



Mutual Fund Investing

Important Information and Disclosures for D.A. Davidson Clients

Introduction. Mutual funds, one of the nation's most commonly used groups of investment vehicles, now hold several trillion dollars worth of shareholders' investments. By pooling assets from multiple investors into one portfolio, mutual funds can provide such benefits as diversification, professional management, low minimum initial investments and liquidity. Accordingly, mutual funds can be an appropriate investment for many investors and part of an effective approach to achieving your financial goals. In selecting a mutual fund that best suits your needs, some key factors to consider include a fund's investment strategy, risk profile, investment performance, and relationship to your overall assets allocation strategy and investment time horizon. A fund's fees and expenses have an impact on its investment returns and are important factors as well. This information is intended to provide you with more information about fees and expenses related to mutual funds available through D.A. Davidson, as well as the compensation D.A. Davidson earns with respect to those funds.

For more complete information on any mutual fund, please request a prospectus from a D.A. Davidson Financial Consultant and read it carefully. Before investing, carefully consider the investment objectives, risks, and charges and expenses of the fund. This and other information may be found in the fund's prospectus.

Understanding Risk and Cost. The risks and costs associated with mutual fund investing are two important factors to consider before purchasing a mutual fund. Like any investment, mutual funds carry some risks which may include market risk, interest rate risk, credit risk, style risk and securities selection risk. The degree of these and other risks will vary depending on the type of mutual fund you choose.

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

Sales Charges and Expenses. Some of the different sales charges and operating expenses associated with mutual fund investing are 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. For example, 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 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 decreases 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 CDSC is calculated as a percentage of the total sales proceeds. For example, if an investor sells \$10,000 of shares in a fund owned for 18 months and that fund has a 5.00% CDSC during the second year, the investor will receive a check for \$9,500. The \$500 difference between the \$10,000 worth of shares sold and the \$9,500 check paid to the investor is the CDSC. Back-end sales charges are most often associated with Class B and Class C shares. The level of the applicable CDSC will decline over time until it is eventually eliminated. A CDSC 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. They are sometimes called “no-load funds,” and a number of no-load funds are available. D.A. Davidson may charge a transaction fee of less than \$10.00 associated with purchasing and exchanging no-load funds in a commission-based account. D.A. Davidson does not impose that fee on the sale of a fund, but the fund itself may charge a redemption fee. The transaction fee will be automatically charged and will be billed to the client in addition to the dollar amount of the buy being placed. At its sole discretion, D.A. Davidson may change the transaction fee it charges.

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

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

Class A shares – common characteristics

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

Class B shares – common characteristics

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

Class C shares – common characteristics

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

FINRA maintains a Mutual Fund Expense Analyzer tool on its website at www.finra.org that may help you in making a decision on the right share class for you.

Compensation That D.A. Davidson and its Financial Consultants Receive from the Sale of Mutual Funds. Individual mutual fund families and funds within a mutual fund family vary in the forms and amounts of compensation they may provide to D.A. Davidson and its Financial Consultants. Notwithstanding differences among funds, D.A. Davidson compensates its Financial Consultants in a manner that is designed to be mutual fund neutral so that its Financial Consultants are not encouraged to sell one particular fund over another solely on the basis of the compensation they receive. The compensation received by D.A. Davidson from the sale of mutual fund products does not differ from what is disclosed in the particular mutual fund's prospectus.

D.A. Davidson and its Financial Consultants receive compensation when clients invest in mutual funds in several ways as summarized below:

1. Sales Charges. As noted above, an initial sales charge is incurred by the client when Class A shares are purchased. That amount generally ranges from 1.0% to 5.75% of the amount the client invests. At the time of the purchase, D.A. Davidson is paid some or all of this sales charge depending on the particular fund family. Other mutual fund share classes, including Classes B and C, do not impose an initial sales charge. While the client does not pay any initial sales charge at the time of purchase of B and C shares, the fund distributor pays D.A. Davidson an amount ranging from 1.0% to 4.0% of the amount invested by the client. To cover the amount paid to D.A. Davidson, the fund distributor typically imposes a CDSC on the client if the mutual fund shares are sold within a certain period of time following the purchase. In addition, the 12b-1 Fees imposed on Class B and C shares are typically higher to help offset the compensation paid to D.A. Davidson at the time of purchase.

While the amount of any compensation described above may vary by individual fund, the amounts received by D.A. Davidson are shared with your Financial Consultant in the same percentage without any differentiation based on the individual fund involved.

2. Asset-Based Distribution/Service Fees (12b-1 Fees). Generally, these fees are deducted from a mutual fund's assets to cover a fund's marketing and distribution expenses. 12b-1 Fees reduce the overall returns of the particular mutual fund and are disclosed in a fund's prospectus. These fees are shared between D.A. Davidson and the fund's distributor as set forth in the prospectus.

For Class A shares, the typical annual 12b-1 Fee is equal to 0.25% of the fund's total assets. Almost the entire fee applicable to mutual fund shares held by D.A. Davidson clients is paid to D.A. Davidson during the period in which shares are held by Davidson clients. For Class B shares, the typical annual 12b-1 Fee is equal to 1.0% of the fund's total assets, with 0.25% of the Fee paid to D.A. Davidson and the remaining 0.75% paid to the fund distributor. For Class C shares, the typical annual 12b-1 Fee is equal to 1.0% of the fund's total assets, with most or the entire fee paid to D.A. Davidson.

D.A. Davidson shares 12b-1 Fees with its Financial Consultants whose clients hold mutual funds shares, without any differentiation based on the particular fund held. Like sales charges, some funds impose higher or lower 12b-1 Fees than others. As a result, D.A. Davidson and its Financial Consultant may receive more or less compensation depending on the particular fund

3. Sub-Accounting Related Services. D.A. Davidson receives compensation directly from the mutual fund when providing sub-accounting and other administrative services with respect to each mutual fund position. These services include processing purchases, redemptions and exchanges, dividend reinvestment, tax reporting and other recordkeeping services. Financial Consultants do not receive any portion of these fees received by D.A. Davidson.

D.A. Davidson currently has networking arrangements with the following mutual funds pursuant to which D.A. Davidson receives a per account fee for providing sub-accounting related services: AllianceBernstein Funds, American Funds, Fidelity Advisors, Franklin/Templeton Funds, Hartford Funds, Invesco, Lord Abbett Funds, MFS Funds, Oppenheimer Funds, Pioneer Funds, Putnam Funds, DWS Investments, Russell Investments and Sun America Funds. This compensation is on a per account basis and is not related to assets held in a fund.

4. Fee-Based Accounts/Programs. Clients may purchase mutual funds through various fee-based programs available at Davidson. These programs offer clients the choice of paying an asset-based fee instead of paying a sales charge on the purchase or sale of mutual fund shares. The asset-based fee is based on a percentage of the value of the assets held in your D.A. Davidson fee-based account. These fee-based accounts provide features and benefits as well as share classes that may not be available in a traditional D.A. Davidson brokerage account in which the client is charged transaction fees. In

addition to the asset-based fee, D.A. Davidson and its Financial Consultants may receive 12b-1 Fees from mutual funds held in a client's account, although D.A. Davidson passes those fees through to the client in most such fee-based accounts. D.A. Davidson shares 12b-1 Fees with its Financial Consultants whose clients hold mutual funds shares, without differentiation based on the particular fund held. The total cost of purchasing and holding mutual fund shares through a fee-based account may be more or less than investing in mutual fund shares in a traditional D.A. Davidson brokerage account, depending on the amount of the asset-based fee and the specific mutual fund shares in which you invest. You should ask your Financial Consultant for more information about these cost differences and whether an asset-based fee account is right for you.

5. The Davidson Multi-Cap Core Mutual Fund. You should be aware that the Davidson Multi-Cap Core Mutual Fund ("Fund"), for which Davidson Investment Advisors, Inc. ("DIA") serves as the investment adviser, may be recommended to you. DIA and D.A. Davidson are affiliated companies, with the same parent company. The Fund is a series of the Adviser Series Trust, which is registered under the Investment Company Act of 1940 as an open-end management investment company. U.S. Bancorp Fund Services, LLC acts as the Fund's administrator and provides fund accounting and transfer agency services.

DIA receives fees for advising the Fund. Those fees are based on the amount of assets held in the Fund which increases with any new purchases of shares. The fee arrangement for DIA advisory services is disclosed in the Fund prospectus. As a mutual fund shareholder, the client pays indirectly a portion of the ongoing expenses of the Fund. These expenses include the DIA advisory fee, all 12b-1 Fees and all other ongoing fees incurred in the administration of the Fund (see the Fund Prospectus available at www.davidsonmutualfunds.com). D.A. Davidson provides no financial or other incentive for your D.A. Davidson Financial Consultant to favor this Fund over other mutual funds.

Apart from the fees described above, D.A. Davidson does not enter into any separate agreements with mutual fund companies pursuant to which it receives any asset- or sales-based financial payments. While D.A. Davidson maintains a Supervised Recommended List of Mutual Funds ("List"), it does not receive any payment from any fund for the purpose of including that fund on the List.

If you have questions about the compensation D.A. Davidson or your Financial Consultant receives from the sale of mutual funds, please contact your Financial Consultant.

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 hypothetical table:

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

Breakpoint discounts are available on initial and subsequent purchases. Also, discounts on purchases may be obtained based on current holdings in the same fund family (see “Rights of Accumulation” below) or a commitment of future purchases (see “Letter of Intent” below). For purchases that exceed \$1,000,000, although no sales charges apply in the table above, the fund company may provide compensation to the Financial Consultant.

Initial Purchases. When making an initial purchase of Class A shares in a particular mutual fund family, the front-end sales charge and minimum purchase requirement to obtain a discount can be determined by referring to the sales charge schedule in the fund’s prospectus.

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

Rights of Accumulation. Breakpoint discounts may also apply to purchases based on an investor’s existing holdings within a fund family. These discount entitlements are referred to as Rights of Accumulation (“ROA”). For example, if an investor owned mutual funds within the same fund family valued at \$255,000, then invested an additional \$1,000 in the same fund family, that investor would be eligible for a discount on the additional \$1,000 investment based on the 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 aggregate the value of shares owned by the investor, the investor’s spouse and minor children when determining the breakpoint discount.

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. Please note that it is the investor's responsibility to inform his or her Financial Consultant of all holdings in order to ensure that they are properly aggregated for ROA purposes. 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 Consultant 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 purchase 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 when planning to invest \$50,000 in Class A shares in the same fund family in the next 13 months, but only 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 the 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, the investor should consult the Financial Consultant and review the mutual fund prospectus to determine if signing an LOI would be beneficial.

Education/Conference Sponsorships by Mutual Funds. Representatives of fund companies work with D.A. Davidson and its Financial Consultants to promote their funds. Consistent with FINRA rules, representatives of mutual fund companies may pay or make contributions to D.A. Davidson for training and education seminars for D.A. Davidson employees, clients, potential clients, or due diligence meetings regarding their funds. In 2009, the following mutual funds sponsored or contributed to the sponsorship of educational meetings for D.A. Davidson: American Funds, Janus, JP Morgan, Lord Abbett, Optique Capital, Russell Investments, T. Rowe Price and Vanguard. Neither D.A. Davidson nor its Financial Consultants receive additional commission for selling these funds and conferences and seminars are not made available based on sales of products offered by the funds. In connection with their marketing efforts, mutual fund wholesalers may take, and in some cases pay for individuals or groups of Financial Consultants to attend or participate in events or activities, including lunches or dinners.

Institutional Relationships with Mutual Fund Companies. Please note that D.A. Davidson and its affiliates may provide other services for which they receive compensation from mutual fund companies. These services could include (but are not necessarily limited to) securities and industry research, institutional trading and execution services, and effecting securities transactions for funds and other clients. There is no connection between any institutional relationship that D.A. Davidson may have with a mutual fund and the marketing and sale of any mutual fund to its retail clients.

Additional Information. Information on a specific mutual fund and its policies regarding the above topics can be found in its prospectus and Statement of Additional Information. If you have questions, please do not hesitate to ask your Financial Consultant. For additional information on mutual funds you can visit educational websites of the Securities and Exchange Commission (www.sec.gov); the Financial Industry Regulatory Authority (www.finra.org); and the Securities Industry and Financial Markets Association (www.sifma.com).