Important Information about Exchange Traded Products

Baird has prepared this document to help you understand the characteristics and risks associated with an investment in exchange-traded products ("ETPs"), including exchange-traded funds ("ETFs") and exchange-traded notes ("ETNs"), so that you can make an informed decision when buying or selling these securities. ETPs may be complex investments and could involve significant risk. As a result, some ETPs may not be suitable for all clients. There are important differences between ETFs and ETNs, which clients should consider. Your Baird Financial Advisor can further explain the features, characteristics and risks of any particular security under consideration for your account.

Characteristics of ETFs

An ETF is a fund that is registered as an investment company with the Securities and Exchange Commission under the Investment Company Act of 1940. However, it is different from a mutual fund in that an ETF does not sell its shares directly to public investors and does not redeem shares from public investors. An ETF only issues and redeems "creation units" which generally consist of large blocks of shares (such as in increments of 50,000 shares). Rather, for public investors shares of an ETF are commonly purchased or sold in the secondary market on a securities exchange, like common stocks. An ETF maintains a net asset value but, based on demand and other factors, the market price of shares of an ETF may vary from its net asset value. ETFs invest in and hold securities and other assets, such as stocks, bonds, commodities and currencies, and have stated investment objectives and principal strategies. Certain ETFs may engage in short selling, futures, options transactions, derivatives and use leverage, subject to limits imposed under the Investment Company Act of 1940.

Many ETFs seek to track the performance of an index or other underlying benchmark. The underlying index or benchmark can vary from a familiar, broad-based stock or bond index (such as the S&P 500 or Barclays US Aggregate Bond Index) to a narrow index linked to a specific sector, country or region (such as energy, real estate or Asia). Some ETFs may track a more arcane index or strategy linked to a particular alternative asset class such as commodities, foreign currencies, market volatility, high-yield bonds, yield spreads and curves, emerging markets or total return strategies that use investments and techniques that are historically not correlated with traditional asset classes. Some ETFs can provide leveraged or inverse exposure to an underlying benchmark. A leveraged ETF offers to pay a multiple (such as 2x) of the performance of the underlying benchmark over a specified period. An inverse ETF offers to pay the opposite of the performance of the underlying benchmark over a specified period, and leveraged inverse ETFs seek to pay a multiple of the opposite of the performance of the underlying benchmark over a specified period. The specified periods during with the benchmark performance is measured are typically very brief—often just one day. For more information about leveraged and inverse products, please see "Important Information About Leveraged and Inverse Funds" found at bairdwealth.com/retailinvestor.

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Many ETFs are passively managed but can be actively managed. ETFs have operating expenses that are paid out of fund assets or income and thus are indirectly borne by the shareholders. ETFs are governed by a board of directors or trustees who are responsible for selecting an investment adviser to manage the assets of the ETF and purchase, hold and sell such assets.

Characteristics of ETNs

An ETN is an unsecured debt security that trades on an exchange and provides a return linked to the performance of an underlying benchmark or reference asset. An ETN typically is designed to track the total return of the underlying benchmark or reference asset, less fees. The underlying benchmark can be a particular security, bond, commodity, currency, emerging markets or other alternative investment type, a group or basket of companies, securities, commodities, currencies, derivatives, alternative investments or other assets, or an index or other benchmark linked to stocks, market volatility and volatility futures, bonds, interest rates, Treasury yields, yield curves and spreads, derivatives, strategies, commodities, currencies or other assets. There are many different types of underlying benchmarks or reference assets that can be used in an ETN structure, each of which carries different risks. The underlying benchmark can vary from ETN to ETN, ranging from a familiar, broad-based stock index to a single asset or group of assets (such as particular commodities or foreign currencies) or narrow-based benchmarks (such as volatility, yield spreads or emerging markets). ETNs are often used to offer investment exposure to market sectors and asset classes that may be difficult for investors to achieve cost-effective exposure through other investments. Additionally, ETNs have become a favorable investment form for gaining exposure to asset classes that may have unfavorable tax consequences to hold in other forms (such as MLPs and commodity futures). Some ETNs can provide leveraged or inverse exposure to an underlying benchmark without having to use margin or engage in short sales. For more information about leveraged and inverse products, please see "Important Information About Leveraged and Inverse Funds" found at bairdwealth.com/retailinvestor.

ETNs are senior unsecured debt obligations of the issuer (typically a bank or other financial institution). However, instead of paying a stated rate of interest and repaying principal on scheduled dates like traditional bonds, the issuer of an ETN offers to pay the holder an amount determined by the performance of the underlying benchmark (less investor fees) on the ETN's maturity date. ETNs often have maturities of 10, 20, 25 or 30+ years from date of issuance. In addition, unlike traditional bonds, ETNs trade on exchanges throughout the day at prices determined by the market. Unlike a bond, the ETN itself is not provided a credit rating, the issuer's credit rating is an important consideration for an ETN investor as an ETN can suffer severe losses if the issuer defaults.

Even though both can be bought or sold intraday on an exchange, ETNs differ from ETFs and are not regulated under the Investment Company Act of 1940. Unlike ETFs, issuers of ETNs do not buy or hold assets to replicate or approximate the performance of the underlying benchmark. Holders of ETNs do not own shares of the issuer and do not have voting rights or an interest in any underlying assets; they simply hold unsecured debt of the issuer. As ETNs do not hold any actual assets, they do not have a net asset value.

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Because ETNs are traded on an exchange, holders need not wait until maturity in order to liquidate their investment. Large holders also have the right to redeem ETNs generally on a weekly basis in specific minimum blocks of 25,000 or 50,000 ETNs, which represent significant dollar values. This limited redemption feature is usually not a practical source of liquidity for most retail investors. Issuers may also have the right and option to redeem ETNs. Redemptions are made at the ETN's "indicative value" or "closing indicative value," which is based on the value of the underlying benchmark, minus investor fees. ETNs typically calculate and publish an "intraday indicative value" every 15 seconds during the trading day. An ETN's indicative value is distinct from its market price, which is the price at which the ETN trades in the secondary market. Each ETN uses its own formula for computing its indicative value, which is outlined in the ETN's prospectus or pricing supplement. Although an ETN's market price should closely track its closing and intraday indicative values, the ETN's market price can deviate, sometimes significantly, from its indicative value for a variety of reasons.

Issuers of ETNs issue and redeem notes as a means to keep the ETN's market price in line with its indicative value. When an ETN is trading at a premium above the indicative value, the issuer can issue more notes to the market to bring the price down. Similarly, if the ETN is trading at a discount, the issue can redeem notes to reduce the number of notes available in the market which tends to raise the market price. However, a suspension by the issuer of an ETN in the issuance of new notes can cause the market price to trade at a premium over the indicative value, and a resumption of such issuance can cause the market price to decline significantly. These circumstances have occurred and have caused significant fluctuations in ETN prices. Significant premiums or discounts in the price of an ETN compared to its indicative value should be a cause for investor caution. Please see "Pricing tracking risk" under the caption, "Understanding the risks of ETPs," below.

ETNs offer investment exposure to market sectors or asset classes that may otherwise be difficult for individual investors to achieve. However, ETNs can be complex and carry various risks that are important to understand.

For more information on the risks of investing in ETNs, please see an investor alert published by FINRA entitled "Exchange-Traded Notes – Avoid Unpleasant Surprises."

Understanding the risks of ETPs

The risks associated with purchasing ETPs are important considerations in making a purchase decision. Such risks include, but are not limited to, the following:

- Credit risk (applicable to ETNs). ETNs are unsecured debt obligations of the issuer. ETNs are also not rated by a nationally recognized securities rating agency, although in most cases the issuer has a credit rating. ETNs are therefore subject to the possibility that the issuer will default, due to its deteriorated financial condition, insolvency, bankruptcy or other reasons. If the issuer defaults on the ETNs, investors may lose some or all of their investment.

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- Market risk. The value of an ETP is largely influenced by the value of the underlying benchmark it tracks. The value of a benchmark will change in response to market forces and other factors outside the control of the issuer. It is important that you understand what the underlying benchmark is measuring and the factors that will cause fluctuations in the value of the underlying benchmark. Each underlying benchmark carries various risks associated with that benchmark, which are described in the prospectus for the ETP. As ETPs have become a popular investment to gain exposure to other complex investments like futures contracts or MLPs, it is important to fully understand the underlying benchmark and the risks associated with it. A decline in the value of the underlying benchmark will expose ETP investors to the risk of loss of some or all of their investment. In particular, ETNs are not principal protected, meaning that a return or repayment of an investor's principal is not guaranteed. Additionally, the value of an ETP can be affected by the forces of supply and demand. An ETP is subject to the further risk that its performance may be worse than the benchmark it seeks to track or worse than the securities markets generally over both short-term and extended periods of time.

- Management risk (applicable to ETFs). Since the assets of an ETF are managed by an investment adviser, an ETF is subject to the risk that the decisions made by the adviser may not produce the intended results. Passively managed ETFs are subject to the risk that the investment adviser will not be able to make decisions or take action in response to market conditions or events, including downturns.

- Liquidity risk. Although ETPs are traded on an exchange, a trading market may not develop. At times, trading volumes may be inadequate to provide sufficient liquidity. ETPs can also be delisted, which would eliminate any market for them.

- Interest payment risk (applicable to ETNs). Unlike traditional fixed income investments, ETNs generally do not pay interest or make cash distributions, so they are not suitable for investors seeking current income.

- Price tracking risk. ETFs involve tracking error risk, which is the risk that the performance of the ETF may diverge from that of its underlying index. Tracking error may occur because of imperfect correlation between the ETF's holdings of portfolio securities and those in the underlying index, pricing differences, the ETF's holding of cash, differences on timing of the accrual of dividends, changes to the underlying index or the need to meet various regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the ETF incurs fees and expenses, while the underlying index does not. Shares of an ETF trade on stock exchanges at prices at, above or below their most recent net asset value (NAV). The NAV of an ETF is calculated at the end of each business day and fluctuates with changes in the market value of the ETF's holdings since the most recent calculation. The trading prices of the ETF's shares fluctuate continuously throughout trading hours based on market supply and demand rather than NAV. As a result, the trading prices of the Fund's shares may deviate significantly

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from NAV during periods of market volatility. However, because ETF shares can be created and redeemed in "creation units" at NAV, large discounts or premiums to the NAV of an ETF are not likely to be sustained over the long-term. Shares of an ETF, like other exchange-traded stocks, can be sold short and thus may be subject to increased price volatility. In addition, ETNs usually trade at prices that closely track their indicative values, but this might not always be the case. When trading in the secondary market, you should check market prices against indicative values and be wary of buying at a price that varies from closing and intraday indicative values. At times, ETNs can trade at discounts or premiums to their indicative values. Premiums may result from an announcement that the ETN issuer will be suspending new issuances, but a decision by an ETN issuer to resume issuances would eliminate such premiums. Trading prices at premiums over indicative values or at discounts from indicative values are signs of a potentially broken ETN and should not be expected to last long-term. Investors who buy ETNs at a premium over their indicative values may experience a loss as the premium evaporates. Similar, investors who sell ETNs at a discount from indicative values may not realize as much in terms of sale proceeds as those who wait for the trading prices to return to indicative values.

- Redemption risk (applicable to ETNs). Some ETNs are callable at the issuer's discretion. ETNs can be subject to early redemption or an accelerated maturity date. For ETNs that may be called or redeemed at any time prior to their maturity dates, their values when called may be less than the market price that you paid, resulting in partial loss of your investment. Although ETNs are often redeemable at the option of the holder, they can only be redeemed in large minimum blocks and then often only weekly, making it difficult for small investor to redeem.

- Conflicts of interest risk. There may be a number of potential conflicts of interest between investors and the issuer of an ETP. The issuer may, for instance, engage in trading activities that are at odds with investors who hold the notes. You should search the prospectus for an ETP for mention of "conflicts of interest" and evaluate whether the conflicts are worth the risk.

- Fees. Investors commonly pay fees and expenses associated with an investment in the ETP. These fees and expenses, known as "operating expenses" for an ETF and "investor fees" for an ETN, are accrued and deducted from the value of the ETP. Some fees may be high. If the value of the underlying benchmark of an ETP is insufficient to offset the negative effect of the operating expenses or investor fees and other applicable costs, investors will experiences losses on their investment.

- Leveraged and Inverse ETPs. Some ETPs are leveraged, inverse or leveraged inverse products, which may be appropriate for short-term trading but are not suitable for buy-and-hold investors. These ETPs are typically designed to achieve their stated performance objectives on a daily basis, and some investors might expect that these ETPs may meet their stated daily objectives over the long term as well. However, due to the effect of compounding, fees and daily resets, the performance of leveraged

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and inverse ETPs over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying benchmark during the same period of time. The magnitude of this disparate performance is particularly high in volatile markets. In addition, the use of leverage entails the risk that an investor's returns may be significantly worse than the decline (or, for leveraged inverse funds, the increase) in the value of the underlying 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 will also cause an ETP to underperform the compounded return of the underlying benchmark in a trendless or flat market. For more information about leveraged and inverse funds, please see "Important Information About Leveraged and Inverse Funds" found at www.rwbaird.com/disclosures.

- New or underfunded ETP risk. New or underfunded ETPs lack performance, trading and operating histories that can be used as a basis for evaluation. Such ETPs may not have adequate and regular trading volumes to provide sufficient liquidity when desired. Holding a large position in an ETP that has not reached a certain size may enhance liquidity risk, and purchases and sales by large holders may significantly affect performance.

- Tax risk. Many ETNs are treated as prepaid forward or executory contracts, with the difference between the price received upon sale or at maturity and the price paid on purchase classified as a capital gain. However, the IRS has not ruled on this issue and has asked for comments on the appropriate tax treatment of ETNs. Some ETNs, including those that track foreign currencies or MLPs, may be treated differently for tax purposes. Additionally, distributed income is often taxed at the ordinary income rate and not a dividend rate. As a result, the tax treatment of ETNs is uncertain and can vary depending on the nature of the ETN. You should consult your tax advisor before investing in an ETN. Moreover, some ETFs may be structured as limited partnerships or trusts or may involve special investments and strategies, which have special tax consequences that you should consider with your tax advisor before investing.

Before investing in ETNs, it is important to understand and discuss with your Baird Financial Advisor the creditworthiness of the issuer, liquidity issues, the underlying benchmark, the rationale for the investment and the potential risks. Investors in ETNs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment. You should obtain and read the prospectus carefully before investing.

For more information on the risks of investing in ETNs, please see an investor alert published by FINRA entitled "Exchange-Traded Notes – Avoid Unpleasant Surprises" located at www.finra.org.

Specific Risks Associated with New or Low Asset ETPs

Please be aware that, even if your request to use a new or low asset exchange-traded product (i.e., ETFs and ETNs) has been approved, you should make sure you read the prospectus and other available materials about

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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 exchange-traded product, including without limitation the following:

- Limited trading activity – ETFs and ETNs, unlike mutual funds, are generally not redeemable, and instead may be bought or sold on an exchange. However, an active secondary trading market may not develop in the securities, thus making it difficult at times to sell the securities at prices that are attractive. A thinly traded market for the securities may also cause the securities to be priced at levels that are significantly different from their net asset values, resulting in meaningful price tracking risk. Additionally, the securities may not be able to be sold at prices approximating their quotations or recent closing prices. Prices of the securities above their net asset values are not likely to continue, given the presence of arbitrage firms and the possibility that additional securities will be created or issued.

- Possibility of Controlling Security Holders – The securities of a new or low asset exchange-traded product may be held by one or a few significant holders. Such concentration of ownership may expose the product to the risk that those owners may assert control and make changes. It also exposes the product to potential disruptions in managing the assets effectively should one or more significant holders decide to redeem or sell their securities.

- Possible SEC Filings by Baird (ETFs) – If Baird is deemed to have investment or dispositive power over the securities of an ETF and the securities over which Baird has such power amount to 5% or more of the outstanding securities of the ETF, Baird would be required to files Schedule 13D/13F reports with the SEC. This imposes a significant burden and obligation on Legal and Compliance resources and you may be charged for those resources. Additionally if Baird is deemed to control 10% or more of the securities of an ETF Baird and you may be regarded as affiliates of the issuer, thus imposing greater burdens on you and the firm.

- Lack of Operating History and Performance Track Record – A new exchange-traded product will lack operating history and historical performance information, making it harder to evaluate the merits of the product.

- Performance Challenges/Volatility – An exchange-traded product that is small in terms of total assets may encounter difficulties in buying and selling portfolio securities efficiently given the relative small order. Smaller orders for securities transactions may not receive favorable pricing. In addition, trading costs may be higher for small exchange-traded products. In addition, smaller exchange-traded products may be challenged in achieving their desired portfolio diversification. For these and other reasons, exchange-traded products with low asset levels may experience challenges resulting in underperformance and performance volatility.

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- High Fees/Expense Ratio – Small exchange-traded products 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 exchange-traded product can be significant.

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

Specific Risks Associated with Certain Benchmarks or Reference Assets

Some of the more speculative benchmarks or reference assets that ETPs are designed to track are commodities, energy MLPs, foreign currencies, volatility, Treasury yields and emerging markets. Following is a brief description of the risks associated with these benchmarks:

- Commodities. ETPs that track the performance of a single commodity, a group or index of similar commodities (e.g., grains, softs, livestock, metals and energies) or a broad-based commodities index are subject to the risks associated with those commodities and futures contracts on those commodities. Such risks include concentration or non-diversification risk, fluctuations in commodity prices which are often significant and unpredictable, 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. ETPs that focus on a single commodity or group or similar commodities tend to be riskier than those that track a broader commodities index.

- Energy MLPs. ETPs that track the performance of energy MLPs or indices of energy MLPs 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

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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. Such ETPs are also subject to the risk of uncertain tax consequences.

- Foreign Currencies. ETPs that track the performance of a single currency or a group or index of multiple 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. 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.

- Volatility/VIX. Some ETPs are linked to the performance of VIX futures indices, such as the S&P 500 VIX Short-Term Futures Index or the S&P 500 VIX Mid-Term Futures Index. These indices provide exposure to one or more maturities of futures contracts on the CBOE Volatility Index (the "VIX Index"). The VIX Index reflects implied volatility of the S&P 500 at various points along the 30-day volatility forward curve. The VIX Index is calculated based on prices of put and call options on the S&P 500. Futures on the VIX Index allow investors the ability to invest in forward volatility based on their view of the future direction of movement of the VIX Index. The VIX futures index underlying the ETN is intended to reflect the returns that are potentially available through an unleveraged investment in the futures contracts on the VIX Index.

  These ETPs are quite complicated and volatile, and will not necessarily accurately track changes in the VIX Index. They are designed for sophisticated investors to manage daily trading risks and should be regarded as a short-term investment. The performance of these ETPs over a given period of time may be significantly different from changes in the level of the underlying VIX futures indices over that same period, particularly for ETPs that are linked to the daily performance of the VIX futures index or that otherwise have short reset dates. The level of the S&P 500, the prices of options on the S&P 500 and the level of the VIX Index may change unpredictably, affecting the value of futures contracts on the VIX Index and, consequently, the level of the VIX futures index to which the ETP is linked and the value of the ETN in unforeseeable ways. These ETNs are not linked to the VIX Index, the options on the S&P 500 used to calculate the VIX Index or the actual volatility of the S&P 500, and

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the return on the ETP is not a participation in the actual volatility of the S&P 500. These ETPs are linked to VIX futures indices, which are based on the futures contracts on the VIX Index, and the performance of these VIX futures indices may be quite different from the performance of the VIX Index. These ETPs may not benefit from changes in the level of the VIX Index because such changes may not cause changes in the level of the VIX futures indices. In addition, changes in prices of the futures contracts that comprise the VIX futures indices could adversely affect the levels of such indices. The level of the VIX Index typically reverts over the longer term to the historical mean and its absolute level has historically been constrained within a band. It is likely that the level of the VIX Index will continue to do so in the future, especially as economic uncertainty recedes. If that happens, the value of futures contracts on the VIX Index will likely decrease, reflecting market expectation of reduced volatility, and the potential upside of an ETP linked to a VIX futures index will be limited. Changes in the composition of the S&P 500 may affect the level of the S&P 500 and the value of put and call options used to calculate the VIX Index, and thus could impact the level of the VIX futures indices and the ETPs linked to the VIX futures indices. Changes to the methodology used to calculate the VIX Index may also impact ETPs linked to VIX futures indices. The VIX futures indices and VIX futures contracts have limited historical information.

- Fixed Income. Some ETPs may be linked to Treasury futures indices, indices that track changes in Treasury yields, indices that track changes in yield curves, and indices that measure the market's expectation of future inflation or deflation rates. These indices are frequently tied to the prices of Treasury futures contracts and not to the yields of Treasury securities themselves. Prices of Treasury futures contracts can be affected dramatically by changes in the prices, yields and durations of Treasury securities, and thus the levels of these indices and the values of these ETPs can change in unforeseeable ways.

  ETPs linked to Treasury futures indices and changes in Treasury yields are subject to various risks, including U.S. Government fiscal policies, the monetary policies and decisions made by the Federal Reserve Board, market expectations concerning economic growth and inflation rates, macroeconomic conditions, the state of the credit markets, changes in the gross domestic product, public debt, federal deficits, foreign trade, reserves and balance of payments, the supply of and demand for U.S. Treasury securities, the prevailing market and futures prices and yield of U.S. Treasury securities of variable maturities, spreads between yields on U.S. Treasury securities and those of other types of fixed income securities, the actual or perceived credit quality of the U.S. Government, and the strength of the U.S. Government relative to those of other countries.

  ETPs linked to indices that track changes in the yield curve or the shape thereof typically are seeking returns related to a steepening or flattening of the yield curve. The yield curve depicts the yields of Treasury securities with maturities ranging from two to 10 or more years. The yield curve can often steepen, flatten or remain unchanged, which may be contrary to the objective of the ETN. The yield curve has historically reverted to the long-term mean level, so any steepening or flattening of the yield

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curve may be constrained. Changes in the yield curve are affected by numerous factors, including shifting expectations about U.S. monetary policy and rates of inflation, fiscal policies, public debt levels, national deficits, general economic conditions and economic trends, the supply and demand of Treasury securities of different maturities, prevailing market and futures prices and yields of Treasury securities, and the prevailing spread between the yields of Treasury securities and other types of fixed income securities. At times, the yield curve may flatten or remain unchanged despite expansionary monetary and fiscal policies and expectations about an increase in future inflation rates, and the yield curve may steepen despite contractionary policies and expectations about a reduced rate of inflation.

ETPs may seek to track inflation or deflation rates or the market's expectation of such rates. However, the indices that these ETPs strive to track may not represent actual inflation or deflation rates (such as those represented by the Consumer Price Index), and the performance of these ETPs may not correspond to changes in inflation or deflation rates. Rates of inflation or deflation can be affected by numerous factors, including macroeconomic conditions, monetary and fiscal policies, prevailing interest rates, government regulation, commodity prices, industrial activity, consumer prices and spending, changes in prevailing wages, geopolitical and global economic developments, military events and acts of terrorism.

Many ETPs that are linked to Treasury futures, Treasury yields, changes in the yield curve or inflation or deflation are designed for sophisticated investors, and because of their short-term or frequent reset dates, should only be used as short-term strategies. Over a longer period of time, these ETPs can perform much differently from their underlying indices and from what investors might have expected.

- Diversified Yield. Some ETPs may invest in debt securities, dividend-paying stocks and other instruments that generate significant yield. These ETPs may be actively traded and not linked to a particular index or reference assets. Debt securities are generally subject to interest rate risk and credit risk. Interest rate risk is the risk that as prevailing interest rates rise, the prices of bonds will decline, and vice versa. An ETP will generate less income when interest rates fall because in such environment, the ETP may not be able to find higher yielding securities in which to invest. Credit risk is the risk that the issuer will default on its obligation to pay interest and repay principal. Certain yield-generating investments may be high-yield securities (commonly referred to as "junk bonds") that have investment ratings that are below investment grade. Securities rated below investment grade are considered predominantly speculative because of the risk of default. Fixed income securities may be subject to prepayment (or call) risk and extension risk. Prepayment risk is the risk that the securities may be redeemed prior to maturity and the ETP may not be able to reinvest the proceeds in securities that have yields that are the same or similar to the yields of the securities that were redeemed. Extension risk is the risk that the securities may not be prepaid when anticipated because interest rates have risen, thus frustrating the ETP's expectation of reinvesting proceeds from the anticipated prepayment. To the extent an ETP invests in dividend-

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paying stocks, the ETP will be subject to the risks associated with investments in equity securities, such as stock market risk or risks associated with the issuer or its industry. ETPs that seek yield may also be subject to volatility in their yields, returns and income distributions. Some of the yield-generating securities in which these ETPs may at times be thinly traded and thus the ETPs may experience periods in which they are unable to purchase or sell such securities at attractive prices. Some ETPs may invest in various diverse products in seeking yield, such as REITs, MLPs and securities issued by companies or governments in emerging markets, and may not be restricted in the types of income-producing securities in which they can invest.

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