

We have prepared this document to help you understand the common characteristics and risks associated with an investment in mutual funds, to assist you in making a more informed decision when buying or selling these securities. This document is compiled for your information and is intended to be a conversation starter between you and your Baird Financial Advisor or other appropriate experts, such as your tax or legal advisors. Your Baird Financial Advisor can further explain the features, characteristics, costs, and risks of any particular security under consideration for your account.

## Characteristics of Mutual Funds

Mutual funds can be an appropriate solution for many investors and part of an effective approach to achieving your financial goals. Mutual funds are a type of investment that pools money from investors to invest in a variety of assets within a portfolio, such as stocks, bonds, or other securities. By pooling assets from multiple investors into one portfolio, mutual funds can provide such benefits as diversification, professional management by a fund manager, low minimum initial investments, and liquidity. When an investor buys into a mutual fund, they gain ownership rights in the broader range of underlying assets within the portfolio. A mutual fund manager oversees the portfolio to track the specific strategy of that fund. At Baird, you can choose from a large selection of mutual funds, sponsored by more than 200 fund companies.

## Types of Mutual Funds

Each mutual fund has its own investment objective and principal strategies. Many different types of mutual funds are available, spanning the entire asset category spectrum. That spectrum includes without limitation, the following types of mutual funds:

- **Stock Funds.** These funds principally invest in equities or stocks. Some stock funds are labeled by the sizes of the companies they strategically invest in, for example, small, mid, or large cap stock funds. Other stock funds are labeled by the investment approach they strategically invest in, for example, aggressive growth, income, or value or core stock funds. Stock mutual funds include funds that invest in companies located in the U.S., foreign developed countries, and emerging growth markets.
- **Bond Funds.** Bond mutual funds include funds that invest in short-term, intermediate-term and long-term fixed income securities; funds that invest in bonds issued by domestic entities/governments or foreign bonds; funds that focus on corporate bonds, U.S. Treasury and other government securities, agency securities, mortgage-backed securities and other particular fixed income classes; funds that invest in bonds that are rated investment grade; funds that invest in bonds rated below investment grade or high-yield securities or distressed debt; funds that invest in municipal and other tax-exempt bonds.
- **Alternative Investment/Strategy Funds.** Alternative investment funds may include funds that invest in commodities, futures, real estate, MLPs and other oil, gas and energy businesses, and foreign currencies. Some funds pursue alternative strategies similar to those employed by hedge funds, such as long/short strategies, convertible and event-driven strategies, absolute return strategies, global macro strategies, interest rate, futures and currency strategies, and a combination thereof. These funds often use derivatives, such as short sales, options, futures, swaps, and synthetic positions.
- **Balanced Funds.** These funds, also known as asset allocation funds, principally invest in a strategically selected mix of different investments, including stocks, bonds, money markets, or alternatives.
- **Money Market Funds.** These funds principally invest in short-term debt with lessor returns but a greater degree of safety.
- **Income Funds.** These funds principally invest in highly rated corporate and government bonds designed to provide steady interest payments.
- **Index Funds.** These funds invest in stocks that track with a market index, such as the S&P 500.
- **International Funds.** These funds principally invest in assets located outside of the United States.
- **Global Funds.** These funds invest in assets throughout the world, including the United States.

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- **Specialty Funds.** These funds involve strategically investing in specific sectors, such as technology (such as artificial intelligence), healthcare, or geographic region (such as Silicon Valley).

## Sales Charges and Expenses

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. It is important for you to speak with a Baird Financial Advisor to determine what funds and share classes are most appropriate for you and the nature of your account.

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 reallowance.”

- **Back-end sales charges.** A back-end sales charge is sometimes referred to as a contingent deferred sales charge (CDSC). This charge,

which may decrease over time, is deducted from a mutual fund investment if the fund shares are sold prior to a specified 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 sale proceeds of \$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. For Class B shares the level of the applicable back-end sales charge will decline over time until it is eventually eliminated, and for Class C shares the CDSC period is shorter and will typically expire all at once (such as after 12-18 months) versus declining over time. 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 for purchase in fee-based advisory accounts and for purchase in self-directed brokerage accounts.

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 at <https://bairdwealth.com/retailinvestor> 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 purchase.

- **Mutual fund operating expenses.** Operating expenses apply to all mutual funds and commonly include management or advisory fees, distribution fees (also known as 12b-1 fees), shareholder or administrative service fees, and



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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. Some of the more common share classes made available by mutual funds are discussed below. Baird does not make available all share classes offered by a mutual fund.

Baird generally offers Class A and Class shares of mutual funds to be purchased in a commission-based brokerage account, although no-load funds are available for purchase in self-directed brokerage accounts in which no recommendations are provided, and transactions are not solicited by the Baird Financial Advisor.

Baird generally offers mutual fund share classes for purchase in fee-based investment advisory accounts that do not charge sales loads and do not have 12b-1 fees (or when they do have 12b-1 fees, those fees are rebated to the client). Additional information can be found below under the heading "Fee-Based Advisory Accounts."

### Class A Shares - Common Characteristics:

- Front-end sales charge is deducted from the amount invested at time of purchase
- Ongoing 12b-1 fees usually about 0.25%
- Lower 12b-1 fees and 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 12b-1 fees (often 1.00%) and 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 12b-1 fees (often 1.00%) and operating expenses than Class A shares are typical for duration of investment

### Class F Shares - Common Characteristics:

- Offered to clients with fee-based, advisory accounts through an investment adviser (adviser charges a separate fee for managing the account)
- No front-end sales charge or back-end sales charge (CDSC)
- May have 12b-1 fees (if so, usually 0.25%) or may have a shareholder or administrative service fee that is paid to the servicing intermediary (such as Baird)
- Similar operating expenses to Class A shares, lower than Class B and C shares

### Class I Shares - Common Characteristics:

- Higher initial investment minimums
- Often available to clients with fee-based advisory accounts through an investment advisor
- No front-end sales charge or CDSC
- No 12b-1 fees



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- o May or may not pay a shareholder or administrative service fee that is paid to the servicing intermediary (such as Baird)

### Class R Shares - Common Characteristics:

- o Offered only through 401(k) and other retirement or deferred compensation plans
- o No front-end sales charge or CDSC
- o Higher 12b-1 fees than Class A and F shares but lower than Class B and C shares
- o May have additional fees to compensate service provider for plan administration
- o Baird does not offer Class R shares for purchase when shares are to be custodied by Baird

### Clean Shares - Common Characteristics:

- o Offered by some funds but not most
- o Broker-dealers and other intermediaries may charge commissions on clients' purchase of clean shares
- o No front-end sales charge or CDSC

### Share Classes and Characteristics

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. If you are in a particular share class that you believe may not be appropriate, please contact your Financial Advisor. A conversion to another share class may be possible if your investment in the new share class meets eligibility requirements.

### 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
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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 the section titled "Rights of Accumulation" below) or a commitment of future purchases (see the section titled "Letter of Intent" below).

For purchases that exceed \$1,000,000, although no sales charges apply, the mutual fund company may provide compensation to the Financial Advisor. This compensation may be retained from proceeds by the fund family if the shares are liquidated within a certain time period detailed in the prospectus (typically 12 months).

### Initial Purchase

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 were 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

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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. For mutual funds bought and sold through Baird, Baird also requires that the mutual funds be bought and sold in the same Baird account. Specific details regarding exchanges and reinstatements can be found in each mutual fund prospectus.



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## Fee-Based Advisory Accounts

In an effort to provide clients with appropriate low cost mutual fund investment options for their fee-based investment advisory accounts, Baird has established a mutual fund share class policy ("Share Class Policy") for certain investment advisory programs (the "Share Class Policy Programs"). Typically, only one share class of a given mutual fund family will be made available for purchase by clients in the Share Class Policy Programs pursuant to the Share Class Policy (the "Approved Share Class"). When selecting the Approved Share Class for a mutual fund family, Baird endeavors to select the share class with the lowest expense ratio, based upon the average expense ratio of the class across all mutual funds in the mutual fund family, that are widely available for trading on the mutual fund trading platform of Charles Schwab & Co., Inc. ("Schwab"). In selecting the share class for a mutual fund family to be made available for purchase by clients in the Share Class Policy Programs, Baird considers a number of factors, including the number of funds within the fund family that offer the share class, client positions in and demand for those funds, and the availability of the share classes and funds for purchase on the Schwab mutual fund trading platform. Generally, share classes designed for retirement plans and those that pay a distribution (12b-1) fee to Baird will not be permitted in those programs. While Baird has endeavored to select the lowest cost share classes as described above, in some instances, the Approved Share Class is not the least expensive share class for a particular mutual fund.

A less expensive share class for a particular fund may be available and appropriate, although they are not offered to fee-based advisory accounts through Baird. A list of the mutual fund families, along with the share classes that are available to clients in fee-based advisory accounts is set forth in a document entitled "Mutual Fund Share Classes Available to Baird Fee-Based Advisory Accounts," which can be found at

<https://bairdwealth.com/retailinvestor>.

That document also shows other share classes offered by the fund families that may be less expensive, as well as the range of differences in the expense ratios between the share classes selected by Baird and the lower cost share classes offered by the fund families.

## 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 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 distribution (or 12b-1) fees or shareholder or administrative service fees, as described in the prospectus. Baird, in turn, pays a portion of these fees to the Financial Advisor. 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 that pay greater compensation.

## Other Compensation Baird May Receive

Baird receives certain compensation from mutual fund families in the form of distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, revenue sharing and administration fees. The amount of compensation paid to Baird generally varies based upon the share class of the applicable mutual fund purchased by clients. Because the compensation that Baird receives from certain mutual funds is based upon share class purchased by clients, Baird has a financial incentive to make available to clients those share classes that provide Baird greater compensation, which, in many instances, would cause clients investing in those share classes to incur higher ongoing costs relative to other share classes made available by the fund families. This presents a conflict of interest.

In addition, Baird receives additional financial support from the certain sponsors of mutual funds. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing," is typically allocated toward the



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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

Baird may also 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.

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 presents a conflict of interest in that the benefits provide Baird Financial Advisors an

incentive to favor mutual funds and their sponsors that provide greater benefits.

More detailed information about the financial support that Baird receives from the mutual fund families 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.

For more information about the mutual fund families that made revenue sharing or other financial support payments to Baird over the prior two calendar years, see the document titled "Revenue Sharing/Marketing Support and Other Third Party Payments" under the Other Useful Information tab of <https://bairdwealth.com/retailinvestor>.

If you would prefer investing in a mutual fund with respect to which Baird does not receive financial support or other payments, please consult your Financial Advisor who can suggest other available mutual funds in which you may invest.

### 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.

### Performance Information

Baird clients may be provided information about mutual funds that is supplied by Morningstar®. Although Baird believes this information to be reliable, Baird cannot guarantee its accuracy. Performance figures for periods longer than one year are expressed as average annualized returns and assume reinvestment of all dividends and capital gains. For periods of up to one year, figures are expressed as the total return for that period. For funds with sales charges or loads, the performance data reflects maximum charges. Any transaction fees charged by Baird on mutual fund purchases or redemptions are not reflected in the performance data. If these fees were factored into the

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performance calculation, the fund's results would be lower. For some funds, the manager may have waived all or a portion of the fees during a given period, which would have the effect of increasing the fund's reported annual return. The fee waiver should be considered in evaluating the fund's performance. You can find out if a manager has waived any fees or intends to continue waiving fees by reading the prospectus.

## Affiliation with Baird Funds and Other Mutual Funds

Baird makes affiliated and related mutual funds and other investment products available to Baird clients. Baird has a financial incentive to favor affiliated and related mutual funds because Baird receives more compensation if a client invests in those products rather than unaffiliated funds. An updated list of affiliated and related companies, funds and money managers can be found under the Other Useful Information tab of <https://bairdwealth.com/retailinvestor>.

## Alternative Mutual Funds

Certain mutual funds pursue special or alternative investment strategies and are thus different from traditional long-only equity, balanced or fixed-income funds. These alternative mutual funds may purport to reduce volatility, increase diversification, and produce non-correlated returns and higher yields. Their strategies involve non-traditional asset classes, non-traditional investment approaches, derivatives (such as short sales, options, futures and swaps), leverage and illiquid assets. Alternative mutual funds should not be placed into a single category, as they vary dramatically in terms of their investment objectives, principal strategies, risks, and fees. However, they share some similarities in that they can be complex and are not appropriate for all investors, and their use should only be considered, after consultation with a Baird Financial Advisor, as part of an investor's overall asset allocation strategy. Below is a brief description of the types of the more common alternative mutual funds that are available through Baird and their more significant risks. It is very important that you read the prospectus and understand the fund's investment objective, principal strategies, risks, and fees before investing in an alternative mutual fund.

**Bear Market.** Alternative mutual funds with bear market strategies typically invest in short positions

on indices and individual stocks as well as derivatives (options, futures, and swaps) in order to profit from stocks that decline in price. The returns of these funds will generally move in the opposite direction of the benchmark equity index. These funds may also invest in fixed income securities. These funds are subject to the risk of losses in a rising market, which may be compounded if the fund's fixed income securities increase in price. Some bear market funds are referred to as "inverse funds," which seek a return over a single day only that is the opposite of the performance of the index for that day. See "Trading (Including Leverage and Inverse)" below.

**Multi-Currency.** Alternative mutual funds with multi-currency strategies invest in different foreign currencies through the use of derivatives (options, futures, forward contracts and swaps), short-term money market instruments and cash deposits, including non-dollar denominated instruments issued by foreign governments and banks. Some of these funds seek absolute return while others may pursue a strategy of benefiting from anticipated directional fluctuations (positive or negative) in the values of foreign currencies against the U.S. Dollar. These funds are subject to foreign currency risk, which is the risk that the value of a foreign currency compared to the U.S. Dollar may experience significant fluctuation, including movements in unexpected ways. The value of foreign currencies relative to the U.S. dollar can be affected by many factors, including national debt levels, trade deficits, international trade and foreign policies, changes in trade and balance of payments, governmental fiscal and monetary policies, currency exchange rates and changes in supply and demand that affect those rates, investment and trading activity of mutual funds, hedge funds and currency funds, exchange rate controls and government intervention in currency markets, inflation rates, interest and deposit rates, market expectations about future inflation rates and interest rates, and global and national economic, financial, political, regulatory, judicial, military and geographical events or developments. Prices of currencies of less developed or emerging market nations tend to be more volatile than those of developed countries, given the greater political, regulatory, economic, financial, military, and social instability and uncertainty in less developed or emerging market nations. These funds are also subject to the risks associated with fixed income investments in foreign



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countries. A fund that invests in foreign securities is subject to additional risks such as greater price volatility, currency exchange fluctuations, political and economic instability, differences in financial reporting standards, less regulated securities markets, and country risks. Investments in emerging markets typically involve greater risks than investments in developed nations, such as limited disclosures, less developed legal system, different financial reporting standards, thinner trading markets, trade controls, expropriation, nationalization and taxation risk, currency devaluation and other economic, social, and political developments.

**Managed Futures.** A managed futures mutual fund generally implements a quantitative trading strategy designed to capitalize on price trends across a broad range of stock index, bond, currency, interest rate, energy, metals, agricultural and other commodities markets. These funds typically invest in futures, options, forward contracts, swaps, and other derivatives. These funds are subject to the risk that the advisor's selection of asset classes and decisions about allocations across asset classes may be incorrect. Managed futures funds are also subject to commodities, currency, leverage, and derivatives risk. Commodities and futures thereon experience price fluctuations that are often significant and unpredictable and are related to changes in the demand for or supply of commodities, macroeconomic conditions, geopolitical developments, wars and other military events, changes in government policies, prevailing interest rates, weather conditions, disease and famine, changes in production costs, supply chain disruptions, industrial activity affecting utilization of commodities, competitive alternatives for certain commodities, suspensions or disruptions of market trading in commodities and related futures, futures contract price ceilings, regulatory developments affecting futures contracts, and differences between commodity future prices and current or spot prices. Foreign currencies are subject to the risks associated with such currencies and the changes in their values relative to the U.S. dollar. Such risks include volatility in the price relationship between the U.S. dollar and foreign currencies. Although leverage may enhance a fund's return, it may also exacerbate losses. Derivatives may involve significant risk. Some derivatives have the potential for unlimited loss, regardless of the size of a fund's initial investment. Derivatives may be illiquid and

may be more volatile than other types of investments. A fund may buy or sell derivatives not traded on an exchange and which may be subject to heightened liquidity and valuation risk. Derivative investments can increase portfolio turnover and transaction costs. Derivatives also are subject to counterparty credit risk. The net asset value (NAV) of managed futures funds can also experience significant volatility.

### **Long/Short Equity and Market Neutral.**

Long/short mutual funds hold both long and short positions primarily with respect to the equities markets. Such funds can vary based on their relative exposures to long and short positions and often can shift or vary their biases or exposures depending on their macroeconomic or market outlook and fundamental or technical analysis. Such funds include market neutral funds that typically divide their exposure equally between long and short positions. Market neutral funds seek to deliver positive returns regardless of the direction of the market. Long/short and market neutral funds may use various derivatives, such as futures, options, and swaps, to achieve their desired long and short exposures, and therefore are subject to derivatives risk.

**Commodities.** Mutual funds that seek exposure to commodities typically invest in commodity or commodity-linked futures, options, swaps, and other derivatives, as well as other funds and securities of companies closely related to commodities. Commodities and derivatives thereon experience price fluctuations that are often significant and unpredictable and are related to changes in the demand for or supply of commodities, macroeconomic conditions, geopolitical developments, wars and other military events, changes in government policies, prevailing interest rates, weather conditions, disease and famine, changes in production costs, supply chain disruptions, industrial activity affecting utilization of commodities, competitive alternatives for certain commodities, suspensions or disruptions of market trading in commodities and related futures, futures contract price ceilings, regulatory developments affecting futures contracts, and differences between commodity future prices and current or spot prices.

**Volatility.** Alternative funds that employ volatility strategies trade volatility as an asset class. Directional volatility strategies try to profit from the

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(Continued)

trend in the implied volatility embedded in derivatives referencing or linked to other asset classes. Volatility arbitrage seeks to profit from the implied volatility discrepancies between related securities. Some of these funds seek to capitalize in high expected volatility and other funds seek to capitalize on low expected volatility. Volatility is a measurement of the frequency and level of change in a portfolio or market without regard to the direction of the market. Some of these funds often make investment decisions based on their perspectives on anticipated future volatility of the market and the future direction of the market. Some volatility funds are used to hedge against volatility and market declines. Volatility funds generally invest in a wide range of securities and derivatives, including options, futures, swaps, structured notes, exchange-traded products, other funds, short-term money market instruments and cash. An incorrect assumption about expected volatility could result in meaningful losses.

**Non-Traditional Bond/Absolute Return.** Non-traditional bond or absolute return funds pursue strategies that diverge from conventional or traditional bond fund strategies. These funds often seek absolute returns regardless of market conditions over full market cycles. This means that their returns may be uncorrelated with the overall bond market. Other types of these funds are regarded as having unconstrained portfolios that have more flexibility to invest tactically across a wide swath of individual sectors and asset classes within the fixed income category, including high-yield and foreign debt securities, mortgage-backed and asset-backed securities and loan participations. These funds take a combination in long and short position in credit-related instruments. These funds use short sales, options, futures, forwards, swaps, and other derivatives, as well as leverage. The use of short sales, derivatives and leverage may exacerbate losses. At times, there fund may significantly underperform the overall bond markets. In addition to the risks commonly associated with fixed income investing, such as credit risk and interest rate risk, these funds are subject to allocation risk, short sale risk, leverage risk, derivatives risk, foreign securities and emerging markets risk, currency risk, high-yield risk, derivatives risk, liquidity risk, diversification risk and leverage risk.

**Multi-Alternative.** Certain funds may employ a broad range of alternative strategies in seeking total return with low correlation to traditional asset classes. These funds have the flexibility to allocate their portfolios in a dynamic or tactical way across a vast array of non-traditional asset classes and different exposures. These funds often attempt to provide returns with lower volatility than traditional core asset classes such as U.S. large cap equities or investment grade bonds. Diversified or multiple strategies that these funds can employ include industry sector strategies, long-short strategies, foreign currency strategies, emerging market strategies, managed futures strategies, floating rate loan and bond strategies, REIT strategies and other non-core investment strategies. These funds may vary their allocation across alternative asset classes frequently as they often employ macro-economic, technical, event-driven, quantitative processes and try to exploit price discrepancies. Because of these funds' multi-alternative strategies, they are subject to asset allocation risk, derivatives and counterparty risk, hedging risk and correlation risk, in addition to the risks associated with the types of alternative investments they make such as currency risk, emerging market risk, short position risk, leverage risk, high yield risk, interest rate risk, sector risk, and commodities risk.

**Trading (Including Leverage and Inverse).** Some funds may employ short-term trading strategies that seek to benefit from a change in an underlying index or benchmark often over a single trading day or other brief period. The underlying index or benchmark from fund to fund can vary such as a broad stock market index, a more narrow stock index (such as one based on industry or market cap), a basket of equity securities, Treasury bond prices, a Treasury or other bond index, a commodity-related index or basket of certain commodities, a real estate index, or a currency index or basket of foreign currencies measured against the U.S. dollar, to name the more common types. These funds seek investment results for a single day only and not for longer periods. Some of these funds are short or inverse funds, meaning that they seek to generate a return for a day that is the opposite of the performance of the index or benchmark for that day. Some funds are leveraged funds, meaning that they seek to generate a multiple (such as 2x) of the return of the index or benchmark for that day. There are also leveraged inverse funds which seek to generate a return that is

# Important Information about Mutual Funds

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a multiple of the opposite performance of the index or benchmark for that day. These funds are complicated investments that are only appropriate for sophisticated investors who fully understand their complexities, terms, structures, and risks. Buy-and-hold investors with an intermediate or long-term time horizon should carefully consider whether leveraged and inverse funds are appropriate for their portfolio. Due to the effect of compounding, operating expenses and daily resets, the performance of leveraged and inverse funds over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. The magnitude of this disparate performance is particularly high in volatile markets. Leveraged and inverse funds that have daily resets are attempting to achieve their objectives on a daily basis, not over a week, month or longer period; as a result, investors should not assume or expect the performance of a leveraged or inverse fund over a period of time in excess of one trading day to track or even resemble the performance (or the opposite performance) of the underlying index or benchmark. In addition, leveraged or leveraged inverse funds run the risk that their returns may be significantly worse than the decline (or, for leveraged inverse funds, the increase) in the value of the underlying index or benchmark. Leverage causes the value of a fund's shares to be more volatile than if the fund did not use leverage. The use of leverage by a fund will also cause the fund to underperform the compounded return of the underlying index or benchmark in a trendless or flat market. Leveraged funds are considered speculative and should only be used by investors willing and able to absorb potentially significant losses. Leveraged and inverse funds involve risks associated with their respective investment objectives and principal strategies, including aggressive investment techniques and derivatives risk, correlation and inverse correlation risk (particularly for leveraged funds), counterparty risk, credit risk, non-diversification risk, market risk, equity or fixed income risk, price variation risk, liquidity risk, early close/trading halt risk, and active trading and portfolio turnover risk, which are described in their prospectuses.

## Additional Considerations Associated with New or Low Asset Funds

Before investing in any mutual fund, you should make sure you read the prospectus and other

available materials about the product so that you understand the investment objectives, strategies, fees and risks. There are a number of additional considerations associated with investing in a new or low asset fund, including without limitation the following:

- **Possibility of Controlling Security Holders.** The securities of a new or low asset mutual fund may be held by one or a few significant holders. Such concentration of ownership may expose the fund to the risk that those owners may assert control and make changes. It also exposes the fund to potential disruptions in managing the assets effectively should one or more significant holders decide to redeem or sell their securities. If, for example, a significant shareholder in a mutual fund with low level of assets elects to redeem his or her shares, the fund would likely have to dispose of portfolio securities at inopportune times, which may affect performance and result in taxable gains and income (to be borne by the remaining shareholders would have to bear).
- **Lack of Operating History and Performance Track Record.** A new fund will lack operating history and historical performance information, making it harder to evaluate the fund's merits.
- **Performance Challenges/Volatility.** A fund that is small in terms of total assets may encounter difficulties in buying and selling portfolio securities efficiently given the relatively small orders. Smaller orders for securities transactions may not receive favorable pricing. In addition, trading costs may be higher for small funds and smaller funds may be challenged in achieving their desired portfolio diversification. For these and other reasons, funds with low asset levels may experience challenges resulting in under-performance and performance volatility.
- **High Fees/Expense Ratio.** Small funds may have higher fees and expense ratios than larger, more established products because the variable operating expenses as a percentage of assets of a small fund can be significant.
- **Risk of Closure.** Funds that remain small over an extended period of time may not be profitable to the manager or sponsor and as a result they may be closed, liquidated or merged into other

# Important Information about Mutual Funds

(Continued)

funds, which could result in adverse consequences to investors. Even if such fund is not closed, they may experience the risk that the manager or sponsor may not be as focused on the fund as they may otherwise be if the fund were more successful or they may redeploy resources elsewhere. Portfolio managers of small funds may be inclined to seek employment elsewhere.

## Understanding the Risks

Risk is inherent in any investment product or strategy. Like any investment, an investment in mutual funds involves risk, including risk of loss. Certain of the common risks and other important considerations associated with purchasing mutual funds are highlighted below.

You are strongly encouraged to review the prospectuses or other disclosure documents (such as annual reports, quarterly reports and current reports that are filed with the Securities and Exchange Commission), associated with any product for a more fulsome discussion of additional risks and other important considerations before making any invest decisions. The degree of these and other risks will vary depending on the type of mutual fund you choose. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

Additional information regarding more general investment risks and other important considerations is also available at [www.bairdwealth.com/retailinvestor](http://www.bairdwealth.com/retailinvestor). Please read that information carefully and consult with your Baird Financial Advisor before investing in mutual funds.

Some of the more common risks associated with various types of mutual funds are described below. A mutual fund prospectus contains more specific disclosures about the risks associated with the investments made by that fund. Please read it carefully.

- **Stock Market/Common Stock Risk.** An investment in a stock mutual fund is subject to the risks associated with investing in the stock market. The stock market is subject to fluctuations that may be affected by numerous

factors, including macro- and micro-economic trends, fiscal and monetary policy, gross domestic product growth, geopolitical events, supply and demand, investor perceptions and confidence consumer and manufacturing spending, industry developments and announcements and developments affecting major corporations. Stock prices rise and fall and a fund's performance may resemble or be different from the performance of the overall markets. Individual stock prices will also vary as a result of investor perceptions about a company, earnings expectations, earnings announcements and other developments affecting a company or companies within the same industry.

- **Market Capitalization Risk.** Companies with certain market capitalizations may perform differently from the equities markets generally. At times, large-cap stocks may underperform as compared to stocks of companies with smaller market capitalizations, and vice versa. Larger, more established companies may be unable to respond to new competitive challenges. Stocks of smaller companies are often more volatile and less liquid than investments in larger companies. Smaller companies may lack management experience, financial resources and product and customer diversification of larger companies, making them more susceptible to market pressures and business failure. These risks are more pronounced with small- and micro-cap companies.
- **Industry/Sector Risk.** Funds that concentrate in a particular industry or economic sector may be subject to more volatility than broader stock funds. Such industry or sector concentration causes a fund to be vulnerable to events, developments and news affecting a particular industry or one or more leading companies in that industry.
- **Investment Style Risk.** Funds that focus on growth (or value) stocks may perform better or worse than funds that focus on value (or growth) stocks or funds that have a broader investment style. A particular style of investing may go out of favor at times and for extended periods. Growth stocks are often characterized by high price-to-earnings ratios and may be more volatile than stocks with lower price-to-earnings ratios. Value stocks may not appreciate as much as

## Important Information about Mutual Funds

(Continued)

anticipated as their intrinsic value may not be recognized by the market.

- **Bond Market Risk.** Bonds are generally subject to various risks, including interest rate risk and credit risk. The value of a bond may be significantly affected by changes in interest rates. When prevailing interest rates rise, a bond's market value declines, and when interest rates decline, a bond's value increases. Bonds with longer maturities typically will entail greater interest rate risk but have a higher yield. A bond's value may also be affected by its credit quality rating or the issuer's financial condition. Generally, bonds with higher ratings are subject to lower risk of default than bonds with lower ratings. Bonds that are rated below investment grade, often known as high-yield or "junk" bonds, are considered speculative because the issuer may have a weakened capacity to make interest and principal payments due to adverse circumstances and may default or enter bankruptcy. Certain types of fixed income securities have unique risks. Mortgage- and asset-backed securities may be subject to greater interest rate risk because modest movements in rates may quickly affect the value of certain types of these securities. These securities are also subject to prepayment and extension risk. Prepayment risk occurs when mortgage or other rates fall and the securities are prepaid sooner than expected. Extension risk occurs when rates rise, causing borrowers to pay off their mortgages and other debts more slowly, which increases the average life of the securities and the sensitivity of the prices of the securities to future interest rate changes. Certain bonds may be difficult to sell at the time and price at which the mutual fund would like to sell.
- **Foreign Securities Risk.** A fund that invests in foreign securities is subject to additional risks such as greater price volatility, currency exchange fluctuations, political and economic instability, differences in financial reporting standards, less regulated securities markets and country risks. Investments in emerging markets typically involve greater risks than investments in developed nations, such as limited disclosures, less developed legal system, different financial reporting standards, thinner trading markets, trade controls, expropriation, nationalization

and taxation risk, currency devaluation and other economic, social, and political developments.

- **Leverage/Derivatives Risk.** To the extent a mutual fund engages in short selling, options, futures, swaps, and other derivative transactions, that fund is subject to meaningful additional risks. Such transactions may be used for speculative, in addition to hedging, purposes. If used for speculative purposes, a derivative may move in the opposite direction than anticipated and significant losses may be experienced. Derivatives used for hedging purposes are often intended to help offset possible declines in value or to protect gains, but they also have the effect of limiting gains or worsen losses. In addition, derivative transactions and borrowings create leverage which may be used by a fund to enhance returns, but leverage can also exacerbate losses. Certain derivatives are entered into with specific counterparties and thus involve the risk that a counterparty may fail to perform its contractual obligations.
- **Alternative Investment Risk.** Funds that make alternative investments or employ alternative strategies may seek returns that are designed to have little or no correlation to the securities markets. However, often those strategies perform similarly to the securities markets at time or for extended periods. Certain alternative investment mutual funds have unique risks, including risks associated with the types of investments they make. They should only be considered by sophisticated investors or experienced financial advisors as part of an overall asset allocation strategy. See "Alternative Mutual Funds" above.

### More Information

Before investing in mutual funds, it is important to understand and discuss with your Baird Financial Advisor the structure and terms of the security and the potential risks. To learn more about mutual fund share classes or mutual fund breakpoints, please review the valuable information on the Financial Industry Regulatory Authority ("FINRA") website at [www.finra.org](http://www.finra.org) and the SEC Investor Bulletin "Mutual Fund Fees and Expenses." Investors are encouraged to utilize the mutual fund expense analyzer available on the FINRA website as well.



## Important Information about Mutual Funds

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Baird is fully committed to helping you understand your mutual fund investments. To learn more about mutual funds and investing in funds generally, please contact your Baird Financial Advisor or visit the following websites:

**Securities and Exchange Commission at:**

([www.sec.gov](http://www.sec.gov))

**Financial Industry Regulatory Authority at:**

([www.finra.org](http://www.finra.org))

**Securities Industry and Financial Markets Association at:** ([www.sifma.org](http://www.sifma.org))

**Investment Company Institute at:** ([www.ici.org](http://www.ici.org))