



# HOLLENCREST

## CAPITAL MANAGEMENT

## Mutual Fund Share Class Fees, Expenses and Risks Disclosure

### **What is a Mutual Fund?**

A mutual fund is a fund that is operated by an investment company that raises money from shareholders and invests in stocks, bonds, options, futures, currencies, or money market securities. These funds can offer investors the advantages of diversification and professional management. A management fee is charged for these securities. Mutual funds can be broadly categorized into main 2 types: those that impose sales charges (load) and those that do not (no-load). But there are many load fund families that have created no or low-load versions of their shares for distribution through traditional no-load channels. Funds also levy other fees, such as 12b-1 fees, exchange fees, and other administrative charges. Mutual fund shares are redeemable on demand at net asset value (NAV) by shareholders, you might be charged a transaction fee by the fund, by the custodian or back-end load by the fund if applicable. All shareholders share equally in the gains and losses generated by the fund.

Mutual funds come in many varieties. Some invest aggressively for capital appreciation, while others are conservative and are designed to generate income for shareholders. Investors need to assess their tolerance for risk before they decide which fund would be appropriate for them. In addition, the timing of buying or selling depends on the outlook for the economy, the state of the financial markets, interest rates and other factors.

### **Mutual Funds and Taxes**

Taxes can significantly reduce the net returns on your mutual fund investment, so you should pay close attention to them.

- Some funds pay dividends on a monthly, quarterly or annual basis. Dividends are distributed to shareholders on a pro rata basis. They must be reported on your tax return (whether reinvested or paid in cash) in the year of distribution.
- Short-term and Long-term capital gain distributions (representing the fund's net gains from securities sales) must be reported on shareholders tax returns.
- When you redeem shares of a fund, you generally must pay tax on any capital gain realized. The amount of tax to be paid on a gain depends on the rate at which the gain is taxed (short-term or long-term), which in turn depends on how long you owned the fund shares prior to selling them.

### **The Costs Associated with Mutual Funds**

When investing in a mutual fund, you may have the opportunity to choose among several share classes, most commonly Class A, Class B and Class C. Hollencrest Capital Management (HCM) typically invests in Class A, Class I, or Class R shares. The differences among these share classes generally revolve around how much you will be charged by the fund or custodian for buying or selling the fund, as well as annual fees and expenses. At HCM, you will not pay applicable sales charges at your custodian, but you may pay annual fees and expenses associated with the fund. This multi-class structure offers you the opportunity

to select a share class that is suited to your investment goals and your expected investment holding period.

Mutual funds have costs that are passed on to investors. It's important for you to understand the different costs and how they can affect the return of your investment over time.

Typically, mutual fund costs consist of sales charges, annual expenses, and other non-recurring fees. The sales charge, often called a load, is deducted from your investment when you buy or sell the fund. The annual expenses cover the fund's operating costs, including management fees, distribution and service fees (commonly known as 12b-1 fees), and general administrative expenses. They are generally computed as a percentage of your assets and then deducted from the fund before the fund's returns are calculated. (To better understand what these charges are, you should review the Fees and Expenses section of the fund's prospectus.)

In addition, this disclosure provides information regarding mutual fund share class selection. It contains information for the most common mutual fund share classes.

### **Class "A" Shares**

When purchasing "A" shares, the sales charge, also called a front-end load, is paid immediately, before any principal is invested, thereby reducing the amount of your initial investment. In addition to an upfront sales charge and other fund expenses, investors may pay a 12b-1 fee. "A" shares typically have lower 12b-1 expenses and lower annual expenses than other retail share classes, but higher up-front expenses. A mutual fund may offer you discounts, called breakpoints, on the front-end sales charge of a class "A" investment if you 1) make a sizeable purchase, 2) already hold other mutual funds of the same fund family, or 3) commit to periodically and systematically purchasing additional shares.

### **Class "B" Shares**

Class "B" shares typically do not charge a front-end sales charge, but they do impose asset-based sales charges that may be higher than those that you would incur if you purchased Class A shares. Class "B" shares also normally impose a contingent deferred sales charge (CDSC), which you pay when you sell your shares. For this reason, these should not be referred to as "no-load" shares. The CDSC normally declines and eventually is eliminated the longer you hold your shares. Once the CDSC is eliminated, Class "B" shares often then "convert" into Class "A" shares. When they convert, they will begin to charge the same asset-based sales charge as the Class "A" shares. Class "B" shares do not impose a sales charge at the time of purchase. So unlike Class "A" purchases, all of your dollars would be immediately invested. But your expenses, as measured by the expense ratio, may be higher. You also may pay a sales charge when you sell your Class "B" shares.

### **Class "C" Shares**

"C" Shares typically do not impose a front-end sales charge; therefore, all of your dollars are immediately invested. You may, however, incur CDSC fees if your shares are sold within a short time of purchasing, generally less than one-year. Class C shares typically impose higher asset-based sales charges than Class A shares, and since their shares generally do not convert into Class A shares, their asset-based sales charge will not be reduced over time.

## **Other Common Class Shares**

*Class “I” shares:* Class “I” shares are sometimes called institutional shares because they are intended only for financial institutions purchasing shares for their own or their clients’ accounts. “I” shares have no front-end sales charge and lower annual operating expenses compared to other share classes and can only be purchased through a financial intermediary.

*Class “R” shares:* Class “R” shares typically have no sales charge and no minimum initial investment. These shares may be purchased as part of an employer-sponsored retirement plan, or other qualified plan, endowment fund, foundation, etc.

*Class “Advisor” shares:* Like class “I” shares, Advisor shares are intended for financial institutions. Advisor shares have no front-end sales charge and lower annual operating expenses compared to other share classes and can only be purchased through select financial intermediaries. This share class may be referred to by another letter, such as “Y” share class.

## **Letter of Intent (LOI)**

A Letter of Intent (LOI) is an agreement between you and a fund company which states that you will receive a reduced sales charge on purchases into their mutual fund(s) when you commit to purchase a specified dollar amount within a defined period of time (generally 13-months). This feature typically applies to only class A shares. Executing a LOI does not obligate you to purchase the specified amount. If the terms of the LOI are not met during the LOI effective period, the portion of the purchased shares held in escrow by the fund’s transfer agent, are redeemed to cover additional sales charges.

## **Rights of Accumulation (ROA)**

A Right of Accumulation (ROA) is a reduction or waiver of the sales charge based on the value of your aggregated account holdings, the value of which typically begins at \$50,000 and are known as breakpoints. The aggregation may include the investments in other share classes within the same fund family. The ROA links the eligible related accounts as defined by each fund family. Refer to the fund prospectus for a precise listing. ROA sales charge reductions, however, are usually effective on purchases of only class A shares. In order to take advantage of ROA reduced sales charges, you should review the market value of the funds you currently have invested or are planning to invest before purchasing a particular share class.

## **Summary of Share Class Selection Considerations**

- A reduced sales charge (breakpoint) may apply to purchases of class A shares. Waivers of the sales charges for amounts greater than \$500,000 or \$1,000,000 may be available.
- Share classes such as “B” & “C” with Contingent Deferred Sales Charge may have higher expenses, which will impact long-term performance more than that of funds with front-end loads.
- Some share classes convert to “A” shares after being held for a specific period of time. Class “A” shares generally have lower expenses.
- “C” shares do not convert to “A” shares and are, generally, more appropriate for short-term (less than two years) investment objectives.
- Features offered by mutual fund companies vary by fund family. Please refer to the appropriate fund prospectus for additional detailed information.

## **Risk & Past Performance**

Because each fund pursues its own investment objectives, each fund has its own set of risks. While most equity funds invest in common stocks and other equity securities and most fixed income funds invest in bonds and other fixed income securities, in order to achieve their investment objectives, the funds may at times use certain types of investment derivatives, such as options, futures, forwards and swaps. These instruments involve risks different from, and in certain cases, greater than, the risks presented by more traditional investments. For funds that can invest in foreign securities, which may include emerging markets securities, risks may be magnified due to changes in foreign exchange rates and the possibility of substantial volatility due to political and economic uncertainties in foreign countries. Funds that invest substantially all of their assets in foreign securities include risks not associated with funds that invest primarily in U.S. issues. Because those funds will invest in foreign currency denominated securities fluctuations may be magnified by changes in foreign exchange rates. These risks are fully discussed in each fund's prospectus.

- Each mutual fund has a prospectus and other literature that describe the fund's objective and how it plans to achieve that objective, and the fund's style of investing. The prospectus also discloses important specific details about the fund that you should be aware of, including allowable investments, fund costs, past performance, risks, and financial statements. Always read a fund's prospectus before investing.
- For further information on mutual fund classes, log on to the website of the Financial Industry Regulatory Authority (FINRA) at [www.finra.org](http://www.finra.org). You can also find information on the Securities and Exchange Commission (SEC) website at [www.sec.gov](http://www.sec.gov).
- As you consider how best to invest in mutual funds, keep in mind that there's no guarantee any mutual fund will achieve its investment objective. You should discuss all of your investment goals with a qualified financial professional. Mutual funds are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in mutual funds.
- Past performance does not guarantee future results. Current performance may be lower or higher than past performance. The investment return and principal value of an investment in the fund will fluctuate as the prices of the individual securities in which it invests fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. You should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing.

*For further information please contact HCM at (800) 838-8951. Please discuss your particular needs and circumstances with your investment adviser to determine the fund and share class that is suited to your investment needs. Please see each particular fund's Prospectus and Statement of Additional Information (SAI) for detailed information specific to that fund. The mutual fund prospectus discusses the different share classes available to investors, breakpoint schedules, other discount options, as well as the costs and fees charged. For mutual fund share class cost comparisons go directly to FINRA's website, [www.finra.org](http://www.finra.org) and go onto to [https://tools.finra.org/fund\\_analyzer/](https://tools.finra.org/fund_analyzer/)*