

# Baird Advisors

## Brochure

March 21, 2024



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**This brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Advisors, an investment management department operating within Baird. Clients should carefully consider this information before becoming a client of Baird Advisors. If you have any questions about the contents of this Brochure, please contact Baird Advisors at the toll-free phone number listed above. The information contained in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Baird is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Material Changes

Baird Advisors, an investment management department operating within Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A brochure (the "Brochure") on March 21, 2024. The following summary discusses the material changes that Baird Advisors has made to the Brochure since March 24, 2023, the date of the last annual update to the Brochure.

- Baird Advisors updated information about Baird's regulatory assets under management and certain of Baird's affiliates and related parties. See the Sections of the Brochure entitled "Advisory Business—Robert W. Baird & Co. Incorporated" and "Other Financial Industry Activities and Affiliations" for more information.
- Baird Advisors updated information about risks associated with recent events, such as those associated with Russia's ongoing war with Ukraine, conflicts in the Middle East, the strained relationship between the U.S. and China, inflation, discord in U.S. politics, the coronavirus (COVID-19), and other geopolitical events. See the Section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" for more specific information.
- In September 2023, Baird entered into an Offer of Settlement with the SEC (the "Settlement"), in which it admitted that it violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder for failing to maintain records of certain business-related communications made by Baird associates when they used their personal devices ("off-channel communications") and for failing to supervise its associates' business-related communications. The Settlement was related to an SEC risk-based initiative, whereby the SEC investigated a large number of financial services firms to determine whether those firms were properly retaining business-related text and instant messages and other off-channel communications sent and received on employees' personal devices. Following the commencement of the SEC's initiative, Baird cooperated with the SEC and conducted voluntary interviews of a sampling of Baird supervisors to gather and review messages found on their personal devices. It was discovered that certain Baird supervisors communicated off-channel using non-Baird approved methods on their personal devices about Baird's broker-dealer and investment adviser businesses. As part of the Settlement, Baird was censured and ordered to cease and desist from future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder and to pay a civil monetary penalty of \$15 million. In addition, Baird agreed to certain undertakings, including retaining an independent compliance consultant to conduct a review of Baird's policies and procedures, training, surveillance program, technology solutions and similar matters related to off-channel communications.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 24, 2023. The updated Brochure contains changes that are not listed above.

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## Advisory Business

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Advisors, an investment management department of Baird. Separate brochures describe other investment advisory services that Baird offers to its clients and discuss the agreements, fees and potential conflicts of interest for each service. A client or prospective client who wishes to obtain a brochure for another investment advisory service provided by Baird should call Baird toll-free at 1-800-792-2473.

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

## Baird Advisors

Baird Advisors offers professional portfolio management to separate account clients desiring investments in fixed income markets. Baird Advisors also provides investment advisory services to certain mutual funds.

### *Separate Accounts*

The investment advisory services offered by Baird Advisors to separate account clients generally include portfolio management, investment advice and consulting services, performance reporting, and related account services.

Baird Advisors manages client portfolios with full investment discretion and tailors its advisory services to the individual needs of clients. Baird Advisors analyzes a client's specific needs, investment time horizon, and risk tolerance to help the client develop investment objectives and guidelines for the client's portfolio. As part of its analysis, Baird Advisors works with a client to select a benchmark index that characterizes the risk tolerance and return expectations for the client. Baird Advisors then uses an investment strategy that is intended to generate an annual rate of return that, before the deduction of fees, is greater than the benchmark selected for the client's portfolio over full market cycles.

Subject to the agreement of Baird Advisors, a client may impose reasonable restrictions on the investments or types of investments to be held in the client's account. Please see "Investment Discretion" below for more information. Clients

may negotiate with Baird Advisors to provide other investment advisory services. However, Baird Advisors generally limits its services to providing investment advice relating to fixed income investment strategies.

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

A client that wishes to retain the services of Baird Advisors will enter into an investment management agreement ("IMA") with Baird Advisors. The IMA will contain the specific terms applicable to the client's advisory relationship with Baird Advisors.

A client is responsible for providing to Baird Advisors information that Baird Advisors reasonably requires in order to provide the services selected by the client. Baird Advisors will rely on this information when providing its advisory services. A client is also responsible for informing Baird Advisors of any material changes to that information or if there is any change to the client's investment objectives, risk tolerance, financial circumstances, investment needs, or other circumstances that may affect the manner in which the client's assets are invested or services are provided to the client.

*Important Note for SMA Wrap Fee Program Clients.* Baird Advisors provides portfolio management services under SMA wrap fee programs sponsored and administered by Baird. As compensation for its services, Baird Advisors receives a portion of the wrap fee the client pays to Baird. If a client is participating in a wrap fee program, the client should review the client's agreement with Baird and Baird's Form ADV Part 2A Wrap Fee Program Brochure for a full description of the services provided and fees charged by Baird.

### *Mutual Funds and Investment Companies*

Baird Advisors provides investment management and other services to certain mutual fund series of Baird Funds, Inc. ("Baird Funds") investing primarily in fixed income securities (the "Baird Bond Funds"). Additional information about the services Baird Advisors provides is available in the prospectus and statement of additional

information for those Baird Funds, which are available on the Baird Funds' website at [bairdassetmanagement.com/baird-funds](http://bairdassetmanagement.com/baird-funds).

Baird Advisors also serves as investment sub-adviser to a mutual fund series of the Bridge Builder Trust. Additional information about the services that Baird Advisors provides to that fund is available in the prospectus and statement of additional information for that fund.

#### **Robert W. Baird & Co. Incorporated**

Baird is privately-held, employee-owned global investment and wealth management firm formed in the State of Wisconsin in 1919.

Baird is owned indirectly by its associates through several holding companies. Baird is owned directly by Baird Financial Corporation ("BFC"). BFC is, in turn, owned by Baird Financial Group, Inc. ("BFG"), which is the ultimate parent company of Baird. Associates of Baird own substantially all of the outstanding stock of BFG.

In addition to the investment advisory services that Baird Advisors provides to clients, including portfolio management, investment advice and consulting, performance reporting and related account services, Baird, through its other departments, also offers various other investment advisory services to clients not described in this Brochure. These additional investment advisory services Baird offers include: analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting; financial planning; and investment policy development. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services.

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

As of December 31, 2023, Baird had approximately \$287.5150 billion in regulatory assets under management, approximately \$211.5469 billion of which was managed on a discretionary basis and approximately \$75.9681 billion of which was managed on a non-discretionary basis.

#### **The Client-Baird Fiduciary Relationship**

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Baird Advisors 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 Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of Baird Advisors and Baird. Baird Advisors and Baird generally address 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 Baird Advisors and Baird. In addition, Baird has adopted internal policies and procedures for Baird Advisors and Baird 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 Baird Advisors and Baird 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.*

#### **Fees and Compensation**

##### **Separate Accounts**

##### **Advisory Fee**

A client's IMA will set forth the actual fee schedule and calculation method for the advisory fee. Baird

Advisors generally charges fees based on a client's assets under management, as shown in the standard institutional fee schedule below.

#### Baird Advisors' Standard Institutional Fee Schedule

##### Taxable Bond Strategies

<u>Market Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$100,000,000	0.30%
On the next \$100,000,000	0.20%
On the remaining assets	0.15%

The fees are calculated in arrears based on the market value ("Market Value") of the assets Baird Advisors manages for the client. The Market Value of assets is typically determined by the client's quarter-end custodial statement(s) and includes accrued interest and cash or its equivalent held for investment. If Baird Advisors manages multiple accounts on behalf of a client under an IMA, Baird Advisors will generally aggregate client assets for fee calculation purposes.

If an account has cumulative net cash flows during the calendar quarter totaling 10% or more of the account's beginning Market Value, Baird Advisors will generally use a simple average market value, adjusted for all cash flows during the quarter, in lieu of a quarter-end Market Value. The 10% or greater cash flow calculation applies to each account individually.

If client assets under an IMA are invested in the Baird Bond Funds, the fees set forth above do not apply to those assets and the client will bear the cost of fund expenses as described in each fund's prospectus on those assets.

Fee invoices are generally sent quarterly to the client and they can pay directly or instruct their custodian to pay the fee from their account. The client is generally required to pay the fee within thirty (30) days of the invoice date. If a client's IMA is in effect for only a portion of a quarter, the fee is pro-rated for such portion based on the number of days the funded account was managed by Baird Advisors. In the event termination occurs, the fee is based upon the Market Value or average market value on the date of termination or a date mutually agreed upon with the client.

Baird may modify a client's existing fees and other charges or add additional fees or charges by

providing the client with ninety (90) days' prior written notice.

The minimum asset value to open a separate account with Baird Advisors for a taxable bond strategy is typically \$200 million. The minimum asset value to open a separate account with Baird Advisors for a municipal bond strategy is typically \$50 million.

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 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. 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. As new standard fee schedules are put into effect, fee schedules applicable to existing clients are not affected.

Baird Advisors may enter into other fee arrangements, including performance-based fee arrangements, with eligible clients. Performance-based fee arrangements are further described in the section entitled "Performance-Based Fees and Side-By-Side Management" below.

#### *Other Fees and Expenses*

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

A client is responsible for bearing or paying, in addition to Baird Advisors' fee, all other costs and expenses, including, but not limited to:

- commissions, markups, markdowns, and spreads charged by broker-dealers that buy debt obligations from, or sell debt obligations to, the client's account (such costs may be inherently reflected in the price the client pays or receives for such debt obligations);

- underwriting discounts 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;
- 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 debt obligation; and
- taxes imposed upon or resulting from transactions effected for a client’s account, such as income, transfer or transaction taxes, foreign stamp duties, or any other costs or fees mandated by law or regulation.

Certain investment products, such as mutual funds, exchange traded 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 are separate from, and in addition to, Baird Advisors’ 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—those fees and Baird Advisors’ 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.

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

### Mutual Funds

As compensation for its services, Baird Advisors receives fees from each mutual fund it advises, which fees are disclosed in each fund’s prospectus and statement of additional information. Other fees that are payable as an investor in a mutual fund are described in the fund’s prospectus and statement of additional information.

### Other Compensation Received by Baird Advisors and Baird

*Baird Advisors.* Baird Advisors and its associates do not receive compensation based upon the sale of securities or other investment products. Baird Advisors will purchase for client accounts, or will recommend the purchase of, various investment products, including “no load” mutual funds.

*Baird.* Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in such capacity, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird receives compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird (but not Baird Advisors or its associates) an incentive to recommend investment products based upon the compensation received rather than on a client’s needs. A client has the option to purchase investment products through other brokers or agents that are not affiliated with Baird. For more specific information about Baird’s compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections “Other Financial Industry Activities and Affiliations” and “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

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

Baird Advisors and Baird advise client accounts that are subject to performance-based fee arrangements. However, Baird Advisors does not typically enter into performance-based fee arrangements and it will do so only in limited circumstances if specifically requested by a client. Any such fee arrangements are made in



compliance with applicable provisions of Rule 205-3 under the Advisers Act. A client's agreement to a performance-based fee arrangement may create an incentive for Baird Advisors to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of a performance-based fee arrangement. Performance-based fee arrangements also present a potential conflict of interest for Baird Advisors and Baird with respect to client accounts they also manage that are not subject to performance-based fee arrangements because such arrangements give Baird Advisors and Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees.

In addition to complying with its fiduciary duties by disclosing this conflict of interest to clients through this Brochure, Baird Advisors generally addresses potential conflicts of interest posed by performance-based fee arrangements by capping the amount of performance-based fees that may be earned with respect to a client's account. By capping performance-based fees, Baird Advisors attempts to reduce the incentive to invest a client's account in riskier or more speculative products. Baird Advisors also periodically monitors the holdings and performance of performance-based fee accounts and compares them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird Advisors and Baird also attempt to minimize potential conflicts of interest posed by performance-based fee arrangements through internal trade allocation 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 over time. Baird has also adopted policies and procedures reasonably designed to ensure that client assets are valued by client's custodian.

### Types of Clients

Baird Advisors offers its services to all types of current and prospective clients, including, but not limited to: pension and profit sharing plans; trusts; estates; charitable organizations; colleges; hospitals; endowments and foundations; corporations or other business entities; banks or thrift institutions; registered investment

companies; and individuals. Applicable requirements for opening or maintaining an account with Baird Advisors, 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

### Methods of Analysis

Baird Advisors specializes in structured, risk-controlled fixed income management. Our approach is to define the appropriate level of risk or volatility compatible with our client's objective and to deliver superior returns commensurate with this risk.

We believe that the bond capital market is very efficient in discounting risk and return potential over time for taking interest rate risk along the duration curve. This efficiency has made interest rate timing strategies very difficult for active bond managers to consistently get right and add value. This is why our disciplined, risk-controlled investment approach starts with a duration neutral discipline versus the market benchmark it is expected to outperform and seeks to add incremental value through more bottom-up yield curve positioning, sector allocation, security selection and competitive execution of trades.

*Yield Curve Positioning.* The yield curve is a graphic representation of yields of fixed income debt obligations in relation to their maturities and durations. Baird Advisors selects debt obligations with maturities and yields that it believes have the greatest potential for achieving a client's objective, while attempting to substantially match the average duration of the client's portfolio with the average duration of the client's benchmark index.

*Sector Allocation.* Baird Advisors also evaluates the return potential of each sector. These sectors include: U.S., government and other public sector entities, asset-backed and mortgage-backed obligations of U.S. and foreign issuers and corporate debt of U.S. and foreign issuers for clients pursuing the Ultra Short Bond, Short-Term Bond, Intermediate Bond, Aggregate Bond, Core Plus Bond and Liability-Driven Investing Portfolio Strategies; and tax-exempt general obligation bonds, revenue bonds, pre-refunded bonds, and insured bonds for clients pursuing the Quality Intermediate Municipal Bond Portfolio Strategy,



Core Intermediate Municipal Bond Portfolio Strategy, Short/Intermediate Municipal Bond Portfolio Strategy, Short-Term Municipal Bond Portfolio Strategy, 1-3 Year Municipal Bond Portfolio Strategy, Municipal Bond Portfolio Strategy, and Strategic Municipal Bond Portfolio Strategy. Baird Advisors invests in debt obligations in those sectors which it believes represent the greatest potential for achieving a client's objectives.

*Security Selection.* Long-term strategic investment decisions serve as the basis for incorporating specific securities into portfolios. We start with the strategy benchmark and focus on the individual securities which can best accomplish our goal. Every characteristic of a security is carefully analyzed. We first determine which issuers appear to offer the best relative value within each sector. Available issues are selected based on credit quality, duration characteristics, embedded options, and liquidity. Given the opportunity to add value to a portfolio while maintaining strict adherence to the guidelines and controlling risk, we may purchase securities of comparable or similar quality which are not part of the benchmark.

As a fixed income investment manager, Baird Advisors has a fiduciary responsibility to act in the best long-term interest of our clients, with the goal of generating consistent and competitive long-term investment results over time. We believe material environmental, social, and governance ("ESG") risk factors can have an impact on long-term sustainability and need to be considered in the overall risk assessment of issuing entities. Baird Advisors believes its approach to integrating environmental, social, and governance risk factors as considerations across its investment process helps to align Baird Advisors' fiduciary duties with its investment objective of strong risk-adjusted performance.

Environmental, social and governance related risk factors have been and continue to be integrated into Baird Advisors' investment process and serve as important inputs to the investment team's decision-making and research efforts as they assess the long-term sustainability of a bond issuer. Baird Advisors' approach to ESG integration focuses on identifying material risk factors that can impact an issuer's ultimate creditworthiness and the valuation of securities it issues. Examples could include, but are not

limited to, corporate governance structure, climate change, supply chain integrity, labor practices and human resource management. Baird Advisors prudently recognizes the industry continues to grow and evolve with respect to ESG requirements and expectations. As this evolution progresses, Baird Advisors will continue to leverage the best resources available to ensure Baird Advisors' ESG integration approach, policies and procedures remain dynamic and effective.

*Competitive Execution of Trades.* Competitive execution of each trade represents the final step in adding value to a portfolio. When we buy and sell securities, we ensure that each trade is executed at the best possible level. We have long-standing relationships with all of the leading broker/dealers firms on Wall Street and are continually in touch with them, monitoring yield spreads and actively monitor trading levels.

Our approach to active bond management emphasizes the value added of bottom-up security selection. We begin with the client's investment objectives and guidelines to determine the permissible universe of bonds we can invest in and to define the overall risk tolerance. In the construction process, we focus on the contribution-to-duration of each security and sector when analyzing any allocation to the portfolio and our goal is to effectively measure and control the duration or price risk of each portfolio versus the benchmark. Each permissible security is evaluated based on the credit fundamentals of the issuer or the underlying asset collateral, the structural risks of the security itself and market liquidity risk. This risk identification process is facilitated with the use of multiple quantitative models coupled with highly experienced portfolio managers interpreting the output from these models and providing an additional qualitative assessment of the risk inherent in each security. After the risks of the security are quantified, the valuation is expressed in terms of expected excess return over a comparable US Treasury (or other appropriate reference instrument such as AAA-rated Municipal) and the security is compared to securities with similar risk profiles within and across various sectors. This relative value analysis helps us select the securities we believe are undervalued and have the best risk-adjusted expected return potential within the permissible universe of bonds. Our portfolio construction process assembles these securities with above-

average risk-adjusted expected returns focusing on risk control relative to the benchmark and the discipline of diversification.

On an ongoing basis, Baird Advisors' portfolio managers monitor client portfolios to evaluate the impact of changing economic and market conditions. In addition, the appropriateness of the client's portfolio holdings are also assessed in terms of the client's overall objectives, such as return expectations, risk tolerance, and liquidity needs. Ongoing trading opportunities are analyzed, reviewed and, when deemed appropriate, executed.

### Portfolio Investments

Baird Advisors may invest a client's account from time to time in any combination of U.S. dollar-denominated debt obligations that are fixed, variable or floating rate instruments, including but not limited to, obligations of government and other public sector entities (including, but are not limited to, U.S., state and local (municipal) governments and their agencies and authorities, foreign government entities, and non-governmental organizations), asset-backed and mortgage-backed obligations of U.S. and foreign issuers, corporate debt of U.S. and foreign issuers, mutual funds, ETFs, other registered investment companies, and other investment pools (including such funds affiliated with Baird) and money market instruments.

Asset-backed obligations in which a client account may invest are backed with underlying assets such as credit card receivables, auto receivables, student loans, utilities, reimbursement/rate increase allowances and certain residential home loans. The types of municipal obligations used by Baird Advisors include, but are not limited to, taxable and tax-exempt general obligation and revenue bonds, as well as advance refunded and escrowed-to-maturity bonds. For clients pursuing municipal bond strategies, Baird Advisors may also use other municipal obligations, including pre-refunded bonds, general obligation bonds, revenue bonds and municipal lease participations, zero coupon bonds, and municipal housing bonds. Money market instruments in which a client account may invest include, among other things, U.S. government obligations, repurchase agreements, cash, bank obligations, commercial paper, variable amount master demand notes,

corporate bonds, certificates of deposit and money market funds.

Certain strategies may invest in non-investment grade or unrated instruments. To the extent a client is eligible, Baird Advisors may invest a client account in Rule 144A securities, which are not registered under the federal securities laws and cannot be sold to the U.S. public because of SEC regulations (known as "restricted securities").

Baird Advisors may use futures contracts for certain of its bond fund strategies and may also use U.S. Treasury Futures for client accounts if approved under their investment policy statement. From time to time, Baird Advisors may also use bank loans, common or preferred stocks, warrants, rights, publicly-traded master limited partnerships ("MLPs"), and protective long put options strategies.

### Investment Strategies

Baird Advisors uses investment strategies that are intended to generate an annual rate of return that, before the deduction of fees, is greater than the benchmark selected for the client's portfolio over full market cycles. Baird Advisors also manages portfolios in a manner designed to limit the dispersion of investment returns in comparison to the client's benchmark index.

Baird Advisors offers the following investment strategies to clients:

***Ultra Short Bond Portfolio Strategy.*** The investment objective of the Ultra Short Bond Portfolio Strategy is to seek current income consistent with preservation of capital. The Strategy's benchmark is the Bloomberg U.S. Short-Term Government/Corporate Index. The Bloomberg U.S. Short-Term Government/Corporate Index is an unmanaged, market value weighted index that tracks the performance of U.S. government and corporate bonds rated investment grade or better, with maturities of less than one year.

***Short-Term Bond Portfolio Strategy.*** The investment objective of the Short-Term Bond Portfolio Strategy is to seek an annual rate of total return, before expenses, greater than the annual rate of total return of the Bloomberg 1-3 Year U.S. Government/Credit Bond Index. The

Bloomberg 1-3 Year U.S. Government/Credit Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt including government and corporate securities with maturities between one and three years.

*Intermediate Bond Portfolio Strategy.* The investment objective of the Intermediate Bond Portfolio Strategy is to seek an annual rate of total return, before expenses, greater than the annual rate of total return of the Bloomberg Intermediate U.S. Government/Credit Bond Index. The Bloomberg Intermediate U.S. Government/Credit Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt including government and corporate securities with maturities between one and ten years.

*Quality Intermediate Municipal Bond Portfolio Strategy.* The primary investment objective of the Quality Intermediate Municipal Bond Portfolio Strategy is to seek current income that is substantially exempt from federal income tax. A secondary objective is to seek total return with relatively low volatility of principal. The Quality Intermediate Municipal Bond Portfolio Strategy uses the Bloomberg Quality Intermediate Municipal Bond Index as its benchmark. The Bloomberg Quality Intermediate Municipal Bond Index is an unmanaged, market value weighted index consisting of tax-exempt, fixed-rate securities that are rated A3 or better, with maturities between two and twelve years.

*Short-Term Municipal Bond Portfolio Strategy.* The investment objective of the Baird Short-Term Municipal Bond Portfolio Strategy is to seek current income that is exempt from federal income tax and is consistent with the preservation of capital. The Short-Term Municipal Bond Portfolio Strategy uses the Bloomberg Short (1-5 Year) Municipal Index as its benchmark. The Bloomberg Short (1-5 Year) Municipal Bond Index is an unmanaged, market value weighted index that measures the performance of investment-grade, tax-exempt, and fixed-rated municipal securities with time to maturity of more than one year and less than five years.

*Short/Intermediate Municipal Bond Portfolio Strategy.* The investment objective of the Baird Short/Intermediate Municipal Bond Portfolio

Strategy is to seek a high level of current income that is exempt from federal income tax and is consistent with preservation of capital. The Short/Intermediate Municipal Bond Portfolio Strategy uses the Bloomberg 1-10 Year Municipal Bond Index as its benchmark. The Bloomberg Municipal Bond (1-10 Year) Index is an unmanaged, market value weighted index of investment-grade, tax-exempt, and fixed-rate securities with maturities between one and ten years.

*Core Intermediate Municipal Bond Portfolio Strategy.* The investment objective of the Baird Core Intermediate Municipal Bond Portfolio Strategy is to seek a high level of current income that is exempt from federal income tax and is consistent with preservation of capital. The Core Intermediate Municipal Bond Portfolio Strategy uses the Bloomberg Municipal Bond (1-15) Year Index as its benchmark. The Bloomberg Municipal Bond (1-15 Year) Index is an unmanaged, market value weighted index of investment-grade, tax-exempt, and fixed-rate securities with maturities between one and 17 years.

*1-3 Year Municipal Bond Portfolio Strategy.* The investment objective of the Baird 1-3 Year Municipal Bond Portfolio Strategy is to seek current income that is exempt from federal income tax and is consistent with the preservation of capital. The 1-3 Year Municipal Bond Portfolio Strategy uses the Bloomberg 1-3 Year Composite Municipal Bond Index, which is an equal-weighted blended Index of both the Bloomberg 1 Year Index and the Bloomberg 3 Year Index.

*Municipal Bond Strategy.* The investment objective of the Baird Municipal Bond Portfolio Strategy is to seek a current income that is exempt from federal income tax and is consistent with preservation of capital. The Municipal Bond Portfolio Strategy uses the Bloomberg Municipal Bond Index as its benchmark.

*Strategic Municipal Bond Portfolio Strategy.* The investment objective of the Baird Strategic Municipal Bond Portfolio Strategy is to seek current income that is exempt from federal income tax and is consistent with preservation of capital. The Strategic Municipal Bond Portfolio Strategy uses the Bloomberg 1-10 Year Municipal Bond Index as its benchmark. The Bloomberg Municipal Bond (1-10 Year) Index is an

unmanaged, market value weighted index of investment-grade, tax-exempt, and fixed-rate securities with maturities between one and ten years.

***Aggregate Bond Portfolio Strategy.*** The investment objective of the Aggregate Bond Portfolio Strategy is to seek an annual rate of total return, before fund expenses, greater than the annual rate of total return of the Bloomberg U.S. Aggregate Bond Index. The Bloomberg U.S. Aggregate Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

***Core Plus Bond Portfolio Strategy.*** The investment objective of the Core Plus Bond Portfolio Strategy is to seek an annual rate of total return, before fund expenses, greater than the annual rate of total return of the Bloomberg U.S. Universal Bond Index. The Bloomberg U.S. Universal Bond Index is an unmanaged, market value weighted index of fixed income securities issued in U.S. dollars, including U.S. government and investment grade debt, non-investment grade debt, asset-backed and mortgage-backed securities, Eurobonds, 144A securities and emerging market debt with maturities of at least one year.

***Liability-Driven Investing (LDI) Portfolio Strategy.*** The investment objective of the Liability-Driven Investing Portfolio Strategy is to seek an annual rate of total return, before expenses, greater than the annual rate of total return of a benchmark selected for the client's portfolio. The particular benchmark is selected based on the specific client portfolio's investment objectives and may be either a published benchmark or a custom benchmark.

***Other Strategies.*** Baird Advisors also manages client assets in accordance with other investment strategies specifically designed for a client in light of a client's particular needs.

***Temporary Strategies.*** Baird Advisors may invest all of a client's assets in cash or short-term, investment grade debt obligations as a temporary defensive position during adverse market, economic or political conditions and in other limited circumstances.

Although each portfolio strategy targets the annual rate of return of a specific benchmark index, the investments selected by Baird Advisors generally will not mirror the assets in their respective benchmark indices. There can be no assurance that any particular portfolio strategy will be successful in achieving the client's investment goals and objectives.

Baird Advisors seeks to control credit quality risk by purchasing only investment grade, U.S. dollar-denominated debt obligations for client accounts pursuing the Short-Term Bond, Intermediate Bond, Quality Intermediate Municipal Bond or Aggregate Bond Portfolio Strategies. Client accounts pursuing the Ultra Short Bond, Core Plus Bond, Core Intermediate Municipal Bond, Short/Intermediate Municipal Bond, Short-Term Municipal Bond, 1-3 Year Municipal Bond, Municipal Bond and Strategic Municipal Bond Portfolio Strategies will be invested primarily in investment grade debt obligations, but Baird Advisors may also invest up to 10%, 20%, 10%, 10%, 10%, 5%, 15% and 30%, respectively, of a client's net assets in debt obligations that are non-investment grade at time of purchase. Client accounts pursuing the Liability-Driven Investing Portfolio Strategy will primarily be invested in investment grade debt obligations, but Baird Advisors may also invest in non-investment grade debt obligations and in U.S. Treasury Futures if authorized by the client. For client accounts pursuing the 1-3 Year Municipal Bond Portfolio, Municipal Bond Portfolio or Strategic Municipal Bond Portfolio Strategies, Baird Advisors may invest in futures contracts. Baird Advisors attempts to diversify each client's portfolio by holding debt obligations of many different issuers and choosing issuers in a variety of sectors.

### Principal Risks

Risk is inherent in any investment in debt obligations and Baird Advisors 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 Baird Advisors 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 the specific investments in the client's portfolio, and each risk may or may not apply to a client. A client should also review the prospectuses or other disclosure documents for the debt obligations purchased for the client's account, as they will contain important

information about the risks associated with investing in such debt obligations.

*Management Risks.* Baird Advisors may err in its choices of debt obligations or portfolio allocations, including the integration of ESG factors. Such errors could result in a negative return and a loss to clients. Each client's portfolio may hold fewer or different debt obligations than the client's benchmark index, so material events affecting a client's portfolio (for example, an issuer's decline in credit quality) may influence the performance to a greater degree than such events will influence the client's benchmark index.

*Bond Market Risks.* The major risks of each strategy are those of investing in the bond market. A bond's market value is affected significantly by changes in interest rates—generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest rate risk"). Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk, and the lower its yield ("maturity risk"). Because bond values may fluctuate, a client's portfolio value may fluctuate.

*Call Risks.* If the securities in which the client invests are redeemed by the issuer before maturity (or "called"), the client may have to reinvest the proceeds in securities that pay a lower interest rate, which may decrease the yield for the client's portfolio. This will most likely happen when interest rates are declining.

*Credit Quality Risks.* Individual issues of fixed income debt obligations may be subject to the credit risk of the issuer. Therefore, the underlying issuer may experience unanticipated financial problems and may be unable to meet its payment obligations. Municipal obligations in particular may be adversely affected by political and economic conditions and developments (for example, legislation reducing state aid to local governments.) Bonds receiving the lowest investment grade rating or a non-investment grade rating may have speculative characteristics and, compared to higher grade debt obligations, may have a weakened capacity to make principal and interest payments due to changes in economic conditions or other adverse

circumstances. Ratings agencies such as Moody's, Fitch and S&P provide ratings on bonds based on their analyses of information they deem relevant. Ratings are essentially opinions or judgments of the credit quality of an issuer and may prove to be inaccurate. In addition, there may be a delay between events or circumstances adversely affecting the ability of an issuer to pay interest and/or repay principal and an agency's decision to downgrade a security.

*Non-Investment Grade Bond Risks.* Non-investment grade debt obligations, while generally offering higher yields than investment grade debt obligations with similar maturities, involve greater risk, including the possibility of default or bankruptcy. Non-investment grade debt obligations tend to be more sensitive to economic conditions than higher-rated debt obligations. As a result, they generally are more sensitive to credit risk and are considered more speculative than debt obligations in the higher-rated categories. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of non-investment grade debt obligations may experience financial stress and may not have sufficient cash flow to meet their payment obligations. The risk of loss due to default by an issuer of these obligations is significantly greater than issuers of higher-rated obligations because such obligations are generally unsecured and are often subordinated to other creditors. Baird Advisors may have difficulty disposing of certain non-investment grade debt obligations because there may be a thin trading market for such obligations. To the extent a secondary trading market does exist, it is generally not as liquid as the secondary market for higher-rated debt obligations. Periods of economic uncertainty generally result in increased volatility in the market prices of these debt obligations and will also increase the volatility of the client's portfolio value.

*Mortgage- and Asset-Backed Debt Obligations Risks.* Mortgage- and asset-backed obligations can be more sensitive to interest rate risk than other types of fixed income debt obligations. Modest movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of these obligations. When interest rates fall, mortgage- and asset-backed obligations may be subject to prepayment risk. Prepayment risk is the risk that the borrower will prepay some or the



entire principal owed to the investor. If that happens, Baird Advisors may have to replace the obligation by investing the proceeds in an obligation with a lower yield. When interest rates rise, certain types of mortgage- and asset-backed obligations are subject to extension risk. Mortgage- and asset-backed obligations can also be subject to the risk of default on the underlying residential or commercial mortgages or other assets. Weakening real estate markets may cause default rates to rise, which would result in a decline in the value of mortgage-backed obligations.

***Municipal Obligations Risks.*** Clients pursuing the Quality Intermediate Municipal Bond Portfolio Strategy, Core Intermediate Municipal Bond Portfolio Strategy, Short-Term Municipal Bond Portfolio Strategy and the Short/Intermediate Municipal Bond Portfolio Strategy may have more than 25% of their portfolios invested in municipal obligations issued by entities located in the same state or the interest on which is paid solely from revenues of similar projects. As a result, changes in economic, business or political conditions relating to a particular state or types of projects may have a disproportionate impact on client's portfolio value. The repayment of principal and interest on some of the municipal debt obligations in which clients may invest may be guaranteed or insured by a monoline insurance company. The monoline guarantee or insurance will generally enhance the credit rating and lower the interest rate payable by the issuer on the debt obligation. Certain monoline insurers have suffered losses from insuring structured products and other debt obligations backed by residential mortgages. If a company insuring municipal debt obligations in which a client invests experiences financial difficulties, the credit rating and price of the debt obligation may deteriorate.

***Municipal Housing Bonds Risks.*** Municipal housing bonds are bonds issued by state and municipal authorities established to purchase single family and other residential mortgages from commercial banks and other lending institutions within the applicable state or municipality. Certain factors, including changes in national and state policies relating to payments such as unemployment insurance and welfare, and adverse economic developments, particularly those affecting less skilled and low-income workers, may affect the mortgagor's ability to maintain payments under the underlying mortgages. Mortgages may also be

partially or completely prepaid prior to their final stated maturities.

***Municipal Lease Obligations Risks.*** Some client portfolios may purchase participation interests in municipal leases. These are undivided interests in a lease, installment purchase contract, or conditional sale contract entered into by a state or local government unit to acquire equipment or facilities. Participation interests in municipal leases pose special risks because many leases and contracts contain "non-appropriation" clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for this purpose by the appropriate legislative body. Although these kinds of obligations are secured by the leased equipment or facilities, it might be difficult and time consuming to dispose of the equipment or facilities in the event of nonappropriation, and the client might not recover the full principal amount of the obligation.

***Extension Risks.*** Extension risk is the risk that debt obligations, including mortgage- and asset-backed obligations, will be paid off more slowly than originally anticipated, increasing the average life of such debt obligations and the sensitivity of the prices of such debt obligations to future interest rate changes. For example, rising interest rates could cause property owners to pay their mortgages more slowly than expected, resulting in slower payments of mortgage-backed obligations. This could lengthen the duration of the obligation, making its price more sensitive to interest rate changes.

***Government Obligation Risks.*** Baird Advisors may invest client assets in debt obligations issued, sponsored or guaranteed by the U.S. government, its agencies and instrumentalities. However, no assurance can be given that the U.S. government will provide financial support to U.S. government-sponsored agencies or instrumentalities where it is not obligated to do so by law. For instance, debt obligations issued by the Government National Mortgage Association ("Ginnie Mae") are supported by the full faith and credit of the United States. Debt obligations issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") have historically been supported only by the discretionary authority of the U.S. government. While the U.S. government provides financial support to various U.S. government-



sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.

*Zero Coupon Bonds Risks.* Zero coupon bonds do not pay interest on a current basis and may be highly volatile as interest rates rise or fall. In addition, while such bonds generate income for purposes of generally accepted accounting standards, they do not generate cash flow and thus could cause the client to be forced to liquidate securities at an inopportune time in order to distribute cash, as required by tax laws.

*When-Issued, Delayed Delivery and Forward Commitments Risks.* When-issued, delayed delivery and forward commitment transactions involve the risk that the price or yield obtained in a transaction (and therefore the value of a debt obligation) may be less favorable than the price or yield (and therefore the value of a debt obligation) available in the market when the debt obligations delivery takes place. Failure of the other party to consummate the trade may result in the client incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

*Futures Contracts Risks.* Futures contracts are subject to the same risks as the underlying investments that they represent, but also may involve risks different from, and possibly greater than, the risks associated with investing directly in the underlying investments. Investments in futures contracts may result in a substantial loss in a short period. The loss may be potentially unlimited and may be more than the original investment. Investments in futures contracts involve additional costs, may be more volatile than other investments and may involve a small initial investment relative to the risk assumed. If Baird Advisors incorrectly forecasts the value of investments in using a futures contract, a client might have been in a better position than if the client had not entered into the contract. In the futures markets, it may not always be possible to execute a buy or sell order at the desired price, or to close out an open position due to market conditions, limits on open positions and/or daily price fluctuations. Changes in the value of a client's investment may differ substantially from the changes anticipated by the client when it established the positions, and unanticipated price movements in a futures contract may result in a

loss substantially greater than the client's initial investment in such a contract.

*Treasury Futures Risks.* Risks associated with the use of futures contracts include risks outlined elsewhere, such as interest rate risks, liquidity risks, credit risks, and management risks, as well as risks associated with the use of derivatives. Derivatives are financial contracts whose value are derived from the value of an underlying asset, reference rate, or index.

*Tax Risks.* Municipal debt obligations may decrease in value during times when tax rates are falling. Since interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing federal tax-exempt status of, such interest income. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the liquidity, marketability and supply and demand for municipal obligations, which would in turn affect Baird Advisors' ability to acquire and dispose of municipal obligations at desirable yield and price levels. Investment in tax-exempt debt obligations poses additional risks. In many cases, the Internal Revenue Service ("IRS") has not ruled on whether the interest received on a tax-exempt obligation is tax-exempt, and accordingly, purchases of these debt obligations are based on the opinion of bond counsel to the issuers at the time of issuance. Baird Advisors relies on these opinions and will not review the basis for them.

*Liquidity Risks.* Liquidity risk is the risk that certain debt obligations may be difficult or impossible to sell at the time and price that Baird Advisors would like to sell. Baird Advisors may have to lower the price, sell other debt obligations or forego an investment opportunity, any of which may have a negative effect on the management or performance of client portfolios. The liquidity of a particular debt obligation depends on the strength of demand for the debt obligation, which is generally related to the willingness of broker-dealers to make a market for the debt obligation as well as the interest of other investors to buy the debt obligation. During periods of economic uncertainty, significant economic and market downturns and periods in which financial services firms are unable to commit capital to make a

market in, or otherwise buy, certain debt obligations, Baird Advisors may experience challenges in selling such obligations at optimal prices. In addition, recent regulatory changes applicable to financial intermediaries that make markets in debt securities have restricted or made it less desirable for those financial intermediaries to hold large inventories of debt securities. Because market makers provide stability to a market through their intermediary services, a reduction in dealer inventories may lead to decreased liquidity and increased volatility in the fixed income markets.

*Foreign Securities Risks.* Foreign investments, even those that are U.S. dollar-denominated, may involve additional risk, including political and economic instability and differences in financial reporting standards, in addition to less regulated securities markets. 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. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investments in those countries.

*Sector Risks.* From time to time, based on market or economic conditions, a client account may have significant positions in specific sectors of the market. Potential negative market or economic developments affecting one or more of these sectors could have a greater impact on the client's account than on an account with fewer holdings in that sector.

*Cyber Security Risks.* With the increased use of technologies such as the Internet to conduct business, issuers of investments are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended

users). Cyber incidents affecting issuers or their service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the ability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions and other parties. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While issuers and other parties may establish business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. As a result, client accounts and investments could be negatively impacted.

*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. 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. Certain types of money market funds are required to calculate their NAV in a manner such that the NAV will vary based upon the market value of assets and liabilities of the fund (also known as a "floating NAV"). In addition, certain money market funds are required to impose redemption fees (also known as liquidity fees) and suspend redemptions (also known as redemption gates) in certain circumstances. More specific information about how a money market fund calculates its NAV and the circumstances under which it will impose a redemption fee or suspend redemptions is set forth in the prospectus for that money market fund.

*Protective Long Put Options.* Options trading is a highly specialized activity that entails greater than ordinary investment risks, including the complete loss of the amount paid as premiums to the writer of the option. Regardless of how much the market price of the underlying debt obligation or index increases or decreases, the option buyer's risk is limited to the amount of the original investment for the purchase of the option. Options may be more volatile than the underlying debt obligations or indices, and therefore, on a percentage basis, an investment in options may be subject to greater fluctuation than an investment in the underlying debt obligations. There is no assurance that a liquid secondary trading market exists for closing out an unlisted option position. Furthermore, unlisted options are not subject to the protections afforded purchasers of listed options by CME Clearing, which performs the obligations of its members who fail to perform in connection with the purchase or sale of options.

*Recent Events.* U.S. and international markets have experienced significant periods of volatility in recent years and months due to a number of economic, political and other global macro factors.

The war between Ukraine and Russia is over two years old. The October 7, 2023, attack by Hamas in Israel only added to global tensions as Israel responded with a full-scale campaign inside Gaza to defeat Hamas. Non-state actors supported by Iran responded by attacking shipping in the Red Sea and U.S. interests in the Middle East, risking a broader regional conflict.

Relations between China and the US remain strained. Chinese economic growth post-Covid has been sluggish and trade relations continue to be impacted by intellectual property disputes, national security concerns on technology and the impacts of manufacturers reducing their reliance on China for manufacturing and/or assembly.

Domestically, while inflation continues to cool, moving closer to the Fed's 2% inflation target, it remains an area of focus because the "last mile" from 3% to 2% may prove to be more challenging than the market expects. In addition, 2024 is an election year and the current level of political discord in U.S. politics is high. The inability of the government to effectively address domestic or international issues may increase risk and raise the level of market volatility.

Finally, while the coronavirus (COVID-19) appears to have entered an endemic stage, significant outbreaks or new variants present a continued risk to the global economy.

The uncertain course of these various factors may have a significant negative impact on the global economy, may result in an elevated risk environment with increased volatility in asset prices, which could have an adverse effect on the value of a client's portfolio.

### **Disciplinary Information**

In September 2023, Baird entered into an Offer of Settlement with the SEC (the "Settlement"), in which it admitted that it violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder for failing to maintain records of certain business-related communications made by Baird associates when they used their personal devices ("off-channel communications") and for failing to supervise its associates' business-related communications. The Settlement was related to an SEC risk-based initiative, whereby the SEC investigated a large number of financial services firms to determine whether those firms were properly retaining business-related text and instant messages and other off-channel communications sent and received on employees' personal devices. Following the commencement of the SEC's initiative, Baird cooperated with the SEC and conducted voluntary interviews of a sampling of Baird supervisors to gather and review messages found on their personal devices. It was discovered that certain Baird supervisors communicated off-channel using non-Baird approved methods on their personal devices about Baird's broker-dealer and investment adviser businesses. As part of the Settlement, Baird was censured and ordered to cease and desist from future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder and to pay a civil monetary penalty of \$15 million. In addition, Baird agreed to certain undertakings, including retaining an independent compliance consultant to conduct a review of Baird's policies and procedures, training, surveillance program, technology solutions and similar matters related to off-channel communications.

The following information pertains to Baird's Private Wealth Management business, a separate and distinct division of Baird.

In April 2016, Baird, without admitting or denying the findings, consented to the sanctions and findings of FINRA that it violated NASD Conduct Rule 3010, FINRA Rule 3110, and FINRA Rule 2010, by failing to establish and maintain a supervisory system and procedures reasonably designed to ensure that customers who purchased mutual fund shares received the benefit of applicable sales charge waivers. In May 2015, Baird began a review to determine whether Baird had provided available sales charge waivers to eligible customers. Based on this review, in May 2015, Baird self-reported to FINRA that various eligible customers had not received available sales charge waivers. Baird was found to have disadvantaged certain retirement plan and charitable organization customers that were eligible to purchase Class A shares in certain mutual funds without a front-end sales charge. The findings also stated that these customers were instead sold Class A shares with a front-end sales charge or Class B or C shares with higher ongoing fees and the potential application of a contingent deferred sales charge. Baird was censured and required to pay restitution to affected customers estimated to be approximately \$2.1 million including interest.

In July 2016, Baird, without admitting or denying the findings, consented to the sanctions and to the entry of findings of FINRA that the firm and a firm supervisor within its Private Wealth Management business did not reasonably supervise a former Financial Advisor who misused a customer's funds. After the supervisor realized the misuse by the Financial Advisor, Baird reimbursed the customer for the loss. The findings stated that the supervisor did not reasonably follow-up on red flags associated with a trade correction request submitted by the Financial Advisor, that the supervisor did not follow certain of Baird's written supervisory procedures ("WSPs") relating to trade corrections and that Baird did not establish and maintain a supervisory system, including WSPs, for correcting trade errors that was reasonably designed to ensure compliance with applicable securities laws, regulations and rules. Baird was censured and fined \$200,000.

In September 2016, the SEC announced that Baird, without admitting or denying the findings, consented to the sanctions and findings of the SEC that it violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder by failing to adopt and implement adequate policies and procedures to track and disclose trading away practices by certain of the subadvisors participating in Baird's wrap fee programs offered through its Private Wealth Management Department. Through these programs, Baird's advisory clients pay an annual fee in exchange for receiving access to select subadvisors and trading strategies, advice from Baird's financial advisors, and trade execution services through Baird at no additional cost. However, if a subadvisor chooses not to direct the execution of particular equity trades through Baird in order to fulfill its best execution obligation and the executing broker charges a commission or fee, Baird's advisory clients often are charged additional commissions or fees for those transactions, which is often embedded in the price paid or received for the security. This practice is referred to as "trading away" and these types of trades are frequently called "trade aways." Baird was found to have failed to adopt or implement policies and procedures designed to provide specific information to Baird's clients and financial advisors about the costs of trading away. Baird agreed to provide additional disclosure to clients and review and, as necessary, update its policies and procedures. Baird also was ordered to cease and desist committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder and pay a civil money penalty in the amount of \$250,000.

Additional information about Baird's disciplinary history is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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

Baird is registered with the SEC as a broker-dealer under the Exchange Act and as an investment adviser under the Advisers Act. Baird is also affiliated with certain broker-dealers, investment advisors, other financial services firms and investment products that are identified below. Certain Baird associates and certain management persons of Baird may invest in those investment products.

### **Baird's Broker-Dealer Activities**

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

Certain Baird and Baird Advisors associates and certain management persons of Baird and Baird Advisors are registered, or have an application pending to register, as registered representatives and associated persons of Baird to the extent necessary or appropriate to perform their job responsibilities.

### **Baird's Other Investment Management Activities**

Baird and its Financial Advisors may, from time to time refer clients to Baird Advisors or to Baird Equity Asset Management, another investment management department of Baird or Chautauqua Capital Management ("CCM"), a division of Baird Equity Asset Management. Baird Financial Advisors are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird.

### **Certain Affiliated and Related Parties**

#### *Affiliated Broker-Dealers*

Baird is affiliated, and may be deemed to be under common control, with Strategas Securities, LLC ("Strategas Securities"), which is registered with the SEC as a broker-dealer and investment adviser, by virtue of their common indirect ownership by BFG.

#### *Affiliated and Related Investment Advisors*

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

Baird is affiliated, and may be deemed to be under common control, with Strategas Asset Management, LLC ("Strategas"), by virtue of their common indirect ownership by BFG.

Baird is affiliated, and may be deemed to be under common control, with Gamma Investing, LLC ("Gamma") by virtue of BFG's and Riverfront's indirect minority ownership of Gamma and BFG's and Riverfront's representation on the board of directors of Gamma.

#### *Affiliated and Related Mutual Funds, ETFs and Investment Companies*

Baird is the investment adviser and principal underwriter for the Baird Funds. Baird Advisors provides investment management, administrative, and other services to the Baird Bond Funds. The Baird Bond Funds have investment objectives and strategies substantially similar to the portfolio strategies discussed above. Baird Equity Asset Management provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"), and Greenhouse Funds LLLP ("Greenhouse") is the investment subadvisor to one of those Funds, the Baird Equity Opportunity Fund. CCM provides investment management and other services to certain Baird Funds pursuing global or international investment strategies (the "Chautauqua Funds"). As compensation for its services, Baird receives fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available on Baird's website at [bairdassetmanagement.com/baird-funds](http://bairdassetmanagement.com/baird-funds).

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

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

CCM serves as investment sub-adviser to a mutual fund series of the Pace® Select Advisors Trust and Baird receives compensation for those



services. Additional information about those mutual funds, including information relating to the fees paid by those funds for investment management services, is available in the funds' prospectus and statement of additional information.

Baird acts as a portfolio consultant for certain UITs that are part of the FT Series, including the DIT Global Portfolio Series, the Dividend Income Trust Series, the Automated Quantitative Analysis (AQA®) Portfolio Series and the AQA® Large-Cap Portfolio Series. Baird also acts as administrator for certain closed-end funds sponsored by Duff & Phelps Investment Management Co., including DNP Select Income Fund, Inc., Duff & Phelps Utility and Corporate Bond Trust, Inc., and DTF Tax Free Income Fund Inc. Additional information about those investment products is available in the applicable prospectus and other fund documents.

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 and First Trust Exchange-Traded Fund III. 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.

Strategas acts as investment advisor to the Strategas Global Policy Opportunities ETF and the Strategas Macro Thematic Opportunities ETF and acts as investment sub-adviser for the Destinations Large Cap Equity Fund. Strategas Securities is a sponsor of Strategas Trust, a unit investment trust organized in series, which series currently consists of Strategas Trust, Series 1-1 (Strategas Policy Basket Portfolio). Additional information about those investment products is available in the applicable prospectus and statement of additional information.

#### *Affiliated Private Funds*

CCM acts as investment manager for, and Baird is the general partner or manager of, the Chautauqua International Growth Equity QP Fund, LP, the Chautauqua Global Growth Equity QP Fund, LP and the Chautauqua New World Growth Equity Series (a series of Chautauqua Series

Fund, LLC) (the "Chautauqua Private Funds"). Those funds are private pooled investment vehicles that are not required to be registered with the SEC as investment companies.

#### *Affiliated Private Equity Funds*

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. The private equity funds offered through Baird Capital and the investment adviser entities that manage them are set forth below.

#### Certain Baird Capital-Related Entities

##### *Investment Advisor      Private Equity Fund(s)*

#### *Baird Venture Partners Management Company III, LLC*

Baird Venture Partners III Limited Partnership  
BVP III Affiliates Fund Limited Partnership  
BVP III Special Affiliates Limited Partnership

#### *Baird Venture Partners Management Company IV, LLC*

Baird Venture Partners IV Limited Partnership  
BVP IV Affiliates Fund Limited Partnership  
BVP IV Special Affiliates Limited Partnership

#### *Baird Venture Partners Management Company V, LLC*

Baird Venture Partners V Limited Partnership  
BVP V Affiliates Fund Limited Partnership  
BVP V Special Affiliates Fund Limited Partnership

#### *Baird Capital Partners Management Company V, LLC*

Baird Capital Partners V Limited Partnership  
BCP V Affiliates Fund Limited Partnership  
BCP V Special Affiliates Limited Partnership

#### *Baird Capital Management Company, LLC*

*Baird Venture Partners GP VI, LLC*  
Baird Venture Partners VI LP  
BVP VI Affiliates Fund LP  
BVP VI Special Affiliates Fund LP

#### *Baird Capital Management Company, LLC*

##### *Baird Capital Global Fund Management I LP*

Baird Capital Global Fund I LP  
Baird Capital Global Fund I-DE LP  
BCGF I Special Affiliates LP  
BCGF I Affiliates Fund LP

#### *Baird Capital Management Company, LLC*

##### *Baird Capital Global Fund Management II LLC*

Baird Capital Global Fund II Limited Partnership  
BCGF II Affiliates Fund Limited Partnership



### Certain Baird Capital-Related Entities

#### *Investment Advisor      Private Equity Fund(s)*

BCGF II Special Affiliates Limited Partnership

#### *Baird Capital Partners Europe Limited\**

Baird Capital Partners Europe Fund L.P.

Baird Capital Partners Europe II LP

Baird Capital Partners Europe II Special Affiliates LP

The Growth Fund

\* Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Conduct Authority.

The Baird Principal Group is a group within Baird that has private equity funds where investors are limited to Baird employees and Baird affiliated entities. The private equity funds offered through Baird Principal Group and the investment adviser entities that manage them are set forth below.

### Certain Baird Principal Group-Related Entities

#### *Investment Advisor      Private Equity Fund(s)*

#### *Baird Principal Group Management Company I, LLC*

Baird Principal Group Partners Fund I Limited Partnership

#### *Baird Principal Group Management Company II, LLC*

Baird Principal Group Partners Fund II Limited Partnership

#### *Baird Principal Group Management Company, LLC*

Baird Principal Group Partners Fund III, LP

#### *Other Affiliated Financial Services Firms*

Baird is affiliated, and may be deemed to be under common control, with Baird Trust Company, a Kentucky-chartered trust company, by virtue of their common indirect ownership by BFG.

### **Other Financial Industry Activities**

Baird has business relationships with investment managers separate and apart from Baird Advisors. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for investment funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. That compensation is not paid to Baird Advisors or its associates.

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

### **Code of Ethics**

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advisory services to clients, including Baird Advisors associates, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a security transaction for their personal accounts during a blackout period seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management or by Baird's Compliance Department. A copy of the Code is available to clients or prospective clients upon request.

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. For example, Baird Advisors conducts trading activity for advisory clients through trading personnel that are different from the trading personnel executing trades for Baird's own accounts. In addition,

Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

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

#### *Baird's Investment Banking and Public Finance Activities*

Through its Investment Banking and Public Finance Departments, Baird provides investment banking, municipal advisory, securities underwriting and related services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Baird may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. From time to time, to the extent permitted by applicable law, rules and regulations, Baird Advisors may purchase securities for client accounts in offerings in which Baird acts as manager, co-manager, underwriter or placement agent. Such purchases are not made from Baird but from other participants in the offering. Generally, Baird will not receive compensation for the portion allocated to Baird Advisors clients. Baird Advisors will only purchase such securities in an offering for a client when it believes it is in a client's best interest to do so.

#### *Other Client Relationships*

Certain client accounts managed by Baird Advisors and Baird have similar investment objectives and strategies but may be subject to different fee schedules. Thus, Baird Advisors and Baird have an incentive to favor client accounts that generate a higher level of compensation.

#### *Baird's Broker-Dealer and Related Activities*

In its broker-dealer capacity, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, alternative investment products and other securities. Baird receives compensation based upon the sale of such investment products.

Baird and its affiliates and associates may buy or sell investments that are recommended to or owned by a client for their own accounts, or they may act as broker or agent for other clients

buying or selling those investments. Those transactions may include buying or selling investments in a manner that differs from, or is inconsistent with, the advice given to a client, and those transactions may occur at or about the same time that such investments are recommended to or are purchased or sold for a client's account.

Baird and its associates, by reason of Baird's broker-dealer, investment banking or other activities, may from time to time acquire information deemed confidential, material and non-public, about corporations or other entities and their securities. Baird and its associates are prohibited by applicable law or agreements from disclosing such information to clients or acting upon such information with respect to any client account.

#### *Other Interests*

Other sections of this Brochure also describe instances when Baird Advisors or Baird may recommend to clients, and may buy and sell for client's accounts, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" and "Client Referrals and Other Compensation" below.

#### *Addressing Conflicts*

The foregoing activities could create a conflict of interest with clients. Baird addresses these potential conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is appropriate for advisory clients (based upon the information provided by such clients); that require them to seek to obtain "best execution" of advisory client transactions; 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 over time. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

## Brokerage Practices

### Broker-Dealer Selection

Baird Advisors will select the broker-dealers that will execute trade orders for a client's accounts, unless the client has provided instructions to Baird Advisors to the contrary. As an investment adviser, Baird Advisors has an obligation to seek "best execution" of client trade orders. "Best execution" means that Baird Advisors must place client trade orders with those broker-dealers that Baird Advisors 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, Baird Advisors may consider the following factors: financial standing of executing firm and counterparty risk, execution capability and past execution performance; timeliness in rendering services; and continuity and quality of the overall provision of services. It is important to note that Baird Advisors' best execution obligation does not require Baird Advisors to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as Baird Advisors reasonably believes that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances.

To avoid potential conflicts of interest, Baird Advisors has adopted an internal policy that it will not typically use Baird's institutional equity or fixed income trading departments to provide execution services, unless specifically requested or directed to do so by a client.

Baird Advisors may also purchase or sell debt obligations through electronic trading platforms. These electronic trading platforms typically provide access to bids and offers from a greater number of dealers on a timely basis; however, these electronic platforms may impose an execution or transaction fee imbedded in the price paid or received for the debt obligation (i.e., a markup or markdown).

### Soft Dollar Benefits

Baird Advisors does not receive research in addition to execution services from a broker-dealer in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". Baird Advisors may from time to time receive

generic market commentaries or market research from broker-dealer firms. However, the receipt of those materials is not tied to the execution of client transactions.

Baird Advisors seeks to select broker-dealers based upon the broker's or dealer's ability to provide best execution, and Baird Advisors will not cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers for the purpose of obtaining soft dollar benefits. Furthermore, Baird Advisors does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

### Trade Aggregation, Allocation and Rotation Practices

Baird Advisors 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 Baird Advisors 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 Baird Advisors in potentially avoiding an adverse effect on the price of a debt obligation that could result from simultaneously placing a number of separate, successive or competing, client orders.

Baird Advisors 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, Baird Advisors determines whether or not to utilize block transactions for a client in its sole discretion and Baird Advisors' decision is subject to its duty to seek best execution. Baird Advisors will aggregate a client's trade orders only when Baird Advisors 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 for the debt obligation bought or sold the same execution price or spread to an applicable reference base rate or yield curve determined by Baird Advisors from time to time. As a result, the price or spread received by a client may be higher or lower than the price or

spread 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 debt obligations bought or sold, and the securities' sector, rating and index eligibility.

The amount of debt obligations available in the marketplace, at a particular price or spread at a particular time, may not satisfy the needs of all clients participating in a block transaction and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird Advisors has adopted trade allocation policies and procedures that are designed to make debt obligation allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time. If a block transaction cannot be executed in full at the same price or time, the debt obligations actually purchased or sold will generally be allocated based on the needs of the clients participating in the block transaction. When making an allocation, Baird Advisors, in its discretion, takes into consideration a client's investment objectives, risk tolerance, strategies and investment guidelines and restrictions; the client's cash needs and expected cash flows; and the composition of the client's investment portfolio, including its issuer and sector representation and its average maturities and duration, and the liquidity of the position size. Baird Advisors may conduct a series of transactions in debt obligations with similar characteristics to meet the needs of clients not receiving an allocation in a block transaction.

#### Directed Brokerage

Baird Advisors 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. When possible, Baird Advisors will also observe any non-binding statement of client preferences with respect to brokerage direction.

If a client directs Baird Advisors to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and Baird Advisors agrees to the arrangement, a client should understand that

Baird Advisors 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 Baird Advisors' 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 Baird Advisors generally will not aggregate the client's directed brokerage trade orders with orders for other Baird Advisors' 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 Baird Advisors may obtain for its other clients. A client should further note that Baird Advisors will generally place the client's trade orders with the directed broker-dealer after Baird Advisors completes its trading for other Baird Advisors' client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier by Baird Advisors. As a result, the client may receive a less favorable net price for the trade.

If Baird Advisors aggregates a client's directed brokerage trade orders with trade orders for other Baird Advisors' clients, Baird Advisors 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 Baird Advisors to use a particular broker-dealer, and if the particular broker-dealer referred the client to Baird Advisors or if the particular broker-dealer refers other clients to Baird Advisors or Baird in the future, Baird Advisors or Baird may benefit from the client's directed brokerage arrangement. Because

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

Before directing Baird Advisors 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

Baird Advisors generally does not engage in cross transactions for client accounts. However, in the limited instance of when one or more clients need to buy and one or more clients need to sell put bonds, Baird Advisors may engage in cross transactions to the extent Baird Advisors believes it is in all applicable clients' best interest to do so. Also, from time to time, Baird Advisors may engage in in-kind transactions involving a client's purchase or sale of debt obligations from or to a Baird Bond Fund in exchange for shares of such Baird Bond Fund. Baird Advisors will only engage in such a transaction when Baird Advisors believes that the transaction is consistent with the client's best interest. When effecting such transactions, Baird Advisors seeks to comply with the requirements of the Baird Bond Funds' in-kind transaction procedures, or other applicable SEC guidance.

### Trade Error Correction

It is Baird's policy that if there is a trade error for which Baird is responsible, Baird will take actions, based on the facts and circumstances surrounding the error, to put the client's account in the position that it would have been in as if the error had not occurred, including by adjusting or reversing the transaction, entering an offsetting transaction, reallocating the transaction to another account (subject to the review and approval of the Compliance Department), or other methods that may be deemed appropriate by Baird. Errors caused by Baird Advisors or Baird will be corrected at no cost to client's account, with the client's account not recognizing any loss from the error. Baird may net gains and losses from a single error event involving more than one transaction in a security or transactions in multiple securities. The client's account will be

fully compensated for any losses incurred as a result of an error event. If the trade error results in a gain, the gain may be retained by Baird. However, it is Baird Advisors' practice that the client typically retains the gain. If the gain is retained by Baird, such gain is not given to or shared with Baird Advisors or any Baird associate.

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

### Review of Accounts

Baird Advisors' portfolio management team provides ongoing review of all Baird Advisors' client accounts. The Baird Advisors' portfolio management team generally performs daily reviews on each client account's duration, yield curve position, sector allocation, overall portfolio exposure to individual debt obligations, compliance with the account's investment strategy and client-imposed guidelines, and deviation from other accounts using the same strategy. The portfolio management team generally reviews reports documenting each account's performance compared to the performance of a relevant benchmark index at least monthly.

Baird Advisors generally provides written performance reports to clients on a quarterly basis. These quarterly performance reports contain the client account's characteristics and performance summary. Baird Advisors may provide additional information in the performance report to meet the specific reporting needs of a client as the client and Baird Advisors may agree.

A client's account performance may be compared to a benchmark index or indices. 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. Baird Advisors' selection and use of benchmarks is not a promise or guarantee that the performance of a client's account will meet or exceed the stated benchmark. When the client compares account 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 debt obligations 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 debt obligations included in a client's account generally do not exactly mirror the debt obligations included in the index.

When preparing performance reports, Baird Advisors will generally rely on the value of a client's assets provided by the client's custodian. Baird Advisors and Baird do not verify or guarantee the accuracy of such valuation information.

### **Client Referrals and Other Compensation**

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

Baird and Baird's 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. Clients receiving advisory services from Baird Advisors generally select a third party custodian unaffiliated with Baird to have custody of the client's securities and other assets. A client who uses a third party custodian authorizes Baird Advisors to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale,

exchange, and delivery of debt obligations and other investments held in the client's account. The client must also instruct the custodian: (a) to accept instructions from Baird Advisors relating to the purchase, sale, exchange, redemption or delivery of debt obligations or other investments in the account; (b) notify Baird Advisors promptly of any additions to, or withdrawals from, the account; and (c) to the extent applicable, disburse fees due to Baird Advisors.

A client should understand that Baird Advisors does not monitor, evaluate or review any third party custodian. The client should also understand that the client will pay a custody fee in addition to the fee paid to Baird Advisors for separate accounts.

While Baird Advisors does not act as custodian when the client selects a third party custodian, Baird Advisors may be deemed under Rule 206(4)-2 of the Advisers Act to have custody of client assets in certain circumstances, such as when the client has authorized Baird Advisors to deduct its advisory fees directly from a client's custody account. All clients for whom Baird is deemed to have custody will receive account statements, at least quarterly, directly from the client's selected custodian. A client should carefully review those account statements and compare them with any account statements provided by Baird Advisors or Baird.

### **Investment Discretion**

Clients generally give Baird Advisors the discretionary investment authority to determine independently the specific debt obligations purchased or sold and the amount of debt obligations purchased or sold. By executing an IMA with Baird Advisors, a client authorizes Baird Advisors 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 debt obligations and other assets for the client's account, subject to the client's portfolio strategy. The client's IMA also grants to Baird Advisors complete and unlimited trading authorization and appoints Baird Advisors as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, Baird Advisors may, in its sole discretion and at the client's risk, (a) purchase, sell, exchange, convert



and otherwise trade the securities and other investments in the account; (b) arrange for delivery and payment in connection with the above, including the deposit of margin or collateral which shall include the transfer of money or securities to the extent necessary to meet the obligations of the account with respect to any investments made pursuant to the IMA; (c) on behalf of the account to (i) enter into agreements and execute certain documents binding on the client (e.g., brokerage agreements, clearing agreements, and the Master Securities Forward Transaction Agreement, as applicable) required to make investments pursuant to the IMA, which shall include market and/or industry standard documentation and the standard representations contained therein; and (ii) acknowledge the receipt of brokers' risk disclosure statements, electronic trading disclosure statements and similar documents; and (d) act on the client's behalf in all matters necessary or incidental to the handling of the account.

Baird Advisors generally accepts reasonable limitations to its discretionary authority with respect to brokerage direction and investment selection, including the designation of particular investments or types of investments that should not be purchased for the client's account. Any such limitations agreed to by client and Baird Advisors are generally included in the client's investment policy statement, as an addendum to the client's IMA or in a separate letter of understanding. When possible, Baird Advisors 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 investments, Baird Advisors will select such other replacement investments, 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 an investment held in the client's account, a client's investment restrictions may force Baird Advisors to sell such investment at an inopportune time, possibly negatively impacting account performance and 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 generally will not flow through to the investments owned by that investment vehicle.

Baird Advisors may use the discretionary authority granted to it by a client to invest the client's accounts in mutual funds that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide to the mutual funds ("affiliated investment products").

By signing an IMA with Baird Advisors, a client consents to Baird Advisors investing all or a portion of the client's account in affiliated investment products. The amount of fees received by Baird and its affiliates is described in the prospectus or other offering documents for the investment product. Baird Advisors will use its discretionary authority to invest the client's account in affiliated investment products when Baird Advisors determines it to be in the client's best interest to do so. Baird Advisors generally invests client accounts in individual securities and, in certain instances and to the extent approved by a client, Baird Bond Funds that mirror SMA strategies offered by Baird Advisors. Baird Advisors generally only invests client accounts in unaffiliated open-end mutual funds when that fund has an investment objective and strategy not available through a Baird Bond Fund. A client's consent may be revoked at any time.

### Voting Client Securities

Baird Advisors does not typically recommend or select for client accounts securities that have voting rights. However, by signing an IMA, clients authorize and delegate the right to Baird to vote proxies with respect to the securities held in their accounts.

Baird Advisors has adopted written policies and procedures that are reasonably designed to ensure that Baird votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between Baird Advisors' or Baird's interests and those of their clients. Although a description of Baird Advisors' proxy voting policies and procedures is provided below, Baird Advisors will furnish a copy of its proxy voting policies and procedures to clients upon their request.

Additionally, clients may obtain information on how Baird actually voted proxies with respect to the securities held in their accounts by contacting Baird Advisors by calling (414) 765-3500.

In situations in which a client has delegated to Baird voting authority with respect to securities in the client's account, Baird will vote proxies in a manner that Baird believes is consistent with the client's best interests.

In the normal course of business Baird Advisors does not typically invest in equity securities on behalf of clients. In the event Baird Advisors clients hold voting securities, Baird utilizes an independent provider of proxy voting and corporate governance services, currently Institutional Shareholder Services ("ISS"), 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. Baird will typically vote shares in accordance with the recommendations made by ISS. However, ISS's guidelines are not exhaustive, do not address all potential voting issues, and do not necessarily correspond with the opinions of the Baird Advisors portfolio managers. In the event the portfolio manager for a client's account believes the ISS recommendation is not in the best interest of the client, the portfolio manager will bring the issue to Baird's Proxy Voting Sub-Committee through a proxy challenge process. The Sub-Committee will then be responsible for determining how the vote will be cast. For those matters for which the independent proxy voting service does not provide a specific voting recommendation, each portfolio manager will cast the vote in a manner he or she believes is in the best interest of clients. The votes cast for a client's account may differ from those votes cast for other Baird Advisors or Baird clients based on differing views of portfolio managers.

The proxy voting policies and procedures also address instances in which Baird's interests may appear to conflict with client interests. In situations where there is a potential conflict of interest, Baird's Proxy Voting Sub-Committee will determine the nature and materiality of the conflict. If the conflict is determined to not be material, the Sub-Committee will vote the proxy in a manner the Sub-Committee believes is in the best interests of the client and without

consideration of any benefit to Baird or its affiliates. If the potential conflict is determined to be material, Baird's Proxy Voting Sub-Committee will take one of the following steps to address the potential conflict: (1) cast the vote in accordance with the recommendations of ISS or other independent third party; (2) refer the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggest that the client engage another party to determine how the proxy should be voted; (4) if the matter is not addressed by ISS, vote in accordance with management's recommendation; or (5) abstain from voting.

While Baird uses its best efforts to vote proxies, there are instances when voting is not practical or is not, in Baird's or the portfolio managers' view, in the best interest of clients.

Baird Advisors generally does not permit clients to direct particular votes once they have granted Baird Advisors discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary voting authority granted to Baird Advisors.

In addition to the services described above, Baird has engaged ISS for vote execution and record-keeping services. Baird Advisors will generally not take any action or submit any forms or other applications for or on behalf of its separately managed account clients regarding any class action lawsuits or other legal claims (including notices of claims against companies in bankruptcy) to which clients may be entitled to participate. Rather, Baird Advisors, if they receive any written materials related to the foregoing, will forward to client's custodian any written materials they receive related to the foregoing. At a client's request, Baird Advisors will forward information that Baird Advisors actually receives about such claims to the client or may provide information and assistance to the client in considering and responding to the materials. Baird Advisors does not, otherwise, offer legal or tax advice regarding clients' investments, and a proper assessment or evaluation of the advantages and disadvantages of participating in class action lawsuits or of bringing other legal claims (and filing notices of claims in bankruptcy) require capable legal counsel.

### Financial Information

Baird Advisors does not require or solicit prepayment of fees and, thus, has not included a balance sheet of Baird's most recent fiscal year.

Neither Baird nor Baird Advisors is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

### **Special Considerations for Retirement Accounts**

If a client's account is an account subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or an individual retirement account ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"), each owner, trustee, responsible plan fiduciary, or other fiduciary ("Retirement Account Fiduciary") of the client should understand that Baird Advisors or Baird may invest for the client, or recommend that the client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary should also understand that when Baird Advisors or Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, Baird Advisors 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 Baird Advisors will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the advisory fee that Baird Advisors charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, the client and each Retirement Account Fiduciary of the client acknowledge in the client's IMA 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 Baird Advisors' investment strategies, all assets of the client's account may be invested in one or more of the affiliated investment products; (iii) the client and such Retirement Account Fiduciary received prospectuses or other offering or 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 product fees and the advisory fees payable by the client to Baird Advisors. The differential between the fees to be charged by Baird Advisors 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 product to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment product is the difference between Baird Advisors' fee disclosed in the client's IMA and the applicable investment management, investment advisory and other similar fees detailed in the applicable prospectus or other offering or disclosure documents for the affiliated investment product.

If the client's account is a Retirement Account and if Baird Advisors is directed to implement a directed brokerage arrangement for the account, each Retirement Account Fiduciary of the client should understand that the directed brokerage arrangement must be for the exclusive benefit of participants and beneficiaries of the Retirement Account and the fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1. Each Retirement Account Fiduciary should also understand that such Fiduciary is solely responsible for complying with all fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1, including, without limitation, the duty to make an initial determination that the directed broker-dealer is capable of providing best execution for the client's brokerage transactions, the duty to monitor the services provided by the directed broker-dealer so as to assure that the client has received best execution of the client's brokerage transactions, and the duty to determine that the commissions paid by the client and any other fees or costs incurred by the client are reasonable in relation to the value of the brokerage and other services received by the client. The client and each Retirement Account Fiduciary of the client should also understand that the client and the client's Retirement Account Fiduciaries are solely responsible for engaging a directed broker-dealer, monitoring its performance and terminating a directed brokerage arrangement, and that Baird Advisors

is not responsible for determining whether a directed broker-dealer is capable of providing best execution.