

# UNDERSTANDING THE PROSPECTUS

Before you purchase shares of any mutual fund, make sure you are equipped with information about that fund's goals, strategies, fees, expenses, and level of risk. This information and more is available to you in a single document—the fund prospectus.

It's no secret that the size of a prospectus and the type of information inside can be hard to tackle. But don't be too overwhelmed. Here is a brief overview of a prospectus, why it is important, and what items you may want to carefully review. It is recommended that you review the full prospectus before making an investment decision.

## Know the Basics

A prospectus is a formal document, required by the Securities and Exchange Commission (SEC), that describes the details of a fund. The prospectus is a legally binding contract between the fund and the fund holder. It's easy to get lost in the legal jargon and miss the information that matters most.

- **Investment objectives.** The prospectus outlines the fund's goals and it describes the types of securities the fund will purchase in order to achieve its goals. With this information, you can determine whether the fund is in line with your personal investment strategy.
- **Level of risk.** This section assesses the risks associated with the securities a fund holds. This information will help you determine if you are comfortable with these risks.
- **Cost of the fund.** This section is extremely important to consider because fees and expenses reduce your total investment return. In this section of the prospectus, you will find information on any sales load charges, 12b-1 fees, and the expense ratios.
- **Past performance.** The prospectus reports the fund's performance for the past 10 years, or since its inception date if the fund is less than 10 years old. This information can be used to compare the fund's performance with that of its index. The fund's past performance is no guarantee of future results.
- **Fund management.** The prospectus provides information about the current fund manager's investment strategy. You may consider how the fund's management will affect fees and returns, the length of time the fund manager has been managing the fund, and how long the fund has been in operation.
- **Withdrawal, transfer, and distribution restrictions.** Some funds may impose restrictions on transfers, withdrawals, and distributions. These restrictions are disclosed in the prospectus.