

**ALPS**  
DISTRIBUTORS, Inc.

Introduction to Mutual Fund Distribution

# Introduction to Mutual Fund Distribution

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As the mutual fund industry has evolved, the role of intermediary distribution providers has grown to dominate access to potential investors. The vast majority of mutual fund families today distribute their shares through intermediaries, and most investors buy fund shares through intermediaries.

ALPS Distributors, Inc. prepared this presentation to provide your firm with an introduction to key considerations when determining how to structure mutual fund distribution.

## Bought vs. Sold

The first and foremost question as it relates to mutual fund distribution is:

Are mutual funds bought or sold? \*

- Mutual Funds that are “sold” should generally be structured so as to market to investment professionals that would select your product for their customers.
- Mutual Funds that are “bought” are selected by potential investors who typically desire the lowest cost approach to access the product.

### Common Characteristics of Mutual Funds that are:

#### **Bought, include:**

Low Cost, No Load

Low Expense Ratio

Investor Class (25 bps 12b-1 Fee)

Institutional Class (no 12b-1 Fee)

Supermarkets and Direct Shareholders

#### **Sold, include:**

Sales Charges and Advanced Commissions

Higher Expense Ratio

Class A (Front End Load, Finder's Fee, & 12b-1 Fee)

Class C (Adv. Commission, CDSC Fee & 12b-1 Fee)

Purchased via Registered Broker-Dealers only

*\*The lines between funds that are bought and sold have become extremely blurry with current industry trends. Most wirehouses are now using institutional shares instead of load fund shares, and a significant portion of assets in supermarket platforms are now coming in from RIA's.*

## Common Share Class Features

Investor	Institutional	Class A	Class C
12b-1: Yes	12b-1: No	12b-1: Yes	12b-1: Yes
<i>0.25%</i>		<i>0.25% to 0.35%</i>	<i>1.00%</i>
Front End Sales Load: No	Front End Sales Load: No	Front End Sales Load: Yes	Front End Sales Load: No
		<i>Up to 6.50%</i>	
Advanced Commission: No	Advanced Commission: No	Advanced Commission: Yes	Advanced Commission: Yes
		<i>0.50% to 1.00%*</i>	<i>1.00%</i>
CDSC Fee: No	CDSC Fee: No	CDSC Fee: Yes	CDSC Fee: Yes
		<i>0.50% to 1.00%*</i>	<i>1.00%</i>
Account Minimum: Yes	Account Minimum: Yes	Account Minimum: Yes	Account Minimum: Yes
<i>\$2,500.00</i>	<i>\$100,000.00</i>	<i>\$2,500.00</i>	<i>\$2,500.00</i>
Purchase Maximum: No	Purchase Maximum: No	Purchase Maximum: No	Purchase Maximum: Yes
			<i>\$500,000.00</i>

\* Generally applies to Class A purchases greater than \$1 million

## Various Representative Distribution Channels

Supermarkets	Clearing Firms	Wirehouses	Independent B/D's	Retirement/Custody/ Trust
Charles Schwab	Pershing	Merrill Lynch	LPL Financial Corp	MSCS Financial Services
Fidelity	National Financial Services	Morgan Stanley & Co	Raymond James Financial	FIIOC (Fidelity Institutional)
Vanguard Marketing	Charles Schwab	UBS Financial Services	Ameriprise Financial	GWFS Equities
TD Ameritrade	TD Ameritrade	Wells Fargo Advisors	RBC Capital Markets	Reliance Trust
E*Trade	First Clearing/Wells Fargo Advisors		Edward Jones & Co	SEI Private Trust
				Wells Fargo Bank

## Setup Fees and Minimums

Most supermarkets, wirehouses and clearing firms charge fund families with initial establishment fees and CUSIP setup fees. Additionally, some intermediaries charge monthly or annual minimum fund payments and marketing support payments depending on the platform. Most of these setup fees and minimum charges cannot be paid by the funds. A fund's adviser or one of its affiliates will generally pay these fees out of its legitimate profits.

### Examples of Typical Setup Costs\*

Intermediary	Typical Costs	Timeframe to Add New Fund	Payment Frequency
Supermarkets	Initial Setup Fee: \$10,000.00 Per Fund Setup Fee: \$1,000.00 Monthly Minimum: \$2,000.00 Basis Points: 40 bps (10 bps Class I)	Due Diligence cannot begin until prospectus is effective with the SEC. Minimum of 9 to 12 Weeks to setup post effective date of the prospectus	Monthly
Wirehouses	Initial Setup Fee: \$25,000.00 Per Fund Setup Fee: \$2,500.00 Positon Charges: \$16 per positon Annual Minimums: up to \$250k per year	Must have insider demand, six months of performance history and \$25 million in AUM before due diligence will begin.	Monthly
Clearing Firms	Initial Setup Fee: \$5,000.00 Per Fund Setup Fee: \$1,500.00 Amend Agreement Fee: \$2,500.00 Monthly Minimum: \$100.00	Dependent on Broker-Dealer demand post launch.	Monthly

\* Setup fees and minimums are for illustrative purposes only and may vary.

## Common Intermediary Fee Structure/Costs

Listed below are examples of typical costs associated with various distribution channels:

### Supermarkets

25 bps - 12b-1 Fee

10 bps - Fund/Recordkeeper

5 bps – Marketing Support Payments

**= 40 bps Total on average net assets**

### Clearing Firm

\$12.00 Per Position per Year  
(Networking Fee)

\$16.00 Per Underlying Position  
(Omnibus Fee)



### Introducing Broker Dealer

Receives 25 bps 12b-1 Fee

### Wirehouses\*

25 bps - 12b-1 Fee\*

10 - 15 bps - Fund

10 - 15 bps – Marketing Support Payments

**=45 to 50 bps Total on average net assets**

*\*Wirehouses are swiftly moving the majority of their assets to the lowest cost share class available. When these assets are moved to an institutional class where there is no 12b-1 fee, the total basis point cost may decrease from 45 to 50 bps total down to 25 or 30 bps total.*

*The manner in which the above fees are paid and documented will depend upon the specific fund's distribution and/or shareholder services plan(s).*

# ALPS Distributors, Inc.'s Role

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## Distribution Activities:

- Conduct Fund Advertising and Marketing Collateral Reviews
- Administration of individual representative's FINRA Licenses
- Facilitate negotiation of Intermediary Agreements
- Administration of Intermediary Payment Processing and Reconciliation
- Intermediary Risk Monitoring
- Establishment of NSCC Participant Number and other services

## Distribution does not include:

- Solicitation of investment interest from Investment Professionals
- Conducting wholesaling activities related to generating mutual fund sales
- Initiation of new intermediary relationship activities
- Handling in-bound and out-bound sales and marketing inquiries
- Development of Target Marketing Plan or implementation of brand awareness strategies

## Contact Info

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Please contact James Curry, Senior Key Account Consultant with our Intermediary Services Department, should you have additional questions or need further information regarding topics discussed in this presentation.

### James J. Curry, Senior Key Account Consultant ALPS Distributors Inc.

James has been at ALPS for 9 years, joining in 2006. He has over 15 years of industry experience. Prior to joining ALPS, James worked at Janus Capital and Invesco Funds Group. James has extensive knowledge of dealer compensation and intermediary payment processes and previously managed a team responsible for facilitating non-standard fee arrangements. James holds FINRA Series 6, 63 and 99 licenses and the designation of Certified Mutual Fund Specialist (CMFS) from the NICSA.

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## Glossary of Key Terms

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**12b-1 Fee** – fees paid from a fund to compensate intermediaries for services primarily intended to result in the sale of fund shares, such as advertising, compensation to sales personnel, and printing and mailing of certain fund documents.

**Advanced Commission** – upfront commission paid as a percentage of the purchase price (normally 1%) to the broker-dealer of record by the financier. Commission can only be paid to a registered broker-dealer. Normally if shares are redeemed within the first 12 months after purchase, a CDSC fee will apply to the redemption.

**Aging (12b-1)** – length of time 12b-1 eligible shares must age prior to payout to the broker-dealer. Normally 12b-1 aging only applies to Class C shares where an upfront advanced commission has been paid out on the purchase and is typically for a period of 12 months.

**Asset Based Sales Charge** – fees calculated as a percentage of the average net assets of the fund held by the intermediary. Asset based sales charges can only be paid to registered broker-dealers.

**Avoided TA Fees** – applies to mutual fund accounts that are held in an omnibus position (multiple underlying individual sub-accounts held in one single account) on the books at the Transfer Agent. Transfer Agent fees are billed on the single omnibus account only and therefore the mutual fund avoids paying the Transfer Agent on the underlying sub-account positions. However, the intermediary that establishes the omnibus account will charge for this service.

**CDSC Fees** – Contingent Deferred Sales Charges or back end load. Fee repayment mechanism triggered if an advanced commission is paid and fund shares are not held for a period of at least 12 months.

**Finder's Fees** – upfront commission paid to the intermediary by the fund's adviser for producing a high dollar trade in Class A shares of a fund when the dollar amount of the purchase exceeds the highest asset level in the breakpoint schedule. Typically a CDSC fee will apply to redemption made within the first 12 months after purchase where a Finder's Fee was paid.

## Glossary of Key Terms

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**Front-End Load** – One time fee paid directly by investors at the time of purchase to intermediaries as part of the purchase of fund shares. Normally front-end sales charges include breakpoint provisions where the load decreases based on the dollar value of the purchase. At the highest end of the breakpoint schedule the sales charge is eliminated completely.

**Networked Accounts** - Networked accounts are fully disclosed positions held at the Transfer Agent for a single account or plan that is controlled and serviced by a broker-dealer via NSCC.

**NSCC** – Automated trade processing and account maintenance system used by financial intermediaries to establish and settle accounts for trading with a fund's Transfer Agent. Most trading done today by financial intermediaries is accomplished via the NSCC FundServ and Networking platforms.

**Omnibus Accounts** – Omnibus accounts aggregate share balances for multiple underlying sub accounts and investors in one single account at the Transfer Agent. Omnibus accounts are established by financial intermediaries for the benefit of their clients. Trade orders for these accounts are netted together daily and submitted as one single purchase or redemption via NSCC.

**Transaction Based Compensation** – Fees generated from investor-initiated transactions into a fund such as Front-End Sales Charges, Underwriter Concessions and CDSC Fees.

**Underwriter Concessions** – Fees generated from a Class A Front-End load purchase. The underwriter amount is the difference between the Total Sales Charge and the Dealer Concession.