

# The DDK Group

## Wrap Fee Program Brochure

March 30, 2017



The DDK Group  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202  
Toll Free: 800-792-2473  
[www.rwbaird.com](http://www.rwbaird.com)

Robert W. Baird & Co. Incorporated  
777 East Wisconsin Avenue  
Milwaukee, WI 53202  
1-800-792-2473  
[rwbaird.com](http://rwbaird.com)

Member FINRA & SIPC  
SEC File No. 801-7571

This wrap fee program brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and the DDK Group ("DDK"), a team within Baird's Private Wealth Management department. Clients should carefully consider this information before becoming a client of DDK. If you have any questions about the contents of this Brochure, please contact DDK 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

The DDK Group ("DDK"), a team within the Private Wealth Management department of Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A wrap fee program brochure (the "Brochure") on March 30, 2017. The following summary discusses the material changes that DDK has made to the Brochure since January 24, 2017, the date of the last annual update to the Brochure.

- DDK now offers a number of new investment programs. See the Section of the Brochure entitled "Services, Fees and Compensation—Summary of DDK's Services" for more information.
- DDK updated the Brochure to make clear that under the terms of the Client Selected Managers ("CSM") Service, DDK and Baird cannot appoint a replacement manager or otherwise manage a client's account assets. Given the terms of that Service, upon the withdrawal or removal of an investment manager from that Service, a client's account participating in that Service will be automatically removed from the Service and the account will become an unmanaged brokerage account, unless the client provides contrary instructions to DDK.
- DDK has split its Portfolio and Investment Management Service into two separate services, the DDK Investment Management Service and the DDK Recommended Managers Service. Accounts currently managed by DDK under the Portfolio and Investment Management Service now participate in the DDK Investment Management Service, and accounts managed by managers other than DDK under the Portfolio and Investment Management Service now participate in the DDK Recommended Managers Service. **This is only a change in the name of the services being provided. There has been no change to your manager(s) or how your account(s) are managed as a result of this change.** DDK has added managers to its DDK Recommended Managers Service that use implementation managers to manage client accounts. DDK has made corresponding and other updates to the description of that Service. See the Sections of the Brochure entitled "Services, Fees and Compensation—Discretionary Services—DDK Investment Management Service" and "Services, Fees and Compensation—SMA Services—DDK Recommended Managers Service" for more information.
- DDK has updated the information pertaining to the "trade away" practices of investment managers that participate in Baird's wrap fee programs and the additional costs of those trades, if any, during 2015 - 2016. See the Section of the Brochure entitled "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trading Practices of Investment Managers" and Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) for more information.
- The U.S. Securities and Exchange Commission issued an exemptive order to Baird (Rel. No. IA-4596) that permits DDK and Baird in certain circumstances to engage in principal transactions with certain advisory clients that provide verbal consent to the trade.
- DDK updated its fee schedules and now makes available an asset-based unified advice fee arrangement ("Unified Advice Fee Arrangement"). Under a Unified Advice Fee Arrangement, the asset-based fee is comprised of an advice fee ("Advice Fee") and, for some programs, an additional portfolio fee ("Portfolio Fee"). The Advice Fee covers certain investment advisory, brokerage and custody services provided by DDK 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 fee rate will be equal to the sum of the applicable Advice Fee rate and the applicable Portfolio Fee rate, if any. All new client accounts paying an asset-based fee are generally subject to a Unified Advice Fee Arrangement. See the Section of the Brochure entitled "Services, Fees and Compensation—Advisory Fees—Fee Options and Fee Schedule" for more information.
- DDK updated the factors clients should consider when deciding whether or not to participate in a wrap fee program. See the Section of the Brochure entitled "Services, Fees and Compensation—Advisory Fees—Obtaining Services Separately" for more information.

- DDK updated information about the compensation paid to Baird, DDK Consultants and investment managers. See the Section of the Brochure entitled “Services, Fees and Compensation—Advisory Fees—Advisory Fee Payments to Baird, DDK Consultants and Investment Managers” for more information.
- DDK updated the disclosures about DDK’s and Baird’s selection and evaluation of portfolio managers and Baird’s oversight of DDK’s and Baird’s wrap fee programs. See the Section of the Brochure entitled “Portfolio Manager Selection and Evaluation—Selection and Evaluation” for more information.
- DDK updated information about Baird’s regulatory assets under management and certain of Baird’s affiliates. See the Sections of the Brochure entitled “Portfolio Manager Selection and Evaluation—Advisory Business” and “Additional Information—Other Financial Industry Activities and Affiliations” for more information.
- DDK added disclosure about tactical and rotation strategies, floating rate bond/floating rate corporate debt strategies and Baird’s ETP Short List. See the Section of the Brochure entitled “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis” for more information.
- DDK updated information about credit risks, money market fund risks, illiquid securities and liquidity risks, technical strategy risks, floating rate bond fund risks and risks associated with recent events. See the Section of the Brochure entitled “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks” for more information.
- DDK updated the description of proxy voting options available in the Services and the summary of Baird’s proxy voting policies and procedures. See the Section of the Brochure entitled “Portfolio Manager Selection and Evaluation—Voting Client Securities” for more information.
- DDK updated information about the compensation Baird and DDK Consultants receive related to certain investment products and services. See the Section of the Brochure entitled “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions” for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since January 24, 2017. The updated Brochure contains changes that are not listed above.

## Table of Contents

<b>Services, Fees and Compensation .....</b>	<b>1</b>
The Client-Baird Fiduciary Relationship.....	1
Summary of DDK's Services .....	1
Consulting Services .....	4
Financial Planning .....	4
Risk Analysis .....	4
Asset Allocation and Investment Strategy Development.....	4
Consolidated Reporting.....	4
Additional Consultant Services.....	4
Discretionary Services.....	5
ALIGN Dynamic Portfolios Program .....	5
ALIGN Elements Portfolios Program.....	6
ALIGN Strategic Portfolios Program .....	6
ALIGN Tactical Portfolios Program .....	7
BairdNext Portfolios Program.....	8
DDK Investment Management Service.....	9
Russell Model Strategies Program .....	9
Non-Discretionary Services.....	10
ALIGN Custom Portfolios Program.....	10
Baird Advisory Choice Program.....	10
SMA Services .....	12
Baird Equity Asset Management Portfolios Program.....	12
Client Selected Managers Service.....	14
DDK Recommended Managers Service.....	16
Referred Managers Service.....	17
Riverfront Managed Portfolios Program .....	19
UMA Programs .....	20
ALIGN UMA Select Portfolios Program.....	20
Unified Advisory Select Portfolios Program .....	22
Additional Service Information .....	24
Investment Discretion .....	24
Trading for Client Accounts .....	26
Alternative Strategies and Alternative Investment Products.....	32
Eligible Assets .....	35
Unsupervised Assets .....	36
Special Considerations for the Services.....	37
Custody Services .....	38
Updating Client Information .....	39
Legal and Tax Considerations .....	40
Advisory Fee.....	40
Fee Options and Fee Schedule .....	40
Service Account Minimums.....	42
Calculation and Payment of Fees.....	43
Obtaining Services Separately .....	45

Advisory Fee Payments to Baird, DDK Consultants and Investment Managers.....	46
Other Fees and Expenses .....	47
Compensation Received by DDK and Baird .....	49
<b>Account Requirements and Types of Clients.....</b>	<b>49</b>
Opening an Account.....	49
Certain Account Requirements .....	50
Minimum Account Size.....	50
Account Contributions and Withdrawals .....	50
Liens and Use of Account Assets as Collateral.....	51
Electronic Delivery of Documents.....	51
Termination of Accounts.....	51
Types of Clients.....	52
<b>Portfolio Manager Selection and Evaluation .....</b>	<b>52</b>
Selection and Evaluation .....	52
DDK Recommended Managers Service.....	52
Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program .....	53
ALIGN, BairdNext Portfolios, DDK Investment Management, Russell and UMA Programs.....	53
Baird Equity Asset Management Portfolios Program.....	54
Oversight of the Services .....	54
Performance Calculation.....	54
Portfolio Management by DDK, Baird and Related Persons .....	55
Advisory Business.....	56
Performance-Based Fees and Side-By-Side Management .....	56
Methods of Analysis, Investment Strategies and Risk of Loss .....	57
Investment Strategies and Methods of Analysis .....	57
Principal Risks .....	90
Voting Client Securities .....	104
Baird Advisory Choice Program and Other Non-Discretionary Accounts.....	104
UMA Programs.....	105
Separately Managed Accounts .....	105
Discretionary Services and ALIGN Programs.....	105
Other Proxy Voting Information .....	106
Legal Proceedings and Corporate Actions .....	106
Providing Baird Voting Instructions.....	106
<b>Client Information Provided to Portfolio Managers .....</b>	<b>107</b>
<b>Client Contact with Portfolio Managers .....</b>	<b>107</b>
<b>Additional Information.....</b>	<b>107</b>
Disciplinary Information .....	107
Other Financial Industry Activities and Affiliations.....	108
Broker-Dealer Activities .....	108
Investment Management Activities.....	109
Certain Affiliations.....	109
Other Financial Industry Activities.....	111

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	112
Code of Ethics .....	112
Participation or Interest in Client Transactions .....	113
Review of Accounts.....	118
Client Account Review .....	118
Account Statements and Performance Reports.....	118
Client Referrals and Other Compensation .....	119
Financial Information .....	120
Special Considerations for Retirement Accounts .....	120

## Services, Fees and Compensation

This Brochure describes some of the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through the DDK Group ("DDK"), a team within Baird's Private Wealth Management ("PWM") department. Baird and DDK offer other investment advisory services not described in this Brochure. Separate brochures describe those other investment advisory services and discuss the agreements, fees and potential conflicts of interest for each service.

This Brochure also references other documents where you may find additional information. Many of those documents are available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

If you would like to request a brochure for another investment advisory service provided by Baird, or if you would like a paper copy of any of the other documents referenced in this Brochure, please contact a DDK 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.

## 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"). DDK 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 DDK and Baird are required to act in the best interest of the client when providing investment advisory services. From time to time DDK 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 DDK and Baird. DDK and Baird generally address potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure, Brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with DDK and Baird. In addition, Baird has adopted internal policies

and procedures for DDK 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 DDK 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 DDK's Services

This Brochure describes certain investment advisory programs and services that DDK and Baird offer to clients ("Services") and applies to each advisory account advised by DDK ("Account"). The investment advisory services offered under the Services generally include investment advice and consulting services, which are provided by Baird's home office investment professionals or DDK, 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 DDK or Baird (including Baird's home office investment professionals or the client's DDK Consultant) full discretionary authority to manage the client's Account ("Discretionary Services");
- non-discretionary services, whereby DDK 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");
- separately managed account ("SMA") programs and services, whereby third party investment managers, which may include affiliates of Baird ("Other Managers"), or asset management departments of Baird, manage the client's

Account according to a strategy (each, an “SMA Strategy”) with full discretionary authority, and DDK and Baird provide additional consulting services to the client (collectively, “SMA Services”); and

- unified managed account (“UMA”) Programs, whereby the client gives Baird and an overlay management firm (the “Overlay Manager”) selected by Baird authority to manage the client’s Account according to a strategy (each, a “UMA Strategy”) selected by the client (“UMA Programs”).

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

The Consulting Services include: Financial Planning; Risk Analysis; Asset Allocation and Investment Strategy Development; Consolidated Reporting; and Additional Consultant Services described below. The Discretionary Services include: ALIGN Dynamic Portfolios; ALIGN Elements Portfolios; ALIGN Strategic Portfolios; ALIGN Tactical Portfolios; BairdNext Portfolios; DDK Investment Management; and Russell Model Strategies. The Non-Discretionary Services include: ALIGN Custom Portfolios and Baird Advisory Choice. The SMA Services include: Baird Equity Asset Management Portfolios; Client Selected Managers (“CSM”); DDK Recommended Managers; Referred Managers; and Riverfront Managed Portfolios. The UMA Programs include: ALIGN UMA Select Portfolios and Unified Advisory Select (“UAS”) Portfolios. The Additional Consultant Services are only provided to certain clients upon request by a client and agreement to do so by DDK. DDK primarily provides Consulting Services and recommends the DDK Investment Management Service and DDK Recommended Managers Service to clients when appropriate. DDK will infrequently recommend the other Services when DDK believes it is appropriate for a particular client.

Generally, DDK provides clients with analysis and recommendations on investment managers and strategies. Investment strategies typically may include either public or private securities, private placements, limited partnerships, institutional mutual funds and exchange traded funds (“ETFs”). Often these investment managers or strategies may be affiliated with external custodians. DDK will assist clients in evaluating

custodians and negotiating custodial fees, trading commissions, as well as, investment management fees.

The SMA Services make available two types of investment managers: (1) managers that manage a client’s Account directly; and (2) managers that make model portfolios available to DDK clients (“Model Portfolios”) but the managers do not directly manage a client’s Account (“Model Managers”). The SMA Services are generally offered under a “single contract” arrangement. Under a single contract arrangement, a client enters into an advisory agreement with DDK 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 DDK and Baird; the client does not have an agreement directly with the client’s investment manager. Under certain circumstances, a client may have a “dual contract” arrangement. Under a dual contract arrangement, the client has two contracts; one contract with DDK and Baird and another contract with the client’s investment manager.

The UMA Programs allow a client to invest in a combination of mutual funds, exchange traded products (“ETPs”), primarily ETFs and exchange traded notes (“ETNs”), SMA Strategies, and groups of mutual funds and ETFs (referred to as “sleeves”) and other model portfolios of securities managed by Baird (such sleeves and model portfolios collectively, “Baird-Managed Portfolios”) using a single Account.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with certain SMA Services and the UMA Programs. In addition, certain SMA Strategies are only made available through implementation managers (“Implementation Managers”). If a client selects an SMA Strategy provided by a Model Manager, the Model Manager will provide the Model Portfolio and updates to the Model Portfolio to the Overlay Manager or Implementation Manager, as applicable, and the Overlay Manager or Implementation Manager will manage the client’s Account with full discretionary authority according to the strategy selected by the client (a “Model-Traded Strategy”). Otherwise, if the SMA Strategy is offered by a non-Model Manager, the



investment manager will directly manage the client's Account with full discretionary authority (a "Manager-Traded Strategy").

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the "Exchange Act"). DDK and Baird provide the Services described in this Brochure under a "wrap fee" arrangement. This means that in addition to the investment advisory services that DDK and Baird provide in connection with each Service, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee ("Advisory Fee"). *A client should note that the client may incur costs in addition to the Advisory Fee. See "Additional Service Information—Trading for Client Accounts" and "Other Fees and Expenses" below for more information.*

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 maintain their accounts invested in high levels of cash, or who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as "unsolicited" transactions.

In addition, certain investment strategies and investment products made available to a client may not be appropriate for the client. Certain Services make available investments in non-traditional or real assets ("Non-Traditional Assets") and investment products that pursue non-traditional, complex or alternative investment strategies ("Alternative Strategies") or that involve special risks not apparent in more traditional investments ("Alternative Investment Products"). The use of certain 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—Alternative Strategies and Alternative Investment Products" and "Portfolio Manager Selection and Evaluation—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 have varying investment objectives and strategies. Asset allocation strategies are implemented by investing in different categories of assets (commonly referred to as "asset classes"), such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Asset allocation strategies may be implemented using a variety of investment types, such as individual securities, mutual funds and ETPs, including ETFs and 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 "Portfolio Manager Selection and Evaluation—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 that are not affiliated with Baird. Some Services also 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; Riverfront Investment Group, LLC ("Riverfront"), an investment manager that may be deemed to be affiliated with Baird; and mutual funds offered by Baird Funds, Inc. (the "Baird Funds"), which is affiliated with Baird. For more information about these and other related parties, see "Additional Information—Other Financial Industry Activities and Affiliations" below.

DDK clients typically work with a DDK Consultant to determine the services that are appropriate given their financial goals and circumstances. 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 DDK 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 DDK and Baird. A client should note that the

client's advisory relationship with DDK and Baird does not begin until they enter into the applicable advisory agreement with the client, which occurs when Baird's home office has accepted the client's advisory agreement and determined that all of the client's paperwork is in order. See "Account Requirements and Types of Clients" below for more information.

As mentioned above, Baird, in its capacity as broker-dealer, also provides DDK clients with trade execution, custody and other standard brokerage services. For this reason, a client will also enter into a client relationship agreement or other account agreement with DDK and Baird ("account agreement") if the client has not already done so. The client's account agreement authorizes DDK and Baird to execute trades for, and perform related brokerage and custody services to, the client's Account.

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 DDK and Baird, including the depth of initial and ongoing research, evaluation, monitoring and review of a client's Account and its investments, and the level of compensation that DDK and Baird receive, varies by Service. The particular investment advisory services that DDK and Baird provide in connection with each Service are further described below. Clients are encouraged to review this Brochure and their advisory agreement carefully.

## Consulting Services

### Financial Planning

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

### Risk Analysis

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

## Asset Allocation and Investment Strategy Development

Using a variety of tools, including the financial framework, DDK will develop and recommend a long-term, strategic asset allocation and investment strategy appropriate for the client's risk and return objectives. Investment strategies may involve the use of different equity styles or strategies, such as: large cap growth, large cap value, mid cap growth, mid cap value, small cap growth, small cap value, international and emerging market equities strategies; different fixed income styles or strategies, such as short or intermediate, taxable and tax-exempt bond, international and emerging market bond, and high yield bond strategies; different Non-Traditional Asset strategies, such as real estate and real estate fund and commodity strategies; and Alternative Strategies, which may include the use of hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, and managed futures.

## Consolidated Reporting

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

## Additional Consultant Services

DDK offers the following additional consultant services.

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

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

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

*Performance Monitoring Reports.* DDK 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.

## Discretionary Services

### **ALIGN Dynamic Portfolios Program**

Under the ALIGN Dynamic Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model strategic and tactical asset allocation strategy developed by Baird (each such model an "ALIGN Dynamic Portfolio") that is selected by the client. The ALIGN Dynamic Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different strategic and tactical investment strategies. Each ALIGN Dynamic Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds and ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above. Each ALIGN Dynamic Portfolio consists of a combination of ALIGN Strategic Portfolios and ALIGN Tactical Portfolios, which are discussed below.

For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account. Typically, a client selects the ALIGN Dynamic Portfolio appropriate for the client's Account with the assistance of the client's DDK Consultant.

Baird constructs each ALIGN Dynamic Portfolio and adjusts the asset allocation of each ALIGN Dynamic Portfolio from time to time. Baird also determines the mutual funds and ETPs that are available in the ALIGN Dynamic Portfolios Program, including the percentage each mutual fund or ETP comprises in each asset class within

an ALIGN Dynamic Portfolio. Baird may make changes to an ALIGN Dynamic Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Dynamic Portfolio strategy, or change the client's asset allocation in certain circumstances. See "Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients" below for more information.

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

#### **ALIGN Elements Portfolios Program**

Under the ALIGN Elements Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model an "ALIGN Elements Portfolio") that is selected by the client. The ALIGN Elements Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different strategic investment strategies. Each ALIGN Elements Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

The ALIGN Elements Portfolios Program is designed for clients with smaller accounts and as such does not provide for investments in as many mutual funds or ETFs compared to other ALIGN Programs. Clients that are able to satisfy

applicable account minimums for other Programs are encouraged to discuss with their DDK Consultant whether another Program may be a more appropriate choice for them.

For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account. Typically, a client selects the ALIGN Elements Portfolio appropriate for the client's Account with the assistance of the client's DDK Consultant.

Baird constructs each ALIGN Elements Portfolio and adjusts the asset allocation of each ALIGN Elements Portfolio from time to time. Baird also determines the mutual funds and ETPs that are available in the ALIGN Elements Portfolios Program, including the percentage each mutual fund or ETP comprises in each asset class within an ALIGN Elements Portfolio. Baird may make changes to an ALIGN Elements Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Elements Portfolio strategy, or change the client's asset allocation in certain circumstances. See "Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients" below for more information.

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

#### **ALIGN Strategic Portfolios Program**

Under the ALIGN Strategic Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary

model strategic asset allocation strategy developed by Baird (each such model an “ALIGN Strategic Portfolio”) that is selected by the client. The ALIGN Strategic Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different strategic investment strategies. Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs” below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account. Typically, a client selects the ALIGN Strategic Portfolio appropriate for the client’s Account with the assistance of the client’s DDK Consultant.

Baird constructs each ALIGN Strategic Portfolio and adjusts the asset allocation of each ALIGN Strategic Portfolio from time to time. Baird also determines the mutual funds and ETPs that are available in the ALIGN Strategic Portfolios Program, including the percentage each mutual fund or ETP comprises in each asset class within an ALIGN Strategic Portfolio. Baird may make changes to an ALIGN Strategic Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client’s Account, rebalance a client’s Account assets to be consistent with the client’s chosen ALIGN Strategic Portfolio strategy, change the client’s asset allocation, or engage in tax management strategies in certain circumstances. See “Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios,

Russell, SMA and UMA Clients” below for more information.

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

### **ALIGN Tactical Portfolios Program**

Under the ALIGN Tactical Portfolios Program, Baird manages a client’s Account with full discretionary authority according to a proprietary model tactical asset allocation strategy developed by Baird (each such model an “ALIGN Tactical Portfolio”) that is selected by the client. The ALIGN Tactical Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different tactical investment strategies. Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive asset allocation strategies, with the use of tactical decisions involving the overweighting of certain asset classes. ALIGN Tactical Portfolios are not intended to be a complete investment program. The ALIGN Tactical Portfolios are actively managed and thus have had, and will likely continue to experience, relatively high portfolio turnover. Because of this turnover, a client’s Account may realize significant taxable gains or losses. Because the ALIGN Tactical Portfolios generally seek to outperform their indicated benchmark by overweighting specific market sectors rather than holding a more diversified portfolio, the Portfolios are subject to concentration risk.



For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs” below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account. Typically, a client selects the ALIGN Tactical Portfolio appropriate for the client’s Account with the assistance of the client’s DDK Consultant.

Baird constructs each ALIGN Tactical Portfolio and adjusts the asset allocation of each ALIGN Tactical Portfolio from time to time. Baird also determines the ETPs that are available in the ALIGN Tactical Portfolios Program, including the percentage each ETP comprises in each asset class within an ALIGN Tactical Portfolio. Baird may make changes to an ALIGN Tactical Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird periodically rebalances a client’s Account assets to be consistent with the client’s chosen ALIGN Tactical Portfolio strategy, and Baird may replace investments in a client’s Account or change the client’s asset allocation in certain circumstances. See “Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients” below for more information.

### ***BairdNext Portfolios Program***

Under the BairdNext Portfolios Program, Baird manages a client’s Account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model a “BairdNext Portfolio”) that is selected by the client. The BairdNext Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different strategic investment strategies. Each BairdNext Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment

varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

The BairdNext Portfolios Program is designed for clients with smaller accounts and as such does not provide for investments in as many mutual funds or ETFs compared to other Programs. Clients that are able to satisfy applicable account minimums for other Programs are encouraged to discuss with their DDK Consultant whether another Program may be a more appropriate choice for them.

For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—BairdNext Portfolios Program” below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account. Typically, a client selects the BairdNext Portfolio appropriate for the client’s Account with the assistance of the client’s DDK Consultant.

Baird constructs each BairdNext Portfolio and adjusts the asset allocation of each BairdNext Portfolio from time to time. Baird also determines the mutual funds and ETPs that are available in the BairdNext Portfolios Program, including the percentage each mutual fund or ETP comprises in each asset class within a BairdNext Portfolio. Baird may make changes to a BairdNext Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client’s Account, rebalance a client’s Account assets to be consistent with the client’s chosen BairdNext Portfolio strategy, change the client’s asset allocation, or engage in tax management strategies in certain circumstances. See “Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients” below for more information.

**Important Information about Affiliated Funds.** *Some of the mutual funds offered by Baird Funds, which is affiliated with Baird, have been selected by Baird for inclusion in certain*

*BairdNext Portfolios. This presents a conflict of interest. For more information, see “Additional Information—Other Financial Industry Affiliations and Activities” below.*

### **DDK Investment Management Service**

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

In the DDK Investment Management Service, a client’s DDK 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 DDK Consultant. At the commencement of services, the client’s DDK Consultant reviews the client’s investment objectives and risk tolerance using the Consulting Services described above. Based upon that review and other information provided by the client, the DDK Consultant makes a subsequent recommendation to the client as to which investment style the DDK 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 DDK Consultant will manage the client’s Account is provided to the client in connection with the opening of the Account.

A DDK Consultant typically recommends or selects for client accounts investments in mutual funds and ETFs that pursue the strategies described under the heading “Consulting Services—Asset Allocation and Investment Strategy Development” above. However, from time to time, a DDK Consultant may make direct investments in various types of securities, including, but not limited to, equity and fixed income securities, foreign securities, 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 DDK Consultant may use for client accounts is contained under the heading “Additional Service Information—Eligible Assets” below. For more information about the DDK Investment Management Service, see “Portfolio Manager

Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—DDK Investment Management Service” below.

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

Important Information about DDK Investment Management Service Accounts. *DDK Consultants may invest client accounts in illiquid securities and Alternative Investment Products. These types of investments involve special, sometimes significant, risks and are not appropriate for all clients. A client should understand those risks before investing in those products. See “Additional Service Information—Alternative Strategies and Alternative Investment Products” and “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks” below for more information.*

### **Russell Model Strategies Program**

Under the Russell Model Strategies Program (the “Russell Program”), Baird manages a client’s Account with full discretionary authority according to a model mutual fund asset allocation strategy (a “Russell Strategy”) developed by Russell Investment Management, LLC (“Russell”) that is selected by a client. The Russell Program offers model asset allocation portfolios that have different investment objectives and use different strategic and tactical investment strategies. Each Russell Strategy provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Strategy generally uses mutual funds and ETFs in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Strategy, and some Strategies may have little or no allocation to one or more asset classes or types of investments described above. Each Russell Strategy will typically invest exclusively or significantly in mutual funds offered by Russell Investment Company (the “Russell Funds”).

For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Russell Model Strategies Program” below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account. Typically, a client selects the Russell Strategy appropriate for the client’s Account with the assistance of the client’s DDK Consultant.

Russell constructs each Russell Strategy and adjusts the asset allocation of each Strategy from time to time. Russell also determines the mutual funds and ETFs, including the Russell Funds, that are available in each Russell Strategy, including the percentage each mutual fund and ETF comprises in each Strategy. From time to time, Russell may remove mutual funds and ETFs and replace them with other mutual funds and ETFs.

Baird anticipates that it generally will implement a Russell Strategy as proposed by Russell. However, Baird has sole discretionary authority over a client’s Account invested in a Russell Strategy, and Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client’s investments if Baird determines such action to be necessary and in the client’s best interest.

Baird may rebalance a client’s Account assets to be consistent with the client’s chosen asset allocation strategy, or change the client’s asset allocation in certain circumstances. See “Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients” below for more information.

## Non-Discretionary Services

### ***ALIGN Custom Portfolios Program***

The ALIGN Custom Portfolios Program is a Non-Discretionary Program whereby Baird manages a client’s Account on a non-discretionary basis according to a custom model asset allocation strategy (an “ALIGN Custom Portfolio”) that is selected by the client. ALIGN Custom Portfolios involve the use of various different investment strategies because they are customized for each client. An ALIGN Custom Portfolio provides a

client with a customized level of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. To implement the asset allocation strategy, a client selects the investments for the Account from among those mutual funds and ETPs that Baird has determined are eligible for use in the Program.

For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs” below.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account. Typically, a client develops and selects the ALIGN Custom Portfolio appropriate for the client’s Account with the assistance of the client’s DDK Consultant.

While a client retains discretionary authority and management over the client’s ALIGN Custom Portfolios Account, a client participating in the ALIGN Custom Portfolios Program gives Baird the authority to replace investments in a client’s Account, rebalance a client’s Account assets to be consistent with the client’s chosen ALIGN Custom Portfolio strategy, or engage in tax management strategies in certain circumstances. See “Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients” below for more information.

### ***Baird Advisory Choice Program***

The Baird Advisory Choice Program is a Non-Discretionary Service whereby DDK and Baird provide advice to a client in connection with the client’s own management of the client’s Account. As part of the Baird Advisory Choice Program, a client may also select investment managers to manage the client’s Account with full discretion. See “SMA Services—Client Selected Managers Service” below for more information.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client’s Account.

DDK and Baird do not have discretionary authority over the assets in a client’s Baird



Advisory Choice Account and cannot purchase or sell any securities or other investments in the client's Baird Advisory Choice Account without the client's authorization. Ultimately, the client makes the final decision as to selection of investments for the client's Baird Advisory Choice Account.

A client should understand that DDK and Baird only provide a client with certain consulting services under the Baird Advisory Choice Program. The consulting services that may be available in the Program from the client's DDK Consultant include research, analysis, advice and recommendations regarding: financial and investment goals and needs; asset allocation strategies, investment strategies and investment restrictions; methods for implementing investment strategies; trends and expectations regarding securities and other investments, securities markets, and economic sectors and industries; and the purchase, holding and sale of securities and other investments. The specific consulting services to be provided to a client will be determined by mutual agreement between the client and the client's DDK Consultant. DDK and Baird do not undertake to provide any other consulting or investment advisory services under this Program unless DDK and Baird agree to do so in writing.

Baird or the client's DDK Consultant will provide investment recommendations for the client's Account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account. Baird or the client's DDK Consultant may recommend investments in various types of securities, including, but not limited to, equity and fixed income securities, foreign securities, mutual funds, ETPs, 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 Baird or a DDK Consultant may recommend for client accounts is contained under the heading "Additional Service Information—Eligible Assets" below. For more information about the Baird Advisory Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of

Loss—Investment Strategies and Methods of Analysis—Baird Advisory Choice Program" below.

A client should ask the client's DDK Consultant questions about the investment styles, philosophies, strategies, analyses and techniques the client's DDK Consultant will use in order to meet the client's objectives.

#### **Important Information about Baird Advisory Choice Accounts.**

*A Baird Advisory Choice Account provides a fee-based alternative to a traditional, commission-based brokerage account. Unlike a traditional brokerage account where a client is paying for traditional brokerage services, an Advisory Choice client is also paying for investment advice and other investment advisory services above and beyond those available in a traditional brokerage account. Each client should determine whether a Baird Advisory Choice Account is appropriate. In making this determination, a client should carefully consider all relevant factors, including the client's investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the Account, anticipated use of other Baird products and services, and the costs and benefits of the Account. The costs of a Baird Advisory Choice Account may be more or less than in an account where the client is charged on a per-transaction basis. A Baird Advisory Choice Account may not be appropriate for a client who anticipates little or no trading activity, a client who prefers to direct the client's own investment strategies and security selection independent of the advice of DDK or Baird or a client who does not receive or request investment advisory or other non-trading services from DDK or Baird. A Baird Advisory Choice Account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. If a client's Baird Advisory Choice Account engages in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion), DDK or Baird may, to the extent permitted by applicable law, immediately, upon sending notice to the client, restrict the activity occurring in the client's Account, terminate the Account, convert the Account to a commission-based account, or charge a higher fee at such rate as DDK or Baird,*

*in their sole discretion, may elect. A client is responsible for monitoring the client's Account and determining the desirability of maintaining the Account as opposed to maintaining a traditional, commission-based brokerage account. In addition to Baird Advisory Choice Accounts and traditional, commission-based brokerage accounts, DDK offers various other advisory programs in which it has investment discretion. A client should periodically reevaluate whether the ongoing use of this Non-Discretionary, advisory program is desired and request a DDK Consultant to explain the benefits and disadvantages of maintaining a Baird Advisory Choice Account and the availability of alternative arrangements.*

*Additional information regarding the differences between brokerage and advisory relationships can be found in the "Important Information about Brokerage and Investment Advisory Services" document that is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).*

*A client may terminate a Baird Advisory Choice Account and convert it into a traditional, commission-based brokerage account at any time by contacting DDK. DDK and Baird also have the right, at any time upon notice to a client, to terminate a client's Baird Advisory Choice Account and convert it into commission-based brokerage account.*

*A client should note that the client's Baird Advisory Choice Account may be engaged in strategies that involve concentrated and less diversified portfolios of securities, leverage or margin, options, and frequent trading. In addition, the client's Baird Advisory Choice Account may be invested in illiquid securities and Alternative 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—Alternative Strategies and Alternative Investment Products" and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.*

## SMA Services

### **Baird Equity Asset Management Portfolios Program**

Under the Baird Equity Asset Management Portfolios Program, a client grants full discretionary authority and management of the client's Account to Baird Equity Asset Management, an investment management department of Baird, or an Other Manager selected by the client, to manage the client's Account. Under the Baird Equity Asset Management Portfolios Program, Baird Equity Asset Management determines the Other Managers and their strategies eligible to participate in the Program. Affiliates of Baird may manage client accounts under the Baird Equity Asset Management Portfolios Program.

### **Baird Equity Asset Management Strategies**

Baird Equity Asset Management provides portfolio management to clients desiring investments in equity and balanced portfolios. Baird Equity Asset Management offers: growth investment strategies (the "Baird Equity Asset Management Growth Strategies"); Specialized Asset Management ("SAM") portfolio strategies (the "SAM Strategies"), consisting of SAM Strategic Portfolio strategies and SAM Custom Portfolio strategies; and value investment strategies (the "Baird Equity Asset Management Value Strategies").

Baird Equity Asset Management also manages client portfolios according to other strategies selected by clients ("Other Baird Equity Asset Management Strategies", and with the Baird Equity Asset Management Growth Strategies, the SAM Strategies, and the Baird Equity Asset Management Value Strategies, the "Baird Equity Asset Management Strategies").

The SAM Strategies are model asset allocation portfolios that have different investment objectives and strategies. Each SAM Strategy provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Strategy generally uses individual securities, mutual funds and ETFs in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Strategy, and some Strategies may have little or no allocation to

one or more asset classes or types of investments described above.

A SAM Custom Portfolio provides a client with a customized level of investment across one or more of the asset classes described above. The custom model asset allocation strategy is determined by the client with the assistance of Baird Equity Asset Management.

Baird Equity Asset Management may invest a client's Baird Equity Asset Management Strategies Account in various types of securities, which will be chosen by Baird Equity Asset Management and which may include mutual funds or other investment products affiliated with Baird.

Clients are urged to review Baird Equity Asset Management's Form ADV Part 2A Brochure, which contains additional important information about Baird Equity Asset Management, including information about the Baird Equity Asset Management Strategies, the types of investments Baird Equity Asset Management may use for a client's Account, and the risks associated with investing in those Strategies. Baird Equity Asset Management's Form ADV Part 2A Brochure is available upon request.

### Other Manager Strategies

Clients that are considering engaging an Other Manager under this Program are urged to review the Other Manager's Form ADV Part 2A Brochure ("Other Manager Brochure"), which should contain additional important information about the Other Manager, including information about the Other Manager's strategies, the types of investments the Other Manager may use for a client's Account, and the risks associated with investing in the Other Manager's SMA Strategies. Other Manager Brochures are available upon request.

### Selecting a Strategy

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account.

If the client has decided to retain Baird Equity Asset Management or an Other Manager under this Program to manage the client's Account, the client's DDK Consultant will generally assist the client in selecting a Portfolio suitable for the client's Account.

If a client selects a Baird Equity Asset Management Strategy or an Other Manager strategy under this Program, the client authorizes and directs DDK and Baird to appoint Baird Equity Asset Management to serve as sub-adviser to the client's Account. If the client has selected a Baird Equity Asset Management Strategy, the client also authorizes and directs Baird Equity Asset Management to manage the client's Account with full discretionary authority in accordance with the Baird Equity Asset Management Strategy selected by the client. If the client has selected an Other Manager strategy, the client authorizes and directs Baird Equity Asset Management to appoint the Other Manager as sub-adviser, and the client also authorizes and directs such Other Manager to manage the client's Account with full discretionary authority in accordance with the Other Manager strategy selected by the client.

If a client's Account is managed by an Other Manager under this Program, the client should understand that: DDK 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, DDK and Baird are not responsible for the decisions made by the Other Manager; DDK 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 DDK and Baird only provide the client with certain consulting services, which may include the client's DDK Consultant's assistance with determining the client's financial needs, investment goals and investment restrictions and periodically reviewing the manager's performance. DDK and Baird do not undertake to provide any other consulting or investment advisory services under this Program unless DDK and Baird agree to do so in writing.

**Important Information about Baird Equity Asset Management.** *Baird Equity Asset Management is an investment management department of Baird. Baird has a potential conflict of interest to the extent Baird would advise clients to participate in advisory services offered by Baird Equity Asset Management. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

*A client's appointment and continued retention of Baird Equity Asset Management or an Other Manager to manage the client's Account are*

*based upon the client's review of Baird Equity Asset Management or such Other Manager and their services. Once retained by the client, Baird Equity Asset Management or the Other Manager will only be removed from managing the client's Account upon the manager's withdrawal, removal from the Program, or the client's direction to do so.*

### **Client Selected Managers Service**

The CSM Service is a service a client may elect whereby a client independently selects an investment manager to manage the client's Account with full discretionary authority according to a strategy (a "CSM Strategy") selected by the client. This Service is designed to accommodate a client who wishes to independently select an investment manager to manage the assets in the client's Account with full discretion.

Under the CSM Service, Baird and the Overlay Manager determine the investment managers eligible to participate in the Service (each, a "CSM Eligible Manager"). However, a client should note that DDK and Baird do not make any recommendation to clients regarding any CSM Strategy or other SMA Strategy or any representations regarding the Overlay Manager's, a CSM Eligible Manager's or other investment manager's qualifications as an investment adviser or abilities to manage client assets.

Investment managers participating in the CSM Service 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 investment manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

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

Some of the services provided under the CSM Service may be provided to a client by a DDK

Consultant assigned to the client's Account, and the client's DDK Consultant may provide his or her own advice and recommendations about investment managers.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with the CSM Service. The CSM Service makes both Manager-Traded Strategies and Model-Traded Strategies available to clients, although CSM Eligible Managers generally only provide either Manager-Traded or Model-Traded Strategies. If a client selects a CSM Strategy, the client authorizes and directs DDK and Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If the client has selected a Model-Traded Strategy, the client authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the CSM Strategy selected by the client. If the client has selected a Manager-Traded Strategy, the client authorizes and directs the Overlay Manager to appoint the applicable CSM Eligible Manager as sub-adviser, and the client also authorizes and directs such CSM Eligible Manager to manage the client's Account with full discretionary authority in accordance with the CSM Strategy selected by the client.

If a client selects a Model-Traded Strategy, the Overlay Manager will typically implement the Model Portfolio as proposed by the Model Manager. 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 Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

DDK and Baird may, in their discretion, permit a client to select an investment manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such investment manager in addition to the advisory agreement the client enters into with DDK and Baird (i.e., a "dual contract" arrangement). A client that enters into a dual contract arrangement is solely responsible for negotiating the client's agreement with the client's investment manager, and neither DDK 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 investment manager unless DDK and Baird agree to do so in writing.

If a client's Account is managed by an Other Manager under this Service, the client should understand that: DDK 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, DDK and Baird are not responsible for the decisions made by the Other Manager; DDK 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 DDK and Baird only provide the client with certain consulting services, which may include the client's DDK Consultant's assistance with determining the client's financial needs, investment goals and investment restrictions and periodically reviewing the manager's performance. DDK and Baird do not undertake to provide any other consulting or investment advisory services under this Service unless DDK and Baird agree to do so in writing.

A client that participates in the CSM Service is strongly encouraged to contact the client's investment manager on a periodic basis to discuss: the Account and its investment performance; the investment manager's investment philosophy and style (to determine if the SMA 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 investment 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 CSM Strategies and CSM Eligible Managers made available under this Service are subject to change or removal at any time in Baird's or the Overlay Manager's discretion. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program" below for more information. Under the terms of the CSM Service, DDK and Baird cannot appoint a replacement manager or otherwise manage a client's Account assets. Given the terms of the CSM Service, upon the withdrawal or removal of an investment manager from the CSM Service, a client's CSM

Account will be automatically removed from the CSM Service and the Account will become an unmanaged brokerage account, unless the client provides contrary instructions to DDK. If a client wishes to continue using a manager that Baird or the Overlay Manager has removed from this Service, and DDK and Baird agree, the client will need to enter into a dual contract arrangement.

**Important Information about the CSM Service.** *Other investment management departments of Baird or managers affiliated with Baird may manage a client's Account under the CSM Service if the client selects such a manager. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

*The CSM Service is designed for a client who wishes to independently select an investment manager to manage the client's Account. Unless DDK and Baird otherwise agree in writing, the client assumes sole responsibility for monitoring the client's Account and client's investment manager's performance. It is important to note that neither DDK nor Baird will monitor, evaluate or review any Other Manager or the performance of a client's Account managed by an Other Manager, even if the manager or its strategy is on a Baird recommended list, such as Baird's Recommended Managers List. A client's appointment and continued retention of an Other Manager to manage the client's Account are based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA 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 manager will only be removed from managing the client's Account upon the manager's withdrawal, removal from the CSM Service, or the client's direction to do so. A client, and especially a client selecting a manager on Baird's Recommended Manager List, should carefully consider the foregoing when deciding to participate in the CSM Service and also consider whether another Service, such as the DDK Recommended Managers Service (discussed below), may be more appropriate for the client.*

### ***DDK Recommended Managers Service***

Under the DDK Recommended Managers Service, a client provides Baird and the client's DDK Consultant with discretionary authority to appoint investment managers to manage the client's Account and to terminate or replace investment managers for the client's Account. A client also authorizes such investment managers to manage such Account with full discretionary authority.

Under the DDK Recommended Managers Service, DDK and Baird determine the investment managers ("DDK Recommended Managers") and their strategies ("DDK RM Strategies") eligible to participate in the Service through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—DDK Recommended Managers Service" below.

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

Some of the services provided under this Service will be provided to a client by a DDK Consultant assigned to the client's Account. A client, typically working with a DDK Consultant, initially selects the DDK Recommended Manager and DDK RM Strategy for the client's Account. Thereafter, whenever Baird or the client's DDK Consultant deems it necessary, Baird or the client's DDK Consultant will replace a DDK Recommended Manager or DDK RM Strategy with another DDK Recommended Manager or DDK RM Strategy for the client's Account.

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

Certain DDK RM Strategies are only made available through the Overlay Manager, and Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with those DDK RM Strategies. The DDK RM Strategies made available by the Overlay Manager include both Manager-Traded Strategies and Model-Traded Strategies, although DDK Recommended Managers generally only provide either Manager-Traded or Model-Traded Strategies. If a DDK RM Strategy offered through the Overlay Manager is selected for a client's Account, the client authorizes and directs DDK and Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If a Model-Traded Strategy offered through the Overlay Manager is selected for a 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 DDK RM Strategy selected by the client. If a Manager-Traded Strategy offered through the Overlay Manager is selected for a client's Account, the client authorizes and directs the Overlay Manager to appoint the applicable DDK Recommended Manager as sub-adviser, and the client also authorizes and directs such DDK Recommended Manager to manage the client's

Account with full discretionary authority in accordance with the selected DDK RM Strategy.

If a Model-Traded Strategy offered through the Overlay Manager or an Implementation Manager is selected for a client's Account, the Overlay Manager or Implementation Manager will typically implement the Model Portfolio as proposed by the DDK Recommended Manager. However, since the Overlay Manager or Implementation Manager has discretionary authority over the client's Account, the Overlay Manager or Implementation Manager may implement the Model Portfolio differently than proposed by the DDK Recommended Manager if the Overlay Manager or Implementation Manager determines such action to be necessary and in the client's best interest. A client should note that Baird does not monitor or ascertain whether the Overlay Manager or 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 DDK Consultant.

If a client's Account is managed by an Other Manager under the DDK Recommended Managers Service, the client should understand that, notwithstanding the discretionary authority granted to Baird and the client's DDK Consultant under the Service: Baird and the client's DDK 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 DDK Consultant are not responsible for the decisions made by the Other Manager; and Baird and the client's DDK 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, DDK or Baird may remove investment managers from the DDK Recommended Managers Service, and DDK or Baird may select a replacement manager to manage the client's Account. In such event, DDK 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 DDK or Baird terminates an investment manager from the DDK Recommended Managers Service, a client authorizes DDK 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. DDK'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 DDK Recommended Managers Service, or who directs or otherwise requests that a particular investment manager not recommended by DDK be selected to manage the client's Account, will generally need to move to another Service, such as the CSM Service. See "Client Selected Managers Service" above for more information. Clients who elect to do so will no longer receive ongoing monitoring, evaluation, or review of that investment manager from DDK or Baird.

**Important Information about Affiliated Managers.** *The DDK 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. Baird has a potential conflict of interest to the extent Baird would advise a client to select investment products offered by those Baird Departments. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Referred Managers Service**

The Referred Managers Service is a service whereby a client independently selects an Other Manager to manage the client's Account with full discretionary authority according to a strategy selected by the client. This Service is designed to accommodate a client who wishes to independently select an Other Manager to manage the assets in the client's Account with full discretion.

Referred Managers are Other Managers that have indicated to Baird they prefer to act as sub-adviser to Baird rather than enter into contracts directly with clients. However, a client should note that Baird does not make any recommendation to clients regarding any Referred Manager SMA Strategy or any representations regarding a Referred Manager's qualifications as an investment adviser or abilities to manage client assets.

Referred 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 Referred Manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

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

Some of the services provided under the Referred Managers Service may be provided to a client by a DDK Consultant assigned to the client's Account, and the client's DDK Consultant may provide his or her own advice and recommendations about investment managers.

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

If a client's Account is managed by an Other Manager under this Service, the client should understand that: DDK 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, DDK and Baird are not responsible for the decisions made by the Other Manager; DDK 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 DDK and Baird only provide the client with certain consulting services, which may include the client's DDK Consultant's assistance with determining the client's financial needs, investment goals and investment restrictions and periodically reviewing the manager's performance. DDK and Baird do not undertake to provide any other consulting or investment advisory services under this Service unless DDK and Baird agree to do so in writing.

A client that participates in the Referred Managers Service is strongly encouraged to contact the client's Referred Manager on a periodic basis to discuss: the Account and its investment performance; the Referred Manager's investment philosophy and style (to determine if the SMA 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 Referred 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 investment managers made available under the Referred Managers Service are subject to change or removal at any time in Baird's sole discretion. Under the terms of the Referred Managers Service, Baird cannot appoint a replacement manager or otherwise manage a client's Account assets. Given the terms of the Referred Managers Service, upon the withdrawal or removal of an investment manager from the Referred Managers Service, a client's Referred Managers Account will be automatically removed from the Referred Managers Service and the Account will become an unmanaged brokerage account, unless the client provides contrary instructions to DDK. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program" below for further information.

**Important Information about the Referred Managers Service.** *The Referred Managers Service is designed for a client who wishes to independently select an investment manager to*



*manage the client's Account. The client assumes sole responsibility for monitoring the client's Account and client's Referred Manager's performance. A client's appointment and continued retention of a Referred Manager to manage the client's Account are based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA 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 Referred Manager will only be removed from managing the client's Account upon the manager's withdrawal, removal from the Service, or the client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the Referred Managers Service and also consider whether another Service may be more appropriate for the client.*

#### **Riverfront Managed Portfolios Program**

The Riverfront Managed Portfolios Program is a Program whereby a client independently selects Riverfront to manage the client's Account with full discretionary authority according to a strategy offered by Riverfront (a "Riverfront Portfolio") that is selected by the client.

The Riverfront Portfolio strategies are model asset allocation portfolios that have different investment objectives and use different strategic and tactical investment strategies. Each Riverfront Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds and ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

The Riverfront Portfolio strategies that Riverfront offers under the Riverfront Managed Portfolios Program include Riverfront Asset Allocation Portfolios (also known as "Advantage Portfolios"); Riverfront ETF Portfolios (also known as "ETF Advantage Portfolios"); and RiverShares Model Portfolios.

Riverfront may invest a client's Account in various types of securities, which will be chosen by Riverfront and which will likely include mutual funds, ETFs or other investment products affiliated with Riverfront or Baird.

Clients are urged to review Riverfront's Form ADV Part 2A Brochure, which contains additional important information about Riverfront, including information about the Riverfront Portfolios, the types of investments Riverfront may use for a client's Account, and the risks associated with investing in those Portfolios. Riverfront's Form ADV Part 2A Brochure is available upon request.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account.

If the client has decided to retain Riverfront to manage the client's Account, the client's DDK Consultant will generally assist the client in selecting a Riverfront Portfolio suitable for the client's Account.

If a client selects a Riverfront Portfolio, the client authorizes and directs Baird to appoint Riverfront to serve as sub-adviser to the client's Account. The client also authorizes and directs Riverfront to manage the client's Account with full discretionary authority in accordance with the Riverfront Portfolio selected by the client.

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

Under the terms of the Riverfront Managed Portfolios Program, DDK and Baird cannot appoint a replacement manager or otherwise manage a client's Account assets. Given the terms of the Riverfront Managed Portfolios Program, upon the withdrawal of Riverfront, a client's Riverfront Managed Portfolios Program Account will be automatically removed from the Riverfront Managed Portfolios Program and the Account will become an unmanaged brokerage account, unless the client provides contrary instructions to DDK. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program" below for further information.

#### **Important Information about Riverfront.**

*Baird is affiliated, and may be deemed to be under common control, with Riverfront by virtue of their common indirect ownership. Baird has a potential conflict of interest to the extent Baird would advise a client to participate in advisory programs offered by Riverfront. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

*It is important to note that Baird only provides a limited review of Riverfront. A client's appointment and continued retention of Riverfront to manage the client's Account are based upon the client's review of Riverfront and its services. In selecting the Riverfront Portfolio, the client determines that the strategy to be used by Riverfront 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, Riverfront will only be removed from managing the client's Account upon Riverfront's withdrawal or the client's direction to do so. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program" below for further information.*

#### **UMA Programs**

##### **ALIGN UMA Select Portfolios Program**

Under the ALIGN UMA Select Portfolios Program, Baird and the Overlay Manager manage a client's Account with full discretionary authority according to a proprietary model asset allocation strategy developed by Baird (each such model, an "ALIGN

UMA Select Portfolio") that is selected by the client. The ALIGN UMA Select Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different investment strategies. Each ALIGN UMA Select Portfolio provides for specific levels of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Each Portfolio generally uses mutual funds, ETPs, primarily ETFs, and SMA Strategies in order to implement the model asset allocation strategy. The amount allocated to an asset class or type of investment varies by Portfolio, and some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

The ALIGN UMA Select Portfolios Program makes available: (1) certain mutual funds and ETPs that Baird determines are eligible for the UMA Programs through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—UMA Programs" below ("UMA Recommended Funds"); and (2) SMA Strategies included on Baird's Recommended Managers List ("BRM Strategies"), which are described under "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis—Certain Recommended Lists" below.

For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—UMA Programs" below.

Investment managers participating in the ALIGN UMA Select Portfolios Program 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 investment manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

Clients are urged to review the investment manager's Form ADV Part 2A Brochure, which should contain additional important information

about the investment manager, including information about the investment manager's strategies, the types of investments the investment manager may use for a client's Account, and the risks associated with investing in the investment manager's SMA Strategies. Such brochures are available upon request.

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account. Typically, a client selects the ALIGN UMA Select Portfolio appropriate for the client's Account with the assistance of the client's DDK Consultant.

Baird constructs each ALIGN UMA Select Portfolio and adjusts the asset allocation of each ALIGN UMA Select Portfolio from time to time. Baird also determines the mutual funds, ETPs, or SMA Strategies that are available in the ALIGN UMA Select Portfolios Program, including the percentage each investment comprises in each asset class within an ALIGN UMA Select Portfolio. Baird may remove mutual funds, ETPs, or SMA Strategies used in the ALIGN UMA Select Portfolios Program from time to time and replace them with other investment options. Baird may make changes to an ALIGN UMA Select Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with the ALIGN UMA Select Portfolios Program. The ALIGN UMA Select Portfolios Program makes both Manager-Traded Strategies and Model-Traded Strategies available to clients. If a client selects an ALIGN UMA Select Portfolio, the client authorizes and directs Baird to manage the client's Account with full discretionary authority in accordance with the ALIGN UMA Select Portfolio selected by the client. The client also authorizes and directs Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account and directs the Overlay Manager to manage the client's Account in accordance with the ALIGN UMA Select Portfolio selected by the client and the terms of the ALIGN UMA Select Program. If an ALIGN UMA Select Portfolio contains a Model-Traded Strategy, the client authorizes and directs the Overlay Manager to manage such SMA Strategy within the client's Account with full discretionary authority in accordance with the SMA Strategy. If an ALIGN UMA Select Portfolio

contains a Manager-Traded Strategy, the client authorizes and directs the Overlay Manager to appoint the applicable investment manager as sub-adviser, and the client also authorizes and directs such investment manager to manage such SMA Strategy within the client's Account with full discretionary authority in accordance with the SMA Strategy.

If an ALIGN UMA Select Portfolio contains a Model-Traded Strategy, the Overlay Manager will typically implement the Model Portfolio as proposed by the Model Manager. However, since the Overlay Manager has discretionary authority over the applicable portion of the client's Account, the Overlay Manager may implement the Model Portfolio differently than proposed by the Model Manager if the Overlay Manager determines such action to be necessary and in the client's best interest. A client should note that Baird does 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 DDK Consultant.

If a portion of client's ALIGN UMA Select Portfolios Account is managed by an Other Manager, the client should understand that: DDK and Baird do not manage such portion of the Account and do not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, DDK and Baird are not responsible for the decisions made by the Other Manager; and DDK and Baird do not provide any recommendation or investment advice regarding the purchase or sale of investment products made for such portion of the client's Account.

A client participating in the ALIGN UMA Select Program gives the Overlay Manager and Baird the authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy, or engage in tax management strategies in certain circumstances. See "Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients" below for more information.

**Important Information about Affiliated Products.** *Some of the investment services and products offered by Riverfront, and mutual funds offered by the Baird Funds, both of which are*

*affiliated with Baird, have been selected by Baird for inclusion in certain ALIGN UMA Select Portfolios. This presents a conflict of interest. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Unified Advisory Select Portfolios Program**

Under the UAS Portfolios Program, Baird and the Overlay Manager generally manage a client's Account on a non-discretionary basis according to a custom model asset allocation strategy (each such model, a "UAS Portfolio") that is selected by the client. UAS Portfolios involve the use of various different investment strategies because they are customized for each client. A UAS Portfolio provides a client with a customized level of investment across different asset classes, such as equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. To implement the asset allocation strategy, a client selects the investments for the Account from among those mutual funds, ETPs, SMA Strategies and Baird-Managed Portfolios that Baird has determined are eligible for use in the Program.

The UAS Portfolios Program makes available two categories of mutual funds and ETPs: (1) UMA Recommended Funds; and (2) certain other mutual funds and ETPs that Baird determines are available for the Program ("UAS Available Funds"). A client should note that DDK and Baird do not make any recommendation to clients regarding any UAS Available Fund.

Similarly, the UAS Portfolios Program makes available two categories of SMA Strategies: (1) certain BRM Strategies, which are described under "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis—Certain Recommended Lists" below; and (2) certain CSM Strategies, which are described under the heading "SMA Services—Client Selected Managers Service" above. A client should note that DDK and Baird do not make any recommendation to clients regarding any CSM Strategy or other SMA Strategy or any representations regarding the Overlay Manager's, a CSM Eligible Manager's or other investment manager's qualifications as an investment adviser or abilities to manage client assets.

For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—UMA Programs" below.

Investment managers participating in the UAS Portfolios Program 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 investment manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird.

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

Some of the services provided under this Program may be provided to a client by a DDK Consultant assigned to the client's Account. Typically, a client develops and selects the UAS Portfolio appropriate for the client's Account with the assistance of the client's DDK Consultant.

*While a client retains discretionary authority over the selection of mutual funds, ETFs, SMA Strategies and Baird-Managed Portfolios for the Account, by selecting an SMA Strategy or Baird-Managed Portfolio, the client authorizes and directs Baird, the Overlay Manager and the client's investment manager, as applicable, to manage each SMA Strategy or Baird-Managed Portfolio portion of the Account with full discretionary authority in accordance with the SMA Strategy or Baird-Managed Portfolio selected by the client.*

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with the UAS Select Portfolios Program. The UAS Portfolios Program makes both Manager-Traded Strategies and Model-Traded Strategies available to clients. If a client selects a UAS Portfolio, the client authorizes and directs Baird to manage the client's Account in accordance with the UAS



Portfolio selected by the client and the terms of the UAS Program. The client also authorizes and directs Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account and directs the Overlay Manager to manage the client's Account in accordance with the UAS Portfolio selected by the client and the terms of the UAS Program. If a UAS Portfolio contains a Model-Traded Strategy, the client authorizes and directs the Overlay Manager to manage such SMA Strategy within the client's Account with full discretionary authority in accordance with the SMA Strategy. If a UAS Portfolio contains a Manager-Traded Strategy, the client authorizes and directs the Overlay Manager to appoint the applicable investment manager as sub-adviser, and the client also authorizes and directs such investment manager to manage such SMA Strategy within the client's Account with full discretionary authority in accordance with the SMA Strategy. If a UAS Portfolio contains a Baird-Managed Portfolio, the client authorizes and directs Baird to manage such Baird-Managed Portfolio within the client's Account with full discretionary authority in accordance with the Baird-Managed Portfolio.

If a UAS Portfolio contains a Model-Traded Strategy, the Overlay Manager will typically implement the Model Portfolio as proposed by the Model Manager. However, since the Overlay Manager has discretionary authority over the applicable portion of the client's Account, the Overlay Manager may implement the Model Portfolio differently than proposed by the Model Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

If a portion of client's UAS Account is managed by an Other Manager, the client should understand that: DDK and Baird do not manage such portion of the Account and do not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, DDK and Baird are not responsible for the decisions made by the Other Manager; DDK and Baird do not provide any recommendation or investment advice regarding the purchase or sale of investment products made for such portion of the client's Account; and DDK and Baird only provide the client with certain consulting services, which may include the client's DDK Consultant's assistance with determining the client's financial needs, investment goals and investment

restrictions and periodically reviewing the manager's performance. DDK and Baird do not undertake to provide any other consulting or investment advisory services under this Program unless DDK and Baird agree to do so in writing.

A client that selects a CSM Strategy is strongly encouraged to contact the client's investment manager on a periodic basis to discuss: the Account and its investment performance; the investment manager's investment philosophy and style (to determine if the CSM 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 investment 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).

Baird constructs each Baird-Managed Portfolio and may make changes to a Baird-Managed Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

A client participating in the UAS Portfolios Program gives the Overlay Manager and Baird the authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy or engage in tax management strategies in certain circumstances. See "Additional Service Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients" below for more information.

**Important Information about the UAS Portfolios Program.** *Other investment management departments of Baird or managers affiliated with Baird may manage a client's Account under the UAS Portfolios Program if the client selects such a manager. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

*The CSM Strategies are made available for a client who wishes to independently select an investment manager to manage the client's Account. Unless DDK and Baird otherwise agree in writing, the client assumes sole responsibility for monitoring each CSM Strategy and the manager's*

*performance. It is important to note that neither DDK nor Baird will monitor, evaluate or review any Other Manager providing a CSM Strategy or the performance of a CSM Strategy within a client's Account. A client's appointment and continued retention of an Other Manager providing a CSM Strategy are based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the CSM 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, an Other Manager providing a CSM Strategy will only be removed from managing the client's Account upon the manager's withdrawal, removal from the Program, or the client's direction to do so. A client should carefully consider the foregoing when deciding to select a CSM Strategy and also consider whether another SMA Strategy or Service may be more appropriate for the client.*

## **Additional Service Information**

### **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 DDK 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 DDK 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 DDK Recommended Managers Service, the client's advisory agreement provides Baird and the client's DDK 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 DDK or Baird terminates an investment manager from management of a client's DDK Recommended Managers Service Account, the client's advisory agreement provides DDK 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 or the Overlay 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's Account participates in a UMA Program, the client provides Baird, the Overlay Manager and the client's investment manager, as applicable, discretionary authority to manage the assets in the client's Account in accordance with the terms of the UMA Program selected by the client.

If a client grants discretionary authority over the client's Account to DDK, Baird, the client's DDK Consultant or the client's investment manager, the client's advisory agreement authorizes DDK, Baird, the client's DDK 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 DDK, Baird, the client's DDK 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, DDK, Baird, the client's DDK 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 DDK, Baird, the

client's DDK Consultant or the client's investment manager, shall remain in full force and effect until terminated by the client, the client's investment manager, DDK 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 "Trading for Client Accounts" below, unless Baird's duty to seek to obtain best execution otherwise requires or unless the client has provided other instructions to Baird in writing. DDK and Baird do not have discretionary authority over the assets in a client's SMAs or UMAs 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 or UMAs may initiate securities transactions through Baird, in its capacity as broker-dealer, as further described under the heading "Trading for Client Accounts" below, 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 or UMA Program, the client authorizes DDK 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 DDK and Baird to transmit to the Overlay Manager and any such Other Manager or Implementation Manager any instructions that the client may provide to DDK or Baird to the extent necessary to carry out the client's instructions.

### **Client Investment Restrictions**

The Discretionary and the SMA Services and the UMA Programs 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 DDK, Baird or a client's investment manager has discretion.

DDK 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, DDK, 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 DDK, 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 DDK Consultant.

### **Affiliated Investment Products**

DDK, 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. In addition, if the client participates in cash sweep services provided by Baird, short-term cash balances in the client's Account may be invested in one or more money market mutual funds and individual deposit accounts offered by Baird, its affiliates, or a third party. Baird and its affiliates may receive fees or other compensation related to such cash balance investments made by the client.

By signing an advisory agreement with DDK, a client consents to DDK, Baird and Baird's affiliates investing all or a portion of the client's Account in investment products or in bank deposit accounts that pay advisory or other fees to Baird or its affiliates ("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 or deposit account. Additional information is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). DDK, 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 DDK and Baird, clients should review the section of the Brochure entitled "Portfolio Manager Selection and Evaluation" below. 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 DDK, 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**

DDK and Baird will not review, monitor, accept or adhere to an investment policy statement or similar document that was not prepared by DDK 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 DDK and Baird to convert or exchange any shares of investment funds, such as mutual funds, ETFs, closed-end funds, unit investment trusts ("UITs"), Alternative Investments Products, and other similar investment pools (collectively, "Investment Funds") held in the client's Account to a class of shares of the same fund that has lower operating expenses, 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.

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, DDK 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, DDK and Baird may redeem or sell such Advisory Class Shares.

## **Trading for Client Accounts**

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

#### *Placement of Client Trade Orders*

DDK and Baird will select the broker-dealers that will execute trade orders for Non-Discretionary Accounts and with respect to Accounts that are managed directly by DDK or Baird unless the client has provided instructions to DDK to the contrary. As investment adviser, DDK 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 DDK and Baird. It is important to note that DDK'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.

Because a client does not pay commissions to Baird when Baird, acting as broker-dealer, executes a client's trade orders, and because a client may incur commission costs in addition to the Advisory Fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever Baird executes client transactions. For this reason, and given Baird's execution capabilities as broker-dealer, DDK expects that Baird will generally execute trade orders, as broker-dealer, for Non-Discretionary Accounts and the client's Accounts that are directly managed by DDK or Baird.

However, in some instances, circumstances may arise that may require DDK or Baird, in compliance with their best execution obligations to a client, to place a client's trade order with a firm other than Baird. If they place trade orders for the client's Account for execution by a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Advisory Fee.

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

DDK 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.

DDK 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, DDK 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, DDK 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, DDK and Baird determine whether or not to utilize block transactions for a client in their sole discretion and DDK's and Baird's decision is subject to their duty to seek best execution. DDK and Baird will aggregate a client's trade orders only when they deem it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements.

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

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, DDK 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 to trade allocations may also be made, at the discretion of DDK, to take into consideration account specific investment restrictions, undesirable position size, account portfolio weightings, client tax status, client cash positions and client preferences. Adjustments may also be made to avoid a nominal allocation to client accounts.

When DDK is not able to aggregate trades, DDK 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 DDK'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.

Because DDK and Baird are unable to buy or sell any security for a client's Non-Discretionary Accounts without the client's authorization, DDK 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 DDK'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 DDK or Baird.

#### *Directed Brokerage Arrangements*

In some cases, a client may direct DDK to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and DDK may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs DDK 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 DDK or Baird and trades must be

executed through that platform. A client should understand that DDK and Baird consider such arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, DDK 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 DDK generally will not aggregate the client's directed brokerage trade orders with orders for other DDK 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 DDK may obtain for its other clients. A client should further note that DDK generally will not include such client trade orders in its trade rotation process and that DDK will generally place the client's trade orders with the directed broker-dealer after DDK completes its trading for other DDK client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in DDK's rotation. As a result, the client may receive a less favorable net price for the trade.

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

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

### *Cross Trading Involving Advisory Accounts*

From time to time, when DDK and Baird believe that each respective transaction is consistent with the client's best interest, DDK, 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 DDK 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 DDK 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 DDK or Baird is responsible, trades will be adjusted or reversed as needed in order to put the client's Account in the position that it would have been in as if the error had not occurred. Errors caused by DDK or Baird will be corrected at no cost to client's Account, with the client's Account not recognizing any loss from the error. The client's Account will be fully compensated for any losses incurred as a result of any such error. If the trade error results in a gain, the gain may be retained by Baird but such gain is not given to or shared with any DDK or Baird associate.

DDK 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.

### **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 other wrap fee programs sponsored by firms other than Baird. 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. However, as it pertains to DDK clients, this practice may result in "trading away" from Baird, which is more fully described below.

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.

Because a client does not pay commissions to Baird when Baird, acting as broker-dealer, executes a client's trade orders, and because a client generally would incur trading costs in addition to the Advisory Fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever Baird executes DDK client transactions. For this reason, and given Baird's execution capabilities as broker-dealer, investment managers may determine that placing trade orders for the client's Account with Baird is the most favorable option for the client. However, investment managers may place a client's trade orders with a broker-dealer firm other than Baird if the manager determines that it must do so to comply with its best execution obligations. This practice is frequently referred to as "trading away" and these types of trades are frequently called "step out trades". A client's trade order so executed is then cleared and settled through Baird in what is frequently referred to as a "step in".

In some instances, step out trades are executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If a client's investment manager places trade orders for the client's Account with a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Advisory Fee.

Some managers have historically placed nearly all client trades with broker-dealer firms other than Baird for execution. Some managers have placed nearly all or all client trades resulting from changes to their model portfolios or strategies with firms other than Baird. Similarly, some managers have frequently placed client trade orders for fixed income, foreign and small cap securities with firms other than Baird. In some cases, the other executing broker-dealer firm imposes a commission or markup or markdown (which is embedded in the price of the security) for executing the trade. As a result, these types of managers and their strategies could be more

costly to a client than managers that primarily place client trade orders with Baird for execution.

A list of managers that have informed Baird that they have traded away from Baird during 2015 - 2016 and general information about the additional cost of those trades (if any) is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). The information about each manager provided on Baird's website is based solely upon the information provided to Baird by such manager. Baird has not independently verified the information, and as a result, none of Baird or any of its affiliates or associates makes any representation as to the accuracy of any such information.

A client should contact the client's DDK Consultant or investment manager if the client would like to obtain specific information about trade aways and the amount of commissions or other costs, if any, the client incurred in connection with step out trades.

*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 DDK 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. In particular, the client should carefully consider any additional trading costs the client may incur before selecting a manager to manage the client's Account.*

A client should note that the client's advisory agreement permits DDK 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*

In certain circumstances and to the extent permitted by applicable law and regulation, Baird and DDK 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. DDK Consultants may receive compensation from Baird related to agency cross transactions. Therefore, Baird and DDK Consultants may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird and DDK 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 DDK Consultants to effect agency cross transactions for a client's Account. **A client's authorization to Baird and DDK 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 DDK Consultant in writing.**

#### *Principal Transactions*

Subject to the requirements of applicable law, Baird and DDK Consultants may execute transactions for a client's Account while acting as principal for Baird's own account. Baird and DDK 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 DDK 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 and DDK Consultants commonly engage in principal trades with clients in the Baird Advisory Choice Program.

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. DDK Consultants may receive compensation from Baird related to principal trades of securities underwritten by Baird. Any compensation received by Baird or a DDK Consultant in a principal transaction is in addition to the Advisory Fee paid by the client. Thus, in trading as principal with a client, Baird and DDK 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 DDK Consultants an incentive to recommend a transaction in which Baird and DDK Consultants act as principal over other transactions. Nonetheless, Baird and DDK 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 DDK 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 DDK 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 DDK 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 DDK 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 DDK 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 DDK Consultant in writing.**

### ***Alternative Strategies and Alternative Investment Products***

Some Services offer clients the ability to pursue Alternative Strategies that involve special risks not apparent in more traditional investments like stocks and bonds. Alternative Strategies may be pursued in multiple ways, including alternative mutual funds, ETFs, hedge funds, managed futures, private equity funds and SMAs managed by third party managers. Some Alternative 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 Alternative Strategies engage in the use of margin or leverage or selling securities short ("short sales"). Some Alternative Strategies invest in derivative instruments such as options, convertible securities, futures, swaps, or forward

contracts. Alternative Investment Products generally engage in one or more Alternative Strategies. Additional information about Alternative Strategies and Alternative Investment Products is provided below.

### **Non-Traditional Assets**

Non-Traditional Assets, like real estate, commodities, currencies, 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. 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 will provide the client with a margin loan. The securities purchased on margin 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 client's 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, 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.

### **Alternative Investment Products**

Alternative Investment Products typically invest primarily in Non-Traditional Assets or engage in one or more Alternative Strategies. Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, 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"), master limited partnerships ("MLPs"), and managed futures.

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, UITs and variable annuities may also pursue Alternative Strategies, thereby making them Alternative 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 [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### **Additional Important Information**

The use of Alternative Strategies or Alternative 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 "Portfolio Manager Selection and Evaluation—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 DDK 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 Alternative Strategies and Alternative Investment Products is provided under the heading "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies" below and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

A client assumes responsibility for engaging in Alternative Strategies and investing in Alternative 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 DDK Consultant and any investment manager managing the client's Account. DDK 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 Alternative Strategies or Alternative Investment Products has a unique impact upon the calculation of a client's asset-based Advisory Fee. See "Advisory Fees—Calculation and Payment of Fees" below for more information. A client should also understand that Baird and the client's DDK Consultant may have a financial incentive to use, or recommend the use of,



Alternative Strategies or Alternative Investment Products or to increase, or recommend the increase of, margin loans. See “Additional Information—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 DDK 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.

### **Eligible Assets**

Under the Discretionary and Non-Discretionary Services and UMA Programs, a client’s Account held at Baird may generally only hold investment products that Baird has determined to make available for use in those Services (“eligible assets”). Eligible assets vary by Service. Although Baird determines the investment products made available under those Services, the level of initial and ongoing evaluation, monitoring and review that DDK and Baird perform on investment products varies. Investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those products that are included on a recommended or eligible product list. For more information, see the descriptions of each Service under “Services, Fees and Compensation” above and under “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis” below.

*DDK or Baird may change the eligibility of investments for any Service at any time in their sole discretion.*

Some of the eligible assets 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. See “Account Requirements and Types of Clients” below for more information.

**ALIGN, BairdNext Portfolios and UMA Programs.** The ALIGN, BairdNext Portfolios and UMA Programs generally only permit investments

in the mutual funds and ETPs, and with respect to UMA Portfolios, SMA Strategies and Baird-Managed Portfolios, that Baird has made available for use in those Programs. For more information, see the descriptions of each Program under “Services, Fees and Compensation” above.

**Baird Equity Asset Management Portfolios Program.** Eligible assets for the Baird Equity Asset Management Portfolios Program are described in Baird Equity Asset Management’s Form ADV Part 2A Brochure and the Other Managers’ Form ADV Part 2A Brochures, which are available upon request.

**Baird Advisory Choice Program.** Eligible assets for the Baird Advisory Choice Program generally include, but are not limited to, the following types of investments:

- equity securities, including, but not limited to, common stocks, preferred stocks, convertible preferred 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; 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; and cash and cash equivalents;
- rights or warrants on equity securities, and written covered call and written cash secured put equity options;
- open-end mutual funds shares that Baird has made available for use in the Program, which generally includes only those funds with which Baird has a selling agreement and only those funds that are no-load, load-waived, or that

were purchased through Baird and at least 24 months has elapsed since a front-end sales charge (load) or commission was imposed;

- closed-end funds, ETFs, and UITs that have cost structures designed for use in fee-based investment advisory programs;
- BDCs, publicly-traded REITs and MLPs (which may be organized as limited liability companies ("LLCs"));
- ETNs, leveraged funds, inverse 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, funds of real estate, structured products, and managed futures that Baird has made available for use in the Program; and
- variable annuities that have cost structures designed for use in fee-based investment advisory programs.

The types of investments that are ineligible for the Baird Advisory Choice Program 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);
- UITs that impose an initial or deferred sales charge (load);
- all annuities and insurance products, except for variable annuities that have cost structures designed for use in fee-based investment advisory programs;
- commodities, futures or options on commodities, and commodity pools; and
- private investment funds and Alternative Investment Products that have not been made available by Baird for use in the Program.

**DDK Investment Management Service.** Eligible and ineligible assets for the DDK Investment Management Service are generally the same as the Baird Advisory Choice Program,

except the following types of investments are generally ineligible for DDK Investment Management Service Accounts:

- put options; and
- variable annuities.

**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 deems ineligible for use in connection with the other Programs and Services described above.* A client should review the investment manager's Form ADV Part 2A Brochure for more information.

**Russell Program.** The Russell Program generally only permits investments in Russell Funds selected by Russell.

**Consulting Services.** From time to time, DDK may advise clients with respect to, or may manage, certain assets such as private REITs, real estate investments, and insurance products held by custodians other than Baird even though those assets may not be eligible for Accounts held at Baird. Any such arrangement will be set forth in the client's advisory agreement.

### **Unsupervised Assets**

Under certain circumstances, DDK and Baird, in their sole discretion, may accept a client request to place an ineligible asset into a client's Account. In most cases, an ineligible asset is an "unsupervised" asset, meaning that DDK and Baird do not manage or provide investment advisory services regarding such asset. DDK and Baird, in their sole discretion, may also designate an asset that is otherwise eligible for a client's Account as "unsupervised" under certain circumstances, such as when a client acquires an asset in an unsolicited transaction, transfers an asset from an account held at another firm, or continues to hold an asset against DDK's or Baird'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 DDK and Baird 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. 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 creates a risk that the asset will be inadvertently included in the calculation of the client's Advisory Fee and may increase the risk of trade errors, overinvestment, and negative Account performance. A client should consult the client's DDK Consultant for further information.

### ***Special Considerations for the Services***

#### **ALIGN, BairdNext Portfolios, Russell, SMA and UMA Clients**

##### ***Selection of Investment Options***

Baird solely determines the investment options made available to a client under the ALIGN, BairdNext Portfolios, Russell and UMA Programs. ALIGN, BairdNext Portfolios, Russell and UMA Program Accounts will generally be invested in mutual funds or ETPs, and, with respect to UMA Portfolios, SMA Strategies or Baird-Managed Portfolios. If Baird has discretion over a client's Account (or a portion thereof), Baird may invest such Account (or such portion of an Account over which Baird has discretion) in any investment product it deems appropriate for the client's Accounts participating in those Programs.

##### ***Replacement of Investment Options***

From time to time, Baird may remove mutual funds, ETPs, SMA Strategies and Baird-Managed Portfolios, from the ALIGN, BairdNext Portfolios, Russell or UMA Programs, and Baird may replace them with other mutual funds, ETPs, or SMA Strategies or Baird-Managed Portfolios, as it deems appropriate. If a client's Account participates in those Programs, Baird may replace any such investments in the client's Account whenever Baird removes the investment option from those Programs. Baird may make such replacement in the client's Account without providing prior notice to, or obtaining the consent of, the client.

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

If a client's Account participates in the ALIGN Strategic Portfolios Program, the BairdNext Portfolios Program, or the ALIGN UMA Select Portfolios Program, the client grants to Baird the

discretion to sell the Account's investments from time to time and invest the proceeds in ETFs, ETNs, or similar securities in order to avoid the recognition of capital gains and to recognize taxable losses. Baird may also provide this service to a client's ALIGN Custom Portfolios Program Accounts or the UAS Portfolios Program Accounts if the client requests Baird to do so and Baird agrees.

If a client's Account participates in an SMA Program, the client grants to the client's investment manager the discretion to sell investments from time to time and or invest in securities in order to avoid the recognition of capital gains and in order to recognize taxable losses.

Any such tax management by Baird or an investment manager is done at Baird's or the manager's discretion, and there is no guarantee they will do so. A client should understand that some investment managers do not provide tax management. A client should discuss tax management needs and expectations with the client's DDK Consultant and manager prior to investing.

##### ***Asset Allocation Changes and Rebalancing***

If a client's Account participates in an ALIGN Program, the BairdNext Portfolios Program, the Russell Program, or a UMA Program, the client authorizes Baird to rebalance the client's Account assets to be consistent with the client's chosen target asset allocation strategy at any time without prior notice to the client at such times and under such circumstances as Baird, in its discretion, deems appropriate.

Generally, ALIGN, BairdNext Portfolios, Russell, and UMA Program Accounts are currently rebalanced as follows:

- ALIGN Elements Portfolios and BairdNext Portfolios Program Accounts are automatically rebalanced quarterly whenever an Account's allocation to an asset class drifts by 3 percentage points or more from the target allocation.
- ALIGN Custom Portfolios, ALIGN Strategic Portfolios and Russell Program Accounts are automatically rebalanced quarterly whenever an Account's allocation to an asset class drifts by 5

percentage points or more from the target allocation.

- ALIGN Tactical Portfolio Program Accounts are automatically rebalanced whenever Baird changes the target asset allocation of the model ALIGN Tactical Portfolio.
- ALIGN Dynamic Portfolios, UMA Select Portfolios and UAS Portfolios Program Accounts are automatically rebalanced initially either: 366 calendar days after the anniversary date of an Account's enrollment in the Program or whenever an Account's allocation to cash drifts by 3 percentage points or more from the target allocation due to the deposit or withdrawal. Thereafter, those Program Accounts are automatically rebalanced every 366 calendar days following the last time an Account was rebalanced or whenever an Account's allocation to cash drifts by 3 percentage points or more from the target allocation due to the deposit or withdrawal.

A client's DDK Consultant may also rebalance the client's Account enrolled in the ALIGN Custom Portfolios, ALIGN Strategic Portfolios or Russell Program in accordance with rebalancing options that Baird makes available to DDK Consultants. Current rebalancing options for those Programs include rebalancing annually on the Account's anniversary date or quarterly whenever the Account's allocation to an asset class drifts by 3 percentage points or more from the target allocation.

With respect to the ALIGN Dynamic, Elements, Strategic, and Tactical Portfolios Programs, the BairdNext Portfolios Program, the ALIGN UMA Select Portfolios Program, and the Russell Program, and with respect to Baird-Managed Models in the UAS Portfolios Program, Baird may also change a client's asset allocation for any reason, which may include, but shall not be limited to, updates made by Baird to the target asset allocations of its model portfolio strategies or changes in market conditions, Baird's opinion on the future performance of particular asset classes or the client's financial circumstances.

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

### *Overlay Manager*

Under the ALIGN or UMA Programs, the tax management services, asset allocation changes, rebalancing, and other changes described above may be performed or implemented by the Overlay Manager.

### **Third Party Information**

When providing services to a client, DDK 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. DDK and Baird assume that all such information is accurate, complete and current. DDK 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 "Portfolio Manager Selection and Evaluation—Performance Calculation" and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Methods of Analysis" below for more information.

### **Custody Services**

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 DDK and Baird provide to clients is contained under the heading "Services, Fees and Compensation—Consulting Services" above and "Additional Information—Review of Accounts" below.

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.

Baird offers to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or “swept” into an interest-bearing deposit account (the “Bank Sweep Option”) established by Baird with one or more banks selected by Baird for inclusion in the Cash Sweep Program. Certain clients who meet the eligibility requirements may, as an alternative, invest their cash in one or more taxable or tax-exempt money market mutual funds (the “Money Market Fund Option”) that Baird makes available as part of the Cash Sweep Program. Baird generally receives compensation in addition to the Advisory Fee when clients participate in the Cash Sweep Program. See “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Other Interests in Client Transactions—Cash Sweep Program” below for more information.

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

DDK and Baird in their sole discretion may accept certain clients whose assets are held by another custodian that is acceptable to DDK and Baird in their sole discretion (a “third party custodian”). A client who uses a third party custodian does so at the client’s risk. A client should understand that DDK and Baird do not monitor, evaluate or review any third party custodian unless they otherwise agree to do so in writing. 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 and investments made available to the client and the client may not receive performance review or reporting from DDK or Baird. 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 DDK 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 DDK 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 DDK 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.

### **Updating Client Information**

A client is responsible for providing information to DDK and any investment managers managing client’s Accounts reasonably requested by them in order to provide the services selected by the client. DDK and investment managers will rely on this information when providing services to the client. A client is also responsible for promptly informing DDK and any investment managers managing client’s Accounts 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, DDK, 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 DDK and any such investment manager 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 DDK Consultant at least annually.

### **Legal and Tax Considerations**

DDK 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, 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"). Each owner, trustee, named fiduciary, responsible plan fiduciary, or other fiduciary acting on behalf of a Retirement Account ("Retirement Account Fiduciary") should understand that DDK 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. DDK 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 DDK to implement a particular investment strategy for tax purposes, and DDK agrees to implement such strategy, neither DDK nor Baird will be responsible for the development, evaluation or efficacy of any such strategy.

### **Advisory Fee**

#### **Fee Options and Fee Schedule**

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, are available.

#### **Asset-Based Fee Arrangement**

DDK generally offers one asset-based fee arrangement: a tiered fee schedule.

Under a tiered fee schedule, the asset-based fee will vary for different segments of client assets, gradually decreasing as the Account balance increases. For example, a client with an Account value of \$50 million may pay one rate on the first \$10 million of assets in the Account, a lower rate on the next \$15 million of assets in the Account and a still lower rate on the remaining \$25 million of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

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 wrap fee arrangement ("Legacy Wrap 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, brokerage and custody services provided by DDK 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 tiered fee schedule for the Advice Fee portion of the Advisory Fee.

#### Tiered Advice Fee Schedule

The following fee schedule sets forth the maximum tiered Advice Fee rates for the Services.

#### Tiered Advice Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$10 million	Negotiable
On next \$15 million	0.60%
On next \$25 million	0.45%
On next \$25 million	0.30%
On next \$25 million	0.15%
Above \$100 million	Negotiable

#### 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</u>
<b>ALIGN Custom Portfolios</b>	0.00%
<b>ALIGN Dynamic Portfolios</b>	0.00%
<b>ALIGN Elements Portfolios</b>	0.00%
<b>ALIGN Strategic Portfolios</b>	0.00%
<b>ALIGN Tactical Portfolios</b>	0.00%
<b>Baird Advisory Choice</b>	0.00%
<b>BairdNext Portfolios</b>	0.00%
<b>Baird Equity Asset Management Portfolios</b>	0.50%
<b>Client Selected Managers</b>	
Equity SMA Strategies	0.43% - 1.80%
Balanced SMA Strategies	0.10% - 1.70%

#### Portfolio Fee Schedule

<u>Service</u>	<u>Annual Fee Rate or Range</u>
Fixed Income SMA Strategies	0.25% - 1.25%
Global and International SMA Strategies	0.48% - 1.70%
Alternative SMA Strategies	0.48% - 0.96%
<b>Private Investment Management</b>	0.00%
<b>Recommended Managers</b>	
Equity SMA Strategies	0.35% - 0.60%
Balanced SMA Strategies	0.35% - 0.60%
Fixed Income SMA Strategies	0.25% - 0.35%
Global and International SMA Strategies	0.35% - 0.60%
Alternative SMA Strategies	0.35% - 0.60%
<b>Referred Managers</b>	
Equity SMA Strategies	0.35% - 0.60%
Balanced SMA Strategies	0.35% - 0.60%
Global and International SMA Strategies	0.35% - 0.60%
Alternative SMA Strategies	0.35% - 0.60%
<b>Riverfront Managed Portfolios</b>	0.35% - 0.50%
<b>Russell Model Strategies</b>	0.00%
<b>Unified Advisory Select Portfolios</b>	
Equity SMA Strategies	0.35% - 1.80%
Balanced SMA Strategies	0.10% - 1.70%
Fixed Income SMA Strategies	0.25% - 1.25%
Global and International SMA Strategies	0.35% - 1.70%
Alternative SMA Strategies	0.35% - 0.96%
Riverfront SMA Strategies	0.50%
Mutual Funds	0.00%
ETFs	0.00%
ALIGN Elements Portfolios	0.00%
ALIGN Strategic Sleeve or Portfolio	0.00%
ALIGN Tactical Portfolio	0.00%
Baird Recommended Portfolio	0.00%
Baird Value Focus Portfolio	0.00%

## Portfolio Fee Schedule

<u>Service</u>	<u>Annual Fee Rate or Range</u>
<b>ALIGN UMA Select Portfolios</b>	
Equity SMA Strategies	0.50% - 0.55%
Balanced SMA Strategies	0.35% - 0.60%
Fixed Income SMA Strategies	0.25% - 0.35%
Global and International SMA Strategies	0.35% - 0.60%
Alternative SMA Strategies	0.35% - 0.60%
Riverfront SMA Strategies	0.50%
Mutual Funds	0.00%
ETFs	0.00%
ALIGN Strategic Sleeve or Portfolio	0.00%

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.

Important Information about UMAs and Blended Rates. *UMAs offer investments in different investment vehicles (such as mutual funds, ETFs, SMAs and Baird-Managed Portfolios) and asset classes (such as equity securities and fixed income securities). Each investment vehicle and asset class may have a different Portfolio Fee rate, which is shown in the table above. For purposes of calculating the Portfolio Fee for a UMA, the Portfolio Fee rate applicable to each investment vehicle or asset class will be applied to the value of assets invested in each such investment vehicle or asset class in the Account. In other words, the overall Portfolio Fee rate for the UMA as a whole will be a blended rate. The blended Portfolio Fee rate, and the actual Portfolio Fee paid by a client, will vary over time due to many factors, including market appreciation or depreciation of the assets in the Account and changes in allocations to different investment vehicles or asset classes in the Account.*

### Legacy Wrap Fee Arrangements

Unlike a Unified Advice Fee Arrangement, under a Legacy Wrap Fee arrangement, the client pays

one Advisory Fee for investment advisory, brokerage 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. 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 DDK Consultant.

### Flat or Hourly Fee Arrangement

Under a flat fee or hourly fee arrangement, the applicable fee may be determined according to a fixed asset-based or hourly 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.

### Service Account Minimums

The minimum asset value to open an Account in a Service is set forth in the table below.

<u>Service</u>	<u>Account Minimum</u> <u>Asset Level</u>
Consulting Services	Negotiable
ALIGN Custom Portfolios	\$25,000
ALIGN Dynamic Portfolios	\$150,000
ALIGN Elements Portfolios	\$5,000
ALIGN Strategic Portfolios	\$25,000 <sup>(1)</sup>
ALIGN Tactical Portfolios	\$50,000
Baird Advisory Choice	\$10,000
BairdNext Portfolios	\$5,000
Baird Equity Asset Management Growth Portfolios	\$150,000 <sup>(2)</sup>
Baird Equity Asset Management SAM Portfolios	\$250,000 <sup>(2)</sup>
Baird Equity Asset Management Value Portfolios	\$100,000
Client Selected Managers	\$100,000 <sup>(3)</sup>
DDK Investment Management	\$50,000
DDK Recommended Managers	\$100,000 <sup>(3)</sup>

## Account Minimum

<u>Service</u>	<u>Asset Level</u>
Referred Managers	\$100,000 <sup>(3)</sup>
Riverfront Managed Portfolios	\$200,000 <sup>(4)</sup>
Russell Model Strategies	\$10,000
Unified Advisory Select Portfolios	\$25,000 <sup>(5)</sup>
ALIGN UMA Select Portfolios	\$400,000

- (1) ALIGN Strategic Retirement Portfolios have a minimum account requirement of \$5,000.
- (2) Baird Equity Asset Management's SAM Strategic Portfolios have a minimum account requirement of \$250,000. Baird Equity Asset Management's SAM Custom Portfolios have a minimum account requirement of \$1,000,000. Baird Equity Asset Management Mid Cap Growth Portfolios have a minimum account value of \$350,000. All other Baird Equity Asset Management Growth Portfolios have a minimum of \$150,000.
- (3) Each investment manager may have different minimum account size requirements, which can range from \$100,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts.
- (4) Some Riverfront Managed Portfolios have an account minimum of \$250,000.
- (5) UMA Custom Retirement Portfolios have a minimum account requirement of \$5,000.

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. 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 DDK 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 Fees**

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 assets held by any third party custodian.

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 accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. A client should note that Retirement Accounts may not be included in 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.

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 Alternative 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 DDK 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. DDK 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 Alternative 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. However, Baird has adopted internal policies that may restrict the percentage of cash or cash equivalents for sustained periods in an Account. These internal policies are designed to benefit clients who hold large cash balances in their accounts for sustained periods and attempt to ensure that such clients pay an advisory fee that is reasonable for the services provided. However, this internal policy, in some cases, could create a financial incentive for DDK or Baird to recommend or select riskier investments for a client's Account.

If a client maintains a 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. For purposes of determining the asset-based Advisory Fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based Advisory Fees on options, the absolute value of the current market price of the option will be used.

The Account value used for the Advisory Fee calculation may differ from that shown on a client's Account statement or performance report due to a variety of factors, including the client's use of margin, options, short sales, and other considerations. If a client has assets held by a 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 "Services, Fees and Compensation—Additional Service Information—Custody Services" above 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 DDK 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, DDK, 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. DDK 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. DDK 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, DDK or Baird may modify 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 DDK, 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. DDK 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, DDK 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.

The minimum asset value in order to retain the services of DDK is \$10 million, and a minimum annual Advisory Fee of \$60,000 may be assessed to a client regardless of the level of assets advised by DDK. DDK 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 style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedule above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

The fee schedule set forth above is the current fee schedule for the Services. Each Service has had other fee schedules in effect, which may reflect fees that are lower or higher, as the case may be, than those shown above. As new fee schedules are put into effect, they are made applicable only to new clients, and fee schedules

applicable to existing clients may not be affected. Therefore, some clients may pay different fees than those shown above.

### ***Obtaining Services Separately***

DDK generally does not offer the Services to clients on an unbundled basis. In other words, the Services do not permit clients to pay for services, such as investment advice, trade execution, and custody separately. However, 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 the client prefers to have ongoing monitoring, investment advice or professional management of the client's accounts and the nature and level of advice, management, oversight and review, if any, provided to a brokerage account and a particular Service Account;
- the types of investment strategies and products available to brokerage accounts and Service Accounts;
- whether the limitations on the types of securities and other investments available for purchase in a particular type of account are significant to the client;
- the nature and level of transaction services, account performance reporting, or other ancillary services available to brokerage accounts and Service Accounts that may be sought by the client;
- whether the client prefers to pay an asset-based fee for ongoing advice or pay commissions on a transaction-by-transaction basis;
- the relative costs and expenses of a brokerage account and a Service Account, which will vary depending upon:

- o the fee or commission rate the client negotiates with the client's DDK Consultant;
- o the size of the client's account;
- o the level of trading activity and size of trade orders;
- o account fees and charges that apply to brokerage accounts and Service Accounts;
- o the client's use of third party managers who charge their own fees for managing accounts in addition to Baird's advice fee; and
- o the amount of the client's account invested in investment products that have additional internal ongoing operating fees and expenses (e.g., Investment Funds).

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

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

DDK 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 Baird Equity Asset Management Portfolios Program, DDK Recommended Managers Service, Referred Managers Service, and Riverfront Managed Portfolios Program, and with respect to the Overlay Manager and CSM Eligible Managers under the CSM Service, and the Overlay Manager and investment managers providing SMA Strategies under the UMA Programs, Baird pays the manager a subadvisory fee as compensation for the manager's services.

For client Accounts subject to a Legacy Wrap 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 the Overlay Manager, if any) out of the Advisory Fee is set forth in the table below.

#### **Legacy Wrap 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	0.35% - 1.80%
Balanced Strategies	0.10% - 1.70%
Fixed Income Strategies	0.25% - 1.25%
Global and International Strategies	0.35% - 1.70%
Alternative Strategies	0.35% - 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, 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 Wrap 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 DDK) 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 “Additional Information—Other Financial Industry Activities and Affiliations” below. Given the nature of the Advisory Fee, Baird also has an incentive to recommend or select investment managers that trade less frequently with or that trade away from Baird because Baird will incur lower trading costs with respect to such managers and such relationships will be more profitable to Baird. With respect to the UMAs subject to a Legacy Wrap Fee Arrangement, Baird shares a portion of the Advisory Fee with investment managers to the extent a UMA Portfolio contains an SMA Strategy, but it retains the entire Advisory Fee to the extent a UMA Portfolio contains mutual funds or ETPs. Thus, Baird has an incentive to favor mutual funds and ETPs over SMA Strategies with respect to UMAs subject to a Legacy Wrap Fee Arrangement because it will be more profitable for Baird. Conversely, with respect to UMAs subject to a Unified Advice Fee Arrangement, Baird retains a portion of the Portfolio Fee paid to some managers as described above. Thus, Baird has an incentive to favor certain SMA Strategies over other SMA Strategies, mutual funds and ETPs with respect to UMAs subject to a Unified Advice Fee Arrangement because it will be more profitable for Baird.

DDK Consultants receive compensation from Baird. A DDK Consultant is generally compensated based upon the DDK Consultant's total production level at Baird, which takes into account all of the advisory fees, commissions and similar compensation paid to Baird by clients for which the DDK Consultant is responsible. Baird may reduce the rate of compensation it pays to DDK Consultants when the Advisory Fees paid by clients are below certain levels. This creates an incentive for DDK Consultants to charge Advisory Fees at or above those levels and a disincentive to reduce the Advisory Fees below a level that will negatively impact their production. Due to the manner in which Baird compensates DDK Consultants, a DDK Consultant generally will have a financial incentive to trade less for Baird Advisory Choice Accounts than traditional brokerage accounts and to reduce trading or increase a client's Advisory Fees if trading for a client's Advisory Choice Account exceeds certain levels established by Baird. Although DDK

Consultants do not receive any portion of the Advisory Fee, their compensation is directly related to the size of the Advisory Fee that a client pays to Baird. Thus, DDK Consultants have an incentive to recommend or favor Services with higher fees. Also, the compensation paid to DDK Consultants related to Accounts subject to a Legacy Wrap 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 Financial Advisors outside of DDK may refer their clients to DDK Consultants. In those instances, the DDK Consultant generally shares a portion of his or her compensation with the referring Baird Financial Advisor.

Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for DDK 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

In addition to the Advisory Fee described above, a client of DDK will incur other fees and expenses. A client is responsible for bearing or paying, in addition to the Advisory Fee, the costs of all:

- 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);
- front-end or deferred sales charges, redemption fees, or other commissions or charges associated with securities transferred into or from an Account;
- 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;
- fees imposed by the SEC or securities markets, including transaction fees imposed by electronic trading platforms, which fees may be imbedded in the price the client receives for the security; and
- taxes imposed upon or resulting from transactions effected for a client's Account, such as income, transfer or transaction taxes, or any other costs or fees mandated by law or regulation.

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 [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

Certain investment products, such as mutual funds and other Investment Funds, and annuities, have their own internal fees and expenses that are borne either directly or indirectly by their holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, expense reimbursements, and expenses associated with executing securities transactions for the 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. A client is also responsible for any redemption fees, surrender charges or similar fees that the investment product, annuity, or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment product or annuity in which the client invests for further information.

A client is generally responsible for paying the fees charged by each other investment manager managing the client's Account in addition to the Advisory Fee. For UMAs and DDK Recommended Managers Service and Client Selected Managers Service Accounts, a client will pay a fee to each of the client's investment managers at an annual rate of 0.50% of the value of the assets in those Accounts unless otherwise indicated in the client's advisory agreement. A client will also be responsible for paying the fees charged by each investment manager selected by the client under a dual contract arrangement. If a client directs DDK or Baird to pay the client's manager's fee out of the client's Account, and DDK or Baird agree to do so, DDK and Baird will not be responsible for verifying the calculation or accuracy of such fee.

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.

A client may also be assessed other trading costs in addition to the Advisory Fee if client trades are executed through another firm. Please see "Services, Fee and Compensation—Additional Service Information—Trading for Client Accounts" above for more information.

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 eligible assets 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.

Clients who have Accounts managed by DDK may also have other accounts with Baird that are not managed by DDK. 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 DDK.

### Compensation Received by DDK and Baird

The individual who recommends a Service to a client, including a DDK Consultant, receives compensation from Baird that is based upon the amount of the Advisory Fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory services or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Service over other programs or services offered by Baird. However, when providing investment advisory services to clients, DDK and Baird 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 DDK 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 "Services, Fees and Compensation—Additional Service Information" and "Services, Fees and Compensation—Advisory Fee—Advisory Fee Payments to Baird, DDK Consultants and Investment Managers" above, and "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

## Account Requirements and Types of Clients

### Opening an Account

A client that wishes to engage DDK will enter into an advisory agreement with DDK 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 DDK and Baird.

In addition to the investment advisory services that DDK and Baird provide in connection with each Service, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services. For this reason, a client will also enter into a client account agreement with Baird if the client has not already done so. The client account agreement is a brokerage agreement that authorizes Baird to execute trades for, and perform related brokerage and custody services to, 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 DDK Consultant, his or her Regional Director or PWM Supervision department supervisor (or his or her respective designee), and Baird'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'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 DDK, 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 DDK. DDK 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 DDK. 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 DDK.

## 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 “Service, Fees and Compensation—Advisory Fee” above. DDK 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 DDK or Baird in their sole discretion.

### **Account Contributions and Withdrawals**

A client may fund an Account with cash and with securities that DDK, 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 or UMAs from another Baird account and funds deposited or transferred to a client’s SMAs or UMAs 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. 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 DDK’s, Baird’s or the client’s investment manager’s review of securities used to fund the Account may delay investing. In addition, DDK, 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 DDK, 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 DDK, Baird or the client’s investment manager.

If an asset transferred to an Account is an ineligible asset under the terms of the applicable Service, DDK, 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 “Services, Fees and Compensation—Additional Service Information—Unsupervised Assets” above.

A client is responsible for notifying DDK and any investment manager managing the client’s Account of any contributions made into the Account and instructing DDK and any investment manager to liquidate positions in the event the client wishes to withdraw assets from the Account. DDK 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 DDK 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 DDK 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 DDK 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. 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 "collateralizing") and DDK 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 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 DDK and Baird of any default or similar event under the client's collateral arrangements.

A client should understand that neither DDK nor Baird will provide advice on or oversee a collateral

arrangement and they will not act as investment adviser 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, DDK or Baird may refer a client to a lender that pays Baird a referral fee. See "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Other Interests in Client Transactions—Lending Arrangements" below 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 "Services, Fees and Compensation—Additional Service Information—Alternative Strategies and Alternative 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 DDK 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 DDK.

### ***Termination of Accounts***

DDK 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. DDK 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, DDK, 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. DDK, 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 Client's assets are liquidated in connection with a closure of an Account, the client will generally be charged commissions in accordance with Baird's standard commission schedule then in effect.

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. DDK 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 DDK 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 DDK 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.

The client's advisory agreement will survive any event that causes the client's DDK Consultant to be unable to provide services to the client (either on a temporary or permanent basis), including if the client's DDK Consultant ceases to be employed by Baird. In any such event, Baird will continue to provide services to the client and will as promptly as practicable assign another DDK 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.

## Types of Clients

DDK offers the Services primarily to: high net worth individuals and their families and businesses. DDK also provides services to other types of current or prospective clients, including, but not limited to: pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities.

## Portfolio Manager Selection and Evaluation

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

### Selection and Evaluation

#### *DDK Recommended Managers Service*

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

DDK will select or replace, or recommend the selection or replacement of, a particular manager based upon the client's particular goals and circumstances and the client's selected asset allocation and investment strategy. Before selecting or recommending a manager to a client, DDK performs its own quantitative and qualitative analysis of the manager, focusing on the manager's performance and factors DDK believes will help a manager repeat historical performance such as the investment process and personnel, organizational and investment structure. DDK also focuses on the risk and investment style relative to other investment strategies already in a client's portfolio. DDK generally relies upon Baird's Advisory Research group to provide periodic review and evaluation of managers on Baird's Recommended Managers List. To the extent a manager is not on Baird's Recommended Managers List, DDK will perform periodic review

and evaluation of the manager using its own quantitative and qualitative analysis described above. DDK will remove a manager from management of a client's Account when the manager is removed from Baird's Recommended Managers List or if DDK determines that removal is in the client's best interest.

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

DDK and Baird assume no responsibility for the client's selection or termination of an investment manager, the manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

***Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program***

Clients participating in the CSM Service, the Referred Managers Service or the Riverfront Managed Portfolios Program should note that any Other Manager selected by the client under those Services, including a CSM Eligible Manager, is not monitored, evaluated or reviewed by DDK or Baird, even if the manager or its strategy is on a Baird recommended list, such as Baird's Recommended Managers List, unless DDK or Baird states otherwise in writing. DDK and Baird do not recommend or select the investment managers for the client's Account under those Services. A client should further note that DDK and Baird do not make any representation or recommendation to clients regarding such managers or their abilities or qualifications as an investment adviser or to manage client assets.

A client should understand that Baird conducts only limited due diligence and periodic reviews of Riverfront. Ongoing limited due diligence and reviews of Riverfront include requesting Riverfront to answer a quarterly research questionnaire and utilizing third party software to monitor Riverfront's performance.

DDK and Baird do not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the CSM Service, including the Overlay Manager, or under the Referred Manager's Service, unless DDK and Baird otherwise specifically agree to do so in writing. The Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review Overlay Manager's Form ADV Part 2A Brochure for more information, which is available upon request, or contact their DDK Consultant for more information.

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

***ALIGN, BairdNext Portfolios, DDK Investment Management, Russell and UMA Programs***

**Portfolio Management by Baird and DDK**

Portfolio management services under the ALIGN, BairdNext Portfolios, DDK Investment Management Service, Russell and UMA Programs are provided by Baird, Baird's home office investment professionals, and DDK. In order to provide portfolio management services, Baird requires that DDK Consultants and other 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 Other Managers**

Under the UMA Programs, portfolio management services are also provided by the Overlay Manager and Other Managers.

DDK and Baird do not perform any due diligence or ongoing monitoring, evaluation or reviews of the performance of the Overlay Manager.

The UMA Programs make available certain BRM Strategies. The process Baird uses for selecting and removing BRM Strategies is 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” below. The UAS Portfolios Program also makes available certain CSM Strategies provided by CSM Eligible Managers. If a client selects such a CSM Strategy, a client should note that the investment selected by the client is not on Baird’s Recommended Manager List or any other Baird-recommended list, and Baird does not recommend or select the investment for the client. Additionally, Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any such investment, unless Baird otherwise specifically agrees to do so in writing. See “Client Selected Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program” above for more information. A UMA Portfolio may include SMA Strategies offered by investment managers affiliated with Baird.

### ***Baird Equity Asset Management Portfolios Program***

Portfolio management services under the Baird Equity Asset Management Portfolios Program may be provided by Baird Equity Asset Management or Other Managers. In order to provide portfolio management services, Baird requires that Baird Equity Asset Management associates meet all applicable requirements set forth by self-regulatory organizations. Baird Equity Asset Management also requires Baird Equity Asset Management portfolio managers to have an undergraduate degree. Furthermore, Baird Equity Asset Management strongly encourages all Baird Equity Asset Management portfolio managers to pursue and work towards the attainment of the CFA designation or a relevant graduate level degree. Baird generally does not remove any of the Baird Equity Asset Management or Other Manager strategies from the Baird Equity Asset Management Portfolios Program, but may remove a Baird Equity Asset Management portfolio manager from providing services under the Program if Baird deems circumstances warrant removal. Potential causes for removal may include significant drift from stated objectives, sustained underperformance in relation to peers, or other adverse changes affecting the manager.

### ***Oversight of the Services***

The Investment Advisory Oversight Committee (“IAOC”) of Baird, which includes members of Baird’s Asset Management, Product Management, Asset Manager Research, Compliance, Legal, and Risk Management Departments, oversees the standards and implementation of the Services. In addition, Baird Equity Asset Management’s Director also oversees the Baird Equity Asset Management portfolio managers.

The IAOC delegates its day-to-day oversight responsibilities to the applicable Regional Director and Baird’s PWM Supervision, Product Management and Compliance Departments to monitor the Services and the performance of Baird associates providing portfolio management services under the ALIGN, BairdNext, DDK Investment Management, Russell and ALIGN UMA Select Programs. The applicable Regional Director, along with Baird’s PWM Supervision and Compliance Departments and other designees, provide periodic review of the performance of other Baird associates providing portfolio management services under those Services. Performance information is provided to the IAOC, a subcommittee thereof, or the Product Management Investment Committee on a quarterly basis.

### ***Performance Calculation***

As part of Baird’s selection and evaluation of portfolio managers, Baird calculates the performance of:

- DDK and Baird associates acting as portfolio managers under the ALIGN, BairdNext, DDK Investment Management and ALIGN UMA Select Services;
- Managers on Baird’s Recommended Managers list that directly manage client accounts; and
- Managers on Baird’s Recommended Managers list that provide Model Portfolios.

When Baird calculates a manager’s performance, Baird generally uses composites of the manager’s client accounts to calculate the manager’s performance. A composite is an aggregation of client accounts managed by the manager that are representative of a particular investment strategy, style, or objective. Examples of composites include large cap growth, all cap value, balanced



(which includes equity and fixed income securities), and fixed income. Composites may be further broken down to separate taxable and non-taxable portfolios. Fixed income composites may be categorized by portfolio duration.

When calculating composite performance, Baird seeks to utilize calculation methods that adhere to Global Investment Performance Standards (GIPS®) recommendations. Baird calculates composite performance generally using the following principles:

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

To the extent Baird selects or reviews other portfolio managers, Baird does not calculate performance information for such managers. Baird obtains performance information directly from the managers (including the Overlay Manager) or from other external sources that Baird believes to be reliable. For example, Baird does not calculate the performance of portfolio managers providing services under the Russell Program or Riverfront Managed Portfolios Program. Rather, Baird utilizes performance information provided by Morningstar® to evaluate portfolio managers under those Programs. A client should understand that: Baird does not recalculate the performance provided by such managers or external sources; generally, neither Baird nor any independent third party reviews the performance information provided by such managers to verify its accuracy or compliance with presentation standards; those managers may not calculate performance on a uniform or consistent basis; and Baird does not guarantee the accuracy of information provided by such managers or any external source.

A client should note that Baird does not generally present its performance calculations to clients. The information that DDK or Baird provides to clients about portfolio managers from time to time may not be calculated by DDK or Baird but may be calculated by the managers themselves or derived from external sources. DDK and Baird do not audit or verify that performance information presented to clients that is calculated by managers or external sources is accurate. In addition, a client should note that such performance information may not be calculated on a uniform or consistent basis or reviewed by any independent third party. A client should ask the client's DDK Consultant for more information.

### Portfolio Management by DDK, Baird and Related Persons

Portfolio management services under the ALIGN, BairdNext Portfolios, Russell and UMA Programs are provided by Baird and its home office investment professionals. Portfolio management services under the Baird Equity Asset Management Portfolios Program may be provided by Baird Equity Asset Management and may be provided by Baird Equity Asset Management under the DDK Recommended Managers Service, depending upon the DDK RM Strategy a client selects. Portfolio management services under the DDK Investment Management Service are provided by DDK Consultants. Portfolio management services under the Riverfront Managed Portfolios Program are provided by Riverfront and may be provided by Riverfront under the UMA Programs, depending upon the UMA Portfolio selected by the client. Portfolio management services under the CSM Service could include an investment management department of Baird or a manager affiliated with Baird should a client select such a manager. Such arrangements create a potential conflict of interest because Baird and its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, DDK and Baird are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for DDK 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 “Additional Information—Other Financial Industry Activities and Affiliations” and “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

When Baird determines manager availability or eligibility for the CSM Service, the Baird Recommended Managers List, or the UMA Programs, affiliated investment managers are subject to the same selection and review process, if any, that Baird applies to unaffiliated investment managers participating in each respective Service.

The ALIGN, BairdNext Portfolios, DDK Investment Management, Baird Equity Asset Management Portfolios, Riverfront Managed Portfolios, and Russell Programs and certain UMA Portfolios exclusively offer portfolio management by DDK, Baird, Baird associates, or investment managers that are affiliated with Baird, and the portfolio managers under those Services are not subject to an independent selection or review process. Additional information about Baird, DDK and DDK’s Services is provided below.

### Advisory Business

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

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 Holding Company (“BHC”). BHC is 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. DDK and Baird tailor advisory services to the individual needs of clients. For more information about the services offered by DDK and Baird, please see “Services, Fees and Compensation” above.

Subject to the agreement of DDK, a client may impose reasonable restrictions on the securities or types of securities to be held in the client’s Account. Please see “Services, Fees and Compensation—Additional Service Information—Investment Discretion” above for more information.

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

As of December 31, 2016, Baird had approximately \$107.5857 billion in regulatory assets under management, approximately \$76.7861 billion of which was managed on a discretionary basis and approximately \$30.7996 billion of which was managed on a non-discretionary basis.

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

DDK 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 DDK) 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.

## 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 DDK, Baird, Baird'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 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 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 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 dynamically and actively adjust account allocations to different asset classes based upon the manager's perception of how the markets will perform in the short-term. Similarly, rotation strategies actively adjust account allocations to different market sectors based upon the manager's perception of how 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 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 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 or market sectors. 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.*

#### *Alternative Strategies*

Alternative Strategies may invest in a wide range of investments, which may include equity securities, fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. Alternative Strategies generally involve the use of margin, leverage, short sales and derivative instruments. Many Alternative Strategies have no substantive restrictions on the types of investments that may be used. Examples of Alternative 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.
- Floating Rate Bond/Floating Rate Corporate Debt Strategies. Floating rate bond strategies invest in floating rate bonds, also known as floating rate corporate debt, floating rate loans or floating rate bank loans. The interest payments on floating rate bonds are determined by a reference interest rate, such as the federal funds rate, which is periodically reset. Floating rate bonds are not issued by a company directly to the public. Instead, financial institutions provide loans to companies that need funding. The loans are then combined and repackaged for sale to investors.
- 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 and Real Return Strategies. Absolute 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 investment strategies generally involve purchasing common stock or securities convertible into common stock in private transactions. Private investment 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 investment strategies focus on companies that are newly formed, in financial distress or already in bankruptcy. The securities purchased are typically unregistered and illiquid. Private Investment Strategies may also involve the use of leverage.
- 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.

*Alternative Strategies are not appropriate for some clients because they are subject to special risks. See "Services, Fees and Compensation—Additional Service Information—Alternative Strategies and Alternative Investment Products" above and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Non-Traditional Assets and Alternative Strategies Risks" below for more information.*

#### *Asset Allocation Strategies*

Certain Services, including the ALIGN, BairdNext Portfolios, DDK Investment Management, Russell, Baird Equity Asset Management Portfolios, Riverfront Managed Portfolios and UMA Programs, make available asset allocation strategies. Asset allocation strategies have varying investment objectives, ranging from aggressive 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 is described under the heading "Tactical and Rotation Strategies" above. Some asset allocation strategies involve the use of both strategic and tactical investment strategies.

Asset allocation strategies typically involve investments in one or more of the following categories of assets, also known as asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);

- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);
- Non-Traditional Assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;
- Alternative Investment Products, including, but not limited to mutual funds and ETFs that pursue Alternative Strategies; and
- cash, including, but not limited to, money market funds.

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 in the ALIGN, BairdNext Portfolios and UMA Programs, and those used by some DDK 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. For more information about Baird's Capital Market Assumptions, a client should contact the client's DDK 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 aggressive growth of capital. 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, foreign 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. This strategy typically has the same risk profile as an All Growth Portfolio described below.

Capital Growth Portfolio. A Capital Growth Portfolio typically seeks to provide growth of capital. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities. This strategy may also invest in other asset classes, such as foreign 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. Generally, under normal market conditions, this strategy will have a significantly higher allocation to equity securities than fixed income securities. This strategy typically has the same risk profile as a Capital Growth Portfolio described below.

Growth with Income Portfolio. A Growth with Income Portfolio typically seeks to provide moderate growth of capital and some current income. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities. This strategy may also invest in other asset classes, such as foreign 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. Generally, under normal market conditions, this strategy will have a slightly higher allocation to equity securities than fixed income securities. This strategy typically has the same risk profile as a Growth with Income Portfolio described below.

Income with Growth Portfolio. An Income with Growth Portfolio typically seeks to provide high current income and some growth of capital. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities and equity securities. This strategy may also invest in other asset classes, such as foreign 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. Generally, under normal market conditions, this strategy will have a slightly higher allocation to fixed income securities than equity securities. This strategy typically has the same risk profile as an Income with Growth Portfolio described below.

Conservative Income Portfolio. A Conservative Income Portfolio typically seeks to provide high current income. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities, cash and equity securities. This strategy may also invest in other asset classes, such as foreign securities and 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. This strategy typically has the same risk profile as a Conservative Income Portfolio described below.

Capital Preservation Portfolio. A Capital Preservation Portfolio typically seeks to preserve capital. 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, foreign securities and Non-Traditional Assets. This strategy typically has the same risk profile as a Capital Preservation Portfolio described below.

*A client should note that an Account pursuing a particular asset allocation strategy will from time to time have an actual risk profile that may be higher or lower than the target risk profile associated with that strategy due to many factors, including 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. In addition, the client's DDK Consultant or investment manager may determine that it is appropriate to invest the client's Account, or recommend that the client invest the Account, in such a manner that would cause the Account to have a risk profile that is higher or lower than the target risk profile associated with that strategy.*

#### *Additional Strategy Information*

A client should note that, to implement a strategy, a client's DDK 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 DDK 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 DDK 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.

#### **Methods of Analysis**

Baird, its home office investment professionals, and DDK 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.

Baird, its home office investment professionals, and DDK 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. They 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, DDK and Baird do not independently verify or guarantee the accuracy of the information or tools used.

Baird and DDK Consultants may also utilize research reports created by Baird. However, it should be noted that DDK 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, DDK Consultants 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. The level of initial and ongoing evaluation, monitoring and review that DDK and Baird perform on managers and on investment products varies. Managers and investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those managers or products that are included in a model portfolio or on a recommended or eligible product list. 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. DDK 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, DDK 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, unless DDK and Baird otherwise agree in writing, DDK 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 Model Portfolios*

**Baird Recommended Portfolio.** The Baird Recommended Portfolio, which is managed by Baird's Stock Selection Committee, seeks to outperform the S&P 500 Index by investing in a diversified core portfolio of typically 40-50 stocks. The portfolio invests primarily in large cap stocks, as defined by a market capitalization of \$10 billion or greater at the time of investment. Although the portfolio may contain stocks with a market capitalization of less than \$10 billion, these stocks will not represent more than 35% of the total portfolio. The Portfolio is managed by using a top-down approach starting with the macroeconomic and market outlooks provided by Baird's Investment Strategy team. With this information, the Stock Selection Committee chooses 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 Committee believes have strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. Each stock is assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. 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 Value Focus Portfolio. The Value Focus Portfolio, which is managed by Baird's Value Equity Research Team, is intended for investors pursuing long-term capital appreciation, with income being a secondary consideration. The Portfolio typically holds 30–40 stocks and includes primarily mid-cap and large-cap companies, as defined by a market capitalization of \$1 billion or greater at the time of investment. The Portfolio will be concentrated at times, such that about 20 stocks may account for 70% or more of the Portfolio's total assets. Each investment is identified and vetted by research analysts using a fundamental process that focuses on a company's competitive position, profitability, valuation and risks. Many stocks selected for the Portfolio will be contrarian in nature and generally out of favor in the broad market when they are first recommended. Growth-type investments and companies with smaller market capitalization may appear in the Portfolio from time to time. The Value Focus Portfolio's benchmark index is the S&P 500 index. The Value Focus Portfolio does not try to match sector weights of the benchmark index and will often be overweight or underweight certain sectors or areas of the market compared to the index for long periods of time. A stock will be sold out of the Portfolio if the Team's price objective has been reached, and the position weighting may be trimmed if market movements have made that investment an outsized percentage of the overall Portfolio. The Team may also sell a stock in response to heightened downside risk, if the Team's investment thesis has changed due to unforeseen operational or environmental changes.

#### *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 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 Baird's "watch" list. Managers on the watch list are scrutinized to see if improvement or degradation is taking place. Potential causes for removal from Baird's Recommended Managers List include fundamental changes in the operations of the manager, turnover in key personnel, substantial changes in management or ownership, a change in investment philosophy or style, significant drift from stated objectives, major legal, regulatory or compliance difficulties, impairment of financial condition, sustained underperformance in relation to its peers, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

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 five (5) years and have underlying investments that adhere to the fund's market capitalization policy and are consistent with the manager's stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or that are managed by individuals or firms that have demonstrated success in other, related asset classes; that have performance histories showing sufficient ability to achieve returns in excess of their respective style index; and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird. 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 Aggregate Bond Fund, Baird Intermediate Municipal Bond Fund, Baird Short-Term Bond Fund, and Baird MidCap 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. Some FOHFs primarily use credit-oriented investment strategies, which are known as fixed income diversifiers. Some FOHFs primarily use equity-oriented investment strategies, which are known as equity diversifiers. Other FOHFs primarily use a combination of credit- and equity-oriented strategies, which are

known as balanced diversifiers. In certain circumstances, FOHFs may be an appropriate substitute for part of a client's allocation to traditional fixed income or equity investments.

To be added to Baird's Recommended FOHF List, a FOHF must generally meet the following requirements: SEC registration (by the general partner or investment advisor under the Investment Advisers Act of 1940), stable to growing assets under management as determined by Baird, principals with an appropriate level of hedge fund management experience and network of contacts in the industry according to Baird, adequate diversification by number of hedge funds and type of hedge fund strategy in Baird's opinion, effective risk management, and reputable service providers (e.g., auditor, administrator, and legal counsel). 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 marketing and legal documents (e.g., subscription documentation, limited partnership agreement, offering memorandum, and the adviser'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, the Asset Manager Research Department writes and presents an investment thesis to Baird's Investment Committee. The Committee determines whether to add the FOHF to Baird's Recommended Funds of Hedge Fund List. In making that determination, the Committee considers the information presented by the Asset Manager Research Department, 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 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 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.

Using the FOHFs on Baird's Recommended Funds of Hedge Funds List, DDK Consultants will select or replace, or recommend the selection or replacement of, a particular FOHF based upon each client's particular goals and circumstances.

#### *Certain Eligible Product Lists*

Baird's ETP Short List. Baird's ETP Short List is designed to include ETPs that invest in numerous different asset classes and pursue varying investment objectives. When selecting ETPs for inclusion on the List, ETPs are evaluated on a number of criteria including: underlying benchmark index that the fund uses, index replication methodology, tracking error, fund history, assets under management, cost, and trading liquidity. Baird generally seeks ETPs with experienced sponsors that are transparent, have stable or growing assets under management, and have demonstrated consistency of strategy

performance over time. Baird tends to favor ETPs that have well-known, diversified benchmark indices, lower fees and tracking errors, and higher liquidity relative to other ETPs. Inclusion on or exclusion from the Baird ETP Short List is not meant to be a recommendation to buy or sell an ETP. Rather, the List is a collection of ETPs that might be appropriate to meet a particular client's investment goals.

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

Baird's Product Management Department along with the Asset Manager Research Department are primarily responsible for selecting and evaluating managed futures products made available to clients under the Services. Baird's initial evaluation of a managed future product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Alternative Investment Committee, which includes members of Baird's Product Management, Asset Manager Research, Compliance, Legal, and Risk Management Departments, ultimately determines whether to make a managed futures product available to Baird clients.

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

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

strategy or key personnel, or regulatory problems.

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

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

Baird tends to favor larger-sized issuers of structured products over smaller-sized issuers and also tends to favor structured products that have shorter maturities, less complex payout structures, underlying assets that are more liquid or transparent, and offer principal protection.

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

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

Funds of Private Equity Funds. When making funds of private equity funds available to its clients, Baird generally seeks to identify fund of private equity fund products that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well-diversified portfolio of private equity funds;

and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). In addition, Baird looks for fund of private equity fund products that offer strategies that Baird believes may be suitable for Baird clients. Baird also considers the fund's principals' experience managing a fund of private equity fund and whether they have a network of contacts in the industry.

Baird's Product Management Department along with the Asset Manager Research Department are primarily responsible for selecting and evaluating the funds of private equity funds made available to clients under the Services. Baird's initial evaluation of a fund of private equity product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Product Strategy Committee determines whether to make a fund of private equity funds product available to Baird clients.

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

Baird may discontinue making a specific fund of private equity fund available for new investments if it experiences a notable change in investment or key personnel, or regulatory problems.

Using the funds of private equity funds that Baird makes available, DDK Consultants will select or replace, or recommend the selection or replacement of, a particular fund of private equity fund based upon each client's particular goals and circumstances.

Private Equity Funds. Generally, Baird only makes available to clients private equity funds that are affiliated with Baird. This presents a potential conflict of interest. See "Additional Information—

Other Financial Industry Activities and Affiliations—Certain Affiliations—Affiliated Private Equity Funds" below.

### The DDK Investment Process

When providing advice to clients, DDK starts with a needs analysis developed for a client in connection with the financial planning process described above. Using a variety of tools, DDK then develops and recommends a long-term, strategic asset allocation and investment strategy for the client's portfolio that is customized for the client's risk and return objectives. DDK diversifies the client's portfolio among different investments in each asset class with the goal to manage risk. Investment strategies may involve the use of different equity styles or strategies, such as: large cap growth, large cap value, mid cap growth, mid cap value, small cap growth, small cap value, international and emerging market equities strategies; different fixed income styles or strategies, such as short or intermediate, taxable and tax-exempt bond, international and emerging market bond, and high yield bond strategies; different Non-Traditional Asset strategies, such as real estate and real estate fund and commodity strategies; and Alternative Strategies, which may include the use of hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, and managed futures.

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

DDK typically recommends or selects mutual funds and ETFs for Advisory Choice Accounts and DDK Investment Management Accounts. However, other types of securities may be recommended or selected for those Accounts.

When recommending or selecting a particular mutual fund or ETF for client Accounts, DDK begins by reviewing a client's asset allocation and investment strategy needs and identifying the characteristics of the types of mutual funds or ETFs appropriate for the client. Once the characteristic types of mutual funds or ETFs are identified, DDK looks for investments that meet those requirements. DDK looks for funds that have lower expense ratios. Once DDK has

identified a potential fund for a client, DDK conducts a quantitative and qualitative analysis of the investment manager for the fund similar to the analysis it performs on investment managers described under “Portfolio Manager Selection and Evaluation—Selection and Evaluation—DDK Recommended Managers Service” above.

In order to implement the overall client portfolio strategy, DDK 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 DDK and Baird use in connection with each Service is further described below.

### **ALIGN Programs**

The ALIGN Programs offer model asset allocation portfolios that have varying investment objectives and strategies. Each ALIGN Portfolio provides for specific levels of investment (or allocation) across the following asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);
- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);
- Non-Traditional Assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;

- Alternative Investment Products, which include mutual funds and ETFs that pursue Alternative Strategies; and

- cash, which include money market funds.

Each ALIGN Portfolio generally uses mutual funds and ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation strategy. Depending on the ALIGN Portfolio chosen, the ALIGN Portfolio may consist of mutual funds and ETFs that have various investment objectives and strategies, including but not limited to, the following: large cap, mid cap and small cap strategies (which may include value, growth or core strategies); short-term, intermediate-term and long-term fixed income strategies (which may include high yield corporate bond strategies); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies. For additional information regarding the characteristics of the mutual funds and ETPs used in an ALIGN Portfolio, clients should contact their DDK Consultant or review the applicable prospectus.

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

More specific information about how Baird develops its asset allocation strategies is contained under the heading “Investment Strategies—Asset Allocation Strategies” above.

Most ALIGN Portfolios have a risk profile designation of (1) All Growth Portfolio, (2) Capital Growth Portfolio, (3) Growth with Income Portfolio, (4) Income with Growth Portfolio, (5) Conservative Income Portfolio, or (6) Capital Preservation Portfolio, which are described under “Principal Risks—Risk Information for ALIGN and UMA Program Accounts and Other Accounts Following Asset Allocation Strategies” below.

### *ALIGN Custom Portfolios*

ALIGN Custom Portfolios involve the use of various different investment strategies because they are customized for each client. A client’s particular investment strategy is typically



determined by the client in consultation with the client's DDK Consultant. Certain mutual funds and ETPs are available to clients to pursue an investment objective or implement a customized asset allocation strategy. The process Baird uses for selecting and removing mutual funds and ETPs for the ALIGN Custom Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolios Program described under the heading "ALIGN Strategic Portfolios" below. The mutual funds and ETPs that are available for use in connection with the ALIGN Custom Portfolios Program may include funds included on Baird's Recommended Mutual Fund List and funds affiliated with Baird. A client should ask the client's DDK Consultant for additional information about the investment styles, philosophies, strategies, analyses and techniques the DDK Consultant will use in order to meet the client's objectives.

#### *ALIGN Dynamic Portfolios*

The ALIGN Dynamic Portfolios Program offers model portfolios that have different investment objectives and use different strategic and tactical investment strategies. Each ALIGN Dynamic Portfolio generally consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed further below.

The ALIGN Dynamic Portfolios are described below.

Dynamic Growth Portfolio. The Dynamic Growth Portfolio seeks to provide growth of capital with little consideration for current income. This Portfolio generally invests 70% of its assets in the ALIGN Strategic All Growth Portfolio and 30% in the ALIGN Tactical Equity Portfolio, which are described below. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds and ETFs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

Dynamic Moderate Growth Portfolio. The Dynamic Moderate Growth Portfolio seeks to provide growth of capital with some consideration for

current income. This Portfolio generally invests 70% of its assets in the ALIGN Strategic Capital Growth Portfolio and 30% in the ALIGN Tactical Allocation Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

Dynamic Balanced Portfolio. The Dynamic Balanced Portfolio seeks to provide growth of capital balanced with consideration for current income. This Portfolio generally invests 60% of its assets in the ALIGN Strategic Growth with Income Portfolio, 20% in the ALIGN Tactical Equity Portfolio, and 20% in the ALIGN Tactical Opportunity Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily mutual funds and ETFs, that pursue those strategies. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

Dynamic Yield Portfolio. The Dynamic Yield Portfolio seeks to provide high current income from diversified sources of income-producing securities. This Portfolio generally invests 50% of its assets in the ALIGN Strategic (Diversified Yield) Portfolio and 50% in the ALIGN Tactical Yield Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in fixed income securities, equity securities or foreign securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds and ETFs that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, REITs,

MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Preservation Portfolio.

The descriptions of the ALIGN Dynamic Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

The process Baird uses for constructing the ALIGN Dynamic Portfolios and the process Baird uses for selecting mutual funds and ETPs that are available for use in connection with the ALIGN Dynamic Portfolios Program are the same as Baird uses with respect to the ALIGN Strategic Portfolios and ALIGN Tactical Portfolios Programs described below.

#### *ALIGN Elements Portfolios*

The ALIGN Elements Portfolios Program offers model portfolios that have different investment objectives and use different strategic investment strategies.

The ALIGN Elements Portfolios include mutual fund and ETF portfolio options. ALIGN Elements mutual fund portfolios primarily consist of actively managed mutual funds; and ALIGN Elements ETF portfolios primarily consist of passively managed ETFs.

Generally, under normal market conditions, the equity security allocation of each ALIGN Elements Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The Non-Traditional Asset and Alternative Investment Product allocations provide

diversification and are intended to reduce correlation to U.S. stock and bond markets. However, ALIGN Elements Portfolios tend to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

The ALIGN Elements Portfolios Program is designed for clients with smaller accounts and as such does not provide for investments in as many mutual funds or ETFs compared to other ALIGN Programs. Clients that are able to satisfy applicable account minimums for other Services are encouraged to discuss with their DDK Consultant whether another Service may be a more appropriate choice for them.

The ALIGN Elements Portfolios are described below.

ALIGN Elements All Growth Portfolio. The ALIGN Elements All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN Elements All Growth ETF Portfolio. The ALIGN Elements All Growth ETF Portfolio has the same objective, types of underlying investments, target allocations and risk profile as the ALIGN Elements All Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds.

ALIGN Elements Capital Growth Portfolio. The ALIGN Elements Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment

Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

ALIGN Elements Capital Growth ETF Portfolio. The ALIGN Elements Capital Growth ETF Portfolio has the same objective, types of underlying investments, target allocations and risk profile as the ALIGN Elements Capital Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds.

ALIGN Elements Growth with Income Portfolio. The ALIGN Elements Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

ALIGN Elements Growth with Income ETF Portfolio. The ALIGN Elements Growth with Income ETF Portfolio has the same objective, types of underlying investments, target allocations and risk profile as the ALIGN Elements Growth with Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds.

ALIGN Elements Income with Growth Portfolio. The ALIGN Elements Income with Growth Portfolio seeks to provide high current income and some growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities or equity securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio.

ALIGN Elements Income with Growth ETF Portfolio. The ALIGN Elements Income with

Growth ETF Portfolio has the same objective, types of underlying investments, target allocations and risk profile as the ALIGN Elements Income with Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds.

ALIGN Elements Conservative Income Portfolio. The ALIGN Elements Conservative Income Portfolio seeks to provide high current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities and equity securities. This Portfolio normally will have a significantly higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, Non-Traditional Assets and cash. This Portfolio has the same risk profile as a Conservative Income Portfolio.

ALIGN Elements Conservative Income ETF Portfolio. The ALIGN Elements Conservative Income ETF Portfolio has the same objective, types of underlying investments, target allocations and risk profile as the ALIGN Elements Conservative Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds.

The descriptions of the ALIGN Elements Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

The process Baird uses for selecting and removing mutual funds and ETPs for the ALIGN Elements Portfolios Program is the same process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolios

Program described under the heading “ALIGN Strategic Portfolios” below.

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

#### *ALIGN Strategic Portfolios*

The ALIGN Strategic Portfolios Program offers model portfolios that have different investment objectives and use different strategic investment strategies. The ALIGN Strategic Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a “sleeve”).

*Clients should note that indexed ALIGN Strategic Portfolio investment strategies are closed to new client accounts, although client accounts currently pursuing those strategies may continue to do so.*

Some ALIGN Strategic Portfolios are designed for certain Retirement Accounts. Those Portfolios offer the ability to invest in either actively managed mutual funds or passively managed ETFs.

Some ALIGN Strategic Portfolios invest a material portion of assets in mutual funds and ETFs that pursue Alternative Strategies designed to provide absolute return. Those strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets and the use of derivative instruments in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle.

Some ALIGN Strategic Portfolio Strategies invest a material portion of assets in mutual funds and ETFs that focus on investments that provide diversified yield or sources of income, such as dividend-paying stocks, preferred stocks, high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, Alternative Investment Products and derivative instruments.

Generally, under normal market conditions, the equity security allocation of each ALIGN Strategic Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The Non-Traditional Asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

The ALIGN Strategic Portfolios are described below.

**ALIGN Strategic All Growth Portfolio.** The ALIGN Strategic All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

**ALIGN Strategic All Growth Hybrid Portfolio.** The ALIGN Strategic All Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

**ALIGN Strategic All Growth (Retirement) Portfolio.** The ALIGN Strategic All Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described

above, except that this Portfolio tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic All Growth (Retirement) ETF Portfolio. The ALIGN Strategic All Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic All Growth (Absolute Return) Portfolio. The ALIGN Strategic All Growth (Absolute Return) Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, other Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN Strategic All Growth Hybrid (Absolute Return) Portfolio. The ALIGN Strategic All Growth Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Capital Growth Portfolio. The ALIGN Strategic Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will

have a significantly higher underlying asset allocation to equity securities than fixed income securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

ALIGN Strategic Capital Growth Hybrid Portfolio. The ALIGN Strategic Capital Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Capital Growth (Retirement) Portfolio. The ALIGN Strategic Capital Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Capital Growth (Retirement) ETF Portfolio. The ALIGN Strategic Capital Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Capital Growth (Tax Exempt) Portfolio. The ALIGN Strategic Capital Growth (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Capital Growth Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Capital Growth Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic



Capital Growth Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

**ALIGN Strategic Capital Growth (Absolute Return) Portfolio.** The ALIGN Strategic Capital Growth (Absolute Return) Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, other Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

**ALIGN Strategic Capital Growth Hybrid (Absolute Return) Portfolio.** The ALIGN Strategic Capital Growth Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

**ALIGN Strategic Capital Growth Hybrid (Tax Exempt with Absolute Return) Portfolio.** The ALIGN Strategic Capital Growth Hybrid (Tax Exempt with Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth (Absolute Return) Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

**ALIGN Strategic Capital Growth (Diversified Yield) Portfolio.** The ALIGN Strategic Capital Growth (Diversified Yield) Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

**ALIGN Strategic Growth with Income Portfolio.** The ALIGN Strategic Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

**ALIGN Strategic Growth with Income Hybrid Portfolio.** The ALIGN Strategic Growth with Income Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

**ALIGN Strategic Growth with Income (Retirement) Portfolio.** The ALIGN Strategic Growth with Income (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Growth with Income (Retirement) ETF Portfolio. The ALIGN Strategic Growth with Income (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Growth with Income (Tax Exempt) Portfolio. The ALIGN Strategic Growth with Income (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income (Absolute Return) Portfolio. The ALIGN Strategic Growth with Income (Absolute Return) Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, other Alternative Investment Products and cash. This Portfolio has

the same risk profile as a Growth with Income Portfolio.

ALIGN Strategic Growth with Income Hybrid (Absolute Return) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Growth with Income Hybrid (Tax Exempt with Absolute Return) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Tax Exempt with Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income (Absolute Return) Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income (Diversified Yield) Portfolio. The ALIGN Strategic Growth with Income (Diversified Yield) Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

ALIGN Strategic Income with Growth Portfolio. The ALIGN Strategic Income with Growth Portfolio seeks to provide high current income and some growth of capital. Under normal market conditions, this Portfolio primarily invests its

assets in mutual funds that in turn principally invest in fixed income securities or equity securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio.

ALIGN Strategic Income with Growth Hybrid Portfolio. The ALIGN Strategic Income with Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Income with Growth (Retirement) Portfolio. The ALIGN Strategic Income with Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Income with Growth (Retirement) ETF Portfolio. The ALIGN Strategic Income with Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to Non-Traditional Assets or Alternative Investment Products.

ALIGN Strategic Income with Growth (Tax Exempt) Portfolio. The ALIGN Strategic Income with Growth (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Income with Growth Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Income with Growth Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Income with Growth (Diversified Yield) Portfolio. The ALIGN Strategic Income with Growth (Diversified Yield) Portfolio seeks to provide high current income and some growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities or equity securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including foreign securities, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio.

ALIGN Strategic Conservative Income Portfolio. The ALIGN Strategic Conservative Income Portfolio seeks to provide high current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities and equity securities. This Portfolio normally will have a significantly higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, Non-Traditional Assets and cash. This Portfolio has the same risk profile as a Conservative Income Portfolio.

ALIGN Strategic Conservative Income Hybrid Portfolio. The ALIGN Strategic Conservative Income Hybrid Portfolio has the same objective, underlying investments, target allocations and

risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Conservative Income (Retirement) Portfolio. The ALIGN Strategic Conservative Income (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio tends to have little or no allocation to Non-Traditional Assets.

ALIGN Strategic Conservative Income (Retirement) ETF Portfolio. The ALIGN Strategic Conservative Income (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to Non-Traditional Assets.

ALIGN Strategic Conservative Income (Tax Exempt) Portfolio. The ALIGN Strategic Conservative Income (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Conservative Income Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Conservative Income Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

The descriptions of the ALIGN Strategic Portfolios are current as of the date of this Brochure. However, Baird may change the objective,

investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

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

Baird's Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. The process Baird uses for selecting and removing funds for the ALIGN Strategic Portfolios Program is substantially similar to the process Baird uses to select and remove funds from Baird's Recommended Mutual Fund List described under the heading "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis—Certain Recommended Lists—Baird's Recommended Mutual Fund List" above. The ALIGN Strategic Portfolios Program may include funds included on Baird's Recommended Mutual Fund List and funds affiliated with Baird.

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

#### *ALIGN Tactical Portfolios*

The ALIGN Tactical Portfolios Program offers model portfolios that have different investment objectives and use different tactical investment strategies.

ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive asset allocation strategies, with the use of tactical decisions involving the overweighting of certain

asset classes. ALIGN Tactical Portfolios are not intended to be a complete investment program. The ALIGN Tactical Portfolios are actively managed and thus have had, and will likely continue to experience, relatively high portfolio turnover. Because of this turnover, a client's Account may realize significant taxable gains or losses. Given the nature of the investment strategies pursued by the ALIGN Tactical Portfolios, such Portfolios may also invest a significant amount in cash from time to time. Because the ALIGN Tactical Portfolios generally seek to outperform their indicated benchmark by overweighting specific market sectors rather than holding a more diversified portfolio, the Portfolios are subject to concentration risk.

The ALIGN Tactical Portfolios are described below.

ALIGN Tactical ETF Equity Portfolio. The ALIGN Tactical ETF Equity Portfolio seeks to provide aggressive growth of capital with the understanding that there may be large fluctuations in annual returns and overall market value of the portfolio. The objective is to meet or modestly exceed the return performance of the S&P 500 Index and the Russell 3000® Index by overweighting sectors and/or market segments that are expected to outperform the general market. Under normal market conditions, this Portfolio generally invests nearly all of its assets in ETFs that in turn principally invest in equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN Tactical ETF Allocation Portfolio. The ALIGN Tactical ETF Allocation Portfolio seeks to provide growth of capital with the understanding that there may be moderate fluctuations in annual returns and overall market value of the portfolio. The objective is to meet or modestly exceed the return performance of the S&P 500 Index and the Russell 3000® Index by overweighting sectors and/or market segments that are expected to outperform the general market. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in equity securities and fixed income securities. This Portfolio may also invest in other asset classes described above, including foreign securities, Non-Traditional Assets, Alternative Investment

Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

ALIGN Tactical ETF Opportunity Portfolio. The ALIGN Tactical ETF Opportunity Portfolio seeks to provide moderate growth of capital with the understanding that there may be moderate fluctuations in annual returns and overall market value of the portfolio. The objective is for consistent capital appreciation, with a willingness to forgo upside equity market participation in providing downside protection. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily ETFs, that pursue those strategies. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

ALIGN Tactical ETF Yield Portfolio. The ALIGN Tactical ETF Yield Portfolio seeks to provide total return while reducing risk and preserving capital with an understanding that there may be moderate fluctuations in the annual returns and overall market value of the portfolio. The objective of the Tactical Yield Portfolio is to provide regular cash distributions in excess of the yield on the 5-year Treasury Note. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in fixed income securities, equity securities or Non-Traditional Assets. A portion of this Portfolio will seek diversified yield, which may involve a material underlying investment in preferred stocks, high yield bonds, foreign (including emerging markets) fixed income securities, Non-Traditional Assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including foreign securities, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Conservative Income Portfolio.

The descriptions of the ALIGN Tactical Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for



any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

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

The Portfolio allocations and the ETPs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETPs may be removed or added as Baird determines is appropriate.

### **BairdNext Portfolios Program**

The BairdNext Portfolios Program offers model asset allocation portfolios that have different investment objectives and use different strategic investment strategies. Each BairdNext Portfolio

provides for specific levels of investment (or allocation) across the following asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);
- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);
- Non-Traditional Assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;
- Alternative Investment Products, which include mutual funds and ETFs that pursue Alternative Strategies; and
- cash, which include money market funds.

Each BairdNext Portfolio generally uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation. Depending on the BairdNext Portfolio chosen, the BairdNext Portfolio may consist of mutual funds and ETFs that have various investment objectives and strategies, including but not limited to, the following: large cap, mid cap and small cap strategies (which may include value, growth or core strategies); short-term, intermediate-term and long-term fixed income strategies (which may include high yield corporate bond strategies); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies. For additional information regarding the characteristics of the mutual funds and ETFs used in a BairdNext Portfolio, clients should contact

their DDK Consultant or review the applicable prospectus.

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have little or no allocation to one or more asset classes or types of investments described above. While the BairdNext Portfolios may invest in Non-Traditional Assets and Alternative Investment Products, those Portfolios tend to have little or no allocation to those asset classes.

More specific information about how Baird develops its asset allocation strategies is contained under the heading “Investment Strategies—Asset Allocation Strategies” above.

The BairdNext Portfolios include mutual fund and ETF portfolio options. BairdNext mutual fund portfolios primarily consist of actively managed mutual funds; and BairdNext ETF portfolios primarily consist of passively managed ETFs.

Generally, under normal market conditions, the equity security allocation of each BairdNext Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The Non-Traditional Asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

The BairdNext Portfolios Program is designed for clients with smaller accounts and as such does not provide for investments in as many mutual funds or ETFs compared to other Programs. Clients that are able to satisfy applicable account minimums for other Programs are encouraged to discuss with their DDK Consultant whether another Program may be a more appropriate choice for them.

Most BairdNext Portfolios have a risk profile designation of (1) All Growth Portfolio, (2) Capital Growth Portfolio, (3) Growth with Income Portfolio, (4) Income with Growth Portfolio, (5) Conservative Income Portfolio, or (6) Capital Preservation Portfolio, which are described under

“Principal Risks—Risk Information for ALIGN and UMA Program Accounts and Other Accounts Following Asset Allocation Strategies” below.

The BairdNext Portfolios are described below.

**BairdNext All Growth Portfolio.** The BairdNext Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

**BairdNext Capital Growth Portfolio.** The BairdNext Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

**BairdNext Growth with Income Portfolio.** The BairdNext Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

**BairdNext ETF All Growth Portfolio.** The BairdNext ETF Growth Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Growth Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

BairdNext ETF Capital Growth Portfolio. The BairdNext Capital Growth Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Capital Growth Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

BairdNext ETF Growth with Income Portfolio. The BairdNext ETF Growth with Income Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Growth with Income Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

The descriptions of the BairdNext Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

The process Baird uses for selecting and removing funds and ETFs for the BairdNext Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and ETFs in connection with the ALIGN Strategic Portfolio Program described under "ALIGN Programs—ALIGN Strategic Portfolios" above. A BairdNext Portfolio may include funds included on Baird's Recommended Mutual Fund List and funds and ETFs offered by managers affiliated with Baird.

The Portfolio asset allocations and the investment options included in the BairdNext Portfolios Program are evaluated on an ongoing basis, generally at least quarterly.

### **Baird Advisory Choice Program**

When recommending investment products to clients under the Baird Advisory Choice Program, DDK uses the investment process described in the section "The DDK Investment Process" above. DDK may also use the investment strategies

described in the section "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies" above or 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.

### **DDK Investment Management Service**

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

DDK 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 DDK 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.

Some DDK Consultants have strategies that include asset allocation percentages in the names 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 those strategies will be invested strictly in accordance with those 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 DDK Consultant's assessment of how to best invest client accounts.

DDK manages client assets using investment strategies and investment products based upon a client's particular investment objectives and financial goals. DDK may use a wide variety of investment products to implement the client's investment strategy, which investments are further described under "Services, Fees and Compensation—Additional Service Information—Eligible Assets" above. DDK may also use certain investment strategies, such as concentrated investment strategies and margin, and certain types of investments, such as illiquid securities and Alternative 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.

### **Russell Model Strategies Program**

The Russell Program offers model asset allocation portfolios that have different investment objectives and use different strategic and tactical investment strategies. Each Russell Strategy provides for specific levels of investment (or allocation) across the following asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);
- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);

- Non-Traditional Assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;
- Alternative Investment Products, which include mutual funds and ETFs that pursue Alternative Strategies; and
- cash, which include money market funds.

Each Russell Strategy generally uses mutual funds and ETFs in order to implement the model asset allocation. Depending on the Russell Strategy chosen, the Russell Strategy may consist of mutual funds and ETFs that have various investment objectives and strategies, including but not limited to, the following: large cap, mid cap and small cap strategies (which may include value, growth or core strategies); short-term, intermediate-term and long-term fixed income strategies (which may include high yield corporate bond strategies); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies. Each Russell Strategy will typically invest exclusively or significantly in mutual funds offered by Russell Funds. For additional information regarding the characteristics of the mutual funds and ETFs used in a Russell Strategy, clients should contact their DDK Consultant or review the applicable prospectus.

The amount allocated to each asset class and type of investment varies by Strategy. However, some Strategies may have little or no allocation to one or more asset classes or types of investments described above.

Russell performs a quantitative and qualitative assessment in the selection of money managers for the mutual funds and ETFs included in the Russell Strategies. The quantitative review generally includes a performance and investment profile analysis. Russell generally reviews the performance patterns of the money managers relative to historic market trends, comparing the manager's performance to benchmarks and peer group performance statistics. Russell also may review the money manager's performance in volatile markets for adherence to the money manager's stated investment philosophy and

relative performance in such markets. The qualitative review may include a review of the money manager's organization, ownership, leadership, experience, research and development efforts, information management, investment process, stability of personnel, adherence to philosophy and risk management. Based on Russell's quantitative and qualitative assessment, Russell establishes an overall opinion of the money manager.

Each Russell Strategy allocates a portion of the client's Account to a short term component, typically a money market mutual fund. This allocation is typically for the payment of fees and other charges. Russell determines the percent allocated to this short term component; however, Baird determines which short term investment product is used. This short term investment allocation may include investments in money market mutual funds affiliated with Baird.

The Russell Program offers a number of investment strategies through three primary asset allocation models: core models ("Russell Core Models"), tax-managed models ("Russell Tax-Managed Models"), and ActiveFactor Models ("ActiveFactor Models"). Russell Core Model Strategies and Russell Tax-Managed Model Strategies primarily consist of actively managed mutual funds; and ActiveFactor Model Strategies primarily consist of both actively managed mutual funds and passive ETFs.

#### *Russell Core Model Strategies*

The Russell Core Model Strategies offer model portfolios that have different investment objectives and use different strategic investment strategies.

Generally, under normal market conditions, the Russell Core Model Strategies are designed to be globally diversified and offer exposure to mix of asset classes and investment styles.

The Russell Core Model Strategies are described below.

**Russell Equity Growth Strategy.** The Russell Equity Growth Strategy seeks to provide high long-term capital appreciation. Under normal market conditions, this Strategy generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign

equity securities. This Portfolio will also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

**Russell Growth Strategy.** The Russell Growth Strategy seeks to provide high long-term capital appreciation and low current income. Under normal market conditions, this Strategy generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign equity securities. This Strategy normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. This Portfolio will also invest in other asset classes described above, including foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

**Russell Balanced Strategy.** The Russell Balanced Strategy seeks to provide above average capital appreciation and moderate current income. Under normal market conditions, this Strategy generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign equity securities. This Portfolio will also invest in other asset classes described above, including foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

**Russell Moderate Strategy.** The Russell Moderate Strategy seeks to provide moderate long-term capital appreciation and high current income. Under normal market conditions, this Strategy generally invests nearly all of its assets in mutual funds that in turn principally invest in fixed income securities, equity securities or foreign equity securities. This Strategy normally will have a significantly higher underlying asset allocation to fixed income securities than equity securities. This Portfolio will also invest in other asset classes described above, including foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

**Russell Conservative Strategy.** The Russell Conservative Strategy seeks to provide low long-term capital appreciation and high current income. Under normal market conditions, this Strategy generally invests nearly all of its assets in mutual funds that in turn principally invest in



fixed income securities. This Portfolio will also invest in other asset classes described above, including equity securities, foreign equity securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

#### *Russell Tax-Managed Model Strategies*

The Russell Tax-Managed Models also seek to improve after-tax returns by investing in actively managed mutual funds that place a higher priority on managing tax liability, such as mutual funds that consider shareholder tax consequences when buying and selling portfolio securities or that invest in tax-exempt securities.

The Russell Tax-Managed Model Strategies generally include: (1) a Tax-Managed Equity Growth Strategy; (2) a Tax-Managed Growth Strategy; (3) a Tax-Managed Balanced Strategy; (4) a Tax-Managed Moderate Strategy; and (5) a Tax-Managed Conservative Strategy. Each Russell Tax-Managed Model Strategy generally has the same objective and target asset allocations as its counterpart Russell Core Model Strategy discussed above, except that Russell Tax-Managed Models will seek to achieve their objectives by investing in actively managed mutual funds that place a higher priority on managing tax liability as described above.

#### *ActiveFactor Model Strategies*

ActiveFactor Model Strategies are designed to balance an investor's preference for active management and the investor's aversion to the risk of relative underperformance associated with active management. ActiveFactor Model Strategies invest in a mix of actively managed mutual funds, multi-factor mutual funds that focus on certain investment characteristics (also known as factors), such as value, quality, momentum or low volatility, and passively managed ETFs. ActiveFactor Model Strategies will likely engage in short- and intermediate-term tactical trading that will cause the Strategy's actual asset allocation to differ from the Strategy's long-term strategic target asset allocation from time to time.

The Russell ActiveFactor Model Strategies generally include: (1) an ActiveFactor Equity Growth Strategy; (2) an ActiveFactor Growth Strategy; (3) an ActiveFactor Balanced Strategy; (4) an ActiveFactor Moderate Strategy; and (5)

an ActiveFactor Conservative Strategy. Each Russell ActiveFactor Model Strategy generally has the same objective and target asset allocations as its counterpart Russell Core Model Strategy discussed above, except that ActiveFactor Model Strategies will seek to achieve their objectives by investing in a mix of actively managed mutual funds, multi-factor mutual funds and passively managed ETFs as described above.

#### *Implementation by Baird*

Baird will typically implement the Russell Strategies as they are proposed by Russell. However, since Baird has discretionary authority, Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client's investments if Baird determines such action to be necessary and in the client's best interest.

Clients should contact their DDK Consultant with any questions regarding the Russell Strategies.

#### **UMA Programs**

The UMA Programs offer model asset allocation portfolios that have varying investment objectives and strategies. Each UMA Portfolio provides for specific levels of investment (or allocation) across the following asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);
- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);
- Non-Traditional Assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-

linked instruments, currencies and currency-linked instruments;

- Alternative Investment Products, which include mutual funds and ETFs that pursue Alternative Strategies; and
- cash, which include money market funds.

Each UMA Portfolio may use mutual funds, ETPs, primarily ETFs, and SMA Strategies, and with respect to the UAS Program, Baird-Managed Portfolios, in order to implement the model asset allocation. Depending on the UMA Portfolio chosen, the UMA Portfolio may consist of mutual funds, ETFs, SMAs and Baird-Managed Portfolios that have various investment objectives and strategies, including but not limited to, the following: large cap, mid cap and small cap strategies (which may include value, growth or core strategies); short-term, intermediate-term and long-term fixed income strategies (which may include high yield corporate bond strategies); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies. For additional information regarding the characteristics of the mutual funds and ETPs used in a UMA Portfolio, clients should contact their DDK Consultant or review the applicable prospectus.

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have little or no allocation to one or more asset classes or types of investments described above.

More specific information about how Baird develops its asset allocation strategies is contained under the heading “Investment Strategies—Asset Allocation Strategies” above.

Some UMA Portfolios have a risk profile designation of (1) All Growth Portfolio, (2) Capital Growth Portfolio, (3) Growth with Income Portfolio, (4) Income with Growth Portfolio, (5) Conservative Income Portfolio, or (6) Capital Preservation Portfolio, which are described under “Principal Risks—Risk Information for ALIGN, PIM, and UMA Program Accounts and Other Accounts Following Asset Allocation Strategies” below.

#### *ALIGN UMA Select Portfolios*

The ALIGN UMA Select Portfolios Program offers model portfolios that have different investment objectives and use different investment strategies. The ALIGN UMA Select Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Generally, under normal market conditions, the equity security allocation of each ALIGN UMA Select Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The Non-Traditional Asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

The ALIGN UMA Select Portfolios are described below.

**ALIGN UMA Select All Growth Portfolio.** The ALIGN UMA Select All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio.

**ALIGN UMA Select Opportunistic Equity Portfolio.** The ALIGN UMA Select Opportunistic Equity Portfolio seeks to provide growth of capital, with limited consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for

cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN UMA Select Traditional Equity Portfolio. The ALIGN UMA Select Traditional Equity Portfolio seeks to provide growth of capital, with some consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. While this Portfolio may invest in companies across all market capitalizations, the equity securities portion of this Portfolio tends to emphasize mid cap and large cap companies. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN UMA Select Conservative Equity Portfolio. The ALIGN UMA Select Conservative Equity Portfolio seeks to provide growth of capital, with great consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. While this Portfolio may invest in companies across all market capitalizations and geographic locations, the equity securities portion of this Portfolio tends to emphasize mid cap and large cap companies and the foreign equity securities portion of this Portfolio tends to emphasize developed market companies. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for cash. This Portfolio has the same risk profile as an All Growth Portfolio.

ALIGN UMA Select Capital Growth Portfolio. The ALIGN UMA Select Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities

than fixed income securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio.

ALIGN UMA Select Capital Growth (Municipal) Portfolio. The ALIGN UMA Select Capital Growth (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Capital Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds, ETPs and SMAs that in turn principally invest in municipal securities.

ALIGN UMA Select Growth with Income Portfolio. The ALIGN UMA Select Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

ALIGN UMA Select Growth with Income (Municipal) Portfolio. The ALIGN UMA Select Growth with Income (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Growth with Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN UMA Select Global Balanced Portfolio. The ALIGN UMA Select Global Balanced Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in foreign securities, equity securities or fixed income securities. This Portfolio will normally involve significant exposure to foreign (including emerging markets) equity and fixed income securities. This Portfolio may also invest in other asset classes described above, including

Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

ALIGN UMA Select Global Alternative Portfolio.

The ALIGN UMA Select Global Alternative Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in foreign securities, equity securities or fixed income securities. This Portfolio will normally involve significant exposure to foreign (including emerging markets) equity and fixed income securities. A significant portion of this Portfolio will also normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily mutual funds, ETFs and SMAs, that pursue those strategies. This may involve material exposure to Non-Traditional Assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio.

ALIGN UMA Select Income with Growth Portfolio.

The ALIGN UMA Select Income with Growth Portfolio seeks to provide current income and some growth. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in fixed income securities, equity securities or foreign securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including Non-Traditional Assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio.

ALIGN UMA Select Income with Growth (Municipal) Portfolio.

The ALIGN UMA Select Income with Growth (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Income with Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

The descriptions of the ALIGN UMA Select Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

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

The ALIGN UMA Select Portfolios Program makes available certain UMA Recommended Funds and certain BRM Strategies. The process Baird uses for selecting and removing UMA Recommended Funds under the ALIGN UMA Select Portfolio Program is substantially similar to the process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolios Program described under "ALIGN Programs—ALIGN Strategic Portfolios" above. The process Baird uses for selecting and removing BRM Strategies under the ALIGN UMA Select Portfolio Program is described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—ALIGN, BairdNext Portfolios, PIM, Russell Programs and UMA Programs" above.

An ALIGN UMA Select Portfolio may include funds included on Baird's Recommended Mutual Fund List and products and SMA Strategies offered by managers affiliated with Baird.

The Portfolio asset allocations and the investment options included in the ALIGN UMA Select Program are evaluated on an ongoing basis, generally at least quarterly.

*Unified Advisory Select Portfolios*

UAS Portfolios involve the use of various different investment strategies because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's DDK Consultant. Certain mutual funds, ETPs, SMA Strategies and Baird-Managed Portfolios are available to clients to pursue an investment objective or implement a customized asset allocation strategy.

Mutual Funds and ETPs. The UAS Portfolios Program makes available two categories of mutual funds and ETPs: UMA Recommended Funds and UAS Available Funds. The process Baird uses for selecting and removing UMA Recommended Funds for the UAS Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolios Program described under “ALIGN Programs—ALIGN Strategic Portfolios” above. UAS Available Funds are not monitored, evaluated or reviewed by Baird unless Baird states otherwise in writing. Baird does not recommend UAS Available Funds for the client’s Account under the UAS Portfolios Program.

SMA Strategies. The UAS Portfolios Program makes available two categories of SMA Strategies: BRM Strategies and CSM Strategies. The process Baird uses for selecting and removing BRM Strategies and CSM Strategies under the UAS Portfolios Program is described under “Portfolio Manager Selection and Evaluation—Selection and Evaluation—ALIGN, BairdNext Portfolios, PIM, Russell Programs and UMA Programs” above.

Baird-Managed Portfolios. The Baird-Managed Portfolios made available under the UAS Portfolios Program include the following:

- the following ALIGN Strategic sleeves:

- ALIGN Large Cap Growth Sleeve, which seeks to provide consistent exposure to larger companies that have above-market growth rates;
- ALIGN Large Cap Value Sleeve, which seeks to provide consistent exposure to larger companies that are trading at below-market valuations, on average;
- ALIGN Mid Cap Sleeve, which seeks to provide consistent exposure to medium-sized companies;
- ALIGN Small Cap Sleeve, which seeks to provide consistent exposure to smaller-sized companies;

- ALIGN International Equity Sleeve, which seeks to provide consistent exposure to non-U.S. companies;
- ALIGN Satellite Sleeve, which seeks to provide exposure to asset classes that are not commonly owned in many investors’ portfolios, including emerging markets securities, commodities, real estate, high yield bonds and other Non-Traditional Assets;
- ALIGN Absolute Return Sleeve, which seeks to provide diversification to a traditional stock and bond allocation by investing in Alternative Strategies;
- ALIGN Diversified Yield Sleeve, which seeks to provide exposure to a wide range of income-producing securities, including various equity investments such as dividend-paying stocks, MLPs, and REITs, as well as various fixed income instruments;
- ALIGN Short-Term Taxable Fixed Income Sleeve, which seeks to provide consistent exposure to fixed income securities that have shorter maturities, typically less than five years;
- ALIGN Short-Term Tax Exempt Fixed Income Sleeve, which seeks to provide consistent exposure to municipal or other tax exempt fixed income securities that have shorter maturities, typically less than five years;
- ALIGN Intermediate Taxable Fixed Income Sleeve, which seeks to provide consistent exposure to a broad range of fixed income securities that under normal market conditions on average will have intermediate term durations and maturities;
- ALIGN Intermediate Tax Exempt Fixed Income Sleeve, which seeks to provide consistent exposure to a broad range of municipal or other tax exempt fixed income securities that under normal market conditions on average will have intermediate term durations and maturities;
- the Baird Recommended Portfolio and Baird Value Focus Portfolio described under the heading “Methods of Analysis, Investment Strategies and Risk of Loss—Investment



Strategies and Methods of Analysis—Methods of Analysis—Certain Model Portfolios” above; and

- certain ALIGN Elements Portfolios, ALIGN Strategic Portfolios and ALIGN Tactical Portfolios described under the heading “ALIGN Programs” above.

The descriptions of the Baird-Managed Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments or target allocations for any Baird-Managed Portfolio at any time. Baird may also offer other Baird-Managed Portfolios under the Program from time to time.

A client should ask the client’s DDK Consultant for additional information about the investment styles, philosophies, strategies, analyses and techniques the DDK Consultant will use in order to meet the client’s objectives.

A UAS Portfolio is subject to the risks associated with the Portfolio’s particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading “Principal Risks” below.

### ***Principal Risks***

Risk is inherent in any investment product and DDK 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 DDK 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 DDK Consultant of these considerations so the DDK 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 DDK 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 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.

**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.

**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. Over the past several years, bond markets have grown more quickly than dealer capacity to engage in fixed income trading. 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 Alternative*

*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 Alternative 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 Alternative Strategies, which are subject to special risks.* 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 Alternative 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 DDK 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 Alternative Strategies Risks**

**Non-Traditional Assets Risks.** Non-Traditional Assets, such as real estate, commodities, currencies 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, 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.

#### Alternative Investment Product Risks

**Hedge Funds and Funds of Hedge Fund Risks.** Hedge funds typically engage in one or more Alternative 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 Alternative 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.*

**Floating Rate Bond Fund Risks.** Floating rate bond funds invest in floating rate bonds, also known as floating rate corporate debt, floating rate loans or floating rate bank loans, which are a type of fixed income security that have unique characteristics and risks compared to traditional bonds. Floating rate bonds are not issued by a company directly to the public. Instead, financial institutions provide loans to companies that need funding. The loans are then combined and repackaged for sale to investors. Sometimes, repayment of the loan is secured by assets of the companies obtaining the loans. However, the companies underlying floating rate bonds are frequently those that have low or no credit ratings. Thus, floating rate bonds generally are subject the same risks as below investment grade

or “junk” bonds. Unlike traditional bonds, interest payments on floating-rate bonds, are determined by a reference interest rate, such as the federal funds rate. The interest rate of floating rate bonds is reset periodically to the then-existing reference rate. Consequently, the interest payments made on those bonds vary, or “float”, in accordance with reference rate. Because the interest rate is periodically reset to a reference interest rate, floating-rate bonds are generally subject to lower interest rate risk compared to traditional bonds. Floating rate bonds are generally resold in a private secondary market, which may be subject to irregular trading activity and settlement periods. As a result, floating rate bonds are subject to greater liquidity risk than other investments.

**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 Alternative 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). 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 REITs 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 Alternative Investment Products and other investments pursuing Alternative Strategies, including the risks associated with those investments, is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) 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.**

#### **Risk Information for ALIGN and UMA Program Accounts and Other Accounts Following Asset Allocation Strategies**

Certain ALIGN Programs, UMA Programs and DDK Consultants offer portfolio strategies that have a risk profile of (1) All Growth Portfolio, (2) Capital Growth Portfolio, (3) Growth with Income Portfolio, (4) Income with Growth Portfolio, (5) Conservative Income Portfolio, or (6) Capital Preservation Portfolio. Risk information about those portfolio strategies is provided below.

**All Growth Portfolio.** An All Growth Portfolio will generally be invested in a manner that seeks to provide aggressive 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 Alternative Strategies Risks" and "Alternative 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 Alternative Strategies Risks" and "Alternative 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 Alternative Strategies Risks" and "Alternative Investment Product Risks" above.

**Income with Growth Portfolio.** An Income with Growth Portfolio will generally be invested in a manner that seeks to provide high 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 Alternative Strategies Risks" and "Alternative Investment Product Risks" above.

**Conservative Income Portfolio.** A Conservative Income Portfolio will generally be invested in a manner that seeks to provide high 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.

**Additional Considerations.** *A client should note that an Account pursuing a particular asset allocation strategy will from time to time have an actual risk profile that may be higher or lower than the target risk profile associated with that strategy due to many factors, including 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. In addition, DDK or the client's investment manager may determine that it is appropriate to invest the client's Account, or recommend that the client invest the Account, in such a manner that would cause the Account to have a risk profile that is higher or lower than the target risk profile associated with that strategy.* 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 DDK Consultant. A client should also note that there is no guarantee as to how a portfolio will perform in the future. It is possible that a portfolio could experience more dramatic return or market value fluctuations than occurred in the past.

## Recent Events

In response to the financial crisis that began in 2008, the Federal Reserve took extraordinary steps to support financial markets and the U.S. economy, including various bond buying or quantitative easing ("QE") programs as well as maintaining their policy interest rate at historically low levels. More recently, the Federal Reserve has continued its policy rate normalization process, raising its policy rate, the overnight Federal Funds rate, by 25 basis points in late 2016 and again in early 2017, with additional increases likely to occur in 2017. There is uncertainty regarding the impact this policy rate normalization will have on financial markets and, as a result, the markets remain in an elevated risk environment. There is the potential that these changes could negatively affect financial markets and generate higher interest rates, increased market volatility and reduced value and liquidity of certain securities. As a result, many of the above risks may be increased and cause adverse effects on a client's Account.

In June 2016, the United Kingdom ("UK") voted to leave the European Union ("EU") following a referendum referred to as "Brexit." It is expected that the UK will exit the EU within two years. However, the exact timeframe for the UK's exit is unknown. There is significant market uncertainty regarding Brexit's ramifications, and the range of possible political, regulatory, economic, and market outcomes are difficult to predict. The negative impact could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Geopolitical events, including those in Ukraine and the Middle East, may cause market disruptions. It is possible that these or other geopolitical events could have an adverse effect on a client's Account.

## Voting Client Securities

### ***Baird Advisory Choice Program and Other Non-Discretionary Accounts***

Under the Baird Advisory Choice Program and with respect to any other Accounts over which the client retains discretionary investment authority, a client retains the right to vote proxies with respect to the securities held in such Accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders,



and DDK and Baird are under no obligation to take any action or render any advice regarding such matters. The client's DDK Consultant may, upon the client's request, provide advice on proxy voting or what other action the client could take.

### ***UMA Programs***

Under the ALIGN UMA Select Portfolios and UAS Portfolios Programs, 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 managers managing the assets of the client's Account (which may include Baird or the Overlay Manager). A client may select either option by making the appropriate election in the client's advisory agreement. For information about the Overlay Manager's voting policies and procedures, clients should review the Overlay Manager's Form ADV Part 2A Brochure.

### ***Separately Managed Accounts***

Under the Baird Equity Asset Management Portfolios Program, CSM Service, DDK Recommended Managers Service, Referred Managers Service, and Riverfront Managed Portfolios 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 (or in the case of a dual contract arrangement under the CSM Service, 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 and ALIGN Programs***

Under the ALIGN Custom Portfolios, ALIGN Dynamic Portfolios, ALIGN Elements Portfolios, ALIGN Strategic Portfolios, ALIGN Tactical Portfolios, BairdNext Portfolios, DDK Investment Management, and Russell Programs, 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 DDK 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 DDK Consultants. In the event the client's DDK Consultant believes the ISS recommendation is not in the best interest of the client, the DDK 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 DDK Consultant (or team of DDK 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 DDK 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 DDK Consultants and other Baird portfolio managers.

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 DDK 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 DDK 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 DDK Consultant. However, if Baird has been granted discretionary voting authority, neither DDK 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, DDK 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.

### ***Legal Proceedings and Corporate Actions***

Generally, none of DDK, 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.

### ***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.

## Client Information Provided to Portfolio Managers

Under the Baird Equity Asset Management Portfolios Program, Client Selected Managers Service, DDK Recommended Managers Service, Referred Managers Service, Riverfront Managed Portfolios Program, and UMA Programs, DDK and Baird provide certain information about the client to the investment managers managing the client's Account (which may include the Overlay Manager or an Implementation Manager) when the client establishes the advisory relationship with such managers. Such information includes the client's investment objectives and risk tolerance. Under the DDK Recommended Managers Service, Referred Managers Service and Riverfront Managed Portfolios Program, DDK and Baird also provide to the investment manager a client's age, investment timeframe, and liquidity requirements.

Unless specifically requested to do so by a client, DDK and Baird do not generally provide such information about the client on an ongoing basis to the investment manager managing the client's Account.

Baird also generally provides the following to the client's manager unless otherwise instructed by a client: trade confirmations, account statements, and access to client's Account on Baird's system.

## Client Contact with Portfolio Managers

DDK and Baird do not place any restrictions upon clients who wish to contact or consult with Other Managers managing their accounts. DDK encourages clients to discuss their accounts with their DDK Consultant.

## Additional Information Disciplinary Information

In December 2008, Baird, without admitting or denying the allegations, consented to the sanctions and findings of FINRA that it violated NASD Rules 2110, 3010(a) and 3010(b) by failing to establish and maintain an adequate supervisory system reasonably designed to review and monitor its fee-based brokerage business and

its registered representatives. Baird was found to have failed to: implement fee breakpoint discounts on certain fee-based brokerage accounts; clearly identify the specific fee applicable to each customer; implement a system to automatically credit customers with the fee breakpoint discounts specified in their account agreements; and adequately disclose inclusion of margin activity and short sales in fee calculations for fee-based accounts. Baird was fined \$500,000 and paid restitution of \$434,510 plus interest to affected customers.

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.

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

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

## Other Financial Industry Activities and Affiliations

Baird is registered with the SEC as a broker-dealer under the Exchange Act and as an investment adviser under the Advisers Act. Baird is also affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs, private equity funds and hedge funds. Certain Baird and DDK associates and certain management persons of Baird may invest in those funds.

From time to time, Baird and DDK Consultants may recommend that clients invest assets with investment advisors or in investment products that are affiliated with Baird. Such a recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird, DDK Consultants and Baird’s affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. DDK and Baird address this potential conflict through disclosure in this Brochure. Further, when acting as fiduciary investment advisers, DDK and Baird 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, DDK and Baird 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 DDK 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 DDK Consultants may, from time to time refer clients to Baird Advisors or Baird Equity Asset Management, investment management departments of Baird, or Chautauqua Capital Management ("CCM"), a division of Baird Equity Asset Management. DDK Consultants are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. *DDK Consultants may have a financial incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.*

Baird Equity Asset Management acts as investment manager to clients pursuing the Baird Equity Asset Management Strategies under the Baird Equity Asset Management Portfolios Program. Certain investment strategies offered by Baird Equity Asset Management have been selected by Baird for inclusion on Baird's Recommended Managers List. *Baird has a financial incentive to favor Baird Equity Asset Management and CCM because Baird receives more compensation if Baird Equity Asset Management or CCM manages a client's Account rather than other unaffiliated managers.*

### **Certain Affiliations**

#### **Affiliated 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. Riverfront provides investment management services under the Riverfront Managed Portfolios Program. Certain Riverfront investment products and services have been selected by Baird for inclusion in the UMA Programs and are made available to DDK clients through other Services. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor Riverfront investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Greenhouse Funds LP ("Greenhouse") and Greenhouse Fund GP LLC

("Greenhouse GP") by virtue of their common indirect ownership by BFG. From time to time, DDK Consultants may use or recommend Greenhouse or Greenhouse GP investment products and services. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor their investment products and services.*

### **Affiliated 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 provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). CCM provides investment management and other services to certain Baird Funds pursuing global or international investment strategies (the "Chautauqua Funds"). Certain Baird Equity Funds have investment objectives and strategies substantially similar to certain of the Baird Equity Asset Management Portfolio strategies discussed above. 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 at [www.bairdfunds.com](http://www.bairdfunds.com). Certain Baird Funds have been selected by Baird for inclusion in the ALIGN, BairdNext Portfolios and UMA Programs and on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to DDK clients through other 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.*

DDK Consultants who refer clients to the Baird Funds are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. The amount of the referral compensation is disclosed in each Baird Fund's statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). *DDK Consultants may have a financial incentive to favor investments in the Baird Funds over investments in other mutual funds and to favor the Baird Equity Funds over the Baird Bond 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 Advisors also serves as investment sub-adviser to two sub-funds of PrivilEdge, a Société d'Investissement à Capital Variable (SICAV) (an investment company with variable capital) organized under the laws of Luxembourg. Baird receives compensation for the services provided to those sub-funds.

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

CCM serves as investment sub-adviser to a mutual fund series of each of The Advisors' Inner Circle Fund and 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.

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. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor funds managed by Riverfront.*

#### **Affiliated Private Limited Partnerships**

CCM acts as investment manager for, and Baird is the general partner of, the Chautauqua

International Growth Equity QP Fund, LP and the Chautauqua Global Growth Equity QP Fund, LP (the "Chautauqua Limited Partnerships"), and CCM serves as investment sub-adviser to the Multi-Advisor Funds International Fund. 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 Limited Partnerships and the Multi-Advisor Funds International Fund, 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 DDK Consultants may refer clients to Baird Capital. Baird Capital makes venture capital, growth equity and private equity investments primarily in the healthcare, technology and services, and products sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); Baird Venture Partners Management Company IV, LLC ("BVP IV"); Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"); Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"); Baird Capital Global Fund Management I LP ("BCGF I"); and Baird Capital Partners Europe Limited. BVP I, BVP III, and BVP IV participate in venture capital opportunities by generally investing in equity securities of early-to-growth stage companies. BVP I is the general partner of the three limited partnerships and is an investment adviser registered with the SEC. BVP III is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BVP IV is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCP III, BCP IV and BCP V generally invest in equity securities of growing lower-middle market companies issued in management buyouts, recapitalizations, industry consolidations and growth equity transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the

SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCGF I generally makes buyout and growth equity investments in lower middle market companies in the U.S., U.K. and China. BCGF I is the general partner of four limited partnerships and is an investment adviser registered with the SEC. Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Conduct Authority and is the manager of certain partnerships formed to acquire businesses and make investments across a range of industry sectors.

In addition, Baird, in combination with certain executive officers, may be deemed to control Baird Principal Group Management Company I, LLC ("BPG I"). BPG I co-invests with private equity funds and private equity professionals in transactions in the United States and Europe. BPG I is the general partner of one limited partnership and is an investment adviser registered with the SEC. Only Baird employees were permitted to invest in the BPG I limited partnership.

If a client expresses an interest, DDK Consultants may refer clients to Baird Capital. DDK does not charge fees on client assets invested in private equity funds affiliated with Baird. Instead, the general partner of the private equity fund may provide compensation to the client's DDK Consultant for referring the client to Baird Capital. 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 DDK Consultants, Baird and DDK Consultants have a financial incentive to favor those private equity funds.*

### **Affiliated 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 Offshore Fund LP. 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 affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor those hedge funds.*

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

Baird is affiliated with, and may be deemed to control, bFinance UK Limited ("bFinance") and bFinance's related companies by virtue of Baird's indirect control over those entities. bFinance is a financial services firm located in the United Kingdom and regulated by the Financial Conduct Authority. From time to time, bFinance or its related companies may refer clients to Baird or recommend Baird products or services.

### **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 mutual funds or money market 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 mutual funds or money market funds advised by such investment management firms. However, Baird is a fiduciary that is 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 for Baird's advisory programs (including when Baird constructs its ALIGN Programs, BairdNext Portfolios Program, UMA Programs, 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 "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts" above. 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 DDK Consultants receive non-cash compensation and other benefits from certain investment managers with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits provides DDK Consultants an incentive to favor managers that provide greater levels of such benefits. Baird addresses this potential conflict through disclosure in this Brochure. Baird has also adopted policies and procedures for DDK Consultants providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

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 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 DDK 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. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management 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***

#### **Broker-Dealer and Related Activities**

In their broker-dealer capacities, Baird and DDK Consultants provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, Alternative Investment Products and other securities. Baird and DDK Consultants receive compensation based upon the sale of such investment products.

DDK, Baird and Baird's affiliates may buy or sell securities for their own accounts, or may act as broker or agent for other DDK or Baird clients, including other advisory clients. DDK, Baird and Baird's affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to their own accounts or that of another client. DDK or Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

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

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.

Baird selects securities trade 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 payment on certain options or equity securities orders routed to some venues, but Baird's routing decision is always based upon obtaining favorable executions for clients rather than the availability of payment for order flow. The existence and amount of payments are dependent upon the size and type of the routed order. The source and amount of any compensation received by Baird in connection with payment for order flow will be disclosed to the non-institutional participants in the transaction upon request.

The foregoing activities could create a conflict of interest with clients. Baird addresses these potential conflicts through disclosure in this Brochure and by adopting internal policies and procedures for DDK 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) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to DDK's, Baird's and their associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.



## Investment Product Selling and Servicing

### *Mutual Funds*

Distribution and Shareholder Servicing Fees. Baird and DDK Consultants provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to DDK clients that hold shares of such mutual funds in their accounts. Baird receives distribution and shareholder servicing fees from certain funds out of their 12b-1 plans ("12b-1 fees") on an ongoing basis as compensation for the services provided. The 12b-1 fees paid by a mutual fund are disclosed in the mutual fund's prospectus.

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 is paying an asset-based Advisory Fee on such investment, Baird rebates such 12b-1 fees to the client's Account. 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.

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

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

Receipt of marketing support payments and expense reimbursements provides Baird an incentive to favor mutual funds and their sponsors

that make greater levels of such payments. However, Baird is a fiduciary that is required to act in the best interests of advisory clients when recommending mutual funds to those clients, and Baird does not consider the receipt of these payments in compiling its Recommended Mutual Fund List, or in selecting investments offered through the ALIGN, BairdNext Portfolios or UMA Programs.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to DDK Consultants, and the compensation that Baird pays to DDK Consultants is not tied to such payments. Certain DDK Consultants, however, receive non-cash compensation and other benefits from Baird and certain mutual fund companies and their sponsors with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars and payment of meal expenses. While receipt of these benefits provides DDK Consultants an incentive to favor mutual funds and their sponsors that provide greater levels of such benefits, DDK believes that such benefits do not impact mutual fund selections or recommendations made by DDK Consultants.

Administrative and Networking Fees. Baird receives compensation from certain mutual funds and their sponsors in consideration for administrative, accounting, recordkeeping, sub-transfer agency or other services that Baird provides to those funds. While this provides Baird an incentive to favor funds paying higher fees, these fees are not paid to DDK Consultants, and the compensation that Baird pays to DDK Consultants is not tied to such fees.

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual fund families for Baird on behalf of DDK clients. Under the clearing arrangement, Schwab provides clearing services for nearly all "no load" funds and many "load" funds held by DDK clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird a portion of the compensation that Schwab receives from those funds (including 12b-1 and administrative fees and revenue sharing payments) for services that Baird provides to Schwab and clients who invest in those funds.



If Baird receives 12b-1 fees from Schwab with respect to a mutual fund investment in a client's Account and client is paying an asset-based Advisory Fee on such investment, Baird rebates such 12b-1 fees to the client's Account. 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.

The receipt of administrative fees and revenue sharing payments provides Baird an incentive to favor funds that provide higher compensation.

**Additional Information.** More specific information about the compensation that Baird receives from a mutual fund is available in the mutual fund's prospectus or statement of additional information. Clients may also contact Baird or a DDK Consultant for more specific information about the amount of compensation Baird receives from mutual funds or their sponsors. Additional information about mutual funds and the types of compensation that Baird receives from mutual funds or their sponsors is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

#### *Unit Investment Trusts*

Baird generally receives compensation 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. Baird has a financial incentive to favor UITs making higher marketing and concession payments. The marketing and concession payments that Baird receives from UIT sponsors are not paid to DDK Consultants, and the compensation that Baird pays to its DDK Consultants is not tied to such payments. More specific information about the compensation that Baird receives from a UIT is available in the UIT's prospectus or other offering documents. Clients may also contact Baird or a DDK Consultant for more specific information about the amount of compensation Baird receives from UITs or their sponsors. Additional information about UITs and the types of compensation that Baird receives

from UITs or their sponsors is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

#### *Alternative Investment Products*

Baird receives transaction-based compensation related to the sale of certain Alternative Investment Products, such as upfront commissions and placement fees relating to the initial sale of the product and ongoing trail fees relating to a client's continued holding of the product. Baird compensates DDK Consultants based upon the compensation it receives. The receipt of such compensation provides Baird and DDK Consultants an incentive to favor Alternative Investment Products that provide higher compensation.

If an Alternative Investment Product is registered as an investment company (that is, a mutual fund), Baird and DDK Consultants may receive compensation described in the section entitled "Mutual Funds" above.

More specific information about the compensation that Baird receives related to the sale of an Alternative Investment Product is available in the Alternative Investment Product's prospectus or other offering documents. Clients may also contact Baird or a DDK Consultant for more specific information about the amount of compensation Baird receives from Alternative Investment Products or their sponsors. Additional information about Alternative Investment Products and the types of compensation that Baird receives from Alternative Investment Products or their sponsors is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

#### *Annuities*

Baird receives transaction-based compensation related to the sale of annuities, such as upfront commissions relating to the initial sale of the product and ongoing trail commissions or residuals relating to a client's continued holding of the product. Baird compensates DDK Consultants based upon the compensation it receives. The receipt of such compensation provides Baird and DDK Consultants an incentive to favor annuities that provide higher compensation.

In addition to the compensation described above, Baird may receive additional financial support from sponsors of annuities. This support, which varies from sponsor to sponsor and is commonly

referred to as “marketing support” payments, is typically allocated toward the costs of training and educating DDK Consultants about the products offered by the sponsor, due diligence on the products and marketing support.

Receipt of marketing support payments provides Baird an incentive to favor annuities and their sponsors that make greater levels of such payments. However, Baird is a fiduciary that is required to act in the best interests of advisory clients when recommending annuities to those clients, and Baird does not consider the receipt of marketing support payments when making sponsor or product recommendations.

The marketing support payments that Baird receives from annuity product sponsors are not paid to DDK Consultants, and the compensation that Baird pays to DDK Consultants is not tied to such financial support. Certain DDK Consultants, however, receive non-cash compensation and other benefits from Baird and certain annuity product sponsors with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars and payment of meal expenses. While receipt of these benefits provides DDK Consultants an incentive to favor annuity products and their sponsors that provide greater levels of such benefits, DDK believes that such benefits do not impact annuity product selections or recommendations made by DDK Consultants.

More specific information about the compensation that Baird receives related to the sale of annuities is available in the product’s prospectus or other disclosure documents. Clients may also contact Baird or a DDK Consultant for more specific information about the amount of compensation Baird receives from annuities or their sponsors. Additional information about annuities and the types of compensation that Baird receives from those products or their sponsors is available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

Baird addresses conflicts posed by the selling and servicing of the foregoing investment products through disclosure in this Brochure and the prospectuses or other offering documents provided to clients. In addition, Baird has adopted internal policies and procedures for DDK 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). In addition, Baird has adopted policies and procedures for DDK Consultants providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird’s high standards of ethics.

## Other Interests in Client Transactions

### *Cash Sweep Program*

In addition to the asset-based Advisory Fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for certain administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled “Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds” above. Baird may waive receipt of any or all of this compensation. The compensation that Baird receives from the Bank Sweep Option and the Money Market Option gives it a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program and the compensation Baird receives is available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### *Investment Banking and Public Finance Activities*

Through its Investment Banking and Public Finance Departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Certain DDK Consultants may also receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, certain DDK Consultants who refer securities underwriting or other business opportunities to the Investment Banking or Public Finance Departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. Baird and DDK Consultants may, therefore, have an incentive to favor the securities of issuers for which Baird provides such

services over the securities of issuers for which Baird does not provide such services. However, Baird and DDK Consultants will only recommend such securities to an advisory client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any securities underwritten by Baird will be sold to a client by Baird in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's or the client's DDK Consultant's interest in the transaction. For more information, please see "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

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

#### *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.

#### *Trust Services Arrangements*

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

provides Baird a financial incentive to recommend firms that are part of the alliance.

#### *Margin Loans*

Baird generally receives margin interest, administrative fees and other compensation in addition to the Advisory Fee when a client obtains margin loans from Baird. If Baird extends a margin loan to a client, the costs incurred by the client, as well as the compensation received by Baird and the client's DDK Consultant, will generally increase as the size of the outstanding margin loan increases. As a result of the foregoing, Baird and the client's DDK Consultant have a financial incentive to use, or recommend the use of, strategies using margin or to increase, or recommend the increase of, margin loans.

#### *Lending Arrangements*

Baird maintains alliances with certain unaffiliated lenders, including Tristate Capital Bank, that provide financing opportunities to DDK and Baird clients. Baird receives a referral fee from the lender in some instances. Baird compensates DDK Consultants based upon the referral fees it receives. The amount of the referral fee varies, depending upon the lender and the amount of the financing. It is Baird's practice to provide more specific information about the referral fee at the time a client obtains such financing. As a result of the foregoing, Baird and DDK Consultants have a financial incentive to recommend that the client obtain loans from lenders that pay Baird referral fees.

#### *Other Clients, Products and Services*

Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird and DDK Consultants. Baird and DDK 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 their DDK Consultant.

Baird and DDK Consultants likely will receive higher overall compensation from advisory clients than from brokerage clients. Baird and DDK Consultants thus have a financial incentive to provide investment advice based upon the

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

DDK and Baird address these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for DDK 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) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time.

Other sections of this Brochure also describe instances when DDK or Baird 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. For more information, please see "Services, Fees and Compensation—Advisory Fee—Advisory Fee Payments to Baird, DDK Consultants and Investment Managers" and "Additional Information—Other Financial Industry Activities and Affiliations" above, and "Additional Information—Client Referrals and Other Compensation" below.

### **Duration Compensation Will Be Received**

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

*If DDK, Baird, or an affiliate or associate of them, receives any compensation or benefit described in this Brochure from or related to a client's investment, they will generally retain the compensation or benefit. Except as otherwise described above, DDK and Baird generally do not rebate these amounts to a client's Account or credit the amount against the Advisory Fees*

*payable by a client unless such compensation may not be retained under applicable law or regulation.*

## **Review of Accounts**

### **Client Account Review**

Client accounts are monitored on a periodic basis by the client's DDK Consultant and are subject to review by the Baird Regional Director or PWM Supervision department supervisor (or his or her respective designee) responsible for supervising the client's DDK Consultant. A client's DDK Consultant generally reviews the performance of the client's Account at least annually. However, the client's DDK Consultant may not review the performance of a client's SMAs managed by Other Managers under the Client Selected Managers or Referred Managers Services. Baird has designated individuals who are responsible for monitoring a client's DDK 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 DDK Consultant will provide the client with a written report on the client's Account's performance as often as the client and the DDK 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 DDK, see "Services, Fees and Compensation—Description of Advisory Services" above. DDK 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 Barclays 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 DDK, 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. DDK'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.

When preparing a client's Account statements and performance reports, DDK 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 Alternative 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.

DDK 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. DDK 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 Alternative Investment Products, may not be provided to DDK or Baird in a timely manner, resulting in valuations that are not current. The prices obtained by DDK 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 DDK or Baird. See "Services, Fees and Compensation—Additional Service Information—Custody Services" above for more information.

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

DDK 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.

DDK 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 “Services, Fees and Compensation”, “Account Requirements and Types of Clients”, “Additional Information—Other Financial Industry Activities and Affiliations” and “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” above.

### Financial Information

DDK 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 DDK 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 DDK 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 DDK 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, DDK 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 DDK 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 DDK 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 DDK 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 DDK and Baird are not responsible for determining whether a directed broker-dealer is capable of providing best execution.

If a client's Account is a Retirement Account and if the client has selected an investment manager or product affiliated with Baird (such as the use of services or products offered by Baird Advisors, Baird Equity Asset Management, CCM, Greenhouse, Riverfront or any mutual fund affiliated with Baird, Greenhouse or Riverfront), 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 DDK 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 DDK Consultant. For more information about investment managers and products that are affiliated with Baird, please see "Additional Information—Other Financial Industry Activities and Affiliations" above.