

A US Mutual Fund is an open-ended investment company registered under the Investment Company Act of 1940 (“1940 Act” or “40 Act”). Redemption proceeds must be paid within seven days of the redemption order, so US Mutual Funds are prohibited from investing more than 15% (10% for money market funds) of their assets in illiquid securities. Redemption proceeds are generally paid on a T+1 basis.

Investor Profile

- Any investor can invest.
- There is no limit to the number of investors or type of entity.
- 401(k) and other retirement and employee benefit plans can invest.

Regulatory Reporting Requirements

- A Prospectus (or Summary Prospectus) must be delivered before or at time of sale. The Statement of Additional Information (“SAI”) must be available upon request, and Annual and Semi-Annual Reports must be provided after investment on an ongoing basis.
- Regulated primarily under the 1940 Act and the Securities Act of 1933 (if sold publicly), and the Securities Exchange Act of 1934.
- Required SEC reporting includes:
 - Form N-1A , which must be updated on an annual basis
 - Form N-CSR
 - Form N-Q
 - Proxy Voting Record (Form N-PX).
- The fund's distributor is regulated under the Securities Exchange Act of 1934, as well as FINRA's rules and regulations.

Distribution, Advertising and Promotion

- May be broadly advertised and marketed to the general public.
- Advertising and marketing are subject to compliance with SEC and FINRA rules.

Fund Launch Timeline and Organizer Requirements

- Launch typically takes four to six months for new registrants.
- The fund organizer must recruit a board of directors, draft and review all relevant disclosure documents and contracts, draft and file with state of organization, file form N-8A (notice of registration) and Form N-1A (registration statement) with the SEC, file the State Blue Sky registration forms, seed the fund and then commence offering after the SEC grants effectiveness.

- SEC review process typically takes 90-120 days.
- Subsequent launches can be accomplished with Board approval and 75-day SEC review.

Fund Operational Organization Structure

A US Mutual Fund is generally organized as a Delaware statutory trust, a Massachusetts business trust or a Maryland corporation.

- **Governance** – Managed by a Board of Directors/Trustees – a majority must be independent of the adviser.
- **Investment Adviser** – Must be registered under the Investment Advisers Act of 1940. All material amendments to advisory contracts (i.e., fee increases) must be approved by fund shareholders.
- **Distributor/Principal Underwriter** – Must be registered with the SEC under the Securities Exchange Act of 1934 and with FINRA.
- **Administrator** – A third-party administrator generally oversees administration of the fund (i.e., accounting, NAV calculation and financial statement preparation).
- **Transfer Agent** – The fund employs a registered transfer agent (TA) who is responsible for recording ownership of fund shares, processing dividends and sending shareholder statements and annual tax statements.
- **Custodian** – The 1940 Act closely regulates funds' arrangements for custody of their assets, generally requiring funds to maintain their assets in the custody of a bank.
- **Independent Accounting Firm** – Funds must engage an independent auditor and annually audit financial statements.

Initial and Ongoing Costs

- Costs are generally considered high, relative to private funds and separate accounts.

Fees and Fee Limitations

- The advisory fee must be the same for all fund investors.
- While the adviser can charge a performance fee, the performance fee must be a so-called fulcrum fee, unless all of the fund's shareholders are qualified clients, which is not typically the case for US Mutual Funds.

Taxation

- US Mutual Funds effectively obtain pass-through federal income tax treatment by electing treatment as a "regulated investment company" (or "RIC") under Subchapter M of the Internal Revenue Code. This requires that the US Mutual Fund meet the diversification and income distribution requirements of Subchapter M:
 - No more than 50% of its portfolio is made up of issuers in which the RIC has invested more than 5% of its assets and/or issuers in which it holds 10% or more of the voting stock of such issuers.
 - That it distribute at least 90% of its net investment income to its shareholders annually.
 - That at least 90% of its income comes from passive sources (i.e., interest, dividends, trading in stocks and securities, etc.), as a result, US Mutual Funds face challenges when investing in commodities.

- RICs are also prohibited from making any dividend or distribution that prefers one class or group of investor over another (a "preferential dividend").
- Failure to qualify as a RIC will result in the fund being treated as a corporation for tax purposes thereby subjecting investors to double taxation.

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