



Important Information About  
Your Mutual Fund Investment  
As of June 2011

Member FINRA and SIPC

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## Mutual fund investing at Baird

Mutual funds can be an appropriate solution for many investors and part of an effective approach to achieving your financial goals. By pooling assets from multiple investors into one portfolio, mutual funds can provide such benefits as diversification, professional management, low minimum initial investments and liquidity. At Baird, you can choose from a large selection of mutual funds, sponsored by more than 200 fund companies.

Baird has developed the “Baird Mutual Fund Leaders” List of mutual fund families. The Baird Mutual Fund Leaders List is currently comprised of 13 fund families that Baird has selected using an evaluative process that predominantly emphasizes quantitative factors, including consistency of performance, fund expenses, and product diversity, and to a lesser degree qualitative factors such as operational capabilities and service.

The current list of firms that have been identified as Baird Mutual Fund Leaders is as follows: AllianceBernstein, Allianz Global Investors, American Funds, BlackRock, Eaton Vance, Franklin Templeton, Goldman Sachs, Hartford, Invesco AIM, J.P. Morgan Asset Management, John Hancock Funds, Natixis Global Associates and PIMCO. Baird may modify this list at any time.

**Please note that Baird receives revenue sharing payments from certain fund families on the Baird Mutual Fund Leaders List. See “Other compensation we may receive” below.**

Baird also maintains a recommended list of individual mutual funds divided by different asset categories and investment strategies. This recommended list is prepared with the assistance of a third party research firm that conducts due diligence on individual mutual funds.

This document describes various features of open-end mutual fund companies, including the risk, characteristics and expenses and also includes a description of the compensation Baird and its Financial Advisors receive when their clients invest in mutual funds. Also described in this document is the additional financial support Baird receives from the sponsors of certain mutual funds it sells.

### Understanding risk and cost

The risks and costs associated with mutual fund investing are two important factors to consider before purchasing a mutual fund.

Like any investment, mutual funds carry some risks which may include market risk, interest rate risk, credit risk, style risk and securities selection risk. The degree of these and other risks will vary depending on the type of mutual fund you choose.

All mutual funds have direct costs associated with their sales and operation that will have an impact on your investment returns. These costs may include transaction fees, such as front-end or contingent deferred sales charges (often referred to as “loads”), paid directly by fund investors, and operating expenses, such as management fees, distribution or “12b-1” fees, and other operating costs, paid by the funds (and thus indirectly by fund investors). Sales charges and operating expenses vary among mutual funds, share classes and fund families.

Before investing in any mutual fund, it is important to read its prospectus, an informational document provided by each mutual fund that contains a wealth of information, including a description of the fund’s investment objectives and strategies, risks and costs, which you should understand before investing money. You should also discuss potential risks and costs with a Baird Financial Advisor, who will help you evaluate your investment objectives, time horizon, investing experience and current asset allocation to select the investments that are suitable for your financial needs.

### Sales charges and expenses

The sales charge you may pay may differ slightly from the prospectus due to rounding calculations. (e.g., actual sales charge rate of 5.75%, may appear as 5.76% due to rounding). Some of the different types of sales charges and operating expenses associated with mutual fund investing are briefly explained below.

**Front-end sales charges** – A front-end sales charge may be deducted from a mutual fund investment at the time of purchase. This sales charge is calculated as a percentage of the total investment purchase. If \$10,000 is invested in a mutual fund that has a 5.75% front-end sales charge, \$9,425 will be invested in the fund. The difference between the \$10,000 initial investment and the \$9,425 that is actually invested is \$575, which is the front-end sales charge. Mutual funds with this pricing option are often referred to as Class A shares.

Most of the front-end sales charges deducted from a mutual fund investment are paid as a commission to the broker-dealer responsible for making the sale. That commission is often referred to as a “dealer reallocation.”

**Back-end sales charges** – A back-end sales charge is sometimes referred to as a contingent deferred sales charge (CDSC). This charge, which decreases over time, is deducted from a mutual fund investment if the fund shares are sold prior to a specified

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period as stated in the mutual fund prospectus. The back-end sales charge is calculated as a percentage of the total sales proceeds. For example, if an investor sells \$10,000 of shares in a fund that he or she has owned for 18 months and that fund has a 5.00% back-end sales charge during the second year, the investor will receive a check for \$9,500. The \$500 difference between the \$10,000 worth of shares sold and the \$9,500 check paid to the investor is the back-end sales charge.

Back-end sales charges are most typically associated with Class B and C shares. The level of the applicable back-end sales charge will decline over time until it is eventually eliminated. A back-end sales charge may also apply in some special circumstances as outlined in the mutual fund prospectus. Often these circumstances are associated with purchases at net asset value (NAV) or as a penalty imposed on shorter term trading. NAV is the market value of the mutual fund share.

**No load funds** – Not all mutual funds impose a sales charge. A number of “no load” funds are available.

Baird charges a fee associated with purchasing and exchanging no-load funds in a commission based account (although Baird does not impose a fee to sell a fund, the fund itself may have a redemption fee). The minimum fee charged by Baird may change from time to time without notice to the client and can be found on Baird’s website at [www.rwbaird.com](http://www.rwbaird.com) or by contacting a Baird Financial Advisor. The fee will automatically be charged and will be billed to the client in addition to the amount of the buy being placed.

**Mutual fund operating expenses** – Operating expenses apply to all mutual funds and commonly include management or advisory fees, distribution and service fees (also known as 12b-1 fees) and other fees, such as transfer agency, custody, directors, legal and audit fees. These expenses are calculated and included on a daily basis in the fund’s net asset value, or “NAV.”

## Share classes and characteristics

Many mutual funds offer multiple share classes, which have different sales charge and expense characteristics. Class A, B and C shares are the most common share classes available. Regardless of whether an investor’s mutual fund shares are Class A, B or C, that investor owns an interest in the same portfolio. Although Class A, B and C shares are the most common references for share classes available, other share classes and nomenclature exist.

### ***Class A shares – Common Characteristics***

Front-end sales charge is deducted from the amount invested at time of purchase  
Lower operating expenses than Class B and C shares  
Typically do not have a back-end sales charge; however, back-end sales charges may apply in certain circumstances  
Breakpoint discounts available on larger purchases (see “Breakpoint Discounts”)

### ***Class B shares – Common Characteristics***

No front-end sales charge; thus, 100% of purchase amount is invested immediately  
Back-end sales charge (CDSC) decreases over time and is eventually eliminated  
Higher operating expenses than Class A shares for specified period of time  
Eventual conversion to Class A shares typically occurs between six and eight years from date of purchase  
Usually not appropriate for larger purchase amounts (purchases over \$50,000 should be reviewed carefully with a Financial Advisor to determine whether Class A shares may be more appropriate due to sales load breakpoints)

### ***Class C shares – Common Characteristics***

Typically there is no front-end sales charge; thus 100% of purchase is invested immediately  
Back-end sales charge of 1% typically applies to redemptions made within 12 to 18 months after the shares were purchased  
Higher operating expenses than Class A shares are typical for duration of investment

## Choosing a share class

There are multiple share classes available, each offering distinct advantages and disadvantages. A Financial Advisor can help determine the most suitable share class by evaluating the investor’s investment time horizon and the amount purchased. Baird strongly recommends evaluating the appropriate share class for purchases over \$50,000 made in a single transaction or in a series of transactions.

## Breakpoint discounts

Class A shares of mutual funds give qualifying investors the right to receive a front-end sales charge discount. The discount is offered when “breakpoints” are reached. A sample breakpoint schedule, similar to what is detailed in certain fund prospectuses, is illustrated in the following table:



Aggregate Investment	Front-end sales charge
Less than \$25,000	5.75%
\$25,000 to \$49,999	5.00%
\$50,000 to \$99,999	4.50%
\$100,000 to \$249,999	3.50%
\$250,000 to \$499,999	2.50%
\$500,000 to \$749,999	2.00%
\$750,000 to \$999,999	1.50%
\$1,000,000 or greater	None

Breakpoint discounts are available on initial and subsequent purchases. Also, discounts on purchases may be obtained based on current holdings in the same fund family (see “Rights of Accumulation”) or a commitment of future purchases (see “Letter of Intent”).

For purchases that exceed \$1,000,000, although no sales charges apply, the fund company may provide compensation to the Financial Advisor.

**Initial purchases**

When making an initial purchase of Class A shares in a particular mutual fund family, the front-end sales charge and minimum purchase requirement to obtain a discount can be determined by referring to the sales charge schedule in the fund’s prospectus. An initial \$10,000 purchase, using the sample breakpoint schedule previously shown, would incur a front-end sales charge of 5.75%. An initial investment of \$125,000 would qualify for a breakpoint discount, thereby incurring a lower front-end sales charge of 3.50%. Initial mutual fund purchases in several funds within the same fund family can be combined to determine the appropriate discount. For example, based on the previous sample breakpoint schedule, if an investor was to simultaneously purchase \$10,000 of five different mutual funds offered by a single fund family—for a total value of \$50,000—that investor would qualify for a breakpoint discount and pay a front-end load of 4.50%. Keep in mind that breakpoint schedules may vary between different mutual funds in the same fund family.

**Rights of Accumulation**

Breakpoint discounts may also apply to purchases based on an investor’s existing holdings within a fund family. These discount entitlements are referred to as Rights of Accumulation (ROA). For example, if an investor owned mutual funds within the same fund family valued at \$255,000, then invested an additional \$1,000 in the same fund family, that investor would be eligible for a discount on the additional \$1,000 investment based on his or her total holdings in that fund family. Therefore, based on the above sample breakpoint schedule, a 2.50% front-end sales charge would apply to the investor’s \$1,000 purchase.

When calculating the value of an investor’s current mutual fund family holdings for ROA purposes, the value of shares owned, combined with the value of shares owned in certain family member and related accounts, may count toward a breakpoint discount. For example, many mutual fund families allow investors to add together the value of shares owned by the investor, the investor’s spouse and their minor children when determining the breakpoint discount.

Finally, the value of mutual fund shares held at different investment firms or purchased directly with the fund should be considered when determining the value of an investor’s current holdings for ROA purposes as some fund families allow the aggregation of holdings at other investment firms when determining breakpoint opportunities. For example, if an investor holds shares at several different investment firms and also owns shares that are held in certain types of retirement accounts, that investor may be able to combine the value of the shares from the same fund family when determining the breakpoint discount received. Please note that it is the investor’s responsibility to inform his or her Financial Advisor of all holdings in order to ensure that they are properly aggregated for ROA purposes. Additionally, the investor may be asked to provide proof of this ownership.

In summary, the calculation of the appropriate ROA breakpoint discount can be complicated. Furthermore, ROA rules vary from one mutual fund family to another. Therefore, it is important to ask a Financial Advisor about mutual fund breakpoint discount opportunities. Be certain to review the breakpoint information in the prospectus of the mutual fund being purchased.

## Letter of Intent

Discounts on purchases of Class A mutual fund shares may also be obtained based on the investor's promise of future, additional fund purchases. Signing a Letter of Intent (LOI) with a mutual fund company commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. This commitment is made in exchange for the right to immediately receive a breakpoint discount. For example, it would be appropriate for an investor to sign an LOI if he or she planned to invest \$50,000 in Class A mutual funds in the same fund family in the next 13 months, but only planned on making an immediate purchase of \$10,000. In this scenario, signing an LOI would allow the investor to receive a breakpoint discount on the initial \$10,000 purchase in addition to subsequent purchases within the 13-month period. As indicated in the previous sample breakpoint schedule, the investor could expect to pay a 5.75% front-end sales charge when making a \$10,000 fund purchase. However, signing an LOI and committing to purchasing an additional \$40,000 of Class A shares, would incur a front-end load of 4.50% on that initial \$10,000 purchase. If the investor subsequently failed to invest the amount of his or her LOI commitment, the fund would retroactively deduct the correct sales charges based on the amount that was actually invested. If an investor intends to make multiple purchases within a 13-month period, he or she should consult a Financial Advisor and review the mutual fund prospectus to determine if signing an LOI would be beneficial.

## Exchange and reinstatement privileges

Most mutual fund companies allow investors to move their investment from one fund to another within the same fund family at no additional cost as long as that investment is in the same class of shares.

Many mutual fund companies also extend to shareholders who have sold their mutual fund shares a one-time right to repurchase shares of the same fund family at NAV if the repurchase is completed within a specified period of time, usually less than 90 days. Specific details regarding exchanges and reinstatements can be found in each mutual fund prospectus.

## To learn more

To learn more about mutual fund share classes or mutual fund breakpoints, please review the valuable information on the Financial Industry Regulatory Authority ("FINRA") Web site at [www.finra.org](http://www.finra.org).

Investors are encouraged to utilize the mutual fund expense analyzer available on the FINRA website as well.

## Fee-based accounts

Many mutual funds may also be available through a fee-based account, which charges a periodic fee based on a percentage of the account's value rather than a commission per transaction. In this case, front-end sales charges will not typically apply. Baird offers a variety of fee-based accounts. Careful consideration should be given to the fees charged and services provided versus alternative sales charges. Consult a Financial Advisor for information on these programs.

## Compensation for mutual fund sales

In addition to understanding the sales charges and fund operating expenses for different share classes and breakpoint discounts, it also is important to be aware of how Baird and its Financial Advisors are compensated when their clients invest in mutual funds. This compensation varies depending on the type of fund (e.g., equity vs. fixed income), the amount invested and the share class purchased (e.g., A, B or C).

Mutual fund companies compensate Baird and its Financial Advisors based on the applicable front-end or back-end sales charges detailed in the mutual fund prospectus. Many mutual fund companies also make ongoing payments to Baird, referred to as service fees or 12b-1 fees, as described in the prospectus. Baird, in turn, pays a portion of these fees to the Financial Advisor according to an internal compensation formula, which remains the same regardless of which mutual funds are purchased. In fee-based accounts, the Financial Advisor's compensation is based on a percentage of the total assets held in the account. Some mutual funds may impose higher front-end sales charges and 12b-1 fees than other funds, which in turn may result in Baird and its Financial Advisors receiving greater compensation from those funds. Accordingly, the receipt of this compensation fees provides Baird and its Financial Advisors an incentive to recommend mutual funds over other investment products, or to recommend mutual funds that offer sales charges and 12b-1 and shareholder servicing fees greater than other funds. .

## Other compensation we may receive

A client that invests in mutual funds should note that those types of funds have their own fees and expenses that are borne either directly or indirectly by their shareholders or unit holders, including the client. These fees and expenses may include investment management fees, distribution (12b-1) fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, shareholder servicing fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing fund expenses"). Certain of these ongoing fund expenses may be paid to

Baird or its affiliates. Baird or its affiliates retains such payment to the extent allowed by applicable law and regulation. Please review the prospectus and statement of information for a particular fund for more information.

In addition to sales loads and 12b-1 fees, Baird receives additional financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients for cash management, check writing, credit/debit card, temporary defensive and other purposes. Those sponsors currently include Dreyfus and J.P. Morgan. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in Baird's ALIGN advisory programs or held in IRAs or retirement accounts subject to ERISA.

This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing," is typically allocated toward the costs of training and education for Financial Advisors, due diligence on the funds and marketing support. . In exchange for such financial support, fund companies and their sponsors may receive certain benefits from Baird, including access to Baird Financial Advisors or Baird associates for educational, networking, marketing and other promotional opportunities, including:

- Participating in meetings and conference calls with Baird Financial Advisors and home office personnel
- Speaking and networking opportunities at Baird regional and national forums
- Conducting marketing campaigns tailored to the needs of Baird Financial Advisors
- Participation by Baird Financial Advisors and home office personnel in fund company due diligence meetings
- Posting of marketing materials on internal websites accessed by Baird Financial Advisors
- Information regarding Baird Financial Advisors
- Information on fund company market share within Baird

The amount of financial support that Baird receives from fund companies varies and is based on the value of Baird client assets invested in certain mutual funds, a fixed dollar amount or some other method determined by the mutual fund company. However, the amount of financial support Baird receives from mutual fund companies does not exceed 0.09% of the value of Baird client assets invested in those funds. In 2009 and 2010, Baird received revenue sharing payments from the following mutual fund families included on the Baird Mutual Fund Leaders List (from largest to smallest amounts): American Funds, Hartford, Goldman Sachs, Franklin Templeton, Allianz/PIMCO, Putnam, Invesco, John Hancock, AllianceBernstein, Van Kampen, JPMorgan and Eagle Asset Management. The financial support Baird receives from sponsors of money market mutual funds is typically based on the value of Baird client assets in those funds and has generally ranged from 0.12% to 0.96%, depending on the type of fund. The financial support we receive from mutual funds and money market funds is paid by the advisers or distributors of such funds and not out of fund assets. However, the revenues and profits of advisors and distributors to funds may in part be derived from fees paid by such funds for services provided by the advisors or distributors.

In addition to financial support payments described above, Baird may be reimbursed by mutual fund companies or their service providers for expenses incurred by Baird for various sales meetings, seminars, and conferences held in the normal course of business. Any such reimbursement is at the entire discretion of a particular mutual fund company.

Receipt of financial support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make such payments over mutual funds and their sponsors that do not. However, Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List, Mutual Fund Recommended List, or in constructing portfolios of mutual funds offered in its ALIGN programs.

The financial support and other payments that Baird receives from mutual funds are not paid to Financial Advisors, and Financial Advisors' compensation is not tied to such payments. Baird Financial Advisors and Baird associates may, however, receive non-cash compensation and other benefits from Baird and mutual fund companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide Baird Financial Advisors an incentive to favor mutual funds and their sponsors that provide such benefits over mutual funds and their sponsors that do not.

More detailed information about the financial support that Baird receives from the mutual fund families on its Mutual Fund Leaders List is available in the mutual fund companies' mutual fund prospectus or statement of additional information. Please contact your Baird Financial Advisor for more specific information about the amount of financial support Baird may receive from any of these mutual fund companies.

Baird also receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides to mutual funds. Baird processes client transactions in mutual fund shares held at Baird on a networked basis, which means that Baird executes a trade for each client with the mutual fund company on an individual client basis and that Baird must maintain certain records. These fees generally are paid from investor assets in the mutual funds, and are a fixed dollar amount based on the number of positions or accounts in that fund family held at Baird. The networking fees are generally \$6 per position, but the range of fees paid to Baird varies based upon the particular fund, the level of client assets invested, and the level of service provided.

Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual funds for Baird on behalf of Baird clients. Schwab executes trades for Baird on behalf of Baird clients on an omnibus basis, which means that trades made by Baird clients in a fund are consolidated into one daily trade with the fund. Although Baird pays Schwab a fee for that clearing service, Schwab passes through to Baird a portion of the amounts that Schwab receives from the funds (including 12b-1, shareholder service and sub-transfer agency fees and revenue sharing payments) for services Baird provides to its clients who invest in the funds such as record maintenance, shareholder communications and transaction services. Baird, in turn, pays a portion of the 12b-1 fees to its Financial Advisors. This may provide Baird and its Financial Advisors an incentive to recommend certain funds that are part of the Schwab clearing arrangement over other investment products or funds not included in the Schwab clearing arrangement.

### **Trading relationships with Baird**

Mutual fund companies may select Baird, in its capacity as a broker-dealer, to execute portfolio trades. Baird receives compensation for those execution services. This may create an incentive for Baird to recommend or sell to clients such mutual funds.

To learn more about how a mutual fund company selects brokerage firms for trade execution, please consult the statement of additional information, available from each fund.

### **Affiliation with Baird Funds and Other Mutual Funds**

Baird is the investment adviser, and principal underwriter for the Baird Funds, Inc. ("Baird Funds"), a registered open-ended management investment company. Baird Funds currently offer seven investment portfolios: Baird Aggregate Bond Fund, Baird Core Plus Bond Fund, Baird Intermediate Bond Fund, Baird Intermediate Municipal Bond Fund, Baird Short-Term Bond Fund, Baird LargeCap Fund and Baird MidCap Fund. More information about the Baird Funds is available upon request by calling 1-866-44BAIRD (1-866-442-2473). As compensation for those services, Baird receives a fee from each Baird Fund, which is disclosed in each Fund's prospectus.

Baird also provides certain administrative services to certain Baird Funds investing primarily in fixed income securities ("Baird Bond Funds"). As compensation for those services, Baird receives a fee that is paid monthly at an annual rate of 0.05% of each of the Baird Bond Fund's average daily net assets.

Baird Financial Advisors who refer clients to the Baird Funds are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. Baird Financial Advisors may have an incentive to recommend investments in the Baird Funds over investments in other mutual funds.

Currently, Baird Advisors, an investment management department of Baird, serves as sub-adviser to a mutual fund series of the New Covenant Funds and a mutual fund series of CNI Charter Funds, Inc. Additional information about these mutual funds, including information relating to the compensation paid to Baird by these funds for investment management services, is available in each fund's prospectus and statement of additional information.

Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's equity ownership of Riverfront and representation on Riverfront's Board of Directors. Riverfront is an investment advisor that is based in Richmond, Virginia. Riverfront acts as investment sub-advisor for certain mutual fund series of the Financial Investors Trust. Due to its equity ownership in Riverfront, Baird has a conflict of interest to the extent Baird would advise clients to invest in mutual funds offered by Riverfront because the value of Baird's investment in Riverfront increases as Riverfront's assets under management increase.

### **Additional Information**

Baird is fully committed to helping you understand your mutual fund investments. For additional information about mutual fund investing at Baird please contact your Baird Financial Advisor or, if applicable, review your investment advisory agreement and Baird's Form ADV Part 2 Brochure applicable to the Baird advisory program in which you are participating. To learn more about mutual funds and investing in funds generally, please contact your Baird Financial Advisor or visit the following Web sites:

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