

# Baird Kailash Group, LLC

## **Brochure**

March 31, 2014

Baird Kailash Group, LLC  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202  
Toll Free: 800-792-2473

This brochure ("Brochure") provides information about the qualifications and business practices of Baird Kailash Group, LLC ("BKG"). Clients should carefully consider this information before becoming a client of BKG. If you have any questions about the contents of this Brochure, please contact BKG 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 BKG is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Baird Kailash Group, LLC ("BKG") updated its Form ADV Part 2A brochure (the "Brochure") on March 31, 2014. The following summary discusses the material changes that BKG has made to the Brochure since October 28, 2013, the date of the last annual update to the Brochure.

- BKG has updated the information about its regulatory assets under management and certain of its affiliates. See the sections of the Brochure entitled "Advisory Business" and "Other Financial Industry Activities and Affiliations" for more information.
- BKG has updated the information about its soft dollar benefits. See the section of the Brochure entitled "Brokerage Practices—Soft Dollar Benefits" for more information.
- BKG has updated information about certain risks of investing, including those associated with rising interest rates and the tapering of quantitative easing by the Federal Reserve Board. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Recent Market Events" for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since October 28, 2013. The updated Brochure contains changes that are not listed above.

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## Advisory Business

This Brochure describes the investment advisory services that Baird Kailash Group ("BKG") offers to its clients.

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

## Baird Kailash Group, LLC

BKG is a research and asset management firm formed in the State of Wisconsin in 2013.

BKG is owned indirectly by its associates and associates of Robert W. Baird & Co. Incorporated ("Baird") through several holding companies. All of the voting interests of BKG are owned directly by Baird Financial Corporation ("BFC"). BFC is, in turn, owned by Baird Holding Company ("BHC"). BHC is owned by Baird Financial Group, Inc. ("BFG"), which is the ultimate parent company of BKG. Associates of Baird and BKG own substantially all of the outstanding stock of BFG. BKG may be deemed to be affiliated with Baird by virtue of the fact that they are under common control. See "Other Financial Industry Activities and Affiliates" below for more information.

In its research and asset management business, BKG uses investment methodologies that employ a proprietary mix of quantitative and fundamental processes to evaluate individual stocks and construct portfolios. The investment methodologies used by BKG combine quantitative and fundamental analyses. BKG's investment approach is designed to find undiscovered value by ferreting out atypically high-quality businesses for their level of valuation. BKG's processes assess quality across many metrics and then identify stocks that may not be appropriately valued. The methodologies, algorithms, models, trade secrets and other intellectual property used by BKG in its research and asset management business have been developed and are owned by Kailash Capital, LLC ("Kailash Capital"), and have been licensed to BKG. For more information on the investment methodologies used by BKG, see "Methods of Analysis, Investment Strategies and Risk of Loss" below.

BKG participates in wrap fee programs not described in this Brochure and provide portfolio management services in connection with those programs. BKG will receive a portion of the wrap fee for providing portfolio management services under those wrap fee programs.

As of December 31, 2013, BKG had approximately \$28.2 million in regulatory assets under management, all of which was managed on a discretionary basis. BKG did not manage any assets on a non-discretionary basis as of that date.

## The Client-BKG Fiduciary Relationship

BKG has registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). BKG is deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure.

From time to time BKG 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 BKG. BKG generally addresses potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure, brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with BKG. In addition, BKG has adopted internal policies and procedures for BKG and its associates that require them to: provide investment advice that is appropriate for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of interest; act with utmost care and good faith in dealings with advisory clients; and seek to obtain "best execution" of advisory client transactions. The specific business practices that create potential conflicts of interest with clients and additional measures used by BKG to address them are discussed in other sections of this Brochure.

*A client should note that registration as an investment adviser does not imply a certain level of skill or training.*

### **Baird Kailash Group's Advisory Services**

BKG provides two investment advisory businesses to clients: research services and asset management services. BKG specializes in quantitative analysis and generally limits its advisory services to equity securities as is more specifically described under the heading "Methods of Analysis, Investment Strategies and Risk of Loss" below.

#### **Research Services**

BKG's research business consists of the generation and distribution of research to certain institutional clients. The research primarily consists of the production of monthly ranking files of issuers' equity securities, based on investment methodologies that use a proprietary mix of quantitative and fundamental processes. It may also involve model portfolios, lists, screens and picks derived from the ranking files. BKG may also produce customized research for institutional clients upon request. BKG also provides periodic white papers on various topics. Additional information about BKG's research services is contained under the heading "Methods of Analysis, Investment Strategies and Risk of Loss" below.

BKG does not tailor its research services to the individual needs of clients who receive the research. The research distributed by BKG alone is not intended to be individualized investment advice or recommendation regarding securities, and does not provide a sufficient basis upon which to make an investment decision. The research provided by BKG does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of clients. Recipients of the research should consider the contents thereof as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in the research. Institutional clients that receive BKG's research are assumed to be capable of and are in fact conducting their own analyses and making their own decisions on what securities to purchase, hold or sell, and evaluating investment risks. While the research contains information and uses data from public sources believed to be reliable, BKG does not guarantee the accuracy of the contents of the research. BKG does not undertake

any obligation to update the information contained in its research.

#### **Asset Management Services**

As part of its asset management business, BKG manages client portfolios with full discretionary authority.

The investment advisory services offered by BKG in connection with its asset management business generally include portfolio management, investment advice and consulting services, performance reporting, and related account services.

BKG's asset management business includes management of mutual funds and client accounts focused on publicly traded stocks of U.S. companies with large market capitalizations. BKG's investment decisions are based on its investment methodologies that use a proprietary mix of quantitative and fundamental processes. Additional information about BKG's asset management services is contained under the heading "Methods of Analysis, Investment Strategies and Risk of Loss" below.

BKG typically tailors its asset management services to the individual needs of clients seeking equity investments by recommending a model portfolio investment strategy that corresponds to the information provided by the client.

Subject to the agreement of BKG, 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 BKG to provide other investment advisory services.

All of the investment advisory services discussed in this Brochure may not be appropriate for every client. BKG will only select or recommend those strategies believed to be suitable for a particular client.

A client who wishes to retain the services of BKG will enter into an investment management agreement with BKG. The investment management agreement will contain the specific terms applicable to the client's advisory relationship with BKG.

A client is responsible for providing to BKG information that BKG reasonably requires in order to provide the services selected by the client including, but not limited to, any investment policy statement and anticipated liquidity needs. BKG will rely on this information when providing its advisory services. A client is also responsible for informing BKG in writing of any material change in circumstances that might materially affect the manner in which the client's assets should be invested.

*Subadvisory Relationships.* In some instances, BKG may act as subadvisor for a client's account. Clients who select BKG to manage their assets as a subadvisor typically do so under either a "single contract" or "dual contract" arrangement.

Under a single contract arrangement, a client enters into an agreement with the client's primary advisor and the primary advisor, in turn, enters into a subadvisory or similar agreement with BKG on the client's behalf. This type of arrangement is frequently referred to as a single contract arrangement because there is only one contract between the client and the primary advisor; the client does not have an agreement directly with BKG. Clients with single contract arrangements typically pay an asset-based fee to the primary advisor and, out of that fee, the primary advisor pays an advisory fee to BKG. In those instances, the client's agreement with the client's primary advisor will contain the specific terms applicable to the client's advisory relationship, if any, with BKG.

Under a dual contract arrangement, the client has two contracts; one contract with the client's primary advisor and another contract with BKG. Clients with a dual contract arrangement pay to BKG an advisory fee in addition to the fee they pay to their primary advisor.

BKG provides subadvisory services in one of two ways. First, BKG may manage client portfolios with full investment discretion. Alternatively, BKG may provide the client's primary advisor with model portfolios, or other advice or consulting services regarding the asset allocation strategies, that the primary advisor provides to the client.

If BKG is selected to manage a client's portfolio, BKG will manage the client's portfolio with full investment discretion. Unless the client or

primary advisor directs BKG to do otherwise, BKG will select the broker-dealers that will execute client trades.

If BKG provides the client's primary advisor with model portfolios, advice or consulting services, BKG will not manage the client's portfolio or select broker-dealers to execute client trades.

*Important Note for Wrap Fee Program Clients.* BKG participates in wrap fee programs sponsored and administered by Baird and unaffiliated parties (the "Program Sponsors"). A list of Program Sponsors is included on Schedule D to BKG's Form ADV Part 1A, which is available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Under such wrap fee programs, Program Sponsors generally assist a client with the selection of BKG (or may have the discretion to select BKG) to manage the assets in the client's account maintained at the Program Sponsor. They generally also provide trade execution services and custodial services for the client's account as part of the wrap fee paid by the client.

To the extent deemed appropriate by BKG pursuant to its duty to seek best execution, BKG may place orders with broker-dealers other than the Program Sponsor. *As a result, a client may incur costs in addition to the wrap fee paid to the Program Sponsor if the executing firm charges a commission, markup or markdown for executing the trade. Clients participating in wrap fee programs are encouraged to read carefully the Section below entitled "Brokerage Practices" for more information.*

As compensation for its services, BKG receives an advisory fee. In some cases, the Program Sponsor pays to BKG a portion of the wrap fees that a client pays to the Program Sponsor. In other cases, such as a "dual contract" arrangement, the client directly pays BKG an advisory fee, which is in addition to the wrap fee the client pays to the Program Sponsor. If a client is participating in a wrap fee program, the client should review the client's agreement with the Program Sponsor and the Program Sponsor's Form ADV Part 2A Brochure for a full description of the services provided and fees charged by the Sponsor.

## Fees and Compensation

### Advisory Fee

#### Research Services

BKG typically receives a fixed monthly fee for its provision of research. Currently, BKG delivers its research to Baird who then distributes the research to its institutional clients, and Baird pays a fixed fee for the research. The institutional clients who receive BKG's research from Baird do not pay BKG for the research. The amount of the fee to be paid by Baird to BKG is subject to change by mutual agreement.

#### Asset Management Services

If a client receives asset management services from BKG, the client's investment management agreement will set forth the actual compensation the client will pay to BKG. In most instances, a client pays BKG an ongoing fee based upon the value of assets in the client's account (an "asset-based fee"). The typical asset-based fee varies depending upon the total value of the client's assets in the account, as shown in the fee schedule below.

#### BKG Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$10,000,000	0.75%
On the next \$40,000,000	0.60%
On the remaining assets	0.50%

BKG will calculate its 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 held for investment.

For purposes of calculating a client's asset-based fee, the value of assets in a client's account is generally determined by BKG. BKG generally determines the value of the assets in the client's account using prices from third party pricing services. However, if the client has its assets custodied with a custodian other than Baird and if the third party pricing service does not provide a price for assets in the client's account, BKG will rely upon the price reported by the client's third party custodian. In some cases, BKG obtains the prices from the issuers or sponsors of the investment products held in the client's account. This frequently occurs with respect to the valuation of alternative investment products in a

client's account. BKG does not conduct an in-depth review of valuation information provided by third party pricing services, issuers, sponsors or custodians, and they do not verify or guarantee the accuracy of such information. The prices obtained by BKG from the third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used for fee-calculation purposes may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an account.

If a client maintains a balance in the client's margin account with BKG, such balance has no bearing on the asset-based advisory fees charged on client's account. In other words, the margin balance (i.e., the outstanding amounts of the margin loan a client owes to BKG) in client's account will not be applied to reduce the client's billable account value in calculating the advisory fee. For purposes of determining the asset-based advisory 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 advisory fee on options, the absolute value of the current market price of the option will be used.

The account value used for the advisory fee calculation may differ from that shown on a client's account statement or performance report due to a variety of factors, including the client's use of margin, options, short sales, and other considerations. If a client has assets held by a custodian other than Baird, 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 BKG due to the use of different valuation sources by the custodian and BKG.

A client's fees are payable in accordance with the terms of the client's investment management agreement. Typically, fees are payable on a calendar quarterly basis, in advance. The initial billing period begins when the client's investment management agreement is signed by the client and accepted by BKG (the "Opening Date"). The initial fee payment will be adjusted for the number of days remaining in the then current

quarter. The initial advisory 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.

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

BKG may modify a client's existing fees and other charges or add additional fees or charges by providing the client with sixty (60) days' prior written notice.

If either BKG or the client terminates the client's investment management agreement, 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. Generally, BKG will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust advisory fees during any such period for asset value appreciation or depreciation in a client's account during such period. For example, if a client's account is subject to a tiered or breakpoint fee schedule and the asset levels of the account move into a new tier or cross a breakpoint during such period, no rebate or fee adjustment will be made. However, BKG, 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.

Some or all of the assets in a client's account may be invested in an institutional share class of one or more mutual funds within Baird Funds, Inc. (the "Baird Funds"), for which Baird serves as investment advisor and for which BKG may serve as investment subadvisor.

The minimum asset value to open an account is typically \$5,000,000. BKG generally imposes a minimum annual fee of \$7,500. Unless otherwise agreed in writing, the minimum fee will apply if a client's portfolio asset value falls below the minimum account value.

The advisory fee and minimum account value applicable to a client are negotiable in certain instances and may vary based upon a number of factors, including but not limited to, whether a client is participating in a wrap fee program, 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. BKG may enter into other fee arrangements with eligible clients.

*Subadvisory Relationships.* In some instances, BKG may act as subadvisor for a client's account. In those instances, the client's primary advisor is typically responsible for paying BKG's fee out of the primary advisor's fee. As such, the client's fee is typically calculated by the client's primary advisor. The portion of the fee paid to BKG may vary from client to client based upon the rate negotiated by the client's advisor, taking into account the investment strategies being pursued, the amount of client assets involved, and the level of services to be provided. Specific information on the advisory fee payable to BKG will be provided by the client's primary advisor.

*Wrap Fee Programs.* Clients who select BKG to manage their assets within wrap fee programs typically do so under either a "single contract" or "dual contract" arrangement.



Clients with single contract arrangements typically pay an asset-based wrap fee to the Program Sponsor and, out of that wrap fee, the Program Sponsor pays an advisory fee to BKG. The portion of the wrap fee paid to BKG varies from program to program based upon the rate negotiated by the Program Sponsor, taking into account the investment strategies being pursued, the amount of client assets involved, and the level of services to be provided. Specific information on the advisory fee payable to BKG will be provided by the applicable Program Sponsor. For information on the amount, calculation and billing of the wrap fee charged by the Program Sponsor, clients should consult with the Program Sponsor or refer to their wrap fee program agreement or the Program Sponsor's Form ADV Part 2A Wrap Fee Program Brochure.

Clients with a dual contract arrangement pay to BKG an advisory fee in addition to the wrap fee they pay to the Program Sponsor. BKG's advisory fee under a dual contract arrangement is negotiable and may vary depending upon the investment strategies being pursued, the amount of client assets involved, and the level of services to be provided. The actual fee that the client will pay to BKG will be set forth in the client's investment management agreement with BKG. BKG will generally calculate and charge such client fees in the manner more fully described above.

In most cases, the wrap fee paid by a client includes only certain trade orders executed through the Program Sponsor. A client should be aware that BKG may frequently "trade away" from the Program Sponsor. A client may, therefore, incur trading costs in addition to the wrap fee paid to the Program Sponsor. See "Brokerage Practices" below for more information.

### Other Fees and Expenses

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

A client is responsible for bearing or paying, in addition to BKG's fee, the costs of all:

- commissions, markups, markdowns, and spreads charged by broker-dealers that buy securities from, or sell securities to, the client's account (such costs may be inherently reflected in the price the client pays or receives for such securities);
- underwriting discounts, dealer concessions or similar fees related to the public offering of investment products;
- custody fees;
- extra or special fees or expenses that may result from the execution of odd lot trade orders (i.e., "odd-lot differential");
- electronic fund fees, wire transfer fees, and similar fees or expenses related to account transfers;
- currency conversions and transactions;
- securities conversions, including, without limitation, the conversion of ADRs to or from foreign ordinary shares;
- interest, fees and other costs related to margin accounts, short sales and options trades;
- fees related to the establishment, administration or termination of Retirement Accounts, retirement or profit sharing plans, trusts or any other legal entity;
- fees imposed by the SEC or securities markets, including transaction fees imposed by electronic trading platforms, which fees may be imbedded in the price the client receives for the security; and
- taxes imposed upon or resulting from transactions effected for a client's account, such as income, transfer or transaction taxes, or any other costs or fees mandated by law or regulation.

Certain investment products, such as mutual funds, ETFs, and other similar investment pools (collectively, "investment funds") have their own internal fees and expenses that are borne either directly or indirectly by their holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees,

custody fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing operating expenses"). These ongoing operating expenses are separate from, and in addition to, BKG's fee. As a result of making investments in these types of products, 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 operating expenses and BKG's fee. A client is also responsible for any redemption fees or similar fees that the fund or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment fund in which the client invests for further information.

### **Other Compensation Received by BKG**

BKG and its associates do not receive commissions or similar compensation based upon the sale of securities or other investment products. BKG 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 BKG.

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

BKG does not currently advise client accounts 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.

### **Types of Clients**

BKG offers its services to all types of current or prospective clients, including, but not limited to: individuals; foundations; pension and profit sharing plans; trusts; estates; charitable organizations; financial institutions; insurance companies; investment advisers; corporations or other business entities; sovereign wealth funds; registered investment companies. Applicable requirements for opening or maintaining an account with BKG, 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**

### **Research Services**

BKG's research business consists of the generation and distribution of research to selected institutional clients. The research primarily consists of the production of monthly ranking files for companies with small and middle market capitalizations based on numerical expressions of fundamental and technical constructs using quantitative investment methodologies that consider an atypically large number of diverse inputs to screens stocks in the small/mid cap universe. BKG also produces model portfolios, lists, screens and picks derived from the ranking files based on perceived client expectations. BKG also produces monthly ranking files for companies with large market capitalizations and related model portfolios, screens, lists and picks or produce customized research files to a small number of institutional clients upon request. BKG also writes periodic white papers on various topics.

### **Asset Management Services**

BKG anticipates that, initially, it will offer its mutual fund and separate account clients a large cap equity strategy.

BKG may expand its asset management business to provide discretionary investment advice to clients and funds that employ other equity-based strategies based on BKG's investment methodologies, processes and models.

BKG may also manage client assets in accordance with other investment strategies specifically designed for a client in light of a client's particular needs. Although the quantitative models are used as the basis for all portfolios BKG manages, individual clients may have investment guidelines differing from those utilized by the quantitative models. In these cases, BKG works with the client to establish portfolio guidelines that address all of the relevant investment objectives, restrictions and policies.

A client's portfolio may target the annual rate of return of a specific benchmark index or indices (such as the S&P 500® Index) that BKG determines relevant. The benchmark may also be a blended benchmark that combines the returns for two or more indices. The securities selected by

BKG for client accounts generally will not mirror the assets in their respective benchmark indices. There can be no assurance that any particular strategy will be successful in achieving the client's investment goals and objectives.

### Methods of Analysis

BKG's investment methodologies employ a proprietary mix of quantitative and fundamental processes to evaluate individual stocks and construct portfolios. BKG's research and asset management businesses both employ these processes. Quantitative investment analysis is a method of evaluating securities by analyzing a large amount of data through the use of algorithms or models to generate an investment decision. Fundamental analysis involves a bottom-up approach to investing through a detailed analysis of specific companies, including their financial statements and financial ratios, management, competitive advantages and markets, in an attempt to determine the value of its stock. BKG's methodologies combine quantitative and fundamental analyses. BKG's investment approach is designed to find undiscovered value by ferreting out atypically high-quality businesses for their level of valuation. BKG's processes assess quality across many metrics and then identify stocks that may not be appropriately valued. These processes allow BKG to compare the relative merits of every company with equity securities traded in the U.S. in its applicable universe. The methodologies, algorithms, models, trade secrets and other intellectual property used by BKG are developed and owned by Kailash Capital, LLC ("Kailash Capital") and have been licensed to BKG.

The portfolio decision-making process is primarily quantitative and driven by proprietary models which rank securities based on fundamental measures of value, past performance and indicators of recent positive changes. Investment decisions are primarily implemented using the quantitative model. In addition to a quantitative assessment, BKG evaluates the outputs from the models based on regular fundamental analyses and uses such evaluation to identify process-oriented items to improve the model. More specifically, characteristics or items identified as potential risks or opportunities on a fundamental level are tested to see if they are actionable and can be part of a repeatable investment process. This is done primarily by incorporating relevant

fundamental analysis-based insights into the underlying model as and when deemed necessary.

Stocks are evaluated on many variables or factors that can be classified broadly into various categories including, but not limited to, "valuation" and "earnings quality." "Valuation" contains traditional measures such as the dividend-to-price ratio and the earnings-to-price ratio, and "earnings quality" is used to assess the quality of earnings using measures such as accounting accruals and inventory turnover. Other variables focus on measures of analysts' forecasts, balance sheet quality, market movements and return patterns including short and long-term price momentum. Final suitability for investment is determined after imposing additional sorting and merging procedures using some or all of these variables.

Using inputs whose genesis is fundamental in nature, BKG deploys its proprietary quantitative process to provide discretionary asset management services to clients. Currently, the discretionary asset management services are focused on common stocks of U.S. companies with large market capitalizations, but may also consider U.S. listed stocks of companies domiciled outside the U.S. As a result of BKG's processes a client's long positions will tend to include companies whose cash-flows and/or growth prospects are priced at levels where history has shown the potential for higher than average returns on a risk adjusted basis. When BKG's fundamental analysis leads BKG to identify empirically relevant pools of risk or return, these items may also be incorporated in the models. BKG's fundamental process is rarely implemented on a qualitative idiosyncratic basis.

The models are intended to take advantage of marketplace anomalies and, therefore, a client's portfolio may be significantly weighted toward one or more economic sectors. Similarly, it is also possible a client portfolio will have no exposure to one or more economic sectors. BKG's quantitative investment processes do not limit exposure to any individual economic sector. When weighted toward one or more economic sectors, a client portfolio is subject to the risk that adverse events, changes or developments within a particular sector or major companies in that sector may result in a meaningful decline in the value of the client portfolio.

BKG's investment strategies are designed for sophisticated investors with clearly-defined long-term investment goals, as they involve substantial risks. Clients are urged to review the section "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below.

### **Complex Investment Techniques**

#### **Short Selling**

For certain accounts, BKG will engage in short selling based on BKG's processes that identify stocks that appear to be meaningfully overvalued and ripe for a price correction. BKG's process in the shorting of securities is similar to that for selecting long positions.

When selling securities short, BKG borrows securities from a broker-dealer and sells them at a particular price on the belief it will be able to buy the securities at a lower price in the future, make a profit and close out the loan. BKG will engage in short sales of stocks of companies that it believes are meaningfully overpriced. However, it is possible that the prices of stocks that BKG sells short may increase in value, in which case BKG may lose money on the short position. Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

#### **Options**

BKG may also engage in options transactions, including buying and writing puts and calls on individual securities or ETFs, for certain client accounts.

With a call option, the purchaser has the right to buy, and the seller (writer) the obligation to sell, the underlying security or index at a predetermined price (i.e. the exercise or strike price) prior to expiration of the option. The premium paid to the seller (writer) for the option is in consideration for the underlying obligations imposed on the seller should the option be exercised. With a put option, the purchaser has the right to sell, and the seller has the obligation to buy, the underlying security or index at the exercise price prior to expiration of the option.

In buying a call option, the purchaser expects that the market value of the underlying security or index will appreciate, which would enable the purchaser of a call to buy the underlying security or index at a strike price lower than the prevailing market price. The purchaser of the call option makes a profit if the prevailing market price is greater than the sum of the strike price plus the premium paid for the option. The seller of a call option earns income in the form of the premium received from the purchaser for the option and expects that the market value of the underlying security or index will depreciate such that the option will expire without being exercised. The seller of a call option makes a profit if the prevailing market price of the underlying security or index is less than the sum of the strike price plus the premium received.

In buying a put option, the purchaser expects that the market value of the underlying security or index will depreciate, which would enable the purchaser of a put to sell the underlying security or index at a strike price higher than the prevailing market price. The purchaser of the put option makes a profit if the prevailing market price is less than the sum of the strike price and the premium paid for the option. The seller of a put option earns income in the form of the premium received from the purchaser for the option and expects that the market value of the underlying security or index will appreciate such that the option will expire without being exercised. The seller of a put option makes a profit if the prevailing market price of the underlying security or index is greater than the difference between the strike price and the premium.

In purchasing a put or call option, the purchaser faces the risk of loss of the premium paid for the option if the market price moves in a direction opposite to what the purchaser had expected. In selling or writing an option, the seller faces significantly more risk. A seller of a call option faces the risk of significant loss if the prevailing market price of the underlying security or index increases above the strike price, and a seller of a put option faces the risk of significant loss if the prevailing market price of the underlying security or index decreased below the strike price. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

## Leverage

BKG may use leverage in the form of short selling and other borrowings to potentially enhance performance. Leverage provides a means of providing exposure to investments whose value exceeds the amount of capital needed to obtain such exposure. While leverage can potentially enhance returns, it can also exacerbate losses if there are adverse changes in the values of the investments being financed with borrowings. Those losses may exceed the initial costs of the investments. Leverage may also increase a portfolio's volatility. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

## Portfolio Investments

BKG generally invests client accounts in, and provides advice on, equity securities (exchange-listed, over-the-counter, American Depositary Receipts ("ADRs"), and foreign-issued). In addition, BKG may invest client assets in securities of investment companies, such as money market funds, mutual funds, ETFs, other registered investment companies, and other investment pools that invest in securities or track securities-related indices. BKG may also invest client accounts in other types of investments, such as warrants, debt securities, commercial paper, and certificates of deposit, in certain circumstances.

BKG may also invest a client's account in complex, alternative investment products, such as hedge funds or other private funds. BKG may also engage in short selling and margin transactions for client accounts. In addition, BKG may invest client accounts in options or futures. The use of these strategies and products involves special risks, and a client should not engage in these strategies unless the client understands these risks. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

## Principal Risks

Risk is inherent in any investment in securities and BKG 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. A BKG client may be subject to certain risks, including, but not limited to, the risks described below. The risks discussed below vary by investment style or strategy, and may or may

not apply to a client. A client should also review the prospectuses or other disclosure documents for the securities purchased for the client's account, as they will contain important information about the risks associated with investing in such securities.

*Quantitative Model Investment Risks.* The success of the quantitative investment methodologies and processes used by BKG depends on the analyses and assessments that were used in developing such methodologies and processes, as well as on the accuracy and reliability of models and data provided by third parties. Incorrect analyses and assessments or inaccurate or incomplete models and data would adversely affect performance. Additionally, BKG's methodologies and processes are predictive in nature, based on historical outcomes and trends. Certain low-probability events or factors that are assigned little weight may occur or prove to be more likely or may have more relevance than expected, for short or extended periods of time, which may adversely affect the portfolios generated by BKG's quantitative methodologies and processes. It is also possible that prices of securities may move in directions that were not predicted by BKG's quantitative methodologies and processes or may fail to move as much as predicted, for reasons that were not expected. There can be no assurance that these methodologies will enable a client to achieve its objective.

*Sector Risks.* BKG's quantitative investment processes do not limit exposure to any individual economic sector. At times, a client's account may be weighted towards one or more economic sectors. When so weighted, the account is subject to the risk that adverse events, changes or developments within a particular sector or major companies in that sector may result in a meaningful decline in the value of the account.

*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 Risks.* BKG's judgments about the attractiveness, value and potential appreciation of particular companies' stocks or, in the case of short selling, about the relative overvalue and potential depreciation of particular stocks, may prove to be incorrect. Such errors could result in a negative return and a loss to clients.

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

*Investment Style Risks.* From time to time and often for extended periods of time, certain investment styles may be in favor while other investment styles may be out of favor. When a certain investment style is out of favor, the performance of that style and stocks that meet the parameters of that style may be weaker than styles and stocks that are in favor. For instance, when the market favors a growth style of investing, growth stocks (e.g., stocks with high price-to earnings or price-to-sales ratios or stocks that have experienced or are perceived as having potential for significant revenue or earnings growth) may perform significantly better than value stocks. While BKG considers both growth and value factors in its investment processes, BKG may have a tendency to be more value-oriented.

*Equity Securities Risks.* Equity securities may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect the securities markets in general, such as adverse changes in economic conditions, the general outlook for corporate earnings, interest rates or investor sentiment. Equity securities may also lose value because of factors affecting an entire industry or sector, such as increases in production costs, or factors directly related to a specific company, such as decisions made by its management.

*Common Stock Risks.* Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation

and interest rates; economic expansion or contraction; and global or regional political, economic and banking crises. Holders of common stocks are generally subject to greater risk than holders of preferred stocks and debt obligations of the same issuer because common stockholders generally have inferior rights to receive payments from issuers in comparison with the rights of preferred stockholders, bondholders and other creditors.

*Capitalization Risks.* Certain portfolios invest primarily in large cap stocks, which perform differently from, and at times worse than, stocks of medium and smaller cap companies. Other portfolios invest primarily 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 small- and mid-size companies may be substantially less than is typical of larger companies. Therefore, the securities of small- and mid-size 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.

*Exchange-Traded Funds Risks.* The price of an ETF can fluctuate within a wide range, and a client could lose money investing in an ETF if the prices of the securities owned by the ETF go down. In addition, ETFs are subject to risks that the market price of ETF shares may trade at a discount to their NAV, an active trading market for ETF shares may not develop or be maintained, or trading of ETF shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.

*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, foreign currency price movements, 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.

*Hedge Funds and Other Private Funds Risks.* In limited circumstances, BKG may use hedge funds and other private funds for client portfolios. Hedge funds and other private funds are complex investments that have unique tax characteristics and significant, special risks. As a result, they may not be suitable for all clients. A client should consult with a tax advisor before investing in these funds. Investment advisers or managers for these funds often receive a management fee plus incentive or performance-based compensation. Investing in these funds involves special risks, including, but not limited to, portfolio investment risk, leverage risk, market and valuation risk, conflicts of interest risk, price volatility risk, liquidity risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

*Leverage or Margin Risks.* The strategy used for a client's account may involve leveraging, which may include the use of margin. Leveraging strategies may amplify the impact of any increase or decrease in the value of underlying securities in the client's account, thereby increasing a client's risk of loss. Strategies involving margin can cause a client to lose more money than deposited in the client's margin account, and a client should not engage in margin or leveraging strategies unless the client is prepared to experience significant losses in the value of the client's account.

*Options, Futures, and Short Sales Risks.* The strategy used for a client's account may involve the use of options, futures, short sales or other derivative instruments. 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 account's value. The use of these strategies is not

appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to experience significant losses in the client's account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value.

*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 typically seek to preserve the value of an 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.

*Recent Market Events.* U.S. and international markets have experienced extreme price volatility, reduced liquidity, credit downgrades, increased likelihood of default and valuation difficulties in recent years, particularly in the fixed income markets. Rising interest rates and the tapering of quantitative easing by the Federal Reserve Board may increase the potential for market volatility. In addition, any uncertainty or controversy regarding the U.S. government's statutory debt ceiling may impact the U.S. long-term sovereign credit rating and may cause market uncertainty. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on a client's portfolio.

## **Disciplinary Information**

There are no legal or disciplinary events that relate to BKG or its business operations.

## **Other Financial Industry Activities and Affiliations**

BKG is registered with the SEC as an investment adviser under the Advisers Act. Certain management persons of BKG are registered, or have an application pending to register, as

registered representatives and associated persons of BKG or Baird to the extent necessary or appropriate to perform their job responsibilities.

BKG is affiliated with certain investment advisors, broker-dealers and investment products that are identified below, including certain mutual funds, ETFs private equity funds and hedge funds. Certain management persons of BKG may invest in those funds.

From time to time, BKG may recommend that clients invest assets with those investment advisors or in investment products that are affiliated with BKG. Such recommendation of affiliated advisors or investment products creates a potential conflict of interest because BKG and/or its 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. BKG addresses this potential conflict through disclosure in this Brochure. Further, when acting as a fiduciary investment adviser, BKG is required to select or recommend affiliated investment products only when it determines it to be in the client's best interest to do so.

### **Affiliated Investment Advisors and Broker-Dealers**

BKG is affiliated, and may be deemed to be under common control, with Baird by virtue of their common indirect ownership by BFG. Baird is based in Milwaukee, Wisconsin. Baird is registered with the SEC 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: investment advisory and asset management services (including management of mutual funds); 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. As described above, BKG provides research to clients. BKG has agreed to provide research to Baird's Institutional Equity Services Department ("IES") Department. Baird's IES Department, in turn, distributes research to certain of its institutional clients. BKG receives a fee from Baird for providing that research. *Due to*

*its affiliation with Baird, BKG has a financial incentive to favor Baird investment products and services.*

BKG is affiliated, and may be deemed to be under common control, with Riverfront Investment Group, LLC ("Riverfront") by virtue of their common indirect equity ownership by BFG. Additional information about Riverfront is available in Riverfront's Form ADV Part 2A Brochure.

BKG is affiliated, and may be deemed to be under common control, with Greenhouse Funds LP ("Greenhouse") by virtue of their common indirect ownership by BFG. Greenhouse acts as investment manager to certain hedge funds that are available to BKG clients. *Due to its affiliation with Greenhouse, BKG has a financial incentive to favor Greenhouse investment products and services.*

### **Affiliated Mutual Funds and ETFs**

BKG serves as sub-adviser to a mutual fund series of the Baird Funds. As compensation for those services, BKG receives fees from such Baird Fund, which fees are disclosed in the Fund's prospectus and statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). Baird is also the investment adviser, principal underwriter and administrator for the Baird 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).

Baird serves as investment sub-adviser to a mutual fund series of the Bridge Builder Trust. Additional information about that mutual fund, including information relating to the compensation paid to Baird by that fund for investment management services, is available in the fund's prospectus and statement of additional information.

Baird also serves as investment sub-adviser to a mutual fund series of the Principal Funds, Inc. Additional information about that mutual fund, including information relating to the compensation paid to Baird by that fund for investment management services, is available in the fund's prospectus and statement of additional information.



Riverfront acts as investment sub-adviser for certain mutual fund series of the Financial Investors Trust and certain ETFs that are part of the ALPS ETF Trust. Additional information about those mutual funds and ETFs, including information relating to the compensation paid to Riverfront by those funds for investment management services, is available in each fund's prospectus and statement of additional information.

### **Affiliated Private Equity Funds**

BKG may also be deemed to be affiliated with certain private equity funds due to its affiliation with Baird. Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. Baird Capital 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 Venture Partners Management Company IV, LLC ("BVP IV"); 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, BVP III and BVP IV 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 Conduct Authority and is the manager of certain partnerships formed to acquire businesses and make investments across a range of industry sectors.

### **Affiliated Hedge Funds**

Greenhouse acts as investment manager to certain hedge funds that are available to BKG clients. *Due to its affiliation with Greenhouse, BKG has a financial incentive to favor those hedge funds.*

### **Other Related Parties**

While all of the voting securities of BKG are indirectly owned by BFG, Kailash Capital has a non-voting, economic interest in BKG. The quantitative and fundamental methodologies, investment models and other intellectual property involved in BKG's provision of advisory services, is owned by Kailash Capital. Kailash Capital has granted to BKG a license to use Kailash Capital's intellectual property for the purpose providing its advisory services. Kailash Capital also provides certain related consulting services to Baird and BKG. In consideration for the license and consulting services, Kailash Capital receives a fee from Baird and BKG. A BKG portfolio manager has an ownership interest in Kailash Capital and may therefore be considered to be affiliated with Kailash Capital. That portfolio manager therefore has a financial incentive to continue using, or recommend the continued use of, Kailash Capital's intellectual property when advising clients. BKG addresses this potential conflict through disclosure in this Brochure and by monitoring performance of BKG client accounts generally.

That same portfolio manager also has an ownership interest in L2 Asset Management, LLC ("L2") and may therefore be considered to be affiliated with L2. L2 is an asset management firm that provides investment advice and investment management services to clients. That portfolio manager also acts as a portfolio manager for L2. Some accounts managed by L2 may be subject to performance-based fees. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Performance-based fee arrangements present a potential conflict of interest for the portfolio manager because such arrangements give the portfolio manager an incentive to favor client accounts subject to performance-based fees. The portfolio manager attempts to minimize potential conflicts of interest posed by performance-based fee arrangements through trade allocation procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such client accounts managed by the portfolio manager receive fair and equitable treatment.

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

### **Code of Ethics**

Subject to the restrictions described below, BKG 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 BKG clients. These transactions may include trading in securities in a manner that differs from, or is inconsistent with, the advice given to BKG 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 BKG and its affiliates and associates.

To address the potential for conflicts of interest, BKG has adopted a Code of Ethics (the "Code") that applies to its associates who provide investment advisory services to clients or 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 BKG's Chief Compliance Officer before executing a trade. The Code provides for certain exceptions deemed appropriate by BKG's Chief Compliance Officer. In addition, orders for the accounts of Access Persons and other BKG associates that are under discretionary management by BKG may be aggregated with orders for other BKG 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.

BKG has also implemented certain policies and procedures relating to BKG's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of BKG's advisory clients. For example, Baird's Compliance Department monitors the personal trading activities of all of BKG's associates providing advisory-related services to clients.

### **BKG's Participation or Interest in Client Transactions**

Certain client accounts managed by BKG 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 BKG may have an incentive to favor client accounts that generate a higher level of compensation.

BKG addresses these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for BKG that require it to provide investment advice that is appropriate for advisory clients (based upon the information provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment.

Other sections of this Brochure also describe instances when BKG may recommend to clients, and may buy and sell for client's account, securities in which BKG 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 BKG 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, BKG generally does not rebate these amounts to a client's account or credit the amount against the advisory fees payable by a client unless BKG may not keep such compensation under applicable law.*

## **Brokerage Practices**

### **Broker-Dealer Selection**

BKG will select the broker-dealers that will execute trade orders for a client's accounts unless the client has provided instructions to BKG to the contrary. As an investment adviser, BKG has an obligation to seek "best execution" of client trade orders. "Best execution" means that BKG must place client trade orders with those broker-dealers that BKG believes are capable of providing the best qualitative execution of client trade orders under the circumstances, taking into account the full range and quality of the services offered by the broker-dealer. When selecting a broker or dealer, BKG 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. It is important to note that BKG's best execution obligation does not require BKG to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as BKG reasonably believes that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances.

### **Soft Dollar Benefits**

BKG 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". In accordance with

applicable law and its policies, BKG may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers who provide execution-only services in return for soft dollar benefits. However, BKG will seek to obtain commission rates that it considers appropriate for each client for the level and quality of service received from brokerage firms.

The research services received by BKG may be proprietary research offered by the broker or dealer executing a client transaction or it may be research offered by a third party through the broker or dealer executing a client transaction. BKG anticipates that some of the brokerage commissions paid by BKG clients will be paid to brokers and dealers that provide research services to BKG. BKG anticipates that brokerage commissions on equity security transactions will generally range between \$0.01 and \$0.02 per share.

During BKG's last fiscal year ended December 31, 2013, BKG had no formal soft dollar arrangements. However, beginning in 2014, BKG had one formal soft dollar arrangement involving third party research. In connection with such arrangement, BKG places trades with a designated executing broker-dealer (currently, Stifel Nicolaus) at the rate of \$0.02 per share, of which \$0.01 per share is retained by the broker-dealer for trade execution and the remaining \$0.01 per share is placed into a research credit account and used to pay for the research provided by third parties.

Some broker-dealers may indicate to BKG the amount of commissions they expect to receive in exchange for the provision of a particular research service. Although BKG will not agree to direct a specific amount of commissions to a firm in that circumstance, it anticipates that it will maintain an internal procedure to identify the broker-dealers that provide BKG with research services and the value of those research services, and seek to direct sufficient commissions to ensure the continued receipt of research services it feels are valuable.

The research information so received is in addition to, and not in lieu of, services performed by BKG and does not reduce the advisory fees payable to BKG by clients. As a practical matter, it

would not be possible for BKG to generate all of the information presently provided by brokers and dealers. When BKG uses client brokerage commissions (or markups or markdowns) to obtain research, BKG receives a benefit because BKG does not have to produce or pay for the research itself. BKG, therefore, may have an incentive to select or recommend a broker-dealer based on BKG's interest in receiving soft dollar benefits, rather than on clients' interest in receiving most favorable execution. However, BKG seeks to select broker-dealers based upon the broker's or dealer's ability to provide best execution. Furthermore, BKG 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 BKG, are important to each client; although, perhaps, in differing degrees at different times. As a general matter, such research services, including soft dollar benefits, will likely be used to service all BKG client accounts. However, each and every research service may not be used to service each and every account managed by BKG, and BKG does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Accordingly, research that BKG 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 BKG.

### **Trade Aggregation, Allocation and Rotation Practices**

BKG may aggregate contemporaneous buy and sell orders for the accounts over which it has discretionary authority (a practice also known as bunching trades or block transactions). This practice may enable BKG to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also assist BKG in potentially avoiding an adverse effect on the price of a security that could result from simultaneously

placing a number of separate, successive or competing, client orders.

BKG generally aggregates buy and sell orders when executing trades for client accounts under its discretionary management when it has the opportunity to do so. However, BKG determines whether or not to utilize block transactions for a client in its sole discretion and BKG's decision is subject to its duty to seek best execution. BKG will aggregate a client's trade orders only when BKG 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.

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. As a result, the average price received by a client may be higher or lower than the price the client may have received had the transaction been effected for the client independently from the block transaction. In addition, a client's transaction costs may vary depending upon, among other things, the type of security bought or sold, and the commission or markup or markdown charged by the executing broker-dealer.

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, BKG has adopted trade allocation policies and procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and 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, BKG may also make random allocations to client accounts in certain circumstances, such as when BKG deems a partial fill for the total block order to be low. Adjustments to trade allocations may also be made, at the discretion of BKG, 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 client accounts.

When BKG is not able to aggregate trades, BKG generally uses a trade rotation process or some other method, such as using market on close orders, that is designed to be fair and equitable to its clients.

Because BKG is unable to buy or sell any security for a client's non-discretionary accounts without the client's authorization, BKG generally does not aggregate or bunch trades for those accounts with the same or similar trades for other client accounts, and it places orders for those accounts promptly after receiving the client's authorization to do so. Because similar orders for the client and BKG'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 BKG.

### **Wrap Fee Programs**

Generally, clients participating in wrap fee programs pay the Program Sponsor a wrap fee that includes trade execution services performed by Program Sponsor as broker-dealer. Because clients may incur trading costs in addition to the wrap fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever their Program Sponsor executes client transactions. For this reason, BKG anticipates that it will place some trade orders for the client's account with the applicable Program Sponsor, such as trades resulting from a contribution to, or distribution from, a client's account. However, in order to comply with its duty to seek best execution, BKG anticipates that it will place nearly all client trades resulting from changes to BKG's model portfolios or strategies with a broker-dealer firm other than the Program Sponsor. This practice is frequently referred to as "trading away" and these types of trades are frequently called "step out trades".

Trading away from the Program Sponsor provides BKG the ability to aggregate trade orders for wrap fee program clients with trade orders for other BKG clients. BKG trades away from the Program Sponsor when it believes that another broker-

dealer will provide more favorable execution of the client's trades, taking into consideration the factors listed above.

In some instances, step out trades may be executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If BKG places trade orders for the client's account with a firm other than the Program Sponsor, and the other firm imposes a commission or a markup or markdown on the trade, the client will incur trading costs in addition to the wrap fee the client pays to the Program Sponsor.

During the year ended December 31, 2013, all of BKG's step out trades were executed without any additional commission or markup or markdown being passed on to wrap fee program clients by the executing broker-dealer. However, there can be no assurance that a wrap fee program client will not incur increased trading costs relating to step out trades in the future.

With respect to some wrap fee programs, BKG may not be able to aggregate client trades using a trade away process. Typically this occurs in situations in which the Program Sponsor has directed BKG to place all trades with the Program Sponsor or BKG only provides a model portfolio to the Program Sponsor (and does not place trades for client accounts). In those instances, BKG generally uses a trade rotation process that is designed to be fair and equitable to all BKG clients.

A wrap fee program client should consider this information carefully and discuss it with the client's Program Sponsor when selecting a manager to manage the client's accounts.

### **Directed Brokerage**

BKG will comply with any guidelines and/or limitations reasonably requested by a client relating to brokerage for the client's account. 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 directs BKG to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and BKG



agrees to the arrangement, a client should understand that BKG may be unable to achieve best execution for the client's transactions. A client should note that any costs related to the directed brokerage arrangement are not included in BKG's fee and that the client will be solely responsible for monitoring, evaluating and reviewing the arrangement with the directed broker-dealer and paying any commissions or markups or markdowns or other costs imposed by the directed broker-dealer. A client should also note that BKG may not be able to aggregate the client's directed brokerage trade orders with orders for other BKG clients. As a result, a client's transaction costs may be higher because the client will not benefit from any volume discounts or other reduced transaction costs that BKG may obtain for its other clients. A client should further note that BKG may or may not include such client trade orders in its trade rotation process and that BKG may place the client's trade orders with the directed broker-dealer after BKG completes its trading for other BKG client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in BKG's rotation. As a result, the client may receive a less favorable net price for the trade.

If BKG aggregates a client's directed brokerage trade orders with trade orders for other BKG clients, BKG may employ the use of "step-outs" to satisfy the client's directed brokerage arrangement. A "step-out" occurs when an executing broker executes the trade and then "steps out" the trade to a clearing broker (which would be the directed broker-dealer in a directed brokerage arrangement) that confirms and settles the trade. In such a case, a client will bear the costs of any commissions, markups or markdowns imposed by the executing broker-dealer in addition to the costs of any commissions, markups or markdowns imposed by the directed broker-dealer. As a result, a directed brokerage arrangement may be more costly to a client, as it may result in the client paying higher commissions, markups, markdowns and greater bid/offer spreads, or receiving a less favorable net price.

If a client directs BKG to use a particular broker-dealer, and if the particular broker-dealer referred the client to BKG or if the particular broker-dealer refers other clients to BKG in the future, BKG may benefit from the client's directed brokerage

arrangement. Because of these potential benefits, BKG may have an economic interest in having the client continue the directed brokerage arrangement. The benefits that BKG receives may conflict with the client's interest in having BKG recommend that the client utilize another broker-dealer to execute some or all transactions for the client's account.

Before directing BKG to use a particular broker-dealer, a client should carefully consider the possible costs or disadvantages of directed brokerage arrangements.

### **Cross Trading Involving Advisory Accounts**

From time to time, when BKG believes that each respective transaction is consistent with the client's best interest, BKG, 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 BKG is acting as investment adviser for both buyer and seller, BKG is subject to potentially conflicting interests in causing (or recommending) the transactions. Also, because BKG 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. Baird has adopted internal policies and procedures that require BKG and Baird to obtain approval of Baird's Compliance Department before affecting a cross trade.

### **Trade Error Correction**

It is BKG's policy that if there is a trade error for which BKG 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 caused by BKG 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 any such error. If the trade error results

in a gain, the gain may be retained by BKG but such gain is not given to or shared with any BKG associate.

BKG from time to time may have other clients in trading in opposition to a client. To avoid favoring one client over another client, BKG attempts to use objective market data in the correction of any trading errors.

## Review of Accounts

BKG's portfolio manager typically reviews BKG's client portfolios on a monthly basis, and considers and makes adjustments to those portfolios according to the client's selected investment strategy.

BKG generally provides written performance reports to clients on a quarterly basis. These quarterly performance reports contain the client portfolio's performance, portfolio valuation, holdings, and portfolio manager commentary regarding market and sector performance. BKG may provide additional information in the performance report to meet the specific reporting needs of a client as the client and BKG may agree.

A client's portfolio performance may be compared to a benchmark market index or indices (such as the S&P 500® Index). The benchmark may be a blended benchmark that combines the returns for two or more indices. Benchmarks shown in performance reports are for informational purposes only. BKG's selection and use of benchmarks is not a promise or guarantee that the performance of a client's portfolio 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 the index performance 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 exactly mirror the securities included in the index.

If Baird has custody of a client's account assets, BKG will generally rely on third party pricing services to determine the value of such assets. These values are shown on client's account statements and are used in preparing a client's

performance reports. However, if the client has its assets held by a custodian other than Baird and if the third party pricing service does not provide a price for assets in the client's account, BKG will rely upon the price reported by the client's third party custodian. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian could be different from the prices shown on statements and reports provided by BKG. See "Custody" below for more information.

*Special Note for Wrap Fee Program Clients.* The benchmarks used by BKG with respect to a client's portfolio may differ from the benchmarks used by the wrap fee Program Sponsor. As a result, the performance comparisons in BKG's performance reports may differ from reports provided to clients directly by the Sponsor.

## Client Referrals and Other Compensation

BKG 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. BKG may pay these fees to registered representatives of BKG or Baird and their affiliates as well as to unaffiliated solicitors that have entered into a written agreement with BKG.

BKG and its affiliates and associates may receive certain economic benefits in connection with providing advisory services to clients, which are described in the sections entitled "Other Financial Industry Activities and Affiliations", "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" and "Brokerage Practices" above.

## 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. BKG does not act as custodian for client assets. Clients may choose Baird or a service provider unaffiliated with Baird to serve as custodian.

As custodian, Baird may hold a client's portfolio assets in nominee or "street" name, a practice that 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. Baird will be the holder of record in those instances.

Baird offers 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. Baird generally receives compensation in addition to BKG's advisory fee when clients participate in the Cash Sweep Program. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions—Other Interests in Client Transactions" above for more information.

If a client elects to participate in Baird's Cash Sweep Program, Baird will deposit or invest (i.e., "sweep") a client's free credit balances in accordance with the client's instructions and terms of the Cash Sweep Program. Any deposits, including CDs that a client maintains directly with a bank or through an intermediary (such as Baird or another broker), in the same capacity with the bank, will be aggregated with the client's Bank Sweep Option assets at the bank for purposes of calculating the \$250,000 FDIC insurance limit. Total deposits exceeding \$250,000 may not be fully insured by the FDIC. *A client is solely responsible for monitoring the total amount of other deposits that the client has with a bank in order to determine the extent of deposit insurance coverage available. Baird is not responsible for any insured or uninsured portion of a client's deposits at a bank.*

A client who uses a third party custodian authorizes BKG 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 statements provided by BKG or Baird. A client should note that the prices shown on a client's account statements provided by the custodian could be different from the prices shown on statements and reports provided by BKG due to a variety of factors, including the use of different valuation sources and/or accounting methods (e.g., trade or settlement date accounting) by the custodian and BKG.

## Investment Discretion

Clients may give BKG the discretionary investment authority to determine independently the specific securities purchased or sold, and the amount of securities purchased or sold. By executing an investment management agreement with BKG, a client authorizes BKG 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 investment management agreement also grants to BKG complete and unlimited trading authorization and appoints BKG as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, BKG 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 consulting the client.

BKG generally accepts reasonable limitations to its discretionary authority with respect to brokerage direction and securities selection, 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. Any such limitations agreed to by client and BKG are generally included in the client's investment policy statement or in a separate letter of understanding. When possible, BKG will also attempt to observe any non-binding statement of client preferences with respect to factors such as



brokerage direction, holding periods, and securities selection.

In the event that a client's account is restricted from investing in certain securities, BKG will select such other replacement securities, if any, as it deems 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 BKG to sell such security at an inopportune time, possibly negatively impacting account performance and/or causing the client's account to realize taxable gains or losses, which could be significant. A client should also be aware that, if the client's account holds any investment vehicle (such as a mutual fund or ETF), any investment restrictions the client places on the client's account may not flow through to the securities owned by that investment vehicle.

BKG may use the discretionary authority granted to it by a client to invest the client's account in investment products affiliated with BKG or that pay fees to BKG or to any of its affiliates for investment advisory or other services they provide. 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/or individual deposit accounts offered 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 investment management agreement with BKG, a client consents to BKG and its affiliates investing all or a portion of the client's account in investment products or in bank deposit accounts that pay advisory or other fees to BKG or its affiliates ("affiliated investment products"). The amount of fees received by BKG and/or its affiliates is described in the prospectus or other offering or other disclosure documents for the investment product or deposit account. BKG and its affiliates will use their discretionary authority to invest the client's account in affiliated investment products when BKG and its affiliates determine it to be in the client's best interest to do so. The criteria used by BKG and its affiliates in deciding to invest in affiliated investment

products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with BKG. For more information about the criteria used by BKG, clients should review the section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss" above. For more information about the criteria used by BKG's affiliates, clients should review the affiliate's Form ADV Part 2A Brochure. A client's consent may be revoked at any time.

## Voting Client Securities

Clients may elect in their contract whether to authorize and delegate the right to BKG to vote proxies with respect to the securities held in their accounts. Unless a client makes that election, the client will be responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and BKG is under no obligation to take any action or render any advice regarding such matters. BKG generally does not permit clients to direct particular votes once they have granted BKG discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary authority granted to BKG.

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

In situations in which a client has delegated to BKG voting authority with respect to securities in the client's account, BKG will monitor corporate events and vote proxies in a manner that BKG believes is consistent with the client's best interests. BKG 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 BKG will actually vote on particular issues. The portfolio managers for the client's account will generally vote proxies with respect to equity securities for client accounts based on the recommendations of ISS; however, the managers may suggest voting against ISS's recommendations when the managers determine it to be in the clients' best interests to do so. The manager also may suggest how to vote on a particular matter not addressed by ISS. When a portfolio manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the portfolio manager will bring the matter to the attention of Baird's Proxy Voting Committee, which will then be responsible for determining how the vote will be cast.

The proxy voting policies and procedures also address instances in which BKG's interests may appear to conflict with client interests, such as when BKG 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 BKG would be inclined to vote in favor of management because of BKG's relationship or pursuit of a relationship with the company. BKG 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.

In addition to the services described above, BKG has engaged ISS for vote execution and record-keeping services.

BKG may render advice or take action on a client's behalf with respect to securities that are or were held in the client's account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. At a client's

request, BKG will forward information that BKG actually receives about such claims to the client.

## **Financial Information**

BKG 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 its most recent fiscal year. BKG is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

## **Special Considerations for Retirement Accounts**

If a client's account is a Retirement Account, each owner, trustee, responsible plan fiduciary, or other fiduciary ("Retirement Account Fiduciary") acting on behalf of the client understands that BKG may invest for the client, or recommend that the client invest in, affiliated investment products and that BKG and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary acting on behalf of the client understands that when BKG invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to BKG or any of its affiliates, including in connection with any cash sweep services, BKG 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, BKG will waive its advisory fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or BKG will offset the investment advisory fees received by BKG or any of its affiliates from the affiliated investment product against the advisory fee that BKG charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client and Retirement Account Fiduciary acting on behalf of the client acknowledge in the client's investment management agreement that: (i) the investment in affiliated investment products for the client's account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those products; (ii) subject to BKG's investment strategies, all assets of the client's account may be invested in one or more of the affiliated

investment products; (iii) the client received prospectuses or other disclosure documents for the 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 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 affiliated investment products fees and the advisory fees payable by the client to BKG. The differential between the fees to be charged by BKG for the investment advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the affiliated investment products to BKG or its affiliates with respect to the services BKG or any of its affiliates provides to the affiliated investment products is the difference between BKG's fee disclosed in the client's investment management 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 affiliated investment product.

Each Retirement Account 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 BKG or Baird, and annual summaries of such transaction information. BKG 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 BKG 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, BKG 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 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.