

Understanding Mutual Funds



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An Overview for Your Retirement Planning



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Get Ready for Retirement

Investing your hard-earned money comes with some big decisions. Having a clear objective is the best way to start. Mutual funds can be an effective way to invest for important goals like retirement or other objectives.

When choosing from over 10,000 mutual funds available in the market, it's important to understand that each mutual fund has different risks and rewards. In general, the higher the potential return, the higher the risk of loss.

What Is a Mutual Fund?

A mutual fund is made up of stocks, bonds, and/or other securities that are purchased with the money from a group of investors and professionally managed by an investment company. When you invest in a mutual fund, the investment company pools your money with that of other investors to pursue the investment objective outlined in the fund's prospectus.

When you invest in a mutual fund, you own a share of the fund, making you a shareholder. Shares represent a portion of the holdings of the fund. Mutual fund shares can be redeemed at any time for the current market value. The value of the shares is determined daily based on the total value of the fund divided by the number of shares purchased. It's important to know that values fluctuate, and when redeemed, the shares may be worth more or less than the original cost.

Most individuals buy mutual funds for long-term goals, especially retirement.

Source: Investment Company Institute (ICI), A Guide to Understanding Mutual Funds.

Types of Mutual Funds

At a basic level, there are four types of mutual funds. Most are variations of these four categories:

1. **Equity fund**—invests primarily in stocks
2. **Fixed-income fund**—invests primarily in bonds
3. **Money market fund**—invests in money markets and cash equivalents
4. **Fund-of-funds**—invests in other mutual funds, which usually allows investors to diversify across a variety of mutual fund categories all within one fund

For more detail on a specific fund, speak with your financial advisor.



Why a Mutual Fund?

Mutual funds can help make investing simple and affordable. Some of the features include professional management, diversification, affordability, and liquidity.

Professional Management

Purchasing a mutual fund means you have access to professional money managers. Generally, the managers make decisions based on extensive research and resources of the fund company. They choose the investments, based on the investment strategy, on behalf of the shareholders.

Diversification

Mutual funds allow you to automatically diversify your investment across a wide range of individual stocks, bonds, and/or other securities, which is something you may find difficult to accomplish on your own. A diversified portfolio helps spread the risk but does not mean that you will never lose money or experience a negative return.

Also, keep in mind that diversification cannot guarantee results in the future or that you will earn a profit.

Diversification can be summed up in one statement: "Don't put all your eggs in one basket."

Affordability

It's a relatively inexpensive way for the average investor to gain access to professional money managers. By purchasing shares in a mutual fund, you can have a diversified portfolio, often without having to spend a large amount of money and time deciding which types of individual securities to purchase. However, be aware that some funds may have investment minimums.

Liquidity

Generally, selling a fund can be as easy as purchasing one. You can request that your shares be redeemed at any time the stock market is open. It's important to remember that depending on the type of account, there may be withdrawal charges and/or tax implications if you choose to liquidate your shares.

Fees and Expenses

Mutual funds pass along the costs of professional management to investors by charging fees and expenses. Fees can be broken down into two major categories:

- ✓ Ongoing yearly fees
- ✓ Transaction fees paid when you buy or sell shares in a fund

Fees and expenses for a mutual fund are required by law to be clearly disclosed to investors in a fee table in the fund's prospectus. You should always review a fund's prospectus before you invest.



Taxation

There are two types of taxable distributions to shareholders:

- ✓ Ordinary dividends
- ✓ Capital gains

Each type of taxable distribution is reported differently on your income tax return. However, if you purchase a mutual fund as part of an Individual Retirement Account (IRA), 401(k), or other tax-deferred account, or it is a tax-exempt fund, taxes are not due if the distribution remains in the retirement, tax-deferred, or tax-exempt account. Otherwise, taxes are due on all dividends, even if those dividends are reinvested. Keep in mind that if you need to take distributions from an IRA or other qualified plan, the distribution may be taxable and if made prior to age 59½, a 10% federal tax penalty may apply. For more detailed tax information, please contact your tax advisor or visit the U.S. IRS website.

How Mutual Funds Can Earn Money for You

Dividend Payments

A fund may earn income on stocks and interest on bonds within its portfolio. The mutual fund company will pass along nearly all the income it has earned (minus any disclosed expenses) in the form of *dividends*.

Capital Gains

If the value of a security within a fund increases and the fund manager then sells that security, the fund has capital gains. The fund manager will often pass the gains along to its shareholders in the form of a distribution. (If the fund manager sells a security that had a loss in value, this is called a capital loss.)

Net Asset Value (NAV)

$$\text{NAV} = \frac{\text{assets} - \text{liabilities}}{\text{total number of shares}}$$

If the total fund assets (current market value of shares) of a fund's overall portfolio increase after subtracting total fund liabilities (fees and expenses), then the share price has appreciated. The higher NAV indicates a higher value of your investment.

As a general rule, unless you ask for distributions (dividends or capital gains) to be paid in cash, the fund will reinvest them for you by purchasing additional shares in the fund.

Choosing the Right Fund

Before you invest, determine your financial goals and assess your risk tolerance with the help of a financial advisor. Once you know your goals, how soon you'll need the money, and how much risk you're willing to take, you can narrow your choices. You should also consider the effect that fees and taxes will have on your returns over time. Finally, decide whether the investment strategy and risks of the fund are a good fit for you.



Why Pacific Life Funds?

It's essential for you to choose a company that can help you achieve your investment goals. Pacific Life Funds can help you get there.

We offer you:

- ✓ Mutual funds based on the principles of diversification and income generation.
- ✓ Knowledgeable and experienced money managers.
- ✓ High-quality service standards that are acknowledged by our peers.

Pacific Life Funds

is committed to providing
quality products and services
to meet your financial needs.

