



Important Information about Closed-End Funds and Unit Investment Trusts

Baird has prepared this document to help you understand the characteristics and risks associated with an investment in closed-end funds or unit investment trusts so that you can make an informed decision when buying or selling these securities. Closed-end funds and unit investment trusts are unique investments and involve special risks. They may not be suitable for all clients. Your Baird Financial Advisor can further explain the features, characteristics and risks of any particular security under consideration for your account.

Characteristics of Closed-End Funds

A closed-end fund is a type of investment fund or company that is registered under the Investment Company Act of 1940, subject to the requirements and limitations of such act and the rules thereunder, and regulated by the Securities and Exchange Commission. Unlike mutual funds which continuously offer and redeem their shares on a daily basis at net asset value (NAV), closed-end funds typically raise money by selling a fixed number of shares of common stock in a single, one-time offering, much the way a company issues stock in an initial public offering. Closed-end fund shares are also not redeemable, meaning that investors cannot require closed-end funds to buy back their shares, although closed-end fund shares are listed and traded on an exchange.

After its shares are sold in the public offering, the closed-end fund uses the money to buy a portfolio of underlying securities and other investments, and any further growth in the size of the fund depends on the return on its investments rather than on the future sales of new shares. Investment advisors manage the investments of the closed-end fund subject to the oversight of the fund's board of directors. Closed-end fund managers are therefore given a fixed capital structure in which to invest and do not have to deal with daily inflows and outflows of money. However, unlike unit investment trusts which do not make any changes to their initial portfolio of investments, closed-end funds can regularly buy and sell securities in their portfolios.

After its public offering, a closed-end fund lists its common shares on a recognized stock exchange (such as the New York Stock Exchange or NASDAQ), the way an individual stock is, and closed-end fund shares then trade throughout the day at market prices that are based on supply and demand and other market forces. Market prices for most closed-end funds are reported in the financial pages of daily newspapers. Investors seeking to buy or sell shares of a closed-end fund do so by placing their order with a broker-dealer who executes the order and may charge a commission. The market prices for closed-end fund shares may trade at a discount or premium to their NAV (NAV is the equivalent of the aggregate value of the fund's underlying investments less accrued fees and expenses and other liabilities, divided by the number of outstanding shares).

For many reasons, closed-end fund shares often trade at a discount to their NAV and the market prices of closed-end fund shares often fall below their public offering prices. Investors are therefore cautioned about buying shares of a closed-end fund in its initial public offering.

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Closed-end funds often engage in leverage to raise additional capital for purposes of making investments through borrowings and issuances of senior securities (such as preferred stock). Such leverage may present the opportunity to enhance potential returns but also involve the risk of exacerbating losses and depreciation in the value of the underlying securities.

Closed-end funds can buy back their outstanding shares through a stock repurchase program or tender offer. A few closed-end funds may permit shareholders to redeem shares at specified intervals, such as quarterly.

Closed-end funds come in many varieties. They include different types of funds that invest in equity securities such as large-cap, mid-cap, and small-cap stocks, growth stocks, value stocks, dividend-producing stocks, foreign stocks, preferred stocks, convertible securities, stocks of companies in a particular industry or sector, and stocks of companies in a particular country or region. They also include different types of funds that invest in fixed income securities, such as corporate bonds, US Government and agency securities, mortgage-backed and asset-backed securities, collateralized mortgage and collateralized debt obligations, short-term instruments, loan participation interests, high-yield debt, emerging market debt, municipal bonds, state-specific bonds, and taxable municipal bonds.

Closed-end funds have their own investment objectives, strategies, and investment portfolios. They also can be subject to different risks, volatility, and fees and expenses. Closed-end funds offer useful information on their websites. Additionally, the Financial Industry Regulatory Authority (FINRA) issued an Investor Alert, "[Closed-End Fund Distributions: Where is the Money Coming From?](#)," which provides useful information. Closed-end funds also file regular reports with the SEC. Closed-end fund reports are available from your Baird Financial Advisor or on the SEC's EDGAR database at www.sec.gov.

Characteristics of Unit Investment Trusts

Like a closed-end fund, a unit investment trust ("UIT") is a type of investment fund or company that is registered under the Investment Company Act of 1940, subject to the requirements and limitations of such act and the rules thereunder, and regulated by the Securities and Exchange Commission. Some closed-end funds are structured as UITs; however, often there are significant differences between closed-end funds and UITs.

UITs are designed as grantor trusts which are created by a trust sponsor who enters into agreement with a trustee. A unit investment trust is a professionally selected pooled investment vehicle in which a portfolio of securities is selected by the sponsor and deposited into the trust for a specified period of time. Units or interests in the UIT are sold to investors to cover the purchase of the fixed portfolio of securities, which units or interests represent ownership in the UIT or its portfolio of securities. Grantor trusts and regulated investment companies (RICs) are two ways in which to organize a UIT for tax purposes. A RIC is a corporation in which the investors are deemed to be owners of shares of the UIT; a grantor trust gives investors proportional ownership in the underlying securities and other assets of the UIT.

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The portfolio of a UIT is designed to follow an investment objective over a specified time period (often ranging from 13 months to five years or longer), although there is no guarantee that the objective will be met. UITs can have many different investment objectives and strategies, including portfolios of U.S. stocks or fixed income securities, a balanced portfolio of equity and fixed income securities, a portfolio of tax-exempt municipal bonds and portfolios that focus on a particular market capitalization range, sector, region, style or strategy.

To raise money to fund its purchases of a portfolio of securities in accordance with its stated investment objective, a UIT will conduct a public offering of units or interests in the trust. A UIT that intends to purchase a portfolio of bonds and other fixed income securities will generally make a one-time offering of a fixed number of units or interests. The public offering period is often up to 90 days for a UIT structured as a grantor trust or up to one year for a UIT structured as a RIC. A prospectus describing the UIT, including its investment objective, risks, sales charges, organizational costs and operating expenses, is prepared and made available or delivered to investors. Investors typically pay a sales charge in connection with their investment in a UIT, which may be subject to reductions based on the size of the investment. Sales charge discounts or waivers are often available for investors who roll over their investment in one UIT to another UIT. A significant portion of the sales charge is paid to the broker-dealer that was responsible for selling the UIT to its clients.

UITs are passively managed and follow a “buy and hold” strategy, meaning that UITs buy a fixed portfolio of securities and hold on to that portfolio until their termination date at which time the portfolio is liquidated with the net proceeds paid to investors. Some UITs may sell or replace a security if questions arise concerning the financial viability of the issuer or the security’s creditworthiness. However, securities may not be sold to take advantage of market fluctuations or changes in anticipated rates of appreciation or depreciation. As mentioned earlier, a UIT is held for a predetermined time. UITs with portfolios of common stocks and other equity securities will typically have maturities ranging from 13 months to 5 years, and UITs with portfolios of bonds and other fixed income securities can have maturities ranging from 5 to 30 years. Because UITs do not engage in any meaningful trading activity with regard to their defined portfolios, they can be tax-efficient investment vehicles.

UITs have organizational costs and ongoing operating expenses that are paid out of their assets. UITs do not have a board of directors, officers or employees or an investment adviser. UITs are often offered in successive series, with a new series created at the time that a prior series terminated, which allows investors to buy a new series with the same objective or strategy but with a new portfolio of securities.

A UIT typically issues units that, like mutual fund shares, are redeemable at the investor’s request, at their approximate net asset value or “NAV.” In some cases, a creation or development fee or deferred sales charge may apply. Some UIT sponsors may maintain a secondary market, which allows owners of UIT units to sell them back to the sponsor and allows other investors to buy UIT units from the sponsor during the life of the UIT.

Understanding the risks

Risk factors pertaining to closed-end funds and UITs vary from fund to fund or trust to trust. Following is a brief summary of the risks commonly associated with closed-end funds and UITs. Each fund or UIT, however, will have

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its own risks based on its investment objective and strategies. The prospectus for the closed-end fund or UIT provides more information about the risks associated with the fund or trust.

- **Market Risk.** The market value of closed-end fund shares and UIT units largely depends on the value of the portfolio securities held by the fund or trust. The value of portfolio securities will fluctuate—at times significantly—based on a variety of factors, including market conditions and movements in the securities markets generally, macroeconomic events, interest rate changes, governmental policies and regulations, industry or sector developments and matters particularly affecting issuers of the portfolio securities or their peers. Declines in the value of a portfolio's securities will cause the value of closed-end shares or UIT units to decrease. The value of shares of a closed-end fund or units of a UIT may be worth less than the original investment from time to time, including at the time of sale or redemption or, in the case of a UIT at the termination date. UITs are not actively managed so they will not sell securities in anticipation of or response to market fluctuations.
- **Valuation Risk.** Shares of a closed-end fund may trade above (a premium) or below (a discount) the NAV of the fund. At times, discounts could widen or premiums could shrink either diluting positive performance or compounding negative performance. There is no assurance that discounted funds will appreciate to their NAV.
- **Liquidity Risk.** Unlike mutual funds, shares of a closed-end fund are not redeemable by investors on a daily basis at their NAV. Holders of closed-end fund shares seeking to sell or trim their position need to do so by selling shares on the applicable exchange. No assurance can be given that an active trading market will develop or be maintained in a closed-end fund. At times, with lower trading volumes it may be difficult to sell closed-end fund shares at attractive prices. UITs are generally redeemable on any day in which the New York Stock Exchange is open, but it possible that remaining creation or development fee or deferred sales charge may apply.
- **Leverage Risk.** Closed-end funds commonly use leverage to enhance performance. Leverage may lead to increased volatility of a fund's NAV and the market price of its common shares. Leverage is likely to magnify any losses in the fund's portfolio, which may lead to increased market price declines. Fluctuations in interest rates on borrowings or the dividend rates on preferred shares as a result of changes in short-term interest rates may reduce the return to common shareholders or result in fluctuations in the dividends paid on common shares. There is no assurance that a leveraging strategy will be successful.
- **Management/Securities Selection Risk.** The performance of a closed-end fund or UIT depends on the investment objective and strategies of the fund and the investment decisions made by the fund's investment adviser or UIT sponsor. At times, an investment objective and strategies for a fund or UIT may be out of favor or may underperform its benchmark of the securities markets generally. In addition, the investment adviser or UIT sponsor may make decisions with respect to particular investments that may perform in ways that were not desired or intended. While the UIT does not have an investment advisor, the

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performance of the UIT depends on the investment objective and strategies of the trust and the defined portfolio selected by the sponsor. Because UITs are not actively managed and their portfolios of securities are generally static, the performance of a UIT will depend predominantly on the returns of the securities initially selected for the portfolio.

- Passive Management Risk. UITs pursue a buy-and-hold strategy. They purchase a defined portfolio of securities that is professionally selected but generally not actively managed. Except under limited circumstances, UITs do not make changes to their portfolio of securities. UITs typically do not take action or make investment decisions in response to or in anticipation of market declines or other events or developments that are likely to affect the portfolio, even if such actions or decisions may be warranted.
- Illiquid Securities Risk. Closed-end funds and UITs are legally permitted to invest a greater percentage of their assets in illiquid securities than are mutual funds. Illiquid securities may be difficult to value or sell. Holdings of illiquid securities could cause the prices of shares of a closed-end fund or units of a UIT to be volatile and to decline.
- Distribution Risk. Some closed-end funds seek to make regular, stable distributions, but no assurance can be given that such funds will be able to do so. Also, distributions will be taxable to investors as ordinary income, qualified dividend income, capital gains and, in some cases, return of capital. Many closed-end funds make distributions that at times are unpredictable.
- Equity Securities Risk. Closed-end funds and UITs that invest in common stocks and other equity securities are subject to market risk, which is the risk that equity securities will fluctuate in value for many different reasons. Equity securities typically decline in value with declines in the stock markets generally, but may decline for other reasons such as general economic conditions, consumer confidence, inflation, the interest rate environment, monetary and fiscal policies, government regulation and the like. Equity securities will also decline in value due to adverse conditions, developments or events involving the industry or sector in which the issuer operates or specifically involving the issuer. Funds or UITs that focus on a particular industry or sector are likely to experience greater market risk and price volatility. Additionally, closed-end funds or UITs that focus on companies of certain market capitalizations or on growth or value style investing may be subject to greater market risk.
- Fixed Income Securities Risk. Closed-end funds and UITs that invest in bonds and other fixed income securities are subject to interest rate risk and credit risk. Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the bonds and/or other income-related instruments in a fund's portfolio will decline in value because of increases in market interest rates. The prices of longer-maturity securities tend to fluctuate more than those of shorter-term securities. Credit risk is the risk that the issuer of a bond may default or be delinquent in payments of interest or principal. Fixed income securities that are rated below investment grade quality, often referred to as "high-yield" bonds, are predominately speculative with respect to the issuer's capacity to pay interest and repay principal when due

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and, therefore, involve a greater risk of default. Closed-end funds and UITs that invest in bonds are also subject to call or reinvestment risk, which is the risk that if a bond is called or matures the fund or trust (or holders thereof) may not be able to reinvest those proceeds in securities that generate the same yield as the bond that was retired. Mortgage-backed securities are subject to prepayment or extension risk, which is the risk that the home owners prepay or extend their mortgage payments. Closed-end funds and UITs may invest in specific types of fixed-income securities, such as municipal bonds, high-yield bonds, mortgage-backed securities, preferred stock, senior loans and bonds of a certain duration. These specialized closed-end funds and UITs are subject to special risks associated with those types of fixed-income securities.

- Concentration Risk. A fund or UIT that invests a substantial portion of its assets in securities within a single industry or sector of the economy may be subject to greater price volatility or adversely affected by the performance of securities in that particular sector or industry.
- Energy MLPs. Some closed-end funds or UITs invest primarily in MLPs and other companies in the energy sector. Funds or UITs that invest in energy MLPs and other energy companies are subject to the risks associated with companies that operate within the energy sector and in particular the oil and gas industries. Such risks include non-diversification and concentration risk, geopolitical events or developments and macroeconomic conditions, prevailing interest rates, changes in the demand for and supply of oil, gas and other energy-related products, changes in tax laws that affect MLPs, changes in regulations, regulatory fees and regulatory enforcement activity, the impact of environmental laws, increased production and operating costs, the effect on prices from competing energy products, changes in technology and the availability of alternative energy sources, risks of significant regulatory fines and litigation as a result of leaks, spills, explosions and accidents, and uncertainty from an outbreak or escalation of hostilities and acts of terrorism.
- Business Development Companies. Some closed-end funds may be business development companies or BDCs. A BDC is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. The BDC must make available significant managerial assistance to certain of its portfolio companies. Investments made by BDCs tend to be risky and speculative. The portfolio companies in which BDCs invest may have limited financial resources and may be unable to meet their obligations on the debt securities held by the BDCs, causing them to default. Portfolio companies may have shorter operating histories, narrower product lines and smaller market shares, rendering them potentially more vulnerable to competition, changing market conditions and economic downturns and causing them to have less predictable operating results. BDCs thus are exposed to significant credit risk when they make loans to, or hold debt securities issued by, portfolio companies. BDCs commonly use leverage (i.e., borrow money) to make investments in portfolio companies through credit facilities and the issuance of debt or preferred securities. While leverage may enhance returns as the value of assets held by the BDCs increases, leverage may worsen or exacerbate the effect on a BDC's net asset value or stock price if the value of its assets deteriorates.



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- **Foreign Investment Risk.** Closed-end funds and UITs that invest in foreign securities may involve a high degree of risk. Funds invested in foreign securities are subject to such risks as currency risk and exchange-rate risk, governmental regulation, policy and taxation, and political, social and economic instability in the applicable foreign countries. These risks are more pronounced in emerging growth countries.
- **UIT Investments in Closed-End Funds.** Some UIT invest in shares of common stock issued by closed-end funds in furtherance of their investment objectives and strategies. Closed-end funds are subject to market and valuation risk, as well as the risks associated with types of securities in which the closed-end funds invest. Many closed-end funds use leverage, options and other derivatives to enhance their returns. Leverage increases the fund's volatility and may exacerbate the fund's price declines and losses. A UIT that invests in closed-end funds indirectly pays the operating expenses of those funds. As a result, an investor in a UIT may be indirectly bearing two layers of fees: the expenses charges by the UIT and the expenses charged by the closed-end funds in which the UIT invests.
- **Tax Considerations.** Closed-end funds or UITs may make distributions to their shareholders of dividends, interest income and/or capital gains from their holdings and transactions in portfolio securities, which may be taxable to shareholders. Closed-end funds and UITs that hold fixed-income securities or dividend-paying stocks typically make distributions of their interest income and dividends on a regular (monthly or quarterly, for example) basis. Certain closed-end funds and UITs may hold municipal or other securities that provide income that is tax-free. Owners of closed-end funds and UITs will recognize capital gain or loss upon their redemption or sale of shares of units. UITs are generally regarded as tax-efficient because there is limited trading by UITs in their portfolio. However, at the end of the term of a UIT the portfolio securities are sold and the proceeds are distributed to shareholders who must report those distributions on their tax returns. Owners of UITs may elect to receive in-kind distributions or to roll over their investment into another UIT, but those elections are taxable. Please consult the prospectus for the closed-end fund or UIT and your tax adviser for information and advice about the tax consequences of investing in a closed-end fund or UIT.

Before investing in a closed-end fund or UIT, discuss the investment with your Baird Financial Advisor to make sure it is consistent with your investment objective, financial goals and risk profile.