

Baird Private Asset Management

Wrap Fee Program Brochure

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This wrap fee program brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. Clients should carefully consider this information before becoming a client of PAM. If you have any questions about the contents of this Brochure, please contact PAM at the toll-free phone number listed above. The information contained in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Baird is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

Baird Private Asset Management ("PAM"), part of the Private Wealth Management department of Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A wrap fee program brochure (the "Brochure") on March 30, 2012. The following summary discusses the material changes that PAM has made to the Brochure since March 31, 2011, the date of the last annual update to the Brochure.

- PAM has added new investment options under the Baird ALIGN Programs. See the sections of the Brochure entitled "Services, Fees and Compensation" and "Portfolio Manager Selection and Evaluation" for more information.
- PAM has clarified that the discretionary authority granted to PAM or other investment managers under the client's advisory agreement includes the authority to: make investment and trading decisions for client accounts (including the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets); invest client accounts in Baird-affiliated products; and act in all matters necessary or incidental to the handling of client accounts as further described in the section of the Brochure entitled "Services, Fees and Compensation—Additional Program Information—Investment Discretion".
- PAM has updated information about the compensation that Baird or PAM may receive from third parties relating to client investments and the compensation Baird may pay to PAM for referring business to other departments of Baird. See the Brochure section entitled "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" for more information.
- Baird and PAM do not provide retirement account clients with recommendations or advice regarding the client's decision to retain investment managers that are affiliated with Baird, and Baird and PAM do not use their discretionary authority to retain investment managers that are affiliated with Baird to manage retirement accounts. See the section of the Brochure entitled "Additional Information—Special Considerations for Retirement Accounts" for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 31, 2011. The updated Brochure contains changes that are not listed above.

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Services, Fees and Compensation

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. Separate brochures describe other investment advisory services offered by Baird and discuss the agreements, fees and potential conflicts of interest for each service. If you would like to request a brochure for another investment advisory service provided by Baird, please contact a PAM representative or call Baird toll-free at 1-800-792-2473.

The information contained in this Brochure is current as of the date above and is subject to change at Baird's discretion. Please retain this Brochure for your records.

Baird Private Asset Management

This Brochure describes certain investment advisory programs and services that PAM offers to clients ("Services"). These Services primarily consist of: a PAM Recommended Managers Service; a PAM Investment Management Service; a Baird Advisory Choice Program; a Client Selected Managers Service; a Baird ALIGN Portfolios Program; and other consulting services, such as: assisting a client with the development of an investment policy statement or a search for an investment manager, providing performance reviews and performance monitoring. In certain instances, PAM may also provide clients with asset allocation and funding requirement analysis and asset liability modeling. The advisory services offered by PAM include investment advice and consulting services, performance reporting and related account services, and, depending upon the Service that a client selects, the Service may include portfolio management.

The Services may involve any combination of discretionary services, where a client provides Baird and/or PAM full discretionary authority to manage the client's account ("Discretionary Services"), non-discretionary services, where the client retains full authority with respect to management of the client's account ("Non-Discretionary Services"), and separately managed account ("SMA") services, where other investment managers manage the client's account according to a strategy (each, an "SMA Strategy") with full discretion and Baird and PAM provide additional

consulting services to the client (collectively "SMA Services").

Each Service is designed to address different investment needs of clients. All of the Services discussed in this Brochure may not be appropriate for every client. PAM clients typically work with a Baird Financial Advisor who has been approved by Baird to provide the Services (a "PAM Manager"). The client, with the assistance of a PAM Manager, determines the services that are most appropriate given the client's goals and circumstances. The client will provide financial, tax, and liquidity requirements information to their PAM Manager to assist in determining the client's investment needs, objectives and risk tolerances for the assets being invested.

PAM provides the Services described in this Brochure under a "wrap fee" arrangement. This means that in addition to the investment advisory services that PAM provides, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee.

The particular investment advisory services that PAM provides are further described below. Each Service may have different structures, administration, types and levels of service, or fees and expenses. Please review this Brochure carefully.

The Client-Baird Advisory Relationship

A client that wishes to participate in a Service will generally enter into a Private Asset Management advisory agreement with PAM. The client's advisory agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client, and other terms applicable to the client's advisory relationship with PAM.

In addition to the investment advisory services that PAM provides, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services. For this reason, a client will also enter into a client account agreement with Baird if the client has not already done so. The client account agreement is a brokerage agreement that authorizes Baird to execute trades and perform related services for the client's account.

The terms of a client's advisory agreement, client account agreement and this Brochure apply to all of the accounts that a client establishes with PAM, including any accounts that a client may open with PAM in the future. Some of the information in those documents may not apply to a client now, but may apply in the future if a client changes Services or establishes other advisory accounts with PAM. PAM will generally not provide a client another copy of the advisory agreement, client account agreement or this Brochure when a client changes Services or establishes new advisory accounts unless the client requests a copy from PAM. Therefore, a client should retain those documents for future reference as they contain important information if a client changes Services or establishes other advisory accounts with PAM.

PAM and Baird are deemed to have a fiduciary relationship with a client when providing the advisory services that are described in this Brochure.

From time to time PAM and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of PAM and Baird. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates (including PAM and its personnel) to follow that are designed to ensure that: (i) Baird and its advisory personnel comply with applicable fiduciary standards and act in the best interest of a client when providing investment advice; (ii) potential conflicts of interest are avoided or disclosed to a client; and (iii) PAM and Baird conduct their businesses in a manner that is consistent with the disclosures made.

PAM and Baird disclose potential conflicts of interest to a client by including relevant information in documents provided to the client, including, without limitation, this Brochure, brochure supplement(s) that contain information about individuals providing investment advice to the client, and the client's advisory agreement. The specific business practices that create potential conflicts of interest with clients and additional measures used by Baird to address those particular conflicts of interest are discussed in other sections of this Brochure.

Description of Advisory Services

PAM Recommended Managers Service. Under the PAM Recommended Managers Service, a client typically provides PAM with full discretionary authority to select investment managers to manage the client's accounts. A client also authorizes such investment managers to manage such accounts with full discretionary authority.

PAM determines the investment managers eligible to manage client accounts through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation" below. Most managers are unaffiliated with Baird but some may be affiliated with Baird or may be another investment management department of Baird, such as Baird Advisors or Baird Investment Management ("BIM").

PAM Recommended Managers may have varying investment objectives, styles and strategies. An investment manager's strategy may change in response to market conditions and may include investing in affiliated mutual funds of the investment manager.

PAM Recommended Managers may invest client accounts in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company shares (including investing in mutual funds or exchange traded funds affiliated with the investment manager), leveraged or inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the assets in a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts.

Notwithstanding the discretionary authority granted to PAM under this Service, PAM does not manage the account and does not otherwise have any influence over the other investment managers' investment decisions or securities selections to the extent the client's account is managed by another investment manager (except for reasonable restrictions as mentioned below

under "Investment Discretion"). However, PAM is available to a client on an ongoing basis to receive deposit and withdrawal instructions from the client or the client's authorized representative(s), and to convey any changes in the client's financial circumstances or investment objectives to the investment managers on the client's behalf.

From time to time, PAM may remove managers from the PAM Recommended Managers Service, and PAM will select a replacement manager to manage the client's account. A client who prefers to continue using an investment manager that has been removed from the PAM Recommended Managers Service, or who directs or otherwise requests that a particular manager not recommended by PAM be selected to manage the client's account, will generally need to enter into a separate advisory contract with that manager and a new arrangement with PAM. See "Client Selected Managers Service" below. Clients who elect to do so will no longer receive ongoing evaluation of that manager from PAM or Baird.

PAM Investment Management Service. Under the PAM Investment Management Service, a client grants full discretionary authority to PAM and the client's PAM Manager to manage one or more of the client's accounts. For example, for many clients PAM directly manages their fixed income investment account even if third-party investment managers are hired to manage equities and other assets.

A client's PAM Manager seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's PAM Manager. At the commencement of services, the client's PAM Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PAM Manager makes a subsequent recommendation to the client as to which investment style the PAM Manager believes is best suited for the client. A client makes the final decision as to which investment style is chosen for the client's account.

PAM will manage the client's account in accordance with the investment style that, in PAM's judgment, correlates with the information

the client provides to PAM. PAM will provide the client with more specific information as to how PAM will manage the client's account. For more information about this Service, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss" below.

PAM may make, or recommend investments be made, in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund, exchange traded fund ("ETFs") or other investment company shares, structured products, leveraged and inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the assets in a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds or deposited in interest-bearing bank accounts.

Additional Advisory Services

Baird Advisory Choice Program. The Baird Advisory Choice Program is a Non-Discretionary Program whereby PAM provides advice to a client in connection with the client's own management of the client's account.

PAM does not have discretionary authority over the assets in a client's Baird Advisory Choice account and cannot purchase or sell any securities or other investments in the client's Baird Advisory Choice account without the client's direction. A client makes the final decision as to selection of investments for the client's Baird Advisory Choice account.

The investment advisory services that may be available in the Baird Advisory Choice Program include research, analysis, consultation, advice and recommendations regarding various investment-related matters, such as financial and investment goals and needs, asset allocation strategies, investment policies and restrictions, methods for implementing investment strategies, trends and expectations regarding securities markets, economic sectors and industries, various types of securities and investments, and the purchase, holding and sale of specific securities. The specific services to be provided to a client will

be determined by mutual agreement between the client and PAM. Baird does not undertake to provide any investment advisory services other than those specifically sought by the client or individual securities recommendations made from time to time.

Baird will provide investment recommendations for a client's account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's account. Baird may recommend to a client securities, cash and/or other investments in accordance with the investment style that, in Baird's judgment, correlates with the information the client provides to Baird. Recommended investments may include, but are not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit ("CDs"), municipal securities, investment company, exchange traded, or mutual fund shares, private investment funds, hedge funds, mortgage and asset backed securities, collateralized mortgage obligations, structured CDs and notes, managed futures, United States government securities, and agency securities. Baird may also recommend that all or a portion of the client's Baird Advisory Choice account be held in cash or cash equivalents, including securities issued by money market mutual funds or deposited in interest-bearing bank accounts.

Important Information about Baird Advisory Choice Accounts. *A Baird Advisory Choice account provides a fee-based alternative to a traditional, commission-based brokerage account. Each client should determine whether a Baird Advisory Choice account is appropriate. In making this determination, a client should carefully consider all relevant factors, including the client's investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the account, anticipated use of other Baird products and services, and the costs and benefits of the account. A client should ask PAM questions about the investment styles, philosophies, strategies, analyses and techniques PAM will use in order to meet the client's objectives. The costs of a Baird Advisory Choice account may be more or less than in an account where the client is charged on a per-transaction basis. A Baird Advisory Choice*

account may not be appropriate for a client who anticipates little or no trading activity, and/or a client that has small balances in the account and does not receive or request investment advisory or other non-trading services from PAM or Baird. A Baird Advisory Choice account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. If a client's Baird Advisory Choice Account engages in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion), PAM or Baird may immediately, upon sending notice to the client, restrict the activity occurring in the client's account, terminate the account, convert the account to a commission-based account, or charge a higher fee at such rate as Baird, in its sole discretion, may elect. A client is responsible for monitoring the client's account and determining the desirability of maintaining the account as opposed to maintaining a traditional, commission-based brokerage account. A client should periodically reevaluate whether the ongoing use of this Non-Discretionary, advisory program is desired and request a PAM Manager to explain the benefits and disadvantages of maintaining a Baird Advisory Choice account and the availability of alternative arrangements.

In addition to Baird Advisory Choice accounts, Baird offers various other advisory programs in which it has investment discretion. Baird also offers traditional, commission-based brokerage accounts. A client may terminate a Baird Advisory Choice account and convert it into a traditional, commission-based brokerage account at any time by contacting PAM. PAM and Baird also have the right, at any time upon notice to a client, to terminate a client's Baird Advisory Choice account and convert it into commission-based brokerage account.

Client Selected Managers Service. The Client Selected Managers Service is a service a client may elect under the Baird Advisory Choice Program whereby a client independently selects a third party investment manager to manage the client's account with full discretionary authority according to a strategy (a "CSM Strategy") selected by the client. This Service is designed to accommodate a client who wishes to independently select a third party investment

manager to manage the assets in the client's account with full discretion.

Under the Client Selected Managers Service, Baird determines the investment managers eligible to participate in the Service (each, a "CSM Eligible Manager"). Baird has engaged an overlay investment management firm (the "CSM Overlay Manager") to provide certain subadvisory services in connection with this Service. Depending upon the CSM Strategy selected by a client, a CSM Eligible Manager may either directly manage the client's account with full discretionary authority (a "Manager-Traded Strategy"), or the CSM Eligible Manager may provide a model portfolio to the CSM Overlay Manager, and the CSM Overlay Manager will manage the client's account with full discretionary authority (a "Model-Traded Strategy").

Once the client has selected a CSM Strategy, the client authorizes and directs PAM and Baird to appoint the CSM Overlay Manager to serve as sub-adviser to the client's account. If the client has selected a Model-Traded Strategy, the client authorizes and directs the CSM Overlay Manager to manage the client's account with full discretionary authority in accordance with the CSM Strategy selected by the client. If the client has selected a Manager-Traded Strategy, the client authorizes and directs the CSM Overlay Manager to appoint the applicable CSM Eligible Manager as sub-adviser, and the client also authorizes and directs such CSM Eligible Manager to manage the client's account with full discretionary authority in accordance with the CSM Strategy selected by the client.

If a client selects a Model-Traded Strategy, at the CSM Overlay Manager's discretion, the CSM Overlay Manager will implement the model strategy as proposed by the CSM Eligible Manager. However, the CSM Overlay Manager may implement the model strategy differently than proposed by the CSM Eligible Manager if the CSM Overlay Manager determines such action to be necessary and in the client's best interest.

Baird may, in its discretion, permit a client to select a manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such manager in addition to the advisory agreement the client enters into with PAM. This arrangement is

commonly referred to as a "dual contract" arrangement.

The third party investment manager selected by a client under the Client Selected Managers Service (which may include the CSM Overlay Manager) will have full discretionary authority to manage the client's account. Third party investment managers may have varying investment objectives, styles and strategies. A third party investment manager selected by a client may invest the client's account in various types of securities, which will be chosen by the third party investment manager. All or a portion of a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds, or in an insured bank deposit account. A client should obtain the third party investment manager's brochure for more information.

Under the Client Selected Managers Service, PAM and Baird do not manage the account and they do not otherwise have any influence over the third party investment manager's investment decisions or securities selections. Baird also does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's account. PAM provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment policies and restrictions, and periodically reviewing the positions and transactions made in the client's account, third party investment manager performance and other characteristics. The client's PAM Manager may also provide his or her own advice and recommendations about the manager. The specific services to be provided to each client will be determined by mutual agreement of the client and the client's PAM Manager. PAM and Baird do not undertake to provide any investment advisory services other than those specifically requested by a client and agreed to by PAM.

A client's appointment and continued retention of a third party investment manager to manage the client's account is based solely upon the client's independent review of such third party investment manager and such manager's services. Once retained by the client, a third party investment manager will only be removed from managing the client's account upon the

client's direction to do so. However, the CSM Strategies and CSM Eligible Managers made available under this Service are subject to change at any time in Baird's or the CSM Overlay Manager's discretion. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers" below for more information.

Under certain circumstances, a client may provide PAM, and PAM may accept, full discretionary authority to select investment managers to manage the client's CSM accounts as described above under "PAM Recommended Managers Service". Any such arrangement will be set forth in the client's advisory agreement.

ALIGN Portfolios

ALIGN Custom Portfolios Program. The ALIGN Custom Portfolios Program is a Non-Discretionary Program whereby PAM and Baird manage a client's account on a non-discretionary basis according to a custom model asset allocation strategy determined by the client with the assistance of Baird and the client's PAM Manager (an "ALIGN Custom Portfolio"). An ALIGN Custom Portfolio provides a client with a customized level of investment across different asset classes using mutual funds and/or ETFs. To implement the asset allocation, a client selects the investments for the account from among those mutual funds and ETFs that Baird has determined are eligible for use in the Program. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—ALIGN Programs" below.

A client's PAM Manager often provides the client with a proposal that identifies the model asset allocation and the underlying mutual funds and ETFs that may be appropriate for the client's account.

While a client retains discretionary authority and management over the client's ALIGN Custom Portfolios Program account, a client participating in the ALIGN Custom Portfolios Program gives PAM and Baird the authority to replace investments in a client's account, rebalance a client's account assets to be consistent with the client's chosen ALIGN Custom Portfolio strategy, or engage in tax management strategies in certain circumstances. See "Additional Program

Information—Special Considerations for ALIGN Clients" below for more information.

ALIGN Dynamic Portfolios Program. Under the ALIGN Dynamic Portfolios Program, PAM and Baird manage a client's account with full discretionary authority according to a proprietary model strategic and tactical asset allocation strategy developed by Baird (each such model an "ALIGN Dynamic Portfolio") that is selected by the client. Each ALIGN Dynamic Portfolio provides for specific levels of investment across different asset classes and uses mutual funds and ETFs in order to implement the model asset allocation. Each ALIGN Dynamic Portfolio consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed below.

ALIGN Strategic Portfolios. Under the ALIGN Strategic Portfolios Program, Baird and PAM manage a client's account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model an "ALIGN Strategic Portfolio") that is selected by the client. Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes and uses mutual funds and/or ETFs in order to implement the model asset allocation. Each ALIGN Strategic Portfolio may consist of numerous mutual fund and/or ETF holdings. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss" below.

Typically, a client selects the ALIGN Strategic Portfolio appropriate for the client's account with the assistance of the client's PAM Manager. A client's PAM Manager often provides the client with a proposal that identifies the model asset allocation and the underlying mutual funds and ETFs appropriate for the client's account.

Baird constructs each ALIGN Strategic Portfolio and adjusts the asset allocation of each ALIGN Strategic Portfolio from time to time. Baird also determines the mutual funds and ETFs that are available in the ALIGN Strategic Portfolios Program, including the percentage each mutual fund or ETF comprises in each asset class within an ALIGN Strategic Portfolio. Baird may make any such changes to an ALIGN Strategic Portfolio from

time to time as it deems appropriate and without client notice or approval.

Baird may replace investments in a client's account, rebalance a client's account assets to be consistent with the client's chosen ALIGN Strategic Portfolio, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN Clients" below for more information.

Important Information about Affiliated Products. *Some of the mutual funds offered by the Baird Funds, Inc. ("Baird Funds"), which is affiliated with Baird, have been selected by Baird for inclusion in certain ALIGN Strategic Portfolios. This presents a conflict of interest. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

ALIGN Tactical Portfolios. Under the ALIGN Tactical Portfolios Program, PAM and Baird manage a client's account with full discretionary authority according to a proprietary model tactical asset allocation strategy developed by Baird (each such model an "ALIGN Tactical Portfolio") that is selected by the client. Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes and uses ETFs in order to implement the model asset allocation. *ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive allocation strategies, with the use of tactical decisions involving the overweighting of certain asset classes. ALIGN Tactical Portfolios are not intended to be a complete investment program. The ALIGN Tactical Portfolios are actively managed and thus experience relatively high portfolio turnover. Because of this turnover, the portfolio may generate significant taxable gains and income.* For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—ALIGN Programs" below.

Typically, a client selects the ALIGN Tactical Portfolio appropriate for the client's account with the assistance of the client's PAM Manager. A client's PAM Manager often provides the client with a proposal that identifies the model asset

allocation and the underlying ETFs appropriate for the client's account.

Baird constructs each ALIGN Tactical Portfolio and adjusts the asset allocation of each ALIGN Tactical Portfolio from time to time. Baird also determines the ETFs that are available in the ALIGN Tactical Portfolios Program, including the percentage each ETF comprises in each asset class within an ALIGN Tactical Portfolio. Baird may make any such changes to an ALIGN Tactical Portfolio from time to time as it deems appropriate and without client notice or approval.

Baird continuously rebalances a client's account assets to be consistent with the client's chosen ALIGN Tactical Portfolio strategy, and Baird may replace investments in a client's account, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN Clients" below for more information.

Additional Consultant Services. PAM offers the following additional consultant services.

Investment Policy Statement. PAM will assist a client in preparing an Investment Policy Statement reflecting the client's investment objectives, policies, constraints, and risk profile. The Investment Policy Statement is designed to provide guidance to the client's investment manager(s). The Investment Policy Statement is a product of information and data provided by the client; therefore, the client is responsible for review and final approval of the Investment Policy Statement. The client is solely responsible for determining whether the Investment Policy Statement accurately reflects the client's investment objectives, policies, constraints, and risk profile.

Asset Allocation Report. PAM provides to a client or its fiduciaries an Asset Allocation Report which identifies one or more investment portfolios for the client (in terms of risk and return) based on certain information requested by PAM and provided by the client. The client is solely responsible for determining whether the information taken into account by PAM in formulating an Asset Allocation Report is accurate and complete.

Investment Manager Search Report. PAM provides to a client an Investment Manager Search Report that lists investment managers with investment philosophies and investment policies believed to be consistent with the client's investment objectives, policies, constraints, and risk profile, as specified by the client to PAM. PAM does not assume responsibility for the client's choice of any investment manager or for any investment manager's performance when providing this service to the client, nor is PAM responsible for an unaffiliated investment manager's compliance with applicable law or for matters beyond PAM's reasonable control.

Investment Manager Search Interviews. PAM coordinates client interviews with a select number of investment managers listed on the Investment Manager Search Report. The interviews enable the client to gain additional information regarding such investment managers' respective investment philosophies, policies and business operations.

Past Performance Reviews. PAM provides to a client a Past Performance Review which, based on information supplied by the client, includes the historical performance of the client's portfolios and compares various aspects of such performance to one or more benchmark indices. Account data will be derived from information provided by the client or its agent(s) for the agreed upon time period. PAM is not responsible for verifying information supplied by the client or its agent(s).

Performance Monitoring Reports. PAM will periodically provide to a client written Performance Monitoring Reports which include calculations of the performance of the client's account(s) over various time periods and compare various aspects of such performance to one or more benchmark indices.

PAM offers the following consulting services to clients only in special arrangements:

Annual Asset Allocation and Funding Requirements. Annually, PAM evaluates the adequacy of the client's current and target asset allocation to meet projected liabilities. The client provides actuarial data that PAM relies upon as accurate and complete. PAM's analysis assesses the long term funding risks associated with the client's current asset allocation, and if necessary, PAM recommends a rebalancing plan which

supports the transition to, and maintenance of, the client's target asset allocation.

Asset Liability Modeling. As a client's actuarial inputs, economic situations, and/or liabilities change, the client's current asset allocation should be altered. PAM provides a liability model to help the client determine the appropriate time to alter the asset mix, as well as the proper assets to draw down in the proper sequence. Actuarial assumptions used to forecast the size of the future liability stream are provided by the client or the client's agent, and PAM relies upon such information as accurate and complete. As the client's liabilities come due, the client works with PAM to determine the order and amount of each segment of the portfolio(s) to withdraw from in order to minimize transition costs. This service is typically performed annually.

Annual Annuity Modeling. Annually, PAM recommends changes to the client's asset/liability projection model. PAM assists the client model projected liabilities under various assumptions to project appropriate annual contribution requirements given changes in liability projections, actuarial assumptions, the current level of assets held and the current expected asset growth assumptions. PAM maintains and refines the calculation models.

Additional Service Information

Investment Discretion. A client retains complete trading authorization over assets in a Non-Discretionary Service account, and PAM will only execute transactions for such account pursuant to the client's instruction or authorization.

If a client participates in a Discretionary Service, the client's advisory agreement authorizes PAM to manage the client's account in accordance with the terms of the Service selected by the client and authorizes PAM to make investment decisions for the client's account, with the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's account, subject to the client's portfolio strategy. The client's advisory agreement also grants to PAM complete and unlimited trading authorization and appoints PAM as agent and attorney-in-fact with respect to the client's accounts and all related trading and other

decisions. Pursuant to such authorization, PAM may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the client's account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's account without prior notice to the client. Orders for the purchase and sale of securities in a client's account will generally be executed by Baird, in its capacity as broker-dealer, unless the client has provided other instructions to Baird in writing.

If a client participates in a Discretionary Service, a client also authorizes and empowers PAM, with full discretionary authority, to recommend, select and retain investment managers for the client's account and to terminate or replace investment managers for the client's account for any reason without prior notice to the client. If PAM terminates an investment manager from management of a client's account, a client authorizes PAM to invest, with full discretion, the assets in the client's account previously managed by the terminated investment manager in other securities, including, but not limited to, mutual funds and ETFs. PAM's discretionary authority to make such other investments will continue until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets.

If a client participates in an SMA Service, the client authorizes those investment managers selected for the client's account to manage the assets in the client's account and grants to such investment managers the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's accounts, subject to the client's portfolio strategy. The client also grants to such investment managers complete and unlimited trading authorization and appoints each of them as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, such investment managers may, in their sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the accounts, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling

of the accounts without prior notice to the client. PAM does not have discretion over the assets in a client's account that is managed by a third party investment manager and cannot purchase or sell any securities or other investments in that account without the consent of the client or the client's investment manager. The investment manager for a client's account generally will initiate securities transactions through Baird, in its capacity as broker-dealer, subject to the manager's duty to achieve best execution, unless a client has provided other instructions in writing. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage the client's account.

Such trading authorizations, whether granted to PAM or a third party investment manager, shall remain in full force and effect until terminated by the client or PAM.

The Discretionary and SMA Services offer clients the ability to impose reasonable investment restrictions on the management of their accounts, including the designation of particular securities or types of securities that should not be purchased for the client's account, but a client may not require that particular funds or securities (or types) be purchased for the client's account. Reasonable investment restrictions requested by a client will apply only to those assets over which PAM or a client's investment manager has discretion.

In the event that a client's account is restricted from investing in certain securities, PAM or the client's investment manager will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's account, a client's investment restrictions may force PAM or the client's investment manager to sell such security at an inopportune time, possibly negatively impacting account performance and/or causing a taxable event to the client. A client should also be aware that, if the client's account holds any pooled investment vehicles (such as mutual funds or ETFs), any investment restrictions the client places on the client's account may not flow through to the securities owned by those pooled investment vehicles.

PAM may use the discretionary authority granted to it by a client to invest the client's accounts in mutual funds that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide to the mutual funds. In addition, if the client participates in cash sweep services provided by Baird, short-term cash balances in the client's account may be invested in one or more money market mutual funds and individual deposit accounts, whether advised by Baird, its affiliates, or a third party. Baird and its affiliates may receive fees or other compensation related to such cash balance investments made by the client.

By signing an agreement with PAM, a client consents to PAM investing all or a portion of the client's account in mutual funds or deposit accounts with banks that pay advisory or other fees to Baird or its affiliates ("Baird-affiliated investment products"). The amount of fees received by Baird and/or its affiliates is described in this Brochure in the section entitled "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" below and/or the prospectus or other offering documents for the investment product. PAM will use its discretionary authority to invest the client's account in Baird-affiliated investment products when PAM determines it to be in the client's best interest to do so. The criteria used by PAM in deciding to invest in Baird-affiliated investment products are the same as those used in deciding to invest a client's assets in unaffiliated investment products. A client's consent may be revoked at any time.

Special Considerations for ALIGN Clients

Replacement of Investment Options. Baird solely determines the investment options made available to clients under the ALIGN Programs. From time to time, Baird may remove mutual funds or ETFs from an ALIGN Program and replace them with other mutual funds or ETFs. A client participating in an ALIGN Program authorizes Baird to replace any such investments in the client's account whenever Baird removes the investment option from an ALIGN Program. Baird may make such replacement in a client's account without prior notice or consent.

Tax Management. Clients participating in the ALIGN Strategic or Tactical Portfolios Programs

grant Baird the discretion to sell their mutual fund investments from time to time and invest the proceeds temporarily in comparable ETFs, exchange traded notes ("ETNs"), or similar securities in order to avoid the recognition of capital gain distributions to be made by those funds and/or to recognize taxable losses. Baird may provide this service to clients participating in the ALIGN Custom Portfolios Program if the client directs Baird to do so on the client's behalf.

Asset Allocation Changes and Rebalancing.

Under the ALIGN Programs, Baird may rebalance a client's account assets to be consistent with the client's chosen asset allocation strategy at any time without prior client notice if Baird determines there has been drift from the client's chosen model allocation. A client's account may also be rebalanced if a client's cash deposits or withdrawals take the client's account significantly out of balance relative to the model allocation or if actions are taken to avoid recognition of capital gain distributions and/or to recognize taxable losses.

Generally, a client's account in an ALIGN Custom, Dynamic, or Strategic Portfolio is automatically rebalanced when the targeted allocation for a particular asset class drifts by 5 percentage points or more. A client's PAM Manager has the discretion to rebalance the client's account invested in an ALIGN Custom, Dynamic, or Strategic Portfolio at such other times as the PAM Manager may determine, such as annually or when an asset class allocation drifts by more than 2.5 percentage points. Generally, a client's account invested in an ALIGN Tactical Portfolio is automatically rebalanced whenever Baird changes the asset allocation of the model ALIGN Tactical Portfolio.

With respect to the ALIGN Dynamic, Strategic, and Tactical Portfolios Programs, Baird may also change a client's asset allocation for any reason which may include, but shall not be limited to, changes in market conditions, Baird's opinion on the future performance of particular asset classes or the client's financial circumstances.

Any rebalance of a client's account or other change in asset allocation may result in taxable gains.

Eligible Investments. A client's account may generally only hold investment products that Baird has determined are eligible for the Service the client selected. Eligible investment products vary by Service.

Eligible investments for client accounts, depending upon the Service, generally include: common stocks, preferred stocks, convertible preferred stocks, convertible bonds, ETFs, closed-end funds, American Depositary Receipts ("ADRs"), rights or warrants on equity securities, written covered call and written cash secured put equity options, publicly traded master limited partnership, real estate investment trusts ("REITs"), and limited liability company units; fixed-income securities, including but not limited to U.S. Treasury and federal agency securities, corporate bonds, ETNs, municipal bonds, asset-backed and mortgage-backed securities, certificates of deposit (primary or secondary), money market fund shares, cash and cash equivalents; no-load or load-waived mutual funds, mutual funds purchased through Baird in which the client was charged a front-end sales load or commission at least 24 months prior to their being an eligible asset, annuities, and interests in unit investment trusts that have cost structures designed for use in fee-based investment programs; and certain other alternative investment products approved by Baird for use in connection with the Services such as: hedge funds, fund of hedge funds, private equity and venture capital funds, managed futures; leveraged and inverse funds and other special situation mutual funds; structured CDs and notes ("structured products"); and exchange funds (collectively, "alternative investments").

Assets that are ineligible for those Services, depending upon the Service, generally include, but are not limited to: unit investment trusts with a sales load; mutual funds that charge a back-end or level load (commonly referred to as B and C shares, respectively); variable annuities charging a sales load; certain limited partnerships or limited liability companies (other than publicly traded master limited partnerships and limited liability companies), such as hedge funds, private equity funds and other private investment funds not approved by Baird; insurance products; commodities, futures or options on commodities, and commodity pools; and real estate.

PAM or Baird may change the list of eligible and ineligible investments at any time in their discretion.

Under certain circumstances, Baird and PAM, in their sole discretion, may accept a client request to place an ineligible investment into a client's account. In most cases, an ineligible investment is an "unsupervised" asset, meaning that Baird and PAM do not manage or provide advice regarding such asset. Baird and PAM, in their sole discretion, may also designate an asset that is otherwise eligible for PAM accounts as "unsupervised" under certain circumstances, such as when a client continues to hold an asset against Baird's or PAM's recommendation. If a client holds an unsupervised asset in client's account, the client does so with the understanding that the unsupervised asset may not be included in account statements or performance reports provided to the client and that Baird and PAM do not manage or provide advice regarding any unsupervised asset, even if the unsupervised asset is included in account statements or performance reports provided to the client. A client should consult the client's PAM representative for further information.

PAM and Baird do not determine the eligibility of investment products under the SMA Services. Investment products under the SMA Services are selected solely by the investment manager providing services to the client. A client should review the investment manager's brochure for more information.

Custody and Trade Execution Services. The Services generally require clients to custody their account assets at Baird. However, PAM in its sole discretion may accept certain clients whose assets are custodied with other financial institutions that are acceptable to Baird. A client who uses a custodian other than Baird will pay a custody fee in addition to PAM's fee and may not receive performance review or reporting from Baird or PAM.

A client who uses a third party custodian authorizes PAM to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's account. Also, the client will receive account statements directly from their selected custodian. Clients should

carefully review those account statements and compare them with any account statements provided by Baird.

If Baird is the custodian of a client's assets, Baird will provide certain custody services, which shall include holding securities in nominee or "street" name, crediting interest and dividends received on securities held in a client's account, and crediting principal on called or matured securities. "Street" name refers to securities and assets being registered in Baird's name or in a name that Baird designates, rather than in a client's name directly. A client may obtain information about Baird by contacting Baird or at www.rwbaird.com. Baird's headquarters are located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, and its main telephone number is 414-765-3500.

If Baird provides execution services to a client, Baird will arrange for delivery and payment in connection with the execution services rendered to a client, and the client authorizes Baird to act on the client's behalf in all other matters necessary or incidental to the handling of the client's account.

Baird, as a broker-dealer, is subject to the provisions of Section 11(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 11a2-2(T) thereunder. Therefore, some transactions effected by Baird for certain clients on a national or regional securities exchange must be executed through a floor broker unaffiliated with Baird.

In connection with transactions effected for a client's account, Baird may establish and trade in Baird's or the client's name with members of national or regional securities exchanges and the Financial Industry Regulatory Authority ("FINRA"), including "omnibus" accounts established for the purpose of combining orders for more than one client.

Updating Client Information. A client is responsible for providing information to PAM and any third party investment managers managing client's account reasonably requested by them in order to provide the services selected by the client. PAM and third party investment managers will rely on this information when providing services to the client. A client is also responsible

for promptly informing PAM and any third party investment managers managing client's account of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. None of Baird, PAM, or any third party investment manager is responsible for any adverse consequence arising out of the client's failure to promptly inform PAM or the third party investment manager of any such changes.

Tax Considerations. The investment strategies used for a client's account and transactions in a client's account, including liquidations, redemptions, and rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. PAM does not provide any tax advice in connection with any of the Services. A client should discuss the potential tax implications of the client's investment strategies and transactions with the client's tax advisor. If a client wishes for PAM to implement a particular investment strategy for tax purposes, and PAM agrees to implement such strategy, neither PAM nor Baird will be responsible for the development, evaluation or efficacy of any such strategy.

Advisory Fee

Fee Options and Fee Schedules

A client's advisory agreement will set forth the actual compensation the client will pay for PAM's services. In most instances, a client pays an ongoing fee based upon the value of assets in the client's account (an "asset-based fee"), although other options may be available. PAM fee options available include a Flat Fee, a Breakpoint Fee, or a combination of both options.

Breakpoint Fee. Under a breakpoint fee arrangement, the asset-based fee is determined by reference to the market value of the client's account assets, with the fee rate being lower for accounts with higher levels of assets. The breakpoint fee, once determined, is then applied to all of the assets in the client's account.

The typical asset-based fee varies depending upon the Service and the fee option selected by the client. Fee options and rates may also differ among different accounts held by the same client, depending on the services selected for a given account. The breakpoint fee schedules and

minimum account sizes that apply to each Service are shown below.

PAM Recommended Managers Service. The following fee schedule sets forth the maximum fee rates for the PAM Recommended Managers Service. *The asset-based fee shown below does not include the advisory fees payable to the investment managers managing a client's account.*

Fee Schedule
PAM Recommended Managers Service

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
Up to \$5,000,000	1.05%
\$5,000,001 – \$10,000,000	0.85%
\$10,000,001 – \$20,000,000	0.80%
\$20,000,001 – \$30,000,000	0.70%
\$30,000,001 – \$50,000,000	0.55%
\$50,000,001 – \$100,000,000	0.45%
Over \$100,000,000	Negotiable

Each investment manager may have different minimum account size requirements, which can range from \$200,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts. A client account may be assessed a minimum quarterly fee regardless of the value of the assets in the client's account. Any minimum fee will be set forth in the client's advisory agreement.

PAM Investment Management Service. The following fee schedule sets forth the maximum fee rates for the PAM Investment Management Service.

Fee Schedule
PAM Investment Management Service

<u>Value of Assets</u>	<u>Equity and Balanced</u>	<u>Fixed Income</u>
	<u>Annual Fee Rate</u>	<u>Annual Fee Rate</u>
\$100,000 to \$499,999	3.00%	1.25%
\$500,000 to \$999,999	2.50%	1.25%

Fee Schedule
PAM Investment Management Service

<u>Value of Assets</u>	<u>Equity and Balanced</u>	<u>Fixed Income</u>
	<u>Annual Fee Rate</u>	<u>Annual Fee Rate</u>
Over \$1,000,000	2.00%	1.00%

The minimum asset value to open an account in the PAM Investment Management Service is typically \$100,000. The minimum annual fee is generally \$3,000 for equity or balanced accounts and \$1,250 for fixed income accounts.

Additional Advisory Services. The following fee schedule sets forth the maximum fee rates for other advisory services provided by PAM, including Client Selected Managers, Baird Advisory Choice, and ALIGN Portfolios.

Fee Schedule
Additional Advisory Services

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
\$0 to \$249,999	3.00%
\$250,000 to \$499,999	2.50%
\$500,000 to \$999,999	2.25%
\$1,000,000 to \$1,999,999	2.00%
\$2,000,000 to \$4,999,999	1.75%
\$5,000,000 and above	1.50%

The minimum asset value to open an account in those additional advisory services is set forth in the table below.

Additional Advisory Services
Account Minimums

<u>Program</u>	<u>Asset Level</u>
ALIGN Portfolios	\$50,000*
Baird Advisory Choice	\$25,000
Client Selected Managers	\$100,000

* An ALIGN Dynamic Portfolio has a minimum account requirement of \$150,000. All other ALIGN Portfolios have a minimum of \$50,000.

A client account may also be subject to a minimum quarterly fee regardless of the value of the assets in the client's account. Such minimum will be set forth in the client's advisory agreement.

Flat Fee. Under the flat fee arrangement, the flat fee will be an agreed upon amount billed at least annually. Specific services may each have their own, separately stated flat fee, or several services may be grouped together under a single fee. Some services may entail a flat fee per usage. The details of the fee amounts, the billing schedule, and the services covered will be included in the client's advisory agreement.

Additional Consulting Services. The following fee schedule sets forth the maximum fee rates for other consulting services provided by PAM.

Fee Schedule
Additional Consulting Service

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
Up to \$10 million	0.50%
\$10 million - \$25 million	0.45%
\$25,000,001 - 50 million	0.35%
Above \$50 million	Negotiable

Calculation of Fees. Baird will calculate PAM's fee by applying the applicable fee rate to the value of all of the assets in the client's account, including cash or its equivalent.

If requested by a client and approved by Baird, PAM's fee may be determined by also including the aggregate value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. The terms of any such household fee arrangement will be set forth in the client's advisory agreement.

The value of a client's assets is generally determined by Baird. Baird determines the value of the assets in the client's account by obtaining prices from third party quotation sources. If the

assets in the client's account are held by a custodian other than Baird, Baird relies on valuation information provided by the client's third party custodian in determining the value of the assets in the client's account. Neither PAM nor Baird conducts an in-depth review of valuation information provided by third party quotation services or custodians, and they do not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

PAM's fees are payable on a calendar quarterly basis, in advance, in accordance with the terms of the client's advisory agreement. The initial billing period begins when the client's advisory agreement is signed by the client and accepted by Baird (the "Opening Date"). The initial fee payment will be adjusted for the number of days remaining in the then current quarter. The initial fee will be based on the value of assets deposited in the client's account. The period which such payment covers shall run from the Opening Date through the last business day of the then current calendar quarterly billing period. Thereafter, the quarterly fees shall be calculated based upon the account's asset value on the last business day of the prior calendar quarter and shall become payable on the first business day of the then current calendar quarter.

PAM's fees and charges will be automatically deducted from the client's account, unless the client elects, and PAM and Baird agree, to send to the client an invoice ("direct billing"). Direct billing may not be available for retirement plan accounts or other accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or individual retirement accounts ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"). If a client's account is subject to direct billing, the client is required to pay each bill within thirty (30) days of the date of the invoice. PAM or Baird may automatically debit a client's account for the fees and other charges in the event that PAM does not receive payment from the client within thirty (30) days of the invoice.

PAM or Baird may rescind a direct billing arrangement with a client at any time.

PAM or Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with thirty (30) days' prior written notice.

If either PAM or the client terminates the client's advisory agreement or a client's participation in a Service, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's account. PAM makes no fee adjustment during any fee period for asset value appreciation or depreciation in a client's account during a billing period. However, PAM, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's account occurring during a billing period that result from contributions to, or withdrawals from, the client's account.

Depending upon the Service selected, clients may use margin (borrowing money to buy securities). Whether a client maintains a balance in the client's margin account with Baird has no bearing on the asset-based fees charged on client's account. In other words, the margin balance (i.e., the outstanding amounts a client owes to Baird) in any of the client's accounts will not be applied to reduce the client's billable account value in calculating PAM's fee. For purposes of determining the asset-based fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based fee on options, the absolute value of the current market price of the option will be used.

Each Service may have a minimum asset value in order to open an account, and a minimum fee may be assessed against a client's account as further described under "Service Fees—Fee Schedules" above. The minimum fee will be described in the client's advisory agreement. PAM may waive the minimum fee at its discretion. The minimum fee is subject to change upon notice to the client.

PAM's fee and minimum account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's account, the client's particular investment style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedules above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

In certain circumstances, PAM makes other compensation options available to eligible clients besides asset-based fees, such as a fixed dollar amount.

The fee schedules set forth above are the current fee schedules for the Services. Each Service has had other fee schedules in effect, which may reflect fees that are lower or higher, as the case may be, than those shown above. As new fee schedules are put into effect, they are made applicable only to new clients, and fee schedules applicable to existing clients are not affected. Therefore, some clients may pay different fees than those shown above.

Additional Fee Information. A client's participation in the services provided by PAM and Baird could cost the client more or less than if the client purchased each individual service separately. A number of factors bear upon the relative cost of PAM's and Baird's services, such as the cost of services if they were provided separately, the trading activity in a client's account, the size of a client's account, and the investment strategies and the nature and level of service sought by a client.

Payment to Portfolio Managers. With respect to the PAM Recommended Managers and Client Selected Managers Services under a dual contract arrangement, PAM does not typically pay a portion of PAM's fee to the client's investment manager as compensation for the manager's services. The investment manager's fee is paid directly by clients. The range of fees paid by PAM clients to investment managers pursuing equity and balanced investment styles or strategies is generally 0.45% to 0.75%. The range of Service fees paid by PAM clients to investment managers

pursuing a fixed income investment style or strategy is generally 0.20% to 0.35%.

With respect to the CSM Overlay Manager and CSM Eligible Managers under the Client Selected Managers Service, Baird pays a portion of PAM's fee to the client's investment manager as compensation for the manager's services. The amount of PAM's fee paid to a particular investment manager varies based upon, among other factors, the investment strategy and other services sought by a client, the manager's investment style or strategy, the level of services provided by the manager, and the size of a client's account. The portion of Service fees paid to investment managers providing equity and balanced investment styles or strategies may range from 0.45% to over 1.00%. The portion of Service fees paid to investment managers providing a fixed income investment style or strategy may range from 0.25% to over 0.50%. As the portion of PAM's fee paid to an investment manager increases, the portion of the Program fee that is retained by Baird and paid to PAM Managers decreases. Thus, Baird and PAM Managers may have an incentive to recommend or favor investment managers that are paid less under the Client Selected Managers Service, because they will receive a higher portion of PAM's fee. In addition, Baird may have an incentive to favor investment managers affiliated with Baird over other investment managers because the entire Service fee is retained by Baird, PAM and affiliated investment managers.

PAM Managers are compensated based upon their total production level at Baird, which takes into account all of the fees and commissions paid by clients for which they are responsible. Thus, although PAM Managers do not receive any portion of PAM's fee for providing portfolio management under the PAM Investment Management Service, their compensation is directly related to the size of PAM's fee that a client pays to Baird. The compensation paid to a PAM Manager for providing portfolio management services in connection with the PAM Investment Management Service may, therefore, be higher than the compensation paid to the PAM Manager who recommends that other investment managers manage a client's account. As a result, a PAM Manager may have a financial incentive to recommend the PAM Investment Management Service over other Services. From time to time, Baird Financial Advisors outside of PAM may refer

their clients to PAM Managers. In those instances, the PAM Manager shares a portion of his or her compensation with the referring Baird Financial Advisor.

Other Fees and Expenses

In addition to PAM's fee described above, a client may incur other fees and expenses. A client bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with purchases and sales of certain securities (such as securities traded over-the-counter and fixed-income securities) because such costs are inherently reflected in the price the client pays or receives for such securities. A client is also responsible for fees and expenses resulting from certain odd-lot differential, Securities and Exchange Commission ("SEC") and exchange fees, electronic fund and wire transfer fees, margin interest, transfer taxes, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation.

A client's account may, from time to time, be invested in bank deposit accounts, money market funds, mutual funds, exchange traded funds and other registered investment companies, hedge funds, private investment partnerships, and other investment pools (including such funds and other products affiliated with Baird). These types of funds have their own fees and expenses that are borne either directly or indirectly by their shareholders or unit holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, shareholder servicing fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing fund expenses"). These ongoing fund expenses are separate from, and in addition to, PAM's fees. As a result of making investments in these types of funds, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of the client's assets so invested—the ongoing fund expenses and PAM's fee. A client is also responsible for any redemption fees that a fund may impose on the client for frequent trading in the fund's securities. A client should review the prospectus and statement of additional

information (or other applicable offering documents) for each fund in which the client invests for further information.

In addition to PAM's fee, a client will be responsible for paying the fees charged by each other investment manager managing the client's account.

Clients who use a custodian other than Baird will pay the custodian's fees and expenses in addition to PAM's fee.

PAM's fee only covers the costs of trades executed by Baird, as broker-dealer. A client may be assessed other trading costs in addition to PAM's fee if client trades are executed through another firm. For example, a third party investment manager managing a client's account may direct a transaction to another broker-dealer if the third party investment manager decides that its best execution obligations so require. Under that circumstance, a client may be assessed other trading costs in addition to PAM's fee.

If a client is allowed to buy or sell an ineligible asset in the client's account, the client may be charged a commission in connection with the purchase or sale. The cash proceeds from the sale of an ineligible asset that remain in a client's account are considered eligible assets subject to the asset-based fee. If an ineligible asset is purchased during a quarterly billing period, that asset will not be included for purposes of determining the asset-based fee beginning at the start of the next quarterly billing period, and no portion of the asset-based fee paid by a client in advance for the quarter during which the ineligible asset is purchased is refunded or rebated to the client. Additionally, Baird may, upon notice to clients, impose a set-up fee and/or an annual maintenance or administrative fee on ineligible assets maintained in an account.

Clients who have accounts managed by PAM may also have other accounts with Baird that are not managed by PAM. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the services provided by PAM.

Other Compensation Received by Baird and PAM

The individual who recommends a Service to a client, including a PAM Manager, receives compensation from Baird that is based upon the amount of PAM's fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory services or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Service over other programs or services offered by Baird. The compensation paid to PAM Managers may also provide them with a financial incentive against trading frequently for Baird Advisory Choice accounts. However, when providing investment advisory services to clients, Baird and PAM are fiduciaries and are required to act solely in the best interest of clients. For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest they create, please see the sections "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

Account Requirements and Types of Clients

PAM offers the Services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities. Applicable requirements for opening or maintaining an account in connection with each Service, such as minimum account size, are discussed in the applicable Service fee section set forth in the section entitled "Service, Fees and Compensation—Service Fees" above.

Portfolio Manager Selection and Evaluation

The persons providing portfolio management services to clients vary by Service. Information about how Baird may select and evaluate portfolio managers is further described below.

Selection and Evaluation

PAM Recommended Managers. When selecting and evaluating managers for the PAM Recommended Managers Service, PAM may utilize Baird's Recommended Managers List. PAM may also select managers not included on Baird's Recommended Managers List through its own manager evaluation process.

When selecting managers for Baird's Recommended Managers List, Baird seeks registered investment advisory firms having portfolio managers with academic credentials such as a Masters Degree or participation/completion of the Chartered Financial Analyst ("CFA") program. Baird also looks for a portfolio manager with greater than three years of investment experience focusing on the particular investment style that is offered by the portfolio manager. Baird generally looks for portfolio managers that have demonstrated success, that have performance histories showing sufficient ability to achieve returns in excess of their respective benchmarks, and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird. Baird also considers other qualitative and quantitative factors.

Baird's Advisory Services Research group is primarily responsible for selecting and evaluating investment managers included on Baird's Recommended Managers List. In selecting investment managers, Advisory Services Research utilizes quantitative and qualitative measures to evaluate managers based on the:

- quality and stability of their organization
- soundness and clarity of their investment philosophy
- reliability and consistency of their investment process
- competitiveness of their investment performance

Baird's Advisory Services Research group may employ the use of computers and application software to assist with its evaluation.

Baird's initial screening process begins with a proprietary, multi-factor model that evaluates managers on different factors including risk-adjusted performance, consistency of returns and

downside protection. These factors are scored over various time periods and relative to a specific peer group universe, narrowing the pool of managers for further evaluation. The Advisory Services Research group then performs a more in-depth evaluation of managers that are identified through the initial screening process, which generally includes a review of the following factors: stability of the firm/team, the robustness and repeatability of the investment process, the portfolio's past returns pattern and tax-efficiency, and how the manager adds value. The final determination of Baird's Recommended Managers List is subject to the approval of Baird's Manager & Policy Committee.

Ongoing manager evaluation generally includes quarterly conference calls, performance attribution and periodic onsite visits. Material adverse changes affecting a manager may result in the manager being placed on Baird's "watch" list. Managers on the watch list are scrutinized to see if improvement or degradation is taking place. Potential causes for removal from Baird's Recommended Managers List include fundamental changes in the operations of the manager, turnover in key personnel, substantial changes in management or ownership, a change in investment philosophy or style, significant drift from stated objectives, major legal, regulatory or compliance difficulties, impairment of financial condition, sustained underperformance in relation to its peers, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

Certain investment strategies offered by BIM have been selected by Baird for inclusion on Baird's Recommended Managers List.

PAM will select or replace, or recommend the selection or replacement of, a particular manager based upon the client's particular goals and circumstances and the client's investment strategy. This may involve the selection or recommendation of a manager on Baird's Recommended Managers List and it may involve managers not on such list. PAM typically conducts additional qualitative and quantitative reviews of managers on Baird's Recommended Managers List and will conduct qualitative and quantitative reviews of managers on other managers not included on such List. PAM's evaluation process typically involves in-person or telephonic interviews of the manager and a

review of the manager's historic performance, size of assets under management, asset flows, and an analysis of how the management firm adds value.

The hiring of investment managers for a client account includes an initial screening by PAM of a potential manager for overall style, firm size, the age of the investment advisor, its compliance with GIPS composite standards, its average turnover, and its performance record in said style for at least the five (5) years preceding the review. A quantitative score calculation is assessed to each investment manager based upon the Sharpe ratio, one-year trailing return, the most recent quarter return, the up market capture ratio, and down market capture ratio. A weight is then assigned to each of the foregoing.

A review of the investment manager's long term and short term consistency with its stated investment style is then performed. A select group of managers who are found to meet quantitative and qualitative analysis standards set by PAM for this program are sent investment manager questionnaires. Upon completion of the form by the investment manager, PAM reviews the history of the investment management firm, ownership structure, investment professional biographies, investment professional turnover, buy/sell disciplines, and operations and trading. A model portfolio with holdings and weights is also requested from the investment manager.

After the investment manager is selected, the manager is reviewed by PAM daily whereby a comparison of the manager's performance is tracked against a suitable benchmark and daily trading activity of the manager is reviewed.

PAM will typically remove a manager when the manager is removed from Baird's Recommended Managers List or when PAM believes that the manager is experiencing significant and prolonged underperformance.

Client Selected Managers Service. Clients participating in the Client Selected Managers Service should note that any investment manager selected by the client under that Service is not on Baird's Recommended Managers List, and Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the Client Selected

Managers Service, including the CSM Overlay Manager, unless Baird otherwise specifically agrees to do so. The CSM Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review CSM Overlay Manager's brochure for more information, which is available upon request or contact their PAM Manager for more information. In addition, the client's PAM representative may provide the client advice about the manager selected by the client under the Client Selected Managers Service.

A client is solely responsible for the appointment and continued retention of investment managers in connection with this Service. Once retained by the client, an investment manager will only be removed from managing the client's account upon the client's direction to do so. Baird assumes no responsibility for the client's selection or termination of an investment manager under this Service, the manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

PAM Investment Management Services.

Portfolio management services under the PAM Investment Management Services are provided by PAM Managers. In order to provide portfolio management services, Baird requires that PAM Managers meet all applicable requirements set forth by self-regulatory organizations, such as FINRA, exchanges, and governmental agencies. The Investment Advisory Oversight Committee of Baird oversees the standards and implementation of such Services. The Investment Advisory Oversight Committee delegates its day-to-day oversight responsibilities to Baird's Private Wealth Management Chief Operating Officer ("PWM COO") and Compliance Departments to monitor the services and the performance of PAM personnel providing portfolio management services. Baird's PWM COO, along with compliance and other designees, provides ongoing review of the PAM personnel providing portfolio management services. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis. Potential causes for removal include, operating outside of applicable Baird policies, a significant change in investment philosophy or style, significant drift from stated objectives, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

ALIGN Programs. Portfolio management services under the ALIGN Programs are provided by Baird, Baird's home office investment professionals, and PAM Managers.

In order to provide portfolio management services under the ALIGN Programs, Baird requires that Baird associates meet all applicable requirements set forth by self-regulatory organizations, such as the Financial Industry Regulatory Authority ("FINRA"), exchanges, and governmental agencies.

The Investment Advisory Oversight Committee of Baird oversees the standards and implementation of the ALIGN Programs. The Investment Advisory Oversight Committee delegates its day-to-day oversight responsibilities to Baird's Product Management and Compliance Departments to monitor the ALIGN Programs and the performance of persons providing portfolio management services under those programs. Baird's Product Management Department, along with compliance and other designees, provides ongoing review of the performance of Baird associates providing portfolio management services. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis.

Performance Calculation

As part of the selection and evaluation process of PAM Managers and third party investment managers that are included on Baird's Recommended Managers List described above, Baird calculates the manager's performance.

When Baird calculates a manager's performance, Baird generally uses composites of the portfolio manager's client accounts to calculate the manager's performance. A composite is an aggregation of client accounts managed by the manager that are representative of a particular investment strategy, style, or objective. Examples of composites include large cap growth, all-cap value, balanced (includes equity and fixed-income securities), and fixed income. Composites may be further broken down to separate taxable and non-taxable portfolios. Fixed income composites may be categorized by portfolio duration.

When calculating composite performance, Baird seeks to utilize calculation methods that are industry standard and adhere to Global

Investment Performance Standards (GIPS®) recommendations. Baird calculates composite performance generally using the following principles:

- A total return calculation is used in reporting.
- Current market value including accrued income is used.
- Trade date accounting is used in deriving valuations.
- Monthly returns are calculated using the Modified Dietz calculation.
- Returns for periods greater than a month are calculated by geometrically linking the monthly returns. Returns for periods greater than one year are annualized.
- Reporting is net of fees at the total portfolio, but gross of fees for individual investment categories (e.g., equity or fixed-income).

To the extent Baird selects or reviews investment managers other than Baird Recommended Managers or PAM Managers, Baird does not calculate performance information for such managers. Baird obtains performance information directly from the managers and/or from other external sources that Baird believes to be reliable. A client should note that: Baird does not recalculate the performance provided by such managers or external sources; generally, neither Baird nor any independent third party reviews the performance information provided by such managers to verify its accuracy or compliance with presentation standards; those managers may not calculate performance on a uniform or consistent basis; and Baird does not guarantee the accuracy of information provided by such managers or any external source.

A client should note that Baird does not generally present its performance calculations to clients. The information that Baird provides to clients about investment managers from time to time may not be calculated by Baird but may be calculated by the managers themselves or derived from external sources. A client should ask the client's PAM Manager for more information.

Portfolio Management by Related Persons

Portfolio management services under the PAM Recommended Managers Service and Client Selected Managers Service may be provided by

Baird Advisors, BIM, other investment management departments of Baird or other investment managers affiliated with Baird. Such arrangements create a potential conflict of interest because Baird and/or its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, Baird and PAM are fiduciaries and are required to act solely in the best interest of clients. For more specific information about these potential conflicts and how Baird addresses them, please see the sections "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

When Baird and PAM determine manager availability or eligibility for the PAM Recommended Managers and Client Selected Managers Services, affiliated investment managers are subject to the same selection and review process, if any, that Baird and PAM apply to unaffiliated investment managers.

Portfolio Management by Baird and PAM

Portfolio management services under the PAM Investment Management Service and ALIGN Programs are exclusively provided by Baird, Baird's home office investment professionals, and/or PAM and PAM Managers. Thus, the portfolio managers under those Programs are not subject to a selection or review process. Additional information about Baird, PAM and those Services is provided below.

Advisory Business

Baird is an employee-owned wealth management, capital markets, asset management, and private equity firm formed in the State of Wisconsin in 1919.

Associates of Baird, together with Baird Financial Corporation, own substantially all of the outstanding stock of Baird. Associates of Baird, together with Baird Holding Company, own substantially all of the outstanding stock of Baird Financial Corporation. Associates of Baird own substantially all of the outstanding stock of Baird Holding Company.

Baird offers various investment advisory services to clients. The advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting; financial planning; investment policy development; and account performance monitoring. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services. Baird and PAM tailor advisory services to the individual needs of clients. For more information about the services offered by PAM, please see "Services, Fees and Compensation" above.

Subject to the agreement of PAM, a client may impose reasonable restrictions on the securities or types of securities to be held in the client's account. Please see "Services, Fees and Compensation—Description of Advisory Services—Additional Service Information—Investment Discretion" above for more information.

Baird participates in wrap fee programs not described in this Brochure and it provides portfolio management services in connection with those programs. Baird receives a portion of the wrap fee for providing portfolio management services under those wrap fee programs.

As of December 31, 2011, Baird had approximately \$39.5143 billion in regulatory assets under management, approximately \$27.7661 billion of which was managed on a discretionary basis and approximately \$11.7482 billion of which was managed on a non-discretionary basis.

Performance-Based Fees and Side-By-Side Management

PAM does not advise any client accounts that are subject to performance-based fee arrangements.

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or

capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Performance-based fee arrangements present a potential conflict of interest for Baird (but not PAM) with respect to other client accounts that are not subject to performance-based fee arrangements because such arrangements give Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees.

In addition to complying with its fiduciary duties and avoiding or disclosing conflicts of interest to clients, Baird typically addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements by adopting and enforcing internal procedures designed to ensure that securities allocations made to advisory client accounts are made in a manner such that all advisory clients receive equitable treatment.

Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategies and Methods of Analysis

PAM Investment Management Service. PAM provides various investment portfolio styles and strategies, including large and small cap equity, international equity, fixed income, and mutual funds, in isolation and in combination, as described below.

Generally, PAM recommends and provides to its clients a diversified investment strategy incorporating domestic and international equities, fixed income, and other "alternative" asset classes such as real estate, commodities, currencies, etc. The exact composition of a client portfolio will be constrained by the client's legal and tax considerations and greatly influenced by the client's liquidity needs and tolerance for portfolio fluctuations. The process by which PAM

evaluates a client's investment needs, construct and implement a portfolio are described below.

Phase 1: Evaluate

After gathering pertinent information regarding the client (legal, tax, liquidity, time horizon, etc.), PAM will recommend an Investment Policy which will include a specific asset allocation, allowed and disallowed assets, and a description of the responsibilities of PAM, Investment Managers, and the Client. Through discussions with the client, the Investment Policy will be agreed to and finalized. The Investment Policy will be reviewed at least annually and PAM will recommend changes if necessary to reflect new circumstances such as a change in liquidity needs or time horizon. Any changes will be discussed with the client before implementation.

Phase 2: Strategy Design

PAM will compile, with data supplied by the client, a Source of Funds document listing investment assets to be transferred to Baird and other significant investment assets which may not be managed by PAM but which we will consider in constructing the overall investment portfolio. We will review the Source of Funds with the client to reach agreement on the total assets available for investment and the ownership or registration of the same.

Using the Source of Funds and Investment Policy as guidelines, PAM will construct a recommended allocation that will detail asset classes, investment managers, investment vehicles (i.e. SMA, mutual fund, ETF, etc.) and dollar values for each. The recommended allocation may include a series of investment phases to reach the long term target allocation depending on client preference, current investments, and market conditions.

In constructing the portfolio, PAM considers suitability of different asset classes (e.g. large cap value domestic equity, small cap value domestic equity, international equity, fixed income, etc.), the overall aggregate equity and fixed income allocation for the entire portfolio, and use of "active" and/or "passive" or index-tracking investments. PAM may recommend for the portfolio components from several different asset classes and a mixture of active and passive investments.

For each recommended asset class, PAM will also recommend specific investment managers. The managers may include Separately Managed Accounts (SMAs), mutual funds, ETFs, and other vehicles. For most asset classes, PAM will recommend more than one manager in order to further reduce risk from significant underperformance by a single manager.

The recommended allocation will also include details on fees. The fee for each manager will be provided as well as the PAM consulting fee. A weighted-average fee based on the recommended allocation will also be provided, but the actual average fee will vary depending on the dollar amounts actually invested.

Phase 3: Implement

Once the recommended allocation is reviewed with the client and a final allocation is agreed to, PAM will implement the agreed upon plan. This usually includes setting up various Baird accounts, transferring assets from outside accounts to Baird, reconciling assets received against client-provided information as to the assets in the outside accounts, liquidation of some assets, transfers of some assets to Investment Managers, and purchase of mutual funds and ETF's.

PAM may use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others, issuer-supplied literature (such as annual reports, press releases and other information), and external market, economic, financial and investment data and analyses provided by organizations not affiliated with Baird. PAM primarily relies on independent, third-party research and information when analyzing market trends and conditions, investment manager performance, and asset class characteristics and performance. PAM has built and maintains a proprietary database of manager characteristics, including historical performance, personnel details, fees, investment philosophy, ownership and legal history. PAM has purchased and customized software to analyze the data, which we update at least quarterly. Some of the data, particularly general economic data, is publicly available, but PAM also pays for access to third-party databases which contain data used in our analyses. PAM does not accept fees or other

remuneration from managers to be included in databases or in our manager search process. PAM Managers may also use research reports created by other departments of Baird. PAM may also employ the use of computers and third party application software to more readily display information and to assist with the evaluation and analysis. Although PAM uses information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

PAM may also use Baird's ALIGN model asset allocation portfolios, Baird's Recommended Managers List, Baird's Recommended Mutual Fund List, Baird's Recommended Portfolio, and lists of alternative investments that Baird has deemed eligible for use in the Services. For more information about how Baird selects managers for Baird's Recommended Managers List, see "PAM Recommended Managers Service" above. More information about how Baird constructs its Recommended Mutual Fund List, Recommended Portfolio, ALIGN Portfolios, and lists of eligible alternative investments is provided below. The level of initial or ongoing review or evaluation that Baird performs on these products and their sponsors varies. Investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing review or evaluation as those products that are included on a Baird recommended list.

A client should note that investment products recommended to the client or selected for the client's accounts, including investment managers or products included on a Baird recommended list, are those investments which, in PAM's professional judgment, may be appropriate to help the client pursue the client's financial goals, but that Baird and PAM do not represent or guarantee that such investment products are or will be the best investment products available.

Baird's Recommended Mutual Fund List. PAM Managers may utilize Baird's Recommended Mutual Fund List when providing investment advice to clients. Baird has engaged Wilshire Associates as an independent consultant in the construction of Baird's Recommended Mutual Fund List. The List is designed to include mutual funds across numerous asset classes. In constructing the List, Wilshire Associates may base its assessment of a particular mutual fund on the sponsor of a particular mutual fund on the

organization's strength and performance quality; information gathering ability; forecasting ability; portfolio construction capability; idea implementation ability; self measurement capability; and use of various statistical techniques designed to assist in forecasting the expected future excess return of the fund. Baird's Mutual Fund Oversight Committee reviews the recommendations made by Wilshire Associates. Wilshire Associates also provides ongoing oversight and due diligence services to Baird in connection with maintaining the List. The Baird Aggregate Bond Fund, a mutual fund offered by the Baird Funds, which is affiliated with Baird, has been selected by Wilshire Associates for inclusion in Baird's Recommended Mutual Fund List.

Baird Recommended Portfolio. Baird's Financial Advisors may utilize the Baird Recommended Portfolio when providing investment advice to clients. The objective of the Baird Recommended Portfolio is to outperform the S&P 500 Index by selecting a diversified core portfolio of primarily large cap equities. Baird's Stock Selection Committee maintains the Baird Recommended Portfolio. The investment philosophy focuses on high quality companies with an emphasis on large cap stocks, as defined by a market capitalization of \$10 billion or greater. The portfolio may contain stocks with a market capitalization of less than \$10 billion, but these stocks will not represent more than 35% of the total portfolio. The portfolio is organized by industry sectors, with the Stock Selection Committee choosing to under- or overweight particular industry sectors (vs. the S&P 500 Index) based on economic analysis and input from Baird's Investment Policy Committee. Individual stocks are selected with an emphasis on quality companies that Baird believes have strong growth prospects and attractive price-appreciation potential. The portfolio will over- or under-weight an industry sector relative to the S&P 500 Index based on Baird's view of the current economic outlook and its fundamental analysis. Within a given industry sector, companies are selected with an emphasis on quality and growth. Each stock is also assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks are sold or positions reduced primarily for three reasons: valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Baird Recommended Portfolio typically holds between 40-55 stocks. The Baird Recommended Portfolio

represents a list of stocks only. It is not possible to invest directly in the Portfolio.

Alternative Investments

Baird's Recommended Fund of Hedge Fund List. When selecting funds of hedge funds for Baird's Recommended Fund of Hedge Fund List, Baird generally seeks to offer funds of hedge funds that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well diversified portfolio of hedge funds; and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). Baird also considers the principals' experience in managing fund of hedge fund portfolios and whether they have a network of contacts in the industry.

Baird's Advisory Services Research Department is primarily responsible for selecting and evaluating funds of hedge funds selected for Baird's Recommended Fund of Hedge Fund List. In selecting funds of hedge funds, Baird's Advisory Services Research group uses a due diligence process with a goal of determining whether the firm has an "edge" that Baird believes will result in favorable fund of hedge fund performance going forward. The process includes reviewing due diligence questionnaires and legal documents (e.g., subscription document, limited partnership agreement, offering memorandum, Form ADV brochures), completing an onsite review of the fund, and receiving approval by both Baird's Advisory Services Research Department and Baird's Manager & Policy Committee.

As part of its onsite review, Baird evaluates the fund's processes for: evaluating, hiring and terminating individual hedge funds; constructing a fund of hedge fund portfolio; and managing risk. Baird generally also meets with the fund's compliance personnel to understand their processes for evaluating prospective and current hedge fund investments from an operational and compliance standpoint. Following the onsite review, an investment thesis is written and presented to the Advisory Services Research Department and Baird's Manager & Policy Committee. Baird's Manager & Policy Committee ultimately determines whether to include a fund of hedge fund on Baird's Recommended Fund of Hedge Fund List.

Baird monitors each recommended fund of hedge fund on a periodic basis. As part of its monitoring process, Baird reviews monthly and/or quarterly commentaries from the fund, and generally holds a quarterly conference call during which Baird reviews issues with fund personnel that Baird deems relevant, which may include the following: assets under management, asset flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), changes made to the fund (e.g., hedge funds added or terminated), and reasons for the fund's under- or out-performance relative to a benchmark. In addition, Baird conducts subsequent onsite reviews of each fund on a periodic basis when deemed necessary by Baird.

Baird may place a fund of hedge fund on "watch" status if the fund has experienced a material event that, in Baird's opinion, may negatively affect the fund's performance going forward. Examples include a significant decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, or regulatory problems. Any firm that is placed on watch status is subject to an onsite review to determine if the issue is likely to be temporary or long-term. Baird will remove a fund from watch if, in Baird's opinion, the issue has been adequately addressed. Baird will remove a fund from the List if it believes the issue is likely to be long-term.

Using the funds on Baird's Recommended Fund of Hedge Funds list, PAM will select or replace, or recommend the selection or replacement of, a particular fund of hedge fund based upon each client's particular goals and circumstances.

Managed Futures. When making managed futures products available to its clients, Baird generally seeks to identify managed futures products that exhibit stable or growing assets under management and offer strategies that may be suitable for Baird clients. Baird also considers the principals' management experience, size of the managed futures pool or fund and its sponsor, and historical performance.

Baird's Product Management Department is primarily responsible for selecting and evaluating managed futures products made available to clients under the Programs. Baird's initial evaluation of a managed future product and its

sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Managed Futures Oversight Committee, which includes members of Baird's Product Management, Advisory Research, Compliance, Legal, and Risk Management Departments, ultimately determines whether to make a managed futures product available to Baird clients.

Baird generally monitors managed futures products made available to Baird clients on an annual basis through the use of a questionnaire that focuses primarily on the following factors: assets under management, organizational changes (e.g., personnel changes), changes made (e.g., investment strategies or process), and reasons for the product's recent performance. In addition, Baird conducts subsequent onsite reviews of each sponsor on a periodic basis when deemed necessary by Baird.

Baird may remove a managed futures product if it experiences a significant decline in assets under management, or a notable change in investment or key personnel, or regulatory problems.

Using the managed futures products that Baird makes available, PAM will select or replace, or recommend the selection or replacement of, a particular managed futures product based upon each client's particular goals and circumstances.

Structured Products. When determining whether to make a structured product available to Baird clients, Baird reviews the offering documents for the structured product and considers: the size of the issuer and issuer's credit rating, the maturity of the product, how interest is calculated, the underlying asset category (e.g., a basket of securities or currencies, or a market index), applicable caps, barriers, and participation rate, and whether the structured product has principal protection.

Baird tends to favor larger-sized issuers of structured products over smaller-sized issuers and also tends to favor structured products that have shorter maturities and offer principal protection.

Baird's Product Management Department is primarily responsible for selecting and evaluating structured products made available to clients under the Programs. Baird's Structured Products Oversight Committee, which includes members of Baird's Product Management, Advisory Research, Compliance, Legal, and Risk Management Departments, ultimately determines whether to make a structured product available to Baird clients.

Using the structured products that Baird makes available, PAM will select or replace, or recommend the selection or replacement of, a particular structured product based upon each client's particular goals and circumstances.

Private Equity Funds. Generally, Baird only makes available to clients private equity funds that are affiliated with Baird. This presents a potential conflict of interest. See "Additional Information—Other Financial Industry Activities and Affiliations—Affiliated Private Equity Funds" below.

Baird Advisory Choice Program. When recommending investment products to clients under the Baird Advisory Choice Program, PAM Managers may use any of the investment strategies and methods of analysis discussed above. They may also utilize Baird's Recommended Managers List, Baird's Recommended Mutual Fund List, Baird's Recommended Portfolio, Baird's ALIGN Portfolios and lists of alternative investments that Baird has deemed eligible for use in the Services. More information about how Baird selects managers for the PAM Recommended Managers Service and how Baird compiles its Recommended Mutual Fund List, the Baird Recommended Portfolio, its ALIGN Portfolios, and lists of eligible alternative investments is provided above.

PAM may also manage client assets using other investment strategies and investment products based upon a client's particular needs. A PAM Manager may use certain investment strategies, such as concentrated investment strategies and margin, and certain types of investment products, such as illiquid securities, leveraged or inverse funds and structured products. These investment strategies and products involve special risks and may not be appropriate for all clients. Please see "Principal Risks" below for more information.

ALIGN Programs

ALIGN Custom Portfolios. ALIGN Custom Portfolios involve the use of various different portfolio investment strategies because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's PAM representative. Mutual funds and ETFs may be available to clients to pursue an investment objective or implement a customized asset allocation strategy. The mutual funds and ETFs that are generally available for use in connection with the ALIGN Custom Portfolios Program may include funds included in the ALIGN Dynamic Portfolios, ALIGN Strategic Portfolios and ALIGN Tactical Portfolios Programs, which are discussed above, and those funds included on Baird's Recommended Mutual Fund List. A client should ask the client's PAM representative for additional information about the investment styles, philosophies, strategies, analyses and techniques the PAM representative will use in order to meet the client's objectives.

ALIGN Dynamic Portfolios. The ALIGN Dynamic Portfolios Program offers model portfolios that have varying strategic and tactical investment strategies. The ALIGN Dynamic Portfolios generally include: (1) a Dynamic Growth Portfolio, which is designed to provide aggressive growth of capital and outperform the broad measure of the domestic and international equity markets over time; (2) a Dynamic Moderate Growth Portfolio, which is designed to provide growth of capital and outperform a broad measure of the domestic equity markets over time; (3) a Dynamic Balanced Portfolio, which is designed to provide growth of capital and consistent capital appreciation; (4) a Dynamic Conservative Growth Portfolio, which is designed to provide moderate growth of capital and limited current income and consistent capital appreciation; and (5) a Dynamic Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Dynamic Portfolio generally consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed above, and the mutual funds and ETFs that are available for use in connection with the ALIGN Dynamic Portfolios Program include funds and ETFs

available under those Programs.

ALIGN Strategic Portfolios. The ALIGN Strategic Portfolios Program offers model portfolios that have varying strategic investment strategies, including: (1) an All Growth Portfolio, which is designed to provide aggressive growth of capital; (2) a Capital Growth Portfolio, which is designed to provide growth of capital; (3) a Growth with Income Portfolio, which is designed to provide moderate growth of capital and limited current income; (4) an Income with Growth Portfolio, which is designed to provide current income and some growth; and (5) a Conservative Income Portfolio, which is designed to provide current income. Baird may also offer other model portfolios under the Program from time to time. The ALIGN Strategic Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes, including equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, mutual funds with fund of hedge fund strategies, and cash. Each ALIGN Strategic Portfolio has different allocations across each asset class, and some Portfolios may have no allocation to one or more asset classes.

Each ALIGN Strategic Portfolio uses mutual funds and/or ETFs in order to achieve the model asset allocation. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios consist of mutual funds and passive ETFs that replicate different indices; and hybrid ALIGN Strategic Portfolios consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a "sleeve"). Certain ALIGN Strategic Portfolio strategies offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide an absolute return. Certain ALIGN Strategic Portfolio Strategies also offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide diversified yield to the client's portfolio.

Baird generally seeks mutual funds and ETFs that have investment managers with tenure of at least five (5) years and have underlying investments that adhere to the fund's market capitalization policy and are consistent with the manager's stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or that are managed by individuals or firms that have demonstrated success in other, related asset classes, that have performance histories showing sufficient ability to achieve returns in excess of their respective style index, and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird.

The construction of the ALIGN Strategic Portfolios, including allocation and strategic decisions, and the selection of the mutual funds and ETFs for each Strategic Portfolio, are made by Baird's ALIGN Oversight Committee.

Baird's Advisory Services Research group is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. In selecting funds, Advisory Services Research utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and removing funds for the ALIGN Strategic Portfolios Program is similar to the process Baird uses to select and remove Recommended Managers described under "Portfolio Manager Selection and Evaluation" above, except that the final determination of the funds made available in the Program is subject to the approval of Baird's ALIGN Oversight Committee. The ALIGN Strategic Portfolios Program may include funds included on Baird's Recommended Mutual Fund List and funds affiliated with Baird.

The Portfolio asset allocations and the funds included in the Program are evaluated on an ongoing basis, generally at least quarterly. Portfolios may be modified or rebalanced and funds may be removed or added as Baird determines is appropriate.

ALIGN Tactical Portfolios. The ALIGN Tactical Portfolios Program offers model portfolios that have varying tactical investment strategies, including: (1) a Tactical Equity Portfolio, which is

designed to outperform a broad measure of the domestic and international equity markets over time; (2) a Tactical Allocation Portfolio, which is designed to outperform a broad measure of the domestic equity, international equity, and domestic fixed income markets over time; (3) a Tactical Opportunity Portfolio, which is designed to provide downside protection and consistent capital appreciation over time; and (4) a Tactical Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes, including styles, capitalizations, sectors, and market segments. Those asset classes may include equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, alternative investments, and cash. Some Portfolios may have no allocation to one or more asset classes. Each ALIGN Tactical Portfolio primarily uses ETFs in order to achieve the model asset allocation.

The construction of the ALIGN Tactical Portfolios, including allocation and tactical decisions and the selection of the ETFs for each Tactical Portfolio, are made by Baird's Investment Strategy team. Baird uses a top-down approach to identify which asset classes and areas of the stock market to include in the ALIGN Tactical Portfolios at any given time. First, Baird identifies and considers major macroeconomic and related themes that are believed to be impacting the markets on a longer-term basis. Next, those themes are evaluated against a number of areas of influence on the market, such as Federal Reserve policy, economic fundamentals, investor sentiment, valuations, seasonal trends and broad market performance. From this analysis, Baird gains insight into the intermediate-term health of the market and identifies possible actionable strategies regarding the types of exchange traded funds to include in the ALIGN Tactical Portfolios. The selection of the specific characteristics of ETFs to include in the ALIGN Tactical Portfolios, such as market capitalizations, sectors and styles (e.g., growth or value) will be based on such factors as their relative strength rankings, economic environment, seasonal tendencies, technical indicators and longer-term trends. Once the characteristic types of ETFs are selected,

Baird will choose specific ETFs, looking primarily for those that have a higher trading volume and a longer trading history, and lower expense ratios.

Depending on the ALIGN Tactical Portfolio chosen, the ETFs in the ALIGN Tactical Portfolio may consist of funds having various investment objectives and principal strategies, including but not limited to, the following: domestic equities, specific styles, capitalizations and sectors, domestic fixed-income securities, international equities, real estate, currencies, commodities and short domestic equities (i.e., ETFs that have an investment objective to provide returns that are inversely correlated to an equities index).

The ALIGN Tactical Portfolios are actively managed. The Portfolio allocations and the ETFs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETFs may be removed or added as Baird determines is appropriate. ALIGN Tactical Portfolios may experience relatively high portfolio turnover.

Principal Risks. Risk is inherent in any investment in securities and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. By participating in a Service, a client may be subject to the risks described below. The risks discussed below vary by Service and investment style or strategy, and may or may not apply to a client. Clients are encouraged to discuss with their PAM representative the risks that apply to them.

General risks of the Services include the following:

Market Risks. A client's portfolio may change in value due to overall market fluctuations. General economic conditions, political developments, international events and other factors may cause the overall market to decline, which in turn may reduce the value of the client's portfolio regardless of the relative strength of the securities held in the portfolio. Securities prices often vary for reasons unrelated to matters directly affecting the issuers of the securities.

Management and Securities Selection Risks. A client's portfolio may fluctuate in value differently than, or in the opposite direction as,

the overall market or applicable benchmark because of the selection of individual securities for the portfolio. The judgments made by the persons managing client accounts about the attractiveness, value and potential appreciation of particular securities may prove to be incorrect. For example, while the stock markets may experience increases in value, the client's portfolio may experience a decline in value due to the underperformance of the stocks selected for investment in the client's portfolio.

Investment Objective and Asset Allocation Risks. A client's investment objective and asset allocation strategies involve the risk that certain asset classes selected for the client's account may not perform as well as other asset classes during varying periods. In addition, clients who pursue more aggressive investment objectives and asset allocation strategies, while hoping to achieve high returns, may face greater risk of loss than clients with more conservative objectives and strategies. In developing investment objectives and asset allocation strategies, clients should carefully consider their financial situation and needs, investment goals, investment time horizon and risk tolerance. A client should inform the client's PAM representative of these considerations so the PAM representative can assist in determining the client's investment objectives and asset allocation strategies.

Concentration Risks. A client's account may consist of a portfolio of securities that is concentrated in an issuer or group of issuers, an industry or economic sector or group of related industries or sectors, or concentrated in limited asset classes. Client accounts with concentrated positions are susceptible to greater volatility and increased risk of loss than a portfolio that is diversified across several industries or sectors and asset classes.

Liquidity Risks. Certain securities may have more or less liquidity than other securities. Securities with less liquidity generally have wider bid and ask spreads. Also, the volatility of the price of a thinly traded security may be more than the volatility of the price of a widely traded security because of the impact of low trading volume. It may be difficult to sell an illiquid security at any given time and a client may not be able to obtain a favorable price for the security. As a result, illiquid securities may have a negative effect on the performance of the client's account.

Portfolio Turnover Risks. High portfolio turnover may result in tax liability due to the recognition of capital gains and ordinary income.

Derivatives Risks. The strategy used for a client's portfolio may involve the use of options, futures, and short sales to "hedge" the overall risk of the client's portfolio. The values of these investments are derived from an underlying asset and may fluctuate more than other investments, which may result in an unexpected decline in the portfolio's value.

Leveraging Risks. The strategy used for a client's portfolio may involve the use of margin (borrowing money to buy securities) also known as leveraging. Leveraging strategies may amplify the impact of any increase or decrease in the value of underlying securities in the client's portfolio.

Stock Risks. Stock prices vary and may fall, thus reducing the value of a client's investments. Certain stocks selected for a client's portfolio may decline in value more than the overall stock market.

Bond Risks. To the extent a strategy may involve investing in fixed-income securities, the strategy is subject to bond market risks. A bond's market value is affected significantly by changes in interest rates – generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk and the lower its yield ("maturity risk"). A bond's value may also be affected by changes in its credit quality rating or the issuer's financial condition ("credit-quality risk"). Because bond values may fluctuate, a client's portfolio value may fluctuate. Client accounts may also be invested in municipal securities, and/or bonds that are not rated or are below investment grade. For more information, a client is encouraged to read the disclosure documents entitled "Important Information about Investing in Municipal Bonds" and "Important Information about Non-Rated or Below Investment Grade Securities" available on Baird's website at www.rwbaird.com/disclosures.

Capitalization Risks. A client may be invested in small and mid cap stocks, which are often more volatile and less liquid than investments in larger companies. The frequency and volume of trading in securities of such companies may be substantially less than is typical of larger companies. Therefore, the securities of such companies may be subject to greater and more abrupt price fluctuations. In addition, small- and mid-size companies may lack the management experience, financial resources and product diversification of larger companies, making them more susceptible to market pressures and business failure.

Foreign Issuer Risks. Securities of foreign issuers and ADRs are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

Government Obligation Risks. Certain securities issued by U.S. government-sponsored agencies or instrumentalities are not supported by the full faith and credit of the U.S. government. Examples of such securities are those issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which are supported only by discretionary authority of the U.S. Government, and the Student Loan Marketing Association, which are supported only by the credit of that agency.

Money Market Fund Risks. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value per share fall. In some circumstances, money market funds may be forced to cease operations

when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund would not be available for purchases or withdrawals.

Hedge Fund Risks. Investing in hedge funds presents special risks. Some of the more common risks include the following: limited regulatory oversight, lack of liquidity, management risks, limited disclosure and transparency of operations, potentially high fees, and performance fee conflicts. A client is encouraged to read the disclosure document entitled "Important Information about Fund of Hedge Funds" available on Baird's website at www.rwbaird.com/disclosures.

Managed Futures Risks. Investing in managed futures presents special risks. Some of the more common risks include the following: performance volatility, limited regulatory oversight, lack of liquidity, management risks, potentially high fees, and performance fee conflicts. A client is encouraged to read the disclosure document entitled "Important Information Regarding Managed Futures" available on Baird's website at www.rwbaird.com/disclosures.

Leveraged or Inverse Fund Risks. Leveraged or inverse funds are ETNs, ETFs or open-end mutual funds seeking returns that are the opposite of the performance of an index or other benchmark on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time are not likely to track the opposite of the performance of the fund's underlying index, and may in fact be significantly different. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of short sales, swap contracts, futures, options and other derivatives with economic characteristics that are designed to perform opposite to the securities in the underlying index. Because of the unique characteristics of these funds and the special risks associated with them, FINRA and the SEC have issued a joint alert entitled "Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors", which is available on FINRA's and the

SEC's websites. A client is encouraged to read the disclosure document entitled "Important Information about Leveraged and Inverse Funds" available on Baird's website at www.rwbaird.com/disclosures.

Structured Products Risks. Structured products are a hybrid between two asset classes typically issued in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. These investment products are complex and involve special risks. A client is encouraged to read the disclosure document entitled "Important Information about Structured Products" available on Baird's website at www.rwbaird.com/disclosures.

U.S. and international markets have experienced extreme price volatility, reduced liquidity and valuation difficulties in recent years. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on the client portfolios.

For more information regarding the risks of investing in a particular investment product, a client should carefully review the offering documents for that product or ask the client's PAM Manager.

Voting Client Securities

Non-Discretionary Services. Under the Baird Advisory Choice Program and with respect to any other accounts over which the client retains discretionary investment authority, a client retains the right to vote proxies with respect to the securities held in such accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and Baird and PAM are under no obligation to take any action or render any advice regarding such matters. The client's PAM Manager may, upon the client's request, provide advice on proxy voting or what other action the client could take.

Separately Managed Accounts. With respect to SMAs that are managed by other investment managers, a client may retain the right to vote

proxies with respect to the securities held in the client's account, or a client may delegate such right to the investment manager selected to manage the client's account. A client may select either option by making the appropriate election in the client's advisory agreement (or by providing proper instructions to the third party investment manager directly). For information about a manager's voting policies and procedures, clients should review the manager's brochure. Baird and PAM have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in a client's SMA.

Discretionary Services. Under the Discretionary Services and ALIGN Programs (but not including SMAs), a client may retain the right to vote proxies with respect to the securities held in the client's account, or a client may delegate such right to PAM. If a client delegates voting authority to PAM, PAM will vote proxies solicited by, or with respect to, securities held in the client's account for the exclusive benefit of the client and in accordance with policies and procedures adopted by Baird.

Baird has adopted written policies and procedures that are reasonably designed to ensure that PAM votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between PAM's or Baird's interests and those of their clients. Although a description of Baird's proxy voting policies and procedures is provided below, PAM will furnish a copy of Baird's proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how PAM actually voted proxies with respect to the securities held in their accounts by contacting their PAM Manager or by calling (414) 765-3500.

In situations in which a client has delegated to PAM voting authority with respect to securities in the client's account, PAM will monitor corporate events and vote proxies in a manner that PAM believes is consistent with the client's best interests. PAM utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by

companies to their shareholders for consideration. These guidelines provide an indication as to how PAM will actually vote on particular issues. PAM will generally vote proxies for client accounts based on the recommendations of ISS; however, the client's PAM Manager may suggest voting against ISS's recommendations when the client's PAM Manager determines it to be in the clients' best interests to do so. The PAM Manager also may suggest how to vote on a particular matter not addressed by ISS. When a PAM Manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the PAM Manager will bring the matter to the attention of Baird's Proxy Voting Committee, which will then be responsible for determining how the vote will be cast.

The proxy voting policies and procedures also address instances in which PAM's or Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern that PAM would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. PAM takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client. Baird's Compliance Department is responsible for overseeing the operation of the proxy voting policies and procedures.

Clients wishing to direct particular votes once they have granted PAM discretionary voting authority may do so by contacting their PAM Manager. However, neither Baird nor the client's PAM Manager will provide a client with notice of any proxy solicitation if PAM has been granted discretionary authority.

PAM and Baird generally do not participate in securities class action claims or claims arising from bankruptcy. At a client's request, PAM will forward information about such claims to the client.

Client Information Provided to Portfolio Managers

Under the PAM Recommended Managers and Client Selected Managers Service, Baird and PAM provide certain information about the client to the investment managers managing the client's account when the client establishes the advisory relationship with such manager. Such information includes the client's investment objectives and risk tolerance. Under the PAM Recommended Managers Service, PAM and Baird also provide to the investment manager a client's age, investment timeframe, and liquidity requirements.

Client Contact with Portfolio Managers

PAM does not place any restrictions upon clients who wish to contact or consult with third party investment managers managing their accounts. PAM encourages clients to discuss their accounts with their PAM Manager.

Additional Information

Disciplinary Information

In December 2008, Baird, without admitting or denying the allegations, consented to the findings of FINRA that it violated NASD Rules 2110, 3010(a) and 3010(b) by failing to establish and maintain an adequate supervisory system reasonably designed to review and monitor its fee-based brokerage business and its registered representatives. Baird was found to have failed to: implement fee breakpoint discounts on certain fee-based brokerage accounts; clearly identify the specific fee applicable to each customer; implement a system to automatically credit customers with the fee breakpoint discounts specified in their account agreements; and adequately disclose inclusion of margin activity and short sales in fee calculations for fee-based accounts. Baird was fined \$500,000 and paid restitution of \$434,510 plus interest to Baird customers.

Additional information about Baird's disciplinary history is available on the SEC's website at www.adviserinfo.sec.gov.

Other Financial Industry Activities and Affiliations

Baird is registered as a broker-dealer under the Exchange Act and as an investment adviser under the Advisers Act. Baird is engaged in a broad range of activities, including: individual and institutional brokerage transactions; origination of, and participation in, underwritings of corporate and municipal securities; market making and trading activities in corporate securities and municipal and governmental bonds; distribution of mutual fund shares; option transactions; and research services.

PAM Managers and certain other of Baird's and PAM's personnel are registered, or have an application pending to register, as registered representatives and associated persons of Baird to the extent necessary or appropriate to perform their job responsibilities.

Baird is affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs and private equity funds. From time to time, Baird and PAM may recommend that clients invest assets with these investment advisors or in investment products that are affiliated with Baird. Such recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird and PAM and/or their affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. However, as fiduciaries, Baird and PAM will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

Other Investment Management Departments of Baird. Baird and PAM Managers may, from time to time refer clients to Baird Advisors, BIM, or Baird Public Investment Advisors, investment management departments of Baird.

Certain investment strategies offered by BIM have been selected by Baird for inclusion on Baird's Recommended Managers List. Baird has a financial incentive to favor BIM because Baird

receives more compensation if a BIM manages client accounts rather than other unaffiliated managers.

Affiliated Mutual Funds. Baird is the investment adviser and principal underwriter for the Baird Funds. Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed-income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). As compensation for those services, Baird receives fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available at www.bairdfunds.com.

Certain Baird Funds have been selected by Baird for inclusion in the ALIGN Strategic and ALIGN Dynamic Programs and on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to PAM clients. Baird has a financial incentive to favor the Baird Funds because Baird receives more compensation if a client invests in the Baird Funds rather than other unaffiliated funds.

Currently, Baird Advisors serves as sub-adviser to a mutual fund series of the New Covenant Funds and a mutual fund series of CNI Charter Funds, Inc. Additional information about these mutual funds, including information relating to the compensation paid to Baird by these funds for investment management services, is available in each fund's prospectus and statement of additional information.

Affiliated Investment Advisors. Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's equity ownership of Riverfront. Riverfront is an investment advisor that is based in Richmond, Virginia. Riverfront offers asset allocation, mutual fund, ETF and foundation strategies. Riverfront acts as investment sub-adviser for certain mutual fund series of the Financial Investors Trust. Baird is not involved in the day-to-day management of Riverfront or the investment decisions made by Riverfront for the account of Riverfront's clients. Riverfront investment products and services are available to PAM clients. Baird has a financial

incentive to favor Riverfront investment products and services because the value of Baird's investment in Riverfront increases as Riverfront's assets under management increase.

Affiliated Private Equity Funds. Baird is also engaged in a private equity business through Baird Private Equity ("BPE"), Baird's global private equity group. Baird and PAM may refer clients to BPE. BPE makes venture capital, growth equity and buyout investments in the business services, manufactured products and healthcare/life sciences sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"); Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"); and Baird Capital Partners Europe Limited. BVP I and BVP III participate in venture capital opportunities by investing in equity securities of early-to-growth stage companies. BVP I is the general partner of the three limited partnerships and is an investment adviser registered with the SEC. BVP III is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCP III, BCP IV and BCP V invest in equity securities of growing middle market companies issued in management buyouts, recapitalizations, industry consolidations and growth equity transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general

partner of three limited partnerships and is an investment adviser registered with the SEC. Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Services Authority and is the manager of certain partnerships formed to acquire businesses and make investments across a range of industry sectors.

PAM Managers who assist in obtaining a client's investment in a private equity fund affiliated with Baird are eligible for special referral compensation from the general partner of the private equity fund. The actual amount of compensation may vary based upon the client's investment commitment and will be disclosed to a client prior to the time of investment.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics. Subject to the restrictions described below, Baird and its affiliates and associates may engage in securities transactions for their own accounts, including the same or related securities that are recommended to or owned by Baird clients. These transactions may include trading in securities in a manner that differs from, or is inconsistent with, the advice given to Baird clients, and the transactions may occur at or about the same time that such securities are recommended to or are purchased or sold for client accounts. This creates a potential for a conflict between the interest of clients and the interests of Baird and its affiliates and associates.

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advice to clients, including PAM personnel, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary

authority over client accounts from executing a security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management and/or by Baird's Compliance Department. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. For example, except for principal trades specifically authorized by clients, Baird conducts trading activity for advisory clients through trading personnel that are different from the trading personnel executing trades for Baird's own accounts. In addition, Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

Baird's Participation or Interest in Client Transactions

Baird's Broker-Dealer and Related Activities.

In their broker-dealer capacities, Baird and PAM personnel provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, options, and other securities, and sales of life insurance policies and annuities. Baird and PAM personnel receive compensation based upon the sale of such securities and other investment products as further described below.

Brokerage and Related Trading Activities. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. These investment management firms may also receive research in addition to execution services provided by Baird. Baird receives compensation for those execution services. This may create an

incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird and PAM personnel act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Further, Baird and PAM do not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for advisory programs (including when Baird constructs its Recommended Managers or Recommended Mutual Fund Lists). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

If a client directs PAM to use a designated broker-dealer for trade execution (a "directed brokerage arrangement"), and if the designated broker-dealer referred the client to PAM or if the particular broker-dealer refers other clients to PAM in the future, PAM may benefit from the client's directed brokerage arrangement. Because of these potential benefits, PAM may have an economic interest in having the client continue the directed brokerage arrangement. The benefits PAM receives may conflict with the client's interest in having PAM recommend that the client utilize another broker-dealer to execute some or all transactions for the client's account.

Baird, as broker-dealer, continually engages in various securities transactions and trading activities through its institutional trading departments, including market making and corporate stock buyback activities. PAM personnel who refer corporate buyback opportunities to the institutional trading departments are eligible for referral compensation from Baird that is based upon, among other factors, the commissions that Baird receives. Baird and PAM may, therefore, have an incentive to sell or to make sell

recommendations with respect to the securities of issuers for which Baird provides such buyback services. However, Baird and PAM will only sell or recommend a sale of such securities to an advisory client when they believe it is in the client's best interest to do so.

Baird may buy or sell securities for its own account, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. These activities could create a conflict of interest with its clients. Baird addresses this potential conflict by adopting and enforcing internal procedures designed to ensure that securities allocations made to advisory client accounts are made in a manner such that all advisory clients receive equitable treatment. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's, its affiliates' and associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

Mutual Fund Selling and Servicing

Distribution (12b-1) and Shareholder Servicing Fees. Baird and PAM provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to PAM clients that hold shares of such mutual funds in their accounts. Baird and PAM may receive distribution (12b-1) fees and other shareholder servicing fees from the funds or their sponsors on an ongoing basis as compensation for the services provided.

If Baird or PAM receives distribution (12b-1) or other shareholder servicing fees from a fund with respect to a client's mutual fund investment in the client's PAM account and the client is paying an asset-based fee to PAM on such investment, Baird rebates such distribution (12b-1) fees and other shareholder servicing fees to the client's account, except for any non-Retirement Account managed directly by PAM. Accordingly, the receipt of these fees provides Baird and PAM an incentive with respect to non-Retirement Accounts managed

directly by PAM to favor mutual funds over other investment products, or to favor mutual funds that offer distribution (12b-1) and shareholder servicing fees greater than other funds.

Marketing and Other Financial Support. In addition to distribution (12b-1) and shareholder servicing fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in the ALIGN Programs or held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing", is typically allocated toward the costs of training and educating PAM personnel about the funds offered by the fund company, due diligence on the funds and marketing support.

In addition to marketing support payments described above, Baird may be reimbursed by mutual fund companies or their service providers for expenses incurred by Baird for various sales meetings, seminars, and conferences held in the normal course of business. Any such reimbursement is at the entire discretion of a particular mutual fund company.

Receipt of marketing support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make such payments over mutual funds and their sponsors that do not. However, Baird acts in the best interests of clients when recommending mutual funds to clients, and Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List, Recommended Mutual Fund List, or in selecting investments offered through the ALIGN Programs.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to PAM, and the compensation Baird pays to PAM is not tied to such payments. PAM personnel may, however, receive non-cash compensation and other benefits from Baird and mutual fund companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational

seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide PAM personnel an incentive to favor mutual funds and their sponsors that provide such benefits over mutual funds and their sponsors that do not. However, PAM personnel act in the best interests of clients when selecting or recommending funds in connection with the Services. In addition, Baird has adopted policies and procedures for PAM personnel providing advisory services that address and limit the receipt of such non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

Networking Fees. Baird receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides to those funds. While this may provide Baird an incentive to favor funds paying higher fees, these fees are not paid to PAM, and the compensation that Baird pays to PAM is not tied to such fees.

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual funds for Baird on behalf of PAM clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird and PAM a portion of the compensation that Schwab receives from the funds (including distribution (12b-1), shareholder servicing and revenue sharing payments) for services that Baird and PAM provide to clients who invest in the funds.

If Baird receives distribution (12b-1) fees or other shareholder servicing fees from Schwab with respect to a mutual fund investment in a client's PAM account and client is paying an asset-based fee to PAM on such investment, Baird rebates such distribution (12b-1) fees and other shareholder servicing fees to the client's PAM account, except for any non-Retirement Account managed directly by PAM. Accordingly, the receipt of these fees may provide Baird and PAM an incentive with respect to non-Retirement Accounts managed directly by PAM to favor funds that are part of the Schwab clearing arrangement over other investment products or funds not included in the Schwab clearing arrangement.

Additional Information. More detailed information about the compensation that Baird or PAM receives from a mutual fund company is available in the mutual fund company's prospectus or statement of additional information and on Baird's website at www.rwbaird.com/mutualfunds. Clients may also contact Baird or PAM for more specific information about the amount of compensation Baird or PAM may receive from any of these mutual fund companies. More detailed information about the compensation that Baird receives from Schwab is also available on Baird's website at www.rwbaird.com/mutualfunds.

Alternative Investment Product Selling and Servicing. With respect to PAM client accounts subject to a commission-based fee arrangement, Baird and PAM receive transaction-based compensation related to sales of alternative investment products. This may provide Baird and PAM an incentive to favor alternative investments that pay higher compensation.

If an alternative investment product is registered as an investment company (that is, a mutual fund), Baird and PAM may receive compensation described in the section entitled "Mutual Fund Selling and Servicing" above.

More detailed information about the compensation that Baird or PAM receives from an alternative investment product and its sponsor is available in the offering documents for the alternative investment product and in Baird's Important Information about Your Investment series of disclosure documents, which are available on Baird's website at www.rwbaird.com/disclosures. Clients may also contact Baird or PAM for more specific information about the amount of compensation Baird or PAM may receive from the sale of alternative investment products.

Annuities and Insurance Product Selling and Servicing. Insurance companies compensate Baird and PAM for selling their insurance products. Baird and PAM are paid by the insurance companies in various forms including upfront commissions based upon the initial sale of the product and ongoing trail commissions or residuals relating to a client's continued holding of the product.

In addition to the compensation described above, Baird may receive additional financial support

from the insurance companies of certain products that it sells for training and educating PAM personnel. This support, which varies from insurance company to insurance company, is commonly referred to as “marketing support payments”. Receipt of marketing support payments may provide Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However, Baird does not consider the receipt of marketing support payments in compiling its “Baird Focus List” of insurance companies.

The marketing support payments that Baird receives from insurance companies are not paid to PAM and the compensation that Baird pays to PAM is not tied to such financial support.

More detailed information about the compensation that Baird and PAM receive from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird’s website at www.rwbaird.com/annuities.

Baird’s Other Financial Industry Activities

Investment Banking and Public Finance. Through its Investment Banking and Public Finance departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. In addition, certain PAM associates who refer securities underwriting or other business opportunities to the Investment Banking or Public Finance departments may be eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. Baird and PAM may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. However, Baird and PAM will only recommend such securities to a client when they believe it is in a client’s best interest to do so. Also, in accordance with applicable law and Baird’s policies, any securities underwritten by Baird will be sold to a client by PAM in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird’s and PAM’s interest in the transaction. For

more information, please see “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Principal Transactions” below.

Baird, by reason of its investment banking or other activities, may from time to time acquire information deemed confidential, material and non-public, about corporations or other entities and their securities. Baird, PAM and their associates are not permitted to divulge such information to any client or act upon such information with respect to a client’s account or their own accounts.

Cash Sweep Program. Baird and PAM offer to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or “swept” into an interest-bearing deposit account (the “Bank Sweep Option”) established by Baird with one or more banks selected by Baird for inclusion in the Cash Sweep Program. Certain clients who meet the eligibility requirements may, as an alternative, invest their cash in one or more taxable or tax-exempt money market mutual funds (the “Money Market Fund Option”) that Baird makes available as part of the Cash Sweep Program. The PrivateBank and Trust Company may from time to time hold client deposits under the Bank Sweep Option. Baird has an ownership interest in The PrivateBancorp, the parent company of the PrivateBank and Trust Company.

In addition to the asset-based fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for the provision of certain administrative, accounting and other services to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled “Baird’s Participation or Interest in Client Transactions—Baird’s Broker-Dealer and Related Activities—Mutual Fund Selling and Servicing—Marketing and Other Financial Support” above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with PAM. The compensation that Baird and PAM receive from the Bank Sweep Option and the Money Market Option gives them a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program.

More detailed information about the Cash Sweep Program and the compensation Baird and PAM receive is available on Baird's website at www.rwbaird.com/moneymarkets.

If a client holds mutual funds, alternative investment products, or any of the other investment products described above, Baird, PAM and their affiliates and associates will receive the fees and payments described above for the duration of the client's advisory relationship with PAM or Baird. In some circumstances, the receipt of such compensation may extend beyond a client's advisory relationship with PAM or Baird if the client continues to hold those assets at Baird.

Trust Service Providers. Baird maintains alliances with certain unaffiliated institutions that provide trust services. These unaffiliated institutions offer various types of trust services, including trust administration, custody, tax reporting and record keeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution.

Other Investment Products and Services. Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird and PAM. Baird and PAM may have an incentive to favor those investment products and services that generate a higher level of compensation than those that generate a lower level of compensation. For more information about the other investment products and services offered by Baird, clients should contact Baird or their PAM representative.

Agency Cross Transactions. In certain circumstances and to the extent permitted by applicable law and regulation, PAM may effect "agency cross" transactions through Baird with respect to a client's account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation

for its brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-2 under the Advisers Act. Furthermore, Baird will comply with additional conditions imposed by ERISA if the client account is a Retirement Account.

Where applicable, a client's advisory agreement discusses agency cross transactions and authorizes PAM to effect agency cross transactions for a client's account. **A client's authorization to PAM to effect "agency cross" transactions is given pursuant to Rule 206(3)-2 under the Advisers Act and may be withdrawn by a client at any time in client's sole discretion by sending written notice to PAM.**

Cross Trading Involving Baird Advisory Accounts. From time to time, when PAM believes that each respective transaction is consistent with the client's best interest, PAM, acting as investment manager, may cause (or in the case of Non-Discretionary accounts, recommend) the sale of securities from an advisory client's account while at or about the same time causing (or, in the case of Non-Discretionary accounts, recommending) the purchase of the same securities for the account of another advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

In such cases, because Baird is acting as investment adviser for both buyer and seller, Baird is subject to potentially conflicting interests in causing (or recommending) the transactions. Also, because Baird is acting as investment adviser for both buyer and seller, transaction prices may be determined more by reference to market information or dealer indications for the securities involved, and less through the type of independent arms-length negotiation that might otherwise occur. In these transactions, Baird seeks to obtain best execution for each respective advisory client and to ensure that each client receives fair and equitable treatment.

Principal Transactions. Subject to the requirements of applicable law, PAM may, when it is in the best interest of a client to do so, execute transactions for a client account while acting as principal for Baird's own account (that is, PAM may sell a security from Baird's inventory to a client, or PAM may purchase a security from a client for Baird's inventory). PAM engages in principal trades with clients in the Baird Advisory Choice Program.

In addition to the advisory fee paid by a client, PAM and Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup or markdown from the prevailing market price, an underwriting fee, selling concession, or other incentive to execute the transaction. In trading as principal with a client, PAM and Baird will have potentially conflicting division of loyalties and responsibilities regarding their own interests and the interests of the client. This profit potential may give PAM and Baird an incentive to recommend a transaction in which they act as principal. Nonetheless, PAM and Baird have a fiduciary duty to act in the best interest of clients and to obtain best execution for their advisory clients. Furthermore, Baird has adopted internal procedures designed to ensure that they will not act in a principal capacity for any transaction in an advisory client's account, absent disclosure of the transaction to the client, including all material information regarding Baird's or PAM's interest in the transaction, and the client's prior written approval of the transaction or unless otherwise allowed by applicable law, and provided that such transaction is not otherwise prohibited by ERISA.

A client's advisory agreement discloses, where applicable, the possibility of PAM's and Baird's role in potential principal transactions, and each transaction confirmation sent to PAM clients discloses the capacity in which Baird served in the transaction and whether Baird is a market maker in each security the client bought or sold.

To the extent not otherwise prohibited by ERISA, if a client selects non-discretionary advisory services to be provided by Baird or if a client selects third party investment advisors to manage the client's account, the client's advisory agreement provides PAM and Baird with a blanket authorization to act as principal for Baird's own

account in selling any security to or purchasing any security from the client's account. With this authorization, PAM and Baird may effect any and all principal transactions with the client's account without having to provide specific written disclosures and obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of Rule 206(3)-3T under the Advisers Act (including any amendments to such rule or successors to such rule) and/or other applicable rules and interpretations. **This authorization to enable PAM or Baird to trade as principal with a client's account may be revoked at any time by the client in client's sole discretion by notifying PAM in writing.**

PAM or Baird may also act as principal in selling securities to a client's account during offerings underwritten by Baird as further described above. In each such instance, PAM or Baird will provide certain disclosures about the transaction and obtain the client's consent to the trade.

Block Transactions. PAM may aggregate contemporaneous buy and sell orders for the accounts of its discretionary advisory clients ("block transactions"). This practice may enable PAM to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated.

The advisory clients participating in block transactions may not all be participants in the services described in this Brochure. All advisory clients participating in a block transaction will receive the same execution price for the security bought or sold. Average prices may be used when allocating purchases and sales to a client's account because such securities may be purchased and sold at different prices in a series of block transactions.

The amount of securities available in the marketplace, at a particular price at a particular time, may not satisfy the needs of all clients participating in a block transaction and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird has adopted trade allocation policies and procedures for PAM to follow that require PAM to make security allocations to client accounts in a manner such that all clients receive equitable

treatment. If a block transaction cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day will generally be allocated pro rata among the clients participating in the block transaction. However, PAM may also make random allocations to client accounts in certain circumstances, such as when PAM deems a partial fill for the total block order to be low. Adjustments to trade allocations may also be made, at the discretion of PAM, to take into consideration account specific investment restrictions, undesirable position size, account portfolio weightings, client tax status, client cash positions and client preferences. Adjustments may also be made to avoid a nominal allocation to a client account.

PAM generally aggregates buy and sell orders when executing trades for discretionary client accounts when it has the opportunity to do so. However, PAM determines whether or not to utilize block transactions for a client in its sole discretion and PAM's decision is subject to its duty to seek best execution. PAM will aggregate a client's trade orders only when PAM deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements. When PAM is not able to aggregate trades, PAM generally uses a trade rotation process that is designed to be fair and equitable to all PAM clients.

Because PAM is unable to buy or sell any security for a client's Non-Discretionary accounts without the client's authorization, PAM generally does not aggregate or bunch trades for the client's account with the same or similar trades for other client accounts and places orders for the client's account promptly after receiving the client's authorization to do so. Because similar orders for the client and PAM's other clients may be placed and filled at different times, the client may buy or sell securities at prices that are different from the prices obtained by other clients who received the same or similar advice from PAM.

Similarly, if a client account is subject to a directed brokerage arrangement, PAM may not be able to aggregate the client's account trades with orders for other PAM clients. Directed brokerage arrangement orders, because they are directed to the specified broker-dealer, may be manually executed by PAM after the trade execution is

completed for other PAM client accounts. Directed brokerage arrangements may cost the client more money as they may result in the client paying higher commissions and greater bid/offer spreads, or receiving a less favorable net price than the client may experience than if Baird executed trades for client's account.

Certain client accounts, including those of the mutual funds identified above, managed by PAM and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. This creates a potential conflict of interest as PAM and Baird may have an incentive to favor client accounts that generate a higher level of compensation than accounts with lower fee or commission rates. PAM and Baird address potential conflicts of interest posed by different client fee arrangements by complying with their fiduciary duties and avoiding or disclosing conflicts of interest to clients. Baird also adopted and enforces internal procedures designed to ensure that securities allocations made to advisory client accounts are made in a manner such that all advisory clients receive equitable treatment.

Trade Error Correction. It is Baird's policy that if there is a trade error for which Baird is responsible, trades will be adjusted or reversed as needed in order to put the client's account in the position that it would have been in as if the error had not occurred. Errors will be corrected at no cost to client's account, with the client's account not recognizing any loss from the error. The client's account will be fully compensated for any losses incurred as a result of an error. If the trade error results in a gain, the gain may be retained by Baird; however, any gain retained by Baird may not be used to offset previous losses charged to a Baird associate.

Baird offers many services and, from time to time, may have other clients in other programs trading in opposition to PAM clients' advisory accounts. To avoid favoring one client over another client, Baird attempts to use objective market data in the correction of any trading errors.

Interest in Other Client Transactions. Baird and PAM may recommend to clients, and may buy and sell for client accounts, securities in which Baird and its affiliates and associates have a

material financial interest. For more information, please see “Additional Information—Other Financial Industry Activities and Affiliations” above.

If PAM or Baird, or an affiliate or associate of them, receives any compensation or benefit described in this Brochure from or related to a client’s investment, they will generally retain the compensation or benefit. Except as otherwise described above, PAM and Baird generally do not rebate these amounts to a client’s account or credit the amount against the advisory fees payable by a client unless PAM or Baird may not keep such compensation under applicable law.

Review of Accounts

Client Account Review. Client accounts are monitored on an ongoing basis by the client’s PAM Manager and are subject to review by the PAM Manager’s Branch Office Manager (or his or her designee). The client’s PAM Manager generally reviews the performance of the client’s account at least quarterly. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client’s PAM Manager is required to review the client’s account’s daily trading activity. The Baird Branch Office Manager (or his or her designee) is also required to perform a quarterly review of his or her branch’s PAM Investment Management accounts, focusing on verifying that the PAM Manager’s composites of client accounts are being managed in accordance with the PAM Manager’s investment philosophy statement and that the client accounts within each composite are being treated equitably.

Performance and Account Reports. PAM is generally required to provide a written report to each client on the performance of the client’s accounts at least annually. However, performance reporting may not be available for account assets that are not custodied at Baird. Client performance reports usually contain a portfolio valuation and typically show the asset allocation of the client’s portfolio, changes in a client’s portfolio, and account performance compared to a benchmark market index or indices (such as the S&P 500® Index or the Barclays Capital U.S. Intermediate Government/Credit Bond Index). The benchmark may be a blended benchmark that combines the returns for two or more indices.

PAM or Baird may change or discontinue performance reporting to a client at any time for any reason upon notice.

Benchmarks shown in performance reports are for informational purposes only. Baird’s selection and use of benchmarks is not a promise or guarantee that the performance of a client’s account will meet or exceed the stated benchmark. When the client compares portfolio performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and does not take into account management fees, execution costs, and other expenses related to the operation of a portfolio. The securities included in a client’s portfolio generally do not mirror the securities included in the index.

The benchmarks used by Baird with respect to a client’s SMA may differ from the benchmarks used by the manager of the client’s SMA. As a result, the performance comparisons in Baird’s performance reports may differ from reports provided to clients directly by the investment manager for the client’s SMA.

If Baird provides transaction execution services to a client, Baird will generally provide the client with a monthly brokerage account statement when activity occurs during that month. Otherwise, Baird will provide the client with a quarterly statement if there has not been any intervening monthly transaction activity.

When preparing a client’s account statements and performance reports, Baird relies upon third parties, such as third party quotation services and custodians when determining the value of account assets. Baird does not conduct an in-depth review of valuation information provided by third party quotation services or custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client’s account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

Client Referrals and Other Compensation

Baird or PAM may provide compensation to individuals who refer clients in some instances. When applicable, the compensation paid is a percentage of the client's fee payments or the value of the client's account. The amount of compensation will vary, with the specific level determined based upon consideration of various factors including, but not limited to, the individual's role in developing the client relationship and the assets under management. Baird may pay these fees to registered representatives of Baird and its affiliates as well as to unaffiliated, solicitors that have entered into a written agreement with Baird.

Baird and its affiliates and associates may receive certain economic benefits, described in the sections entitled "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above, for providing investment advice or advisory services to clients.

Financial Information

PAM does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of Baird's most recent fiscal year. Neither Baird nor PAM is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

Special Considerations for Retirement Accounts

If a client is a Retirement Account, each owner, trustee or other fiduciary acting on behalf of the client understands that PAM or Baird may invest for the client, or recommend that the client invest in, Baird-affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each owner, trustee or other fiduciary acting on behalf of the client understands that when PAM or Baird invests with discretion the assets of a Retirement Account in a Baird-affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may

receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, PAM will waive its advisory fees on that portion of the assets invested in the Baird-affiliated investment product for such period of time so invested or PAM will offset the investment advisory fees received by Baird or any of its affiliates from the Baird-affiliated investment product against the advisory fee that PAM charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client acknowledges in the client's advisory agreement that: (i) the investment in Baird-affiliated investment products for the client's account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those funds; (ii) subject to PAM's investment strategies, all assets of the client's account may be invested in one or more of the Baird-affiliated investment products; (iii) the client received prospectuses or other disclosure documents for the Baird-affiliated investment products that may be used in connection with the account, each of which include a summary of all fees that may be paid by the Baird-affiliated investment products to Baird or its affiliates; and (iv) the client received information concerning the nature and extent of any differential between the rate of such Baird-affiliated investment products fees and the advisory fees payable by the client to PAM. The differential between the fees to be charged by PAM for the advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the Baird-affiliated investment products to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the Baird-affiliated investment products is the difference between PAM's fee disclosed in the client's advisory agreement and the applicable investment management, investment advisory and other similar fees detailed in the section entitled "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" above and/or in the relevant prospectus or other offering document for the Baird-affiliated investment product.

If the client is a Retirement Account, each owner, trustee or other fiduciary acting on behalf of the client understands that any directed brokerage arrangement must be for the exclusive benefit of

participants and beneficiaries of the Retirement Account and that the client must not constitute or cause the account to be engaged in a prohibited transaction as defined by ERISA. If the client is an ERISA plan, each trustee or other fiduciary acting on behalf of the client is responsible for adhering to the fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1 including, without limitation, the duty to determine that the directed brokerage arrangement decision has been made prudently in the interests of the plan participants and beneficiaries and that the specified broker-dealer executing the trades is capable of providing best execution.

Baird and PAM do not provide Retirement Account clients with recommendations or advice regarding the client's decision to retain investment managers that are affiliated with Baird, and Baird and PAM do not use their discretionary authority to retain investment managers that are affiliated with Baird to manage Retirement Accounts. Investment managers affiliated with Baird will be retained or removed from management from a Retirement Account only upon the client's direction to do so. For more information about investment managers that are affiliated with Baird, please see "Additional Information—Other Financial Industry Activities and Affiliations" above.