What is Mutual Fund Structure?

Worksheet

Mutual fund structure is how a fund is organized to collect investor money, invest it diversely, and manage it professionally. Investors own fund shares; the fund owns the underlying securities.

Questions

1. What do you own when you buy into a mutual fund?

A) Individual stocks directly
B) Shares of the fund
C) Bonds only
D) The fund building

2. Who makes investment decisions in a mutual fund?

A) Individual investors
B) The government
C) A professional manager
D) Random computer algorithm

3. What is the main advantage of mutual funds?

A) No fees
B) Zero risk
C) Instant wealth
D) Professional management + diversification

4. What is an expense ratio?

A) One-time fee
B) Annual fee as % of assets
C) Fee only when you sell
D) Fee paid to the government

5. You invest $5,000 into a mutual fund. 100 other people invest too. What happens next?

6. The mutual fund gains 10% value this year. Your share is worth $5,500. What else do you owe?

7. A mutual fund sells a winning stock for a profit. How do you benefit?

8. Define: What is a mutual fund?

9. Define: Who manages a mutual fund?

10. Define: What is an expense ratio?

Answer Key

1. B) Shares of the fund — You own shares of the fund, which owns a diversified portfolio of securities.

2. C) A professional manager — A fund manager is hired to research and make buy/sell decisions aligned with the fund's goal.

3. D) Professional management + diversification — Mutual funds let small investors access professional management and diversified portfolios they couldn't achieve alone.

4. B) Annual fee as % of assets — Expense ratio is the annual cost to operate the fund (typically 0.5–1.5% per year).

5. Total pooled: 500,000+ (100 ×5,000+) Manager buys a diversified portfolio (e.g., 50 stocks, 20 bonds, cash) You own shares of the fund, not the individual securities You participate in any gains or losses

6. You own 500 gain (profit) But the fund charges annual fees (expense ratio = 0.5–1.5%) On5,500, that's ~27–82/year paid directly from your shares Your net gain is500 − 27–82 =418–473

7. Fund's gains are realized (capital gain) At year-end, gains are distributed to all shareholders proportionally You receive a 'capital gains distribution' (not sold by you = still taxable) You can reinvest it or take it as cash

8. A pooled investment vehicle where many investors' money is combined to buy a diversified portfolio.

9. A professional fund manager who makes buy/sell decisions to match the fund's investment objective.

10.