Important Information about Managed Futures

We have prepared this document to help you understand the common characteristics and risks associated with an investment in managed futures, to assist you in making a more informed decision when considering buying or selling these investments. Baird offers qualified clients the opportunity to invest in managed futures. 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 is available to address your questions and discuss the features, characteristics, costs, and risks of any particular investment.

Characteristics of Managed Futures

Managed futures are commodity pools (typically structured as investment partnerships) managed by a futures trading adviser that trade speculatively in various commodities and related futures contracts, spot and forward contracts, options, swaps and other derivative instruments on U.S. and foreign exchanges and markets. The types of commodities in which managed futures invest may include interest rates, currencies, stock, bond and other indices, and physical commodities such as agricultural commodities, metals, and energy products. Managed futures often employ computerized, systematic, and often proprietary trading models and systems.

Managed futures are not right for everyone. They may be appropriate for sophisticated investors with aggressive or speculative investment objectives seeking further diversification through modest exposure to investments designed to have little or no correlation to the general equity and debt markets. Managed futures should be considered long-term investments.

Because managed futures are regarded as speculative investments, it is important that you read and understand the prospectus or offering memorandum that describes their characteristics and risks. Some significant risks of investing in managed futures are briefly described below. Please consult with your Baird Financial Advisor before investing in managed futures.

Understanding the Risks

Risk in inherent in any investment product or strategy. Certain of the common risks and other important considerations associated with managed futures are highlighted below. You are strongly encouraged to review the prospectuses or other disclosure document associated with any product for a more fulsome discussion of additional risks and other important considerations before making any invest decision to invest in managed futures. Additional information regarding investment risks generally and other important consideration is also available at: https://www.bairdwealth.com/retailinvestor.

- **Speculative and Volatile.** Managed futures are speculative. You may lose all or substantially all of your investment in managed futures. You should not invest in managed futures if you are not willing and able to accept that risk. The performance of managed futures is volatile and difficult to predict. Managed futures often experience double-digit monthly returns that can be either positive or negative.

- **Leverage.** Because of low margin deposit requirements for futures trading, managed futures are highly leveraged. Futures, forward contracts, options, and other derivative positions taken by managed futures are often 10 times or more of their total equity. Leverage significantly magnifies the profits and losses experienced by managed futures. As a result, a relatively small movement in price may result in substantial loss or gain. Trading may also result in losses to the managed futures in excess of amounts they invest.

- **Lack of Liquidity.** Investments in managed futures are not liquid. No secondary market exists for managed futures investments and there are significant restrictions on transfer. Moreover, managed futures investments generally may not be redeemed in whole or in part except on a monthly basis with a notice period and a delay in receipt of the redemption proceeds. Early redemption charges may also apply. Under certain circumstances, managed futures may establish reserves for contingent liabilities and withhold all or a portion of the amounts requested to be redeemed.

- **Substantial Fees and Expenses.** There are significant fees and expenses associated with investments in managed futures. Managed futures pay management fees, brokerage fees and/or commission and other operating expenses which may be in the range of 6-10% annually on the managed futures' assets. This means that managed futures need to generate a certain level of trading profits and interest income in order for an investment in managed futures to be profitable. In addition, the trading advisor/manager receives performance or incentive compensation that is frequently 20% of the managed futures' net gains and appreciation. Managed futures or their trading advisor/managers pay initial selling commission and ongoing service commissions to firms (including Baird) for their efforts in selling investments in managed futures and providing other related services. The receipt of such commissions may give Baird an incentive to promote the sale of managed futures investments and discourage redemptions.

- **Tax Consequences.** Managed futures are typically treated as partnerships for income tax purposes. This means that the net gains, income, or losses experienced by managed futures are allocated to investors. Investors are required to report their allocable share of those gains, income, or losses on their own tax returns. Managed futures do not generally distribute any gains or income, which means that you may have to pay taxes on your allocable share of the managed futures' gains and income from your other resources.

- **Limited Regulation.** Managed futures are not investment companies registered under the Investment Company Act of 1940, and the offer and sale of investments in managed futures are typically not registered under the Securities Act of 1933. In addition, some managed futures may not be registered under the Securities Exchange Act of 1934 and as a result not required to file annual, quarterly, or periodic reports with the SEC. As a result, managed futures are not subject to applicable securities laws or related rules or regulations.

  Managed futures are considered commodity pools. Trading advisors or managers of managed futures are typically registered with the Commodity Futures Trading Commission (CFTC) as commodity pool operators and commodity trading advisors and are members of the National Futures Association but are not registered investment advisers under the Investment Advisers Act. The operations of managed futures are subject to the Commodity Exchange Act and related CFTC rules and regulations.

  Trading by managed futures in commodity futures and options on a U.S. exchange are regulated by the CFTC and the exchanges on which the contracts are traded. Trading in futures, forward and options contracts, swaps and other derivatives other than on an exchange are not regulated. Managed futures may also trade on foreign exchanges or markets, which are not subject to U.S. regulation and may or not be subject to foreign regulation. Neither the SEC nor CFTC has approved or otherwise passed upon the merits of investing in managed futures.

- **Trading Risks.** The success of an investment in managed futures depends entirely on the decisions made by the trading advisor/manager and the trading strategies and programs it uses. Also, increased competition from other similar trading companies could adversely affect the profitability of managed futures. Because of the possibility of receiving performance or incentive competition, a trading advisor/manager may be motivated to take greater risks. The performance of managed futures is intended not to be correlated with movements in the general stock and bond markets; however, from time to time, the performance may be correlated or negatively correlated with any such securities markets.

More Information

For more information, please see the product's prospectus or other offering documents. Please discuss managed futures with your Baird Financial Advisor and make sure that you understand their specific terms and risks before investing.

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