



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

INVESTOR BULLETIN

How to Read A Mutual Fund Shareholder Report

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to educate individual investors about mutual fund shareholder reports.

Annual and Semiannual Reports

Mutual funds that are registered with the SEC must send reports to their shareholders on a semiannual basis. The *semiannual* report covers the first six months of the fund's fiscal year, while the *annual* report covers the fund's entire fiscal year. Mutual funds that are registered with the SEC prepare their own shareholder reports and file them with the SEC. So long as these funds disclose the information that the SEC requires in the shareholder report, they can decide how to organize and present the information within the report.

This investor bulletin focuses primarily on the annual report; however, many of the considerations also apply to the semiannual report. Think of these shareholder reports as a “report card” on the fund's progress. *Reading these reports can help you determine how well a fund has met its goals and investment strategies during the period covered in the report.*

What Information Can I Find in a Shareholder Report?

The table below identifies select information required to be disclosed in: (1) both the annual and semiannual report; and (2) the annual report only.

Annual and Semiannual Report
Expense example showing the cost in dollars for a hypothetical \$1,000 investment over the period covered by the report.
Graphical representation of holdings—table, chart, or graph of holdings by category (<i>e.g.</i> , type of security, industry sector, geographic region, credit quality, or maturity).
Financial statements: <ul style="list-style-type: none">▪ Annual Report—<i>audited</i> financial statements, including a complete or summary (top 50) list of holdings.▪ Semiannual Report—financial statements need not be audited.
Condensed financial information (or financial highlights).
Remuneration or compensation paid to directors, officers, and others.
Statement regarding basis for approval of investment advisory contract—discussion of the reasons the board approved any investment advisory contract during the period covered by the report.

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Annual Report Only

Performance information:

- Management's discussion of fund performance;
- Line graph comparing the performance during the last 10 years (or for the life of the fund, if shorter) of a hypothetical \$10,000 initial investment against an index; and
- Table showing the fund's returns for 1-, 5-, and 10-year (or for the life of the fund, if shorter) periods.

Note: Although performance information is required for the annual report only, many funds include performance information in their semiannual report as well.

Management information about directors and officers, including their names, ages, length of time at fund, principal occupations over the past 5 years, and responsibilities.

Availability of additional information about fund directors:

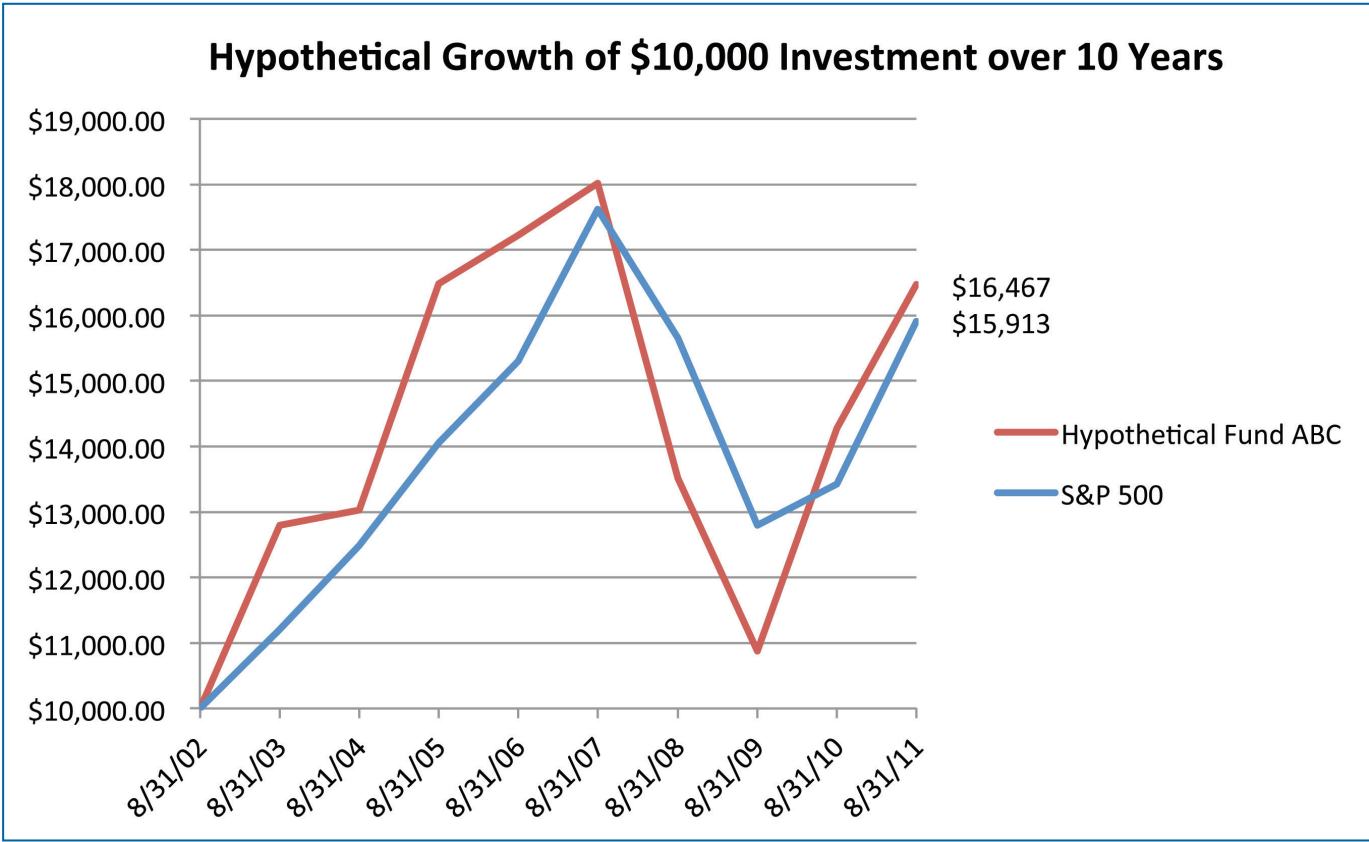
- Statement explaining that more information about fund directors is available in the Statement of Additional Information or online or by calling a toll-free telephone number.

Investors generally read the shareholder report to determine how well a fund has met its goals and investment strategies during the past six-month period (semiannual report) or the past fiscal year (annual report). Following are descriptions of several items in a shareholder report. The order of the items listed may vary from one report to another.

Performance Information

As shown in the table above, the performance information typically consists of three components: (1) management's discussion of fund performance; (2) a line graph comparing the performance during the last 10 years (or for the life of the fund, if shorter) of a hypothetical \$10,000 initial investment against an index; and (3) a table showing the fund's returns for 1-, 5-, and 10-year (or for the life of the fund, if shorter) periods.

- **Management's Discussion of Fund Performance.** You will find fund management's discussion near the front of the annual report. This is management's opportunity to discuss the fund's performance during the fiscal year in light of market conditions and other factors that may have influenced the fund's investment return for the year. In that discussion, management usually will point out which holdings of the fund contributed significantly to the fund's performance and which holdings detracted significantly from that performance.
- **Line graph.** Also near the front of the annual report is a line graph comparing the performance during the last 10 years (or for the life of the fund, if shorter) of a hypothetical \$10,000 initial investment in the fund against an index. The line graph will be some variation of the generic line graph pictured below:



The graph will show the progress of at least two lines over a ten-year period. One line will represent the growth or decline in value of a hypothetical \$10,000 initial investment in the fund during the last 10 years (or for the life of the fund, if shorter). Another line will represent the performance of an appropriate broad-based securities market index (for example, the S&P 500 index) during the last 10 years (showing the growth or decline in value of the hypothetical \$10,000 had it been invested in a fund corresponding to that index). There may be additional lines representing other indexes, including those more narrowly-based that reflect the market sectors in which the fund invests or a non-securities index such as the Consumer Price Index, so long as the comparison is not misleading.

A quick glance at the graph will tell you whether the fund’s performance has been steady or volatile over the 10-year period (or over the life of the fund, if shorter). For example, if the slope of the line is gradual, with occasional ups and downs, it suggests that fund performance has been relatively stable. If, on the other hand, the slope of the line is choppy, with numerous peaks and valleys, it suggests that the fund has been volatile and has experienced frequent variations in performance. Compare the slope of that line with the line representing the index to which the fund is being compared. How closely does the fund’s performance track that of the index?

- **Performance Table.** Underneath the line graph is a table showing the fund's annualized (or average annual) returns for 1-, 5-, and 10-year (or for the life of the fund, if shorter) periods. Below is an example of this type of table:

Average Annual Total Returns Periods Ended December 31, 20XX				
	One Year	Five Years	Ten Years	Final Value of a \$10,000 investment
XYZ Fund	1.08%	0.31%	3.84%	\$14,575
Benchmark/Index	1.08	0.29	3.87	14,616

Pay close attention to the fund's 5- and 10-year returns. If the fund's returns were stellar in the past year but unimpressive in the past five or 10 years (or over the life of the fund, if shorter), it is possible that the past year's outperformance will not last. On the other hand, if the fund experienced steady returns in the past five or 10 years, but suffered a sharp loss in the past year, it may be unclear as to whether the recent loss signals the beginning of a trend or is an isolated occurrence. Just because a fund had one good year does not mean that positive investment returns will continue. ***Remember, past performance is not necessarily an indication of future results.***

Expense Example

The expense example is calculated using a fund's expense ratio for the preceding six months but does not include the impact of sales loads, if any. The expense example consists of two different tables. The first table shows the actual cost in dollars for a hypothetical \$1,000 investment in the fund over a six-month period. Below is an example of this type of table:

Six Months Ended January 31, 2013

XYZ Fund			
Based on Actual Fund Return	Beginning Account Value 7/31/2012	Ending Account Value 1/31/2013	Expenses Paid During Period
ABC Shares	\$1,000	\$1,031.75	\$1.23
DEF Shares	1,000	1,032.25	0.51
Institutional Shares	1,000	1,032.55	0.41

According to the example above, if you owned class ABC shares in the hypothetical XYZ Fund, you would have paid \$1.23 in expenses for every \$1,000 that you owned in the fund during the six-month period identified at the top of the table. To find out how much your expense was during that six-month period, round the value of the shares you own to the nearest *multiple* of \$1,000 and multiply by the expense amount.

For example, if you had approximately \$25,000 invested in the ABC share class of the hypothetical XYZ Fund, your expenses would have been: $25 \times \$1.23 = \30.75 over the six-month period.

The second table in the expense example shows the cost in dollars for a hypothetical \$1,000 investment in the fund over the six-month period *based on a hypothetical 5% yearly return and not the actual return of the fund during that period*. Below is an example of this type of table:

Six Months Ended January 31, 2013

XYZ Fund			
Based on Hypothetical 5% Yearly Return	Beginning Account Value 7/31/2012	Ending Account Value 1/31/2013	Expenses Paid During Period
ABC Shares	\$1,000	\$1,024.00	\$1.22
DEF Shares	1,000	1,024.70	0.51
Institutional Shares	1,000	1,024.80	0.41

Because funds are required to use the same hypothetical performance in calculating their expenses for the period covered by the shareholder report, this second table makes it possible for you to compare the expenses of this fund with that of other funds. For example, the table above shows that the expenses paid during the six-month period for class ABC shares—assuming a 5% annual return—would have been \$1.22 per \$1,000 invested. You can compare that expense with that of a completely different fund to determine which fund has higher operating expenses. If, for example, that other fund showed an expense ratio of \$1.55 per \$1,000 invested in a similar share class, that other fund generally would be considered more expensive than the XYZ Fund (as stated above, these examples do not include sales loads).

Financial Statements

The annual report contains audited financial statements, including a complete or summary (top 50) list of portfolio holdings. This is where you can learn, among other things, what assets the fund holds (or at least the 50 largest individual holdings), the number of shares owned of each asset, and their market value. Regardless of whether the financial statements include the complete list or a summary of portfolio holdings, you can find the full list in the fund's SEC filings, which are publicly available through the SEC's EDGAR database (www.sec.gov/edgar/searchedgar/mutual-search.htm). Also, if the fund posts its complete list of portfolio holdings online, you may be able to locate that list on the fund's website identified in its annual report.

As you review the portfolio holdings, consider the following questions:

- Are the fund's holdings, as reflected in the financial statements, consistent with the fund's investment objectives and strategy as stated in the fund's prospectus?
- Are the fund's holdings consistent with your expectations, based on the fund's name, investment objectives, strategy, and principal risks as disclosed in the fund's prospectus?

- Do you detect any “style drift,” meaning the fund has strayed from its stated investment objectives (for example, an international stock fund that is unusually concentrated in domestic stocks, or a specific country fund that holds a lot of assets in a country other than the one identified in the name of the fund)?
- Do the fund’s holdings overlap or mirror those of other funds that you own? If so, your investments may not be sufficiently diversified. Unless you intend to concentrate your investments in a few stocks or bonds or industry sectors, consider adjusting your asset allocation to achieve a more diversified portfolio.

Graphical Representation of Holdings

The shareholder report contains a table, chart, or graph of the fund’s holdings by category (for example, type of security, industry sector, geographic region, credit quality, or maturity). Below is a hypothetical example of what a table showing a fund’s holdings categorized by industry sector might look like:

Portfolio Allocation as of ____, 20XX

	Percentage of Net Assets
Consumer Discretionary	12.0%
Consumer Staples	9.9
Energy	10.0
Financials	15.4
Health Care	12.0
Industrials	11.0
Information Technology	19.2
Materials	3.9
Telecommunication Services	2.9
Utilities	3.7

Condensed Financial Information/Financial Highlights

The condensed financial information or financial highlights section includes a summary table of financial information covering the past five years (or since the fund’s inception, if less than five years). The summary table contains a breakdown of the change in the fund’s net asset value (NAV) from one year to another over the five-year period.

- Look at the line item showing the fund’s **total return** over the past five years. What does the total return tell you about the fund’s performance trend during the last five years? Have the fund’s returns been relatively steady from year to year or have they been volatile?
- Look at the line item showing the fund’s **portfolio turnover rate**. The portfolio turnover rate reveals the frequency with which the fund turns over its portfolio by buying and selling securities. The fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover

rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the expense example, affect the fund's performance. The portfolio turnover rate will vary depending on the fund's investment strategy. An actively-managed fund may have a high portfolio turnover rate because of its rapid trading style, while a broad-based index fund will tend to have a low portfolio turnover rate due to its passive investment style. Keep in mind that a higher turnover rate may generate higher commissions and other trading costs that can cut into a fund's performance; it may also trigger capital gains taxes which the fund will pass on to you.

- The issue of ***return of capital distributions*** comes up occasionally with respect to open end funds, and the financial highlights section of the shareholder report provides information about the fund's distributions to shareholders. Distributions to shareholders may come from net investment income, net realized gains, or return of capital. If a fund *does not earn enough* income and realized gains to cover its distributions to shareholders in a given year, *the fund may return capital to its shareholders*. Investors should not mistake any return of capital for yield or total return on their investment in the fund. Shareholders who periodically receive a dividend payment or other distribution consisting of a return of capital may think that they are receiving net profits when, in fact, that is not the case. Under this circumstance, you should not assume that the source of a distribution from the fund is net profit.
- Skim the ***Notes to Financial Statements***. These notes can contain useful information about the fund, such as whether there are any pending lawsuits or other contingencies that could affect the fund's performance or the operation of the fund.

Additional Items

The annual report contains additional items, some of which are summarized here. For example, you can find management compensation information in a number of places in the annual report. Funds typically disclose management compensation information in the ***Notes to Financial Statements***, usually in two different locations within the annual report. Management compensation paid to the adviser usually is disclosed in a note that discusses the advisory fee rate and/or fees paid to affiliates. The amount paid to directors is generally reported in a separate note in the ***Notes to Financial Statements***. The annual report also contains information about the fund's directors and officers, including their names, ages, length of time at the fund, their principal occupations over the past five years, and their responsibilities. In addition, either the annual or semiannual report will contain a statement regarding the basis for board approval of the investment advisory contract (discussing the reasons the board approved any investment advisory contract during the period covered by the report), as well as proxy-related information.

On rare occasions, annual and semiannual reports will contain information regarding changes in and disagreements with accountants (if applicable). Annual and semiannual reports also include statements regarding the availability of the quarterly portfolio schedule, proxy voting policies and procedures, and the fund's proxy voting record.

Related Information

For an explanation of how mutual funds work and a description of fees, expenses, and share classes, see our publication: [Mutual Funds - A Guide for Investors](http://www.investor.gov/mutual-funds) (available at <http://www.investor.gov/mutual-funds>).

For additional information about the importance of mutual fund fees and other considerations, see our publication: [Mutual Fund Investing: Look at More Than a Fund's Past Performance](http://www.sec.gov/investor/pubs/mfperform.htm) (available at <http://www.sec.gov/investor/pubs/mfperform.htm>).

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