dealers, such as First Clearing. The following are examples of networking and omnibus platform services: the processing of purchases, redemptions, and exchanges; check processing; dividend reinvestments; preparation and mailing of consolidated account statements; delivery of fund proxies and shareholder materials; tax reporting; maintaining ownership records; and other sub accounting and record-keeping services. First Clearing is responsible for all its costs associated with networking and omnibus services they perform—including but not limited to technology and personnel. They receive networking and omnibus platform service fees from mutual fund companies available in both transaction-based and/or advisory program accounts.

- The compensation paid for networking and omnibus platform services is negotiated separately with each fund company, and the amount varies depending on the fund company and each individual fund.
- If a client owns multiple funds in one fund family, First Clearing generally receives networking and omnibus platform services compensation for each individual fund.
- First Clearing may receive networking compensation based on a dollar amount per year, per client account with an individual fund, or based on a percentage of assets in a fund. Networking compensation is paid at a rate up to \$12 per year, per mutual fund position, or at a rate of up to 12 basis points on assets.
- Compensation paid to First Clearing for omnibus platform services is generally higher than networking compensation because they are required to perform a more extensive array of services to clients and the fund for omnibus accounts.

First Clearing may receive omnibus platform compensation based on a dollar amount per year, per client account with an individual fund, or based on a percentage of assets in a fund. Omnibus compensation is paid at a rate up to \$25 per year, per client account, or at a rate of up to 35 basis points on assets, as agreed upon by the fund company and First Clearing. Depending on asset levels, basis point pricing may result in higher or lower compensation than a per position fee.

For example, \$10,000 held in a given fund, might incur a per position fee up to \$25 or a basis point fee up to \$35. These fees are indirectly borne by the fund client, in that they do not bill or collect these fees from clients. Specific fund fees are disclosed in the fund prospectus and included in its expense ratio.

Revenue Sharing

Revenue sharing is paid by a mutual fund's investment advisor, distributor, or other fund affiliate to our firm for providing continuing due diligence, training, operations and systems support, and marketing to financial professionals and clients with respect to mutual fund companies and their funds.

- The fees are paid from the mutual fund affiliates' or distributors' revenues and profits, not from fund assets. However, fund affiliates' or distributor revenues or profits may in part be derived from fees earned from services provided to the fund.
- First Clearing receives revenue sharing payments from mutual fund companies available in both transaction-based and/or investment advisory programs. Revenue sharing fees are usually paid as a percentage of the firm's aggregate value of client assets invested in the funds. In certain instances, revenue sharing may be paid as a percentage of annual new sales to clients or as a combination of a percentage of new sales and a percentage of aggregate client assets. The percentage amounts are typically established in terms of basis points, which are equal to one one-hundredth of 1%. For example, if First Clearing receives 10 basis points in revenue sharing for a given fund, it would receive \$10 for each \$10,000 of total assets in client accounts in the fund.

Most mutual fund revenue sharing agreements are based on the greater of a basis point calculation on assets under management (AUM) or a minimum annual fee expressed in a flat dollar amount. Since basis point calculations are based on AUM, this compensation to First Clearing fluctuates based on client holdings and market movement. Revenue sharing arrangements vary across fund families, and different revenue sharing rates may vary within a particular fund family. First Clearing receives different revenue sharing rates from each fund family, and may receive different revenue sharing rates for certain funds within a particular fund family.

- Fund companies pay First Clearing revenue sharing compensation at an annual rate of up to 20 basis points on aggregate client assets (on a \$10,000 client position, 20 basis points equals \$20 per year).
- However, certain funds may pay First Clearing a negotiated, fixed annual amount for revenue sharing, regardless of the amount of assets held in client accounts or in new sales to clients.
- In addition to receiving revenue in connection with the sale of mutual funds, First Clearing receives revenue sharing in connection with the sale of offshore funds, variable annuities, and unit investment trusts.

Revenue sharing from offshore fund complexes, which is generally structured differently than with domestic fund family complexes, is at annual rates of up to 55 basis points on aggregate client assets (on a \$10,000 client position, 55 basis points equals \$55 per year).

In addition to the transaction-based compensation received by your financial professional and broker/dealer, for clients whose broker/dealers clear and execute through Wells Fargo Clearing Services, LLC, and/or your broker/dealer receive compensation paid by mutual fund companies and/or their affiliates, not related to individual transactions, for the ongoing account maintenance, marketing support, educational, and training services in support of mutual fund sales conducted by your broker/dealer.

Training and education compensation

Our firm allows for mutual fund families to provide training and education to our financial professionals in local branch offices or in larger group settings, including at the national level.

- Certain mutual fund families have agreed to dedicate resources and funding to provide this training and education at regional or nationally-organized events. This commitment could lead our financial professionals to focus on the mutual funds offered from these mutual fund families versus those offered by families, which are not represented during the event.
- Our firm selects the mutual fund families that participate in the training and education events based on a variety of qualitative and quantitative criteria and may provide supplemental sales and financial data to these firms. The subset of mutual fund families that offers this support and participates in nationally-organized training and education events may change periodically.
- Mutual fund companies typically provide compensation to offset or reimburse our firm for costs incurred in conducting comprehensive training and educational meetings for its financial professionals. These meetings or events are held to teach financial professionals about the product characteristics, sales materials, suitability, customer support services, and successful sales techniques as they relate to various mutual funds.
- Separately, mutual fund companies may host financial professionals for education and conferences at the fund company headquarters, regional office, or other locations. Likewise, occasionally, product sponsors will reimburse our firm for expenses incurred by individual branch offices in connection with conducting training and educational meetings, conferences, or seminars for financial professionals and customers. Also, financial professionals may receive promotional items, meals, entertainment, or other non-cash compensation from product sponsors.

Although training and education compensation is not related to individual transactions or assets held in client accounts, it is important to understand that, due to the total number of product sponsors whose products are offered by our firm, it is not possible for all mutual fund companies to participate in a single meeting or event. Consequently, those product sponsors who do participate in training or educational meetings, seminars, or other events gain an opportunity to build relationships with financial professionals; these relationships could lead to additional sales of that particular fund company's products.

Potential Conflicts of Interest Associated with Additional Compensation Arrangements

Clients should understand that compensation received for networking, omnibus and platform services, revenue sharing, training, education, and other services varies between fund families and between funds within a family. Accordingly, a potential conflict of interest exists when a firm receives more compensation from one fund family/fund than it receives from peer fund families/peer funds.

There are policies that are reasonably designed to control and limit these potential conflicts of interest. These policies include, but are not limited to, the following:

- Require networking, omnibus, platform service fees, and revenue sharing agreements to be in writing, and prohibit agreements or provisions that call for our firm to provide preferential marketing and promotional treatment to a fund family as a condition of paying or receiving networking, omnibus, platform service fees, or revenue sharing fees.
- Prohibit the sharing of any portion of networking fees, omnibus fees, revenue sharing fees, or intra-company compensation with financial professionals in their role as a financial professional.
- Require the mutual fund distributor or advisor to directly compensate the firm for revenue sharing by wire transfer or check, and prohibit funds and their portfolio managers from directing investment portfolio trades to us as “indirect” compensation for revenue sharing.
- Require reimbursement payments for general educational and training expenses and for expenses associated with conducting individual branch office training, and educational activities to be recorded and approved.
- Limit the annual dollar value of gifts or other non-cash items that mutual fund companies and their representatives can provide to financial professionals.

It is important for you to understand that almost every fund provides some degree of educational, training, or other non-cash compensation to selling firm and its financial professionals. For example, if you attend training or educational meetings with your financial professional and a representative of a mutual fund is in attendance, you should assume that the mutual fund has paid or reimbursed firms for part or all of the total costs of the meeting or event.

Our firm tries to offer a wide variety of fund families for our financial professionals to sell or recommend, including funds that do not compensate for any or all of the services above. The payment of revenue sharing or any other compensation is not a prerequisite for a fund to be made available.

Incentive Programs

From time to time, incentive programs are available for team members, including financial professionals. These include, but are not limited to:

- Programs that compensate our firm or associates for attracting new assets, clients and advisors to our firm.
- Programs that compensate our firm for referrals to Wells Fargo Private Bank, Wells Fargo Business Banking Group & Small Business Relationship Banking and Wells Fargo Auto-Commercial Dealer Services, Wells Fargo Practice Finance, and Wells Fargo Wholesale services.
- Programs that reward financial professionals who meet total production criteria.

Financial professionals who participate in these incentive programs may be rewarded with cash and/or non-cash compensation, such as deferred compensation, or bonuses. Therefore, financial professionals and other associates have financial incentives to make referrals and bring assets, clients and advisors to the firm.

If you have questions about any product or service offered or what role your financial professional or any other team member is serving, or what compensation is being paid with respect to any product or service, please ask your financial professional.

Before buying any mutual fund, it is important for you to read and understand the fund's prospectus. If you have any questions about a specific fund, or the information in the fund's prospectus, contact your financial professional. Additionally, to learn more about mutual funds in general, contact your financial professional or visit the following websites:

Investment Company Institute: **ici.org**

Financial Industry Regulatory Authority: **finra.org**

Securities and Exchange Commission: **sec.gov**