

# Baird Family Wealth Group

## Brochure

March 30, 2012



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**This brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Family Wealth Group ("FWG"), a team within Baird's Private Wealth Management department. Clients should carefully consider this information before becoming a client of FWG. If you have any questions about the contents of this Brochure, please contact FWG 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](http://www.adviserinfo.sec.gov).**

## Material Changes

Baird Family Wealth Group ("FWG"), a team within the Private Wealth Management department of Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A brochure (the "Brochure") on March 30, 2012. The following summary discusses the material changes that FWG has made to the Brochure since March 31, 2011, the date of the last annual update to the Brochure.

- FWG has updated information about the compensation Baird or FWG may receive from third parties relating to client investments and the compensation Baird may pay to FWG for referring business to other departments of Baird. See the Brochure section entitled "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" for more information.
- FWG has clarified that the discretionary authority granted to FWG 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 "Investment Discretion".
- Baird and FWG 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 FWG 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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## Advisory Business

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Family Wealth Group ("FWG"), a team within 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 an FWG 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.

## Robert W. Baird & Co.

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 advisory; 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 participates in wrap fee programs, including 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.

## Baird Family Wealth Group

This Brochure describes certain advisory services that FWG offers to clients ("Services"). Depending on their particular needs or objectives, clients of FWG may use some or all of these services. Services include: Financial Planning; Risk Analysis; Asset Allocation and Investment Strategy Development; Portfolio and Investment Management; and Consolidated Reporting. Upon a request from client, FWG may also offer other consulting services described below.

Generally, FWG conducts due diligence and provides clients with analysis and recommendations on investment managers and strategies. Investment strategies typically may include either public or private securities, private placements, limited partnerships, institutional mutual funds, exchange traded funds ("ETFs"). Often these investment managers or strategies may be affiliated with external custodians. FWG will assist clients in evaluating custodians and negotiating custodial fees, trading commissions, as well as, investment management fees. From time-to-time clients of FWG will request other services not listed in this brochure. FWG may provide these services as mutually agreed to by the client, FWG and Baird.

The Services may involve any combination of discretionary services, where a client provides Baird and/or FWG 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 FWG provide additional advisory services to the client (collectively "SMA Services").

FWG tailors its advisory services to the individual needs of clients. 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. FWG clients typically work with a Baird Financial Advisor who has been approved by Baird to provide the Services (an "FWG Consultant"). The client, with the assistance of an FWG Consultant, determines the services that are most appropriate given the client's goals and circumstances.

Subject to the agreement of FWG, a client may impose reasonable restrictions on the securities or types of securities to be held in the client's account. Please see "Investment Discretion" below for more information. Clients may negotiate with FWG to provide other investment advisory services.

The particular investment advisory services that FWG provides are further described below. The services offered by FWG 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 enter into a Family Wealth Group advisory agreement with FWG. 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 FWG.

In addition to the investment advisory services that FWG provides, Baird, in its capacity as broker-dealer, may provide clients with trade execution, custody and other standard brokerage services. For this reason, a client may 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 FWG, including any accounts that a client may open with FWG 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 FWG. FWG 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 FWG. 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 FWG.

FWG 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 FWG 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 FWG and Baird. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates (including FWG 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) FWG and Baird conduct their businesses in a manner that is consistent with the disclosures made.

FWG 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

**Financial Planning.** The Financial Planning Service includes a comprehensive development of a “financial framework” that is based upon an analysis of the client’s cash flow. Generally, this service includes tax and estate planning review and coordination with the client’s external professional providers.

**Risk Analysis.** When performing risk analysis services, FWG seeks to analyze and review with a client the risks identified in the financial planning process described above. FWG seeks to minimize investment risk through an asset allocation and investment strategy.

**Asset Allocation and Investment Strategy Development.** Using a variety of tools, including the financial framework, FWG will develop and recommend a long-term, strategic asset allocation and investment strategy appropriate for the client’s risk and return objectives. Investment strategies may involve the use of different portfolio equity styles or strategies, such as large cap growth, large cap value, small cap growth, small cap value, international and emerging market equities, different portfolio bond styles or strategies, such as short or intermediate, taxable and tax-exempt bonds, international and emerging market bonds, high yield bonds, different alternative investment styles or strategies, such as hedge fund, fund of hedge funds, private equity, fund of private equity funds, real estate and real estate funds, managed futures, and commodities.

**Portfolio and Investment Management.** If a client selects the Portfolio and Investment Management Service, FWG will manage a client’s portfolio using the asset allocation and investment strategy developed for the client described above. FWG’s management of client portfolios may involve a combination of management by FWG and/or other investment managers that may be affiliated or unaffiliated with Baird.

By retaining FWG, a client grants full discretionary authority and management of the client’s accounts to FWG. A client also provides FWG and the client’s FWG Consultant 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

FWG typically recommends or selects for client accounts investments in mutual funds and ETFs. However, from time to time, FWG may make or recommend investments in various other 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, 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 may be deposited in interest-bearing bank accounts.

Other investment managers selected to manage a client’s account 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.

Investment 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 client’s account may be held in cash or cash equivalents, including securities issued by money market mutual funds and deposits in interest-bearing bank accounts.

Notwithstanding the discretionary authority granted to FWG to select other investment managers, FWG 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. However, FWG 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.

If the client retains the authority to manage the client's portfolio, upon the client's request, FWG will provide consulting advisory services to the client by providing information and recommendations regarding investment managers and other investments for client's portfolio. The advice FWG provides is based upon the asset allocation and investment strategies developed for the client as described above. Unless specifically requested by the client, FWG does not perform a due diligence review of any investment manager managing client's assets.

FWG may use information provided by third parties, including but not limited to information provided by third party investment managers managing a client's assets, to acquire information in connection with making recommendations and performing the services to the client. FWG assumes the accuracy, completeness, and currentness of such information used by it in connection with the services provided and that FWG does not conduct an in-depth review of, or verify, such information.

**Consolidated Reporting.** Clients of FWG receive a performance report and asset allocation report each quarter. Generally, this report covers all accounts and asset classes specified in the advisory agreement. For the convenience of clients of FWG, reports may include information, usually related to client's personal assets, that is provided by the client and is not covered by the advisory agreement. If a third party reporting company is used, Baird, FWG or the client may pay an additional fee to the third party for this service. FWG provides analysis of both performance and asset allocation decision to the client on a quarterly basis.

**Client Selected Managers Service.** The Client Selected Managers Service is a service a client may elect 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 FWG 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 FWG. 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, FWG 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. FWG 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 FWG 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 FWG Manager. FWG and Baird do not undertake to provide any investment advisory services other than those specifically requested by a client and agreed to by FWG.

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 FWG, and FWG may accept, full discretionary authority to select investment managers to manage the client's CSM accounts as described above under "Portfolio and Investment Management" above. Any such arrangement will be set forth in the client's advisory agreement.

**Additional Consultant Services.** FWG offers the following additional consultant services.

*Investment Policy Statement.* FWG 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.* FWG 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 FWG and provided by the client. The client is solely responsible for determining whether the information taken into account by FWG in formulating an Asset Allocation Report is accurate and complete.

*Investment Manager Search Report.* FWG 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 FWG. FWG 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 FWG responsible for an unaffiliated investment manager's compliance with applicable law or for matters beyond FWG's reasonable control.

*Investment Manager Search Interviews.* FWG 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.* FWG 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. FWG is not responsible for verifying information supplied by the client or its agent(s).

*Performance Monitoring Reports.* FWG 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.

### Additional Service Information

**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.

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

Under certain circumstances, Baird and FWG, 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 FWG do not manage or provide advice regarding such asset. Baird and FWG, in their sole discretion, may also designate an asset that is otherwise eligible for FWG accounts as "unsupervised" under certain circumstances, such as when a client continues to hold an asset against Baird's or FWG'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 FWG 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 FWG representative for further information.

FWG 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.

**Updating Client Information.** A client is responsible for providing information to FWG and any third party investment managers managing client's account reasonably requested by them in order to provide the services selected by the client. FWG and third party investment managers will rely on this information when providing services to the client. A client is also responsible for promptly informing FWG 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, FWG, or any third party investment manager is responsible for any adverse consequence arising out of the client's failure to promptly inform FWG 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. FWG 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 FWG to implement a particular investment strategy for tax purposes, and FWG agrees to implement such strategy, neither Baird nor FWG will be responsible for the development, evaluation or efficacy of any such strategy.

## Fees and Compensation

### Advisory Fee

#### Fee Options

A client's advisory agreement will set forth the actual compensation the client will pay for FWG'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. There are generally two (2) asset-based fee options available for each Service: a Flat/Hourly Fee or a Tiered Fee.

*Flat/Hourly Fee.* Certain services, such as financial planning, may be offered for a flat or hourly fee.

*Tiered Fee.* Under a tiered fee arrangement, the asset-based fee will vary for different segments of client assets, gradually decreasing as the account balance increases. For example, a client with an account value of \$75 million may pay one rate on the first \$25 million of assets in the account, a lower rate on the next \$25 million of assets in the account and a still lower rate on the remaining \$25 million of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

In addition, the fee may be a fixed percentage across all asset categories, may be a percentage that varies by asset category (e.g., equity and fixed-income securities may have a different applicable fee rate).

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 tiered and breakpoint fee schedules and minimum account sizes that apply to each Service are shown below.

**Fee Schedule.** The following fee schedule sets forth the maximum fee rates charged by FWG for the Services. *A client should note that the asset-based fee shown below does not include the advisory fees payable to any investment managers who are selected to manage all or a portion of a client's account.*

**Baird Family Wealth Group**  
**Fee Schedule**

**Portfolio and Investment Management Service**

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On first \$25 million	0.60%
On next \$25 million	0.45%
On next \$25 million	0.30%
On next \$25 million	0.15%
Above \$100 million	Negotiable

**Client Selected Managers Service**

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$250,000	3.00%
Next \$250,000	2.50%
Next \$500,000	2.25%
Next \$1,000,000	2.00%
Next \$3,000,000	1.75%
Above \$5,000,000	1.50%

**Calculation of Fees.** Baird will calculate FWG'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, a FWG'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 FWG 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.

FWG'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.

FWG's fees and charges will be automatically deducted from the client's account, unless the client elects, and FWG 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. FWG or Baird may automatically debit a client's account for the fees and other charges in the event that FWG does not receive payment from the client within thirty (30) days of the invoice. FWG or Baird may rescind a direct billing arrangement with a client at any time.

FWG 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 FWG 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. FWG makes no fee adjustment during any fee period for asset value appreciation or depreciation in a client's account during a billing period. However, FWG, 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 FWG'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.

The minimum asset value in order to retain the services of FWG is \$25 million, and a minimum annual fee of \$150,000 may be assessed to a client regardless of the level of assets advised by FWG. FWG may waive the minimum asset value or minimum fee at its discretion. The minimum fee is subject to change upon notice to the client.

FWG'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 schedule 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, FWG makes other compensation options available to eligible clients besides hourly and asset-based fees, such as a fixed dollar amount.

The fee schedule set forth above is the current fee schedule 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.

### Other Fees and Expenses

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

In addition to FWG's fee described above, a client of FWG will incur other fees and expenses. The asset-based fee only covers investment advice provided by FWG, and a client will pay for other services, such as custody and trade execution, separately in addition to FWG's fee. Please see the section "Brokerage Practices" below for more information.

A client also 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, FWG'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 FWG'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.

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 FWG may also have other accounts with Baird that are not managed by FWG. 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 FWG.

### Other Compensation Received by FWG and Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its Financial Advisors, including FWG Consultants, are registered broker-dealer representatives of Baird. In such capacities, Baird and FWG Consultants provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird and FWG Consultants receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and FWG Consultants an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and FWG Consultants are fiduciaries and are required to act solely in the best interest of clients and to avoid or disclose conflicts of interest. Baird addresses these potential conflicts by adopting and enforcing policies and procedures that are designed to ensure that Baird and FWG comply with their fiduciary duties as is further described under the section "Advisory Business—The Client-Baird Advisory Relationship" above. 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 "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

FWG will purchase for client accounts, or will recommend the purchase of, various investment products, including "no load" mutual fund or mutual funds with waived sales loads. A client has the option to purchase investment products through other brokers or agents that are not affiliated with Baird.



## Performance-Based Fees and Side-By-Side Management

FWG 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 FWG) 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.

## Types of Clients

FWG offers the Services primarily to: high net worth individuals and their families and businesses. FWG also provides services to other types of current or prospective clients, including, but not limited to: 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 section entitled "Fees and Compensation—Advisory Fee" above.

## Methods of Analysis, Investment Strategies and Risk of Loss

### Investment Strategies and Methods of Analysis

**Portfolio and Investment Management Service.** When providing advice to clients, FWG starts with the "financial framework" and risk analysis developed for a client in connection with the financial planning process described above. Using a variety of tools, FWG then develops and recommends a long-term, strategic asset allocation and investment strategy appropriate for the client's risk and return objectives. FWG develops a customized asset allocation strategy by dividing client assets into what FWG views as "less risky" and "more risky" asset classes. FWG then develops an investment strategy by diversifying the client's portfolio among different investments in each asset class with the goal to manage risk. Investment strategies may involve the use of different portfolio styles or strategies, such as large cap growth, large cap value, small cap growth, small cap value, international and emerging market equities, different portfolio bond styles or strategies, such as short or intermediate, taxable and tax-exempt bonds, international and emerging market bonds, high yield bonds, different alternative investment styles or strategies, such as hedge fund, fund of hedge funds, private equity, fund of private equity funds, real estate and real estate funds, managed futures and commodities.

From time to time, and depending on macroeconomic conditions, FWG may also recommend or implement a slight, short-term tactical tilt to the client's chosen asset allocation that is above or below the long-term strategic asset allocation.

When recommending or selecting other investment managers to manage a client's account, FWG typically utilizes managers included on Baird's Recommended Managers List. Although in some circumstances, FWG may select a manager to manage a client's account that is not included on Baird's Recommended Managers List.

FWG 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 selected asset allocation and investment strategy. Before selecting or recommending a manager to a client, FWG performs its own quantitative and qualitative analysis of the manager, focusing on the manager's performance and factors FWG believes will help a manager repeat historical performance such as the investment process and personnel, organizational and investment structure. FWG also focuses on the risk and investment style relative to other investment strategies already in a client's portfolio. FWG generally relies upon Baird's Advisory Research group to provide ongoing review and evaluation of managers on Baird's Recommended Managers List. To the extent a manager is not on Baird's Recommended Managers List, FWG will perform ongoing review and evaluation of the manager using its own quantitative and qualitative analysis described above. FWG will remove a manager from management of a client's account when the manager is removed from Baird's Recommended Managers List or if FWG determines that removal is in the client's best interest.

To the extent FWG manages a client portfolio, FWG recommends or selects investments based upon the client's asset allocation and investment strategy. FWG typically uses mutual funds and ETFs, although other types of securities may be recommended or selected.

When recommending or selecting a particular fund for client accounts, FWG begins by reviewing a client's asset allocation and investment strategy needs and identifying the characteristics of the types of funds appropriate for the client. Once the characteristic types of mutual funds and/or ETFs are identified, FWG looks for funds that meet those requirements. FWG tends to look for passively managed funds when selecting funds that invest primarily in equity securities and actively managed funds when selecting funds that invest primarily in fixed-income securities. FWG also looks for funds that have higher trading volumes and lower expense ratios. Once FWG has identified a potential fund for a client, FWG conducts a quantitative and qualitative analysis of the investment manager for the fund similar to the analysis it performs on investment managers described above.

FWG 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, and research reports created by other departments of Baird. FWG 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 FWG uses information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

FWG may use Baird's Recommended Managers List, Baird's Recommended Mutual Fund List and lists of alternative investments that Baird has deemed eligible for use in the Services. For more information about how Baird selects managers for its Recommended Managers List, and how Baird constructs its Recommended Mutual Fund List and lists of eligible alternative investments, see "Portfolio Manager Selection and Evaluation", "Baird's Recommended Mutual Fund List" and "Alternative Investments", respectively 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 FWG's professional judgment, may be appropriate to help the client pursue the client's financial goals, but that Baird and FWG do not represent or guarantee that such investment products are or will be the best investment products available.

*Baird's Recommended Managers List.* 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 Baird Investment Management ("BIM"), an investment management department of Baird, have been selected by Baird for inclusion on Baird's Recommended Managers List.

Clients should note that an investment manager managing the client's account may not be on Baird's Recommended Managers List. A client should understand that Baird and FWG do not perform any due diligence or ongoing monitoring, evaluation or reviews of investment managers, except to the extent FWG otherwise specifically agrees to do so.

Unless the client has granted full discretion to FWG to manage a client's portfolio, a client is solely responsible for the appointment and continued retention of investment managers and the selection of investments. 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. FWG and Baird assume no responsibility for the client's selection or termination of an investment manager, the manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

*Baird's Recommended Mutual Fund List.* FWG 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 or 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 Baird Funds, Inc. ("Baird Funds"), which is affiliated with Baird, has been selected by Wilshire Associates for inclusion in Baird's Recommended Mutual Fund List.

#### *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, FWG 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, FWG 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, FWG 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 "Other Financial Industry Activities and Affiliations—Affiliated Private Equity Funds" below.

FWG may also manage client assets using other investment strategies and investment products based upon a client's particular needs. FWG 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.

**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 FWG Consultant for more information. In addition, the client’s FWG 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.

### 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 FWG 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 FWG representative of these considerations so the FWG 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.** A portfolio with a high turnover rate will incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also 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](http://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](http://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](http://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, the Financial Industry Regulatory Authority ("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](http://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](http://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 FWG Consultant.

## 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](http://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.

FWG Consultants and certain other of Baird's and FWG'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 FWG 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 FWG 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 FWG 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 FWG 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](http://www.bairdfunds.com).

Certain Baird Funds have been selected by Baird for inclusion on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to FWG 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-advisor 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-advisor 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 FWG 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 FWG 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.

If a client expresses an interest, FWG may refer clients to BPE. FWG does not charge fees on client assets invested in private equity funds affiliated with Baird. Instead, the general partner of the private equity fund may provide compensation to the client's FWG representative for referring the client to BPE. 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 FWG 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 FWG 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. Baird and FWG 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. If a client is paying commissions to FWG for advisory services it provides to the client (in those advisory programs in which commissions may be charged), Baird and FWG personnel could have a financial incentive to favor an investment management firm that trades actively, thereby executing more trades and generating higher compensation for Baird and FWG personnel. However, Baird and FWG 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 FWG 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 Baird's 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 FWG to use a designated broker-dealer for trade execution (a "directed brokerage arrangement"), and if the designated broker-dealer referred the client to FWG or if the particular broker-dealer refers other clients to FWG in the future, FWG may benefit from the client's directed brokerage arrangement. Because of these potential benefits, FWG may have an economic interest in having the client continue the directed brokerage arrangement. The benefits FWG receives may conflict with the client's interest in having FWG 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. FWG 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 FWG 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 FWG 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*

Sales Charges. With respect to FWG client accounts subject to a commission-based fee arrangement, a mutual fund may compensate Baird and FWG based on the front-end or back-end sales charges ("loads"), if any, paid by the client. This may provide Baird and FWG an incentive to favor mutual funds that have higher sales charges.

Distribution (12b-1) and Shareholder Servicing Fees. Baird and FWG provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to FWG clients that hold shares of such mutual funds in their accounts. Baird and FWG 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 FWG 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 FWG account and the client is paying an asset-based fee to FWG 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 FWG. Accordingly, the receipt of these fees provides Baird and FWG an incentive with respect to non-Retirement Accounts managed directly by FWG 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 serving 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 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 FWG 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 or Recommended Mutual Fund List.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to FWG, and the compensation Baird pays to FWG is not tied to such payments. FWG personnel may, however, receive non-cash compensation and other benefits from Baird. 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.

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 FWG, and the compensation that Baird pays to FWG 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 FWG clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird and FWG 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 FWG 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 FWG account and client is paying an asset-based fee to FWG on such investment, Baird rebates such distribution (12b-1) fees and other shareholder servicing fees to the client's FWG account, except for any non-Retirement Account managed directly by FWG. Accordingly, the receipt of these fees may provide Baird and FWG an incentive with respect to non-Retirement Accounts managed directly by FWG 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 FWG 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](http://www.rwbaird.com/mutualfunds). Clients may also contact Baird or FWG for more specific information about the amount of compensation Baird or FWG 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](http://www.rwbaird.com/mutualfunds).

*Alternative Investment Product Selling and Servicing.* With respect to FWG client accounts subject to a commission-based fee arrangement, Baird and FWG receive transaction-based compensation related to sales of alternative investment products. This may provide Baird and FWG 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 FWG may receive compensation described in the section entitled "Mutual Fund Selling and Servicing" above.

More detailed information about the compensation that Baird or FWG 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](http://www.rwbaird.com/disclosures). Clients may also contact Baird or FWG for more specific information about the amount of compensation Baird or FWG may receive from the sale of alternative investment products.

*Annuities and Insurance Product Selling and Servicing.* More detailed information about the compensation that Baird and FWG 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](http://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. Baird 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 FWG 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 FWG 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 FWG'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, FWG 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 FWG 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 FWG. The compensation that Baird and FWG 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 FWG receive is available on Baird's website at [www.rwbaird.com/moneymarkets](http://www.rwbaird.com/moneymarkets).

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

**Agency Cross Transactions.** In certain circumstances and to the extent permitted by applicable law and regulation, FWG 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 FWG to effect agency cross transactions for a client's account. **A client's authorization to FWG 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 FWG.**

**Cross Trading Involving Baird Advisory Accounts.** From time to time, when FWG believes that each respective transaction is consistent with the client's best interest, FWG, 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, FWG 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, FWG may sell a security from Baird's inventory to a

client, or FWG may purchase a security from a client for Baird's inventory).

In addition to the advisory fee paid by a client, FWG 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, FWG 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 FWG and Baird an incentive to recommend a transaction in which they act as principal. Nonetheless, FWG 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 FWG'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 FWG's and Baird's role in potential principal transactions, and each transaction confirmation sent to FWG 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 FWG 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, FWG 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 FWG 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 FWG in writing.**

FWG 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, FWG or Baird will provide certain disclosures about the transaction and obtain the client's consent to the trade.

**Interest in Other Client Transactions.** Baird and FWG 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 "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" below.

*If FWG 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, FWG 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 FWG or Baird may not keep such compensation under applicable law.*

## Brokerage Practices

### Broker-Dealer Selection

Clients generally give FWG the authority to determine independently the specific broker(s) or dealer(s) used to execute trades for their accounts. FWG selects brokers or dealers to execute a client's transactions based on the broker or dealer's ability to provide best execution for the client. When selecting a broker or dealer, FWG and Baird may consider the following factors: client preferences; research services (including strategy reviews, domestic and international economic analysis, technical commentary and other materials); execution capability and past execution performance; commission rates; financial standing of executing firm and counterparty risk; timeliness in rendering services; availability, cost and quality of

custodial services; and continuity and quality of the overall provision of services. From time to time, clients may direct FWG to execute trades through Baird. See "Directed Brokerage" below.

### Soft Dollar Benefits

FWG and Baird may receive research (in addition to execution services) from broker-dealers in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". FWG has no formal soft dollar arrangements requiring a fixed minimum level of commissions. However, some unaffiliated broker-dealers and other research services, periodically advise FWG and/or Baird of certain suggested minimums related to specific levels of service with respect to direct trading access, access to research analysts, invitations to industry conferences, contact with specialists and other matters. Under these arrangements, FWG may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits. However, FWG and Baird will seek to obtain commission rates that they consider appropriate for each client for the level and quality of service received from brokerage firms.

During Baird's last fiscal year ended December 31, 2011, FWG and Baird received no soft dollar benefits in connection with effecting FWG client transactions. However, Baird and FWG may receive soft dollar benefits in connection with effecting FWG client transactions in the future.

When FWG and Baird use client brokerage commissions (or markups or markdowns) to obtain research, FWG and Baird receive a benefit because FWG and Baird do not have to produce or pay for the research themselves. FWG and Baird, therefore, may have an incentive to select or recommend a broker-dealer based on their interest in receiving soft dollar benefits, rather than on clients' interest in receiving most favorable execution. However, FWG and Baird seek to select broker-dealers based upon the broker's or dealer's ability to provide best execution. Furthermore, FWG does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

Research services provided by internal and external sources are used in managing client

accounts and, in the business judgment of FWG, are important to each client; although, perhaps, in differing degrees at different times. As a general matter, such research services, including soft dollar benefits, are used to service all FWG client accounts. However, each and every research service may not be used to service each and every account managed by FWG, and FWG does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Accordingly, research that FWG receives for a particular client's securities transactions may not be particularly useful for that client or may be useful not only for that client but for other clients as well. Similarly, clients may benefit from the research received from the transactions of other clients. Research information and its application and the interpretation of its worth are matters of professional judgment made by FWG.

### Block Transactions

FWG may aggregate contemporaneous buy and sell orders for the accounts of its discretionary advisory clients ("block transactions"). This practice may enable FWG 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. A client's commissions or transaction costs may vary depending upon, among other things, the type of advisory client account and the commission rate that the client has negotiated.

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 FWG to follow that require FWG 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, FWG may also make random allocations to client accounts in certain circumstances, such as when FWG deems a partial fill for the total block order to be low. Adjustments to trade allocations may also be made, at the discretion of FWG, 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.

FWG generally aggregates buy and sell orders when executing trades for discretionary client accounts when it has the opportunity to do so. However, FWG determines whether or not to utilize block transactions for a client in its sole discretion and FWG's decision is subject to its duty to seek best execution. FWG will aggregate a client's trade orders only when FWG 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 FWG is not able to aggregate trades, FWG generally uses a trade rotation process that is designed to be fair and equitable to all FWG clients.

Because FWG is unable to buy or sell any security for a client's Non-Discretionary accounts without the client's authorization, FWG 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 FWG'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 FWG.

Similarly, if a client account is subject to a directed brokerage arrangement, FWG may not be able to aggregate the client's account trades with orders for other FWG clients. See "Directed Brokerage" below.

Certain client accounts, including those of the mutual funds identified above, managed by FWG 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 FWG 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. FWG 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.

In connection with the execution of block transactions, FWG may, on occasion, employ the use of "step-outs" to satisfy client directed brokerage arrangements. A "step-out" typically occurs when an executing broker executes the trade at no commission and then "steps out" the trade to a clearing broker that confirms and settles the trade.

### Directed Brokerage

FWG will comply with any guidelines and/or limitations reasonably requested by a client relating to brokerage for the client's account that are contained in the client's advisory agreement. Specific guidelines and/or limitations requested by clients vary from client to client based upon a client's particular objectives and other factors.

If a client's account is subject to a directed brokerage arrangement, FWG may be unable to achieve best execution for the client's transactions because FWG cannot negotiate better prices and lower commission rates for the client, nor can FWG aggregate the client's account trades with orders for other FWG clients in order to seek volume discounts. 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 if FWG negotiated commission rates and spreads and selected broker-dealers to execute trades for client's account. Directed brokerage arrangement orders, because they are directed to the specified broker-dealer, may be



manually executed by FWG after the trade execution is completed for other FWG's client accounts.

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

Before directing FWG to use a particular broker-dealer, clients may wish to compare the possible costs or disadvantages of directed brokerage arrangements.

### Other Brokerage Matters

If Baird, as broker-dealer, 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 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 FINRA, including "omnibus" accounts established for the purpose of combining orders for more than one client.

### 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 FWG 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.

## Review of Accounts

### Client Account Review

Client accounts are monitored on an ongoing basis by the client's FWG Consultant and are subject to review by the FWG Consultant's Branch Office Manager (or his or her designee). The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's FWG 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 accounts managed directly by FWG, focusing on verifying that the FWG Consultant's composites of client accounts are being managed in accordance with the FWG Consultant's investment philosophy statement and that the client accounts within each composite are being treated equitably.

### Performance and Account Reports

FWG 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.



FWG 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 FWG 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 "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above, for providing investment advice or advisory services to clients.

## Custody

Each client is responsible for appointing the client's custodian, which will have possession of the assets of the client's account and settle transactions for the account. Clients may choose Baird or a service provider unaffiliated with Baird to serve as custodian.

Certain Services may require clients to custody their account assets at Baird. However, FWG 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 FWG's fee and may not receive performance review or reporting from Baird or FWG.

A client who uses a third party custodian authorizes FWG 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 client 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 FWG or at [www.rwbaird.com](http://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.

### Investment Discretion

A client retains complete trading authorization over assets in a Non-Discretionary Service account, and FWG 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 FWG to manage the client's account in accordance with the portfolio strategy selected by the client and authorizes FWG 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 FWG complete and unlimited trading authorization and appoints FWG as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, FWG 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 FWG, 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 FWG terminates an investment manager from management of a client's account, a client authorizes FWG 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. FWG'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. FWG 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 FWG or a third party investment manager, shall remain in full force and effect until terminated by the client or FWG.

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 FWG or a client's investment manager has discretion.

In the event that a client's account is restricted from investing in certain securities, FWG 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 FWG 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.

FWG 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 FWG, a client consents to FWG 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 "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" above and/or the prospectus or other offering documents for the investment product. FWG will use its discretionary authority to invest the client's account in Baird-affiliated investment products when FWG determines it to be in the client's best interest to do so. The criteria used by FWG 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.

## Voting Client Securities

### Non-Discretionary Services

Under the Non-Discretionary Services, 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 FWG are under no obligation to take any action or render any advice regarding such matters. The client's FWG Consultant 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 Consulting 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 FWG 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 (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 FWG. If a client delegates voting authority to FWG, FWG 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 FWG votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between FWG's or Baird's interests and those of their clients. Although a description of Baird's proxy voting policies and procedures is provided below, FWG will furnish a copy of Baird's proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how FWG actually voted proxies with respect to the securities held in their accounts by contacting their FWG Consultant or by calling (414) 765-3500.

In situations in which a client has delegated to FWG voting authority with respect to securities in the client's account, FWG will monitor corporate events and vote proxies in a manner that FWG believes is consistent with the client's best interests. FWG 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 FWG will actually vote on particular issues. FWG will generally vote proxies with respect to equity securities for client accounts based on the recommendations of ISS; however, the client's FWG Consultant may suggest voting against ISS's recommendations when the client's FWG Consultant determines it to be in the clients' best interests to do so. The FWG Consultant also may suggest how to vote on a particular matter not

addressed by ISS. When an FWG Consultant suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the FWG Consultant 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 FWG'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 FWG would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. FWG 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 FWG discretionary voting authority may do so by contacting their FWG Consultant. However, neither Baird nor the client's FWG Consultant will provide a client with notice of any proxy solicitation if FWG has been granted discretionary authority.

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

### Financial Information

FWG 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 FWG 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 FWG 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 FWG 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, FWG 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 FWG 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 FWG 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 FWG'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 FWG. The differential between the fees to be charged by FWG 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 FWG'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 "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.

If client is a Retirement Account and the client authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the client's account and to receive commissions for such services, the arrangement is subject to DOL PTE 86-128. DOL PTE 86-128 exempts from certain ERISA and corresponding Internal Revenue Code restrictions a fiduciary's use of its authority to cause an ERISA qualified plan, plan participant or IRA to pay a fee (including a commission) for effecting or executing securities transactions for that plan or account, as agent, but only to the extent that such transactions are not excessive, under the circumstances, in either



amount or frequency. DOL PTE 86-128 contains a number of conditions that must be satisfied, including written authorization from the client to effect or execute securities transactions for the client's account, which authorization is terminable at will, at any time, without penalty; delivery to the client of trade confirmations or quarterly statements showing the securities transactions that were effected for the client's account and the commissions incurred by the client and retained by FWG or Baird, and annual summaries of such transaction information. FWG and Baird are also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to FWG and Baird to effect or execute securities transaction for the client's account. To ensure that the client has sufficient information on which to determine whether such authorization should be made, FWG and Baird provide certain clients with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the description of Baird's brokerage placement practices set forth below. Baird also will provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to DOL PTE 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of payment for order flow, although Baird receives such payments on limit orders routed to and executed on the NASDAQ Stock Market and on orders for stock options routed to Interactive Broker. Baird also does not place orders with market makers or other third parties for the purpose of compensating such firms for their

efforts in marketing Baird-affiliated mutual funds. Baird may place orders for securities transactions with third party broker-dealers and other firms that provide research products and services to Baird.

Baird and FWG 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 FWG 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 "Other Financial Industry Activities and Affiliations" above.