

How are Hilliard Lyons and its Financial Consultants Compensated?

Hilliard Lyons offers many mutual funds to clients. We believe that it is important that our Financial Consultants evaluate these products and assist clients in selecting the product(s) that meet their needs. Because there are thousands of mutual funds available for sale in the United States, we identify a select group of approved providers that offer a broad spectrum of products. If you purchase a mutual fund, Hilliard Lyons will receive compensation in the form of sales charges.

Additional Compensation

In addition to the compensation received for the sale of mutual funds; distributors, investment advisers or other entities affiliated with mutual funds (“sponsors”) may make payments to Hilliard Lyons to support our training, back office operations, educational presentations and sales support activities provided to our Financial Consultants. These payments are generally referred to as revenue sharing payments. Other service providers not listed here may pay directly for educational seminars for Financial Consultants and/or clients.

The following mutual fund sponsors have made revenue sharing payments to Hilliard Lyons as of December 31, 2009: American Funds, Federated Funds, Franklin Templeton, Columbia Funds, John Hancock and Hartford Funds.

The above mutual fund sponsors make payments to Hilliard Lyons in various amounts and such revenue sharing payments may be in a lump sum or based upon gross sales, assets under management, or other factors.

An example of revenue sharing is Gross Sales: With gross sales, the mutual fund sponsor pays a percentage of an investor’s total purchase of a mutual fund through a Financial Consultant. In this scenario, if Hilliard Lyons receives payments of up to 0.20 percent (20 basis points) based on gross sales, and if an investor invested \$10,000 in a fund, Hilliard Lyons could be paid up to \$20.

Importantly, our decision to identify mutual fund sponsors as approved providers is not predicated on whether they make revenue sharing payments to Hilliard Lyons. Our Financial Consultants do not directly receive additional compensation in connection with the revenue sharing payments to Hilliard Lyons. Nevertheless, it is our experience that mutual fund sponsors that make revenue sharing payments are more likely to provide more training and education

services. As a result, Financial Consultants may prefer recommending mutual funds offered by these sponsors over others. Also, certain revenue sharing payments may be applied towards award trips designed to recognize our top Financial Consultants. Representatives of mutual fund sponsors may attend these trips. Financial Consultants who qualify for these trips are not required to sell any certain provider’s product.

Hilliard Lyons may earn compensation for providing the following services: acting as an investment adviser; providing fund accounting, transfer agency, and custody services; or providing omnibus record keeping and associated shareholder or administrative services to various mutual funds. Most of these fees are earned on a percentage-of-assets or number of positions basis and paid by the mutual funds or their affiliates. Please refer to the specific mutual fund’s prospectus for more detailed disclosure concerning these payments.

You should feel free to ask your Financial Consultant how he or she will be compensated for any transaction involving a mutual fund.

What does all of this mean to you?

The appropriate mutual fund choice for an investor entails understanding what a mutual fund is and how each fund’s factors are applicable. These aspects of the mutual fund, such as the fund’s investment time horizon, investment objective, performance history, risk factor and associated expenses/fees are valuable information. All of these factors are detailed in the mutual fund’s prospectus to provide a clearer understanding of the mutual fund. To fully evaluate all options, investors should review their investment objectives and goals with their Financial Consultant and review the prospectus to determine if a mutual fund is an appropriate investment vehicle.



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UNDERSTANDING MUTUAL FUNDS

Hilliard Lyons offers a wide array of products to help you achieve your investment goals and objectives. Mutual funds may be a good choice for you to consider, but before you invest in any type of product, you must first understand the associated risks, costs involved, how the costs and expenses are charged and how your Financial Consultant is compensated. Hilliard Lyons has created this guide to understanding Mutual Funds to help assist you in making a choice that best suits your needs. Since each mutual fund is different, you should carefully review the corresponding prospectus provided to you by your Financial Consultant before investing.

What Is A Mutual Fund?

A mutual fund is an investment company that pools money from many investors to purchase a portfolio of securities under the advice of a professional portfolio manager. Mutual funds invest in various selections of investments ranging from U.S. and/or International stocks, bonds, real estate, money market instruments and/or any combination thereof. An investor in a mutual fund buys shares of that specific fund. Each share is equivalent to a proportion of the market value of the mutual fund’s underlying securities. Accordingly, your investment will fluctuate in value over time, and your investment may be worth more or less when you sell it than it was at the time of original investment.

The money accumulated is invested by the Portfolio Manager who diversifies the fund’s investments according to the investment objectives described in the fund’s prospectus. The prospectus provides additional information about the fund, including the risks, expenses, past performance, opportunities for sales charge reductions/waivers, trading costs in buying or selling the underlying securities and other important information about the fund.

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What Risks are Associated With a Mutual Fund?

The risks associated with a mutual fund will vary depending on the type of fund and its objective. The risks can include market, interest rate, credit, political, and business risk. The fund's prospectus contains information about the risks associated with the particular fund. It is important that investors know their risk tolerance before choosing a mutual fund; therefore, the prospectus should be read carefully before investing in a particular fund.

What Costs are Associated With a Mutual Fund?

Mutual funds have costs associated with their sale and operation which may affect the return on the investment. It is important to understand these costs in order to effectively choose the right mutual fund for you. The fund's prospectus contains important information about its annual operating costs and sales charges.

Annual Operating Costs

Mutual funds incur operational and administrative expenses, including management fees payable to the Portfolio Managers and distribution fees (12b-1) payable to the fund's distributor. In addition, charges from service providers, transfer agents, custodians and accountants are also charged as a percentage of the fund's net assets. There may be additional costs involved with the buying and selling of securities within the fund, which would reduce the net asset value, commonly referred to as NAV, of the individual shares. Operating expenses are not paid directly as a fee, but they are deducted from the fund's assets, thereby reducing investment returns. The annual operating costs may vary among the different share classes of mutual funds offered.

Sales Charges and Opportunities to Reduce Them

Most mutual funds charge a purchase (front-end) or redemption (back-end) fee, depending on the share class purchased. These charges provide compensation for the fund company, the introducing brokerage firm and your Financial Consultant.

Mutual funds provide the opportunity to reduce or waive the front-end sales charge. These reductions, commonly referred to as 'breakpoints', are determined using various factors such as the size of your current purchase(s), the value of your cumulative holdings and those of your immediate family within the fund family, and your intention to purchase a certain amount of funds within a specific time frame (generally 13 months), called a "letter of intent." Breakpoint rules are not standard and differ from fund to fund. It is important that you read the fund prospectus and understand and discuss breakpoint discounts that may be available to you with your Financial Consultant. Hilliard Lyons uses the market value of your mutual fund holdings when determining breakpoints. In the course of determining your breakpoints, we may ask you for documentation for assets not held at Hilliard Lyons. Please read the section 'Share Classes' below for further information on sales charges and opportunities to reduce them.

Share Classes:

Share classes are a way to categorize how the costs associated with a mutual fund are paid. Each share represents an equivalent interest in the mutual fund's portfolio, however each class has different expenses and fees applied. This would result in different performances between the various classes. Mutual funds generally offer Class A, B and C shares, although some offer additional share class choices.

Class A Shares—impose a front-end sales charge at the time of purchase. This sales charge is deducted from your initial investment and, therefore, immediately reduces the dollar amount of the initial investment. The operating expenses are typically lower than Class B and/or Class C shares. For example: A client invests \$10,000.00 into Class A shares of a mutual fund. If the front-end fee is 5%, the client would incur an up-front sales charge of \$500.00. The balance of \$9,500.00 would be the actual amount invested. Class A shares have redemption charges if liquidated within certain time periods, typically 90 days.

Class A shares typically offer breakpoint discounts based on transaction size, cumulative existing holdings among you and your family within the fund company, and any intention you may have to purchase fund shares in a specific time frame (generally a 13 month period).

A breakpoint may be achieved based on transaction size of the current purchase. For example, depending on the fund family, you may pay a front-end fee of:

	Growth, growth & income, equity-income, & balanced funds	Bond & tax-exempt bond funds
< \$25,000	5.75%	3.75%
\$25,000 but < \$50,000	5.00	3.75
\$50,000 but < \$100,000	4.50	3.75
\$100,000 but < \$250,000	3.50	3.50
\$250,000 but < \$500,000	2.50	2.50
\$500,000 but < \$750,000	2.00	2.00
\$750,000 but < \$1 million	1.50	1.50
\$1 million & above	0.00	0.00

A breakpoint may also be achieved based on you and your family's existing holdings within the fund company. Commonly referred to as 'Rights of Accumulation', the proposed investment and the current value of any existing holdings in a fund family form the basis for determining the sales charge you pay. Therefore, it is important to disclose all of your personal and family related fund holdings, whether they are maintained by Hilliard Lyons or not, to your Financial Consultant so that an accurate breakpoint can be determined.

Finally, a breakpoint may be obtained by establishing a Letter of Intent. A Letter of Intent combines all current and anticipated

future investments in a single fund family so that you can immediately qualify for a reduced sales charge (breakpoint). The Letter of Intent is only valid for a certain time period—typically thirteen months. If, after signing the Letter of Intent, you do not purchase the additional shares as planned within the designated time period, the mutual fund company may adjust the sales charge of the previous purchases to reflect the sales charge that would have been assessed without the Letter of Intent.

Class B Shares—do not have a front-end sales charge. However, they do have a back-end sales charge, often referred to as a Contingent Deferred Sales Charge (CDSC). The CDSC on Class B shares subjects the investor to a declining fee schedule on liquidations that occur, typically, within the first four to six years of purchase. For example:

Year redeemed	1	2	3	4	5	6
CDSC:	5%	4%	4%	3%	2%	1%

Class B shares tend to have higher annual distribution expenses than A shares. After a specified number of years after the CDSC has ended, most Class B shares will convert to Class A shares (without paying an additional up-front charge) with lower annual expenses.

Class C Shares—typically do not have a front-end sales charge, but carry a back-end charge. Depending on the fund family, the charge is typically 1% if the shares are redeemed within the first year of purchase. Class C shares tend to have higher annual distribution expenses than Class A and Class B shares. Generally, your Financial Consultant is compensated 1% on an annual basis. This amount is deducted from the net asset value of the mutual fund. Also, Class C shares do not generally convert to Class A shares at any time after the surrender period.

Which Share Class Should You Choose?

The answer depends on how long you hold your fund(s). Over long periods, C shares produce lower returns because they have higher fees than A shares even though you pay no up-front commission with C shares. In the short term, A and B shares will return less than C shares. FINRA (the Financial Industry Regulatory Authority) offers tools for analyzing the effect of breakpoints and loads at www.finra.org.

Purchasing Mutual Funds Through Fee Based Accounts

Fee based accounts are assessed an annual fee, paid quarterly in advance, based on a percentage of the account's value. The mutual fund company does not assess any front-end or backend sales charge on the amount of mutual funds purchased within the fee based account. However, the fund company will charge annual operating expenses and may make additional charges such as Rule 12b-1 fees.