# The Rennie Quarterly Return

Rennie & Associates
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## Mutual Fund Mechanics

Mutual funds provide investors with professional management, investment diversification, liquidity, low costs and other advantages relative to investment alternatives. The mechanics of mutual fund operations remain opaque to many investors.

### An Investment Company

Each of the more than 11,000 mutual funds today is a unique investment company, registered with the SEC under The Investment Company Act of 1940.

The purpose of an investment company is to pool money from multiple investors and, advised by investment advisors (portfolio managers), invest it according to the fund's investment objectives, which are clearly outlined in a fund's prospectus.

The Act requires shareholder election of an independent board of directors to serve in the best interest of shareholders. It addresses capital structure and custody of assets, investment activities of the fund, and other requirements.

A mutual fund typically has no employees. Rather, the fund's board of directors maintains contracts with associated or third-party service providers.

### Fund Service Providers

It is important to distinguish between a mutual fund registered under the Act, and investment management companies such as Vanguard and Fidelity. Vanguard is a service provider to funds: an administer, transfer agent, and often an investment advisor. The diagram below, from the Investment Company Institute's 2010 Investment Company Fact Book, shows the relationship between shareholders, the mutual fund, and service providers.

### Daily Operations

Investors in mutual funds own, indirectly, their proportionate share of the investments held by the fund. They may redeem their shares for cash at the fund's Net Asset Value (NAV), computed daily by dividing the closing total market value of the mutual fund's portfolio by the number of shares outstanding.

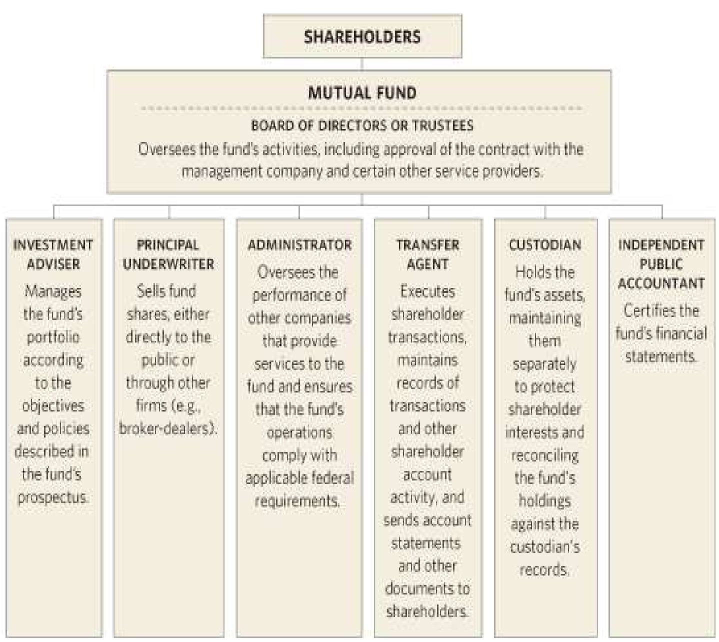
Every day, each mutual fund experiences both new investments and withdrawals. The fund administrator communicates the net daily investment or withdrawal to the investment advisor who, in turn decides how to invest the new dollars, or alternatively which securities to sell.

A fund's assets are typically held at a separate custodian bank. Furthermore, the investments in a mutual fund's portfolio are fully disclosed.

Mutual funds incur operating expenses, mostly fees paid to the investment advisor, custodian bank, and the other service providers. These fees are paid from fund's assts. Naturally, they decrease the NAV. Fees are fully disclosed.

### Fund Investment Return

The investment return on a mutual fund comes from NAV appreciation and fund distributions. Distributions to shareholders represent their pro rata share of interest, dividends, and net capital gains earned by the investment portfolio each year, after fund expenses.

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### *Our Two*


*Too many people miss the silver lining because they're expecting gold.*

*Maurice Setter*

### *Quarterly Trivia:*

*The predecessor of what company today started the first modern US mutual fund in 1924?*