



Mutual Fund Share Classes and Conflicts of Interest between Brokers and Investors

Edward S. O'Neal, PhD¹

Most mutual funds sold by brokers are offered as multiple share classes, typically designated as A, B, and C shares.² While they represent claims on the same underlying portfolio of investments, the three share classes differ in their expense structures. Specifically, the classes differ with respect to the level and timing of one-time load charges and ongoing annual distribution fees (also called 12b-1 fees). The existence of multiple share classes forces investors to decide not only which mutual fund to purchase, but also which share class is most advantageous. The share class decision is more difficult than might be expected. In a previous study, I derive multiple algebraic equations that must be solved to determine which share class is optimal for a given investor.³

The commission arrangements that have evolved to differentially compensate brokers depending on the class of fund shares they sell are not generally disclosed to investors in the mutual fund prospectus.⁴ These shrouded compensation schemes are pervasive in the mutual fund industry and give rise to a sharp conflict of interest between fund investors and brokers. Brokers are frequently more richly rewarded for selling investors the wrong share class given the investors' personal investment circumstances. This generally unknown conflict of interest is exacerbated by the fact that the level of

¹ © 2003 Edwards S. O'Neal, Securities Litigation and Consulting Group, Inc., 3998 Fair Ridge Drive, Suite 250, Fairfax, VA 22033. www.slcg.com. Dr. O'Neal is formerly of the finance faculty at Wake Forest University and the Office of Economic Analysis at the US Securities and Exchange Commissions. He has published research on the mutual fund industry widely in top finance journals. Dr. O'Neal can be reached at 703-246-9385 or EddieONeal@slcg.com.

² I am indebted to Craig McCann, whose comments and suggestions immensely improved this article.

³ See Edward S. O'Neal, "Mutual Fund Share Classes and Broker Incentives," *Financial Analysts Journal* 55 September/October 1999, p.76-87.

⁴ The more obscure Statement of Additional Information (SAI) often contains details on the commissions brokers receive. The SAI is not sent to investors unless specifically requested and, since most investors do not even know that it exists, investors rarely see this document.



sophistication necessary to analytically determine the appropriate share class is beyond the skills of the average investor.

In this short paper, I highlight the conflicts of interest engendered by multiple share class mutual funds. I will begin by briefly discussing the rules adopted by the SEC that led to multiple share classes. I then detail the expense structures and accompanying broker incentive arrangements that are most prevalent in the industry. Finally I illustrate the specific conflicts of interest that multiple share class mutual funds provoke.

RULES 12b-1 AND 18f-3

Two rules adopted by the Securities and Exchange Commission under the Investment Company Act of 1940 have combined to spawn multiple share class mutual funds. Rule 12b-1 was adopted in 1980 and allows funds to pay distribution expenses directly out of fund assets. Prior to 1980, all distribution expenses were paid with loads that were usually charged when investors initially purchased fund shares (front-end load) or, less frequently, when shares were redeemed (back-end load). Rule 12b-1 provided an additional avenue for charging investors for distribution and set the stage for fund complexes to re-package traditional loads into a combination of front, back, and annual charges. The annual distribution fees charged pursuant to a fund's 12b-1 plan are often called 12b-1 fees.

In 1995, the SEC adopted rule 18f-3 which broadly allows mutual funds to offer multiple share class mutual funds representing claims on the same underlying portfolio of investments.⁵ Prior to the adoption of rule 18f-3, many mutual funds had received exemptive orders allowing multiple share classes. Since 1995, most fund complexes that sell shares with loads have formed multiple share classes. For example, Morningstar covers 2,418 load mutual funds in its Principia database as of January, 2003. However, these

⁵ Investment Company Act Release No. IC-20915 details the considerations leading to the adoption of rule 18f-3.



funds are sold in a total of 9,081 share classes, an average of 3.75 share classes per fund.⁶

LOAD STRUCTURES

Of the 50 largest broker-sold mutual funds in the U.S., 49 are sold in at least three shares classes. For each of these 49, the three primary retail share classes are designated as A, B and C shares. Although the specific magnitudes of expenses differ, the basic share class structures are remarkably similar across funds. A shares have large upfront loads and low 12b-1 fees. B shares have back-end loads and higher 12b-1 fees which step down several years after investment. C shares have small back-end loads and high 12b-1 fees that last for the entire life of the investment. A typical investor expense arrangement and broker compensation scheme is shown in Tables 1 and 2.

**Table 1
Expense Structures of a Typical Multiple Share Class Mutual Fund**

Share Class	12b-1 Fees	Other Expenses ⁷	Expense Ratio	Front-end Load		Deferred Load
				Initial Investment	Load	
A	0.25%	0.75%	1.00%	< \$50,000	5.75%	0.00%
				\$50,000 - \$100,000	4.50%	
				\$100,000 - \$250,000	3.50%	
				\$250,000 - \$500,000	2.50%	
				\$500,000 - \$1,000,000	2.00%	
				> \$1,000,000	0%	
B	1.00%	0.75%	1.75%	0.00%		5% in year 1
				Converts to A shares after year 8		4% in year 2
C	1.00%	0.75%	1.75%	0.00%		3% in year 3
						3% in year 4
						2% in year 5
						1% in year 6
						0% thereafter

⁶ In addition to the three standard retail classes, many funds also sell separate institutional share classes and classes that are available to only a select group of investors.

⁷ “Other Expenses” includes all annual fees except the 12b-1 fee. In this example, this figure is .75%, but this will depend on the specific fund. The magnitudes of the other expenses are fairly uniform across funds though there are some differences.



Table 2
Broker Compensation Arrangement

Share Class	Initial Investment	Initial Commission	Trailing Commission
A	< \$50,000	5.00%	0.25%
	\$50,000 - \$100,000	4.00%	
	\$100,000 - \$250,000	3.20%	
	\$250,000 - \$500,000	2.25%	
	\$500,000 - \$1,000,000	1.70%	
	> \$1,000,000	1.00%	
B	All Amounts	5.00%	0.25%
C	All Amounts	1.00%	1.00%

Class A shares – Front-end Loads. Most load fund companies originally offered only front-end loaded shares. Most fund companies that sell front-end load shares designate them as class A shares. Investors incur a sales charge when they initially purchase these shares. This sales charge is paid to the fund mutual fund company and the remainder of the investor’s investment is used to purchase shares in the fund. The mutual fund company then returns the lion’s share of the sales charge back to the investor’s brokerage firm as compensation for sales efforts. Typically the load will decrease as the size of the initial investment increases, and for very large investments the load may be waived completely.

Most front-end load shares also incur a 12b-1 fee. The 12b-1 fee, expressed as an annual percentage, is deducted periodically from the net assets of the fund and paid to the mutual fund company.⁸ The mutual fund company then generally pays the broker most or all of this fee. Since the 12b-1 fee is based on the net assets at the time it is deducted, a broker's compensation from such fees will vary directly with the net asset value of the fund.

⁸ I use the term “mutual fund company” broadly here to mean the group of affiliated subsidiaries that generally provide advisory, distribution, and transfer agent services to the mutual fund. The subsidiary that acts as a fund wholesaler, collecting loads and paying brokers, is the fund distributor.



For the load structure in Table 1, A-share investments up to \$50,000 incur a front-end load of 5.75% and a 12b-1 fee of .25% per year. The broker is compensated with 5.00% of the initial total investment and is paid the full .25% 12b-1 fee as a trailing commission in each year that the investment is held. For an investor with \$10,000 to invest, the total investment in fund shares would be \$9,425. Of the \$575 front-end load, the broker would receive \$500 and the mutual fund company would keep \$75. In each subsequent year, the broker would receive .25% of the then-current value of fund shares as a trailing commission.

For investments greater than \$50,000, the investor pays a smaller front-end load and the broker receives a smaller percentage of the investment as an initial commission. The dollar breakpoints shown in Table 1 are fairly common in the fund industry. Since an initial investment of \$50,000 in a single fund is prohibitive for some investors, fund families have instituted 2 mechanisms by which investors might receive reduced front-end loads without meeting the minimum breakpoints on each A-share mutual fund investment: Letters of Intent and Rights of Accumulation.

A Letter of Intent (LOI) allows an investor to commit to a minimum dollar amount of fund purchases over a specified time period. The fund investor's total committed purchases rather than the size of the individual investments is used to determine the front-end sales charge on all purchases of the fund. For example, a fund investor might commit to purchasing \$10,000 in fund shares per month over a one-year period. In such a case, the fund will use \$120,000 (12*\$10,000) in determining the front-end load the investor would pay on each of the 12 monthly \$10,000 fund purchases. In the example in Table 1, this particular LOI would allow the investor to pay the 3.50% load.

A Right of Accumulation allows family members to aggregate fund share purchases to achieve lower front-end loads. Consider a husband and wife that each has



\$50,000 to put into a fund. A right of accumulation would allow both of them to be subject to the front-end load applicable to a \$100,000 purchase even though the purchases are made in different accounts. Most rights of accumulation apply to spouses and children. Some fund families also allow accumulation of parents, their children and their grandchildren.⁹

Class B Shares - Deferred Loads. Class B shares do not charge an upfront load, but rather charge a deferred load in the event that an investor redeems shares within a certain period of time. The deferred load, officially termed a Contingent Deferred Sales Charge (CDSC), typically decreases each year that the investment is held. This load will often decline to zero within a six-year period. If an investor redeems shares, the deferred load is calculated as a percentage of the lesser of current net asset value or the original cost of shares being redeemed.

Though no load is paid initially by the investor to purchase the fund shares, the mutual fund company pays a sales commission to the broker. The sales commission is generally comparable to the commission that the broker receives from the sale of A shares.

Like A shares, B shares incur a distribution fee that is deducted from the net assets of the fund and paid to the mutual fund company. This fee is usually higher than the distribution fee associated with A shares. However, the mutual fund company keeps a greater proportion of this annual fee and pays the broker an amount that is comparable to what is paid on A shares. The proportion of the annual distribution fee that the mutual fund company keeps offsets the sales commission that was originally paid to the broker in the absence of a load charge to the investor.

B shares convert into A shares after a number of years (usually 8 years). This conversion feature is advantageous to investors because it reduces the 12b-1 fee and hence

⁹ Oppenheimer Funds allows such accumulation.



the expenses of the fund after conversion.

The B share example in Table 1 has a CDSC that declines from 5% to 0% in six years. For the first eight years of investment, the 12b-1 fee is 1% per year. The shares then convert to A shares in the eighth year and the 12b-1 fee becomes .25% per year. An investor's entire initial investment in B shares is put into shares of the fund. For a \$10,000 initial investment, the broker receives a commission of \$500 from the mutual fund company. The mutual fund company recoups this initial commission through the annual 12b-1 fees. Whereas the investor is charged a 1% annual 12b-1 fee, the broker only receives .25% per year. The mutual fund company keeps the remaining .75% per year until conversion to offset the initial commission.

Class C Shares - Level Loads. Class C shares are often called "level load" shares. These shares generally have a small deferred sales charge that reduces to zero after the first year. Just as with B shares, the mutual fund company pays the broker a sales commission even though the investor pays no initial load. The commission paid to the broker is typically less than that associated with A or B shares.

The 12b-1 fee paid on C shares is generally the same as that incurred on pre-conversion B shares. The fee is levied against the net assets of the fund and is paid to the mutual fund company. The mutual fund company then pays a percentage of the 12b-1 fee to the broker. The amount paid to the broker is greater than that paid in association with B shares. Therefore, even though the distribution fee paid by the investor may be the same with B and C shares, the fee is split differently between the mutual fund company and the broker. C shares do not have conversion features.

The entire \$10,000 investment is used to buy shares in the C share example illustrated in Table 1. The broker receives a \$100 initial commission, and each year thereafter he receives a 1% trailing commission. C shares do not convert to A shares, so the 1% 12b-1 fee lasts for the life of the investment.



INVESTOR PREFERENCES

With multiple share class funds, the underlying assets are the same regardless of class. Since the only differences between classes are the magnitudes and timing of loads and distribution fees, the analysis of investor preferences for the different share classes can be reduced to an examination of the differential effects of the share class fees on investment returns. Three generalizations can be made about the appropriateness of these share classes: 1) Investors with large amounts to invest should buy A shares. In most cases, reaching the first breakpoint in the load schedule for A shares makes them preferable to B share investments. 2) Investors with short-term holding periods should buy C shares. The high loads associated with A and B shares make short-term trading in those share classes prohibitively expensive.¹⁰ 3) Although not apparent without performing calculations, there is generally very little difference to investors between purchases of A shares below the first breakpoint and purchases of B shares. These results are derived in my previous analysis and hold for most multiple share class mutual funds.¹¹

BROKER INCENTIVES

Brokers who sell mutual funds are compensated with combinations of upfront and trailing commissions. Though the mutual fund company pays the broker, the payments come from the loads and distribution fees charged to the investor. Total broker compensation on a sale of mutual fund shares can be calculated as the present value of all commissions generated from the fund shares. I have derived the equations and appropriate assumptions for calculating the monetary incentives for mutual fund brokers.¹² Essentially, brokers prefer higher commissions to lower commissions, and they prefer upfront commissions to trailing commissions of similar magnitude. These two principles combine to generate the following broker incentives with respect to multiple share class mutual

¹⁰ It should be noted that mutual funds are not generally appropriate for short-term trading strategies.

¹¹ Edward S. O'Neal (1999), *supra* note 1.



funds: 1) Brokers are paid more when they sell B shares to large investors than when they sell A shares even though the investors would benefit from being sold the A shares. 2) Brokers are paid more when they sell investors with short holding periods A or B shares rather than C shares even though these investors would be better served with C shares. 3) Brokers are indifferent between A and B shares when the investment amount is below the first breakpoint.

TWO EXAMPLES

A shares vs. B shares. If we make some assumptions about investor holding periods and initial investment amounts, we can determine which share classes are correct for investors. This exercise requires that we calculate the wealth that an investor would accumulate in each share class given our assumptions. Table 3 presents such an analysis for the A and B shares detailed in Table 1. In this particular example we make the assumption that the return on the underlying assets of the fund is 12% per year. Investors will not realize this return because annual expenses are deducted. For example, an A-share investor would realize 11% per year (12% minus the 1% annual expense ratio). The subsequent results are not affected for any reasonable assumption of investment return. It is worth mentioning that this exact share class structure is that of Putnam Vista fund, a \$3 billion equity mutual fund.

¹² Ibid.



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Initial Investment	Share Class	Holding period in years			
		1	3	5	8
\$10,000	A	\$10,450	\$12,848	\$15,796	\$21,533 *
\$10,000	B	\$10,454 *	\$12,925 *	\$15,973 *	\$21,498
\$50,000	A	\$52,945 *	\$65,093 *	\$80,028 *	\$109,094 *
\$50,000	B	\$52,269	\$64,624	\$79,865	\$107,492
\$100,000	A	\$106,999 *	\$131,549 *	\$161,731 *	\$220,472 *
\$100,000	B	\$104,538	\$129,248	\$159,731	\$214,983
\$250,000	A	\$270,270 *	\$332,280 *	\$408,518 *	\$556,891 *
\$250,000	B	\$261,345	\$323,120	\$399,326	\$537,458
\$500,000	A	\$543,312 *	\$667,968 *	\$821,225 *	\$1,119,494 *
\$500,000	B	\$522,690	\$646,239	\$798,653	\$1,074,916
\$1,000,000	A	\$1,108,800 *	\$1,363,200 *	\$1,675,969 *	\$2,284,682 *
\$1,000,000	B	\$1,045,380	\$1,292,479	\$1,597,306	\$2,149,833

* Indicates preferred share class for specific holding period and initial investment

Note that for most investment amounts, A shares are the preferred share class. The exception is for small investments and shorter holding periods. For investments under \$50,000 and holding periods of 1, 3, or 5 years, B shares for this specific expense structure are slightly better than A shares. However, the differences are small. Investors who have enough to meet even the first breakpoint are better off in all circumstances in A shares. Indeed, it seems inappropriate that investors are even given the option to purchase high levels of B shares.¹³ The advantage of A over B shares increases as the amount of the initial investment increases.

An extremely important point in this analysis is that investors can qualify for reduced A share loads based on the entire amount they have to invest in mutual funds, not just the amount put into each specific mutual fund through Letters of Intent or Rights of

¹³ Some mutual fund companies have mechanisms in place to question brokers about large sales of B shares and, in some cases, to disallow such purchases.



Accumulation. For example, an investor with total investable wealth of \$300,000 could divide the investment among as many as funds in the same fund family as seems appropriate for asset allocation purposes and receive the reduced front-end load of 2% on all A share purchases.

The same sort of analysis can be conducted to determine which class of fund shares the broker is paid the most for selling. For low levels of investment, there is virtually no difference in the compensation that brokers receive for selling A versus B shares. For any investment amount that would receive the A-share reduction in load (even at the first breakpoint), the broker is paid more for selling B shares. As the total investment amount increases through each breakpoint, the advantage of B shares vis à vis the broker's monetary compensation increases.

The possibility for broker misconduct is obvious. Since brokers receive higher commissions for selling large quantities of B shares, they may recommend B-share investments in lieu of A shares. Or, they may recommend spreading investments across a number of different A shares or B shares in different fund families such that the total investment amounts in each fund family do not reach the breakpoints that ultimately reduce broker payouts. Brokers may argue that spreading fund investments across families leads to greater diversification benefits than investing within a single family. This contention is unfounded – I am aware of no study, academic or otherwise, that confirms this notion. The larger fund families frequently offer a plethora of funds that span all feasible asset classes. For example, the Franklin Templeton fund family offers 89 funds, the MFS fund family offers 70 and AIM offers 56.¹⁴ In addition, expert analysis can demonstrate that portfolios of funds built with funds from a single family have extremely high correlations with portfolios holding funds from multiple families.

C shares. In the previous example, only A and B shares were considered. I treat



them initially because the vast majority of load mutual fund assets are invested in these two share classes (classifying load funds into the 3 typical retail classes shows that 92.2% of load fund assets are in A and B shares).¹⁵ Table 4 presents the same numbers as table 3, but also includes C shares.

Initial Investment	Share Class	Holding period in years			
		1	3	5	8
\$10,000	A	\$10,450	\$12,848	\$15,796	\$21,533 *
\$10,000	B	\$10,454	\$12,925	\$15,973	\$21,498
\$10,000	C	\$10,894 *	\$13,325 *	\$16,134 *	\$21,498
\$50,000	A	\$52,945	\$65,093	\$80,028	\$109,094 *
\$50,000	B	\$52,269	\$64,624	\$79,865	\$107,492
\$50,000	C	\$54,470 *	\$66,623 *	\$80,672 *	\$107,492
\$100,000	A	\$106,999	\$131,549	\$161,731 *	\$220,472 *
\$100,000	B	\$104,538	\$129,248	\$159,731	\$214,983
\$100,000	C	\$108,940 *	\$133,245 *	\$161,344	\$214,983
\$250,000	A	\$270,270	\$332,280	\$408,518 *	\$556,891 *
\$250,000	B	\$261,345	\$323,120	\$399,326	\$537,458
\$250,000	C	\$272,349 *	\$333,113 *	\$403,360	\$537,458
\$500,000	A	\$543,312	\$667,968 *	\$821,225 *	\$1,119,494 *
\$500,000	B	\$522,690	\$646,239	\$798,653	\$1,074,916
\$500,000	C	\$544,698 *	\$666,226	\$806,720	\$1,074,916
\$1,000,000	A	\$1,108,800 *	\$1,363,200 *	\$1,675,969 *	\$2,284,682 *
\$1,000,000	B	\$1,045,380	\$1,292,479	\$1,597,306	\$2,149,833
\$1,000,000	C	\$1,089,396	\$1,332,453	\$1,613,440	\$2,149,833

* Indicates preferred share class for specific holding period and initial investment.

The results here are illuminating. Most importantly, C shares are preferred for shorter holding periods for many investment levels. The ability to avoid a load by holding for just over one year is valuable for short-term traders. For any investment amount, A

¹⁴ These numbers are drawn from Morningstar Principia, January, 2003.

¹⁵ Ibid.



shares are preferable for holding periods of 8 years or longer. As the initial investment increases, the advantage of lower reduced front-end loads on A shares begins to make them preferred even to C shares for shorter-term investments. For example, an investment of \$500,000 is better put into A shares if the holding period is three years or longer.

Also of interest is that when C shares are considered, B shares are never the best choice! Recall that B shares were only preferred to A shares for investments under \$50,000 and for shorter holding periods. The introduction of C shares into the analysis removes any situation where B shares are best.

Broker compensation on C shares is dependent to a greater extent on trailing commissions than the higher initial commissions paid on A and B shares. Since the trailing commissions last throughout the life of the investment, over long terms, brokers can receive greater remuneration by selling investors C shares rather than A shares. Some brokers refer to building a book of C-share clients as “annuitizing” their business. As with the A share/B share conflict, the adverse incentives with respect to C shares is clear. Longer-term investors are better off in A shares but brokers are paid more by having long-term clients in C shares. An additional point is that broker incentives are dependent on how long the broker expects to maintain his clients. A broker nearing retirement will have greater incentives to sell A or B shares regardless of client expected holding periods since the broker will not be employed long enough to garner the higher long-run payoffs of C shares.

DISCUSSION

The preceding analysis can be conducted for any multiple share class mutual fund and the results will be similar. Unfortunately, investors must have a certain degree of financial sophistication to carry out these calculations. A simple glance at the different expense structures such as those in Table 1 is insufficient for determining the optimal share class. This complexity in share class arrangements generally necessitates the broker’s involvement in the share class decision. In a situation where the interests of the



broker and investor are perfectly aligned, this involvement would be copasetic. However, the compensation schemes that brokers face promote adverse incentives for selling share classes.

Conflicts such as these are potentially damaging to the mutual fund industry. Different share classes do not represent different fundamental investments – only how investors pay distribution expenses – primarily commissions to their broker - is different. Most investors (especially those that employ a financial professional for mutual fund investments) are not financially sophisticated enough to understand the impacts on investment returns of expenses which vary in both magnitude and timing. These investors must rely on their broker for advice on the most appropriate share class. While most brokers will likely fulfill their fiduciary responsibility and put the client's best interests ahead of their own, the possibility remains that a broker's advice may be compromised by financial incentives that conflict directly with those of the investor. The mutual fund industry has built a stellar reputation over the 60 years since the passage of the Investment Company Act of 1940, based largely on the lack of tarnishing scandals and lawsuits in the industry. The existence of such blatant adverse incentives under conditions where investors are lacking understanding can only serve to undermine the confidence that investors have in the fund industry.

The potential for conflicts of interest with annual distribution fees is not a new revelation. Trzcinka and Zweig (1990) give a complete historical perspective of the circumstances surrounding the adoption of rule 12b-1 by the SEC.¹⁶ They document that prior to the adoption of rule 12b-1 in 1980, the SEC had generally opposed allowing funds to pay for distribution expenses out of fund assets due to possible conflicts of interest between the advisor and investors. The anticipated benefit of rule 12b-1 was that an

¹⁶ See Trzcinka, Charles and Robert Zweig, 1990, "An Economic Analysis of the Cost and Benefits of SEC Rule 12b-1," *Monograph Series in Finance and Economics* (Salomon Brothers



increase in sales initiatives would ensue, stemming the tide of net redemptions that had characterized the fund industry from 1972 through 1979. The high levels of redemptions were posited to affect the manager's ability to achieve maximum investment returns and to increase expense ratios due to the resulting decrease in assets. It was decided that the potential benefits of such a rule outweighed the drawbacks, specifically the potential conflicts of interest.

Subsequent to the passage of rule 12b-1, the mutual fund industry has undergone unprecedented growth. Whether this growth is due in part to rule 12b-1 is beyond the scope of this study. However, it is important to note that much of the growth of mutual fund assets can be attributed to direct-market funds which often are sold without 12b-1 fees.

Given that the different compensation schemes for brokers provoke broker preference for selling one share class over another, an obvious solution would be to require brokers to be compensated equivalently regardless of the share class they sell. This arrangement would shift risk onto the mutual mutual fund company. The current system allows mutual fund companies to compensate brokers differentially with little risk since distribution expenses are charged to investors and a portion is directly funneled to brokers.¹⁷ If fund companies allowed different share classes to be sold, but compensated brokers equivalently regardless of share class, mutual fund companies would face the risk that distribution expenses charged to investors might fall short of promised broker commissions for some share classes.

Center for the Study of Financial Institutions, New York University, New York, NY).

¹⁷ There is some risk associated with B shares for mutual fund companies. Mutual fund companies pay brokers an upfront commission without receiving a load, depending on future 12b-1 fees to recoup the broker commission. Legally, 12b-1 fees can be discontinued by a vote of the fund's directors. Such a vote is rare, but would leave the mutual fund company without a mechanism to recover paid commissions. See Plesset, Rochelle Kauffman, and Diane E. Ambler, 1997, "The Financing of Mutual 'B Share' Arrangements," *The Business Lawyer*, 52, 1385-1429.



CONCLUSION

Multiple share class mutual funds have proliferated since the SEC adopted rule 18f-3 under the Investment Company Act to allow mutual funds to offer shares representing claims on the same underlying assets with different distribution arrangements. Numerical analysis can allow investors to determine which share class is most advantageous. Multiple share class distribution arrangements also cause mutual fund brokers to be differentially compensated based on the class of shares they sell. Brokers have monetary incentives to steer large investors away from share classes with load-reducing breakpoints and to steer short-term investors to high-load, low annual fee classes. This conflict of interest between fund investors and brokers is most dangerous when brokers advise relatively uninformed investors who likely make up a significant fraction of investors who retain advisors on mutual fund investments.