

# Baird Private Asset Management

## 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 Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. Clients should carefully consider this information before becoming a client of PAM. If you have any questions about the contents of this Brochure, please contact PAM at the toll-free phone number listed above. The information contained in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Baird is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

Baird Private Asset Management ("PAM"), part of the Private Wealth Management department of Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A brochure (the "Brochure") on March 21, 2024. The following summary discusses the material changes that PAM has made to the Brochure since March 24, 2023, the date of the last annual update to the Brochure.

- Baird updated information about Baird's regulatory assets under management. See the Section of the Brochure entitled "Advisory Business" for more information.
- Baird clarified that Baird's Mutual Fund Share Class Policy does not apply to the portion of a UAS Account managed by a third party manager.
- In August 2023, a parent Company of Baird made an investment in the parent company of LoCorr Fund Management, LLC ("LoCorr"), a SEC registered investment adviser and investment adviser to the LoCorr Funds. As a result of this investment, Baird is related to LoCorr and the LoCorr Funds. Due to their relation to Baird, Baird has a financial incentive to recommend the LoCorr Funds and other products and services offered by LoCorr. Baird also updated information about Baird's affiliates and related parties. See the Section of the Brochure entitled "Other Financial Industry Activities and Affiliations" for more information.
- Baird updated the maximum FDIC insurance coverage available through the Bank Sweep Feature of Baird's Cash Sweep Program. The Bank Sweep Feature currently seeks to provide FDIC insurance protection for a client's cash balances of up to an aggregate deposit limit determined under the program (currently, \$2,500,000 for most account types and \$5,000,000 for joint accounts). See the information contained under the heading "Advisory Business—Additional Service Information—Cash Sweep Program" for more information.
- Baird 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. While Baird had policies and procedures in place prohibiting such off-channel communications, 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, and the findings were reported to the SEC. Baird took steps prior to and after the SEC's review, including implementing a new communication tool designed for Baird associates' personal devices, conducting training, and periodically requiring requisite associates to provide an attestation relating to their business-related communications. 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 some of the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Private Asset Management ("PAM"), part of Baird's Private Wealth Management ("PWM") department. Baird and PAM offer other investment advisory services not described in this Brochure. Separate brochures describe those other investment advisory services and discuss the terms and conditions, fees and costs and potential conflicts of interest associated with those services. This Brochure also references other documents that contain additional important information about Baird. Those documents describe the types of services that Baird offers to clients and certain types of investments it makes available to clients, including the terms, conditions, fees and costs applicable to those services and investments and certain risks and conflicts of interest associated with those services and investments. Those documents are available on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor). Included on that website is Baird's *Client Relationship Booklet*, which contains Baird's Form CRS *Client Relationship Summary* and Baird's *Client Relationship Details* document. The *Client Relationship Booklet* also contains an important disclosure document for retirement investors that have retirement accounts, which include employee pension benefit plan accounts that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and individual retirement accounts ("IRAs") that are subject to the Internal Revenue Code of 1986, as amended ("IRC") (collectively, "Retirement Accounts"). A client of Baird should have already received a copy of the *Client Relationship Booklet*. A client or prospective client who wishes to obtain a brochure for another investment advisory service provided by Baird, or a paper copy of any of the other documents referenced in this Brochure, including the *Client Relationship Booklet*, should contact a PAM Consultant or call Baird toll-free at 1-800-792-2473.

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

## Robert W. Baird & Co. 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.

Baird offers various investment advisory services to clients, including services not described in this Brochure. The investment advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting; financial planning; investment policy development; and account performance monitoring. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services.

Baird participates in wrap fee programs, including programs not described in this Brochure and it provides portfolio management services in connection with those programs. Baird receives a portion of the wrap fee 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"). PAM and Baird are deemed to have a fiduciary relationship with a client when providing the investment



advisory services that are described in this Brochure. That means that PAM and Baird are required to act in the best interest of the client when providing investment advisory services. From time to time PAM and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of PAM and Baird. PAM 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 services they provide, and the agreements clients enter into with PAM and Baird. In addition, Baird has adopted internal policies and procedures for PAM and Baird that require them to: provide investment advice that is suitable 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 PAM 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.*

### Summary of PAM's Services

This Brochure describes certain investment advisory programs and services that PAM and Baird offer to clients ("Services") and applies to each advisory account advised by PAM ("Account"). The investment advisory services offered under the Services generally include investment advice and consulting services, performance reporting and related account services, which are provided by Baird PWM's home office investment professionals or PAM, and, depending upon the Service that a client selects, the Service may include portfolio management. The Services consist of:

- certain consulting services ("Consulting Services");

- discretionary services, whereby a client gives PAM or Baird (including Baird PWM's home office investment professionals or the client's PAM Consultant) full discretionary authority to manage the client's Account ("Discretionary Services");
- non-discretionary services, whereby PAM or Baird provide investment advice and recommendations but the client retains full authority with respect to the management of the client's Account ("Non-Discretionary Services"); and
- separately managed account ("SMA") programs and services, whereby investment managers, which may include third party investment managers unrelated or related to Baird ("Other Managers") or Baird, manage the client's Account according to a strategy (each, an "SMA Strategy") with full discretionary authority, and PAM and Baird provide additional consulting services to the client (collectively, "SMA Services").

Depending on their particular needs or objectives, clients may use one or more of these Services.

The Consulting Services include: assisting a client with the development of an investment policy statement; asset allocation reporting; investment manager search, investment manager interviews, performance reviews, performance monitoring, asset allocation and funding requirement analysis; asset liability modeling; and annuity modeling. In certain instances, PAM may also provide clients with asset allocation and funding requirement analysis and asset liability modeling. The Discretionary Services include: PAM Investment Management. The SMA Services include: PAM Recommended Managers; Baird SMA Network ("BSN"); and Dual Contract ("DC").

The SMA Services are generally offered under a "single contract" arrangement. Under a single contract arrangement, a client enters into an advisory agreement with PAM and Baird, and Baird, in turn, enters into a subadvisory or similar agreement with the investment manager on the client's behalf. This type of arrangement is frequently referred to as a single contract arrangement because there is only one contract between the client and PAM and Baird; the client does not have an agreement directly with the

client's investment manager. Under the Dual Contract Program, a client has a "dual contract" arrangement, meaning the client has two contracts; one contract with PAM and Baird and another contract with the client's investment manager.

Certain Programs may allow a client to invest in groups of mutual funds and ETFs (referred to as "sleeves") and other model portfolios of securities managed by Baird PWM (such sleeves and model portfolios collectively, "PWM-Managed Portfolios").

Baird has engaged an overlay management firm, Envestnet Asset Management, Inc. (the "Overlay Manager") to provide certain subadvisory services to clients that participate in certain SMA Services. The SMA Services make available two types of SMA Strategies: (1) manager-traded strategies, whereby the manager itself manages a client's Account and conducts the trading to implement the SMA Strategy selected by the client (a "Manager-Traded Strategy"); and (2) model-traded strategies, whereby the manager does not manage a client's Account (a "Model Provider") but instead provides a model portfolio ("Model Portfolio") to an overlay management firm, which may include the Overlay Manager, Baird or other third party firm (each, an "Implementation Manager"), that in turn manages a client's Account and conducts the trading to implement the SMA Strategy selected by the client (a "Model-Traded Strategy"). If a client selects a Model-Traded Strategy, the Model Provider will provide the Model Portfolio and updates to the Implementation Manager, and the Implementation Manager will manage the client's Account with full discretionary authority according to the strategy selected by the client. Otherwise, if the client selects a Manager-Traded Strategy, the investment manager will directly manage the client's Account with full discretionary authority as more fully described below.

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the "Exchange Act"). Baird, in its capacity as broker-dealer, may also provide clients with trade execution, custody and other standard brokerage services. However, trade execution services, whether provided by Baird or another firm, are not included in the advisory fee the client pays for the Services ("Advisory Fee"). *A client should note that the client will incur costs in addition to the Advisory Fee. See "Fees and*

*Compensation—Other Fees and Expenses" below for more information.*

PAM and Baird tailor advisory services to the individual needs of clients. Each Service is designed to address different investment needs of clients. All of the Services discussed in this Brochure may not be appropriate for every client. For example, the Services may not be appropriate for clients who have low or no trading activity, who desire to pay transaction-based fees, who maintain their accounts invested in high levels of cash or other concentrated positions, who do not want ongoing professional investment advice or account monitoring, who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as "unsolicited" transactions, or who intend to utilize an investment strategy, product or solution that is not available in a Service.

Some Services offer clients the ability to pursue alternative investment strategies ("Alternative Strategies") or other non-traditional or complex investment strategies that involve special risks not apparent in more traditional investments like stocks and bonds (collectively, "Complex Strategies"). Similarly, some Programs offer clients the ability to invest in non-traditional or real assets ("Non-Traditional Assets"). Some Programs also offer the ability to invest in investment products that pursue Alternative Strategies ("Alternative Investment Products") or other Complex Strategies (collectively, "Complex Investment Products"). The use of these strategies and investment products involves special risks, and a client should not engage in a strategy or purchase an investment product unless the client understands the related risks. See "Additional Service Information—Complex Strategies and Complex Investment Products" and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

Certain Services make available asset allocation investment strategies. Asset allocation strategies involve investing in one or more categories of assets, such as equity securities, fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash, and one or more subcategories of assets, called asset classes. Asset allocation strategies have varying investment objectives and investment strategies. Some asset allocation strategies use strategic

investment strategies, which involve investing accounts in accordance with a predetermined target allocation to different asset classes. Some asset allocation strategies use tactical investing, which typically involves tactically and actively adjusting account allocations to different asset classes based upon the manager's perception of how those asset classes will perform in the short-term. Some asset allocation strategies involve the use of both strategic and tactical investment strategies, sometimes referred to as dynamic strategies. Asset allocation strategies may be implemented using a variety of investment types, such as individual securities, mutual funds and exchange traded products ("ETPs"), including exchange traded funds ("ETFs") and exchange traded notes ("ETNs"). The amount allocated to an asset class or investment type varies by strategy, and some strategies may have little or no allocation to one or more asset classes or types of investments described above. See "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Asset Allocation Strategies" below for more information.

The Services make available investment products and services offered by parties that are not related to Baird. Some Services make available investment products and services offered by parties related to Baird, including: Baird Advisors and Baird Equity Asset Management, investment management departments of Baird; Chautauqua Capital Management ("CCM"), a division of Baird Equity Asset Management; GAMMA Investing, LLC ("GAMMA"), Greenhouse Funds LLLP ("Greenhouse"), LoCorr Fund Management, LLC ("LoCorr"), Riverfront Investment Group, LLC ("Riverfront") and Strategas Asset Management, LLC ("Strategas"), investment managers that are affiliated with Baird; Baird Trust Company ("Baird Trust"), a trust company that is affiliated with Baird; mutual funds offered by Baird Funds, Inc. (the "Baird Funds"), which is affiliated with Baird; and mutual funds offered by LoCorr Investment Trust (the "LoCorr Funds"), which is related to Baird. Those affiliated investment products and services generally consist of mutual funds, ETPs or other funds offered by parties related to Baird ("Affiliated Funds") and SMA Strategies offered by parties related to Baird ("Affiliated SMA Strategies"). For more information about these and other related parties, see "Other Financial Industry Activities and Affiliations" below.

PAM clients typically work with a PAM Consultant to determine the services that are appropriate given their financial goals and circumstances. The client will provide financial, tax, and liquidity requirements information to their PAM Consultant to assist in determining the client's investment needs, objectives and risk tolerances for the assets being invested. However, it is a client that ultimately selects the Service and investment strategy that is most appropriate for the client.

A client that wishes to participate in a Service will enter into a client relationship agreement or other investment advisory agreement with PAM and Baird ("advisory agreement"). The client's advisory agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client, and other terms applicable to the client's advisory relationship with PAM and Baird. A client should note that the client's advisory relationship with PAM and Baird does not begin until they enter into the applicable advisory agreement with the client, which occurs when Baird PWM's Home Office has accepted the client's advisory agreement and determined that all of the client's paperwork is in order. See "Additional Service Information—Account Requirements" below for more information.

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

As mentioned above, Baird, in its capacity as broker-dealer, may also provide PAM clients with trade execution, custody and other standard brokerage services. For this reason, a client may also enter into a client relationship agreement or other account agreement with PAM and Baird ("account agreement") if the client has not already done so. The client's account agreement authorizes PAM and Baird to execute trades for, and perform related brokerage and custody services to, the client's Account. Baird generally does not permit a client to include assets in the client's Account that are held by a third party custodian or that are otherwise held outside of a Baird account ("Held-Away Assets"), although PAM will provide Consulting Services on Held-Away Assets when requested by a client and agreed to by PAM.

Each Service has different structures, administration, types and levels of service, and fees and expenses. In particular, a client should note that the investment advisory services provided by PAM and Baird, including the depth of initial and ongoing research, evaluation, monitoring and review of the investments in a client's Account, varies by Service and the investments selected for the Account.

The foregoing discussion of the Services is only a summary. More specific information about the Services and the particular investment advisory services that PAM and Baird provide in connection with each Service are further described below and in the client's advisory agreement. Clients are encouraged to review this Brochure and their advisory agreement carefully.

### Consulting Services

PAM offers the following Consulting Services.

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

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

*Investment Manager Search Report.* PAM provides to a client an Investment Manager Search Report that lists investment managers with investment philosophies and investment strategies believed to be consistent with the client's investment

objectives, policies, constraints, and risk profile, as specified by the client to PAM. PAM does not assume responsibility for the client's choice of any investment manager or for any investment manager's performance when providing this service to the client, nor is PAM responsible for an unaffiliated investment manager's compliance with applicable law or for matters beyond PAM's reasonable control. Investment Manager Search Interviews. PAM coordinates client interviews with a select number of investment managers listed on the Investment Manager Search Report. The interviews enable the client to gain additional information regarding such investment managers' respective investment philosophies, policies and business operations.

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

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

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

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

*Asset Liability Modeling.* As a client's actuarial inputs, economic situations, and/or liabilities

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

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

## Discretionary Services

### **PAM Investment Management Service**

Under the PAM Investment Management Service, a client grants full discretionary authority and management of the client's Account to Baird and the client's PAM Consultant.

In the PAM Investment Management Service, a client's PAM Consultant seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's PAM Consultant. At the commencement of services, the client's PAM Consultant reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PAM Consultant makes a subsequent recommendation to the client as to which investment style the PAM Consultant believes is best suited for the client. A client makes the final decision as to which investment style is chosen for the client's Account. More specific information as to how the client's PAM Consultant will manage the client's Account is provided to the client in connection with the opening of the Account.

A PAM Consultant may make investments in various types of securities, including, but not limited to, equity securities, fixed income securities, mutual funds, ETFs, Non-Traditional Assets and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds, or may be deposited in interest-bearing bank accounts. Additional information about the types of investments a PAM Consultant may use for client accounts is contained under the heading "Additional Service Information—Permitted Investments" below. For more information about the PAM Investment Management Service, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—PAM Investment Management Service" below.

Baird may remove any PAM Consultant or strategy from the Service at any time and transfer day-to-day management responsibility of a client's Account to another PAM Consultant or Baird Financial Advisor at any time without providing prior notice to, or obtaining the consent of, a client.

Important Information about PAM Investment Management Service Accounts. *A client should note that PAM Consultants may engage in strategies that involve concentrated and less diversified portfolios of securities, leverage or margin. In addition, PAM Consultants may invest client accounts in illiquid securities and Complex Investment Products. These types of strategies and investments involve special, sometimes significant, risks and are not appropriate for all clients. A client should understand those risks before engaging in those strategies or investing in those products. See "Additional Service Information—Complex Strategies and Complex Investment Products" and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.*

*Mutual funds, ETFs and other investment products affiliated with Baird are available to clients under the PAM Investment Management Service. This presents a conflict of interest. For more information, see "Other Financial Industry Affiliations and Activities" below.*



## SMA Services

### ***PAM Recommended Managers Service***

The PAM Recommended Managers Service is a program whereby a client provides Baird and the client's PAM Consultant with discretionary authority to appoint investment managers to manage the client's Account with full discretionary authority and to terminate or replace investment managers for the client's Account. The PAM Recommended Managers Service is designed for a client who wishes to have the client's Account managed by investment managers that are monitored by PAM and Baird on an ongoing basis.

Under the PAM Recommended Managers Service, PAM and Baird determine the investment managers ("PAM Recommended Managers") and their strategies ("PAM RM Strategies") eligible to participate in the Service through an initial and ongoing evaluation process.

For more specific information about the managers and SMA Strategies made available through the PAM Recommended Managers Service and the level of initial and ongoing research, evaluation, monitoring and review performed by Baird on those managers and SMA Strategies, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—PAM Recommended Managers Service" below.

PAM Recommended Managers have varying investment objectives, styles and strategies, and they may invest a client's Account in various types of securities, which will be chosen by the PAM Recommended Manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

Clients are urged to review the PAM Recommended Manager's Form ADV Part 2A Brochure, which should contain additional important information about the PAM Recommended Manager, including information about the PAM Recommended Manager's strategies, the types of investments the PAM Recommended Manager may use for a client's Account, and the risks associated with investing in a PAM RM Strategy. Such brochures are available upon request.

Some of the services provided under the PAM Recommended Managers Service will be provided

to a client by a PAM Consultant assigned to the client's Account. A client, typically working with a PAM Consultant, initially selects the PAM Recommended Manager and PAM RM Strategy for the client's Account. Thereafter, whenever Baird or the client's PAM Consultant deems it necessary, Baird or the client's PAM Consultant will replace a PAM Recommended Manager or PAM RM Strategy with another PAM Recommended Manager or PAM RM Strategy for the client's Account.

If a client participates in the PAM Recommended Managers Service, the client authorizes and directs PAM and Baird to appoint PAM Recommended Managers to serve as sub-adviser to the client's Account and to otherwise manage the client's Account in accordance with the terms of the PAM Recommended Managers Service. The client also authorizes and directs the PAM Recommended Managers to manage the client's Account with full discretionary authority in accordance with the PAM RM Strategy selected.

Certain PAM RM Strategies are only made available through Implementation Managers. The PAM RM Strategies offered through Implementation Managers consist of Manager-Traded Strategies and Model-Traded Strategies. If a PAM RM Strategy offered through an Implementation Manager is selected for a client's Account, the client authorizes and directs PAM and Baird to appoint the Implementation Manager to serve as sub-adviser to the client's Account. If a Model-Traded Strategy offered through an Implementation Manager is selected for a client's Account, the client authorizes and directs the Implementation Manager to manage the client's Account with full discretionary authority in accordance with the selected PAM RM Strategy. If a Manager-Traded Strategy offered through an Implementation Manager is selected for a client's Account, the client authorizes and directs the Implementation Manager to appoint the applicable PAM Recommended Manager as sub-adviser, and the client also authorizes and directs such PAM Recommended Manager to manage the client's Account with full discretionary authority in accordance with the selected PAM RM Strategy.

If a Model-Traded Strategy offered through an Implementation Manager is selected for a client's Account, the Implementation Manager will typically implement the Model Portfolio as proposed by the Model Provider. However, since the Implementation Manager has discretionary

authority over the client's Account, the Implementation Manager may implement the Model Portfolio differently than proposed by the Model Provider if the Implementation Manager determines such action to be necessary and in the client's best interest. A client should note that PAM and Baird do not monitor or ascertain whether a third party Implementation Manager is fully and faithfully implementing the Model Portfolio on a continuous basis. The client should periodically discuss the Account's performance with the client's PAM Consultant.

Certain managers of Model-Traded Strategies offered through the Overlay Manager have adopted trade rotation policies that allow them to send Model Portfolio updates to the Overlay Manager after they have implemented the Model Portfolio updates for client accounts managed by them or after they have otherwise completed trading for those accounts. As a result, the performance of a PAM client Account pursuing a Model Portfolio strategy offered by those Model Providers will differ, perhaps in a materially negative manner, from the performance of other client accounts managed by those Model Providers. See "Additional Service Information—Trading for Client Accounts—Trading Practices of Investment Managers" below for more information.

If a client's Account is managed by an Other Manager under the PAM Recommended Managers Service, the client should understand that, notwithstanding the discretionary authority granted to Baird and the client's PAM Consultant under the Service: Baird and the client's PAM Consultant do not manage the Account and do not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, Baird and the client's PAM Consultant are not responsible for the decisions made by the Other Manager; and Baird and the client's PAM Consultant do not provide any recommendation or investment advice regarding the purchase or sale of investment products made for the client's Account.

From time to time, PAM or Baird may remove investment managers from the PAM Recommended Managers Service, and PAM or Baird may select a replacement manager to manage the client's Account. In such event, PAM or Baird, at the direction of the client's replacement manager, or the client's replacement

manager may sell all or a portion of the securities or other investments in the Account that were managed by the prior manager and the replacement manager will reinvest the cash proceeds of those sales. Sales of securities or other investments could result in adverse tax consequences for the client.

If PAM or Baird terminates an investment manager from the PAM Recommended Managers Service, a client authorizes PAM and Baird to invest, with full discretionary authority, the assets in the client's Account previously managed by the terminated investment manager in other securities, including, but not limited to, mutual funds and ETPs. PAM's and Baird's discretionary authority to make such other investments will continue until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets.

A client who prefers to continue using an investment manager that has been removed from the PAM Recommended Managers Service, or who directs or otherwise requests that a particular investment manager not recommended by PAM be selected to manage the client's Account, will need to move to another Service, such as the BSN Program. See "Baird SMA Network Program" below for more information. Clients who elect to do so will no longer receive the same level of rigorous ongoing monitoring, evaluation, or review of that investment manager from PAM or Baird.

**Important Information about Affiliated Managers.** *The PAM Recommended Managers Service makes available to clients investment services that are offered by Baird Advisors and Baird Equity Asset Management, investment management departments of Baird, and Riverfront, an affiliate of Baird. Baird has a potential conflict of interest to the extent Baird would advise a client to select investment products offered by those Baird Departments or Riverfront. For more information, see "Other Financial Industry Affiliations and Activities" below.*

#### **Baird SMA Network Program**

The BSN Program is a program whereby a client independently selects an investment manager to manage the client's Account with full discretionary authority according to a strategy selected by the

client. The BSN Program is designed to accommodate a client who wishes to independently select an investment manager not available in the PAM Recommended Managers Program to manage the assets in the client's Account.

Under the BSN Program, Baird determines the investment managers ("BSN Managers") and their strategies ("BSN Strategies") eligible to participate in the Program through a significantly less rigorous evaluation process compared to the PAM Recommended Managers Service. However, a client should note that PAM and Baird do not make any recommendation to clients regarding any BSN Strategy or any representations regarding a BSN Manager's qualifications as an investment adviser or abilities to manage client assets.

For more specific information about the managers and SMA Strategies made available through the BSN Program and the level of initial and ongoing research, evaluation, monitoring and review performed by Baird on those managers and SMA Strategies, if any, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—Baird SMA Network and Dual Contract Programs" below.

A client should only participate in the BSN Program if the client wishes to take more responsibility for monitoring the client's Account, the PAM Recommended Managers Program does not contain an SMA Strategy that meets the client's particular needs, and the client understands the risks of doing so.

BSN Managers have varying investment objectives, styles and strategies, and they may invest a client's Account in various types of securities, which will be chosen by the BSN Manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird. Certain managers offer strategies that exclusively invest in Investment Funds ("Fund Strategist Portfolios").

Clients are urged to review the BSN Manager's Form ADV Part 2A Brochure, which should contain additional important information about the BSN Manager, including information about the BSN Manager's strategies, the types of investments

the BSN Manager may use for a client's Account, and the risks associated with investing in a BSN Strategy. Such brochures are available upon request.

Some of the services provided under the BSN Program may be provided to a client by a PAM Consultant assigned to the client's Account, and the client's PAM Consultant may provide his or her own advice and recommendations about BSN Managers.

If a client participates in the BSN Program, the client authorizes and directs PAM and Baird to appoint the BSN Manager selected by the client to serve as sub-adviser to the client's Account. The client also authorizes and directs the BSN Manager to manage client's Account with full discretionary authority in accordance with the BSN Strategy selected by the client.

Certain BSN Strategies are only made available through the Overlay Manager. The BSN Strategies offered through the Overlay Manager consist of Manager-Traded Strategies and Model-Traded Strategies. If a client selects a BSN Strategy offered through the Overlay Manager for the client's Account, the client authorizes and directs PAM and Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If a client selects a Model-Traded Strategy offered through the Overlay Manager for the client's Account, the client authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the BSN Strategy selected by the client. If a client selects a Manager-Traded Strategy offered through the Overlay Manager for the client's Account, the client authorizes and directs the Overlay Manager to appoint the applicable BSN Manager as sub-adviser, and the client also authorizes and directs such BSN Manager to manage the client's Account with full discretionary authority in accordance with the BSN Strategy selected by the client.

If a client selects a Model-Traded Strategy offered through the Overlay Manager for the client's Account, the Overlay Manager will typically implement the Model Portfolio as proposed by the Model Provider. However, since the Overlay Manager has discretionary authority over the client's Account, the Overlay Manager may implement the Model Portfolio differently than



proposed by the Model Provider if the Overlay Manager determines such action to be necessary and in the client's best interest. A client should note that PAM and Baird do not monitor or ascertain whether the Overlay Manager is fully and faithfully implementing the Model Portfolio on a continuous basis. The client should periodically discuss the Account's performance with the client's PAM Consultant.

Certain managers of Model-Traded Strategies offered through the Overlay Manager have adopted trade rotation policies that allow them to send Model Portfolio updates to the Overlay Manager after they have implemented the Model Portfolio updates for client accounts managed by them or after they have otherwise completed trading for those accounts. As a result, the performance of a PAM client Account pursuing a Model Portfolio strategy offered by those Model Providers will differ, perhaps in a materially negative manner, from the performance of client accounts managed by those Model Providers. See "Additional Service Information—Trading for Client Accounts—Trading Practices of Investment Managers" below for more information.

If a client's Account is managed by an Other Manager under the BSN Program, the client should understand that: PAM and Baird do not manage the Account and do not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, PAM and Baird are not responsible for the decisions made by the Other Manager; PAM and Baird do not provide any recommendation or investment advice regarding the purchase or sale of investment products made for the client's Account; and PAM and Baird only provide the client with certain consulting services, which may include the client's PAM Consultant's assistance with determining the client's financial needs, investment goals and investment restrictions and periodically reviewing the manager's performance. PAM and Baird do not undertake to provide any other consulting or investment advisory services under the BSN Program unless PAM and Baird agree to do so in writing.

A client that participates in the BSN Program is strongly encouraged to contact the client's PAM Consultant or BSN Manager on a periodic basis to discuss: the Account and its investment performance; the BSN Manager's investment philosophy and style (to determine if the BSN

Strategy remains appropriate for the client); any potential conflicts of interest; and any investment restrictions the client may wish to impose or change. A client should also periodically check the registration status, disciplinary events and other information regarding the BSN Manager, described on the manager's Form ADV, which is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The BSN Strategies and BSN Managers made available under the BSN Program are subject to change or removal at any time in Baird's sole discretion. Under the terms of the BSN Program, PAM and Baird cannot appoint a replacement manager or otherwise manage a client's Account assets. Given the terms of the BSN Program, upon the withdrawal or removal of an investment manager from the BSN Program, a client's BSN Program Account will be automatically removed from the BSN Program and the Account will become an unmanaged brokerage account, unless the client provides contrary instructions to PAM. See "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—Baird SMA Network and Dual Contract Programs" below for further information.

**Important Information about the BSN Program.** *Portfolios managed by 55I, LLC (d/b/a 55ip, "55ip") are made available under the BSN Program. 55ip uses research and other services from Riverfront, an affiliate of Baird, in the development of certain of those portfolios, and Riverfront receives compensation from 55ip with respect to those portfolios. This presents a conflict of interest. For more information, see "Other Financial Industry Affiliations and Activities" below.*

*The BSN Program is designed to accommodate a client who wishes to independently select an investment manager that is not available in the PAM Recommended Managers Service to manage the client's Account. The client assumes ultimate responsibility for monitoring the client's BSN Program Account and the BSN Manager's performance. A client's appointment and continued retention of a BSN Manager to manage the client's Account are based ultimately upon the client's independent review of the BSN Manager and the BSN Manager's services. The client ultimately determines that the BSN Strategy to be used in managing the client's Account is*

*consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a BSN Manager will only be removed from managing the client's BSN Program Account upon the manager's withdrawal, removal from the BSN Program, or the client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the BSN Program and also consider whether another Service, such as the PAM Recommended Managers Service, may be more appropriate for the client.*

### **Dual Contract Program**

The DC Program is a program whereby a client independently selects an investment manager to manage the client's Account with full discretionary authority according to a strategy selected by the client. The DC Program is designed to accommodate a client who wishes to independently select an investment manager not available in the PAM Recommended Managers Service or BSN Program to manage the assets in the client's Account.

Under the DC Program, Baird determines the investment managers ("DC Managers") and their strategies ("DC Strategies") eligible to participate in the Program through a significantly less rigorous evaluation process compared to the PAM Recommended Managers Service. However, a client should note that PAM and Baird do not make any recommendation to clients regarding any DC Strategy or any representations regarding a DC Manager's qualifications as an investment adviser or abilities to manage client assets.

For more specific information about the managers and SMA Strategies made available through the DC Program and the level of initial and ongoing research, evaluation, monitoring and review performed by Baird on those managers and SMA Strategies, if any, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—Baird SMA Network and Dual Contract Programs" below.

A client should only participate in the DC Program if the client wishes to take more responsibility for monitoring the client's Account, the PAM Recommended Managers Program does not contain an SMA Strategy that meets the client's

particular needs, and the client understands the risks of doing so.

DC Managers have varying investment objectives, styles and strategies, and they may invest a client's Account in various types of securities, which will be chosen by the DC Manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

Clients are urged to review the DC Manager's Form ADV Part 2A Brochure, which should contain additional important information about the DC Manager, including information about the DC Manager's strategies, the types of investments the DC Manager may use for a client's Account, and the risks associated with investing in a DC Strategy. Such brochures are available upon request.

Some of the services provided under the DC Program may be provided to a client by a PAM Consultant assigned to the client's Account, and the client's PAM Consultant may provide his or her own advice and recommendations about DC Managers.

Under the DC Program, DC Managers are offered to clients through a dual contract arrangement, and a client will need to enter into a separate agreement with the DC Manager in addition to the advisory agreement the client enters into with PAM and Baird. A client participating in the DC Program is solely responsible for negotiating the client's agreement with the client's DC Manager, and neither PAM nor Baird will participate or advise a client regarding the terms of such an agreement, the advisability of entering into such an agreement, or the retention of the client's DC Manager unless PAM and Baird agree to do so in writing.

If a client's Account is managed by an Other Manager under the DC Program, the client should understand that: PAM and Baird do not manage the Account and do not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, PAM and Baird are not responsible for the decisions made by the Other Manager; PAM and Baird do not provide any recommendation or investment advice regarding the purchase or sale of investment products made for the client's

Account; and PAM and Baird only provide the client with certain consulting services, which may include the client's PAM Consultant's assistance with determining the client's financial needs, investment goals and investment restrictions and periodically reviewing the manager's performance. PAM and Baird do not undertake to provide any other consulting or investment advisory services under the DC Program unless PAM and Baird agree to do so in writing.

A client that participates in the DC Program is strongly encouraged to contact the client's PAM Consultant or DC Manager on a periodic basis to discuss: the Account and its investment performance; the DC Manager's investment philosophy and style (to determine if the DC Strategy remains appropriate for the client); any potential conflicts of interest; and any investment restrictions the client may wish to impose or change. A client should also periodically check the registration status, disciplinary events and other information regarding the DC Manager, described on the manager's Form ADV, which is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The DC Strategies and DC Managers made available under the DC Program are subject to change or removal at any time in Baird's sole discretion. Under the terms of the DC Program, PAM and Baird cannot appoint a replacement manager or otherwise manage a client's Account assets. Given the terms of the DC Program, upon the withdrawal or removal of an investment manager from the DC Program, a client's DC Program Account will be automatically removed from the DC Program and the Account will become an unmanaged brokerage account, unless the client provides contrary instructions to PAM. See "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information—Baird SMA Network and Dual Contract Programs" below for more information.

**Important Information about the DC Program.** *Other investment management departments of Baird and managers affiliated with Baird are available to clients under the DC Program. This presents a conflict of interest. For more information, see "Other Financial Industry Affiliations and Activities" below.*

*The DC Program is designed to accommodate a client who wishes to independently select an investment manager that is not available in the PAM Recommended Managers Service or BSN Program to manage the client's Account. The client assumes ultimate responsibility for monitoring the client's DC Program Account and the DC Manager's performance. A client's appointment and continued retention of a DC Manager to manage the client's Account are based ultimately upon the client's independent review of the DC Manager and the DC Manager's services. The client ultimately determines that the DC Strategy to be used in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a DC Manager will only be removed from managing the client's DC Program Account upon the manager's withdrawal, removal from the DC Program, or the client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the DC Program and also consider whether another Service, such as the PAM Recommended Managers Service, may be more appropriate for the client.*

### **Other SMA Strategy Information**

Certain SMA Strategies are available through multiple Services. The overall cost of an SMA Strategy and the types and levels of service provided to a client in connection with an SMA Strategy will vary depending upon the particular Service selected by the client. A client should ask the client's PAM Consultant whether an SMA Strategy is available through multiple Programs and, if so, the client should discuss with the PAM Consultant the different costs of the Services and the types and levels of service provided in connection with the Services. A client is solely responsible for selecting the Service in which the client's Account will participate.

### **Additional Service Information**

#### **Conversion, Exchange or Sale of Certain Investments**

By participating in a Service, a client authorizes Baird to convert or exchange any shares of investment funds, such as mutual funds, ETFs, closed-end funds, unit investment trusts ("UITs"), Complex Investment Products, and other similar investment pools (collectively, "Investment Funds") held in the client's Account to a class of shares of the same fund. See "Investment

Discretion—Conversion, Exchange or Sale of Certain Investments” below for more information.

### **Complex Strategies and Complex Investment Products**

Some Services offer clients the ability to pursue Alternative Strategies or other Complex Strategies that involve special risks not apparent in more traditional investments like stocks and bonds. Complex Strategies may be pursued in multiple ways, including by investing in alternative mutual funds, ETFs, hedge funds, managed futures, private equity funds and SMAs managed by third party managers. Some Complex Strategies invest in Non-Traditional Assets, such as real estate, commodities (which may include metals, mining, energy and agricultural products), currencies, movements in securities indices, credit spreads and interest rates, and venture capital and buyout investments in private companies. Some Complex Strategies engage in the use of margin or leverage or selling securities short (“short sales”). Some Complex Strategies invest in derivative instruments such as options, convertible securities, futures, swaps, or forward contracts. Complex Investment Products generally engage in one or more Complex Strategies. Additional information about Alternative Strategies and Complex Strategies is contained under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies and Complex Strategies” below. Additional information about Complex Strategies and Complex Investment Products, generally, is provided below.

### **Non-Traditional Assets**

Non-Traditional Assets, such as investments in commodities, currencies, cryptocurrencies, securities indices, interest rates, credit spreads, and private companies, may be used for diversification purposes. They may also be used to try to reduce market and inflation risk. The performance of Non-Traditional Assets may not correspond to the performance of the stock markets generally, and investments in Non-Traditional Assets will generally impact an account’s returns differently than more traditional investments like stocks or bonds. Non-Traditional Assets are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Non-Traditional Assets are

generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

### **Margin and Leverage**

#### *Margin*

Margin involves borrowing money from a firm, such as Baird, to buy securities or other property. It is generally PAM’s practice to not use margin as part of an investment strategy, although a client’s investment manager may do so. If a client wishes to pay for securities by borrowing part of the purchase price from Baird, a client must open a margin account with Baird, and Baird may provide the client with a margin loan. Securities held in a client’s margin account are used as Baird’s collateral for the margin loan. The value of the collateral in the margin account must be maintained at a certain level relative to the margin loan for the duration of the loan. If the securities in the margin account decline in value, so does the value of the collateral supporting the margin loan, and as a result, Baird may take action, such as issue a margin call and sell securities in the account.

#### *Leverage*

Leverage generally attempts to obtain investment exposure in excess of available assets through the use of borrowings, short sales and other derivative instruments. While leverage can potentially enhance returns, it can also exacerbate losses if changes in the markets, or the values of the investments subject to the leverage, are adverse to the strategy being pursued. The use of leverage may also increase an Account’s volatility.

### **Short Sales**

Short selling attempts to benefit from an anticipated decline in the market value of a security. To affect a short sale, a client sells a security the client does not own. When a client sells a security short, Baird borrows the security from a lender and makes delivery to the buyer on the client’s behalf. Because short sales involve an extension of credit from Baird to the client, a client must use a margin account. A client must also eventually purchase the same shares sold short and return them back to the lender. It is possible that the prices of securities that a client sells short may increase in value, in which case the client may lose money on the short position.



Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate.

Clients should note that investment managers managing a client's Account or investment products in the client's Account may also engage in short sales. Thus, a client's Account will be subject to short sales risks if the investment manager managing the client's Account or an investment product in the client's Account engages in short sales.

## Options and Other Derivative Instruments

### *Derivative Instruments*

Derivatives instruments, such as options, convertible securities, futures, swaps, and forward contracts are financial contracts that derive value based upon the value of an underlying asset, such as a security, commodity, currency, cryptocurrency, or index. Derivative instruments may be used as a substitute for taking a position in the underlying asset. Derivative instruments may also be used to try to hedge or reduce exposure to other risks. They may also be used to make speculative investments on the movement of the value of an underlying asset. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Investing in derivatives also generally involves leverage. Derivatives are also generally less liquid, and subject to greater volatility compared to stocks and bonds.

### *Options*

Options transactions may involve the buying or writing of puts or calls on securities. In some cases, Baird may require clients to open a margin account to engage in options trading.

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

the right to sell, and the seller has the obligation to buy, the underlying security or index at the exercise price prior to expiration of the option.

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

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

In purchasing a put or call option, the purchaser faces the risk of loss of the premium paid for the option if the market price moves in a direction opposite to what the purchaser had expected. In selling or writing an option, the seller faces significantly more risk. A seller of a call option faces the risk of significant loss if the prevailing market price of the underlying security or index increases above the strike price, and a seller of a put option faces the risk of significant loss if the prevailing market price of the underlying security or index decreased below the strike price.

Clients should note that investment managers managing a client's Account or investment products in the client's Account may also engage in options transactions. Thus, a client's Account will be subject to options risks if the investment manager managing the client's Account or an investment product in the client's Account engages in options transactions.

### **Complex Investment Products**

Complex Investment Products typically invest primarily in Non-Traditional Assets or engage in one or more Complex Strategies. Complex Investment Products include Alternative Investment Products, such as hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, private debt funds, and managed futures, but also include other investments pursuing Complex Strategies, including but not limited to, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), ETNs, business development companies ("BDCs"), real estate investment trusts ("REITs"), and master limited partnerships ("MLPs").

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, UITs and variable annuities may also pursue Complex Strategies, thereby making them Complex Investment Products. A client should carefully review the prospectus or other offering document for each investment and understand the strategy being pursued before deciding to invest. More detailed information about mutual funds, ETFs, UITs and variable annuities is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### **Additional Important Information**

The use of Complex Strategies or Complex Investment Products is not appropriate for some clients because they involve special risks. A client should not engage in those strategies or invest in those products unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before using those

types of strategies or products, a client is strongly urged to discuss them with the client's PAM Consultant and any investment manager managing the client's Account. A client should also carefully review the client's agreements with Baird and related disclosure documents, which the client should have received when opening the Account. Additional information about Complex Strategies and Complex Investment Products is provided under the heading "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies and Complex Strategies" below and on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

A client assumes responsibility for engaging in Complex Strategies and investing in Complex Investment Products. If a client determines that the client no longer wants to engage in those strategies or invest in those products, the client is responsible for notifying the client's PAM Consultant and any investment manager managing the client's Account. PAM and Baird are not responsible for any losses resulting from any Other Manager's failure or delay in implementing any such instructions.

The use of Complex Strategies or Complex Investment Products has a unique impact upon the calculation of a client's asset-based Advisory Fee. See "Fees and Compensation—Calculation and Payment of Advisory Fees" below for more information. A client should also understand that Baird and the client's PAM Consultant have a financial incentive to use, or recommend the use of, certain Complex Strategies or Complex Investment Products, including margin and short sales. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

As a creditor, Baird may have interests that are adverse to a client. Neither PAM nor Baird will act as investment adviser to a client with respect to the liquidation of securities held in an Account to meet a call on a margin loan. Any such sale of assets will be executed in Baird's capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis.

### **Permitted Investments**

Under the Discretionary and Non-Discretionary Services, Baird determines the asset categories

and investment products that clients may access for investment ("Permitted Investments") and those that are not permitted in Program Accounts ("Unpermitted Investments"). Permitted Investments vary by Service. Although Baird determines the Permitted Investments under those Services, the level of initial and ongoing evaluation, monitoring and review that PAM and Baird perform on Permitted Investments varies. For more information, see the descriptions of each Service under "Advisory Business" above and under "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis" below.

*PAM or Baird may add Permitted Investments or restrict client access to a Permitted Investment at any time in their sole discretion.*

Some Permitted Investments contain restrictions that limit their use, and clients will not be permitted to purchase or hold such investments outside of an Account. See "Advisory Business—Additional Service Information—Account Requirements" below for more information.

In certain limited instances, Baird may allow a client to hold an investment in an Account that is an Unpermitted Investment.

#### **PAM Investment Management Service.**

Permitted Investments for the PAM Investment Management Service generally include, but are not limited to, the following types of investments:

- equity securities, including, but not limited to, common stocks, American Depositary Receipts ("ADRs"), and ordinary shares, including whether exchange-traded, or over-the-counter traded;
- fixed income securities, including but not limited to, debt securities issued by domestic and foreign corporations and other entities; preferred stocks, asset-backed securities (including mortgage-backed securities and collateralized mortgage obligations ("CMOs")); convertible debt securities; obligations issued by U.S., state, or foreign governments or their agencies, instrumentalities, or authorities, such as securities issued by the U.S. Treasury, federal government agencies or federal government-sponsored enterprises ("Agency securities"), or foreign governments; municipal

securities; money market mutual funds; certificates of deposit ("CDs") (primary or secondary); commercial paper;

- rights or warrants on equity securities and written covered call equity options;
- open-end mutual funds shares that Baird has selected for use in the Service, which generally includes only those funds with which Baird has a selling agreement and only those funds that are no-load, load-waived, or institutional are allowed for purchase; shares that were originally purchased in a Baird brokerage account and not sold when transitioned to an advisory account will held in the account as non-billable assets when the original purchase was subject to a front-end sales charge (typically 36 months) or until the Contingent Deferred Sales Charge (CDSC) expires (typically 13 months) if subject to a back-end sales charge after which time they will be converted to the appropriate advisory share class and become billable assets;
- closed-end funds, ETFs, and UITs that have cost structures designed for use in fee-based investment advisory programs; UITs originally purchased in a brokerage account and not sold when transitioned to an advisory account will be held as non-billable assets until the UIT termination date at which time they will be liquidated and the proceeds are billable;
- BDCs, publicly-traded REITs, certain non publicly-traded (or private) REITs, and MLPs (which may be organized as limited liability companies ("LLCs"));
- ETNs, leveraged funds, and other special situation mutual funds, and exchange or swap funds;
- certain hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, reinsurance funds, structured products, private debt funds and managed futures that Baird has selected for use in the Services; and
- cash and cash equivalents.

The types of investments that are not permitted for the PAM Investment Management Service generally include, but are not limited to:

- Class B or Class C shares offered by mutual funds or any other class of mutual fund shares that impose a contingent deferred or level sales charge (back-end or level load);
- inverse funds;
- UITs that impose an initial or deferred sales charge (load);
- put options;
- all annuities and insurance products;
- commodities, futures or options on commodities, and commodity pools; and
- private investment funds and Complex Investment Products that Baird has not selected for use in the Services.

*If a client has selected a commission-based fee arrangement, the client should discuss with the client's PAM Consultant which assets will be purchased for the client's Account.*

**SMA Services.** Investment products under the SMA Services are selected solely by the investment manager providing services to the client. *The investment products used by an investment manager may include products that Baird does not permit to be used in connection with the PAM Investment Management Service described above.* A client should review the investment manager's Form ADV Part 2A Brochure for more information.

### **Unsupervised Assets**

Under certain circumstances, Baird, in its sole discretion, may accept a client request to hold an asset in an Account that is not included in the investment advisory services provided by Baird or a PAM Consultant or otherwise monitored, overseen or supervised by them (an "Unsupervised Asset"). For example, if Baird permits a client to hold an Unpermitted Investment in an Account, the asset is typically also considered an Unsupervised Asset. Baird, in its sole discretion, may also designate an asset that is otherwise a Permitted Investment as an Unsupervised Asset under certain circumstances, such as when a client acquires the asset in an unsolicited transaction, transfers the asset from an account held at another firm or Baird

brokerage account, or continues to hold the asset against Baird's or the client's PAM Consultant's recommendation. If a client holds an Unsupervised Asset in an Account, the client should understand that the Unsupervised Asset may not be included in performance reports provided to the client and that Baird and PAM Consultants do not manage, provide investment advice, or otherwise act as an investment adviser with respect to the Unsupervised Asset, even if the Unsupervised Asset is included in account statements or performance reports provided to the client. Because Baird and PAM Consultants do not manage or provide investment advisory services regarding Unsupervised Assets, no asset-based Advisory Fee is charged on Unsupervised Assets. While Unsupervised Assets are not subject to the asset-based Advisory Fee, Baird may impose additional fees upon Accounts holding Unsupervised Assets. See "Other Fees and Expenses" below for more information. A client should also understand that holding an Unsupervised Asset in an Account may increase the risk of trade errors, overinvestment, and negative Account performance. A client should consult the client's PAM Consultant for further information.

### **Special Considerations for the Services** **Third Party Information**

When providing services to a client, PAM and Baird rely on information provided by third parties and other external sources believed to be reliable, including, but not limited to, information provided by investment managers. PAM and Baird assume that all such information is accurate, complete and current. PAM and Baird do not conduct an in-depth review of, or verify, such information, and they do not guarantee the accuracy of the information used. See "Methods of Analysis, Investment Strategies and Risk of Loss—Methods of Analysis" below for more information.

### **Goal Management**

PAM and Baird make available to clients an optional goal management service ("Goal Management"). Goal Management provides clients the ability to set a single, overall investment objective for all or a portion of assets selected by the client with the flexibility of using multiple, eligible Advisory Accounts that may have different investment strategies or objectives. If a client elects to have Baird implement a plan of Goal Management (a "Goal Management Plan") using



two or more eligible Advisory Accounts (“Goal Management Accounts”), the Goal Management Accounts, taken together, will be managed or advised by Baird and client’s PAM Consultant in such a way so as to seek to achieve a single, overall goal or investment objective (“Goal Management Objective”) chosen by the client. Each individual Account included in a Goal Management Plan will also be managed or advised by Baird and client’s PAM Consultant in accordance with the terms of the applicable Advisory Program or Service and any investment strategy or objective applicable to the Account. However, to the extent consistent with the terms applicable to an Account included in a Goal Management Plan, each individual Account included in the Goal Management Plan may be managed or advised in any manner believed by Baird or the client’s PAM Consultant to be necessary or appropriate for the Goal Management Accounts, taken together, to seek to achieve the Goal Management Objective.

The Goal Management Objectives that Baird makes available to clients as part of Goal Management include: (1) All Growth; (2) Capital Growth; (3) Growth with Income; (4) Income with Growth; (5) Conservative Income; and (6) Capital Preservation. A description of those objectives is contained under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Asset Allocation Strategies” below.

In certain circumstances, clients that are part of the same household may include their eligible Advisory Accounts in the same Goal Management Plan (a “Household Goal Management Plan”). It is the client’s sole responsibility to notify PAM that the client is part of a household so that PAM is aware of the client’s eligibility for a Household Goal Management Plan. It is also the client’s sole responsibility to notify PAM whenever the client ceases to be part of a household if an Account is part of a Household Goal Management Plan. Failure to do so could have a materially negative impact on applicable Accounts.

An Account will be removed from a Goal Management Plan: (1) upon request or consent of the client, (2) if the Account ceases to be an eligible Advisory Account, (3) in the event the Account is part of a Household Goal Management Plan, if the client notifies PAM that the client

ceases to be a member of the applicable household, or (4) upon written notice from Baird that it is no longer able to manage the Account according to the Goal Management Plan.

Given the nature of Goal Management, a client enrolling Accounts in a Goal Management Plan should understand that each Account enrolled in a Goal Management Plan may not be invested in a manner such that the individual Account alone would be able to achieve the Goal Management Objective. It is likely that one or more Accounts included in a Goal Management Plan, taken alone, will be managed or advised differently and will be subject to greater or enhanced risks than would be the case if the Account alone had the same objective as the Goal Management Objective. Such enhanced risks include, without limitation, market risks, investment objective and asset allocation risks, capitalization risks, investment style risks, illiquid securities and liquidity risks, concentration risks, frequent trading and portfolio turnover risks, Non-Traditional Assets and Complex Strategies risks, and Complex Investment Product risks.

A client should note, particularly if the client elects to include eligible Advisory Accounts in a Household Goal Management Plan, that: if an Account is removed from a Goal Management Plan for any reason, including if the client ceases to be a member of the same household, the Service and strategy for the Account removed from the Goal Management Plan will remain unchanged unless a change is requested by the client; further, the Account removed from the Goal Management Plan will not be allocated assets from other Accounts included in the Goal Management Plan unless the client and all other applicable clients, if any, consent and direct Baird to do so and then only to the extent permitted by applicable law; and PAM and Baird will have no liability for implementing a Goal Management Plan as requested by the client.

### ***Tax Management Services***

Many Services and managers make available tax management strategies and services that are intended to reduce the negative impact of U.S. federal income taxes on an Account. Certain Services and managers include tax management services as a default feature of the Services or the manager’s services. A client is encouraged to discuss the client’s tax management needs with

the client's PAM Consultant before enrolling the Account in a Service or selecting a manager. A client should understand the terms of the tax management services that will be implemented, including the associated limitations, risks and additional costs, if any, before enrolling an Account in a Service or selecting a manager for that Account. A client that wishes to opt an Account out of participation in a tax management service should contact the client's PAM Consultant.

The offering and performance of tax management services to a client's Account does not constitute tax advice. A client is ultimately responsible for all tax-related consequences resulting from the client's decision to utilize tax management services. Tax management services are provided solely based upon the direction and information provided by a client. Before enrolling in a tax management service, a client should consult the client's tax advisors about the tax consequences of doing so.

### **PAM Tax Management Strategies**

Certain PAM Consultants offer tax management investment strategies ("PAM TM Strategies"), described below, to non-Retirement Accounts enrolled in PAM Consultant-directed Services, including the PAM Investment Management Service. A client is encouraged to ask the client's PAM Consultant if PAM TM Strategies will be used if the Account is enrolled in a Service. PAM Consultants who offer PAM TM Strategies will generally implement such strategies for Accounts they manage on a discretionary basis unless a client opts out by contacting the client's PAM Consultant. The Baird PWM Home Office will assist with the implementation of the PAM TM Strategies.

Each PAM TM Strategy is a secondary investment strategy designed to achieve a secondary objective of an Account to reduce the negative impact of U.S. federal income taxes and each such strategy is implemented together with the other primary investment strategies for the Account that are designed to achieve the client's primary investment objectives or goals.

The PAM TM Strategies features are not available to Retirement Accounts.

### *Tax Harvesting Strategy*

A tax harvesting strategy seeks to improve the value of an Account, on a post U.S. federal income tax basis, by offsetting capital losses in the Account with capital gains. This strategy is oftentimes referred to a "tax harvesting" or "tax loss harvesting". When implementing a tax harvesting strategy, the Baird PWM Home Office or the PAM Consultant, as applicable, periodically, but at least annually, conducts an assessment of the Account to identify capital losses for tax harvesting opportunities. When an opportunity is identified, the Baird PWM Home Office or the PAM Consultant, as applicable, sells (or recommends the sale of) certain securities in the client's Account in order for the Account to recognize the unrealized capital losses identified as part of the assessment process. The Baird PWM Home Office or the PAM Consultant will then reinvest (or recommend the reinvestment of) the proceeds of such sale in one or more replacement securities, which may include, without limitation, ETFs, cash, cash equivalents or other securities deemed appropriate by the Baird PWM Home Office or the PAM Consultant, as applicable. Unless the client instructs otherwise, such reinvestment will be made on a temporary basis and generally only for the duration of any applicable IRS wash sale rule period, currently 30 days, and within a reasonable time thereafter, the proceeds will be reinvested in a manner consistent with the way the Account was invested prior to the employment of the tax harvesting strategy.

Generally, the implementation of the tax harvesting strategy is limited to open end mutual fund and ETF positions with unrealized capital losses over \$1,000 for U.S. federal income tax purposes, unless Baird and the client otherwise agree.

### *Capital Gains Avoidance Strategy*

A capital gains avoidance strategy seeks to avoid capital gains attributable to an investment in the Account for U.S. federal income tax purposes by selling the investment before the capital gain is distributed by the issuer. When implementing a capital gains avoidance strategy, the Baird PWM Home Office or the PAM Consultant, as applicable, periodically, but at least annually, monitors the issuers of investments held in the Account for capital gains distributions announcements and capital gains avoidance opportunities. When an opportunity is identified, the Baird PWM Home

Office or the PAM Consultant, as applicable, sells (or recommends the sale of) such securities in the client's Account identified as part of the monitoring process in order for the Account to avoid a capital gain distribution made by the issuer. The Baird PWM Home Office or the PAM Consultant will then reinvest (or recommend the reinvestment of) the proceeds of such sale in cash until the capital gain distribution has been paid by the issuer, and then the securities will be purchased again. If the securities are sold at a loss, then Baird PWM or the PAM Consultant may employ (or recommend the employment of) the tax harvesting strategy described above.

Generally, the capital gains avoidance strategy is limited to open end mutual fund positions in a client Account, and a mutual fund position will be included in the implementation of the strategy only if the potential net U.S. federal income tax benefit to the Account related to such position is estimated by Baird to be \$1,000 or more. For purposes of calculating the \$1,000 threshold, the Account's current unrealized gain or loss in each mutual fund position is analyzed in light of the applicable amount of capital gains distribution announced by the mutual fund company.

*Additional Important Information about PAM's Tax Management Strategies.*

**PAM's tax management strategies are not intended to, and likely will not, eliminate a client's U.S. federal income tax obligations.**

Like all investment strategies, there is no guarantee that the implementation of a tax management strategy will be successful. A client's use of a tax management strategy may not actually lower a client's tax obligations or otherwise achieve a client's tax goals.

The implementation of a tax management strategy is based upon Baird's or the PAM Consultant's, as applicable, estimates of capital gains and losses associated with investments in client's Account and information provided to them by third parties, such as issuers of securities. Capital losses will remain in an Account following the implementation of a tax harvesting strategy, and the Account will realize capital gains following the implementation of a capital gains avoidance strategy, to the extent such estimates or information are incorrect.

The implementation of the tax harvesting strategy and capital gains avoidance strategy (or the recommendation to implement a strategy) is done in the sole discretion of the Baird PWM Home Office or PAM Consultant, as applicable, and securities may be excluded from implementation of such strategies for a number of reasons, including without limitation, the length of time the security has been in the Account, the lack of a replacement security acceptable to Baird or the PAM Consultant, withdrawal and deposit activity in the Account, market conditions deemed unfavorable by Baird or the PAM Consultant, or if doing so would, in Baird's or the PAM Consultant's judgment, negatively impact management of the Account.

The tax harvesting and capital gains avoidance strategies are provided by Baird and PAM Consultants on an Account-by-Account basis. When employing such strategies for a client Account, Baird does not monitor or consider the trading activity in any other client account, including any other Account held at Baird.

***The purchase or sale of securities by a client account (whether held at Baird or another firm) during any applicable IRS wash sale rule period that, in violation of such rule, overlaps with a purchase or sale of securities made in an Account as part of a PAM TM Strategy will result in applicable tax losses being disallowed by the IRS. Baird and PAM are not responsible for any such violations of the IRS wash sales rule or the negative consequences to the client of such violation. Before selling a security from an account, including any account held at a firm other than Baird, a client should contact the client's PAM Consultant to determine if the sale of the security may be impacted by IRS wash sale rule limitations by reason of the tax management services being provided by Baird or PAM.***

Replacement securities selected in connection with the implementation of a PAM TM Strategy may not perform similarly to the securities they replace. The performance of Accounts utilizing a PAM TM Strategy will vary from similarly-managed Accounts that do not utilize such a strategy, possibly in a materially negative manner, and a client's Account may not be successful in pursuing its primary investment strategies, objectives or goals.

A client should also note that when normal trading activity is resumed for the client's Account, such activity could generate taxable gains or losses.

### **Third Party Tax Management Services**

Some investment managers participating in the SMA Services offer tax management services and others do not. A client should consult the client's PAM Consultant or review the investment manager's Form ADV Part 2A Brochure for specific information.

### ***Investment Objectives***

Generally, every Account will have one of the investment objectives described below.

All Growth. An All Growth investment objective typically seeks to provide growth of capital. Typically, an Account pursuing an All Growth investment objective will experience high fluctuations in annual returns and overall market value. Under normal market conditions, such an Account generally invests nearly all of its assets in equity securities. Such an Account may also hold other types of investments.

Capital Growth. A Capital Growth investment objective typically seeks to provide growth of capital. Typically, an Account pursuing a Capital Growth investment objective will experience moderately high fluctuations in annual returns and overall market value. Generally, under normal market conditions, such an Account will primarily invest in a mix of equity securities and fixed income securities, with a significantly higher allocation to equity securities. Such an Account may also hold other types of investments.

Growth with Income. A Growth with Income investment objective typically seeks to provide moderate growth of capital and some current income. Typically, an Account pursuing a Growth with Income investment objective will experience moderate fluctuations in annual returns and overall market value. Generally, under normal market conditions, such an Account will primarily invest in a mix of equity securities and fixed income securities, with a bias towards equity securities. Such an Account may also hold other types of investments.

Income with Growth. An Income with Growth investment objective typically seeks to provide

current income and some growth of capital. Typically, an Account pursuing an Income with Growth investment objective will experience moderate fluctuations in annual returns and overall market value. Generally, under normal market conditions, such an Account will primarily invest in a mix of fixed income securities and equity securities, with a bias towards fixed income securities. Such an Account may also hold other types of investments.

Conservative Income. A Conservative Income investment objective typically seeks to provide current income. Typically, an Account pursuing a Conservative Income investment objective will experience relatively small fluctuations in annual returns and overall market value. Generally, under normal market conditions, such an Account will primarily invest in a mix of fixed income securities, cash and equity securities, with a significantly higher allocation to fixed income securities. Such an Account may also hold other types of investments.

Capital Preservation. A Capital Preservation investment objective typically seeks to preserve capital while generating current income. Typically, an Account pursuing a Capital Preservation investment objective will experience relatively small fluctuations in annual returns and overall market value. Under normal market conditions, such an Account generally invests nearly all of its assets in a mix of fixed income securities and cash. Such an Account may also hold other types of investments.

Opportunistic. An Opportunistic investment objective typically seeks to provide long term growth through capital appreciation and/or income by utilizing an active management style that shifts the percentage of assets held in various investment categories to take advantage of the manager's perception of market pricing anomalies, market sectors deemed favorable for investment by the manager, the current interest rate environment or other macro-economic trends identified by the manager to achieve growth while accounting for a client's specific short, intermediate and long term investment and/or cash flow needs. Depending upon the investment strategy used, an Account pursuing an Opportunistic investment objective could experience high fluctuations in annual returns and overall market value. The types of investments in which such an Account may invest will also vary

widely, depending upon the particular investment strategy used.

**Tactical.** A tactical investment objective seeks to provide long-term growth by tactically and actively adjusting account allocations to different categories of investments based upon the manager's perception of how those investment categories will perform in the short-term. Strategies used to implement a tactical investment objective typically involve underweighting and overweighting account allocations to certain asset classes, geographic locations or market sectors relative to an applicable long-term strategic asset allocation, benchmark index or the market generally. Accounts with a tactical investment objective may have investments focused or concentrated in certain asset classes, geographic locations or market sectors and they often experience higher levels of trading and portfolio turnover relative to accounts with other investment objectives.

**Tax-Managed.** A Tax-Managed investment objective indicates that the account is transitioning from one investment strategy to another using one or more tax management strategies or tax management considerations. The primary investment strategy or consideration for Accounts with a Tax-Managed investment objective will involve tax management, and such accounts may not be successful in pursuing any other investment strategies, objectives or goals.

**Goal.** A Goal investment objective indicates that the Account is a Goal Management Account that is part of a Goal Management Plan and the Account will be managed or advised in accordance with the applicable Goal Management Objective.

For information about the risks associated with the investment objectives described above, see the section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Risks Associated with Certain Investment Objectives and Asset Allocation Strategies" below.

### ***Mutual Fund Share Class Policy***

Most mutual funds offer different share classes. While each share class of a given mutual fund has the same underlying investments, those share classes have different fees, costs and investment minimums, and they provide different levels of

compensation to Baird. In an effort to provide clients with appropriate low cost mutual fund investment options for their fee-based investment advisory accounts, Baird has established a mutual fund share class policy ("Share Class Policy") for certain PAM-directed Services, including PAM Investment Management (the "Share Class Policy Services"). Typically, only one share class of a given mutual fund family will be made available for purchase by clients in the Share Class Policy Services pursuant to the Share Class Policy (the "Approved Share Class"). When selecting the Approved Share Class for a mutual fund family, Baird endeavors to select the share class with the lowest expense ratio, based upon the average expense ratio of the class across all mutual funds in the mutual fund family, that are widely available for trading on the mutual fund trading platform of Charles Schwab & Co., Inc. ("Schwab"). In selecting the share class for a mutual fund family to be made available for purchase by clients in the Share Class Policy Services, Baird considers a number of factors, including the number of funds within the fund family that offer the share class, client positions in and demand for those funds, and the availability of the share classes and funds for purchase on the Schwab mutual fund trading platform. Generally, share classes designed for retirement plans and those that pay a distribution (12b-1) fee to Baird will not be permitted in those Services, or, if such share classes are permitted and the client's Account is subject to an asset-based fee arrangement, Baird will either: (1) rebate the distribution (12b-1) fees to a client if the client is paying an asset-based Advisory Fee on such investment; or (2) exclude such fund shares from the calculation of the client's asset-based Advisory Fee (sometimes referred to as "unbillable assets") for such period of time that Baird collects and retains the distribution (12b-1) fee as further described under the heading "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Investment Product Selling or Servicing—Mutual Funds" below. Clients should note that the Approved Share Class for a mutual fund family is based upon the average expense ratio for the class across all mutual funds in the fund family and not on a fund-by-fund basis. Further, the expenses of every mutual fund can and will vary over time. Therefore, while Baird has endeavored to select the lowest cost share classes as described above, in some instances, the Approved Share Class is



not the least expensive share class for a particular mutual fund. Clients may be able to obtain a less expensive share class in other Programs or at another firm.

Baird receives certain compensation from mutual fund families in the form of distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, revenue sharing and administration fees. The amount of compensation paid to Baird generally varies based upon the share class of the applicable mutual fund purchased by clients. Because the compensation that Baird receives from certain mutual funds is based upon share class purchased by clients, Baird has a financial incentive to make available to clients those share classes that provide Baird greater compensation, which, in many instances, would cause clients investing in those share classes to incur higher ongoing costs relative to other share classes made available by the fund families. This presents a conflict of interest. Baird addresses this conflict through the Share Class Policy described above and through disclosure in this Brochure. For more information about the compensation that Baird receives from mutual funds, see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds" below.

Shares of mutual funds held in client Accounts that do not meet the requirements of the Share Class Policy will generally be converted to the applicable Approved Share Class subject to certain restrictions. The Share Class Policy is subject to change at Baird's discretion without notice to clients. Additional information about the Share Class Policy is available on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor).

*The Share Class Policy does not apply to the portion of a UAS Account managed by a third party managers. Third party managers are responsible for establishing their own criteria for selecting investments, including mutual funds, if any.*

### **Custody Services**

Baird may provide custody services in connection with the Services. See "Custody" below for more specific information.

### **Cash Sweep Program**

Baird maintains a Cash Sweep Program that is intended for clients who want to earn interest and receive FDIC insurance protection on their cash over short periods of time while awaiting investment. If a client participates in Baird's Cash Sweep Program, uninvested cash in the client's accounts will be automatically deposited or swept into one or more FDIC-insured deposit accounts at participating banks (the "Bank Sweep Feature") or, under certain conditions, will be automatically invested in shares of a money market mutual fund that Baird makes available in the program (the "Money Market Fund Feature"), subject to the terms and conditions of the program. By using multiple participating banks as opposed to a single bank, the Bank Sweep Feature seeks to provide FDIC insurance protection for a client's cash balances of up to an aggregate deposit limit determined under the program (currently, \$2,500,000 for most account types and \$5,000,000 for joint accounts). A client receives interest on cash balances in deposit accounts under the Bank Sweep Feature at tiered rates that are based on the aggregate value of the accounts within the client's household. The applicable client household tier values are: less than \$1 million; at least \$1 million but less than \$2 million; at least \$2 million but less than \$5 million; and \$5 million or more. Current rate information is available at [rwbaird.com/cashsweeps](https://rwbaird.com/cashsweeps). Each deposit account at a bank constitutes a direct obligation of the bank and is not directly or indirectly Baird's obligation.

Any aggregate cash balances held by a client in excess of the applicable aggregate deposit limit are automatically invested in shares of a money market mutual fund that Baird makes available in the Money Market Fund feature of the program. Cash held in employee benefit plan accounts, employee health and welfare plan accounts, and SEP and SIMPLE IRAs will be automatically invested or swept into a money market mutual fund that Baird makes available under the Money Market Fund Feature of the program. In addition, clients with aggregate cash balances of \$5 million or more across all of their accounts with Baird within the same household are eligible to have all or any portion of their cash balances automatically swept into a money market mutual fund that Baird makes available under the Money Market Fund Feature of the program.

The Bank Sweep Feature seeks to provide FDIC insurance protection for a client's cash balances up to an aggregate deposit limit determined under the program. Any deposits, including CDs, that a client maintains, directly or indirectly through an intermediary (such as us or another broker), with a bank participating in the Cash Sweep Program in the same capacity with the bank will be aggregated with the client's cash balances deposited with the bank under the Cash Sweep Program for purposes of calculating the \$250,000 FDIC insurance limit. Total deposits exceeding \$250,000 at a bank may not be fully insured by the FDIC. A client is responsible for monitoring the total amount of other deposits that the client has with a bank outside the Cash Sweep Program in order to determine the extent of deposit insurance coverage available. Baird is not responsible for any insured or uninsured portion of a client's deposits at a bank. Cash invested in a money market mutual fund under the Money Market Fund Feature is not FDIC insured, but is protected by Securities Investor Protection Corporation ("SIPC") coverage up to applicable limits.

Baird receives compensation for the administrative, accounting and other services that Baird provides under the program, which is paid out of the aggregate interest that is paid by the participating banks on the aggregate client balances in the deposit accounts participating in the Bank Sweep Feature. Baird's annual rate of compensation may be up to 3.60% of the aggregate client balances for clients with household account values of less than \$1,000,000, 2.45% for clients with household account values of \$1,000,000 but less than \$2,000,000, 2.00% for clients with household account values of \$2,000,000 but less than \$5,000,000, and 1.75% for clients with household account values of \$5,000,000 or more. In a lower interest rate environment Baird's annual rate of compensation will be less. For IRAs enrolled in a Program, Baird's compensation is a monthly per account fee (which is the same regardless of client balances in bank deposit accounts). The per account fee for IRAs is generally paid out of the interest that the banks pay on aggregate client balances in the deposit accounts, and the per account fee varies based on the applicable Fed Funds Target Rate but in no event will it exceed \$19.00 per month. Baird also receives an annual rate of compensation of up to 0.50% of the aggregate client balances automatically invested

into money market mutual funds under the Money Market Fund Feature. A client should note that the client will be charged the asset-based Advisory Fee on the value of all of the assets in the client's Accounts, including cash that is swept into a bank deposit account or invested into a money market mutual fund under the Cash Sweep Program. As a result, Baird receives two layers of fees on a client's assets swept or invested in the Cash Sweep Program: the Advisory Fee, which compensates Baird for the investment advice, trading and custody services provided to the client related to those assets, and the compensation paid by the banks or money market funds related to those assets, which compensates Baird for the services Baird provides to the banks and funds and for Baird's efforts in maintaining the Cash Sweep Program. The compensation that Baird receives from the Cash Sweep Program gives Baird a financial incentive to recommend that a client participate in the Cash Sweep Program and maintain high levels of uninvested cash balances in the client's accounts.

As an alternative to the Cash Sweep Program, Baird makes available other money market mutual funds and other cash alternatives in which a client may invest, often at a higher yield, although these investments do not have an automatic sweep feature. In addition, instead of maintaining cash balances in an advisory Account, a client has the option to maintain such cash balances in a brokerage account that is not subject to an asset-based Advisory Fee.

A client should understand that the Cash Sweep Program is an ancillary account service and it is not nor is it part of any advisory program or investment advisory service. PAM and Baird do not act as investment adviser or a fiduciary to a client in connection with the Cash Sweep Program. However, a client should note that the amount of the client's advisory Account dedicated to cash and cash equivalents is part of the overall investment allocation advice provided to the client and thus the amount of such cash and cash equivalents included in the calculation of the Advisory Fee for the client's advisory Account.

More detailed information about the Cash Sweep Program and the compensation Baird receives is available on Baird's website at [www.rwbaird.com/cashsweeps](http://www.rwbaird.com/cashsweeps). A client also receives information about the compensation

Baird receives from the Cash Sweep Program through a client's account statements.

### ***Trust Services Arrangements***

Baird maintains an alliance with certain institutions, both non-affiliated and affiliated, including Baird Trust Company, that provide trust administration services, including trust administration, custody, tax reporting and recordkeeping. PAM Consultants at times refer clients seeking trust services to institutions that are members of the alliance. Subject to its fiduciary duties, the trustee oftentimes retains Baird to provide investment advisory services to the client trust. A client should understand that any such referral for trust services under the Trust Alliance Program made by Baird and its PAM Consultants is an ancillary account service and it is not an, nor is it part of any, Advisory Program or investment advisory service. They do not act as investment adviser or a fiduciary to the client when making such a referral and they will not provide advice on or oversee any such trust services arrangement. Baird has a financial incentive to recommend that clients use Baird Trust, an affiliate, over other non-affiliated trust companies. As a result of this affiliation, Baird Trust also has a financial incentive to retain Baird to provide investment advisory or other services on behalf of the client. In addition, Baird and PAM Consultants have a financial incentive to recommend arrangements that involve Baird and the PAM Consultant providing investment advisory services to the client and the trust company only providing trust administration services compared to an arrangement whereby a trust company would provide both investment advisory and trust administration services because it is more profitable to Baird and the PAM Consultant.

In addition, outside of the Trust Alliance Program, PAM Consultants may refer a client to Baird Trust to provide investment advisory and trust administration services to the client. If a client enters into such a relationship with Baird Trust, Baird and the client's PAM Consultant typically provide ongoing relationship management services. Baird Trust generally provides compensation to Baird and the client's PAM Consultant for the referral and providing ongoing services, which may be up to 50% of the ongoing fees that a client pays to Baird Trust, and which is credited to the client's PAM Consultant for purposes of determining the PAM Consultant's

compensation. The compensation paid to Baird and a client's PAM Consultant does not increase the fees that the client pays to Baird Trust. Due to Baird's affiliation with Baird Trust and the compensation paid to Baird and PAM Consultants, Baird and PAM Consultants have a financial incentive to favor Baird Trust over other trust companies.

### ***Margin Loans***

Margin involves borrowing money from Baird using eligible securities as collateral, including for the purpose of buying securities. If a client uses margin, the client will pay Baird interest on the amount the client borrows. The rate of interest that a client pays on a margin loan will be at a base rate determined by Baird plus or minus a specified percentage that varies based on the outstanding debit balance of the margin loan and the client's household account value. Interest rates are lower for larger debit balances and those with higher household account balances. As a result, rates will vary. To determine the actual interest rate that may apply to a client's margin loan, visit Baird's website at [rwbaird.com/loanrates](http://rwbaird.com/loanrates) or contact a PAM Consultant. Because a client will pay interest to Baird on the outstanding balance of the client's margin loan, Baird has an incentive to recommend that a client use margin. Baird and PAM Consultants also have an incentive to recommend that a client use margin, because a margin loan allows a client to make larger securities purchases and retain assets in the client's Accounts that pay an ongoing asset-based Advisory Fee instead of liquidating them to fund a cash need, which increases the asset-based fees Baird earns on a client's Accounts. A client should note that any margin balance (i.e., the outstanding amounts of the margin loan the client owes to Baird) in the client's advisory Accounts will not be applied to reduce the client's billable account value in calculating the client's asset-based Advisory Fee, which gives Baird and PAM Consultants further incentive to recommend client use of margin instead of liquidating assets to fund a cash need. Because the interest Baird receives and fees Baird earns on a client's Accounts increase as the amount of the client's margin loan increases, Baird and PAM Consultants also have an incentive to recommend that the client continue to maintain a margin loan balance with Baird at high levels. Baird has the right to lend the securities a client pledges as collateral for the



client's margin loan, and Baird receives additional compensation for lending those securities, which provides Baird a further incentive to recommend margin to a client.

A client should note that Baird's margin loan program is generally intended to be used to fund additional purchases of securities, or short-term liquidity needs. If a client wishes to obtain a loan for some other purpose, a client should instead consider whether the client is eligible for Baird's Securities-Based Lending Program, which involves clients obtaining loans from third-party lenders for general use purposes. Baird and PAM Consultants have a conflict to the extent they would recommend that a client use the Baird margin loan program instead of the Securities-Based Lending Program because a client pays interest and other fees to Baird instead of a third-party lender.

Additional important information about margin, including the risks and margin interest rates that apply, is set forth in the "Margin" section of Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### **Securities-Based Lending Program**

Baird offers clients an opportunity to borrow money from a third party lender under Baird's Securities-Based Lending Program. These loans, if made, can be used for any personal or business purpose other than to purchase, carry or trade securities, or to repay margin debt. These loans are secured by the investments and other assets in the client's accounts with Baird. A client will pay interest on the outstanding balance of the client's loan. The rates of interest charged by the bank depends on many factors, such as the prevailing interest rate environment, the amount of the loan or line of credit, a client's creditworthiness, and the aggregate assets in a client's Baird accounts in the client's household ("relationship size"). The interest rates are based on a benchmark rate, plus an applicable percentage that varies based on the approved loan amount and the relationship size. Rates are generally higher for smaller loans and relationship sizes and lower for larger loans and relationship sizes. The interest rate that will apply to a client's loan will be set forth in the loan agreement the client enters into with the bank. Baird receives an ongoing administrative fee from the bank, at an annual rate of up to 2.50% of the outstanding balance under a client's loan, which is paid by the

bank out of the interest the client pays to the bank. A client's PAM Consultant typically receives an ongoing referral fee at an annual rate of up to 0.25% of the outstanding balance of the client's loan, which is paid out of Baird's administrative fee. A client should note that Baird and PAM Consultants will continue to receive compensation on assets held in the client's accounts that serve as collateral for the client's loans, including Advisory Fees. Because Baird receives an administrative fee and PAM Consultants receive a referral fee if a client obtains a loan from a third party lender under Baird's Securities-Based Lending Program, Baird and PAM Consultants have an incentive to recommend that a client obtain loans under that program. Baird and PAM Consultants will continue to receive compensation on assets held in a client's accounts that are collateral for such loans, including Advisory Fees on such assets if those assets are in the client's advisory Account. As a result, Baird and PAM Consultants have a financial incentive to recommend that a client obtain a loan under the program to provide for the client's needs instead of liquidating assets in the client's accounts with Baird because a decline in the amounts the client has in the client's accounts will result in lower revenues to Baird and compensation paid to the client's PAM Consultant. Additional important information about securities-based lending is set forth in the "Securities-Based Lending Program" section of Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

A client should understand that any referral made by Baird and PAM Consultants under the Securities-Based Lending Program is an ancillary account service and it is not an, nor is it part of any, Advisory Program or investment advisory service. They do not act as investment adviser or a fiduciary to the client when making such a referral and they will not provide advice on or oversee any such lending arrangement.

### **Client Responsibilities**

A client is responsible for providing information to Baird and the client's PAM Consultant reasonably requested by them in order to provide the services selected by the client. Baird, the client's PAM Consultant and investment managers, if any, will rely on this information when providing services to the client. A client is also responsible for promptly informing the client's PAM Consultant of any significant life changes (e.g., change in

marital status, significant health issue, or change in employment) 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. None of Baird, the client's PAM Consultant or any investment manager managing a client's Account is responsible for any adverse consequence arising out of the client's failure to promptly inform the client's PAM Consultant of any such changes. Since investment goals and financial circumstances change over time, a client should review the client's participation in a Service with the client's PAM Consultant at least annually.

### **Legal and Tax Considerations**

PAM and Baird do not provide legal or tax advice to clients in connection with the Services.

Additional laws, regulations and other conditions apply to Retirement Accounts. Each owner, trustee, named fiduciary, responsible plan fiduciary, or other fiduciary acting on behalf of a Retirement Account ("Retirement Account Fiduciary") should understand that PAM and Baird do not provide legal advice regarding Retirement Accounts. A Retirement Account Fiduciary is urged to consult with his or her own legal advisor about the laws and regulations that may apply to Retirement Accounts.

The investment strategies used for a client's Account and transactions in a client's Account, including liquidations, redemptions, and rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. In addition, a client's Account may be invested in investment products classified as partnerships for U.S. federal income tax purposes, which may result in unique tax treatment, including Schedule K-1 reporting. In addition, when held in a client's Retirement Account under certain circumstances, such investments may produce unrelated business taxable income which may result in a current-year income tax obligation to the client. PAM does not provide any tax advice in connection with any of the Services. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor. If a client wishes for PAM to implement a particular investment strategy for tax purposes, and PAM agrees to implement such strategy,

neither PAM nor Baird will be responsible for the development, evaluation or efficacy of any such strategy.

### **Account Requirements**

#### **Opening an Account**

A client that wishes to engage PAM will enter into an advisory agreement with PAM and Baird. The client's advisory agreement will contain the specific terms applicable to the services selected by the client, Advisory Fees payable by the client, and other terms applicable to the client's advisory relationship with PAM and Baird.

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

Baird generally requires that assets in a client's Account be held in a Baird account, for which Baird acts as custodian. However, in certain limited circumstances when requested by a client, Baird may permit a client to include Held-Away Assets in the client's Account.

After a client has signed and delivered an advisory agreement to Baird, the agreement is subject to review and acceptance by the client's PAM Consultant, his or her Market Director or PWM Supervision department supervisor (or his or her respective designee), and Baird PWM's Home Office. The agreement and Baird's advisory relationship with a client will become effective when the client's paperwork is accepted by Baird PWM's Home Office and following such acceptance Baird has delivered to the client written confirmation of the Account's enrollment in the applicable Service. A client should understand that the advisory agreement will not become effective, and Baird will not provide any advisory services to the client, until such time that Baird has accepted the advisory agreement. Baird may delay acceptance of the advisory agreement and the provision of advisory services to the client for various reasons, including deficiencies in the

client's paperwork. Once it has become effective, the agreement shall continue until it is terminated in accordance with the terms described in the advisory agreement.

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

### **Certain Account Requirements**

#### *Minimum Account Size*

Each Service has a minimum account size and may have a minimum Advisory Fee, which are described in the section entitled "Fees and Compensation—Advisory Fees" below. PAM or Baird may remove an Account from a Service and immediately terminate the advisory agreement with respect to an Account upon written notice to the client if the client fails to maintain the required minimum asset levels in an Account or if the client fails to otherwise abide by the terms of a Service as determined by PAM or Baird in their sole discretion.

#### *Account Contributions and Withdrawals*

A client may fund an Account with cash and with securities that PAM, Baird and the client's investment manager, if any, deem to be acceptable in their sole discretion. Funds deposited or transferred to a client's SMAs from another Baird account and funds deposited or transferred to a client's SMAs from outside of Baird will not be available for investment by the client's investment manager until the next business day and therefore the investment of such funds, at the discretion of the manager, will occur no earlier than the next business day.

Some PAM Consultants will invest, or recommend investing, cash contributions made to an Account over a period of time. This method of investment

is sometimes referred to dollar cost averaging ("DCA"). The goal of this method of investment is to reduce the risk of making large purchases of securities at an inopportune time or price. The Overlay Manager and certain investment managers also offer an optional DCA service for Accounts they manage. Additional information will be provided to a client if the client enrolls in a DCA service. A client should note that, if dollar cost averaging is used to invest cash in the client's Account, the returns for the Account could, depending upon market and other conditions, be lower than the returns that could have been obtained had all the cash in the Account been fully invested upon contribution to the Account. In addition, a client should note that, when dollar cost averaging is used, the amount of cash in the client's Account will be included in the value of the Account for fee calculation purposes. Whenever assets are contributed to an Account, a client should discuss with the client's PAM Consultant the timing of when the assets will be invested. If DCA will be used to invest the assets, a client should ask for more specific information about how the assets will be invested and the associated timing for investing.

When a client funds an Account with securities, including when a client changes Services for an Account or changes investment managers for an Account within the same Service, the client should understand that PAM's, Baird's or the client's investment manager's review of securities used to fund the Account may delay investing. In addition, PAM, Baird or the client's investment manager, if any, may determine that the securities contributed to the Account may not be appropriate for the client's strategy, and PAM, Baird or the investment manager, if any, may sell, or recommend the sale of, such securities. Further, an investment manager may be removed from the management of a client's Account and a replacement investment manager may be appointed. In such event, Baird, at the direction of the client's replacement manager, or the client's replacement manager may sell all or a portion of the securities or other investments in the Account that were managed by the prior manager and the replacement manager will reinvest the cash proceeds of those sales. Any such sale could result in adverse tax consequences for the client. A client should note that securities transferred into an Account may be subject to the Advisory Fee immediately upon its transfer into the Account, even if the client paid a

commission or front-end sales charge on the security prior to its transfer into the Account. In addition, if the securities are subject to deferred sales charges or redemption fees, the client will be responsible for paying those charges and fees. To the extent permitted by applicable law, certain funding transactions may be handled by Baird on a principal basis, and such transactions are not considered investment advisory services of PAM, Baird or the client's investment manager.

If an asset transferred to an Account is an Unpermitted Investment under the terms of the applicable Service, PAM, Baird or the client's investment manager may sell the asset or transfer it into a separate brokerage account. Alternatively, they may designate such asset as an Unsupervised Asset as further described under "Advisory Business—Additional Service Information—Unsupervised Assets" above.

A client is responsible for notifying PAM and any investment manager managing the client's Account of any contributions made into the Account and instructing PAM and any investment manager to liquidate positions in the event the client wishes to withdraw assets from the Account. PAM and Baird have no responsibility to invest cash deposits (other than complying with a client's cash sweep instructions) or liquidate positions with respect to an Account managed by an Other Manager, and they are not responsible for any losses that may result from a client's failure to notify PAM and any investment manager managing the client's Account regarding deposits or withdrawals.

A client may also incur additional expenses and liabilities, including tax related liabilities, when transferring assets out of an Account or Baird's custody. See "Termination of Accounts" below.

#### *Liens and Use of Account Assets as Collateral*

As security for the full and complete payment when due of any debts and other obligations that a client owes to PAM and Baird, and to the extent permitted by applicable law or regulation, all assets in a client's Account held at Baird will be subject to a first priority security interest, lien and right of setoff in favor of Baird. Baird may sell assets in an Account to satisfy the lien. As a secured party, Baird may have interests that are adverse to a client. Neither PAM nor Baird will act as investment adviser to a client with respect to

such sale of assets held in an Account. Any such sale of assets will be executed in Baird's capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis. Such sales could have adverse tax consequences, disrupt a client's investment strategy, and have an adverse impact on the Account's performance. A client should review the client's agreements for more information.

All of the assets in a client's Account must be free and clear from any security interest, lien, charge or other encumbrance (other than a security interest, lien, charge or other encumbrance in favor of Baird) and must remain so for the duration of the client's relationship with Baird, unless Baird otherwise specifically agrees in writing.

If a client wishes to obtain loans secured by assets in the client's Account (commonly referred to as "securities-based lending") and PAM and Baird agree to the arrangement, the client should understand that the lender may exercise certain rights and powers over the assets in the Account, including the disposition and sale of any and all assets pledged as collateral for the loan to meet a collateral call, which may occur without prior notice to the client. A collateral call could have adverse tax consequences, disrupt a client's investment strategy, and have an adverse impact on the Account's performance. A client should be aware of these and other potential adverse effects of securities-based lending and collateralizing Accounts before deciding to do so.

A client is required to disclose the terms of the client's agreements with Baird to any lender seeking to use Account assets as collateral. A client must promptly notify PAM and Baird of any default or similar event under the client's collateral arrangements.

A client should understand that neither PAM nor Baird will provide advice on or oversee a securities-based lending or collateral arrangement and they will not act as investment adviser or a fiduciary to the client with respect to the liquidation of securities held in the client's Account to meet a collateral call. Any such liquidation will be executed in Baird's capacity as broker-dealer and may, as permitted by law, result in executions on a principal basis.

In some instances, Baird and PAM Consultants may refer a client to a third party lender under Baird's Securities-Based Lending Program that pays Baird and PAM Consultants certain compensation. See "Additional Service Information—Securities-Based Lending Program" above for more information.

Securities purchased on margin are used as Baird's collateral for the margin loan. Clients that have a margin account should review the section "Advisory Business—Additional Service Information—Complex Strategies and Complex Investment Products" above for additional information.

#### *Electronic Delivery of Documents*

By signing an advisory agreement, a client consents to the electronic delivery of documents that PAM or Baird may deliver to the client. The term of the consent to electronic delivery is indefinite but a client may revoke the consent at any time by notifying PAM.

#### **Termination of Accounts**

The client's advisory agreement will survive any event that causes the client's PAM Consultant to be unable to provide services to the client (either on a temporary or permanent basis), including if the client's PAM Consultant ceases to be employed by Baird. In any such event, Baird will endeavor to continue to provide services to the client and will as promptly as practicable assign another PAM Consultant or Baird Financial Advisor to the client's Accounts (either on a temporary or permanent basis) and the client will be notified of any such change or, if Baird determines that it is unable to continue to provide advisory services to the client, Baird may remove the applicable Account from a Service or Program and convert the Account to a brokerage account upon notice to the client.

PAM or Baird may remove an Account from a Service and immediately close an Account upon written notice to a client if the client fails to abide by the terms of the Service. PAM or Baird may also remove an Account from a Service at any time upon written notice to a client if the client fails to maintain the required minimum asset levels in such Account.

Upon the termination of an Account's enrollment in a Service, PAM, Baird and, if relevant, any

other investment manager managing such Account, shall have no obligation to act as investment adviser to such Account. If such Account is custodied at Baird, the Account shall be converted to and designated as a brokerage account. PAM, Baird, and, if relevant, any other investment manager managing such Account, shall be under no obligation to recommend any action with regard to, or to liquidate the securities or other investments in, such Account. After an Account is removed from a Service, it is the client's exclusive responsibility to issue instructions, in writing, regarding the management of any assets in such Account.

If a client directs Baird to liquidate assets in connection with a closure of an Account, the client should understand that Baird acts as broker-dealer, and not investment adviser, when processing such a liquidation request and that the client will generally be charged commissions, sales charges, sales "loads", or other applicable transaction-based fees in accordance with the applicable Baird fee schedule or other third-party transaction-based fee schedule for the particular investment then in effect. Additional information about the compensation that a client pays to Baird for effecting brokerage transactions is contained in Baird's Client Relationship Details document, available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

A client may incur significant expenses and liabilities, including tax-related liabilities for which the client will be solely liable, if the client closes an Account, terminates an advisory agreement, or transfers assets out of Baird's custody. PAM and Baird will not be liable to a client in any way with respect to the termination, closure, transfer or liquidation of the client's Accounts.

Some of the investments offered in connection with the Services contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of an Account. For example, certain Investment Funds held in an Account may only be available to a client through a PAM Service or may not be held at another firm. If such restrictions apply and the client terminates a Service or closes an Account, the Client will be required to sell or redeem such Investment Funds or exchange them for other Investment Funds that may be more costly to the client or have poorer performance. A client should consider restrictions applicable to investments



carefully before participating in a Service. A client should contact the client's PAM Consultant for specific information as to how Account closure, termination of an agreement, or asset transfers might impact the assets in the client's Accounts.

## Fees and Compensation

### Advisory Fees

#### Fee Options and Fee Schedules

A client's advisory agreement will set forth the actual compensation the client will pay to Baird. In most instances, a client pays an ongoing Advisory Fee based upon the value of assets in the client's Account (an "asset-based fee"), although other options, such as a flat fee or a commission-based fee arrangement, are available.

#### Asset-Based Fee Arrangement

PAM generally offers one asset-based fee arrangement: a breakpoint fee schedule.

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

The asset-based fee may be a fixed percentage across all asset categories or investment strategies or may be a percentage that varies by asset category or investment strategy. For example, an Account pursuing an equity strategy may pay a higher fee rate than an Account pursuing a fixed income strategy.

The typical asset-based fee varies depending upon the Service and the fee option selected by the client. Fee options and rates may also differ among different Accounts held by the same client, depending on the services selected for an Account.

All new client Accounts paying an asset-based fee are generally subject to a unified advice fee arrangement ("Unified Advice Fee Arrangement"), which is described below. Some existing client accounts are subject to a legacy fee arrangement ("Legacy Fee Arrangement") described further below.

#### Unified Advice Fee Arrangement

Under a Unified Advice Fee Arrangement, the asset-based Advisory Fee is comprised of an advice fee ("Advice Fee") and, for some Services, an additional portfolio fee ("Portfolio Fee"). The Advice Fee covers certain investment advisory and custody services provided by PAM and Baird. The Portfolio Fee covers portfolio management and other services provided by Baird and the manager to the client's Account, which may include departments or affiliates of Baird. If a client has a Unified Advice Fee Arrangement, the client's Advisory Fee rate will be equal to the sum of the applicable Advice Fee rate and the applicable Portfolio Fee rate, if any.

Clients with a Unified Advice Fee Arrangement generally choose a breakpoint fee schedule for the Advice Fee portion of the Advisory Fee.

#### Breakpoint Advice Fee Schedules

*All Services Except Consulting Services.* The following fee schedule sets forth the maximum breakpoint Advice Fee rates for the Services (other than Consulting Services) provided by PAM.

#### Unified Advice Fee Arrangement

##### Breakpoint Advice Fee Schedule

##### Services (Other Than Consulting Services)

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

*Consulting Services.* The following fee schedule sets forth the maximum breakpoint Advice Fee rates for the Consulting Services provided by PAM.

## Unified Advice Fee Arrangement

### Breakpoint Advice Fee Schedule

#### Consulting Services

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

#### Portfolio Fee Schedule

The Portfolio Fee rate varies by Service, investment vehicle, and the type of investment strategy or style being pursued by the Account. The following fee schedule sets forth the maximum Portfolio Fee rates or range of rates for the Services.

#### Portfolio Fee Schedule

<u>Service</u>	<u>Annual Fee Rate or Range of Rates</u>
<b>PAM Investment Management</b>	0.00%
<b>PAM Recommended Managers</b>	
Equity SMA Strategies	0.20% - 0.75%
Balanced SMA Strategies	0.20% - 0.52%
Fixed Income SMA Strategies	0.25% - 0.40%
Global and International SMA Strategies	0.25% - 0.70%
Alternative SMA Strategies	0.35% - 0.60%
Tax Managed Strategies	0.10%
<b>Baird SMA Network (BSN)</b>	
Equity SMA Strategies	0.26% - 0.77%
Balanced SMA Strategies	0.22% - 0.60%
Fixed Income SMA Strategies	0.12% - 0.40%
Global and International SMA Strategies	0.25% - 0.70%
Alternative SMA Strategies	0.32% - 0.60%
<b>Dual Contract (DC)</b>	—*

\* Fees charged by managers under the DC Program are negotiated by each client pursuant to a separate agreement that does not include Baird. Baird, therefore, does not have the necessary information to provide a definitive range of fees paid to managers under the DC Program.

The Portfolio Fee rates are current as of the date of this Brochure. A client's actual Portfolio Fees could be higher or lower than the amounts shown above if Baird adds new investment managers to the Services with higher or lower fees or if Baird and a manager renegotiate the amount of the subadvisory fee.

In some instances, Baird provides operational and administrative services to third party managers in connection with their management of client Accounts. As compensation for those services, Baird receives a portion of the Portfolio Fee at an annual rate of up to 0.02% of the value of the Account. Additional information is contained in the document titled "Administrative Servicing, Revenue Sharing, and Other Third Party Payments" available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

The Portfolio Fee rates set forth above do not include the overlay fees charged by the Overlay Manager for tax overlay or impact overlay services, which are generally 0.10% of the value of the Account annually.

#### *Legacy Fee Arrangements*

Unlike a Unified Advice Fee Arrangement, under a Legacy Fee Arrangement, the client pays one Advisory Fee for investment advisory and custody services provided by Baird and for portfolio management and other services provided by Baird and the manager to the client's Account, if any.

#### Breakpoint Advice Fee Schedule

The following fee schedule sets forth the maximum breakpoint Legacy Fee rates for the PAM Recommended Managers and PAM Investment Management Services. *The asset-based Advisory Fee shown below includes the advisory fees payable to Baird and the investment managers, if any, for managing a client's Account. Out of these suggested asset-based fees, Baird is responsible for paying the sub-advisory fees charged by the investment managers.*

### Legacy Fee Arrangement

#### Breakpoint Advisory Fee Schedule

#### PAM Recommended Managers Service

#### PAM Investment Management Service

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
\$1,000,001 – \$5,000,000	2.50%
\$5,000,001 – \$10,000,000	2.00%
\$10,000,001 – \$25,000,000	1.50%
\$25,000,001 – \$50,000,000	1.35%
\$50,000,001 – \$100,000,000	1.15%
Over \$100,000,000	Negotiable

For more specific information about the fee that applies to an existing Account, a client should refer to the paperwork the client received when opening the Account or the client may contact the client's PAM Consultant.

### Flat Fee Arrangement

Under a flat fee arrangement, the applicable fee may be determined according to a fixed asset-based fee rate or may be a fixed dollar amount. Specific services may each have their own, separately stated flat fee, or several services may be grouped together under a single flat fee. Some services may entail a flat fee per usage. Flat fees are negotiable and vary by client. The details of flat fee arrangements, including fee amounts, the billing schedule, and the services covered, will be included in the client's advisory agreement.

### Commission-Based Fee Arrangement

PAM also offers a commission-based fee arrangement. In contrast to the asset-based fee arrangements described above, a client who selects a commission-based fee arrangement pays PAM and Baird commissions and other costs and expenses of the transactions that are effected for the client's Account ("Transaction Fees"). These commissions and other transaction charges compensate PAM and Baird for the combination of investment advice and brokerage services they provide. Depending upon a client's selection, a client's Account may be subject to a commission-based fee arrangement or may be subject to both a commission-based fee arrangement and asset-based fee arrangement. For example, if a client's Account is managed by an investment manager

other than PAM, a client electing a commission-based fee arrangement may pay Transaction Fees to PAM for the trades placed by the investment manager and an asset-based fee to PAM and the client's investment manager. If a client selects a commission-based fee arrangement, the client's advisory agreement will set forth how the compensation the client will pay to PAM and Baird will be determined. See "Calculation and Payment of Advisory Fees—Commission-Based Fee Arrangements" below for more information.

### Service Account Minimums

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

#### Additional Advisory Services

#### Account Minimums

<u>Service</u>	<u>Asset Level</u>
Consulting Services	Negotiable
Baird SMA Network	\$100,000 <sup>(1)</sup>
Dual Contract	\$100,000 <sup>(1)</sup>
PAM Investment Management	\$100,000
PAM Recommended Managers	\$100,000 <sup>(1)</sup>

(1) Investment managers typically have an account minimum of \$100,000. However, each investment manager sets its own minimum account size requirements, which can range from \$25,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts.

A client's Account may also be subject to a minimum quarterly Advisory Fee that will be set forth in the client's advisory agreement regardless of the value of the assets in the client's Account. The minimum annual Advice Fee for PAM Investment Management Accounts is generally \$3,000 for equity or balanced Accounts and \$1,250 for fixed income Accounts. In addition, if a third party custodian has custody of the client's Account assets, Baird may impose Account requirements different than those set forth above, including but not limited to higher minimums, and it may impose additional fees due to the increase in resources needed to administer the Account.

A client is encouraged to periodically review with the client's PAM Consultant the client's Advisory



Fee and the services provided to determine if the services and fees continue to meet the client's needs.

### ***Calculation and Payment of Advisory Fees***

#### **Asset-Based Fee Arrangements**

Baird will calculate a client's Advisory Fee by applying the applicable fee rate to the value of all of the assets in the client's Accounts, including cash and its equivalent and including all Held-Away Assets. Liabilities held in a client's Accounts, including the value of margin debit balances, open short sale positions and open options positions with a negative market value will be excluded from the calculation of a client's Advisory Fee. The value of cash balances held in a client's Account will be excluded from the calculation of a client's Advisory Fees in an amount equal to the value of any open short sale positions and options positions with a negative market value held in the margin account.

If requested by a client and approved by Baird, a client's Advisory Fee may be determined by also including the aggregate value of assets in certain other Advisory accounts held by a client and certain members of the client's household or family (a "household fee arrangement"). A client should note that Retirement Accounts may not be included in a household fee arrangement to the extent a prohibited transaction under ERISA or the IRC may result. The terms of any such household fee arrangement will be set forth in the client's advisory agreement.

A client should note that it is client's sole responsibility to inform the client's PAM Consultant that client's household or family has two or more Advisory accounts that are eligible for a household fee arrangement. PAM and Baird do not perform an independent analysis or determination as to whether any client Accounts are eligible for a household fee arrangement. By agreeing to a household fee arrangement, each client subject to such household fee arrangement consents to PAM and Baird providing to each other client subject to such household fee arrangement, in PAM's or Baird's sole discretion, information about the aggregate level, or range, of household assets used for fee calculation purposes. As a result, each such client should understand that the other clients included in the household fee arrangement may be able to

ascertain the amount of the client's assets at Baird.

For purposes of calculating a client's asset-based Advisory Fee, the value of a client's assets is generally determined by Baird. Baird generally relies upon third party sources, such as third party pricing services when valuing Account assets. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset. Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account when prices are not otherwise readily available. This frequently occurs with respect to the valuation of annuities and Complex Investment Products. If the assets in the client's Account are held by a custodian other than Baird, Baird may also use valuation information provided by the client's third party custodian in determining the value of the assets in the client's Account.

Neither PAM nor Baird conducts a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and they do not verify or guarantee the accuracy of such information. PAM and Baird do not accept responsibility for valuations provided by third parties that are inaccurate unless they have a reason to believe that the source of such valuations is unreliable. Valuation data for investments, particularly annuities and Complex Investment Products, may not be provided to Baird in a timely manner, resulting in valuations that are not current. The prices obtained by Baird from third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources.

Values used for fee-calculation purposes may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the Advisory Fee for some securities may be calculated based on values that are greater than the amount a client would receive if the securities were actually sold from the client's Account.

As mentioned above, Baird will include cash and cash equivalent balances in a client's Account when calculating a client's asset-based Advisory

Fee. Baird has adopted internal policies that monitor the percentage of an Account swept into cash under the Cash Sweep Program. These internal policies are designed to inform PAM Consultants and their clients who hold large cash sweep balances in their Accounts for sustained periods that those Accounts are holding large cash sweep balances and that there may be other investment or account options for their cash and that Baird receives direct compensation in addition to the Advisory Fee from client balances in the Cash Sweep Program.

If a client maintains a debit balance in the client's margin account with Baird, such balance has no bearing on the asset-based Advisory Fees charged on client's Account. In other words, the margin balance (i.e., the outstanding amounts of the margin loan a client owes to Baird) in client's Account will not be applied to reduce the client's billable Account value in calculating the Advisory Fee.

The Account value used for the Advisory Fee calculation may differ from that shown on a client's Account statement or performance report due to a variety of factors, including the client's use of margin, options, short sales, and other considerations. If a client has assets held by a third party custodian, the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by Baird. See "Advisory Services" above and "Custody" below for more information.

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

payable on the first business day of the then current calendar quarter.

A client's Advisory Fees and other charges will be automatically deducted from the client's Account, unless the client requests, and PAM and Baird agree, to an alternate arrangement, such as having Baird issue the client an invoice for the Advisory Fees ("direct billing"). A client should understand that the client's Advisory Fees and other charges relating to the client's Account may be satisfied from free credit balances and other assets in the client's Account. If free credit balances in a client's Account are insufficient to pay the Advisory Fees or other charges when due, PAM, Baird and any investment manager managing the client's Account may sell investments from the client's Account to the extent they deem necessary and appropriate, in their sole discretion, to pay the client's Advisory Fees and other charges.

If a client's Account is subject to direct billing, the client is required to pay each bill within 30 days of the date of the invoice. PAM and Baird may automatically deduct a client's Advisory Fees and other charges from the client's Account as described above in the event that Baird does not receive payment from the client within 30 days of the date of the invoice. PAM or Baird may rescind a direct billing arrangement with a client at any time. Direct billing may not be available for Retirement Accounts.

To the extent permitted by applicable law, PAM or Baird may increase a client's existing fees and other charges or add additional fees or charges by providing the client with 30 days' prior written notice.

If PAM, Baird or the client terminates the client's advisory agreement or the client's participation in a Service, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's affected Accounts. PAM and Baird will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust Advisory Fees during any such period for asset value appreciation or depreciation in a client's Account during such period. For example, if a client's Account is subject to a tiered or breakpoint fee schedule and the asset levels of the Account move into a new tier or cross a

breakpoint during such period, no rebate or fee adjustment will be made. However, PAM and Baird, in their sole discretion, may make fee adjustments in response to asset fluctuations in a client's Account occurring during a billing period that result from contributions to, or withdrawals from, the client's Account.

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

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

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

### **Commission-Based Fee Arrangements**

A client's advisory agreement will set forth how the compensation the client will pay to PAM and Baird will be determined. Instead of an asset-based fee, clients who select a commission-based fee arrangement pay to PAM and Baird Transaction Fees for each transaction effected for their Accounts, similar to the compensation that a client would pay if the Account was a brokerage account.

For equity securities and ETPs, such as ETFs, the Transaction Fees generally will be determined according to Baird's standard commission schedule then in effect, unless otherwise stated in the client's advisory agreement. The commission rates may be negotiated by the client. Baird's standard commission schedule considers the share price or principal amount and the number of shares traded in determining the applicable commission. Baird may change its standard commission schedule at any time without notice to the client. The transaction confirmation sent to the client will disclose the amount of the commission charged by PAM or Baird for that transaction. Clients are encouraged to discuss commission rates with their PAM Consultant.

For fixed income securities, such as bonds, a client typically pays a fixed dollar amount per security bought or sold for the client's Accounts, or the client may pay a certain dollar amount that varies depending upon the aggregate value of the transaction.

For other investment products, such as mutual funds, UITs, annuities and Alternative Investment Products, a client generally will pay the commissions, sales charges and other transaction-based compensation disclosed in the prospectus or other offering documents for the applicable investment product. For certain types of investments, a client will also indirectly pay Baird and the client's PAM Consultant ongoing or trail commissions or fees ("trail fees") described in the prospectus or offering document for the investment. Additional information about these forms of compensation is provided on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor).

For equity securities, ETFs, bond and no-load mutual fund transactions, a client is subject to Baird's minimum commission charge then in effect, unless otherwise stated in the client's agreement. The minimum commission charge may change from time to time without notice to the client and can be found on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor) or by contacting a PAM Consultant.

The Transaction Fees and charges will be included in the cost of the trade and, therefore, automatically deducted from the client's Account or from the investment amount. Other fees and

charges, if applicable, will also be deducted from the client's Account.

To the extent permitted by applicable law, Baird may modify a client's existing fees, including Transaction Fees, and other charges or add additional fees or charges by providing the client with 30 days' prior written notice.

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

The minimum account size is set forth above. This minimum may be waived in PAM's discretion.

The Transaction Fees and minimum Account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's Account, the client's particular investment strategy 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.

**A client should note that Accounts with commission-based fee arrangements present some of the same conflicts of interest that are present in traditional brokerage accounts. The compensation received by Baird and the client's PAM Consultant under a commission-based fee arrangement is directly related to the amount of Transaction Fees and trail fees paid by the client and the number of transactions effected for the client's Account. As the amount of Transaction Fees and trail fees paid by the client and the number of transactions effected for the client's Account increases, the compensation that Baird receives and pays to the client's PAM Consultant also increases. Accordingly, this practice presents a conflict of interest because it gives Baird and the client's PAM Consultant an incentive to trade actively for the client's Account, recommend or select investments that pay the greatest levels of compensation, recommend or select Other Managers that trade actively, and provide advice based upon the compensation received rather than on a client's needs. A**

**client is encouraged to review the conflicts of interest associated with traditional brokerage accounts contained in Baird's *Client Relationship Details* document located on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.**

**Client Accounts with commission-based fee arrangements also present another conflict not associated with traditional brokerage accounts. A client should understand that, depending upon the Service selected by the client, the PAM Consultant may act with discretion with respect to the client's Account and that, absent the client's instructions to the contrary, the PAM Consultant will effect transactions for the client's Account without obtaining the client's consent or providing notice to the client.**

#### ***Obtaining Services Separately: Brokerage or Advisory? Factors to Consider***

Baird offers brokerage accounts and other services to clients, and certain services provided to a client in connection with a particular Service may be available to a client outside of the Service separately. Thus, a client's participation in a Service could cost the client more or less than if the client purchased each service separately. A number of factors bear upon the relative cost of each Service. In comparing the Services to brokerage accounts or other services, a client should consider a number of factors, including, but not limited to:

- whether a client prefers to have ongoing monitoring, investment advice or professional management of the client's investments, which are provided to Service Accounts, or whether the client does not want or need such services;
- whether the types of investment strategies, products and solutions the client seeks are available;
- whether there are limitations on the types of securities and other investments available for purchase and whether those limitations are significant to the client;
- whether the nature and level of transaction services, account performance reporting, or

other ancillary services the client wants are available;

- whether the client prefers to pay an ongoing Advisory Fee for continuous advice or pay commissions and other fees on a transaction-by-transaction basis;
- the relative costs and expenses of a Service Account and a brokerage account, which will vary depending upon:
  - the fee or commission rate the client negotiates;
  - the size of the client's account;
  - the level of trading activity and size of trade orders;
  - applicable account fees and charges;
  - the client's use of third party managers who charge their own fees for managing accounts in addition to PAM's Advice Fee; and
  - the amount of the client's account invested in investment products that have additional internal ongoing operating fees and expenses (e.g., Investment Funds).

*Additional important information about brokerage accounts and facts to consider when making account type decisions is contained in the Client Relationship Details document, which should have been delivered to the client and is available on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor).*

*A client should review other account types and programs with the client's PAM Consultant to determine whether they are more appropriate or should be used in addition to a Service.*

#### **Advisory Fee Payments to Baird, PAM Consultants and Investment Managers**

PAM and Baird and Baird's affiliates and associates benefit from the Advisory Fees and charges clients pay for the services described in this Brochure.

Baird retains the entire Advisory Fee paid by clients, except as further described below. With respect to the PAM Recommended Managers

Service, Baird SMA Network Program and Dual Contract Program, Baird pays the manager (including Implementation Managers, if any) a subadvisory fee as compensation for the manager's services as further described below.

For client Accounts subject to a Legacy Fee Arrangement, Baird pays the manager out of the Advisory Fee paid by the client. The amount of the Advisory Fee paid to a particular manager varies based upon, among other factors, the Service selected by a client, the investment strategy and other services sought by a client, the subadvisory fee Baird negotiated with the manager, the manager's investment style or strategy, the level of services provided by the manager, and the size of a client's Account. The range of subadvisory fees paid to investment managers (which includes amounts paid to an Implementation Manager, if any) out of the Advisory Fee is set forth in the table below.

#### **Legacy Fee Arrangements Portion of Advisory Fee Paid to Investment Managers**

<u>Investment Style or Strategy</u>	<u>Range of Annual Subadvisory Fee Rates</u>
Equity Strategies	0.20% - 1.80%
Balanced Strategies	0.10% - 1.70%
Fixed Income Strategies	0.12% - 1.25%
Global and International Strategies	0.20% - 1.70%
Alternative Strategies	0.20% - 0.96%

The portion of Advisory Fees paid to investment managers could be higher or lower than the amounts shown above if Baird adds new investment managers to the Services with higher or lower fees or if Baird and a manager renegotiate the amount of the subadvisory fee.

For client Accounts subject to a Unified Advice Fee Arrangement in which the Advisory Fee consists of an Advice Fee and a separate Portfolio Fee, Baird pays the manager out of the Portfolio Fee paid by the client. The Portfolio Fee rates are set forth under "Fee Options and Fee Schedules—Unified Advice Fee Arrangement—Portfolio Fee" above. The amount of the Portfolio Fee paid to a particular manager varies based upon the same factors described above for Legacy Fee Arrangements. However, Baird, in many



instances, retains a portion of the Portfolio Fee when a client's Account is managed by an affiliated or unaffiliated investment manager. The maximum portion of the Portfolio Fee retained by Baird in those instances is equal to an annual rate of 0.10% of the value of a client's Account. Such amounts are retained by Baird for the services it provides.

As the portion of the Advisory Fee or Portfolio Fee paid to an investment manager increases, the portion of the Advisory Fee or Portfolio Fee that is retained by Baird decreases. Thus, Baird (but not PAM) has an incentive to recommend or favor investment managers that are paid less, because Baird will receive a higher portion of the Advisory Fee or Portfolio Fee.

In addition, Baird has an incentive to favor related managers over other investment managers because the entire Advisory Fee is retained by Baird and affiliated investment managers. For more information about related managers, see "Other Financial Industry Activities and Affiliations" below. Given the nature of commission-based fee arrangements, if a client is paying Transaction Fees, Baird and the client's PAM Consultant have an incentive to recommend or select investment managers that trade frequently because such relationships will be more profitable to Baird and the client's PAM Consultant.

A PAM Consultant is primarily compensated on a monthly basis based upon a percentage of the PAM Consultant's total production each month, which primarily consists of the total advisory fees and transaction-based fees paid to Baird by the PAM Consultant's clients and any other fees Baird earns on advisory and brokerage accounts held by those clients, including trail fees paid by third parties. The percentage of the PAM Consultant's total production actually paid to the PAM Consultant will increase as the total amount of the PAM Consultant's production increases, meaning that, as the total amount of the PAM Consultant's production increases, the rate and amount of compensation that Baird pays to the PAM Consultant also increase. PAM Consultants generally also receive deferred compensation or bonuses based on various criteria, including net new assets they gather, performing certain wealth management activities, such as financial planning, and their total production levels. PAM Consultants who achieve certain production thresholds are

eligible for professional development conferences, business development coaching, reimbursements, awards and recognition trips to attractive destinations. PAM Consultants are also eligible for bonuses for achievement of professional designations depending on a PAM Consultant's total production level. Thus, PAM Consultants have a general incentive to generate financial and other plans and charge higher fees for advisory accounts and recommend larger investments in advisory accounts.

Given the structure of their compensation, they also have an incentive to recommend that a client transfer the client's accounts to Baird, establish new accounts with Baird (including IRA rollovers) and add more money into the client's accounts. In addition, most PAM Consultants are shareholders of Baird Financial Group, Inc. ("BFG"), Baird's parent company, and thus benefit financially from Baird's overall success. The number of shares of BFG stock that a PAM Consultant may purchase is based in part on the PAM Consultant's total production level. PAM Consultants generally receive compensation for referrals to certain affiliated managers and products and for referrals to a limited number of other firms. More specific information is provided under the headings "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" below. They also generally receive non-cash compensation and other benefits from Baird and from sponsors of investment products with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, reimbursement for branch and client events, and receipt of gifts and entertainment. Receipt of such compensation and benefits provides PAM Consultants an incentive to favor investment products and their sponsors that provide the greatest levels of compensation and benefits.

PAM Consultants generally receive recruitment bonuses and/or special compensation from Baird when they join Baird from another firm. The amount of such special compensation is typically based on the PAM Consultant's production at the prior firm for the 1-year period prior to joining Baird or on the level of the PAM Consultant's client assets at the prior firm. All or a substantial portion of the special compensation is paid in the

form of an upfront bonus when the PAM Consultant joins Baird, and the remaining portion, if any, is paid in the form of back end bonuses generally in equal installments on an annual basis thereafter for a certain number of years (generally from one to three years). Installment payments are generally contingent upon the PAM Consultant achieving annual production or client asset levels that exceed a significant percentage of the PAM Consultant's annual production for the 1-year period prior to joining Baird or the client assets that the PAM Consultant had prior to joining Baird. The special compensation is intended to compensate PAM Consultants for the significant effort involved in transitioning their business from the prior firm. This compensation provides PAM Consultants who have left another firm additional incentive to recommend that clients of the prior firm become Baird clients and to recommend investment products and services that increase their production, and thus presents a conflict of interest. The special compensation is generally structured in the form of a forgivable loan from Baird to the PAM Consultant. Under the terms of the forgivable loan, Baird makes the upfront or installment payment to the PAM Consultant in the form of a loan, and Baird forgives a portion of the loan made to the PAM Consultant each month for so long as the PAM Consultant remains Baird's employee. Should the PAM Consultant cease to be Baird's employee prior to the maturity date of the loan, the PAM Consultant is required to repay Baird the amount of the loan outstanding and not forgiven by Baird. In other words, upon leaving Baird, the PAM Consultant would be required to repay to Baird a portion of the special compensation that the PAM Consultant had received and that had not been forgiven. The amount of such repayment declines over time in proportion to the time the PAM Consultant remains Baird's employee. Structuring this special compensation in the form of forgivable loans provides the PAM Consultant added incentive to remain Baird's employee and to recommend that persons become and remain a Baird client. Additional information about referral and non-cash compensation and other financial incentives provided to PAM Consultants is provided under the heading "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" below.

The compensation paid to PAM Consultants related to Accounts subject to a Legacy Fee

Arrangement is inversely related to the amount of the Advisory Fee, if any, paid to other investment managers managing such Accounts. This creates an incentive for them to recommend or favor investment managers that are paid less, because they will receive higher compensation. From time to time, Baird PAM Consultants outside of PAM may refer their clients to PAM Consultants. In those instances, the PAM Consultant generally shares a portion of his or her compensation with the referring Baird Financial Advisor.

Baird addresses the conflicts described above through disclosure in this Brochure and by adopting internal policies and procedures for PAM and Baird and their associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients).

## Other Fees and Expenses

### **Cost and Expense Information for Certain Investment Products**

A client should be aware that certain investment products in which the client invests, such as mutual funds and other Investment Funds, annuities and other products, have their own ongoing management and other operating fees and expenses that are deducted from the assets of the product (or income or gains generated by the product on its investments) and thus reduce the value or return of the client's investment in the product. These fees and expenses may include investment management fees, distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, expense reimbursements, and expenses associated with executing securities transactions for the investment product's portfolio ("ongoing operating expenses"). These ongoing operating expenses are separate from, and in addition to, the Advisory Fees. As a result of making investments in these types of products, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of the client's assets so invested—the ongoing operating expenses and the Advisory Fee. Additional important information about ongoing fees and expenses that apply to those types of investments is provided in Baird's *Client Relationship Details* document and Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor). A client can find the actual ongoing fees and expenses of an

investment product that the client will pay or bear in the product's prospectus or offering document.

### ***Additional Account Fees and Charges***

If the client's Account is custodied at Baird, the client is also responsible for all applicable account fees and service charges Baird may impose in connection with the client's agreements with Baird. A schedule of fees and service charges is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### ***Other Fees and Charges***

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

A client is responsible for bearing or paying, in addition to the Advisory Fee, the costs of all:

- commissions, front-end or deferred sales charges, redemption fees, or other charges;
- markups, markdowns, and spreads charged by Baird in a principal transaction with a client or charged by other broker-dealers that buy securities from, or sell securities to, the client's Account (such costs are inherently reflected in the price the client pays or receives for such securities);
- redemption fees, surrender charges or similar fees that an investment product or its sponsor may impose;
- underwriting discounts, dealer concessions or similar fees related to the public offering of investment products;
- 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, fees for transferring an investment between firms, and similar fees or expenses related to account transfers (including any such fees imposed by Baird);
- currency conversions and transactions;

- securities conversions, including, without limitation, the conversion of ADRs to or from foreign ordinary shares;
- interest, fees and other costs related to margin accounts, short sales and options trades;
- fees related to the establishment, administration or termination of Retirement Accounts, retirement or profit sharing plans, trusts or any other legal entity, including, without limitation, the calculation and payment of unrelated business income tax ("UBIT");
- fees imposed by the SEC or securities markets, including transaction fees imposed by electronic trading platforms, which fees may be imbedded in the price the client receives for the security; and
- taxes imposed upon or resulting from transactions effected for a client's Account, such as income, transfer or transaction taxes, foreign stamp duties, or any other costs or fees mandated by law or regulation.

Clients who use a custodian other than, or in addition to, Baird will pay the other custodian's fees and expenses in addition to the Advisory Fee. In addition, if a third party custodian has custody of the client's Account assets, the Account is subject to any applicable set-up, maintenance and administrative fees established by Baird. Baird may waive such fees in its discretion.

In addition to the Advisory Fee, a client will also be responsible for paying the fees charged by each investment manager selected by the client under the Dual Contract Program. If a client directs PAM or Baird to pay the client's DC Manager's fee out of the client's Account, and PAM or Baird agree to do so, PAM and Baird will not be responsible for verifying the calculation or accuracy of such fee.

If a client holds an Unsupervised Asset in the client's Account, the client may be charged a commission, markup or markdown in connection with its purchase or sale. The cash proceeds from the sale of an Unsupervised Asset that remain in a client's Account are considered Permitted Investments subject to the asset-based Advisory Fee. If an asset becomes an Unsupervised Asset during a quarterly billing period, that asset will be excluded for purposes of determining the asset-based Advisory Fee beginning at the start of the next quarterly billing period, and no portion of the

asset-based Advisory Fee paid by a client in advance for the quarter will be refunded or rebated to the client. Additionally, Unsupervised Assets in an Account are subject to any applicable set-up, maintenance and administrative fees established by Baird. Baird may waive such fees in its discretion.

If a client selects a commission-based fee arrangement for an SMA, the client should note that the client will incur commissions or related costs in addition to the commissions that the client pays to PAM ("additional commissions") if the investment manager decides to place the client's trade order for execution by a firm other than Baird. However, if a client incurs additional commissions, at least annually, PAM attempts to rebate the amount of such additional commissions or offset the amount of such additional commissions against the commissions and fees that the client pays to PAM. PAM may discontinue such rebates and offsets in its discretion at any time upon notice to the client.

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

### **Other Compensation Received by PAM and Baird**

Baird is registered as a broker-dealer under the Securities Exchange Act, and PAM Consultants are registered broker-dealer representatives of Baird. In such capacities, Baird and PAM Consultants provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of annuities. At times, Baird and PAM Consultants provide such brokerage and related services to clients in connection with the Services described in this Brochure. Baird and PAM Consultants receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and PAM Consultants an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment

advisory services to clients, Baird and PAM Consultants are fiduciaries and are required to act solely in the best interest of clients. Baird addresses this conflict through disclosure in this Brochure and by adopting internal policies and procedures for PAM and Baird and their associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). 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 "Advisory Business" and "Fees and Compensation" above, and "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

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

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

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

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Advisers Act. Performance-based fee arrangements present a potential conflict of interest for Baird (but not PAM) with respect to other client accounts that are not subject to performance-based fee arrangements because such arrangements give Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees.

In addition to complying with its fiduciary duties by disclosing this conflict of interest to clients through this Brochure, Baird generally addresses potential conflicts of interest posed by

performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements 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.

## Types of Clients

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

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

### Investment Strategies and Methods of Analysis

#### *Investment Strategies*

The investment styles, philosophies, strategies, techniques and methods of analysis that PAM, Baird, Baird PWM's home office investment professionals, and Other Managers use in formulating investment advice for clients vary widely by Service and the person providing the advice. A brief description of commonly used strategies is provided below.

#### *Equity Strategies*

Equity strategies generally have an objective to provide growth of capital and primarily invest in equity securities, such as common stocks. However, these strategies may also invest in other types of investments, such as fixed income securities and cash. Equity strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges, such as large cap, mid cap or small cap companies. Equity strategies may be combined with other strategies described below,

such as growth, value, income, economic industry or sector focused, international, global, or geographic region or country focused strategies.

#### *Fixed Income or Bond Strategies*

Fixed income or bond strategies generally have one or more of the following objectives: (1) provide current income; or (2) preservation of capital. These strategies primarily invest in fixed income securities, such as corporate bonds, municipal securities, mortgage-backed or asset-backed securities, or government or agency debt obligations. However, these strategies may also invest in other types of investments, such as equity securities or cash. Fixed income strategies may invest in debt obligations having any credit rating, maturity or duration, or they may focus on specific credit ratings, maturities or durations, such as investment grade, non-rated, or high yield ("junk") bonds, or bonds having short-term, intermediate-term or long-term maturities. Fixed income strategies may be combined with other strategies described below, such as economic industry or sector focused, international, global, or geographic region or country focused strategies.

#### *Balanced Strategies*

Balanced strategies generally have one or more of the following objectives: (1) provide current income; (2) growth of capital/principal or income; or (3) preservation of capital. These strategies primarily invest in a mix of equity, fixed income securities and cash. Balanced strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, credit ratings, maturities or durations as described above. Balanced strategies may be combined with other strategies described below, such as economic industry or sector focused, international, global, or geographic region or market focused strategies.

#### *Value Strategies*

A value strategy typically invests primarily in equity securities of value companies, which are those that the investment manager believes are out of favor with investors, appear underpriced by the market relative to their earnings or intrinsic value, or have high dividend yields. This strategy is subject to investment style risks.



### *Growth Strategies*

A growth strategy typically invests primarily in equity securities of growth companies, which are those that the investment manager believes exhibit signs of above-average growth relative to peers or the market, even if the share price is high relative to earnings or intrinsic value. This strategy is subject to investment style risks.

### *Income Strategies*

An income strategy typically invests primarily in income-producing securities, such as dividend-paying equity securities and fixed income securities. This strategy may invest in a combination of investment grade and high yield bonds. This type of strategy may also invest in yield- or income-producing, Non-Traditional Assets.

### *Economic Industry or Sector Focused Strategies*

Economic industry or sector focused strategies primarily invest in companies in one or more economic industries or sectors, such as the telecommunications, technology, industrial, materials, or financial sectors. *These strategies alone generally are not intended to satisfy a client's entire portfolio diversification needs. These strategies are subject to concentration risks because they generally are not diversified or they may invest in a limited number of securities.*

### *International Strategies*

Generally, international strategies primarily invest in securities issued by foreign companies, which may include companies in developed and emerging markets. International strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, industries or sectors, geographic regions, credit ratings, maturities or durations.

### *Global Strategies*

Generally, global strategies invest in a mix of securities issued by U.S. and foreign companies, which may include companies in developed and emerging markets. Global strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, industries or

sectors, geographic regions, credit ratings, maturities or durations.

### *Geographic Region or Country Focused Strategies*

Geographic region or country focused strategies primarily invest in companies located a particular part of the world, such as Latin America, Europe or Asia, in a group of similarly-situated countries, such as developed or emerging markets, or one or more specific countries. *These strategies alone generally are not intended to satisfy a client's entire portfolio diversification needs. These strategies are subject to concentration risks because they generally are not diversified or they may invest in a limited number of securities.*

### *Tactical and Rotation Strategies*

Tactical strategies typically tactically and actively adjust account allocations to different categories of investments, such as asset classes, geographic locations or market sectors, based upon the manager's perception of how those investments will perform in the short-term. Similarly, rotation strategies typically actively adjust account allocations to different market sectors based upon the manager's perception of how those market sectors will perform in the short-term. Tactical and rotation strategies are often driven by technical analysis or methodologies and typically involve underweighting and overweighting account allocations to certain asset classes, geographic locations or market sectors relative to an applicable long-term strategic asset allocation, benchmark index or the market generally. *These strategies often will be focused or concentrated in one or more asset classes, geographic locations or market sectors from time to time, and it is likely that they will have limited or no exposure to one or more asset classes, geographic locations or market sectors. For that reason, tactical and rotation strategies are often subject to concentration risk. Because the decision-making for tactical and rotation strategies is based upon the manager's short-term market outlook, accounts pursuing these strategies often experience higher levels of trading and portfolio turnover relative to other strategies.*

### *Opportunity or Opportunistic Strategies*

Opportunity strategies will generally be invested in a manner that seeks to provide long term growth through capital appreciation and/or income by utilizing an active management style that shifts the amount of investment made in

different asset classes and market sectors to take advantage of the manager's perception of market pricing anomalies, those market or industry sectors deemed favorable for investment by the manager, the current interest rate environment and/or other macro-economic trends identified by the manager. Opportunity strategies often involve the use of other strategies, particularly tactical or rotation strategies, and will have the risks associated with those strategies. Opportunity Strategies may also involve investment in a more-limited number of companies compared to other strategies. As a result, a decline in value of one or a few investments will more adversely impact performance than if assets were more evenly invested in a larger number of companies. Opportunity strategies often experience higher fluctuations in annual returns and overall market value than other strategies. The types of investments used to implement opportunity strategies vary widely by manager and could include equity securities, fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

#### *Tax Management Strategies*

Tax management strategies involve buying and selling investments in a manner intended to reduce the negative impact of U.S. federal income taxes. They often involve buying or selling investments to limit taxable investment gains or to offset taxable investment gains with investment losses or selling investments to avoid recognition of taxable investment gains. *Tax management strategies are not intended to, and likely will not, eliminate a client's tax obligations.* A tax management strategy may not actually lower a client's tax obligations or otherwise achieve a client's tax goals. A tax management strategy is typically a secondary strategy used to achieve a secondary tax management objective and it is typically implemented together with other primary investment strategies designed to achieve primary investment objectives or goals. However, managers in certain situations may use a tax management strategy as the primary investment strategy or tax management may be their primary consideration when managing client accounts, such as when the manager is transitioning an account from one investment strategy to another. The performance of accounts utilizing a tax management strategy will vary from similarly-managed accounts that do not utilize such a strategy, possibly in a materially

negative manner, and an account may not be successful in pursuing any other investment strategies, objectives or goals.

#### *Alternative Strategies and Complex Strategies*

Alternative Strategies and other Complex Strategies may invest in a wide range of investments, which may include equity securities, fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. Alternative Strategies and other Complex Strategies generally involve the use of margin, leverage, short sales and derivative instruments. Many Alternative Strategies and other Complex Strategies have no substantive restrictions on the types of investments that may be used. Examples of Alternative Strategies and other Complex Strategies include the following.

- Relative Value Strategies. Relative value strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets and the use of short sales and derivative instruments in an attempt to exploit price differences among securities that share similar economic or financial characteristics.
- Long/Short Strategies. Long/short strategies generally involve the purchase of securities believed to be undervalued and selling short securities believed to be overvalued. They may also involve the use of Non-Traditional Assets, leverage and derivative instruments.
- Market Neutral Strategies. Market neutral strategies generally involve the purchase of securities and selling securities short in similar dollar amounts in an attempt to produce returns that are independent of general market performance. They may also involve the use of Non-Traditional Assets, leverage and derivative instruments.
- Statistical Arbitrage Strategies. Statistical Arbitrage is based on the theory that stocks have a tendency to return to a short-term trend line. This type of strategy typically involves the "systematic" or automated trading of securities based upon where a security is relative to its trend line.
- Convertible Arbitrage Strategies. Convertible arbitrage involves the purchase and short sale

of multiple securities of the same company. The strategy is implemented by purchasing securities believed to be undervalued and selling short securities believed to be overvalued. Often, the strategy involves the purchase of a convertible bond issued by a company and selling short that company's common stock. This strategy may involve the use of a wide range of derivative instruments.

- Fixed Income Arbitrage Strategies. Fixed income arbitrage strategies generally seek to profit from interest rate, credit spread and other arbitrage opportunities by investing in fixed income securities, interest rate instruments and derivative instruments.
- Capital Structure Arbitrage Strategies. Capital structure arbitrage generally involves investing in multiple levels of a single company's capital structure, often taking long and short positions in a company's debt or equity in order to capitalize on perceived mispricings resulting from market inefficiencies or different pricing assumptions. This type of strategy typically involves the use of derivatives and structured products.
- Absolute Return, Total Return and Real Return Strategies. Absolute return, total return and real return strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle. They may also involve the use of derivative instruments.
- Event-Driven Strategies. Event-driven strategies generally involve the use of Non-Traditional Assets, short sales and derivative instruments in an attempt to seek arbitrage opportunities, particularly those triggered by corporate events (such as mergers, restructurings, and liquidations). These strategies typically involve the assessment of if, how and when an announced transaction will be completed.
- Merger Arbitrage/Special Situations Strategies. Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers,

exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. These strategies often involve short selling, options trading, and the use of other derivative instruments.

- Distressed Strategies. Distressed strategies generally involve the purchase of securities in companies that are in financial distress, or companies that are entering into or are already in bankruptcy. They may also involve the use of short sales and derivative instruments.
- Macro Strategies. Macro strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets and the use of short sales and derivative instruments in an attempt to profit from anticipated changes in securities markets, commodities markets, currency values, and/or interest rates.
- Discretionary and Systematic Trading Strategies. Discretionary trading strategies generally attempt to identify and capitalize on patterns or trends in the markets. Systematic trading strategies generally rely on computerized trading systems or models to identify and capitalize on those patterns or trends. These strategies often involve the use of Non-Traditional Assets, short sales, derivative instruments and significant leverage.
- Private Investment Strategies.
  - Private Equity Strategies. Private equity strategies generally involve purchasing stock or securities convertible into stock in private transactions. Private equity strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges. They may also focus on companies in one or more economic industries or sectors or geographic regions. Some private equity strategies focus on companies that are newly formed, in financial distress or already in bankruptcy. The securities purchased are typically unregistered and illiquid. Private equity strategies may also involve the use of leverage.
  - Private Debt or Private Credit Strategies. Private debt (also known as private credit)

strategies invest in loans or debt instruments issued by companies in private transactions. The investments involved are typically unrated or rated below investment grade and are illiquid. Oftentimes, the interest rate paid by the companies is determined by a reference interest rate, such as the federal funds rate, which is periodically reset. These types of investments are sometimes referred to as floating rate corporate debt, floating rate loans or floating rate bank loans. Private debt strategies often involve the use of leverage and may involve investment in smaller capitalization, distressed or bankrupt companies.

- Leveraged Strategies. Leveraged strategies generally involve the use of Non-Traditional Assets, leverage, short sales and derivative instruments in an attempt to amplify returns or produce returns that are a multiple of a benchmark index.
- Inverse Strategies. Inverse strategies generally involve the use of Non-Traditional Assets, leverage, short sales and derivative instruments in an attempt to produce returns that are the opposite of a benchmark index.
- Reinsurance Strategies. Reinsurance investment strategies generally involve participation in the reinsurance market through investment in a variety of insurance-linked securities or other instruments. Investments may include, but are not limited to, collateralized reinsurance contracts, industry-loss warranties, catastrophe bonds, mortality bonds, equity investments in insurance or reinsurance companies, and insurance-linked swaps and other similar derivative instruments.

*Alternative Strategies and other Complex Strategies are not appropriate for some clients because they are subject to special risks. See "Advisory Business—Additional Service Information—Complex Strategies and Complex Investment Products" above and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Non-Traditional Assets and Complex Strategies Risks" below for more information.*

### *Asset Allocation Strategies*

Certain Services, including the PAM Investment Management Service, make available asset allocation strategies. Asset allocation strategies involve investing in one or more of the following categories of assets:

- the equity securities asset category, which is comprised of certain asset classes, such as, equity securities issued by: U.S. large cap growth companies; U.S. large cap value companies; U.S. large cap core companies; U.S. mid cap growth companies; U.S. mid cap value companies; U.S. mid cap core companies; U.S. small cap growth companies; U.S. small cap value companies; U.S. small cap core companies; foreign companies located in developed markets; foreign companies located in emerging markets; U.S. REITs; and foreign REITs;
- the fixed income securities asset category, which is comprised of certain asset classes, such as: short-term taxable bonds; intermediate term taxable bonds; long-term taxable bonds; short-term tax-exempt bonds; intermediate term tax-exempt bonds; long-term tax-exempt bonds; high yield fixed income securities; foreign fixed income securities; and broad fixed income securities;
- the Non-Traditional Assets category, which is comprised of certain asset classes, such as: commodities and commodity-linked instruments; and currencies, cryptocurrencies and currency-linked instruments;
- the Alternative Investment Products category which is comprised of certain asset classes, such as: hedge funds, private equity funds and managed futures; and
- cash.

Asset allocation strategies have varying investment objectives, ranging from growth of capital to preservation of capital. Asset allocation strategies also have varying investment strategies. Some asset allocation strategies use strategic investment strategies, which involve investing accounts in accordance with a predetermined target allocation to different asset classes. Some asset allocation strategies use tactical investing, which typically involves

tactically and actively adjusting account allocations to different asset classes based upon the manager's perception of how those asset classes will perform in the short-term. Some asset allocation strategies involve the use of both strategic and tactical investment strategies, sometimes referred to as dynamic strategies.

Asset allocation strategies may be implemented using a variety of investment types, such as individual securities, mutual funds and ETPs. The amount allocated to an asset class or investment type varies by strategy, and some strategies may have little or no allocation to one or more asset classes or types of investments described above.

Baird uses its Capital Market Assumptions in developing its proprietary model asset allocation strategies, including those used by some PAM Consultants. In determining its Capital Market Assumptions, Baird conducts an analysis of different asset classes and the different levels of risk associated with those investments. That analysis involves the consideration of past performance and the use of forward-looking projections that are based upon certain assumptions made by Baird about how markets will perform in the future. There is no assurance that asset classes or markets will perform in accordance with Baird's projections or assumptions. For more information about Baird's Capital Market Assumptions, a client should contact the client's PAM Consultant.

Baird's most common asset allocation strategies are described below. A client should note that the specific investments in an Account following a particular asset allocation strategy could vary from the description below for a number of reasons, including market conditions.

All Growth Portfolio. An All Growth Portfolio typically seeks to provide growth of capital. Typically, an All Growth Portfolio will experience high fluctuations in annual returns and overall market value. Under normal market conditions, this strategy generally invests nearly all of its assets in equity securities. This strategy may also invest in other asset classes, such as fixed income securities, Non-Traditional Assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments.

Capital Growth Portfolio. A Capital Growth Portfolio typically seeks to provide growth of capital. Typically, a Capital Growth Portfolio will experience moderately high fluctuations in annual returns and overall market value. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities, with a significantly higher allocation to equity securities. This strategy may also invest in other asset classes, such as Non-Traditional Assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a significantly higher allocation to equity securities than fixed income securities.

Growth with Income Portfolio. A Growth with Income Portfolio typically seeks to provide moderate growth of capital and some current income. Typically, a Growth with Income Portfolio will experience moderate fluctuations in annual returns and overall market value. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities, with a bias towards equity securities. This strategy may also invest in other asset classes, such as Non-Traditional Assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a slightly higher allocation to equity securities than fixed income securities.

Income with Growth Portfolio. An Income with Growth Portfolio typically seeks to provide current income and some growth of capital. Typically, an Income with Growth Portfolio will experience moderate fluctuations in annual returns and overall market value. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities and equity securities, with a bias towards fixed income securities. This strategy may also invest in other asset classes, such as Non-Traditional Assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a slightly higher allocation to fixed income securities than equity securities.



Conservative Income Portfolio. A Conservative Income Portfolio typically seeks to provide current income. Typically, a Conservative Income Portfolio will experience relatively small fluctuations in annual returns and overall market value. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities, cash and equity securities, with a significantly higher allocation to fixed income securities. This strategy may also invest in other asset classes, such as Non-Traditional Assets. Generally, under normal market conditions, this strategy will have a significantly higher allocation to fixed income securities and cash than equity securities.

Capital Preservation Portfolio. A Capital Preservation Portfolio typically seeks to preserve capital while generating current income. Typically, a Capital Preservation Portfolio will experience relatively small fluctuations in annual returns and overall market value. Under normal market conditions, this strategy generally invests nearly all of its assets in a mix of fixed income securities and cash. This strategy may also invest in other asset classes, such as equity securities and Non-Traditional Assets.

Some PAM Consultants and investment managers use asset allocation strategies that include target asset allocation percentages for equity and/or fixed income investments in the names or descriptions of the strategies (e.g., 80-20, 60-40, 40-60, 20-80, etc.). A client should note that those percentages are intended to be asset allocation targets only. There is no guarantee that Accounts following asset allocation strategies will be invested strictly in accordance with target asset allocations. It is likely that the actual investments in Accounts following those strategies will vary, sometimes significantly, from the target asset allocations and may include other asset classes due to market conditions and the PAM Consultant's or investment manager's assessment of how to best invest a client's Accounts. See "Important Information about Implementation of Investment Objectives and Investment Strategies" below for more information.

For information about the risks associated with the asset allocation strategies described above, see the section of the Brochure entitled "Principal Risks—Risks Associated with Certain Investment Objectives and Asset Allocation Strategies" below.

#### *Important Information about Implementation of Investment Objectives and Investment Strategies*

A client should note that, to implement an investment strategy, a client's PAM Consultant or investment manager may use or recommend mutual funds, ETPs or other Investment Funds that primarily invest in particular types of securities instead of direct investment in those types of securities. A client should also note that the client's PAM Consultant or investment manager may use a strategy not described above or they may use a strategy with the same or similar name that is implemented differently. A client should ask the client's PAM Consultant or investment manager for more specific information about the strategy being used for the client's Account.

A client's Account is subject to the risks associated with the Account's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Risks" below.

*From time to time, the client's PAM Consultant or investment manager will invest the client's Account, or recommend that the client invest the Account, in a manner that is inconsistent with the investment strategy or investment objective selected by the client for the Account when the client's PAM Consultant or investment manager determines that it is appropriate to do so, such as using defensive strategies in response to adverse market or other conditions or engaging in tax management. Similarly, a client's Account may be invested in a manner inconsistent with the investment strategy or investment objective selected by the client for the Account in certain other circumstances, such as when the client's Account is transitioning to a new Service, investment objective or investment strategy, or due to other factors, such as market appreciation or depreciation of the assets in the client's Account, deposits and withdrawals made by the client, and investment restrictions, if any, imposed by the client. A client's Account may not be able to achieve its investment objectives during any such period of time and the Account may be subject to different or enhanced risks than would be the case had the Account been invested in a manner wholly consistent with the investment objective or investment strategy selected by the client. Clients are encouraged to*

*discuss with their PAM Consultant on a regular basis how the Account is being managed or advised and whether any such conditions exist.*

### **Methods of Analysis**

Baird, its home office investment professionals, and PAM Consultants may use various forms of security analyses, including the following:

- **Fundamental Analysis.** Fundamental analysis involves an approach to investing through a detailed analysis of specific companies, such as their financial statements and financial ratios, management, competitive advantages and markets, in an attempt to determine the value of an investment. Fundamental analysis may include qualitative and quantitative analyses.
- **Qualitative Analysis.** Qualitative analysis involves the use of subjective judgment to analyze factors that may be difficult to quantify or measure objectively. As it pertains to managers and investment products, qualitative analysis may include review of the background and experience of a manager or a mutual fund company.
- **Quantitative Analysis.** Quantitative analysis is a method of evaluating securities by analyzing a large amount of data through the use of algorithms or models in an attempt to understand behavior, predict market events, market prices, etc., and generate an investment decision. As it pertains to managers and investment products, quantitative analysis may include review of manager performance, investment style, style consistency, risk, and risk-adjusted performance.
- **Technical Analysis.** Technical analysis is a method of analyzing past price and volume patterns and trends in the trading markets to attempt to predict the direction of both the overall market and specific investments.
- **Top-Down Analysis.** Top-down analysis involves a consideration of certain macroeconomic trends, such as general economic conditions, geographic or market sector performance, fiscal and monetary policy, taxes, or interest rates, to make investment decisions.
- **Bottom-Up Analysis.** Bottom-up analysis involves consideration of factors particular to a

particular investment, such as business financials (e.g., balance sheet strength and cash flows), financial ratios (e.g., price-to-earnings ratio), and business fundamentals (e.g., management and product or services performance) to make investment decisions.

Baird, its home office investment professionals, and PAM use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others, issuer-supplied literature (such as annual reports, press releases and other information) and external market, economic, financial and investment data and analyses provided by organizations not affiliated with Baird. PAM primarily relies on independent, third-party research and information when analyzing market trends and conditions, investment manager performance, and asset class characteristics and performance. PAM has built and maintains a proprietary database of manager characteristics, including historical performance, personnel details, fees, investment philosophy, ownership and legal history. PAM has purchased and customized software to analyze the data, which we update at least quarterly. Some of the data, particularly general economic data, is publicly available, but PAM also pays for access to third-party databases which contain data used in our analyses. PAM does not accept fees or other remuneration from managers to be included in databases or in our manager search process. PAM may also employ the use of computers and third party software to more readily display information, assist with the evaluation and analysis, and create asset allocation recommendations. Although they generally use information and tools that Baird deems reliable, PAM and Baird do not independently verify or guarantee the accuracy of the information or tools used.

Baird and PAM Consultants may also utilize research reports created by Baird. However, it should be noted that PAM Consultants are not obligated to act in a manner consistent with Baird research reports and they may act in a manner that is contrary to those reports if they deem it to be consistent with the client's investment objectives and in the client's best interest.

When providing investment advice to clients, PAM Consultants may also use the model portfolios or

recommended or eligible product lists (described below) made available by Baird's Asset Manager Research Department or other Baird departments, or they may use investment products that Baird has generally deemed to be "available" for use in its advisory programs ("Available Investment Products"). The level of initial and ongoing evaluation, monitoring and review that PAM and Baird perform on managers and on investment products varies. Available Investment Products generally do not receive the same level of initial or ongoing evaluation, monitoring or review by Baird as those managers or products that are included in a model portfolio or on a recommended or eligible product list. As a result, Available Investment Products are subject to certain risks. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Available Investment Product Risks" below for more information.

More specific information about Baird model portfolios, recommended lists and eligible product lists is provided below. A client should note that investment products recommended to the client or selected for the client's Account, including investment managers or products included on a Baird recommended or eligible product list, are those which, in Baird's professional judgment, may be appropriate to help the client pursue the client's financial goals. PAM and Baird do not represent or guarantee that such investment managers or products are or will be the best investment managers or products available.

Under certain circumstances when requested by a client, PAM and Baird may allow a client to select a manager or investment product that is not on a Baird recommended or eligible product list or that is generally not made available to Baird clients. A client should note that PAM and Baird do not provide any initial or ongoing evaluation, monitoring or review of any such managers or investment products and that the client's decision to select such a manager or investment product is based solely upon the client's review of the manager or investment product.

#### *Certain PWM-Managed Portfolios*

##### Baird Recommended Portfolio

The Baird Recommended Portfolio, which is managed by Baird's PWM Equity Research team, seeks to outperform the S&P 500 Index by investing in a diversified core portfolio of 35–50

stocks. The portfolio invests primarily in stocks with market capitalization greater than or equal to \$10 billion (large cap). The portfolio may also contain stocks with market caps below \$10 billion but these stocks generally will not represent more than 35% of the total portfolio. The team's top-down investment approach begins with macroeconomic and market outlooks from Baird's Investment Strategy team. This information is used to underweight or overweight particular industry sectors compared to the S&P 500 Index. Individual stocks are selected with an emphasis on higher quality companies that the team believes have strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. Each stock selected is assigned a weighting as a percentage of the portfolio. No single company stock will comprise more than the greater of 5% of the portfolio or 1.5 times the stock's market weight in the S&P 500 index. Stocks can be sold or positions reduced for a variety of reasons such as valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

##### Baird Rising Dividend Portfolio

The Baird Rising Dividend Portfolio, which is managed by Baird's PWM Equity Research team, seeks to provide a core equity strategy with a portfolio yield above that of the S&P 500 Index. The team's top-down investment approach begins with macroeconomic and market outlooks from Baird's Investment Strategy team. The 30–50 stocks in the portfolio are primarily large cap stocks—as defined by a market capitalization of \$10 billion or greater at the time of investment—and all are above \$5 billion at the time of investment. The team looks for quality companies with strong fundamental characteristics and management, attractive dividend yields, and the ability to increase their dividends. Companies are screened for dividend history and consistency, earnings growth expectations, and balance sheet quality. Each stock selected is assigned a weighting as a percentage of the portfolio. No single company stock will comprise more than the greater of 5% of the portfolio or 1.5 times the stock's market weight in the S&P 500 index. A position can be reduced or removed due to changes in valuation, company fundamentals or the perceived ability to continue to raise its dividend in the future—among a variety of other

potential reasons for portfolio changes including a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

#### AQA Portfolios

Baird makes available to clients certain Automated Quantitative Analysis ("AQA") Portfolios, which are managed by Baird's PWM Equity Research team. AQA is an analytical tool that seeks to identify stocks of companies that are undervalued by calculating the intrinsic values for the stocks and comparing the calculated values to current market prices. Focusing on a company's past financial performance, AQA analyzes fundamental ratios and trends of the most recent eight-year history of a company and each company in its peer group, excluding estimates of future balance sheet and income statement performance. The analysis is quantitative and ignores certain qualitative information such as company-specific material news and events. Stocks are ranked from the most undervalued to the most overvalued based on the difference between the values calculated by AQA and current market prices. The stocks identified by AQA as being the most undervalued are then selected for investment. Baird offers the following four (4) AQA Portfolio strategies, each of which invest in undervalued stocks identified using AQA, excluding securities issued by banks, REITS and insurance companies: (1) the AQA All Cap Strategy, which primarily invests in stocks across market capitalizations, generally those included in the S&P 500®, S&P MidCap 400® or S&P SmallCap 600® Indices; (2) the AQA Large Cap Strategy, which primarily invests in large cap stocks, generally those included in the S&P 500® Index; (3) the AQA Mid Cap Strategy, which primarily invests in mid cap stocks, generally those included in the S&P MidCap 400® Index; and (4) the AQA Small Cap Strategy, which primarily invests in small cap stocks, generally those included in the S&P SmallCap 600® Index.

#### *Certain Recommended Lists*

##### Baird's Recommended Managers List

When selecting managers and BRM Strategies for Baird's Recommended Managers List, Baird seeks registered investment advisory firms having portfolio managers with academic credentials such as a master's degree or participation or completion of the Chartered Financial Analyst ("CFA") program. Baird also looks for a portfolio manager with greater than three (3) years of

investment experience focusing on the particular investment style that is offered by the portfolio manager. Baird generally looks for portfolio managers that have demonstrated success, that have performance histories showing sufficient ability to achieve returns in excess of their respective benchmarks, and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird. Baird also considers other qualitative and quantitative factors.

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

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

Baird's Asset Manager Research Department may also employ the use of computers and third party software to more readily display information and assist with the evaluation and analysis.

Baird's initial screening process begins with a proprietary, multi-factor model that evaluates managers on different factors including risk-adjusted performance, consistency of returns and downside protection. These factors are scored over various time periods and relative to a specific peer group universe, narrowing the pool of managers for further evaluation. Baird's Asset Manager Research Department then performs a more in-depth evaluation of managers that are identified through the initial screening process, which generally includes a review of the following factors: stability of the firm/team, the robustness and repeatability of the investment process, the portfolio's past returns pattern and tax-efficiency, and how the manager adds value. The final determination of Baird's Recommended Managers List is subject to the approval of Baird's Investment Committee.



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

If a Model-Traded BRM Strategy is selected for a client’s Account, it is important to note that Baird’s selection and ongoing evaluation of a BRM Strategy is based upon an assumption that the Recommended Manager’s Model Portfolio will be fully and faithfully implemented by the Overlay Manager or Implementation Manager on a continuous basis. A client should understand that the Overlay Manager or Implementation Manager has discretion over the client’s Account and may invest the client’s Account in a manner that differs from the Model Portfolio. Baird does not monitor the Account’s performance nor does it ascertain whether the Overlay Manager or Implementation Manager is implementing the Model Portfolio as provided by the Recommended Manager. If the Overlay Manager or Implementation Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client’s Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Overlay Manager or Implementation Manager or the performance of a client’s Account under those circumstances.

Certain investment strategies offered by Baird Equity Asset Management have been selected by Baird for inclusion on Baird’s Recommended Managers List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated managers for Baird’s Recommended Managers List are the same as those used for unaffiliated managers.

#### Baird’s Recommended Mutual Fund List

Baird’s Recommended Mutual Fund List is designed to include mutual funds across numerous asset classes. When selecting funds for inclusion on the List, Baird generally seeks mutual funds that have investment managers with tenure of at least three (3) years and have underlying investments that adhere to the fund’s market capitalization policy and are consistent with the manager’s stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or that are managed by individuals or firms that have demonstrated success in other, related asset classes; that have performance histories showing sufficient ability to achieve returns in excess of their respective style index; and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird. Baird’s Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds included on the List. In selecting funds, Baird’s Asset Manager Research Department utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and removing funds for the Baird Recommended Fund List is similar to the process Baird uses to select and remove BRM Strategies described under “Baird’s Recommended Managers List” above. Baird’s Investment Committee is ultimately responsible for selecting funds included on the List. The Baird Ultra Short Bond Fund, Baird Short-Term Bond Fund, Baird Aggregate Bond Fund, Baird Quality Intermediate Municipal Bond Fund, Baird Core Intermediate Municipal Bond Fund, and Baird Mid Cap Growth Fund, mutual funds affiliated with Baird, have been selected by Baird for inclusion in Baird’s Recommended Mutual Fund List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated mutual funds for Baird’s Recommended Mutual Fund List are the same as those used for unaffiliated mutual funds.

#### Baird’s Recommended Funds of Hedge Fund List

Baird’s Recommended Funds of Hedge Fund List contains a variety of funds of hedge funds (“FOHFs”) that pursue various Alternative Strategies or other Complex Strategies. Some FOHFs primarily use credit-oriented investment strategies, which Baird classifies as fixed income



diversifiers. Some FOHFs primarily use equity-oriented investment strategies, and classified as equity diversifiers. Other FOHFs use a combination of credit- and equity-oriented strategies, which Baird views as balanced diversifiers. In certain circumstances, FOHFs may be an appropriate substitute for part of a client's allocation to traditional high yield fixed income or equity investments.

To be added to Baird's Recommended FOHF List, a FOHF must generally meet the following requirements: the investment advisor to the FOHF is registered as an Investment Adviser under the Advisers Act; the fund has stable to growing assets under management as determined by Baird, principals of the fund have an appropriate level of hedge fund management experience and a sufficient network of contacts in the industry as determined by Baird; in Baird's opinion, the fund has adequate diversification by number of hedge funds and type of hedge fund strategy; effective risk management programs have been established for the fund; and the service providers to the fund (e.g., auditor, administrator, and legal counsel) are deemed to be reputable in the judgment of Baird. Baird also seeks FOHFs that it believes possess one or more unique attributes that may lead to favorable performance relative to their peers going forward.

Before adding a prospective FOHF to the List, Baird's Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the FOHF's responses to a due diligence questionnaire and of marketing and legal documents (such as, subscription documentation, investor agreements, and offering memorandum, organizational documents, and the investment advisor's Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the FOHF identifies, hires, monitors, and terminates individual hedge funds. Baird also evaluates how the FOHF constructs its hedge fund portfolio and manages risk. In addition, Baird undertakes a brief review of the FOHF's third party service providers. At the conclusion of the onsite review, an investment thesis is presented to and discussed with a Baird Investment Committee. The Committee votes on whether to add the FOHF to Baird's Recommended Funds of Hedge Fund List. In making that determination, the Committee considers the information presented,

taking into account the merits of the individual FOHF, how that FOHF compares to other FOHFs that Baird offers, and the level of expected demand for the particular FOHF.

After a FOHF is added to Baird's Recommended Funds of Hedge Fund List, it is monitored each quarter, and subsequent onsite reviews periodically take place. As part of its quarterly monitoring, Baird evaluates a FOHF's assets under management and flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), recent changes made to the FOHF portfolio (e.g., hedge funds added or removed), and reasons for performance differences between the FOHF and its benchmark. Subsequent onsite reviews are similar in nature and scope to the initial on-site review.

Baird may place a FOHF on "watch" status if it has experienced a material event that, in Baird's opinion, may negatively affect the FOHF's performance going forward or possibly lead to the departure of an important member(s) of the FOHF. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any firm that is placed on "watch" status is evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will remove a FOHF from "watch" status and return it to active status if, in Baird's opinion, the problem has been or is in process of being adequately addressed. However, Baird will terminate a FOHF from the List if it believes the issue is likely to be long-term and adversely affect the FOHF's future performance.

#### Baird's Recommended Private Funds Lists

Baird maintains lists of recommended private Funds ("Recommended Private Funds"), including a Recommended Funds of Private Equity Funds List, a Recommended Private Debt Fund List, and a Recommended Private Real Assets Fund List.

Baird's Recommended Funds of Private Equity Funds List contains funds of private equity funds that pursue certain Alternative Strategies or other Complex Strategies. These strategies can include buyout, growth equity, venture capital, special situations or distressed investments. The

investments are typically structured in the form of primary funds, secondary funds or co-investments. Most will be to “middle market” companies, many of which have above average to high levels of leverage, or debt relative to equity. In certain circumstances, funds of private equity funds may be an appropriate substitute for part of a client’s allocation to traditional equity investments.

Baird’s Recommended Private Debt Fund List contains private debt funds (also known as private credit funds) that pursue certain Alternative Strategies or other Complex Strategies. Private debt funds primarily pursue private debt strategies described above. In certain circumstances, private debt funds may be an appropriate substitute for part of a client’s allocation to traditional high yield fixed income or equity investments.

Baird’s Recommended Private Real Assets Fund List contains private real estate and infrastructure funds that pursue certain Alternative Strategies or other Complex Strategies. In certain circumstances, private real assets funds may be an appropriate substitute for part of a client’s allocation to traditional fixed income or equity investments. These strategies invest in different real assets and may involve exposure to a range of economic or market sectors, geographic locations and asset types. Examples of investments may include, among others, real estate, telecommunication, utilities, and transportation. The investments may be structured in the form of asset ownership or leasing or include direct investment in or joint ventures with companies that control infrastructure assets.

To be added to a Baird Recommended Private Fund List, a fund must generally meet the following requirements: the investment advisor to the fund is registered under the Advisers Act ; the fund has stable to growing assets under management as determined by Baird; principals of the fund have an appropriate level of applicable experience and a sufficient network of contacts in the industry as determined by Baird; effective risk management programs have been established for the fund; and the service providers to the fund (e.g., auditor, administrator, and legal counsel) are deemed to be reputable in the judgment of Baird. Baird also seeks funds that it believes possess one or more unique attributes that may

lead to favorable performance relative to their peers going forward.

Before adding a prospective fund to a Recommended Private Fund List, Baird’s Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the fund’s responses to a due diligence questionnaire (known as a DDQ or RFI) and of marketing and legal documents (such as, subscription documentation, investor agreements, offering memorandum, organizational documents, and the investment advisor’s Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the fund makes investment decisions. Baird also evaluates how the fund constructs its portfolio and manages risk. In addition, Baird may undertake a brief review of the fund’s third-party service providers. At the conclusion of the onsite review, an investment thesis is presented to and discussed with a Baird Investment Committee. The Committee votes on whether to add the fund to a Baird Recommended Private Fund List. In making that determination, the Committee considers the information presented, taking into account the merits of the individual fund, how that fund compares to other similar funds that Baird offers, and the level of expected demand for that particular fund.

After a fund is added to a Baird Recommended Private Fund List, it is monitored each quarter, and subsequent onsite reviews periodically take place. As part of its quarterly monitoring, Baird evaluates a fund’s assets under management and fund flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), recent changes made to the portfolio, and reasons for performance differences between the fund and its benchmark. Subsequent onsite reviews are similar in nature and scope to the initial on-site review.

Baird may place a Recommended Private Fund on “watch” status if it has experienced a material event that, in Baird’s opinion, may negatively affect the fund’s performance going forward or possibly lead to the departure of an important member(s) of the fund’s investment team. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any fund that is placed on “watch” status is

evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will remove a fund from “watch” status and return it to active status if, in Baird’s opinion, the problem has been or is in process of being adequately addressed. However, Baird will remove a fund from a Recommended Private Fund List if it believes the issue is likely to be long-term and adversely affect the fund’s future performance.

#### *Certain Eligible Product Lists*

##### Annuities

When determining whether to make an annuity product available to Baird clients, Baird reviews the offering documents for the product and considers: the size of the insurer and the insurer’s credit rating, the insurer’s distribution and support model, and product specifications and features of the product. Baird favors highly-rated insurers and evaluates them by using credit rating agencies financial strength ratings and independent third-party research.

##### Baird’s ETF Focus List

Baird’s ETF Focus List is designed to encompass numerous asset classes and varied investment objectives. Baird generally seeks to include ETPs, primarily ETFs, with transparent, experienced sponsors that have stable or growing assets under management and have demonstrated consistent strategy performance over time. Baird tends to favor ETPs that have well-known, diversified benchmark indices, lower fees and tracking errors, and higher trading liquidity relative to other ETPs. Inclusion on or exclusion from the Baird ETF Focus List is not meant to be a buy or sell recommendation. Rather, the List is a collection of ETPs that may be appropriate to meet particular client investment goals.

##### Managed Futures

Effective March 1, 2018, Baird ceased maintaining an official list of managed futures funds that are structured as limited partnerships. Therefore, Baird does not, and will not in the future, provide any evaluation, monitoring or review of those funds or their sponsors. A client’s decision to invest in, or to maintain an investment in, a managed futures fund is based solely upon the client’s own review and evaluation of the fund.

##### Structured Products

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

Baird tends to favor larger-sized issuers of structured products over smaller-sized issuers and also tends to favor structured products that have shorter maturities, less complex payout structures, underlying assets that are more liquid or transparent, and offer full or partial principal protection. If a product does not offer full principal protection, Baird also considers how much principal is exposed to loss, whether, in Baird’s judgment, there is reasonable risk/reward trade-off for that exposure, as well as the events that could trigger loss of principal and Baird’s belief as to the likelihood of the occurrence of such events.

Baird’s Investment Solutions Department is primarily responsible for selecting and evaluating structured products made available to clients under the Programs. Baird’s Alternative Investment Committee, which includes members of Baird’s Investment Solutions, Asset Manager Research, Compliance, Legal, and Risk Management Departments, ultimately determines whether to make a structured product available to Baird clients.

##### Available Hedge Funds

Baird makes hedge funds available to clients in certain Programs sponsored by, affiliated with or offered by Capital Integration Systems LLC or CAIS Capital LLC (“CAIS”). An independent third-party research firm provides research and due diligence materials to Baird on the hedge funds available on the CAIS platform (“Available Hedge Funds”). Clients interested in an Available Hedge Fund or invested in an Available Hedge Fund may obtain additional information from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Hedge Fund, Baird does not conduct its own research or due diligence on any Available

Hedge Fund, and Baird does not verify the accuracy of the information contained in the research and due diligence materials.

#### Available Private Funds

In addition to Recommended Private Funds, Baird makes available to clients in certain Programs other private funds sponsored by, affiliated with, or offered by CAIS ("Available Private Funds"), including Available Private Equity Funds, Available Private Debt Funds, Available Private REITs and Available Private Infrastructure Funds. When determining whether to make a fund an Available Private Fund, Baird utilizes the services of an independent third-party research firm that provides research and due diligence materials to Baird on the private funds available on the CAIS platform. Clients interested in an Available Private Fund or invested in an Available Private Fund may obtain additional information from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Private Fund, Baird does not conduct its own research or due diligence on any Available Private Fund, and Baird does not verify the accuracy of the information contained in the research and due diligence materials.

#### Affiliated Private Equity Funds

In addition to Recommended Funds of Private Equity Funds and Available Private Equity Funds, Baird makes available to clients private equity funds that are affiliated with Baird ("Affiliated Private Equity Funds"). *Baird does not subject Affiliated Private Equity Funds to the criteria imposed upon Recommended Funds of Private Equity Funds or Available Private Equity Funds described above when making them available to clients, and Baird does not perform any evaluation, monitoring or review of Affiliated Private Equity Funds. This presents a potential conflict of interest. See "Other Financial Industry Activities and Affiliations—Certain Affiliated and Related Parties—Affiliated Private Equity Funds" below.*

#### Baird Trust Strategies

Baird makes available to clients five (5) portfolio strategies developed and maintained by Baird Trust ("Baird Trust Strategies") described below. The Baird Trust Strategies invest in a mix of equity securities and ETFs.

(1) The Baird Trust Large Cap Equity strategy invests in a fairly concentrated portfolio of large cap equity securities. This strategy is intended for clients seeking investment in large cap companies as one part of their overall asset allocation. This strategy is generally not intended to be a complete investment program.

(2) The Baird Trust Core + Satellite 100 strategy is a diversified portfolio with a 100% target equity allocation. The strategy uses the Baird Trust Large Cap Equity strategy as the core allocation of the portfolio while providing exposure to satellite asset classes (such as mid cap and small cap companies) through the use of ETFs that principally invest in equity securities. This model does not include fixed income.

(3) The Baird Trust Core + Satellite 70/30 strategy utilizes the Baird Trust Large Cap Equity strategy as the core allocation of the portfolio while providing exposure to satellite asset classes (such as mid cap and small cap companies) and fixed income securities through the use of ETFs that principally invest in equity securities and fixed income securities. This strategy has a target allocation of 70% of its assets to equity securities and 30% of its assets to fixed income securities.

(4) The Baird Trust Core + Satellite 50/50 strategy utilizes the Baird Trust Large Cap Equity strategy as the core allocation portion of the portfolio while providing exposure to satellite asset classes (such as mid cap and small cap companies) and fixed income securities through the use of ETFs that principally invest in equity securities and fixed income securities. This strategy has a target allocation of 50% of its assets to equity securities and 50% of its assets to fixed income securities.

(5) The Baird Trust Equity Income strategy primarily invests in dividend paying companies that Baird Trust believes have the ability to consistently grow their dividend at attractive rates over the long-term.

More specific information about the particular investment strategies and methods of analysis that Baird uses in connection with each Program is further described below.

### ***The PAM Investment Process***

When providing advice to clients, PAM generally recommends and provides to its clients a diversified portfolio strategy incorporating U.S. and foreign equity securities, fixed income securities, Non-Traditional Assets, such as real estate, commodities, currencies, and Alternative Investment Products, which may include the use of hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, REITs, leveraged or inverse funds and structured products. PAM may also its base recommendations using other investment strategies and investment products based upon a client's particular needs. PAM may recommend certain investment strategies, such as concentrated investment strategies and margin, and certain types of investments, such as illiquid securities. The exact composition of a client portfolio will be constrained by the client's legal and tax considerations and greatly influenced by the client's liquidity needs and tolerance for portfolio fluctuations.

The process by which PAM evaluates a client's investment needs and constructs and implements a client portfolio are described below.

#### ***Phase 1: Evaluate***

After gathering pertinent information regarding the client, such as, tax considerations, liquidity needs, and investment time horizon, PAM will recommend a target allocation to one or more asset classes described above. For some clients, PAM will develop an Investment Policy Statement through discussions with the client. The Investment Policy Statement will set forth the target asset allocation, set forth allowed and disallowed assets, and provide a description of the responsibilities of PAM, client's other investment managers, if any, and the client. The Investment Policy Statement generally will be reviewed at least annually, and PAM will recommend changes if necessary to reflect any new circumstances communicated to PAM by the client, such as a change in a client's liquidity needs or investment time horizon. Generally, any changes will be discussed with the client before implementation.

#### ***Phase 2: Strategy Design***

PAM will compile, with data supplied by the client, a source of funds document ("Source of Funds"), listing investment assets to be transferred to Baird and other significant investment assets

which may not be managed by PAM but which PAM will consider in constructing the overall investment portfolio. PAM will review the Source of Funds with the client to reach agreement on the total assets available for investment and the ownership or registration of the same.

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

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

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

The systematic process PAM uses for choosing investment managers, commingled funds, mutual funds and ETFs consists of the following steps:

- **Quantitative Screening.** On a quantitative basis, PAM takes a dynamic view of historical performance statistics over various time intervals and economic conditions. The approach is two-pronged: (1) assess peer universe comparisons; and (2) apply index-based measures, both on an absolute and risk-adjusted basis. The data is then analyzed using



a proprietary scoring model, which places particular emphasis on consistent positive relative performance over the long-term.

- **Qualitative Screening.** The candidate list is then further reduced by reviewing broader issues that help identify superior, stable organizations. Some examples of the issues examined include: size of assets under management, growth of assets and accounts, professional staff qualifications and turnover, a strong investment buy and sell discipline, risk controls, and business, regulatory and legal history.
- **Rank and Sort Semifinalists.** The investment selection process has now produced a short list of candidates; generally, between three and ten for each asset class. For new or emerging managers, PAM will typically conduct an onsite due diligence visit to determine and analyze more about team structure and strength, infrastructure, and hold discussions around philosophy and strategy. PAM then determines the appropriate investment structure to access the investment manager(s)—whether it be an SMA, commingled fund, institutional class mutual fund or ETF—with a view to try and select the structure that is the most cost effective for clients.
- **Finalist Selection.** PAM will analyze security overlap and correlation with other potential investment managers when determining the client's final allocation. Final manager or fund selection depends on the specific client needs, which are defined through the investment policy development and investment recommendation stages. The managers or funds that are most appropriate to meet the guidelines of the client's Investment Policy Statement, if any, are then chosen.

The recommended allocation will also include the fee for each manager, if any, as well as the PAM Advisory Fee. A weighted-average fee based on the recommended allocation will also be provided, but the actual fee paid by a client will vary depending on the dollar amounts actually invested, changes in the value of investments over time, and other factors.

### *Phase 3: Implement*

Once the recommended allocation is reviewed with the client and a final allocation is approved

by the client, PAM will implement the agreed upon plan. This usually includes setting up various Baird accounts, transferring assets from outside accounts to Baird, reconciling assets received against client-provided information as to the assets in the outside accounts, liquidation of some assets, transfers of some assets to investment managers, and purchase of mutual funds and ETFs.

In order to implement the overall client portfolio strategy, PAM may utilize one or more of the Services and a combination of different investment vehicles, such as SMAs, mutual funds and ETFs.

More specific information about the particular investment strategies and methods of analysis that PAM and Baird use in connection with each Service is further described below.

## **Service Information**

### **PAM Investment Management Service**

Under the PAM Investment Management Service, PAM may use various investment strategies. A client's particular investment strategy is typically determined by PAM in consultation with the client using the investment process described in the section "The PAM Investment Process" above.

PAM Consultants, as a group, utilize a variety of investment styles and strategies, including the investment strategies described in the sections "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies" and "The PAM Investment Process" above. They may also use the model portfolios or recommended or eligible product lists made available by Baird's Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. For more information about Baird model portfolios, recommended lists and eligible product lists, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis" above.

PAM manages client assets using investment strategies and investment products based upon a client's particular investment objectives and financial goals. PAM may use a wide variety of investment products to implement the client's

investment strategy, which investments are further described under “Advisory Business—Additional Service Information—Permitted Investments” above. PAM may also use certain investment strategies, such as concentrated investment strategies and margin, and certain types of investments, such as illiquid securities and Complex Investment Products, including REITs, private equity funds, funds of private equity funds, leveraged or inverse funds and structured products. These investment strategies and products involve special risks and may not be appropriate for all clients. Please see “Principal Risks” below for more information.

### **PAM Recommended Managers Service**

When recommending or selecting other investment managers to manage a client’s Account in the PAM Recommended Managers Service, PAM may utilize managers included on Baird’s Recommended Managers List described under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis—Certain Recommended Lists—Baird’s Recommended Managers List” above. PAM may also select managers not included on Baird’s Recommended Managers List through its own manager evaluation process.

PAM will select or replace, or recommend the selection or replacement of, a particular manager based upon the client’s particular goals and circumstances and the client’s investment strategy. This may involve the selection or recommendation of a manager on Baird’s Recommended Managers List and it may involve managers not on such list. PAM typically conducts additional qualitative and quantitative reviews of managers on Baird’s Recommended Managers List and will conduct qualitative and quantitative reviews of managers on other managers not included on such list. PAM’s evaluation process typically involves in-person or telephonic interviews of the manager and a review of the manager’s historic performance, size of assets under management, asset flows, and an analysis of how the management firm adds value.

The hiring of investment managers for a client account includes an initial screening by PAM of a potential manager for overall style, firm size, the age of the investment advisor, its compliance with GIPS composite standards, its average turnover,

and its performance record in said style for at least the five (5) years preceding the review. A quantitative score calculation is assessed to each investment manager based upon the Sortino Ratio, Alpha, Standard Deviation, Market Capture, Batting Average and Retention, Sharpe ratio, one-year trailing return, the most recent quarter return, the up market capture ratio, and down market capture ratio. A weight is then assigned to each of the foregoing.

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

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

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

If a Model-Traded Strategy offered through an Implementation Manager is selected for a client’s Account, a client should note that PAM and Baird do not monitor or ascertain whether a third party Implementation Manager is fully and faithfully implementing the Model Portfolio on a continuous basis.

A client assumes ultimate responsibility for client’s selection of an Other Manager under the PAM Recommended Managers Program (including any third party Implementation Manager). PAM and Baird assume no responsibility for the client’s termination of an Other Manager (including any third party Implementation Manager), the Other Manager’s investment decisions, performance,

compliance with applicable laws or regulations, or for any other matters involving or affecting the Other Manager.

### **Baird SMA Network and Dual Contract Programs**

Clients participating in the BSN Program or the DC Program should note that the level of initial and ongoing review performed by PAM and Baird on the managers and their SMA Strategies made available under those Programs, including any Affiliated SMA Strategies, is significantly less than that performed by PAM and Baird with respect to managers and their strategies eligible for the PAM Recommended Managers Service.

BSN and DC Managers are subject to an initial review by Baird that considers the manager's assets under management, regulatory and compliance history, and certain other limited qualitative and quantitative factors deemed relevant by Baird. The ongoing review is generally performed on an annual basis and is generally limited to significant changes in the managers' assets under management in the SMA Strategy and a review of the SMA strategy in comparison to a relevant peer group or benchmark.

The BSN and DC Programs are designed to accommodate a client who wishes to independently select an investment manager not available in the PAM Recommended Managers Service to manage the assets in the client's Account. A client should note that PAM and Baird do not make any recommendation to clients regarding any BSN Strategy or DC Strategy or any representations regarding a BSN Manager's or DC Manager's qualifications as an investment adviser or abilities to manage client assets.

The Overlay Manager may provide review and ongoing evaluations of certain BSN Managers that it makes available through the BSN Program. Clients should review Overlay Manager's Form ADV Part 2A Brochure for more information, which is available upon request, or contact their PAM Consultant for more information.

PAM and Baird do not monitor or ascertain whether the Overlay Manager is fully and faithfully implementing Model Portfolios under the BSN Program on a continuous basis.

SMA Strategies offered under the BSN and DC Programs are subject to certain risks. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Available Investment Product Risks" below for more information.

A client should only participate in the BSN or DC Programs if the client wishes to take more responsibility for monitoring the client's Account, the PAM Recommended Managers Program does not contain an SMA Strategy that meets the client's particular needs, and the client understands the risks of doing so.

A client should note that the client's appointment and continued retention of an investment manager to manage the client's Account in connection with the BSN and DC Programs are based ultimately upon the client's independent review of the investment manager and the investment manager's services. Once retained by the client, an investment manager will only be removed from managing the client's Account upon the investment manager's withdrawal, removal from the Program, or the client's direction to do so.

A client assumes ultimate responsibility for client's selection of a manager under the BSN or DC Programs (including any third party Implementation Manager). PAM and Baird assume no responsibility for the client's termination of a manager under the BSN or DC Programs (including any third party Implementation Manager). PAM and Baird also assume no responsibility for any Other Manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the Other Manager.

Portfolio management services under the DC Program may be provided by an investment management department of Baird if the client selects such an SMA Strategy. In order to provide portfolio management services under the DC Program, Baird requires that Baird associates meet all applicable requirements set forth by applicable law and regulations of self-regulatory organizations, such as the Financial Industry Regulatory Authority, Inc., exchanges, and governmental agencies.

### **Portfolio Management by PAM, Baird and Related Persons**

Portfolio management services under the PAM Investment Management, PAM Recommended Managers and DC Programs may be provided by Baird and managers affiliated with Baird. Such arrangements create a potential conflict of interest because Baird and its affiliates may receive higher aggregate compensation if clients retain Baird and affiliated managers instead of retaining unaffiliated managers.

The following Services exclusively offer portfolio management by Baird, its PAM Consultants, its PWM home office investment professionals, its investment management departments, or investment managers that are affiliated with Baird: PAM Investment Management Service. The processes, if any, used by Baird for selecting and reviewing those portfolio managers is described under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information” above.

A client should note that the processes and standards used by Baird in determining whether to make affiliated investment options available under the PAM Investment Management Service differ from those processes and standards used by Baird in determining whether to make non-affiliated investment options available under other Services. Baird approves, and continues to make available, affiliated investment options under the PAM Investment Management Service that would not be approved for, or would have been removed from, such other Services. This practice presents a conflict of interest because Baird has a financial incentive to maximize the number of affiliated investment options it makes available under the PAM Investment Management Service due to the fact that, by increasing investment options, Baird will likely attract more client assets and thereby increase Baird’s revenues. A client participating in the PAM Investment Management Service should monitor the client’s Account performance and periodically discuss the performance of such Account with the client’s PAM Consultant.

Portfolio management services under the PAM Recommended Managers Service or DC Program could be provided by Baird PWM home office investment professionals, an investment management department of Baird or a manager

affiliated with Baird should a client select an Affiliated SMA Strategy. When Baird selects SMA Strategies, or otherwise determines manager availability or eligibility, for the Baird Recommended Managers List or the DC Program, Affiliated SMA Strategies and affiliated investment managers are subject to the same selection and review processes, if any, that Baird applies to unaffiliated SMA Strategies and investment managers participating in each respective Service. The processes, if any, used by Baird for selecting and reviewing SMA Strategies and Affiliated SMA Strategies for those Services are further described under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Service Information” above.

When providing investment advisory services to clients, PAM and Baird are fiduciaries and are required to act solely in the best interest of clients. Baird addresses the conflicts described above through disclosure in this Brochure and by adopting internal policies and procedures for PAM and Baird and their associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about these potential conflicts and how Baird addresses them, please see the sections “Other Financial Industry Activities and Affiliations” and “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

### **Principal Risks**

Risk is inherent in any investment product and PAM and Baird do not guarantee any level of return on a client’s investments. There is no assurance that a client’s investment objectives will be achieved, and a client could lose all or a portion of the amount invested. The management of client accounts and recommendations made to clients are based in part upon the use of forward-looking projections, which in turn are based upon certain assumptions about how markets will perform in the future. There can be no guarantee that markets will perform in the manner assumed and the actual performance of markets and a client’s Account could differ materially from those assumptions. Also, a client’s Account value may fluctuate, sometimes dramatically, depending upon the nature of the client’s investments, market conditions and other factors. By

participating in a Service, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by Service, investment style or strategy, and the investments in the client's Account, and each risk may or may not apply to a client. Clients should not pursue a strategy or invest in an investment product unless they are prepared to accept the associated risks. Clients are encouraged to discuss with their PAM Consultant the risks that apply to them. A client should also review the prospectus or other disclosure document for any security or other investment product in which the client invests, as it will contain important information about the risks associated with investing in such security or other investment product.

### **General Risk Information**

General risks of the Services include the following:

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

### **Management and Securities Selection Risks.**

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

### **Investment Objective and Asset Allocation**

**Risks.** A client's investment objective and asset allocation strategies involve the risk that certain asset classes selected for the client's Account may not perform as well as other asset classes during varying periods. In addition, clients who pursue

more aggressive investment objectives and asset allocation strategies, while hoping to achieve high returns, may face greater risk of loss than clients with more conservative objectives and strategies. In developing investment objectives and asset allocation strategies, clients should carefully consider their financial situation and needs, investment goals, investment time horizon and risk tolerance. A client should inform the client's PAM Consultant of these considerations so the PAM Consultant can assist in determining the client's investment objectives and asset allocation strategies.

**Conflicts of Interest Risks.** Issuers, advisors or other sponsors of investment products or their affiliates may engage in business practices that conflict with the interests of investors. Among other things, these business practices can have a negative impact on the market price of the investment product. Clients are encouraged to review the prospectus or other disclosure document for the investment product and also discuss with their PAM Consultant the conflicts of interest risks that may apply to them.

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

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

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



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

**Fixed Income Security Risks.** Fixed income securities are subject to certain risks, including interest rate risk, credit risk and liquidity risk. In addition, they are subject to maturity 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. Non-rated, split-rated, below investment grade, and asset-backed securities, including mortgage-backed securities and CMOs, have additional, special risks.

**Interest Rate Risk.** The value of some investment products, particularly fixed income securities, is affected significantly by changes in interest rates. Generally, when interest rates rise, the product's market value declines and when interest rates decline, its market value rises. In addition, a rise in interest rates may have a negative impact on the issuer, which, in turn, could have a negative impact on the market value of the investment product.

**Credit Risk.** The value of some investment products, particularly fixed income securities, is affected by changes in the product's credit quality rating or the issuer's financial condition. If the credit quality rating or the issuer's financial condition declines, so may the value of the investment product. Issuers 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.

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

**Growth and Value Investment Style Risks.** Investment styles or strategies that focus on growth stocks may perform better or worse than styles or strategies that focus on value stocks or that are broader or more diversified. Similarly, investment styles or strategies that focus on value stocks may perform better or worse than styles or strategies that focus on growth stocks or that are broader or more diversified. A particular style of investing may go out of favor at times and for extended periods. Growth stocks are often characterized by high price-to-earnings ratios and may be more volatile than stocks with lower price-to-earnings ratios. Value stocks are subject to the risk that the broader market may not agree with the manager's assessment of, or recognize, the investments' intrinsic value.

**Foreign Issuer and Investment Risks.** Securities of foreign issuers, ADRs, Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs"), and investments in foreign markets generally, are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. Investors in foreign markets may face delayed settlements, currency controls and

adverse economic developments as well as higher overall transaction costs. In addition, fluctuations in the U.S. dollar's value versus other currencies may enhance, erode, reverse gains or widen losses from investments denominated in foreign currencies. For instance, foreign governments may limit or prevent investors from transferring their capital out of a country. This may affect the value of a client's investment in the country that adopts such currency controls. Exchange rate fluctuations also may impair an issuer's ability to repay U.S. dollar denominated debt, thereby increasing the credit risk of such debt. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

**Emerging Markets Risks.** Investments in emerging markets can involve risks in addition to and greater than those generally associated with investing in more developed foreign markets. The extent of economic development, political stability, market depth, infrastructure, capitalization, and regulatory oversight can be less than in more developed markets. Emerging market economies can be subject to greater social, economic, regulatory, and political uncertainties. All of these factors can make emerging market securities more volatile and potentially less liquid than securities issued in more developed markets.

**ESG Considerations Risk.** Consideration of ESG factors in the investment process may cause an advisor or manager to forgo opportunities to recommend or invest in certain companies or to gain exposure to certain industries or regions. Therefore, there is a risk that, under certain market conditions, an Account pursuing strategies that consider ESG factors may underperform accounts that do not consider such factors. There are not universally accepted ESG factors and advisors and managers typically consider them in their discretion.

**Cybersecurity 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.

**Government Obligation Risks.** Client assets may be invested in securities 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, securities issued by the Government National Mortgage Association ("Ginnie Mae") are supported by the full faith and credit of the United States. Securities 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.

**Municipal Securities Risks.** Repayment of municipal securities depends on the ability of the issuer or project backing such securities to generate taxes or revenues. Municipal securities may also decrease in value during times when tax rates are falling. Since interest income on municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities 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 securities, which would in turn affect Baird's ability to acquire and dispose of municipal securities at desirable yield and price levels. Investment in tax-exempt debt obligations poses additional risks. In many cases, the IRS has not ruled on whether the interest received on a tax-exempt obligation is tax-exempt, and accordingly, purchases of these municipal securities are based on the opinion of bond counsel to the issuers at the time of issuance. Thus, there is a risk that interest may be taxable on a municipal security that is otherwise expected to produce tax-exempt interest.

**Money Market Fund Risks.** A money market fund is a type of mutual fund that generally invests in short-term debt instruments. Many investors use money market funds to store cash. There are three primary types of money market funds: (1) government money market funds (funds that invest nearly all assets in cash, government securities, and/or repurchase agreements collateralized by cash or government securities); (2) retail money market funds (funds that have policies and procedures reasonably designed to limit beneficial ownership to natural persons); and (3) institutional money market funds (funds that permit beneficial ownership by institutions and natural persons). The rules governing money market funds vary based on the type of money market fund. Government and retail money market funds generally try to keep their net asset value (NAV) at a stable \$1.00 per share using special pricing and valuation

conventions. Institutional 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"). An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although some money market funds 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. In addition, retail and institutional 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. Government money market funds may also impose redemption fees and suspend redemptions in those same 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.

**Illiquid Securities and Liquidity Risks.** Liquidity risk is the risk that certain investments may be difficult or impossible to sell at the time and price that a client would like to sell. Clients may have to lower the price, sell other investments or forego an investment opportunity, any of which may have a negative effect on the management or performance of client accounts. The liquidity of a particular investment depends on the strength of demand for the investment, which is generally related to the willingness of broker-dealers to make a market for the investment as well as the interest of other investors to buy the investment. 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 investments, a client may experience challenges in selling such investments 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. In the event the client directs Baird to liquidate an illiquid investment, the client should understand that Baird may have difficulty finding a buyer in the market for such investment and such investment may be held in the Account for a period of time while Baird attempts to satisfy the client's liquidation request.

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

**Technical Strategy Risks.** Some investment managers may employ technical analysis or investment methodologies to make investment decisions or recommendations. The primary risk of using technical analysis is that past price and volume patterns and trends in the trading markets cannot predict future prices, volume patterns or trends. There is no guarantee that

technical investment methods used are designed properly, are updated with new data as it becomes available, or can accurately predict future market or investment performance. In order for technical investment methods to work, there must be sufficient data about the markets available so that trends can be identified and predictions can be made. A technical method may fail to identify trends or be able to accurately predict future prices if a market does not have sufficient data or trends or if the market behaves erratically.

**Concentration Risks.** A client's Account may consist of a portfolio of securities that is concentrated in an issuer or group of issuers, an industry or economic sector or group of related industries or sectors, or concentrated in limited asset classes. Client accounts with concentrated positions are susceptible to greater volatility and increased risk of loss than an Account that is diversified across several issuers and industries or sectors and asset classes. A client should not engage in strategies using concentration unless the client is prepared to experience significant losses in the value of the client's Account.

**Frequent Trading and Portfolio Turnover Risks.** Some of the investment strategies offered to clients in this Brochure may involve frequent or active trading for client accounts, which could result in high portfolio turnover. Strategies that involve frequent or active trading increase the management and securities selection risks because the persons managing the accounts are making more trading decisions, which may prove to be incorrect. A portfolio with a high turnover rate will also incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also cause a client to experience adverse tax consequences due to the fact that the client may have increased instances of realized gains and losses and such gains and losses may commonly be characterized as short term gains and losses under applicable tax law.

**Asset-Backed Securities Risks.** Asset-backed securities are securities secured or backed by mortgage loans, student loans, automobile loans, installment sale contracts, credit card receivables or other assets and are issued by entities such as commercial banks, trusts, financial companies, finance subsidiaries of industrial companies, savings and loan associations, mortgage banks

and investment banks. These securities represent interests in pools of assets in which periodic payments of interest or principal on the securities are made, thus, in effect passing through periodic payments made by the individual borrowers on the assets that underlie the securities, net of any fees paid to the issuer or guarantor of the securities. Asset-backed securities are issued in multiple classes (or tranches) and their relative payment rights may be structured in many ways. Asset-backed securities may be subject to greater risk of default during periods of economic downturn than other instruments. Asset-backed securities also can be more sensitive to interest rate risk than other types of fixed income securities. Modest movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of these securities. Asset-backed securities are subject to a number of other risks, including, but not limited to, market and valuation risks, liquidity risk, and prepayment risk.

**Non-Rated, Split-Rated, and Below Investment Grade Securities (High Yield or "Junk" Bonds) Risks.** Investing in securities or other investment products that are not rated, split-rated or are below investment grade (also known as high yield or "junk" bonds) involve significant, special risks. As a result, they may not be suitable for some clients. The risks associated with these investments include, but not limited to, price volatility risk, credit risk, default risk, and liquidity risk. Clients investing in securities or other investment products that are not rated, split-rated or are below investment grade should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Mutual Fund Risks.** Mutual funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Mutual funds have risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and

investment risk, and emerging market risk. *Certain mutual funds pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of mutual fund selected. Also, investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

**Exchange Traded Fund Risks.** An ETF is different from a mutual fund in that an ETF does not sell its shares directly to public investors and does not redeem shares from public investors. Rather, shares of an ETF are commonly purchased or sold in the secondary market on a securities exchange, like common stocks. An ETF maintains a net asset value but, based on demand and other factors, the market price of shares of an ETF may vary from its net asset value. ETFs invest in and hold securities and other assets, such as stocks, bonds, commodities and currencies, and have stated investment objectives and principal strategies. ETFs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Many ETFs seek to track the performance of an index or other underlying benchmark. Passively managed ETFs will not be able to replicate exactly the performance of the indices the ETFs track because the total return generated by the securities will be reduced by management fees, transaction costs and other expenses incurred by the ETF. ETFs have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain ETFs pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of ETF selected.

**Closed-End Fund Risks.** Unlike mutual funds which continuously offer and redeem their shares on a daily basis at net asset value, closed-end funds typically raise money by selling a fixed number of shares of common stock in a single, one-time offering, much the way a company



issues stock in an initial public offering. Closed-end funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Closed-end fund shares are not redeemable, meaning that investors cannot require closed-end funds to buy back their shares, although closed-end fund shares are listed and traded on an exchange. For many reasons, closed-end fund shares often trade at a discount to their net asset value and the market prices of closed end fund shares often fall below their public offering prices. Clients are therefore cautioned about buying shares of a closed-end fund in its initial public offering. Closed-end funds often engage in leverage to raise additional capital for purposes of making investments through borrowings and issuances of senior securities (such as preferred stock). Such leverage may present the opportunity to enhance potential returns but also involve the risk of exacerbating losses and depreciation in the value of the underlying securities. Closed-end funds have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain closed-end funds pursue Complex Strategies, which are subject to special risks.* Some closed-end funds are organized as interval funds, which differ from traditional closed-end funds in that their shares do not trade on the secondary market, but instead their shares are subject to repurchase offers from the fund. Closed-end funds structured as an interval fund will, therefore be relatively less liquid. Interval funds also often impose a redemption fee when shares are sold back to the fund. The degree of these and other risks will vary depending on the type of close-end fund selected.

**Unit Investment Trust Risks.** A UIT is a pooled investment vehicle in which a portfolio of securities is selected by the sponsor and deposited into the trust for a specified period of time. The portfolio of a UIT is designed to follow an investment objective over a specified time period, although there is no guarantee that the

objective will be met. UITs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. UITs are passively managed and follow a “buy and hold” strategy, meaning that UITs buy a fixed portfolio of securities and hold on to that portfolio until their termination date at which time the portfolio is liquidated with the net proceeds paid to investors. UITs, thus, generally have a relatively higher risk of loss than other funds in the event of adverse changes in market or economic conditions. UITs have other risks, which may include management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain UITs pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of UIT selected. Also, investment return and principal value will fluctuate, and units, if and when redeemed, may be worth more or less than their original cost.

**Investment Fund Risks; Purchase and Redemption Risks.** Investment Funds are generally subject to the same risks as the securities or other assets in which they invest. In addition, from time to time Baird, a PAM Consultant, or an investment manager may decide to add or remove an Investment Fund to or from an investment strategy or Service. In addition, they may decide to increase or decrease their clients’ account allocations to an Investment Fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in question and consequently, a client’s investment. An Investment Fund receiving large purchase orders may have difficulty investing the cash, which may have a negative impact on the fund’s performance. An Investment Fund experiencing large redemption orders may have to sell portfolio securities, which may negatively impact performance and which may have negative tax consequences. Large redemptions could also reduce liquidity as the fund may suspend or delay

redemptions. These risks are more pronounced with respect to newer Investment Funds and those with smaller asset sizes.

### ***Non-Traditional Assets and Complex Strategies Risks***

**Non-Traditional Assets Risks.** Non-Traditional Assets, such as commodities, currencies, cryptocurrencies, securities indices, interest rates, credit spreads, and private companies, are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Some Non-Traditional Assets are less transparent and more sensitive to domestic and foreign political and economic conditions than more traditional investments. Non-Traditional Assets are also generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

**Commodities Risks.** Investments in commodities markets or a particular sector of the commodities markets, and investments in securities or other instruments denominated in or indexed or linked to commodities, are subject to certain risks. Those investments generally will subject a client Account to greater volatility than investments in traditional securities. The commodities markets are impacted by a variety of factors, including changes in overall market movements, domestic and foreign political and economic conditions, interest rates, inflation rates and investment and trading activities in commodities. Prices of commodities may also be affected by factors such as drought, floods, weather, livestock disease, embargoes, tariffs and other regulatory developments. The prices of commodities can also fluctuate widely due to supply and demand disruptions in major producing or consuming regions. Certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers or groups of producers. As a result, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities. No active trading market may exist for certain commodities investments, which may impair the value of the investments.

**Currency Risks.** Investments in currencies, and investments in securities or other instruments denominated in or indexed or linked to currencies, are subject to certain risks. Those investments

are subject to all of the risks associated with foreign investing generally. In addition, currency markets generally are not as regulated as securities markets. Also, changes in currency exchange rates could adversely impact the investment. Devaluation of a currency by a country will also have a significant negative impact on the value of any investment denominated in that currency. Currency investments may also be positively or negatively affected by a country's strategies intended to make its currency stronger or weaker relative to other currencies.

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

**Short Sales Risks.** Short selling runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate. In addition, a lender may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, which may result having to buy the securities sold short at an unfavorable price. A client should not engage in short sales unless the client is prepared to experience significant losses in the client's Account.

**Derivative Instrument Risks.** The values of options, convertible securities, futures, swaps, forward contracts and other derivative instruments is derived from an underlying asset, such as a security, commodity, currency, cryptocurrency, or index. Derivative instruments often have risks similar to the underlying asset, however, in certain cases, those risks are greater than the risks presented by the underlying asset. Derivative instruments may experience dramatic price changes and imperfect correlations between the price of the derivative and the underlying asset, which may increase volatility. Derivatives

generally create leverage, and as a result, a small movement in the underlying asset's value can result in large change in the value of the derivative instrument. Derivatives are also subject to liquidity risk, interest rate risk, market risk, credit risk, management risk and counterparty risk. The use of these instruments is not appropriate for some clients because they involve special risks. A client should not invest in these instruments unless the client is prepared to experience volatility and significant losses in the client's Account.

**Options Risks.** In purchasing a put or call option, the purchaser faces the risk of loss of the premium paid for the option if the market price moves in a direction opposite to what the purchaser had expected. In selling or writing an option, the seller faces significantly more risk. A seller of a call option faces the risk of significant loss if the prevailing market price of the underlying security or index increases above the strike price, and a seller of a put option faces the risk of significant loss if the prevailing market price of the underlying security or index decreased below the strike price.

**Hedging Risks.** When a derivative instrument is used as a hedge against an opposite position, any loss on the derivative instrument should be substantially offset by gains on the hedged investment, and vice versa. Although hedging can be an effective way to reduce the investment risk, it may not always perfectly offset one position with another. As a result, there is no assurance that hedging transactions will be effective.

### **Complex Investment Product Risks**

**Hedge Funds and Funds of Hedge Fund Risks.** Hedge funds typically engage in one or more Complex Strategies, including the use of Non-Traditional Assets, short sales, leverage and other derivative instruments. Funds of hedge funds typically invest substantially all of their assets in other hedge funds. Hedge funds and funds of hedge funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Some hedge funds and funds of hedge funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of hedge funds and funds of hedge funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a

management fee plus an incentive or performance-based fee. Because of the existence of a performance-based fee, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Hedge funds and funds of hedge funds are also subject to a higher risk of incorrect valuations. Many hedge funds hold investments for which market quotations are not readily available, which necessitates the use of "fair value" pricing. Fair value pricing is an inherently subjective process and may not accurately reflect the prices that can actually be obtained upon sale of the assets for which fair values are used. Investments in hedge funds and funds of hedge funds also have reduced liquidity compared to other investments and are generally subject to a higher risk of volatility. Investing in hedge funds and funds of hedge funds involves other special risks, including, but not limited to, risks associated with Non-Traditional Assets, short sales, leverage, derivative instruments, and Complex Strategies. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Hedge funds and funds of hedge funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in hedge funds or funds of hedge funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.*

### **Private Equity Funds and Funds of Private Equity Funds Risks.**

Private equity funds are pools of actively managed capital that invest primarily in private companies with the intent of creating value in the companies in which they invest by improving operations, reducing costs, selling non-core assets and maximizing cash flow. Private equity funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments. Funds of private equity funds typically invest substantially all of their assets in other private equity funds. Private equity funds and funds of private equity funds

have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private equity funds and funds of private equity funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private equity funds and funds of private equity funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus an incentive fee or carried interest. Private equity funds and funds of private equity fund are also generally subject to administrative service fees and portfolio company transaction fees. Because of the existence of a carried interest, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private equity funds and funds of private equity funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private equity investing is very risky. Many investments made in portfolio companies are not profitable. In addition, investments made by private equity funds and funds of private equity funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes of companies. Investing in private equity funds and funds of private equity funds involves other special risks, including, but not limited to, dependence upon key personnel and conflicts of interest risks. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Private equity funds and funds of private equity funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in private equity funds and funds of private equity funds should have a high tolerance for risk, including the willingness and ability to accept lack of liquidity and potential loss of their investment.*

**Reinsurance Fund Risks.** Reinsurance funds invest primarily in insurance-linked securities or other instruments. A fund's return on those investments is inversely correlated to the occurrence of applicable catastrophic or other events, such as hurricanes, tornados, floods, earthquakes or other natural disasters, or fires,

explosions, aviation or marine accidents or other non-natural disasters. The occurrence and severity of those events are inherently unpredictable. A fund could lose all or a significant portion of its investment upon the occurrence of an applicable event and the occurrence of multiple events could cause the fund to sustain substantial losses. In addition, certain investments may expose a fund to liability in excess of amounts received in connection with the investment. The performance of certain insurance-linked securities is dependent upon underwriting decisions made by insurance companies associated with those securities. Thus, the fund is subject to the risk that those insurance companies may not have adequately evaluated risks during the underwriting process. Reinsurance funds may also be subject to concentration risk as the market for certain insurance-linked securities is small and competition to buy insurance-linked securities has increased in recent years. Due to the nature of a reinsurance fund's underlying investments, an investment in a reinsurance fund is subject to valuation risk as the fund's underlying investments may be difficult to accurately and timely value. Investing in reinsurance funds involves other special risks, including, but not limited to, dependence upon key personnel, Non-Traditional Assets risks, currency risks, leverage risks, derivative instrument risks and hedging risks. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, equity securities risks, fixed income securities risks, interest rate risk, credit risk, foreign issuer and investment risks, emerging market risks, illiquid securities risks, quantitative strategy risks, and high yield or "junk" bond risks. *Reinsurance funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in reinsurance funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.*

#### **Private Debt Funds (or Private Credit Funds) and Funds of Private Debt Funds Risks.**

Private debt funds (also known as private credit funds) are pools of actively managed capital that invest primarily in loans or debt instruments issued by companies in private transactions. Sometimes, repayment of the loan is secured by assets of the companies obtaining the loans. However, the companies often have low or no

credit ratings. Thus, investments held by private debt funds generally are subject the same risks as below investment grade or “junk” bonds. Trading markets for the investments held by those funds are also limited and their investments may be illiquid. Oftentimes, the interest rate paid by the companies is determined by a reference interest rate, such as the federal funds rate, which is periodically reset. These types of investments are sometimes referred to as floating rate corporate debt, floating rate loans or floating rate bank loans. Private debt funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes, including focusing investments on smaller capitalization, distressed or bankrupt companies. Private debt funds commonly use borrowings or leverage to make investments. Funds of private debt funds typically invest substantially all of their assets in other private debt funds. Private debt funds and funds of private debt funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private debt funds and funds of private debt funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private debt funds and funds of private debt funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus a performance fee. Private debt funds and funds of private debt fund are also generally subject to operational expenses and transaction fees. Because of the existence of a performance fee, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private debt funds and funds of private debt funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private debt investing is very risky. Investments made by private debt funds and funds of private debt funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes. Investing in private debt funds and funds of private debt funds involves special risks, including, but not limited to, dependence upon key personnel, conflicts of interest risks, market risk, management and securities selection risk, investment objective and asset allocation risk,

interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, emerging market risk, illiquid securities and liquidity risks, concentration risks, investment fund risks, currency risks and leveraging risks. *Private debt funds and funds of private debt funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in private debt funds and funds of private debt funds should have a high tolerance for risk, including the willingness and ability to accept lack of liquidity and potential loss of their investment.*

**Private Infrastructure Funds Risks.** Private infrastructure funds are pools of actively managed capital that invest primarily in infrastructure projects and assets and may involve exposure to a range of economic or market sectors, geographic locations and asset types. Examples of infrastructure investments may include, among others, telecommunication, utilities, and transportation. Private infrastructure funds usually have an investment objective or strategy that may focus on certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments. Private infrastructure funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private infrastructure funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private infrastructure funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus an incentive fee. Private infrastructure funds are also generally subject to administrative service fees and investment transaction fees. Because of the existence of incentive fees, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private infrastructure funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private infrastructure investing is very risky. Many investments are not profitable. In addition, investments made by private infrastructure funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes of companies. Investing in



private infrastructure funds involves other special risks, including, but not limited to, dependence upon key personnel and conflicts of interest risks. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Private infrastructure funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in private infrastructure funds should have a high tolerance for risk, including the willingness and ability to accept lack of liquidity and potential loss of their investment.*

**Exchange Traded Notes Risks.** An ETN is a type of debt security that trades on an exchange and provides a return linked to the performance of an underlying benchmark. The underlying benchmark can be a particular security, bond, commodity, currency, or other Non-Traditional Asset type, a group or basket of companies, securities, commodities, currencies, derivative instruments, Non-Traditional Asset investments or other assets, or an index or other benchmark linked to stocks, market volatility, bonds, interest rates, Treasury yields, yield curves and spreads, derivative instruments, strategies, commodities, currencies or other assets. ETNs trade on exchanges throughout the day at prices determined by the market. Unlike ETFs, issuers of ETNs do not buy or hold assets to replicate or approximate the performance of the underlying benchmark. Also in contrast to ETFs, ETNs also do not calculate their net asset value, are generally not redeemable on a daily basis, and are not registered under the Investment Company Act of 1940. Issuers may also have the right and option to redeem ETNs. Redemptions are made at the ETN's "indicative value" or "closing indicative value". An ETN's closing indicative value is computed by the issuer and is distinct from an ETN's market price, which is the price at which an ETN trades in the secondary market. Issuers of ETNs may also issue and redeem notes as a means to keep the ETN's market price in line with its indicative value, which have caused significant fluctuations in ETN prices. Investing in ETNs involves special risks, including, but not limited to, risks associated with Non-Traditional Assets and derivative instruments and the risk that the actual market price for an ETN may vary significantly from the indicative value computed

by the issuer. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *ETNs are complex investments and involve significant, special risks. As a result, ETNs may not be suitable for some clients.*

**Managed Futures Risks.** Managed futures are commodity pools (typically structured as investment partnerships) managed by a futures trading adviser that trade speculatively in various derivative instruments and other investments. There are significantly higher fees and expenses associated with investments in managed futures than other types of funds. Sponsors or managers for these pools often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to make riskier investments that have the potential for significant growth in value. Managed futures may seek exposure to different asset classes, such as equity securities, fixed income securities, commodities (such as metals, agricultural products, and energy products), currencies, interest rates, and indices. Managed futures often obtain this exposure through derivative instruments, which may be traded on U.S. or foreign exchanges or markets. Managed futures often employ computerized, systematic and often proprietary trading models and systems. Investing in managed futures involves special risks, including, but not limited to, liquidity risks and risks associated with commodities, currencies, and other Non-Traditional Assets, leverage, derivative instruments and Complex Strategies. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *Managed futures can be speculative investments because of the types of investments they make and they involve significant, special risks. As a result, they may not be suitable for some clients. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant*

*price volatility, potential lack of liquidity and potential loss of their investment.*

**Leveraged Fund and Inverse Fund Risks.**

Leveraged funds and inverse funds may be structured as ETNs, ETFs or open-end mutual funds. Leveraged funds seek to deliver multiples of the performance of the index or benchmark they track. Inverse funds seek to deliver the opposite of the performance of the index or benchmark they track. Leveraged inverse funds seek to achieve a return that is a multiple of the inverse performance of the underlying index. Most leveraged and inverse funds “reset” daily, meaning that they are designed to achieve their stated objectives on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of leverage, short sales, swap contracts, futures, options and other derivative instruments. Investing in leveraged funds and inverse funds involves special risks, including, but not limited to, risks associated with Non-Traditional Assets, short sales, leverage, and derivative instruments. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *Leveraged funds and inverse funds are complex investments that have an increased risk of loss compared to other funds and they involve significant, special risks. As a result, they may not be suitable for some clients. A client should not invest in these securities unless the client is prepared to experience significant losses in the value of the client's Account.*

**Structured Products Risks.** Structured products are a hybrid between two asset classes (typically issued in the form of a CD or note) but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and a foreign currency or basket of foreign

currencies. Investing in structured products involves special risks, including, but not limited to, risks associated with derivative instruments. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, emerging market risk, commodities risk and currency risk. *Structured products are complex investments and involve special risks. As a result, they may not be suitable for some clients.*

**Real Estate Investment Trusts Risks.** A REIT is a corporation, trust or association that owns and typically operates income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, multi-family housing, student housing, hotels, resorts, hospitals and health care facilities, self-storage facilities, data centers, warehouses, telecommunications facilities, and mortgages or loans. Many REITs are registered with the SEC and their common stock and preferred stock are publicly traded on a stock exchange. These are known as publicly traded REITs. Others may be registered with the SEC but are not publicly traded. These are known as private REITs (also known as non-traded or non-exchange traded REITs). There is no public trading market for private REITs and the sole method for disposing of the shares may be limited to a periodic offer to redeem the shares by the issuer, if the issuer offers a redemption program. Private REITs are generally subject to limited regulation and offer limited disclosure and transparency. The shareholders of a REIT are responsible for paying taxes on the dividends that they receive and on any capital gains associated with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. Prices of REIT securities and trading volumes may be more volatile than other investments. Many REITs focus on a particular sector of the real estate market, such as apartments, student housing, hotels and hospitality, health care, office buildings, shopping malls, warehouses, self-storage facilities and the like. Those REITs are subject to risks associated with sectors in which they are focused. Additionally, many REITs may own properties that

are concentrated in a particular geographic region or regions, which subject them to the risk of deteriorating economic conditions in those areas. Investing in REITs involves other special risks, including, but not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), liquidity risk, leverage risk, distribution risk, capital markets access risk, growth risk, counterparty risk, conflicts of interest risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *REITs involve significant, special risks and may not be suitable for some clients. Clients investing in REITs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility and volatility of regular distribution amounts, potential lack of liquidity and potential loss of their investment.*

**Business Development Company Risks.** A BDC is typically a domestic, closed-end investment company that is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. As a result, investments made by BDCs tend to be risky and speculative. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to make riskier investments that have the potential for significant growth in value. BDCs commonly use borrowings or leverage to make investments in portfolio companies. Adverse interest rate movements can negatively impact a BDC's ability to make investments. Investments made by BDCs are typically illiquid, and valuing such investments is challenging. It is possible that valuations on investments used are materially different from the values that BDCs will ultimately receive upon disposition of those investments. Changing market and economic conditions affecting a BDC's investments may cause significant volatility in the BDC's net asset value and stock price. Due to the nature of BDCs' investments, securities issued by BDCs are subject to greater liquidity risk than other investments. A debt security or preferred stock issued by a BDC, in many cases, is non-

rated or is rated below investment grade, which can carry its own risks. Investing in BDCs involves other special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, capital markets access risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, and interest rate risk. *BDCs can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, BDC investments may not be suitable for some clients. Clients investing in BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.*

**Master Limited Partnership Risks.** An MLP is a form of publicly-traded partnership that is taxed as a partnership. MLPs have unique tax characteristics. A client should consult with a tax advisor before investing in MLPs. An MLP must generally earn at least 90% of its income from certain qualifying sources, which includes income and gains from certain activities involving natural resources such as oil, natural gas, natural gas liquids, refined petroleum products, coal, carbon dioxide and biofuels. An MLP is generally structured as a limited partnership or limited liability company and managed and operated by a general partner or manager. Owners of an MLP are called "limited partners" or "unit holders". Unit holders own interests or units in the MLP ("units") that are traded on a stock exchange. MLPs make distributions to unit holders of their available cash flows. Many MLPs focus on a particular sector or industry. Those MLPs are subject to risks associated with sectors or industries in which they are focused. The value of an investment in an MLP and the amount of distributions it makes may depend on the prices of the underlying commodity, such as oil or natural gas. Many MLPs are sensitive to changes in the prevailing level of commodity prices. MLPs have also shown sensitivity to interest rate movements. Investing in MLPs involves other special risks, including, but not limited to, macroeconomic risk, interest rate risk, liquidity risk, operating risk, capital markets access risk, growth risk, distribution risk, conflicts of interest risk, and regulatory risk. *MLPs are complex*

*investments that have significant, special risks. As a result, MLPs may not be suitable for some clients. Clients investing in MLPs should have a high tolerance for risk, including the willingness and ability to accept potential lack of liquidity and potential loss of their investment.*

**Additional information about certain Complex Investment Products and other investments pursuing Complex Strategies, including the risks associated with those investments, is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) and on FINRA's website at [www.finra.org/Investors](http://www.finra.org/Investors). A client is encouraged to read the disclosure documents included on those websites carefully before investing.**

#### **Risks Associated with Certain Investment Objectives and Asset Allocation Strategies**

Each Account is subject to the risks associated with the investments in the Account. Generally, an Account will be subject to the risks associated with the portfolio listed below that corresponds to the investment objective of the Account or the asset allocation strategy pursued by the Account.

**All Growth Portfolio.** An All Growth Portfolio will generally be invested in a manner that seeks to provide growth of capital. All Growth Portfolios have historically experienced high fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions. The Portfolio's investments are subject to a high risk of price declines, especially during periods when stock markets in general are declining. An All Growth Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, fixed income security risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Complex Strategies Risks" and "Complex Investment Product Risks" above.

**Capital Growth Portfolio.** A Capital Growth Portfolio will generally be invested in a manner

that seeks to provide growth of capital. Capital Growth Portfolios have historically experienced moderately high fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions. The Portfolio's investments are subject to a risk of price declines, especially during periods when stock markets in general are declining. A Capital Growth Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, fixed income securities risk, interest rate risk, credit risk, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Complex Strategies Risks" and "Complex Investment Product Risks" above.

**Growth with Income Portfolio.** A Growth with Income Portfolio will generally be invested in a manner that seeks to provide moderate growth of capital and some current income. Growth with Income Portfolios have historically experienced moderate fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions and interest rates. The Portfolio's investments are subject to a risk of price declines, especially during periods when stock markets in general are declining or when interest rates are rising. A Growth with Income Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Complex Strategies Risks" and "Complex Investment Product Risks" above.



**Income with Growth Portfolio.** An Income with Growth Portfolio will generally be invested in a manner that seeks to provide current income and some growth of capital. Income with Growth Portfolios have historically experienced moderate fluctuations in annual returns and overall market value, typically as a result of changes to interest rates and market and economic conditions. The Portfolio's investments are subject to a risk of price declines, especially during periods when interest rates are rising or when stock markets in general are declining. An Income with Growth Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, money market fund risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Complex Strategies Risks" and "Complex Investment Product Risks" above.

**Conservative Income Portfolio.** A Conservative Income Portfolio will generally be invested in a manner that seeks to provide current income. Relative to the portfolios described above, Conservative Income Portfolios have historically experienced smaller fluctuations in annual returns and overall market value as a result of changes in stock market conditions, but have experienced fluctuations in relation to changes in interest rates and economic conditions. The Portfolio's investments are subject to risk of price declines, especially during periods when interest rates are rising. A Conservative Income Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, money market fund risk, equity securities risk, and common stock risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, asset-backed securities risks, and below investment grade (high yield or "junk" bonds) securities risks.

**Capital Preservation Portfolio.** A Capital Preservation Portfolio will generally be invested in a manner that seeks to preserve capital while generating current income. Relative to the portfolios described above, Capital Preservation Portfolios have historically experienced smaller fluctuations in annual returns and overall market value as a result of changes in stock market conditions, but have experienced fluctuations in relation to changes in interest rates and economic conditions. The Portfolio's investments are subject to risk of price declines, especially during periods when interest rates are rising. A Capital Preservation Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, and money market fund risk. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including foreign issuer and investment risks, asset-backed securities risks, and below investment grade (high yield or "junk" bonds) securities risks.

**Opportunistic Portfolio.** An Opportunistic Portfolio will generally be invested in a manner that seeks to provide long term growth through capital appreciation and/or income by utilizing an active management style that shifts the amount of investment made in different asset classes and market sectors to take advantage of the manager's perception of market pricing anomalies, those market or industry sectors deemed favorable for investment by the manager, the current interest rate environment and/or other macro-economic trends identified by the manager to achieve growth while accounting for a client's specific short, intermediate and long term investment and/or cash flow needs. Depending upon the investment strategy used, some Opportunistic Portfolios have historically experienced high fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions. Depending upon the investment strategy used and the investments made, the Portfolio's investments may be subject to a high risk of price declines, especially during periods when stock markets in general are declining. An Opportunistic Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending



upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, fixed income security risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Complex Strategies Risks" and "Complex Investment Product Risks" above.

**Additional Considerations.** *A client should note that an Account pursuing a particular investment objective or asset allocation strategy will from time to time be subject to actual risks that are higher or lower than, or different from, the risks described above under certain circumstances. See "Investment Strategies and Methods of Analysis—Investment Strategies—Important Information about Implementation of Investment Objectives and Investment Strategies" above for more information.* In addition to the specific risks described above, a client's Account may be subject to additional risks, depending upon the particular investments in the client's Account. A client should discuss the risks of particular investments with the client's PAM Consultant. A client should also note that there is no guarantee as to how an Account will perform in the future. It is possible that an Account could experience more dramatic return or market value fluctuations than occurred in the past.

### **Available Investment Product Risks**

The use of Available Investment Products, including SMA Strategies made available under the BSN and DC Programs, are subject to additional risks compared to the use of Baird recommended investment products. Available Investment Products are investment products that generally do not meet the qualifications and standards that Baird establishes for its recommended product lists. As a result, there is a higher likelihood that some Available Investment Products will have poor performance and will significantly underperform compared to an applicable benchmark index or peer group. Available Investment Products are also subject to significantly less rigorous review by Baird compared to recommended investment products. Thus, if an Available Investment Product experiences significant performance problems or if the manager or sponsor of an Available Investment Product experiences significant

management, organizational, operational, compliance, legal, regulatory or other problems, there is a higher risk that the Available Investment Product will be made available (and will continue to be made available) to clients by Baird. An investment by a client in an Available Investment Product that experiences the occurrence of any such event could negatively impact the client's Account. Available Investment Products should only be used by a client if the client wishes to take more responsibility for monitoring and managing the assets in the client's Account, the list of recommended products does not contain an investment product that meets the client's particular needs, and the client understands the risks of doing so.

### **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 a client's Account.

## Disciplinary Information

In April 2016, Baird, without admitting or denying the findings, consented to the sanctions and findings of the Financial Industry Regulatory Authority, Inc. ("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. 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 should have alerted him to the Financial Advisor's misuse of a customer's funds. The supervisor also did not follow certain of Baird's written supervisory procedures ("WSPs") relating to trade corrections.

After the supervisor realized that the Financial Advisor misused the customer's funds, Baird reimbursed the customer for the loss. The findings also included 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. The disciplinary action taken against the firm supervisor did not relate to PAM or its business operations.

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.

In March 2019, Baird, without admitting or denying the findings, consented to an order of the SEC, which found that it violated Sections 206(2)

and 207 of the Advisers Act for making inadequate disclosures to advisory clients about mutual fund share classes. The order was part of a voluntary self-reporting program initiated by the SEC called the "Share Class Selection Disclosure (or SCSD) Initiative." Under the program, investment advisory firms were offered the opportunity to voluntarily self-report violations of the federal securities laws relating to mutual fund share class selection and related disclosure issues and agree to settlement terms imposed by the SEC, including returning money to affected investment advisory clients. The central issue identified by the SEC was that, in many cases, investment advisory firms bought for or recommended to their investment advisory clients mutual fund share classes that had distribution or service fees (commonly known as 12b-1 fees) paid out of fund assets to the firms when lower-cost share classes were available to those advisory clients, and the investment advisory firms did not adequately disclose their receipt of 12b-1 fees and/or the conflict of interest associated with those 12b-1 paying share classes. Baird and many other firms self-reported under the program and entered into substantially identical orders. By self-reporting and consenting to the order, Baird agreed to a censure and to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 207 of the Advisers Act. Baird also agreed to establish a distribution fund and to deposit into that fund the improperly disclosed 12b-1 fees received by Baird plus prejudgment interest, which will be paid to affected advisory clients. More information about the order is contained in Baird's Form ADV, which is available on the SEC's Investment Advisory Public Disclosure website at <https://www.adviserinfo.sec.gov/IAPD/Default.aspx> or in the SEC's press release about the SCSD Initiative at <https://www.sec.gov/news/press-release/2019-28>.

In June 2019, Baird, without admitting or denying the findings, consented to the sanctions and to the entry of findings of FINRA that between late April 2013 and early July 2013 it published research reports about an issuer without disclosing that the research analyst who authored the reports was engaged in employment discussions with the issuer that constituted an actual, material conflict of interest and that the failure to disclose the research analyst's employment discussions with the issuer in the

research reports made those reports misleading. Baird was censured and fined \$150,000.

In August 2022, Baird, without admitting or denying the findings, consented to the entry of findings of FINRA, which found that it charged certain brokerage customers an unfair commission when it charged its published minimum commission amount of \$100 on 7,277 retail equity trades and failed to establish and maintain a supervisory system reasonably designed to prevent charging a customer a commission that is unreasonable or unfair in violation of FINRA Rules 3110, 2121, and 2010. Baird also consented to a censure, a fine in the amount of \$150,000, and the payment of restitution of \$266,481 plus interest. The findings related to FINRA's routine examination of Baird in 2020. During that examination, Baird modified its minimum commission schedule and supervisory procedures. Baird also took steps to make payments to the affected customers, which on average amounted to \$36.62 per trade and \$57.64 per customer. Baird will continue to make efforts to ensure that it charges fair prices and commissions on all securities transactions with its customers.

In September 2023, Baird entered into an Offer of Settlement with the SEC, 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. While Baird had policies and procedures in place prohibiting such off-channel communications, 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, and the findings were reported to the SEC. Baird took steps prior to and after the SEC's review, including implementing a new communication tool designed for Baird associates' personal devices, conducting training, and periodically requiring requisite associates to provide an attestation relating to their business-related communications. 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.

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.

From time to time, Baird and its PAM Consultants may recommend that clients retain the services of financial services firms or invest in investment products that are affiliated with Baird. Such a recommendation of affiliated financial services firms or investment products creates a potential conflict of interest because Baird, its PAM Consultants and its affiliates may receive higher aggregate compensation if clients retain affiliated firms or invest in affiliated investment products instead of retaining unaffiliated firms or investing in unaffiliated investment products. Baird addresses this potential conflict through disclosure in this Brochure. Further, when acting as fiduciaries, Baird and its PAM Consultants are required to select or recommend affiliated

investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are generally the same as those used for unaffiliated investment products. *However, a client should note that certain Services and certain categories of investment products made available to clients only offer advisors or investment products that are affiliated with Baird. In those cases, Baird and its PAM Consultants do not impose the same criteria or level of review.*

## 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 PAM and Baird associates and certain management persons of Baird 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.

## Investment Management Activities

Baird and PAM Consultants may, from time to time refer clients to Baird Advisors or Baird Equity Asset Management, investment management departments of Baird, or CCM, a division of Baird Equity Asset Management.

Certain investment strategies offered by Baird Equity Asset Management have been selected by Baird for inclusion on Baird's Recommended Managers List. In addition, investment products and services offered by Baird Advisors, Baird Equity Asset Management and CCM are made available to clients through the Services. *Baird has a financial incentive to favor Baird Advisors, Baird Equity Asset Management and CCM because Baird receives more compensation if Baird Advisors, Baird Equity Asset Management or CCM manages a client's Account rather than other unaffiliated managers.*



## 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. Certain investment products associated with Strategas Securities are made available to clients through the Services. *Due to its affiliation with Strategas Securities, Baird has a financial incentive to favor Strategas Securities' investment products and services.*

### **Affiliated and Related Investment Advisors**

Baird is affiliated, and may be deemed to be under common control, with Riverfront by virtue of their common indirect ownership by BFG. Additional information about Riverfront is available in Riverfront's Form ADV Part 2A Brochure. Certain Riverfront investment products and services are made available to PAM clients through the Services. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor Riverfront investment products and services.*

Baird is related to Greenhouse and Greenhouse Fund GP LLC ("Greenhouse GP") by virtue of BFG's indirect minority ownership of Greenhouse and BFG's representation on the board of managers of Greenhouse GP. From time to time, PAM Consultants may use or recommend Greenhouse or Greenhouse GP investment products and services. *Due to its relation to Greenhouse and Greenhouse GP, Baird has a financial incentive to favor their investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Strategas, by virtue of their common indirect ownership by BFG. Certain Strategas investment products and services are made available to clients through the Services. *Due to its affiliation with Strategas, Baird has a financial incentive to favor Strategas investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with 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.

Baird is related to LoCorr by virtue of BFG's indirect minority ownership of the holding company of LoCorr and BFG's representation on such holding company's board of managers. From time to time, PAM Consultants may use or recommend LoCorr investment products and services. *Due to its relation to LoCorr, Baird has a financial incentive to favor LoCorr investment products and services.*

55ip uses research and other services from Riverfront, an affiliate of Baird, in the development of its portfolios under the BSN Program, and Riverfront receives compensation from 55ip with respect to those portfolios. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor 55ip portfolios that use Riverfront services.*

### **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 certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). Baird Equity Asset Management and CCM provide investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"), and Greenhouse is the investment subadvisor to one of those Funds, the Baird Equity Opportunity Fund. 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). Certain Baird Funds have been selected by Baird for inclusion on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to PAM clients through the Services. *Baird has a financial incentive to favor the Baird Funds because Baird receives more compensation if a client invests in the Baird Funds rather than other unaffiliated funds.*

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.

Baird Equity Asset Management serves as investment adviser to Series Twenty Nine Baird Small/Mid Cap Growth CIT, a series of the Reliance Trust Institutional Retirement Trust. Additional information about that CIT, including information relating to the fees paid by that CIT for investment management services, is available in the CIT's offering documents.

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, including information relating to the compensation paid to Baird is available in the applicable prospectus and other fund documents. Those investment products are made available to clients through the Programs. *Due to its affiliation with those investment products, Baird has a financial incentive to favor those investment products.*

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. Certain mutual funds and ETFs managed by Riverfront are made available to clients. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor funds managed by Riverfront.*

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, including information relating to the compensation paid to Strategas and Strategas Securities, is available in the applicable prospectus. Those investment products are made available to clients through the Services. *Due to its affiliation with Strategas and Strategas Securities, Baird has a financial incentive to favor those investment products.*

LoCorr acts as investment advisor to the LoCorr Funds. The LoCorr Funds are made available to clients through the Services. *Due to its relation to the LoCorr Funds, Baird has a financial incentive to favor the LoCorr Funds.*

### **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. *Due to their affiliation with the Chautauqua Private Funds, Baird Equity Asset Management, CCM and Baird have a financial incentive to favor those funds.*

## Affiliated Private Equity Funds

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. Baird and its PAM Consultants may refer clients to Baird Capital. The private equity funds offered through Baird Capital make venture capital, growth equity and private equity investments primarily in the healthcare, technology and services, and products sectors. 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.

PAM Consultants who assist in obtaining a client's investment in a private equity fund offered through Baird Capital are eligible for referral compensation from the general partner of the private equity fund. The actual amount of compensation may vary based upon the client's investment commitment and will be disclosed to a client in the documentation the client receives in connection with the investment. *Due to Baird's affiliation with those private equity funds and the referral compensation paid to PAM Consultants, Baird and PAM Consultants have a financial incentive to favor those private equity funds.*

*Baird also has a financial incentive to the extent it would recommend that a client invest in a portfolio company owned by an affiliated private equity fund. A list of the portfolio investments held by private equity funds affiliated with Baird is located on Baird Capital's website at <https://www.bairdcapital.com/portfolio/baird-capital-portfolio.aspx>.*

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. These funds generally co-invest with unaffiliated private equity funds and private equity professionals in transactions in the United States and Europe. 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

### Certain Baird Principal Group-Related Entities

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

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

### **Related Hedge Funds**

Greenhouse acts as investment manager for, and Greenhouse GP is the general partner of, the Greenhouse Master Fund LP and the Greenhouse Onshore Fund LP. Greenhouse also acts as investment adviser for the Greenhouse Overseas Fund Ltd. Those funds are hedge funds that are not required to be registered with the SEC as investment companies. The Greenhouse Onshore Fund LP is available to clients under the Services. *Due to its relation to Greenhouse and Greenhouse GP, Baird has a financial incentive to favor those hedge funds.*

### **Other Affiliated Financial Services Firms**

Baird is affiliated, and may be deemed to be under common control, with Baird Trust, a Kentucky-chartered trust company, by virtue of their common indirect ownership by BFG. Certain Baird Trust investment products and services, such as the Baird Trust Strategies, are made available to clients through the Services. *Due to its affiliation with Baird Trust, Baird has a financial incentive to favor Baird Trust investment products and services.*

Baird and PAM Consultant receive compensation from Baird Trust for referring clients and providing ongoing relationship management services to clients engaging Baird Trust for trust administration services as described under the heading "Advisory Business—Additional Service Information—Trust Services Arrangements" above. *Baird and PAM Consultants thus have a financial incentive to favor Baird Trust over other trust companies.*

### **Other Financial Industry Activities**

Baird has business relationships with many investment managers, including those participating in the Services, separate and apart from the Services. 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. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the Investment Funds advised by such investment management firms. If a client is paying commissions to PAM for advisory services it provides to the client (in those advisory programs in which commissions may be charged), Baird and PAM Consultants could have a financial incentive to favor an investment management firm that trades actively, thereby executing more trades and generating higher compensation for Baird and PAM Consultants. However, Baird and PAM Consultants are fiduciaries that are required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Baird addresses this potential conflict through disclosure in this Brochure. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm or its investment products for Baird's advisory programs (including when Baird constructs its Recommended Managers List or Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution as described under the heading "Brokerage Practices" below. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

Certain Baird associates from time to time may provide clients with tax return preparation, bill pay or related services. In some instances, the fee for those services may be bundled with the Advisory Fee. A client should understand that the provision of such services is separate from, and not related to, the Services offered under this Brochure and will be governed by an agreement

separate from the client's advisory agreement with Baird. *A client should understand that Baird and its associates do not act as investment adviser or fiduciary to the client when providing tax return preparation, bill pay or related services to the client.*

## 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 PAM Consultants, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. The Code also generally prohibits Access Persons from executing a security transaction for their personal accounts during a blackout period one business day 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. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

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

### Participation or Interest in Client Transactions

#### Investment Advisory Accounts

Asset-based Advisory Fee arrangements create an incentive for Baird and PAM Consultants to set the applicable fee rate at a high level and to encourage clients to add more money into their accounts. Baird and PAM Consultants also have an incentive to recommend an investment advisory account to a client rather than a brokerage account if the client has, or is expected to have, lower levels of trading activity in the client's account. Select clients may pay a fixed dollar fee, which presents a conflict in that such fee does not give the PAM Consultant an incentive to make recommendations that could benefit the client's account, or a performance or incentive fee, which presents a conflict because it gives the PAM Consultant an incentive to recommend riskier investments in order to achieve the level of performance in the account that would result in payment of the fee.

Commission-Based Fee Arrangements present a conflict of interest because it gives Baird and the client's PAM Consultant an incentive to trade actively for the client's Account, or recommend or select Other Managers that trade actively, and to provide advice based upon the compensation received rather than on a client's needs. See "Fees and Compensation—Advisory Fees—Calculation and Payment of Advisory Fees—Commission-Based Fee Arrangements" above for more information.

#### Accounts and Investments Provide Different Levels of Compensation

The accounts and investments Baird offers provide Baird different levels of compensation. Baird and PAM Consultants have an incentive to generate revenues from client accounts and to offer investment products and make recommendations that will provide them the greatest level of compensation.

### *Recommendations of Related, Proprietary or Affiliated Funds and Managers*

Baird and PAM Consultants have an incentive to recommend related, proprietary or affiliated funds or managers because when client's invest in affiliated funds or select an affiliated manager to manage client accounts, they will make more money. See "Other Industry Activities and Affiliations—Certain Affiliated and Related Parties" above and "List of Affiliated Companies, Funds and Managers" on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### *Referral Compensation Paid to PAM Consultants*

PAM Consultants receive additional compensation for referring clients to certain of Baird's proprietary or affiliated funds or managers described above. Such special compensation and referral fees give PAM Consultants an incentive to recommend or refer clients to these proprietary or affiliated funds and managers. See "Other Industry Activities and Affiliations—Certain Affiliated and Related Parties" above. PAM Consultants also receive additional compensation for referring clients to Baird Trust and for referring clients to unaffiliated banks that make loans to clients under Baird's Securities-Based Lending Program. See "Trust Services Arrangements" and "Securities-Based Lending Program" below. In addition to those referral arrangements, PAM Consultants receive special compensation for referring business to certain of Baird's other departments. See "Investment Banking, Public Finance and Institutional Equities Trading Activities" below.

### *Ongoing Product Fees*

Baird receives ongoing fees from certain investment products that are purchased and held in client Accounts. Those fees, such as distribution (12b-1) and/or service fees ("12b-1 fees") from mutual funds, are based on the value of client assets invested in those products. A PAM Consultant's compensation increases as those fees increase. Thus, Baird and PAM Consultants have an incentive to recommend such products and to recommend such products that pay the greatest ongoing fees.

Certain mutual funds charge 12b-1 fees, which are paid to Baird. Baird receives 12b-1 fees on an ongoing basis as compensation for the services Baird provides to the applicable mutual fund. The

12b-1 fees paid by a mutual fund are disclosed in the mutual fund's prospectus.

Baird generally does not allow mutual funds with 12b-1 fees to be purchased for PAM Service Accounts. If Baird receives 12b-1 fees from a fund with respect to a client's mutual fund investment in the client's Account and the client's Account is subject to an asset-based fee arrangement, Baird either: (1) rebates such 12b-1 fees to the client's Account if the client is paying an asset-based Advisory Fee on such investment; or (2) excludes such fund shares from the calculation of the client's asset-based Advisory Fee (sometimes referred to as "unbillable assets") for such period of time that Baird collects and retains the 12b-1 fee. 12b-1 fees rebated to a client's Account are estimated based on the average daily balance of the mutual fund shares in the Account and the annual rate of the 12b-1 fee paid by the applicable fund. If any rebated fees remain in a client's Account at the time of billing, those rebated amounts will be included in the Account assets subject to the Advisory Fee.

If Baird receives 12b-1 fees with respect to mutual fund shares that are designated as unbillable assets in a client's Account, Baird will retain such 12b-1 fees. This presents a conflict of interest because it provides Baird and its PAM Consultants an incentive to recommend or invest client accounts in mutual fund shares that pay greater 12b-1 fees. Baird addresses this conflict by adopting a Mutual Fund Share Class Policy described above and by adopting internal policies that limit the circumstances under which mutual fund investments in client accounts can be designated as unbillable assets and 12b-1 fees can be retained.

### *Marketing Support and Revenue Sharing from Mutual Fund and UIT Sponsors*

Baird receives marketing support or revenue sharing payments ("marketing support") from the sponsors and investment advisers of certain mutual funds. These payments, which are based on sales of, or client assets invested in, such funds, are intended to compensate Baird for providing marketing, distribution and other services for the mutual funds. Marketing support is not paid by sponsors or investment advisers of mutual funds on mutual fund assets held in investment advisory Retirement Accounts to the extent prohibited by applicable law. Baird



received marketing support payments over the past two calendar years from the sponsors or investment advisers of Alliance Bernstein Funds, American Funds, Franklin Templeton Funds, Fidelity Funds, Goldman Sachs Funds, Hartford Funds, Invesco Funds, John Hancock Funds, JPMorgan Funds, Lord Abbett Funds, MFS Funds, PIMCO Funds and Principal Funds. Baird also generally receives marketing support related to the sale of units of UITs. Sponsors of UITs typically make marketing or concession payments to the firms that sell their UITs, including Baird. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during a particular period. That percentage typically increases as higher sales volume levels are achieved. Descriptions of these additional payments are provided in a UIT's prospectus. UIT sponsors that have paid volume concessions to Baird over the past two calendar years include Advisors Asset Management (AAM), SmartTrust, First Trust Portfolios and Guggenheim Investments. Receipt of marketing support payments from sponsors and investment advisers of mutual funds and UITs provides Baird an incentive to offer, market and recommend such mutual funds and UITs and to favor mutual funds and UITs with sponsors or investment advisers that make the greatest levels of such payments. Baird does not share these payments with PAM Consultants. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

#### *Schwab Clearing Arrangement*

Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual fund families for Baird on behalf of Baird clients. Under the clearing arrangement, Schwab provides clearing services for most "no load" funds and "load" funds held by Baird clients. Although Baird pays Schwab a fee for its clearing and omnibus services, Schwab generally passes through to Baird the shareholder servicing fees that Schwab receives from the funds. Shareholder servicing fees are not paid by Schwab on mutual fund assets held in Retirement Accounts to the extent prohibited by applicable law. The amount of the shareholder servicing fees paid to Baird is based on the value of the client assets invested in those funds. However, the shareholder servicing

fee rate varies based on the type of fund (load or no load), the value of client assets in those funds, and the relationship that Schwab has with those funds (whether or not Schwab receives payments from those funds or their sponsors, and the rates of such payments). As a result, Baird has an incentive to recommend mutual funds from which Baird would receive higher payments from Schwab. However, Baird generally does not compensate PAM Consultants based upon the amounts Baird receives from Schwab except with respect to amounts attributable to sales loads and 12b-1 fees that Baird would otherwise receive directly from a fund if it were not for the existence of the clearing arrangement with Schwab. If Baird receives 12b-1 fees from Schwab with respect to a mutual fund investment in a client's Account, Baird rebates or retains such fees as further described under the heading "Ongoing Product Fees" above.

#### *Baird Conference Sponsorships*

Baird hosts a number of seminars and conferences for PAM Consultants in any given year, including Baird's PWM Symposium, which gives sponsors of investment products, such as mutual funds, the opportunity to make presentations at, and contribute money toward the cost of, such seminars and conferences. This presents a conflict of interest in that it gives Baird an incentive to promote or market the sponsors' investment products in order to persuade them to continue supporting Baird seminars and conferences. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

#### *PAM Consultants Receive Benefits from Product Providers*

PAM Consultants generally receive non-cash compensation and other benefits from Baird and from sponsors of investment products with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. For example, PAM Consultants are invited to educational conferences hosted by sponsors of mutual funds, annuities and other investment products, with the costs associated with such conference (including travel and lodging) paid by the sponsors. In addition, PAM Consultants hold

client events with some or all of the costs of such events paid by sponsors of investment products. Product sponsors may also provide gifts and entertainment in connection with those or other events. These benefits present a conflict of interest in that they give PAM Consultants an incentive to recommend investment products and their sponsors that provide the greatest levels of such benefits. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

#### *Cash Sweep Program*

Baird has an incentive to have clients participate and maintain significant balances in Baird's Cash Sweep Program because Baird receives substantial compensation on client cash balances that are automatically swept into bank deposit accounts and invested in money market mutual funds under the program. Please see "Advisory Business—Additional Service Information—Cash Sweep Program" above for more detailed information.

#### *Trust Services Arrangements*

Baird and PAM Consultants have an incentive to recommend that a client retain Baird Trust for the client's trust services needs rather than an unaffiliated firm because it is more profitable for Baird and they receive compensation from Baird Trust if the client retains Baird Trust. Please see "Advisory Business—Additional Service Information—Trust Services Arrangements" above for more detailed information.

#### *Margin Loans*

Baird has an incentive to recommend that a client use margin because Baird receives interest on client margin loans, and Baird and PAM Consultants also have an incentive to recommend that a client use margin, because a margin loan allows the client to make larger and more securities purchases. It also increases the value of a client's Account and thus the Advisory Fee associated with that Account because the margin loan is not deducted for purposes of calculating the fee. Please see "Advisory Business—Additional Service Information—Margin Loans" above for more detailed information.

#### *Securities-Based Lending Program*

Baird and PAM Consultants have an incentive to recommend that a client participate in Baird's Securities-Based Lending Program because Baird and PAM Consultants receive referral compensation and such loans allow a client to keep more assets in the client's Accounts, which result in more advisory fees for us and paid to the client's PAM Consultant. Please see "Advisory Business—Additional Service Information—Securities-Based Lending Program" above for more detailed information.

#### *Investment Advisory and Brokerage Account and Service Recommendations*

Baird and PAM Consultants generally have a financial incentive to recommend investment advisory Accounts to clients rather than brokerage accounts because Advisory Fee revenue is recurring, more predictable and typically greater than the revenues Baird earns, and the compensation PAM Consultants receive, from brokerage accounts. In addition, because Advisory Fees are paid by a client regardless of the trade activity in the client's advisory Account, Baird will receive greater revenue, and the client's PAM Consultant will receive greater compensation, from a low trade-activity advisory Account than from a low trade-activity brokerage account. Baird and PAM Consultants thus have an incentive to recommend an investment advisory Account to a client rather than a brokerage account if the client has, or is expected to have, lower levels of trading activity in the client's account. However, because Baird's revenues and the compensation paid to PAM Consultants from brokerage accounts increase as the level of trading increases, Baird and PAM Consultants have an incentive to recommend a brokerage account to a client rather than an investment advisory Account if the client has, or is expected to have, significant trading activity in the client's account. PAM Consultants also have a financial incentive to recommend certain wealth management services, such as financial planning. Please see "Fees and Compensation—Advisory Fees—Advisory Fee Payments to Baird, PAM Consultants and Investment Managers" above for more detailed information.

#### *Account Transfers and New Accounts*

Baird and a client's PAM Consultant have an incentive to recommend that the client transfer the client's accounts to Baird and establish new

accounts with Baird (including IRA rollovers) because doing so will result in increased revenues to Baird and compensation for the PAM Consultant.

#### *Recommendations to Open Different Types of Accounts*

Baird and PAM Consultants have an incentive to recommend that a client open different types of accounts with Baird, such as individual accounts, IRA rollovers, joint accounts, 529 plan accounts and UGMA/UTMA accounts, because if a client has different types of accounts with Baird, the client brings more of the client's investable assets to Baird, on which fees can be generated, thereby increasing Baird's revenues and the client's PAM Consultant's compensation. Also, if a client has more account types with Baird, the client is statistically more likely to maintain the client's relationship with Baird and the client's PAM Consultant for longer periods of time.

#### *Baird Stock Ownership*

Most PAM Consultants own common stock of BFG, Baird's ultimate parent, and when offered the opportunity to buy BFG stock they usually do so. The amount of BFG stock that a PAM Consultant may purchase is based in part on the PAM Consultant's total production level. A client's PAM Consultant thus has an incentive to make recommendations that increase the PAM Consultant's total production on the client's accounts with Baird. Moreover, revenues from Baird's PWM department, in which PAM Consultants operate, contribute substantially to BFG's overall revenues and profitability, and the performance of BFG's stock price is largely due to the profitability of Baird's PWM department. As a result, a client's PAM Consultant's ownership of BFG stock creates a financial incentive to make recommendations to the client that increase the amount of revenues generated from the client's accounts with Baird, even if those recommendations will not increase the PAM Consultant's production, so as to increase the revenues and profitability of Baird's PWM department and thus of BFG, which will serve to grow the value of the BFG stock. For example, ownership of BFG stock provides a client's PAM Consultant an incentive to recommend affiliated products to a client even though such recommendation does not increase the client's PAM Consultant's production.

#### *Relationships with Issuers of Securities*

From time to time, Baird may have proprietary investments in companies or issuers whose securities are offered and sold to clients, a PAM Consultant or another Baird associate may have significant investments in companies or issuers whose securities are offered and sold to clients, or a PAM Consultant or another other Baird associate (or their spouses, partners or family members) may have a position as an officer or director of a company or issuer whose securities are offered and sold to clients. In such cases, Baird and/or a client's PAM Consultant will have an incentive to recommend that the client invest in those companies.

#### *PAM Consultants Transferring to Baird*

A PAM Consultant joining Baird from another firm has an incentive to recommend that a client to transfer the client's accounts from such firm to Baird because doing so will increase the PAM Consultant's compensation. Please see "Advisory Business—Advisory Fees—Advisory Fee Payments to Baird, PAM Consultants and Investment Managers" above for more detailed information.

#### *Principal Trading*

Baird and PAM Consultants have an incentive to execute a trade for a client on a principal basis. The compensation that Baird and PAM Consultants receive on principal trades, such as a markup or markdown, is often higher than the compensation they receive when executing trades as agent, such as commissions. The compensation received by Baird and PAM Consultants is in addition to the asset-based Advisory Fee a client pays on the client's advisory Accounts. Thus, Baird and PAM Consultants have an incentive to trade as principal rather than as agent. Principal trades also allow Baird to sell securities from Baird's account that Baird deems undesirable and to buy securities for Baird's account that Baird deems desirable. For more information, please see "Advisory Business—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird—Principal Trades" above.

#### *Baird's Investment Banking, Public Finance and Institutional Equities Services Activities*

Through its Investment Banking, Public Finance and Institutional Equities Services Departments, Baird provides investment banking, municipal

advisory, securities underwriting, stock buyback 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. A PAM Consultant who refers a client to Baird Investment Banking for a possible transaction in which Baird Investment Banking earns a financial advisory or underwriting fee receives a portion of such fee. A PAM Consultant who refers a client to Baird Public Finance for a municipal advisory or underwriting opportunity receives a portion of the compensation earned by Baird Public Finance on that opportunity. Baird and PAM Consultants thus have an incentive to recommend the securities issued in those offerings. A PAM Consultant who refers a corporation to Baird's Institutional Equities business for a stock buy-back program receives a portion of the commissions earned by Baird's Institutional Equities business. Baird and its PAM Consultants may, therefore, have an incentive to buy, and to recommend that clients sell, the securities of issuers that are part of Baird's buyback services. For more information about referral compensation paid to PAM Consultants and related conflicts of interest, please see "Baird Referral Programs" on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

#### *Baird Underwritten Offerings*

Baird and PAM Consultants have an incentive to recommend that clients purchase securities in offerings underwritten by Baird because the underwriting compensation that Baird and PAM Consultants will earn on those offerings tends to be higher than the compensation they would normally receive if clients were to buy them in the secondary market, and because the profitability of underwritten offerings to Baird depends upon Baird's ability to sell the securities allocated to Baird in the offering.

#### *Allocations of IPOs and Other Public Offerings*

PAM Consultants have the incentive to favor some clients over other clients when allocating shares issued in public offerings, particularly those clients with larger accounts or accounts that generate high fees and compensation, as a

reward for their past business or to generate future business.

#### *Research Activities*

The investment advice provided to a client may be based on the research opinions of Baird's research departments. Baird does, and seeks to do, business with companies covered by those research departments and as a result, Baird may have a conflict of interest that could affect the content of its research reports.

#### *Trade Error Correction*

It is Baird's policy that a client's account will be fully compensated for any losses incurred as a result of a trade error for which Baird is responsible. If the trade error results in a gain, the gain may be retained by Baird. For more information, please see "Brokerage Practices—PAM's and Baird's Trading Practices—Trade Error Correction" below.

#### *Other Client Relationships*

Certain client accounts overseen by Baird and PAM Consultants may have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, Baird and its PAM Consultants have an incentive to favor client accounts that generate a higher level of compensation.

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

In their broker-dealer, and broker-dealer representative capacities, respectively, Baird and its PAM Consultants provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, Complex Investment Products and other securities. Baird and its PAM Consultants receive 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 may also engage in agency cross transactions and principal transactions with clients as further described under "Advisory Business—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

As a registered broker-dealer, Baird effects transactions in securities on a national exchange and may receive and retain compensation for such services, subject to the limitations and restrictions made applicable to such transactions by Section 11(a) of the Exchange Act and Rule 11a2-2(T) thereunder. Baird may also benefit from the possession or use of any free credit balances in client Accounts, subject to restrictions imposed by Rule 15c3-3 under the Exchange Act. Free credit balances include uninvested cash in client Accounts that has not been automatically deposited or swept into a bank deposit account or money market mutual fund.

Baird may route certain securities orders to other broker-dealers or securities exchanges for execution. Baird selects execution venues based on the size of the order, trading characteristics of the security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution levels, and other qualitative factors. Baird receives remuneration in the form of payment or liquidity rebates on certain options or equity securities orders routed to some venues (commonly known as "payment for order flow"). This compensation, although not material to Baird's trading business, gives Baird an incentive to route client orders for securities transactions to those venues that provide Baird the greatest levels of compensation. At a client's request, Baird will make available certain information about the routing of such client's orders routed for execution in the six months prior to the request. Such information will include the identity of the venue to which orders were routed, whether such orders were directed or non-directed and the time of the transactions, if any, that resulted from such orders. Baird also prepares a quarterly summary discussing certain orders routed away for execution, including the type and the identity of the broker-dealers or exchanges receiving such orders. This summary as well as other important information about Baird's order routing practices are available at: <http://www.rwbaird.com/help/account-disclosures/routing-equity-orders.aspx>.

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. Baird's other activities thus present a potential conflict of interest because such activities may limit Baird's ability to advise or manage client Accounts.

#### *Other Conflicts of Interest*

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

Other sections of this Brochure also describe instances when Baird and its PAM Consultants may recommend to clients, and may buy and sell for client's Account, securities in which Baird and its affiliates and associates have a material financial interest or practices that present a conflict of interest. For more information, please see "Advisory Business—Advisory Fees—Advisory Fee Payments to Baird, PAM Consultants and Investment Managers" and "Other Financial Industry Activities and Affiliations" above, and "Client Referrals and Other Compensation" below.

#### *Addressing Conflicts*

The foregoing activities could create a conflict of interest with clients. In addition to the measures described above, Baird addresses conflicts posed by those activities through disclosure in this Brochure, the client's agreements with Baird, the *Client Relationship Booklet* and prospectuses, offering documents or other disclosure documents provided or made available to clients. Baird has also adopted a Code of Ethics and other internal policies and procedures for Baird and its associates that:



- require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients);
- are designed to ensure that securities allocations made to discretionary client accounts are made in a manner such that all such clients receive fair and equitable treatment over time;
- address Baird's and its associates' trading activities and are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients; and
- address and limit cash and non-cash benefits provided to PAM Consultants by third parties in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

#### *Duration Compensation Will Be Received*

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

*If Baird, or an affiliate or associate of Baird, receives any compensation or benefit described in this Brochure from or related to a client's investment, they will generally retain the compensation or benefit. Except as otherwise described above, Baird generally does not rebate these amounts to a client's Account or credit the amount against the Advisory Fees payable by a client unless such compensation may not be retained under applicable law or regulation.*

## **Brokerage Practices**

### **PAM's and Baird's Trading Practices**

#### **Broker-Dealer Selection**

PAM and Baird will select the broker-dealers, which may include Baird, that will execute trade orders for Non-Discretionary Accounts and with respect to Accounts that are managed directly by PAM or Baird unless the client has provided instructions to PAM to the contrary. As investment adviser, PAM and Baird have an obligation to seek "best execution" of client trade orders. "Best

execution" means that they must place client trade orders with those broker-dealers that they believe 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, including the value of the research provided (if any), the broker-dealer's execution capabilities, the cost of the trade, the broker-dealer's financial responsibility, and its responsiveness to PAM and Baird. It is important to note that PAM's and Baird's best execution obligation does not require them to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as they reasonably believe that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances. From time to time, clients may direct PAM to execute trades through Baird. See "Directed Brokerage" below.

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

PAM and Baird may aggregate contemporaneous buy and sell orders for the accounts over which they have discretionary authority (a practice also known as bunching trades or block transactions). This practice may enable them 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 them in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing, client orders.

PAM and Baird generally aggregate buy and sell orders when executing trades for client account assets under their direct discretionary management when they have the opportunity to do so. When utilizing block transactions, PAM and Baird generally aggregate a client's trade orders with trade orders for clients who are participating in the same Service and pursuing the same model portfolio or strategy. In some cases, PAM or Baird may aggregate a client's trade orders with trade orders for other advisory clients who are not participants in the Services described in this Brochure. However, PAM and Baird determine whether or not to utilize block transactions for a client in their sole discretion and PAM's and Baird's decision is subject to their duty to seek

best execution. In determining the amount to be allocated to an account, if any, PAM and Baird take into consideration account specific investment restrictions, undesirable position size, account portfolio weightings, client tax status, client cash positions and client preferences.

All advisory clients participating in a block transaction will receive the same execution price for the security bought or sold. Average prices may be used when allocating purchases and sales to a client's Account because such securities may be purchased and sold at different prices in a series of block transactions. As a result, the average price received by a client may be higher or lower than the price the client may have received had the transaction been effected for the client independently from the block transaction.

The amount of securities available in the marketplace, at a particular price at a particular time, may not satisfy the needs of all clients participating in a block transaction and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird has adopted trade allocation policies and procedures 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. If a block transaction cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day will generally be allocated pro rata among the clients participating in the block transaction. However, PAM may also make random allocations to client accounts in certain circumstances, such as when Baird deems a partial fill for the total block order to be low. Adjustments may also be made to avoid a nominal allocation to client accounts.

When PAM is not able to aggregate trades, PAM generally uses a trade rotation process that is designed to be fair and equitable to its advisory clients over time. However, a client should be aware that PAM's trade rotation practices may at times result in a transaction being effected for the client's Account that occurs near or at the end of the rotation and, in such event, client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in the rotation, and, as a result, the client may receive a less favorable net price for the applicable trade.

Notwithstanding the foregoing, if an aggregated trade order involves fixed income securities, PAM and Baird may allocate the securities based on the needs of client accounts. In addition, PAM and Baird will at times place aggregated trade orders for fixed income securities prior to determining how the aggregated trade order will be allocated to client accounts. In those instances when an aggregated trade order for fixed income securities is placed prior to determining client allocations or when such trade order is only partially filled, PAM or Baird will seek to allocate trades in manner intended to be fair and equitable to applicable clients over time. Furthermore, when a trade order for fixed income securities is only partially filled, PAM and Baird may place orders for other fixed income securities that have similar characteristics, such as issuer name, structure, credit rating, or market sector.

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

### ***Directed Brokerage Arrangements***

In some cases, a client may direct PAM to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and PAM may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs PAM to execute trades through such firm, or when a client's Retirement Account or other account is maintained on a platform operated and managed by a third party unaffiliated with PAM or Baird and trades must be executed through that platform. A client should understand that PAM and Baird consider such arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, PAM and Baird 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 the Advisory 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 PAM generally will not aggregate the client's directed brokerage trade orders with orders for other PAM 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 PAM may obtain for its other clients. A client should further note that PAM generally will not include such client trade orders in its trade rotation process and that PAM will generally place the client's trade orders with the directed broker-dealer after PAM completes its trading for other PAM client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in PAM's rotation. As a result, the client may receive a less favorable net price for the trade.

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

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

*From time to time, PAM may request that PAM clients direct PAM to execute trades through Baird, as broker-dealer, including clients subject to a commission-based fee arrangement. This presents a conflict of interest, which is further described under "Fees and Compensation—Advisory Fees" above.*

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

PAM generally does not engage in cross transactions, including agency cross transactions, except in limited instances such as when clients buy or sell variable rate demand obligations which are also known as "put bonds". When PAM believes that the transaction is consistent with each client's best interest, PAM, acting as investment manager, may cause (or in the case of Non-Discretionary accounts, recommend) the sale of securities from the account of an advisory client while at or about the same time causing (or, in the case of Non-Discretionary accounts, recommending) the purchase of the same securities for the account of another PAM advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

In such cases, because Baird is acting as investment adviser for both buyer and seller, Baird is subject to potentially conflicting interests in causing (or recommending) the transactions. Also, because Baird is acting as investment adviser for both buyer and seller, transaction prices may be determined more by reference to market information or dealer indications for the securities involved, and less through the type of independent arms-length negotiation that might otherwise occur. Baird has adopted internal policies and procedures that require PAM and Baird to obtain approval of Baird's Compliance Department before affecting a cross trade.

### **Trade Error Correction**

It is Baird's policy that if there is a trade error for which PAM or Baird is responsible, PAM or 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, or other methods that may be deemed appropriate by Baird. Errors caused by PAM or Baird will be corrected at no cost to client's Account, with the client's Account not recognizing any loss from the error. PAM and 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 but such gain is not given to or shared with any PAM or Baird associate.

PAM 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.

If a client's Account is managed by an Other Manager, the client should review the Other Manager's Brochure and contact the Other Manager for information about how the Other Manager corrects trade errors.

### **Soft Dollar Benefits**

PAM and Baird receive no research or other products from broker-dealers in connection with PAM clients' securities transactions.

### **Trading Practices of Investment Managers**

If a client's Account or a portion thereof is managed by an investment manager, the client should note that, like Baird, such investment manager has a duty to seek best execution for the client's Account.

Investment managers may participate in wrap fee programs. In addition, investment managers may manage institutional and other accounts not part of a wrap fee program. In the event an investment manager purchases or sells a security for all accounts using a particular SMA Strategy offered by the investment manager, the investment manager may have to potentially effect similar transactions through a number of different broker-dealers. In some cases, to address this situation, investment managers may decide to aggregate all such client transactions into a block trade that is executed through one broker-dealer. This practice may enable the investment manager 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 the investment manager in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing client orders.

Alternatively, an investment manager may utilize a trade rotation process where one group of clients may have a transaction effected before or after another group of the investment manager's clients. A client should be aware that an

investment manager's trade rotation practices may at times result in a transaction being effected for the client's Account that occurs near or at the end of the investment manager's rotation and, in such event, client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in the investment manager's rotation, and, as a result, the client may receive a less favorable net price for the trade. Additional information regarding an investment manager's trade rotation policies, if any, is available in the investment manager's Form ADV Part 2A Brochure.

Certain Model Providers have adopted trade rotation policies that allow them to send Model Portfolio updates to the Overlay Manager after they have implemented the Model Portfolio updates for client accounts managed by them or after they have otherwise completed trading for those accounts. The Overlay Manager has provided to Baird a list of Model Providers that have such trade rotation policies, which list is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor). A PAM client should understand that an Account pursuing a Model Portfolio strategy offered by those Model Providers will have trades executed for the client's Account at the end of the Model Provider's trade rotation on a regular and consistent basis. As a result, trade orders for such an Account will significantly bear the market price impact, if any, of those trades executed earlier in the Model Provider's rotation and the performance of the Account will differ, perhaps in a materially negative manner, from the performance of client accounts managed by the Model Provider. In addition and for the same reasons described above, the performance of a Model Portfolio, as reported by the Model Provider, will differ, perhaps in a materially negative manner, from the actual performance realized by PAM client Accounts pursuing the Model Portfolio strategy. PAM and Baird do not make or control any investment manager's trade rotation policies, and they do not monitor, evaluate or review any investment manager's compliance with the manager's trade rotation policies or whether such trade rotation policies result in inequitable performance of client Accounts. A client selecting a Model Portfolio offered by such a Model Provider is urged to obtain a copy of the Model Provider's Form ADV Part 2A Brochure and review the description of the Model Provider's trade rotation policy contained in that document. A copy of a

Model Provider's Brochure can be obtained by contacting a PAM Consultant. A client should also monitor the performance of an Account pursuing such a Model Portfolio strategy and compare that performance with the performance reported for the Model Portfolio by the Model Provider. A client should discuss questions about Account performance or the Model Provider's trade rotation policy with the client's PAM Consultant.

*A client should note that each investment manager is solely responsible for ensuring that it complies with its best execution obligations to the client. A client should review the manager's trading for the client's Account because PAM and Baird do not monitor, review or evaluate whether the manager is complying with its best execution obligations to the client. A client should review the manager's Form ADV Part 2A Brochure, inquire about the manager's trading practices, and consider that information carefully, before selecting a manager.*

A client should note that the client's advisory agreement permits PAM and Baird to trade as principal on orders received from Other Managers. See "Trade Execution Services Performed by Baird—Principal Transactions" below for more information.

### Trade Execution Services Performed by Baird

If Baird provides trade execution services for a client's Account, Baird will generally act as agent when routing client trade orders for execution. However, Baird may cross trades between client accounts or may act as principal for its own account in certain circumstances to the extent permitted by applicable law as is more fully described below.

A client should understand that certain securities, such as securities traded over-the-counter and fixed income securities, are primarily traded in dealer markets. When Baird purchases or sells these types of securities for client accounts, it generally does so through broker-dealer firms acting as a dealer or principal. Dealers executing principal trades typically include a markup, markdown or spread in the net price at which transactions are executed. A client bears such costs in addition to the Advisory Fee.

### Agency Cross Transactions

PAM generally does not engage in agency cross transactions, except in limited instances. However, in certain circumstances and to the extent permitted by applicable law and regulation, Baird and PAM Consultants may effect "agency cross" transactions with respect to a client's Account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. PAM Consultants may receive compensation from Baird related to agency cross transactions. Therefore, Baird and PAM Consultants may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird and PAM Consultants will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-2 under the Advisers Act. Furthermore, Baird will comply with additional regulations applicable to Retirement Accounts.

Where applicable, a client's advisory agreement discusses agency cross transactions and authorizes Baird and PAM Consultants to effect agency cross transactions for a client's Account. **A client's authorization to Baird and PAM Consultants to effect "agency cross" transactions is given pursuant to Rule 206(3)-2 under the Advisers Act and may be revoked at any time by the client in client's sole discretion by notifying the client's PAM Consultant in writing.**

### Principal Transactions

Subject to the requirements of applicable law, Baird and PAM Consultants may execute transactions for a client's Account while acting as principal for Baird's own account. Baird and PAM Consultants act as principal when they sell a security from Baird's inventory to a client or they purchase a security from a client for Baird's inventory. Baird and PAM Consultants also act as principal when they sell new issue securities to clients in securities offerings underwritten by Baird. Baird also acts as principal in riskless principal transactions. Riskless principal transactions refer to transactions in which Baird, after having received a client's order, executes an



identical order in the marketplace to fill the client's order while acting as principal.

Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup, markdown or spread from the prevailing market price, an underwriting fee, selling dealer concession, or other incentive to execute the transaction. PAM Consultants may receive compensation from Baird related to principal trades of securities underwritten by Baird. Any compensation received by Baird or a PAM Consultant in a principal transaction is in addition to the Advisory Fee paid by the client. Principal trades also allow Baird to sell securities from its account that it deems undesirable and to buy securities for its account that it deems desirable. Thus, in trading as principal with a client, Baird and PAM Consultants will have potentially conflicting division of loyalties and responsibilities regarding their own interests and the interests of the client. This potential compensation may give Baird and PAM Consultants an incentive to recommend a transaction in which Baird and PAM Consultants act as principal over other transactions. Nonetheless, Baird and PAM Consultants have a fiduciary duty to act in the client's best interest and to seek best execution for advisory clients. Baird addresses this conflict through disclosure in this Brochure. Furthermore, Baird has adopted internal procedures that require Baird and PAM Consultants, when acting in a principal capacity, to disclose all material information regarding Baird's interest in the transaction, and obtain the client's approval of the transaction prior to settlement.

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

To the extent permitted by applicable law and regulation, if a client's Account participates in a Non-Discretionary Service or other non-discretionary service, or if the Account is managed by an Other Manager, the client's advisory agreement provides Baird and PAM Consultants with a blanket authorization to act as

principal for Baird's own account in selling any security to, or purchasing any security from, the client's Account. With this authorization, Baird and PAM Consultants may effect any and all principal transactions with the client's Account without having to provide specific written disclosures or obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of an exemptive order issued by the SEC to Baird (Rel. No. IA-4596) and other applicable law and regulation. **This authorization to enable Baird and PAM Consultants to trade as principal with a client's Account may be revoked at any time by the client in client's sole discretion by notifying the client's PAM Consultant in writing.**

It is generally PAM's practice to rebate to a client any compensation that PAM receives relating to agency cross trades or principal transactions effected for the client's Account.

## Review of Accounts

### Client Account Review

Client accounts are monitored on a periodic basis by the client's PAM Consultant and are subject to review by the Baird Market Director or PWM Supervision department supervisor (or his or her respective designee) responsible for supervising the client's PAM Consultant. A client's PAM Consultant generally reviews the performance of the client's Account at least annually. However, the client's PAM Consultant may not review the performance of a client's SMAs managed by Other Managers under the Baird SMA Network Program or Dual Contract Program. Baird has designated individuals who are responsible for monitoring a client's PAM Consultant with respect to the client account's trading activity and attempting to ascertain whether client accounts within each composite are being treated equitably.

### Account Statements and Performance Reports

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

A client's PAM Consultant will provide the client with a written report on the client's Account's performance as often as the client and the PAM Consultant may from time to time mutually agree. Performance reporting may not be available for Account assets that are not custodied at Baird. For more information about performance reports provided by PAM, see "Advisory Business—Description of Advisory Services" above. PAM or Baird may change or discontinue performance reporting to a client at any time for any reason upon notice.

Client performance reports usually contain a portfolio valuation and typically show the asset allocation of the client's portfolio, changes in a client's portfolio, and account performance compared to a benchmark market index or indices (such as the S&P 500® Index or the Bloomberg U.S. Intermediate Government/Credit Bond Index). The benchmark may be a blended benchmark that combines the returns for two or more indices.

A client should note that past performance does not indicate or guarantee future results. None of PAM, Baird, or investment managers managing the client's Account promise or guarantee any level of investment returns or that the client's investment objective will be achieved.

Benchmarks shown in performance reports are for informational purposes only. PAM's selection and use of benchmarks is not a promise or guarantee that the performance of a client's Account will meet or exceed the stated benchmark. When the client compares 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 securities included in the index and the index performance does not take into account management fees, execution costs, and other expenses related to investing for a client's Account. The securities included in a client's Account generally do not exactly mirror the securities included in the index.

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

The performance of investment managers may, under certain circumstances, be presented to clients on a "gross" or "gross of fees" basis, which means the performance results being presented does not reflect the deduction of Advisory Fees and other costs that clients have incurred and will incur when retaining the manager. Had applicable Advisory Fees and other costs been included in the performance calculation, the manager's performance results would have been lower than the performance results presented. Documents presenting a manager's performance results on a gross of fees basis should contain certain disclosures about the performance results being presented. Clients are urged to review carefully those disclosures because they contain important information about the calculation of the performance results. If a client is presented performance information for a manager's strategy on a gross of fees basis and the client has an Account managed by that manager pursuant to that strategy, the client should obtain a performance report for the Account and review that performance information carefully because the performance report for the Account will reflect the deduction of applicable Advisory Fees and other costs.

Certain Model Providers have adopted trade rotation policies that allow them to send Model Portfolio updates to the Overlay Manager after they have implemented the Model Portfolio updates for client accounts managed by them or after they have otherwise completed trading for those accounts. As a result, the performance of a Model Portfolio, as reported by the Model Provider, will differ, perhaps in a materially negative manner, from the actual performance realized by Baird client Accounts pursuing the Model Portfolio strategy. See "Additional Service Information—Trading for Client Accounts—Trading Practices of Investment Managers" above for more information.

When preparing a client's Account statements and performance reports, PAM and Baird generally rely upon third party sources, such as third party pricing services. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset. Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account when

prices are not otherwise readily available. This frequently occurs with respect to the valuation of annuities and Complex Investment Products. If the assets in the client's Account are held by a custodian other than Baird, Baird may also use valuation information provided by the client's third party custodian.

PAM and Baird do not conduct a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and they do not verify or guarantee the accuracy of such information. PAM and Baird do not accept responsibility for valuations provided by third parties that are inaccurate unless they have a reason to believe that the source of such valuations is unreliable. Valuation data for investments, particularly annuities and Complex Investment Products, may not be provided to PAM or Baird in a timely manner, resulting in valuations that are not current. The prices obtained by PAM and Baird from the third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used in account statements and performance reports may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the values may be greater than the amount a client would receive if the securities were actually sold from the client's Account.

If a client has assets held by a third party custodian, the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by PAM or Baird. See "Custody" below for more information.

## Client Referrals and Other Compensation

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

as to unaffiliated solicitors that have entered into a written agreement with Baird.

PAM and 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 "Advisory Business—Additional Service Information", "Fees and Compensation", "Other Financial Industry Activities and Affiliations", "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" and "Brokerage Practices" above.

## Custody

Certain Services may require clients to custody their Account assets at Baird. If Baird is the custodian of a client's assets, Baird will provide certain custody services, including holding the client's Account assets, crediting contributions and interest and dividends received on securities held in a client's Account, and making or "debiting" distributions from the Account. Information about account statements and performance reports, if any, that PAM and Baird provide to clients is contained under the heading "Advisory Business—Consulting Services" and "Review of Accounts" above.

As custodian, Baird may hold a client's Account assets in nominee or "street" name, a practice that refers to securities and assets being registered in Baird's name or in a name that Baird designates, rather than in a client's name directly. Baird will be the holder of record in those instances.

Baird may utilize one or more subcustodians to provide for the custody of a client's assets in certain circumstances. For instance, Baird utilizes subcustodians to maintain custody of certain client securities that are traded on foreign exchanges.

PAM and Baird in their sole discretion may accept Held-Away Assets into a client's Account, including assets that are held by another custodian (a "third party custodian"). A client who uses a third party custodian to hold Account assets does so at the client's risk. A client should understand that PAM and Baird do not monitor, evaluate or review any third party custodian. The client should also understand that the client will pay a custody fee to the third party custodian in

addition to the Advisory Fee. Baird may also impose additional fees on Accounts with assets held by a third party custodian due to the increase in resources needed to administer those Accounts. Further, such third party custody arrangements may limit the Services made available to the client. In addition, a client should understand that: (a) each third party custodian has exclusive control over the investment options made available to client Accounts on the custodian's platform; (b) PAM and Baird have no authority or ability to add to, or remove from, a custodian's platform any investment option; (c) any advice given by PAM or Baird with respect to the Account is inherently limited by the options available through a custodian's platform; (d) PAM or Baird may have provided different investment advice with respect to the Account had they not been limited to the investment options made available through the custodian's platform; and (e) certain investments, such as mutual fund shares, could be more or less expensive than if the investment was obtained from Baird or another firm. A client should further note that PAM and Baird may not provide performance review or reporting for Held-Away Assets. In addition, a client who uses a third party custodian is not eligible for cash sweep services offered by Baird. Clients using a third party custodian are encouraged to establish appropriate cash sweep arrangements.

A client who uses a third party custodian authorizes PAM and Baird to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's Account. Also, the client will receive account statements directly from the client's selected custodian. A client should carefully review those account statements and compare them with any statements provided by PAM or Baird. A client should note that the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by PAM or Baird due to a variety of factors, including the use of different valuation sources and accounting methods (e.g., trade or settlement date accounting) by the custodian and Baird.

## Investment Discretion

### Investment Selection and Trading Authorizations

A client retains complete discretion over investment selection and trading decisions with respect to assets in a client's Non-Discretionary Service Accounts, and PAM and Baird will only execute transactions for such Accounts pursuant to the client's instruction or authorization.

If a client's Account participates in a Discretionary Service, the client's advisory agreement provides Baird and the client's PAM Consultant, as applicable, discretionary authority to manage the assets in the client's Account in accordance with the terms of the Service selected by the client.

If a client's Account participates in the PAM Recommended Managers Service, the client's advisory agreement provides Baird and the client's PAM Consultant discretionary authority to appoint investment managers to manage the client's Account and to terminate or replace investment managers for the client's Account for any reason without prior notice to the client. If PAM or Baird terminates an investment manager from management of a client's PAM Recommended Managers Service Account, the client's advisory agreement provides PAM and Baird discretionary authority to manage the assets in the client's Account until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets.

If a client's Account participates in an SMA Service, the client's advisory agreement provides the investment manager selected to manage the client's Account, which may include an Implementation Manager, discretionary authority to manage the assets in the client's Account in accordance with the terms of the SMA Service selected by the client.

If a client grants discretionary authority over the client's Account to PAM, Baird, the client's PAM Consultant or the client's investment manager, the client's advisory agreement authorizes PAM, Baird, the client's PAM Consultant and the client's investment manager, as applicable, to manage the client's Account and to make investment decisions for the client's Account, with the authority to determine the amount, type and timing for buying, holding, exchanging,

converting and selling securities and other assets for the client's Account, subject to the terms of the Service selected by the client. The client's advisory agreement also grants to PAM, Baird, the client's PAM Consultant and the client's investment manager, as applicable, complete and unlimited trading authorization and appoints them as the client's agents and attorneys-in-fact to manage the assets in the client's Account on the client's behalf, subject to the terms of the Service selected by the client. Pursuant to such authorization and powers of attorney, PAM, Baird, the client's PAM Consultant and the client's investment manager may, in their sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other assets in the client's Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's Account without prior notice to the client. Such trading authorizations and powers of attorney, whether granted to PAM, Baird, the client's PAM Consultant or the client's investment manager, shall remain in full force and effect until terminated by the client, the client's investment manager, PAM or Baird.

Orders for the purchase and sale of securities in a client's Discretionary Service Accounts will generally be executed by Baird, in its capacity as broker-dealer, as further described under the heading "Brokerage Practices" above, unless Baird's duty to seek to obtain best execution otherwise requires or unless the client has provided other instructions to Baird in writing. PAM and Baird do not have discretionary authority over the assets in a client's SMAs that are managed by an Other Manager and cannot purchase or sell such assets without the consent of the client or such Other Manager. The investment manager for a client's SMAs may initiate securities transactions through Baird, in its capacity as broker-dealer, as further described under the heading "Brokerage Practices" above, subject to the manager's duty to seek to obtain best execution, or unless a client has provided other instructions in writing. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage the client's Account.

If a client participates in an SMA Service, the client authorizes PAM and Baird to share client's information with the Overlay Manager and any

Other Manager or Implementation Manager managing the client's Account. The client also authorizes and directs PAM and Baird to transmit to the Overlay Manager and any such Other Manager or Implementation Manager any instructions that the client may provide to PAM or Baird to the extent necessary to carry out the client's instructions.

### Client Investment Restrictions

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

PAM may also offer clients a socially responsible investing ("SRI") service, which assists a client in restricting investments to those that are consistent with the client's social investment guidelines or objectives. Clients electing the SRI service generally bear the cost of the SRI service as it is generally included in the Advisory Fee.

In the event that a client's Account is restricted from investing in certain securities, PAM, Baird or the client's investment manager, as applicable, will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's Account, a client's investment restrictions may force PAM, Baird or the client's investment manager to sell such security 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 may not flow through to the securities owned by that investment vehicle.



Should a client wish to impose or modify existing restrictions, or the client's financial condition or investment objectives have changed, the client should contact the client's PAM Consultant.

### **Affiliated Investment Products**

PAM, Baird and Baird's affiliates may use the discretionary authority granted to them by a client to invest the client's Account in investment products affiliated with Baird or that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide ("affiliated investment products"). Baird and its affiliates may receive fees or other compensation related to such investments made by the client.

By signing an advisory agreement with PAM, a client consents to PAM, Baird and Baird's affiliates 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 generally described in the prospectus or other offering or disclosure documents for the investment product. Additional information is also available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor). PAM, Baird and Baird's affiliates will use their discretionary authority to invest the client's Account in affiliated investment products when they determine it to be in the client's best interest to do so. Generally, the criteria used by them in deciding to invest in affiliated investment products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with Baird. For more information about the criteria used by PAM and Baird, clients should review the section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss" above. For more information about the criteria used by Baird's affiliates, clients should review the affiliate's Form ADV Part 2A Brochure. A client's consent may be revoked at any time.

Other Managers may use the discretionary authority granted to them by a client to invest the client's Account in investment products affiliated with the Other Manager or that pay fees to the Other Manager or to any of its affiliates for investment advisory or other services they provide.

By signing an advisory agreement with PAM, a client consents to each Other Manager managing client's Account investing all or a portion of the

client's Account in investment products that pay advisory or other fees to the Other Manager or its affiliates. Each Other Manager is responsible for providing to the client information about the amount of fees received by the Other Manager and its affiliates and the criteria used by the Other Manager in deciding to invest in products affiliated with the Other Manager. A client should contact the Other Manager and review the Other Manager's Form ADV Part 2A Brochure for more information. A client's consent may be revoked at any time.

### **Investment Policy Statements**

PAM and Baird will not review, monitor, accept or adhere to an investment policy statement or similar document that was not prepared by PAM or Baird, unless they otherwise specifically agree to do so in writing. Adherence to any such investment policy statement or similar document is solely a client's responsibility.

### **Conversion, Exchange or Sale of Certain Investments**

By participating in a Service, a client authorizes PAM and Baird to convert or exchange any shares of mutual funds and other Investment Funds held in the client's Account to a class of shares of the same fund, such as advisory class shares, institutional class shares, financial intermediary class shares, or another class of shares primarily designed for use in advisory programs (collectively, "Advisory Class Shares"), to the extent made available by the mutual fund or other Investment Fund in accordance with policies established by Baird from time to time, including, without limitation the Mutual Fund Share Class Policy that is described above.

A client should understand that, the client may not hold Advisory Class Shares in a non-Advisory Account and that the client may not be able to hold certain Advisory Class Shares in an account held at another firm. Upon the termination of a Service for an Account or the closure of an Account for any reason, PAM and Baird may convert or exchange the Advisory Class Shares held in the Account to an appropriate non-Advisory Class Shares issued by the same fund, or, if an appropriate non-Advisory Class Shares is not available, PAM and Baird may redeem or sell such Advisory Class Shares.

## Voting Client Securities

### Non-Discretionary Accounts

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

### Separately Managed Accounts

Under the PAM Recommended Managers Service, Baird SMA Network Program and Dual Contract Program, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or the client may delegate such right to the investment manager selected to manage the client's Account (which may include Baird, the Overlay Manager or an Implementation Manager). A client may select either option by making the appropriate election in the client's advisory agreement (and in the case of a dual contract arrangement under the Dual Contract Program, by providing proper instructions to the manager directly). For information about a manager's voting policies and procedures, clients should review the manager's Form ADV Part 2A Brochure.

### Discretionary Services

Under the PAM Investment Management Service, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or a client may delegate such right to Baird.

If a client retains proxy voting authority, Baird will forward proxy materials that Baird actually receives to the client. The client will then be solely responsible for analyzing the materials and casting the vote.

If a client delegates voting authority to Baird, Baird will vote proxies solicited by, or with respect to, securities held in the client's Account for the exclusive benefit of the client and in accordance with policies and procedures adopted by Baird.

Baird has adopted written policies and procedures that are reasonably designed to ensure that it votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between Baird's interests and those of its clients. Although a description of Baird's proxy voting policies and procedures is provided below, Baird 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 their PAM Consultant or 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. 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 PAM Consultants. In the event the client's PAM Consultant believes the ISS recommendation is not in the best interest of the client, the PAM Consultant 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. The decision made by the Proxy Voting Sub-Committee on the proxy challenge applies to all advisory accounts managed by the PAM Consultant (or team of PAM Consultants), unless the client has directed Baird to utilize specific voting guidelines (e.g., Taft-Hartley guidelines). For those matters for which the independent proxy voting service does not provide a specific voting recommendation, each PAM Consultant 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 clients based on differing views of PAM Consultants and other Baird portfolio managers.

Baird uses ISS's electronic vote management system to cast votes on behalf of clients. In connection with Baird's use of that system, ISS pre-populates how client votes should be cast based upon ISS's voting recommendations. The system allows Baird to change the pre-populated vote (to the extent permitted by Baird's proxy voting policies) up until a certain time prior to the applicable meeting (the "voting cut-off time"). Baird's proxy voting policies are designed to address situations when additional information becomes available after the votes are pre-populated in the system and before the voting cut-off time. However, there is no guarantee that all information that could affect Baird's proxy voting decision will be received or considered by Baird prior to a vote being cast.

The proxy voting policies and procedures also address instances in which Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate of Baird is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) advisory or other services to a company whose management is soliciting proxies. In such instances, there may be a concern that Baird would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. 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 PAM Consultants' view, in the

best interest of clients. For example, casting a vote on a foreign security may involve additional costs or may prevent, for a period of time, sales of shares that have been voted. Also, when a client has entered into a securities lending program, Baird generally will not seek to recall the securities on loan for the purpose of voting the securities; however, Baird reserves the right to recall the shares on loan on a best efforts basis if the client's PAM Consultant becomes aware of a proxy proposal where the proxy vote is materially important to the client's Account.

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

### Other Proxy Voting Information

Clients wishing to direct particular votes once they have granted Baird discretionary voting authority may do so by contacting their PAM Consultant. However, if Baird has been granted discretionary voting authority, neither PAM nor Baird will provide a client with notice that Baird has received a proxy solicitation, nor will they consult with the client before casting a vote, unless the client otherwise directs them to do so.

Except to the extent a client has delegated proxy voting authority to Baird, PAM and Baird have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in a client's Accounts.

### Providing Baird Voting Instructions

As mentioned above, Baird may be the holder of record for certain securities in a client's Account. If the client retains voting authority over such securities (or delegates such authority to party other than Baird), and a proxy is solicited with respect to any such securities, the client (or other authorized party) will need to provide voting instructions to Baird. To the extent the client (or other authorized party) does not provide timely voting instructions, Baird will vote such securities to the extent permitted by law and in compliance with the rules of the New York Stock Exchange and the SEC relating to such matters.

### Legal Proceedings and Corporate Actions

Generally, none of PAM, Baird or any Other Manager responsible for managing all or a portion of the assets in a client's Account will render

advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. Also, they may or may not vote or advise clients on other corporate actions, like tender offers, that are not solicited by a proxy statement. At a client's request, Baird will forward information that Baird actually receives to the client.

### Financial Information

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

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary of a client should understand that PAM 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 PAM 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, PAM and Baird will waive the asset-based Advisory Fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or Baird will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Advisory Fee that PAM and Baird charge 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 advisory

agreement that: (i) the investment in affiliated investment products for the client's Account is appropriate because of, among other things, the investment goals, redeemability, liquidity, and diversification of those products; (ii) subject to the terms of the applicable Service, 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. The differential between the fees to be charged by PAM and Baird for the investment advisory services they provide 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 the Advisory Fee disclosed in the client's advisory agreement 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 PAM 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 PAM and Baird are not responsible for determining whether a directed broker-dealer is capable of providing best execution.

If the client's Account is a Retirement Account, the client and each Retirement Account Fiduciary of the client should note that the advisory agreement authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the client's Account and to receive commissions for such services, subject to DOL PTE 86-128. In order to assist the client and each Retirement Account Fiduciary of the client with the determination as to whether such authorization should be made, PAM will provide the client with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the description of Baird's brokerage placement practices, which is set forth below. PAM also will provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to DOL PTE 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of

payment for order flow or other remuneration, although Baird receives payments for order flow or other remuneration in certain instances. Additional information about Baird's routing of equity orders is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor). Baird does not place orders with market makers or other third parties for the purpose of compensating such firms for their efforts in marketing Baird-affiliated mutual funds. Baird may place orders for securities transactions with third party broker-dealers and other firms that provide research products and services to Baird.

If a client's Account is a Retirement Account and if the client has selected an investment manager or product related to Baird (such as the use of services or products offered by Baird Advisors, Baird Equity Asset Management, CCM, Baird Trust, GAMMA, Greenhouse, LoCorr, Riverfront, Strategas or any Investment Fund affiliated with any of them), each Retirement Account Fiduciary of the client understands and agrees that in making such selection: (a) Baird and its affiliates may receive higher aggregate compensation than if the client selected investment managers, funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated investment managers, funds or other products; (b) Baird makes available to the client investment managers, funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated investment managers, funds or products at any time by contacting the client's PAM Consultant; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use investment managers, funds or products affiliated with Baird at any time by contacting the client's PAM Consultant. For more information about investment managers and products that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.