FORESIDE **Foreside Financial Group White Paper: T SHARES**

Another Letter Has Been Added To Share Class Alphabet Soup: T Shares!

Fiduciary-friendly product choices shaping the future of mutual fund distribution

Although dates and details of the final DOL rule may change, asset managers, broker-dealers and their advisors continue to prepare themselves to embrace the fiduciary mindset of transparency and lower investor fees.

The DOL fiduciary rule is accelerating and requiring broker-dealers to commit to the type of fee models their advisors can operate under, as well as require rationalization of the over 24,000 CUSIPs available today. With that, the industry has seen the introduction of a new commission share class, better known as the transactional or "T" share class. According to Morningstar, over 60+ asset management firms have already filed a new T share class to support the implementation of the rule. With recent developments, and possible modifications or delay in the rule, some are holding off launching until further clarity is received.

What Are Broker-Dealers Doing?

For retirement accounts, some players are taking a harder line by eliminating commission accounts in favor of advisory accounts, while others are allowing both. That said, a few have remained silent, taking the wait and see approach in light of the new administration in Washington.

As previously shared, Foreside continues to stay at the forefront of the fee models large broker-dealers will allow their advisors to operate under. Firms that will only allow retirement accounts in an advisory setting are Merrill Lynch, Commonwealth, JP Morgan, and Capital One Investing. Firms that are going to continue to allow both, but potentially with some restrictions, are Morgan Stanley, Wells Fargo, Raymond James, Ameriprise, Stifel, Edward Jones, Cetera Financial Group, Cambridge, Janney, NPH, and Advisor Group. As noted above, there are still a handful of broker-dealers who have not yet disclosed their course of action.

What Are T Shares?

Maximum Front-End Commission:

2.50%

Distribution and/or Service Fee (12b-1):

0.25%

T shares will allow for uniformity across fund families, enable advisors to continue serving clients through a commission-based sales model, as well as allow broker-dealers to maintain consistent payment schedules across firms and asset classes.

Distribution and Compliance Professionals Dedicated to Your Success

Foreside is committed to delivering innovative services that not only meet current requirements, but also anticipate emerging regulatory and marketplace developments. Clients rely on us to provide the information, operational support and strategic advice that are needed to thrive in today's complex arena of investments, compliance and risk management.
We collaborate with recognized service providers to ensure our clients receive informative and quality services. Foreside is not affiliated with any of its partner service providers.

Discover the Foreside Difference

Precision, expertise and integrity, combined with professional insight, position Foreside to offer cost-effective, tailored solutions that allow our clients to focus on asset management without sacrificing distribution and compliance best practices.

How is Morningstar Handling T Shares?

Per Morningstar, although the launch of T shares will provide a solution, they will also cause some unintended consequences. As a newly created share class they will lack performance history with Morningstar which will affect documentation, as well as tools and processes.

Unintended Consequences:

Lack of Performance History	• Thousands of commission account share classes will now have no history • The DOL requires all investment decisions to be demonstrated and documented
Affected Tools and Processes	• Factsheets, screeners, due diligence score cards, etc. • Morningstar Rating™ (Also known as the "Star Rating")

Morningstar has Extended Performance History methodology that solves this problem and will display statistics and ratings from prior share classes. In order for extended performance to be effective before April 10th, new share classes would have needed to be filed and have their NAV live prior to February 28, 2017. Going forward, extended performance on any newly launched share class will start calculating on the third business day of the month following a full calendar month of performance.

Morningstar will not define T shares by name for two reasons: a.) Some T shares already exist and b.) Some new T shares will use another letter (P, A, etc.). All share classes that meet the maximum front-end commission of 2.50% and distribution and/or service fee (12b-1) criteria will be considered "T shares". All share classes that are currently named T shares in the fund prospectus, but do not meet the above criteria, will be labeled "other" for share class type in Morningstar.

If You Would Like To Create T Shares:

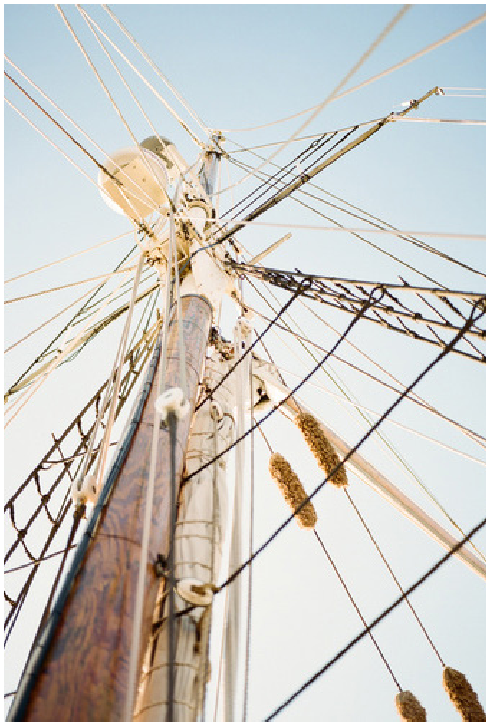
Contact your fund counsel and collaborate with your service providers on share class additions. Fund counsel will take your existing prospectus and add in details on the new share class. Once completed, filing with the SEC typically takes 90 days for approval.

To Notify A Broker-Dealer:

Please work with your dealer services representative to notify any broker-dealers of your new share class. If unsure who your dealer services representative is, please email dealerservices@foreside.com.

Selling Agreements:

In general, Foreside Dealer Agreements make no reference to share classes, and as such would not need to be modified. Platform Agreements which list out CUSIPs/tickers or share classes may require an amendment. Please contact your dealer services representative for any questions on your specific agreement.



Clean Shares:

While the launch and adoption of T shares will continue to grow, the industry is also digesting the emergence of "Clean Shares". This share class allows for the separation of fees for mutual fund distribution and for investment management. The structure mirrors the growing trend in the retirement space with the R6 share class, allowing advisors to choose the fund based on its investment merits versus compensation. Clean Shares have no built-in commissions or 12b-1 fees and allow intermediaries to charge for their services separately. So far American Funds, Janus Capital, Federated, Fidelity, JP Morgan, and Prudential have either filed for such share classes or plan to convert existing share classes to this structure. The Benefits of Clean Shares are:

- Lower fund charges
- Transparent fee structure
- Potential improvement in fund performance (due to lower charges)
- Easier comparison of charges between funds

The big question regarding clean shares is whether broker-dealers will have an appetite for this type of share class. Although they give intermediaries the ability to customize commissions, they also introduce compliance, operational, and technology support challenges. Foreside will continue to monitor these trends and provide timely updates.

Do you have additional questions about this topic?

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