

# Baird Private Asset Management

## Brochure

March 31, 2011



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SEC File No. 801-7571

**This Brochure provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. Clients should carefully consider this information before becoming a client of PAM. If you have any questions about the contents of this Brochure, please contact us 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).**

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## Advisory Business

This Brochure describes the investment advisory services Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. Separate brochures describe other investment advisory services offered by Baird and discuss the agreements, fees and potential conflicts of interest for each service. If you would like to request a brochure for another investment advisory service provided by Baird, please contact a Baird Financial Advisor 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.

## Introduction to Robert W. Baird & Co.

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

Associates of Baird, together with Baird Financial Corporation, own substantially all of the outstanding stock of Baird. Associates of Baird, together with Baird Holding Company, own substantially all of the outstanding stock of Baird Financial Corporation. Associates of Baird own substantially all of the outstanding stock of Baird Holding Company.

Baird offers various investment advisory services to clients. The advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting; financial planning; investment policy development; and account performance monitoring. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services.

Baird participates in wrap fee programs, including programs not described in this Brochure and it

provides portfolio management services in connection with those programs. Baird receives a portion of the wrap fee for providing portfolio management services under those wrap fee programs.

As of December 31, 2010, Baird had approximately \$32.6983 billion in assets under management, approximately \$27.4167 billion of which was managed on a discretionary basis and approximately \$5.2816 billion of which was managed on a non-discretionary basis.

## Introduction to Baird Private Asset Management

This Brochure describes certain investment advisory services that PAM offers to clients ("Services"). These Services primarily consist of: a Recommended Managers Service; a PAM Investment Management Service; a Client Selected Managers Service; and other consulting services, such as: assisting a client with the development of an investment policy statement or a search for an investment manager, providing performance reviews and performance monitoring. In certain instances, PAM may also provide clients with asset allocation and funding requirement analysis and asset liability modeling. The advisory services offered by PAM include investment advice and consulting services, performance reporting and related account services, and, depending upon the Service that a client selects, the Service may include portfolio management.

The Services may involve any combination of discretionary services, where a client provides PAM full discretionary authority to manage the client's account ("Discretionary Services"), non-discretionary services, where the client retains full authority with respect to management of the client's account ("Non-Discretionary Services"), and separately managed account services, where other investment managers manage the client's account with full discretion and PAM provides additional consulting services to the client ("SMA Services").

Each Service is designed to address different investment needs of clients. All of the Services discussed in this Brochure may not be appropriate for a client. PAM clients typically work with a Baird Financial Advisor who has been approved by Baird to provide the Services (a "PAM Manager"). The client, with the assistance of a PAM Manager,

determines the services that are most appropriate given the client's goals and circumstances. The client will provide financial, tax, and liquidity requirements information to their PAM Manager to assist in determining the client's investment needs, objectives and risk tolerances for the assets being invested.

PAM tailors its advisory services to the individual needs of clients.

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

All of the investment strategies discussed in this Brochure may not be appropriate for a client. PAM will only select or recommend those strategies which they believe to be suitable for a particular client based on the information provided by the client.

The particular investment advisory services that PAM provides in connection with each Service are further described below. Each Service may have differing structures and administration, and each Service offers different types and levels of service and has different fees and expenses. Please review this Brochure carefully.

#### **The Client-Baird Advisory Relationship**

A client that wishes to participate in a Service will generally enter into a Private Asset Management Consultant Agreement ("Consulting Agreement") with PAM. The Consulting Agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client and other terms applicable to the client's advisory relationship with PAM.

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

execute trades and perform related services for the client's account.

The terms of a client's Consulting Agreement, Client Account Agreement and this Brochure may not apply to a client now, but may apply in the future if a client changes Services or establishes other advisory accounts with PAM. PAM will generally not provide a client another copy of the Consulting Agreement, Client Account Agreement or this Brochure when a client changes Services or establishes new advisory accounts unless the client requests a copy from a PAM Manager. Therefore, a client should retain those documents for future reference as they contain important information if a client changes Services or establishes other advisory accounts with PAM.

PAM and Baird are deemed to have a fiduciary relationship with a client when providing the advisory services that are described in this Brochure.

From time to time PAM and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of PAM and Baird. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates (including PAM and its personnel) to follow that are designed to ensure that: (i) Baird and its advisory personnel comply with applicable fiduciary standards and act in the best interest of a client when providing investment advice; (ii) potential conflicts of interest are avoided or disclosed to a client; and (iii) PAM and Baird conduct their businesses in a manner that is consistent with the disclosures made.

PAM and Baird disclose potential conflicts of interest to a client by including relevant information in documents provided to the client, including, without limitation, this Brochure, brochure supplement(s) that contain information about individuals providing investment advice to the client, and the client's Consulting Agreement. The specific business practices that create potential conflicts of interest with clients and additional measures used by Baird to address those particular conflicts of interest are discussed in other sections of this Brochure.

### Description of Advisory Services

**Recommended Managers Service.** Under the Recommended Managers Service, a client grants full discretion to PAM and the client's PAM Manager to select investment managers to manage the client's account.

PAM determines the investment managers eligible to manage client accounts through an initial and ongoing evaluation process further described under "Methods of Analysis, Investment Strategies and Risk of Loss—Recommended Managers Service" below. Most managers are unaffiliated with Baird but some may be affiliated with Baird or may be another investment management department of Baird, such as Baird Advisors or Baird Investment Management ("BIM").

Managers may have varying investment objectives, styles and strategies. An investment manager's strategy may change in response to market conditions and may include investing in affiliated mutual funds of the investment manager.

Managers may invest client accounts in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company shares (including investing in mutual funds or exchange traded funds affiliated with the investment manager), leveraged or inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds and deposits in interest-bearing bank accounts.

By participating in this Service, a client authorizes and empowers PAM and the client's PAM Manager, with full discretion, to recommend, select and retain investment managers for the client's account and to terminate or replace investment managers for the client's account for any reason without prior client notice or approval. If PAM terminates an investment manager from the Service, a client authorizes PAM to invest, with full discretion, the assets in the client's account previously managed by the terminated

investment manager in other securities, including, but not limited to, mutual funds and ETFs. PAM'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.

Notwithstanding the discretionary authority granted to PAM under this Service, PAM does not manage the account and does not otherwise have any influence over the investment managers' investment decisions or securities selections to the extent the client's account is managed by another investment manager (except for reasonable restrictions as mentioned above under Introduction to PAM). However, PAM is available to a client on an ongoing basis to receive deposit and withdrawal instructions from the client or the client's authorized representative(s), and to convey any changes in the client's financial circumstances or investment objectives to the investment managers on the client's behalf.

**PAM Investment Management Service.** Under the PAM Investment Management Service, a client grants full discretion to PAM and the client's PAM Manager full discretion to manage one or more of the client's accounts. For example, for many clients PAM directly manages their fixed income investment account even if third-party investment managers are hired to manage equities and other assets.

To the extent PAM manages assets in a client's account, a client's PAM Manager seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's PAM Manager. At the commencement of services, the client's PAM Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PAM Manager makes a subsequent recommendation to the client as to which portfolio style the PAM Manager believes is best suited for the client. A client makes the final decision as to which portfolio style is chosen for the client's account.

The client's PAM Manager will make investment decisions for the client's account, with the authority to determine the amount, type and

timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's account. The client's PAM Manager will manage the client's account in accordance with the investment style that, in the PAM Manager's judgment, correlates with the information the client provides to the client's PAM Manager. A client's PAM Manager will provide the client with more specific information as to how the PAM Manager will manage the client's account. For more information about this Service, see "Methods of Analysis, Investment Strategies and Risk of Loss—PAM Investment Management Service" below.

A PAM Manager may make or recommend investments may be made in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund, exchange traded fund ("ETFs") or other investment company shares, structured products, leveraged and inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the assets in a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds or deposited in interest-bearing bank accounts.

#### **Additional Advisory Services.**

*Client Selected Managers Service.* The Client Selected Managers Service is a service whereby a client selects a third party investment manager to manage the client's account. This service is designed to accommodate a client who wishes to independently select a third party investment manager to manage the assets in the client's account with full discretion.

A client wishing to participate in this Service selects a manager from a list of eligible managers that Baird makes available from time to time (a "CSM Eligible Manager"). Baird's list of CSM Eligible Managers is based upon the managers made available on a platform of investment advisory firms maintained by an overlay investment management firm that Baird has engaged in connection with this Service (the "CSM Overlay Manager"). The CSM Eligible Manager list is subject to change at any time in Baird's or the CSM Overlay Manager's discretion.

Once the client has decided to retain a CSM Eligible Manager to manage the client's account, the client authorizes and directs PAM to appoint the CSM Overlay Manager to serve as sub-adviser. The client also authorizes and directs the CSM Overlay Manager to appoint the CSM Eligible Manager to serve as sub-adviser. The CSM Eligible Manager will manage the client's account with full discretion.

PAM and Baird may, in their discretion, permit a client to select a manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such manager in addition to the Consulting Agreement. This arrangement is commonly referred to as "dual contract".

If a client appoints a third party investment manager to manage the client's account under the Client Selected Managers Service, the third party investment manager will have the authority and full discretion to manage the client's account. Third party investment managers may have varying investment objectives, styles and strategies. A third party investment manager selected by a client may invest the client's account in various types of securities, which will be chosen by the third party investment manager. All or a portion of a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds, or in an insured bank deposit account. A client should obtain the third party investment manager's brochure for more information.

Under the Client Selected Managers Service, PAM does not manage the account and does not otherwise have any influence over third party investment manager's investment decisions or securities selections. PAM also does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's account. PAM only provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment policies and restrictions, and periodically reviewing the positions and transactions made in the client's account, third party investment manager performance and other characteristics. Some or all of these services may be provided to a client by a PAM Manager assigned to the client's account, and the client's PAM Manager may



provide his or her own advice and recommendations about the manager. The specific services to be provided to each client will be determined by mutual agreement of the client and PAM. PAM and Baird do not undertake to provide any investment advisory services other than those specifically requested by a client and agreed to by PAM.

A client's appointment and continued retention of a third party investment manager to manage the client's account is based solely upon the client's independent review of such third party investment manager and such manager's services. Once retained by the client, a third party investment manager will only be removed from managing the client's account upon the client's direction to do so. However, Baird has the right to remove any manager from the CSM Eligible Manager list in Baird's sole discretion. See "Methods of Analysis, Investment Strategies and Risk of Loss—Client Selected Managers Service" below for further information.

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

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

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

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

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

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

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

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

supports the transition to, and maintenance of, the client's target asset allocation.

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

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

#### **Additional Service Information.**

***Eligible Investments.*** A client's account may generally only hold investment products that Baird has determined are eligible for the Service the client selected. Eligible investment products vary by Service.

Eligible investments for client accounts, depending upon the Service, generally include: common stocks, preferred stocks, convertible preferred stocks, convertible bonds, ETFs, closed-end funds, American Depositary Receipts ("ADRs"), rights or warrants on equity securities, written covered call and written cash secured put equity options, publicly traded master limited partnership, REITs, and limited liability company units; fixed income securities, including but not limited to U.S. Treasury and federal agency securities, corporate bonds, ETNs, municipal bonds, asset-backed and mortgage-backed securities, certificates of deposit (primary or secondary), money market fund shares, cash and cash equivalents; no-load or load-waived mutual

funds, mutual funds purchased through Baird in which the client was charged a front-end sales load or commission at least 24 months prior to their being an eligible asset, annuities, and interests in unit investment trusts that have cost structures designed for use in fee-based investment programs; and certain other alternative investment products approved by Baird for use in connection with the Services such as: hedge funds, private equity and venture capital funds, managed futures; leveraged and inverse funds and other special situation mutual funds; structured CDs and notes ("structured products"); and exchange funds (collectively, "alternative investments").

Assets that are ineligible for those Services, depending upon the Service, generally include, but are not limited to: unit investment trusts with a sales load; mutual funds that charge a back-end or level load (commonly referred to as B and C shares, respectively); variable annuities charging a sales load; certain limited partnerships or limited liability companies (other than publicly traded master limited partnerships and limited liability companies), such as hedge funds, private equity funds and other private investment funds not approved by Baird; insurance products; commodities, futures or options on commodities, and commodity pools; and real estate.

*Baird may change the list of eligible and ineligible investments for any Service at any time in its discretion.*

Baird in its sole discretion may accept a client request to place certain ineligible assets into a client's Service account. If a client decides to hold ineligible assets in an advisory account, the client does so with the understanding that Baird and PAM do not provide advice regarding ineligible assets and ineligible assets may not be included in performance reports sent to the client. A client should consult the client's PAM Manager for further information.

***Updating Client Information.*** A client is responsible for providing information to PAM and any third party investment managers managing client's account reasonably requested by them in order to provide the services selected by the client. PAM and third party investment managers will rely on this information when providing services to the client. A client is also responsible



for promptly informing PAM and any third party investment managers managing client's account of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. Neither PAM nor the third party investment manager is responsible for any adverse consequence arising out of the client's failure to promptly inform PAM or the third party investment manager of any such changes.

**Tax Considerations.** The investment strategies used for a client's account and transactions in a client's account, including liquidations, redemptions, and rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. PAM does not provide any tax advice in connection with any of the Services. A client should discuss the potential tax implications of the client's investment strategies and transactions with the client's tax advisor. If a client wishes for PAM to implement a particular investment strategy for tax purposes, and PAM agrees to implement such strategy, PAM will not be responsible for the development, evaluation or efficacy of any such strategy.

## Fees and Compensation

### Advisory Fee

A client's Consulting Agreement will set forth the actual compensation the client will pay to Baird for PAM's services. In most instances, a client pays Baird an ongoing fee based upon the value of assets in the client's account (an "asset-based fee"), although other options may be available. PAM fee options available include a Flat Fee, a Breakpoint Fee, or a combination of both options.

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

The typical asset-based fee varies depending upon the Service and the fee option selected by the client. Fee options and rates may also differ among different accounts held by the same client, depending on the services selected for a given account. The breakpoint fee schedules and

minimum account sizes that apply to each Service are shown below.

**Recommended Managers and PAM Investment Management Services.** The following fee schedule sets forth the maximum fee rates for the Recommended Managers, and PAM Investment Management Services. *The asset-based fee shown below includes the advisory fees payable to the investment managers managing a client's account. Out of these suggested asset-based fees, Baird is responsible for paying the advisory fees charged by the investment managers, which generally range from 0.20% to 0.75% of asset values on an annual basis, depending on the type of account and amount of assets allocated to the manager.* Although a single fee is charged to each account, the fee is generally comprised of two elements: a PAM consulting fee and an investment manager fee. If PAM is the investment manager for an account, the fee is solely PAM's consulting fee.

### Fee Schedule

#### Recommended Managers Service PAM Investment Management Service

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

Each investment manager under the Recommended Managers Service may have different minimum account size requirements, which can range from \$200,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts. A client account may be assessed a minimum fee regardless of the value of the assets in the client's account. Any minimum fee will be set forth in the client's Consulting Agreement.

The minimum asset value to open an account in the PAM Investment Management Service is typically \$1,000,000. The minimum annual fee is generally \$3,000 for equity or balanced accounts and \$1,250 for fixed income accounts.

**Additional Advisory Services.** The following fee schedule sets forth the maximum fee rates for other advisory services provided by PAM, including Client Selected Managers.

**Fee Schedule**  
**Additional Advisory Services**

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
------------------------	------------------------

\$0 to \$249,999	3.00%
\$250,000 to \$499,999	2.50%
\$500,000 to \$999,999	2.25%
\$1,000,000 to \$1,999,999	2.00%
\$2,000,000 to \$4,999,999	1.75%
\$5,000,000 and above	1.50%

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

**Additional Advisory Services**

**Account Minimums**

<u>Program</u>	<u>Asset Level</u>
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Client Selected Managers	\$100,000
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A client account may also be subject to a minimum quarterly fee regardless of the value of the assets in the client's account. Such minimum will be set forth in the client's Consulting Agreement.

**Flat Fee:** Under the flat fee arrangement, the flat fee will be an agreed upon amount billed at least annually. Specific services may each have their own, separately stated flat fee, or several services may be grouped together under a single fee. Some services may entail a flat fee per usage. The details of the fee amounts, the billing schedule, and the services covered will be included in the client's Consulting Agreement.

**Additional Consulting Services.** The following fee schedule sets forth the maximum fee rates for other consulting services provided by PAM.

**Fee Schedule**

**Other Consulting Service**

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

**Calculation of Service Fees.** PAM will calculate a Service fee by applying the applicable fee rate to the value of all of the assets in the client's account, including cash or its equivalent held for investment.

If requested by a client and approved by Baird, a Service fee may be determined based upon the aggregate of the value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. The terms of any such household fee arrangement will be set forth in the client's Consulting Agreement.

The value of a client's assets is determined by the client's custodian. If Baird is the client's custodian, Baird will determine the value of the assets in the client's account and obtain prices from third party sources for that purpose. If the assets in the client's account are held by a custodian other than Baird, and PAM receives reports from the custodian setting forth current market prices or values of the assets, PAM relies on that information in determining the value of the assets in the client's account. Neither PAM nor Baird conducts an in-depth review of valuation information provided by third party quotation services or custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may

differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

The Service fees are payable on a calendar quarterly basis, in advance, in accordance with the terms of the client's Consulting Agreement. The initial billing period begins when the client's Consulting Agreement is signed by the client and accepted by Baird (the "Opening Date"). The initial fee payment will be adjusted for the number of days remaining in the then current quarter. The initial fee will be based on the value of assets deposited in the client's account. The period which such payment covers shall run from the Opening Date through the last business day of the then current calendar quarterly billing period. Thereafter, the quarterly fees shall be calculated based upon the account's asset value on the last business day of the prior calendar quarter and shall become payable on the first business day of the then current calendar quarter.

The Service fees and charges will be automatically deducted from the client's account, unless the client elects, and Baird agrees, to send to the client an invoice ("direct billing"). Direct billing may not be available for retirement accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or individual retirement accounts ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"). If a client's account is subject to direct billing, the client is required pay each bill within thirty (30) days of the date of the invoice. PAM may automatically debit a client's account for the fees and other charges in the event that PAM does not receive payment from the client within thirty (30) days of the invoice. PAM may rescind a direct billing arrangement with a client at any time.

PAM may modify a client's existing fees and other charges or add additional fees or charges by providing the client with thirty (30) days' prior written notice.

If either PAM or the client terminates the client's Consulting Agreement or a client's participation in

a Service, a pro-rated refund from the date of termination through the end of the applicable billing period will be made to the client in the client's account. PAM makes no fee adjustment during any fee period for asset value appreciation or depreciation in a client's account during a billing period. However, PAM, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's account occurring during a billing period that result from contributions to, or withdrawals from, the client's account.

Depending upon the Service selected, clients may use margin (borrowing money to buy securities). Whether a client maintains a balance in his or her margin account with Baird has no bearing on the asset-based fees charged on client's account. In other words, the margin balance (i.e., the outstanding amounts a client owes to Baird) in any of the client's accounts will not be applied to reduce the client's billable account value in calculating the asset-based fees payable to PAM. For purposes of determining the asset-based fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based fee on options, the absolute value of the current market price of the option will be used.

Each Service may have a minimum asset value in order to open an account, and a minimum fee may be assessed against a client's account as further described under "Service Fees" above. The minimum fee will be described in the client's Consulting Agreement. PAM may waive the minimum fee at its discretion. The minimum fee is subject to change upon notice to the client.

The Service 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 table above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

In certain circumstances, PAM makes other compensation options available to eligible clients besides asset-based fees, such as a fixed dollar amount or a commission-based fee.

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

#### Other Fees and Expenses

In addition to the asset-based advisory fee described above, a client of PAM will incur other fees and expenses. The asset-based fee only covers investment advice provided by PAM, and a client will pay for other services, such as custody and trade execution, separately in addition to PAM's fee. Please see the section "Brokerage Practices" below for more information. A client bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with purchases and sales of certain securities (such as securities traded over-the-counter and fixed income securities) because such costs are inherently reflected in the price the client pays or receives for such securities. A client is also responsible for fees and expenses resulting from certain odd-lot differential, Securities and Exchange Commission ("SEC") and exchange fees, electronic fund and wire transfer fees, margin interest, transfer taxes, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation.

A client's account may, from time to time, be invested in bank deposit accounts, money market funds, mutual funds, exchange traded funds and other registered investment companies, hedge funds, private investment partnerships, and other investment pools (including such funds and other products affiliated with Baird). These types of funds have their own fees and expenses that are borne either directly or indirectly by their shareholders or unit holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees,

transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, shareholder servicing fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing fund expenses"). These ongoing fund expenses are separate from, and in addition to, the Service fees. As a result of making investments in these types of funds, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of the client's assets so invested—the fees and expenses charged by the funds and the Service fee. A client is also responsible for any redemption fees that a fund may impose on the client for frequent trading in the fund's securities. A client should review the prospectus and statement of additional information (or other applicable offering documents) for each fund in which the client invests for further information.

If a client is allowed to buy or sell an ineligible asset in the client's Service account, the client may be charged a commission in connection with the purchase or sale. The cash proceeds from the sale of an ineligible asset that remain in a client's Service account are considered eligible assets subject to the asset-based fee. If an ineligible asset is purchased during a quarterly billing period, that asset will not be included for purposes of determining the asset-based fee beginning at the start of the next quarterly billing period, and no portion of the asset-based fee paid by a client in advance for the quarter during which the ineligible asset is purchased is refunded or rebated to the client. Additionally, Baird may, upon notice to clients, impose a set-up fee and/or an annual maintenance or administrative fee on ineligible assets maintained in a Service account.

In addition to the Program fee, a client will be responsible for paying the fees charged by each third party investment manager selected by the client in connection with the Client Directed Manager Service under a dual contract arrangement.

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

### Other Compensation Received by PAM and Baird

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

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

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

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

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). A client's agreement to a performance-based fee arrangement may create an incentive for Baird (but not PAM) to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of a performance-based fee arrangement. Performance-based fee arrangements also present a potential conflict of interest for Baird (but not PAM) with respect to other client accounts that are not subject to performance-based fee arrangements because such arrangements give Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees.

In addition to complying with its fiduciary duties and avoiding or disclosing conflicts of interest to clients, Baird typically addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements by adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

### Types of Clients

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



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

### PAM Investment Management Service

PAM provides various investment portfolio styles and strategies, including large and small cap equity, international equity, fixed income, and mutual funds, in isolation and in combination, as described below.

Generally, PAM recommends and provides to its clients a diversified investment strategy incorporating domestic and international equities, fixed income, and other "alternative" asset classes such as real estate, commodities, currencies, etc. The exact composition of a client portfolio will be constrained by the client's legal and tax considerations and greatly influenced by the client's liquidity needs and tolerance for portfolio fluctuations. The process by which PAM evaluates a client's investment needs, construct and implement a portfolio are described below.

#### Phase 1: Evaluate

After gathering pertinent information regarding the client (legal, tax, liquidity, time horizon, etc.), PAM will recommend an Investment Policy which will include a specific asset allocation, allowed and disallowed assets, and a description of the responsibilities of PAM, Investment Managers, and the Client. Through discussions with the client, the Investment Policy will be agreed to and finalized. The Investment Policy will be reviewed at least annually and PAM will recommend changes if necessary to reflect new circumstances such as a change in liquidity needs or time horizon. Any changes will be discussed with the client before implementation.

#### Phase 2: Strategy Design

PAM will compile, with data supplied by the client, a Source of Funds document listing investment assets to be transferred to Baird and other significant investment assets which may not be managed by PAM but which we will consider in constructing the overall investment portfolio. We will review the Source of Funds with the client to reach agreement on the total assets available for investment and the ownership or registration of the same.

Using the Source of Funds and Investment Policy as guidelines, PAM will construct a Recommended

allocation that will detail asset classes, investment managers, investment vehicles (i.e. SMA, mutual fund, ETF, etc.) and dollar values for each. The recommended allocation may include a series of investment phases to reach the long term target allocation depending on client preference, current investments, and market conditions.

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

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

The recommended allocation will also include details on fees. The fee for each manager will be provided as well as the PAM consulting fee. A weighted-average fee based on the recommended allocation will also be provided, but the actual average fee will vary depending on the dollar amounts actually invested.

#### Phase 3: Implement

Once the recommended allocation is reviewed with the client and a final allocation is agreed to, PAM will implement the agreed upon plan. This usually includes setting up various Baird accounts, transferring assets from outside accounts to Baird, reconciling assets received against client-provided information as to the assets in the outside accounts, liquidation of some assets, transfers of some assets to Investment Managers, and purchase of mutual funds and ETF's.

PAM may use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others,



issuer-supplied literature (such as annual reports, press releases and other information), and external market, economic, financial and investment data and analyses provided by organizations not affiliated with Baird. PAM primarily relies on independent, third-party research and information when analyzing market trends and conditions, investment manager performance, and asset class characteristics and performance. PAM has built and maintains a proprietary database of manager characteristics, including historical performance, personnel details, fees, investment philosophy, ownership and legal history. PAM has purchased and customized software to analyze the data, which we update at least quarterly. Some of the data, particularly general economic data, is publicly available, but PAM also pays for access to third-party databases which contain data used in our analyses. PAM does not accept fees or other remuneration from managers to be included in databases or in our manager search process. PAM Managers may also use research reports created by other departments of Baird, Baird's Recommended Managers list, Baird's Mutual Fund Recommended List, and lists of alternative investments that Baird has deemed eligible for use in the Services. PAM Managers may also employ the use of computers and third party application software to more readily display information and to assist with the evaluation and analysis. Although they use information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used. For more information about how Baird selects managers for the Recommended Managers Service, see "Recommended Managers Service" below. More information about how Baird constructs its Mutual Fund Recommended List and lists of eligible alternative investments is provided below.

**Baird's Mutual Fund Recommended List.** Baird's PAM Managers may utilize Baird's Mutual Fund Recommended List when providing investment advice to clients. Baird has engaged Wilshire Associates as an independent consultant in the construction of Baird's Mutual Fund Recommended List. The List is designed to include mutual funds across numerous asset classes. In constructing the list of recommended mutual funds, Wilshire Associates may base its assessment of a particular mutual fund or the sponsor of a particular mutual fund on the organization's strength and performance quality;

information gathering ability; forecasting ability; portfolio construction capability; idea implementation ability; self measurement capability; and use of various statistical techniques designed to assist in forecasting the expected future excess return of the fund. Baird's Mutual Fund Oversight Committee reviews the recommendations made by Wilshire Associates. Wilshire Associates also provides ongoing oversight and due diligence services to Baird in connection with maintaining the list. The Baird Aggregate Bond Fund has been selected by Wilshire Associates for inclusion in the Mutual Fund Recommended list.

**Alternative Investments.** When providing investment advice to clients about alternative investments, PAM Managers may utilize the lists of recommended alternative investments that Baird makes available. The level of diligence and ongoing review that Baird performs on these products and their sponsors varies. A client should contact the client's PAM Manager for more information about how Baird and PAM evaluate alternative investments and their sponsors.

#### **Recommended Managers Service**

When selecting and evaluating managers for the Recommended Managers Service, PAM may utilize Baird's Recommended Managers list. PAM may also select managers not included on Baird's Recommended Managers list though its own manager evaluation process.

When selecting managers for its Recommended Managers list, Baird seeks registered investment advisory firms having portfolio managers with academic credentials such as a Masters Degree or participation/completion of the Chartered Financial Analyst (CFA) program. Baird also looks for a portfolio manager with greater than three years of investment experience focusing on the particular investment style that is offered by the portfolio manager. Baird generally looks for portfolio managers that have demonstrated success, that have performance histories showing sufficient ability to achieve returns in excess of their respective benchmarks, and that have satisfactory investment processes, infrastructure, personnel and other resources. Baird also considers other qualitative and quantitative factors.

Baird's Advisory Services Research group is primarily responsible for selecting and evaluating investment managers included on Baird's Recommended Managers list. In selecting investment managers, Advisory Services Research utilizes quantitative and qualitative measures to evaluate managers based on the:

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

Baird's Advisory Services Research group may employ the use of computers and application software to assist with its evaluation.

Baird's initial screening process begins with a proprietary, multi-factor model that evaluates managers on different factors including risk-adjusted performance, consistency of returns and downside protection. These factors are scored over various time periods and relative to a specific peer group universe, narrowing the pool of managers for further evaluation. The Advisory Services Research group then performs a more in-depth evaluation of managers that are identified through the initial screening process, including an examination of the level of personnel turnover at the investment management level at the investment management firm to assess the stability of the organization and how the manager adds value. The final determination of the Recommended Managers list is subject to the approval of Baird's Manager & Policy Committee.

Ongoing manager evaluation generally includes quarterly conference calls, and periodic performance attribution and on-site 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, underperformance in relation to its peers, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

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

The hiring of investment managers for a client account includes an initial screening by PAM of a potential manager for overall style, firm size, the age of the investment advisor, its compliance with GIPS composite standards, its average turnover, and its performance record in said style for at least the five (5) years preceding the review. A quantitative score calculation is assessed to each investment manager based upon the Sharpe ratio, one-year trailing return, the most recent quarter return, the up market capture ratio, and down market capture ratio. A weight is then assigned to each of the foregoing.

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

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

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

A client should note that managers selected for a client's account, including Recommended Managers, are those managers which, in Baird's and PAM's professional judgment, are appropriate to help clients pursue their financial goals. However, neither PAM nor Baird represent that such managers are or will be the best available managers in the industry.

#### Client Selected Managers Service

Clients participating in the Client Selected Managers Service should note that any investment manager selected by the client under that Service is not on Baird's Recommended Managers list, and Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the Client Selected Managers Service, unless Baird otherwise specifically agrees to do so. The CSM Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review CSM Overlay Manager's Form ADV Part 2 brochure for more information, which is available upon request. In addition, the client's Financial Advisor may provide the client advice about the manager selected by the client under the Client Selected Managers Service.

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

#### Principal Risks

Risk is inherent in any investment in securities and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. By participating in a Service, a client may be subject to the risks described below. The risks discussed below vary by Service and investment style or strategy, and may or may not apply to a client. Clients are encouraged to discuss with their PAM Manager the risks that apply to them.

General risks of the Services include the following:

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

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

*Investment Objective and Asset Allocation.* 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 Financial Advisor of these considerations so the Financial Advisor can assist in determining the client's investment objectives and asset allocation strategies.

**Concentration.** A client's account may consist of a portfolio of securities that is concentrated in an issuer or group of issuers, an industry or economic sector or group of related industries or sectors, or concentrated in limited asset classes. Client accounts with concentrated positions are susceptible to greater volatility and increased risk of loss than a portfolio that is diversified across several industries or sectors and asset classes.

**Liquidity.** Certain securities may have more or less liquidity than other securities. Securities with less liquidity generally have wider bid and ask spreads. Also, the volatility of the price of a thinly traded security may be more than the volatility of the price of a widely traded security because of the impact of low trading volume. It may be difficult to sell an illiquid security at any given time and a client may not be able obtain a favorable price for the security. As a result, illiquid securities may have a negative effect on the performance of the client's account.

**Portfolio Turnover.** A portfolio with a high turnover rate will incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also result in tax liability due to the recognition of capital gains and ordinary income.

**Derivatives.** The strategy used for a client's portfolio may involve the use of options, futures, and short sales to "hedge" the overall risk of the client's portfolio. The values of these investments are derived from an underlying asset and may fluctuate more than other investments, which may result in an unexpected decline in the portfolio's value.

**Leveraging.** The strategy used for a client's portfolio may involve the use of margin (borrowing money to buy securities) also known as leveraging. Leveraging strategies may amplify the impact of any increase or decrease in the value of underlying securities in the client's portfolio.

**Stock Risks.** Stock prices vary and may fall, thus reducing the value of a client's investments. Certain stocks selected for a client's portfolio may decline in value more than the overall stock market. The U.S. and international markets have experienced extreme price volatility, reduced liquidity and valuation difficulties in recent years. Continuing market problems may have adverse effects on a client's portfolio.

**Bond Risks.** To the extent a strategy may involve investing in fixed income securities, the strategy is subject to bond market risks. A bond's market value is affected significantly by changes in interest rates – generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk and the lower its yield ("maturity risk"). A bond's value may also be affected by changes in its credit quality rating or the issuer's financial condition ("credit-quality risk"). Because bond values may fluctuate, a client's portfolio value may fluctuate. Client accounts may also be invested in municipal securities, and/or bonds that are not rated or are below investment grade. For more information, a client is encouraged to read a disclosure documents entitled "Important Information About Investing in Municipal Bonds" and "Important Information About Non-rated or Below Investment Grade Securities" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

**Government Obligations.** Certain securities issued by U.S. government-sponsored agencies or instrumentalities are not supported by the full faith and credit of the U.S. government. Examples of such securities are those issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which are supported only by discretionary authority of the U.S. Government, and the Student Loan Marketing Association, which are supported only by the credit of that agency.

**Money Market Fund Risk.** An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value

per share fall. In some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund would not be available for purchases or withdrawals.

**Hedge Funds.** Investing in hedge funds presents special risks. Some of the more common risks include the following: limited regulatory oversight, lack of liquidity, management risks, limited disclosure and transparency of operations, potentially high fees, and performance fee conflicts. A client is encouraged to read a disclosure document entitled "Important Information About Fund of Hedge Funds" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

**Managed Futures.** Investing in managed futures presents special risks. Some of the more common risks include the following: performance volatility, limited regulatory oversight, lack of liquidity, management risks, potentially high fees, and performance fee conflicts. A client is encouraged to read a disclosure document entitled "Important Information Regarding Managed Futures" available on Baird's website at [www.rwbaird.com/about-baird/disclosures.aspx](http://www.rwbaird.com/about-baird/disclosures.aspx).

**Leveraged or Inverse Funds.** Leveraged or inverse funds are ETNs, ETFs or open-end mutual funds seeking returns that are the opposite of the performance of an index or other benchmark on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time are not likely to track the opposite of the performance of the fund's underlying index, and may in fact be significantly different. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of short sales, swap contracts, futures, options and other derivatives with economic characteristics that are designed to perform opposite to the securities in the underlying index. Because of the unique characteristics of these funds and the special risks associated with them, the Financial Industry Regulatory Authority ("FINRA") and the SEC have issued a joint alert entitled "Leveraged and

Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors," which is available on FINRA's and the SEC's websites. A client is encouraged to read a disclosure document entitled "Important Information About Leveraged and Inverse Funds" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

**Structured Products.** Structured products are a hybrid between two asset classes typically issued in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. These investment products are complex and involve special risks. A client is encouraged to read a disclosure document entitled "Important Information about Structured Products" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

U.S. and international markets have experienced extreme price volatility, reduced liquidity and valuation difficulties in recent years. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on the client portfolios.

For more information regarding the risks of investing in a particular investment product, a client should carefully review the offering documents for that product or ask the client's PAM Manager.

### Disciplinary Information

In December 2008, Baird, without admitting or denying the allegations, consented to the findings of FINRA that it violated NASD Rules 2110, 3010(a) and 3010(b) by failing to establish and maintain an adequate supervisory system reasonably designed to review and monitor its fee-based brokerage business and its registered representatives. Baird was found to have failed to: implement fee breakpoint discounts on certain fee-based brokerage accounts; clearly identify the specific fee applicable to each customer; implement a system to automatically credit customers with the fee breakpoint discounts specified in their account agreements; and adequately disclose inclusion of margin activity and short sales in fee calculations for fee-based



accounts. Baird was fined \$500,000 and paid restitution of \$434,510 plus interest to Baird customers.

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

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

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

PAM Managers and certain other of Baird's and PAM's personnel are registered, or have an application pending to register, as registered representatives and associated persons of Baird to the extent necessary or appropriate to perform their job responsibilities.

Baird is affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs and private equity funds. From time to time, Baird, PAM and PAM Managers may recommend that clients invest assets with these investment advisors or in investment products that are affiliated with Baird. Such recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird and/or its affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. However, as fiduciaries, Baird, PAM and PAM Managers will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

*Other Investment Management Departments of Baird.* Baird and PAM Managers may, from time

to time refer clients to Baird Advisors, BIM, or Baird Public Investment Advisors, investment management departments of Baird.

*Affiliated Mutual Funds.* Baird is the investment adviser and principal underwriter for the Baird Funds, Inc. ("Baird Funds"), a registered open-end management investment company. Baird Advisors provides investment management and other services to certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). As compensation for those services, Baird receives a fee from each Baird Fund, which is disclosed in each Fund's prospectus.

Baird also provides certain administrative services to the Baird Bond Funds. As compensation for those services, Baird receives a fee that is paid monthly at an annual rate of 0.05% of each of the Bond Fund's average daily net assets.

Currently, Baird Advisors serves as sub-adviser to a mutual fund series of the New Covenant Funds and a mutual fund series of CNI Charter Funds, Inc. Additional information about these mutual funds, including information relating to the compensation paid to Baird by these funds for investment management services, is available in each fund's prospectus and statement of additional information.

*Affiliated Investment Advisors.* Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's equity ownership of Riverfront and representation on Riverfront's Board of Directors. Riverfront is an investment advisor that is based in Richmond, Virginia. Riverfront offers asset allocation, mutual fund, ETF and foundation strategies. Riverfront acts as investment sub-advisor for certain mutual fund series of the Financial Investors Trust. Baird is not involved in the day-to-day management of Riverfront or the investment decisions made by Riverfront for the account of clients. Due to Baird's equity ownership in Riverfront, Baird and PAM have a conflict of interest to the extent Baird or PAM would advise clients to participate in advisory programs offered by or invest in mutual funds, ETFs or other investment products offered by



Riverfront because the value of Baird's investment in Riverfront increases as Riverfront's assets under management increase. However, although PAM and Baird provide information about Riverfront and its investment products to clients, PAM does not provide a client advice regarding the client's decision to retain Riverfront or select an investment product offered by Riverfront, and PAM does not cause clients to purchase Riverfront investment products or retain Riverfront to manage their accounts.

**Affiliated Private Equity Funds.** Baird is also engaged in a private equity business through Baird Private Equity ("BPE"), Baird's global private equity group. PAM and PAM Managers may refer clients to BPE. BPE makes venture capital, growth equity and buyout investments in the business services, manufactured products and healthcare/life sciences sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); ; Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"), and Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"). BVP I and BVP III participate in venture capital opportunities by investing in equity securities of early-to-growth stage companies. BVP I is the general partner of the three limited partnerships and is an investment adviser registered with the SEC. BVP III is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCP III, BCP IV and BCP V invest in equity securities of growing middle market companies issued in management buyouts, recapitalizations, industry consolidations and growth equity transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing

manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general partner of three limited partnerships and is an investment adviser registered with the SEC.

PAM Managers who assist in obtaining a client's investment in a private equity fund affiliated with Baird are eligible for special referral compensation. The level of compensation is described in the offering documents of the applicable fund.

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

### **Code of Ethics**

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advice to clients, including PAM Managers, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a

security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management and/or by Baird's Compliance Department. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. For example, except for principal trades specifically authorized by clients, Baird conducts trading activity for advisory clients through trading personnel that are different from the trading personnel executing trades for Baird's own accounts. In addition, Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

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

*Baird's Broker-Dealer and Related Activities.* In their broker-dealer capacities, Baird, PAM and PAM Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, options, and other securities, and sales of life insurance policies and annuities. Baird, PAM and PAM Managers receive compensation based upon the sale of such securities and other investment products as further described below.

Brokerage and Related Trading Activities. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. These investment management firms may also receive research in addition to execution services provided by Baird. Baird receives compensation for those execution services. This may create an incentive for Baird to recommend or sell to clients

the services of such investment management firms or their products, including the mutual funds or money market funds advised by other investment management firms. If a client is paying commissions to PAM for advisory services it provides to the client (in those advisory programs in which commissions may be charged), Baird, PAM and PAM Managers could have a financial incentive to recommend an investment management firm that trades actively, thereby executing more trades and generating higher compensation for Baird, PAM and PAM Managers. However, Baird, PAM and PAM Managers act in the best interest of clients when selecting or recommending investment management firms or their investment products to clients. Further, Baird and PAM do not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for advisory programs (including when constructing the Recommended Managers or Mutual Fund Recommended lists). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds in 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 statement of additional information, available from each fund.

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

Baird, as broker-dealer, continually engages in various securities transactions and trading activities, including market making and corporate stock buyback activities. Baird may buy or sell securities for its own account, or may act as

broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. These activities could create a conflict of interest with its clients. Baird addresses this potential conflict by adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's, its affiliates' and associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics" below.

*Mutual Fund Selling and Servicing.* With respect to brokerage accounts and advisory accounts subject to a commission-based fee arrangement (in those Services such option is available), a mutual fund may compensate Baird, PAM and PAM Managers based on the front-end or back-end sales charges, if any, paid by the client.

Baird, PAM and PAM Managers may also receive compensation from a mutual fund company relating to the client's continued investment in a mutual fund. Baird, PAM and PAM Managers provide certain distribution, sub-transfer agency, marketing, administration, custody, and other shareholder-related services to mutual funds and their vendors with respect to Baird clients that hold shares of such mutual funds in their accounts. Baird receives distribution (12b-1) fees and other shareholder servicing fees that are intended to compensate Baird for the services provided. Baird, in turn, pays a portion of these fees to the PAM Manager according to an internal compensation formula, which remains the same regardless of which mutual funds a client purchases. The distribution (12b-1) fees and other shareholder servicing fees paid to Baird are typically based upon the amount of assets Baird clients have invested in a particular mutual fund. The fee rate paid by mutual funds and their vendors to Baird is typically 0.25% per year of the net value of the assets Baird clients have invested in a particular mutual fund, but generally ranges from 0.10% to 1.00% depending upon the particular fund and class of shares.

If Baird receives distribution (12b-1) fees and other shareholder servicing fees with respect to a mutual fund investment in a client's account and client is paying an asset-based fee to Baird on such investment, Baird rebates the fee to the client's account, except with respect to a client's non-Retirement Account in the PAM Investment Management Service. Accordingly, the receipt of these fees provides Baird and PAM Managers an incentive to recommend mutual funds over other investment products, or to recommend mutual funds that offer distribution (12b-1) and shareholder servicing fees greater than other funds. For further information regarding these fees, clients should review the prospectus and statement of additional information for the applicable fund or ask a PAM Manager.

Revenue Sharing. In addition to distribution (12b-1) and shareholder serving fees, Baird receives additional financial support from the sponsors of certain mutual funds included on Baird's Financial 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 Baird's ALIGN Program 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 for Financial Advisors about the funds offered by the fund company, due diligence on the funds and marketing support. In exchange for such financial support, fund companies may receive certain benefits from Baird, including access to Baird Financial Advisors or Baird associates for educational, networking, marketing and other promotional opportunities.

The amount of financial support that Baird receives from fund companies varies and is based on the value of Baird client assets invested in certain mutual funds, a fixed dollar amount or some other method determined by the mutual fund company. However, the amount of financial support Baird receives from mutual fund companies does not exceed 0.09% of the value of Baird client assets invested in those funds. The financial support Baird receives from sponsors of money market mutual funds is typically based on the value of Baird client assets in those funds and

has generally ranged from 0.12% to 0.96%, depending on the type of fund. The financial support Baird receives from mutual funds and money market funds is paid by the advisors or distributors of such funds out of their revenues or profits and are not paid out of fund assets. However, the revenues and profits of advisors and distributors to funds may in part be derived from fees paid by such funds for services provided by the advisors or distributors.

In addition to financial 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 financial support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make such payments over mutual funds and their sponsors that do not. However, Baird acts in the best interests of clients when recommending funds to clients, and Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List, Mutual Fund Recommended List, or in constructing portfolios of mutual funds offered in Baird's ALIGN Program.

The financial support and other payments that Baird receives from mutual funds are not paid to PAM Managers, and PAM Managers' compensation is not tied to such payments.

More detailed information about distribution (12b-1) and shareholder servicing fees, and financial support payments that Baird receives from mutual fund companies is available in the mutual fund companies' mutual fund prospectus or statement of additional information and on Baird's Website at [www.rwbaird.com/mutualfunds](http://www.rwbaird.com/mutualfunds). Clients may also contact Baird or the client's PAM Manager for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies.

**Recordkeeping Fees.** Baird receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides. Baird processes client

transactions in mutual fund shares held at Baird on a networked basis, which means that Baird executes a trade for each client with the mutual fund company on an individual client basis and that Baird must maintain certain records. The networking fee is generally paid from client assets in the applicable mutual fund and is typically a fixed dollar amount based on the number of positions or accounts in that mutual fund family held at Baird. The networking fee paid to Baird is generally \$6 per position, but the range of fees paid to Baird varies based upon the particular fund, the level of client assets invested, and the level of service provided. While this may provide Baird an incentive to recommend funds paying higher fees, these fees are not paid to PAM Managers and the compensation Baird pays to PAM Managers is not tied to such fees.

**Schwab Clearing Arrangement.** Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual funds for Baird on behalf of Baird clients. Schwab executes trades for Baird on behalf of Baird clients on an omnibus basis, which means that trades made by Baird clients in a fund are consolidated into one daily trade with the fund. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird a portion of the compensation Schwab receives from the funds (including distribution (12b-1), shareholder service and sub-transfer agency fees and revenue sharing payments) for services Baird provides to its clients who invest in the funds, such as record maintenance, shareholder communications and transaction services. Baird, in turn, pays a portion of the distribution (12b-1) fees to PAM Managers. If Baird receives distribution (12b-1) fees and other shareholder servicing fees from Schwab with respect to a mutual fund investment in a client's account and client is paying an asset-based fee to Baird on such investment, Baird rebates the fee to the client's account, except with respect to a client's non-Retirement Account. This may provide Baird and PAM Managers an incentive to recommend certain funds that are part of the Schwab clearing arrangement over other investment products or funds not included in the Schwab clearing arrangement.

**Annuities and Insurance Products.** Insurance companies compensate Baird, PAM and PAM Managers for selling their insurance products. Baird and its PAM Managers are paid by the

insurance companies in various forms including upfront commissions based upon the initial sale of the product and ongoing trail commissions or residuals relating to a client's continued holding of the product. The amount of compensation paid varies based on the amount and type of product and the insurance company offering the product.

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain products that it sells for training and education of Financial Advisors. This support, which varies from insurance company to insurance company is commonly referred to as "marketing support payments." In exchange for such marketing support payments, insurance companies may receive certain benefits from Baird, including access to PAM Managers or Baird associates for educational, networking, marketing and other promotional opportunities. Receipt of marketing support payments may provide Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However, Baird does not consider the receipt of marketing support payments in compiling its "Baird Focus List" of insurance companies.

The marketing support payments that Baird receives from insurance companies are not paid to PAM Managers and PAM Managers' compensation is not tied to such financial support.

More detailed information about the types of compensation payments that Baird receives from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird's Website at [www.rwbaird.com/annuities](http://www.rwbaird.com/annuities).

#### *Baird's Other Financial Industry Activities.*

Other Investment Products and Services. Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird, PAM and PAM Managers. Baird, PAM and PAM Managers may have an incentive to recommend to clients those investment products and services that generate a higher level of compensation than those that generate a lower level of compensation. For more information about the other investment products and services offered by

Baird, clients should contact Baird or a PAM Manager.

Investment Banking and Public Finance. Through its Investment Banking and Public Finance departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such issuers in connection with the services it provides. In addition, PAM Managers who refer securities underwriting 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 the issuer pays to Baird. Baird, PAM and PAM Managers may, therefore, have an incentive to recommend to clients the securities of issuers for which Baird provides investment banking services over the securities of issuers for which Baird does not provide investment banking services. However, Baird, PAM and PAM Managers will only recommend such securities to a client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any such securities will be purchased for a client's account 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 PAM Manager's interest in the transaction. For more information, please see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Principal Transactions" below.

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

Cash Sweep Program. Baird 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. The PrivateBank and Trust Company may from time to time hold client deposits under the Bank Sweep Option. Baird has an ownership interest in The PrivateBancorp, the parent company of the PrivateBank and Trust Company.

In addition to the asset-based fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for the provision of certain administrative, accounting and other services to the client. The fee that a bank pays to Baird is typically calculated based upon the amounts Baird clients deposit at the bank, determined on a weighted average basis across the various interest rate tiers, and may be up to 1.50%, annualized, of the daily deposit balances held in the Bank Sweep Option. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors, which may vary by fund, which compensation is further described under the heading "Baird's Broker-Dealer and Related Activities—Revenue Sharing" above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with its Financial Advisors, including PAM Managers. The compensation that Baird, PAM and PAM Managers receive from the Bank Sweep Option and the Money Market Option give them a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program is available on Baird's Website at [www.rwbaird.com/moneymarkets](http://www.rwbaird.com/moneymarkets).

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

**Trust Service Providers.** Baird maintains alliances with certain unaffiliated institutions that provide trust services. These unaffiliated institutions offer

various types of trust services, including trust administration, custody, tax reporting and record keeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution.

**Agency Cross Transactions.** In certain circumstances and to the extent permitted by applicable law and regulation, PAM may effect "agency cross" transactions through Baird with respect to a client's account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for its brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-2 under the Advisers Act. Furthermore, Baird will comply with additional conditions imposed by ERISA if the client account is a Retirement Account.

Where applicable, a client's Consulting Agreement discusses agency cross transactions and authorizes PAM to effect agency cross transactions for a client's account. **A client's authorization to Baird to effect "agency cross" transactions is given pursuant to Rule 206(3)-2 under the Advisers Act and may be withdrawn by a client at any time in client's sole discretion by sending written notice to Baird.**

**Cross Trading Involving Baird Advisory Accounts.** From time to time, when PAM believes that each respective transaction is consistent with the client's best interest, such as when accounts are adjusting their respective durations, when one account is in a liquidation mode while another is in an accumulation mode, or for tax management purposes, PAM, acting as investment manager, may cause (or in the case of non-discretionary



accounts, recommend) the sale of securities from an advisory client's account while at or about the same time causing (or, in the case of non-discretionary accounts, recommending) the purchase of the same securities for the account of another advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

In such cases, because Baird is acting as investment manager 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 manager for both buyer and seller, transaction prices may be determined more by reference to market information or dealer indications for the securities involved, and less through the type of independent arms-length negotiation that might otherwise occur. In these transactions, Baird seeks to obtain best execution for each respective advisory client and to ensure that each client receives fair and equitable treatment.

*Principal Transactions.* Subject to the requirements of applicable law, PAM may, when it is in the best interest of a client to do so, execute transactions for a client account while acting as principal for Baird's own account (that is, Baird may sell a security from Baird's inventory to a client, or Baird may purchase a security from a client for Baird's inventory).

In addition to the advisory fee paid by a client, Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup or markdown from the prevailing market price, an underwriting fee, selling concession, or other incentive to execute the transaction. In trading as principal with a client, Baird will have potentially conflicting division of loyalties and responsibilities regarding Baird's own interests and the interests of the client. This profit potential may give Baird an incentive to recommend a transaction in which Baird acts as principal. Nonetheless, Baird has a fiduciary duty to act in the best interest of clients and to obtain best execution for its advisory clients. Furthermore, Baird has adopted internal procedures designed to ensure that Baird will not act in a principal capacity for any transaction in an advisory client's account, absent disclosure of the transaction to the client, including all material

information regarding Baird's or the client's Financial Advisor's interest in the transaction, and the client's prior written approval of the transaction or unless otherwise allowed by applicable law, and provided that such transaction is not otherwise prohibited by ERISA.

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

To the extent not otherwise prohibited by ERISA, if a client selects non-discretionary advisory services to be provided by Baird or if a client selects third party investment advisors to manage the client's account, the client's Consulting Agreement provides Baird with a blanket authorization to act as principal for Baird's own account in selling any security to or purchasing any security from the client's account. With this authorization, Baird may effect any and all principal transactions with the client's account without having to provide specific written disclosures and obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of Rule 206(3)-3T under the Advisers Act (including any amendments to such rule or successors to such rule) and/or other applicable rules and interpretations. **This authorization to enable Baird to trade as principal with a client's account may be revoked at any time by the client in client's sole discretion by notifying the client's PAM Manager in writing.**

Baird may also act as principal in selling securities to a client's account during offerings underwritten by Baird as further described above. In each such instance, Baird will provide certain disclosures about the transaction and obtain the client's consent to the trade.

*Interest in Other Client Transactions.* Baird, PAM and PAM Managers may recommend to clients, and may buy and sell for client accounts, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" below.

*If Baird, or an affiliate or associate of Baird, receives any compensation or benefit described in this Brochure from a client's investment in funds or other investment products, they will generally retain the compensation or benefit. Except as otherwise described above, Baird generally does not rebate these amounts to a client's account or credit the amount against the advisory fees payable by a client unless Baird may not keep such compensation under applicable law.*

## Brokerage Practices

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

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

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

If a client directs PAM to use a designated broker-dealer for trade execution (a "directed brokerage arrangement"), PAM may be unable to achieve best execution for the client's transactions because PAM cannot negotiate better prices and lower commission rates for the client, nor can PAM aggregate the client's account trades with orders for other PAM clients in order to seek volume discounts (i.e., "block transactions").

Directed brokerage arrangements may cost the client more money as they may result in the client paying higher commissions and greater bid/offer spreads, or receiving a less favorable net price than the client may experience if PAM negotiated commission rates and spreads and selected broker-dealers to execute trades for client's account. Directed brokerage arrangement orders, because they are directed to the specified broker-dealer, may be manually executed by PAM after the trade execution is completed for other PAM's client accounts. Any benefit that a client receives, including the receipt of goods and services, as a result of directing brokerage to a broker-dealer, is to be negotiated solely by the client for the client's benefit.

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

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

**From time to time, PAM may request that PAM clients direct PAM to execute trades through Baird. Clients should note that the compensation received by Baird and its PAM Managers is directly related to the amount of commissions paid by PAM clients and the number of transactions effected for their accounts. As the amount of commissions paid by PAM clients and the number of transactions effected for their accounts increases, the compensation that Baird receives and pays to PAM Managers also increases. Accordingly, this practice presents a conflict of interest because it gives Baird and its PAM Managers an incentive to trade actively for client accounts and to make trading decisions based upon the compensation received rather than on a**

**client's needs. Clients should also understand that the PAM Manager acts with discretion with respect to a PAM client's account and that, absent a client's instructions to the contrary, the PAM Manager will effect transactions for the client's account without obtaining the client's consent or providing notice to the client.**

*Block Transactions.* PAM may aggregate contemporaneous buy and sell orders for the accounts of its discretionary advisory clients ("block transactions"). This practice may enable PAM to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated.

The advisory clients participating in block transactions may not all be participants in the services described in this Brochure. All advisory clients participating in a block transaction will receive the same execution price for the security bought or sold. Average prices may be used when allocating purchases and sales to a client's account because such securities may be purchased and sold in a series of transactions. A client's commissions or transaction costs may vary depending upon, among other things, the type of advisory client account and the commission rate that the client has negotiated.

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

restrictions, undesirable position size, account portfolio weightings, client tax status, client cash positions and client preferences. Adjustments may also be made to avoid a nominal allocation to a client account.

PAM generally aggregates buy and sell orders when executing trades for discretionary client accounts when it has the opportunity to do so. However, PAM determines whether or not to utilize block transactions for a client in its sole discretion and PAM's decision is subject to its duty to seek best execution. PAM will aggregate a client's trade orders only when PAM deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements. When PAM is not able to aggregate trades, PAM generally uses a trade rotation process that is designed to be fair and equitable to all PAM clients.

Because PAM is unable to buy or sell any security for a client's non-discretionary accounts without the client's authorization, PAM generally does not aggregate or bunch trades for the client's account with the same or similar trades for other client accounts and places orders for the client's account promptly after receiving the client's authorization to do so. Because similar orders for the client and PAM's other clients may be placed and filled at different times, the client may buy or sell securities at prices that are different from the prices obtained by other clients who received the same or similar advice from PAM.

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

Certain client accounts, including those of the mutual funds identified above, managed by PAM and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. This creates a potential conflict of interest as PAM and Baird may have an incentive to favor client accounts that generate a higher level of compensation than accounts with lower fee or commission rates. PAM and Baird address potential conflicts of interest posed by different client fee arrangements by complying with their fiduciary

duties, avoiding or disclosing conflicts of interest to clients, and adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

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

*Other Brokerage Matters.* If Baird, as broker-dealer, provides execution services to a client, Baird will arrange for delivery and payment in connection with the execution services rendered to a client, and the client authorizes Baird to act on the client's behalf in all other matters necessary or incidental to the handling of the client's account.

Baird, as a broker-dealer, is subject to the provisions of Section 11(a) of the Securities Exchange Act and Rule 11a2-2(T) thereunder. Therefore, some transactions effected by Baird for certain clients on a national or regional securities exchange must be executed through a floor broker unaffiliated with Baird.

In connection with transactions effected for a client's account, Baird may establish and trade in Baird's or the client's name with members of national or regional securities exchanges and FINRA, including "omnibus" accounts established for the purpose of combining orders for more than one client.

*Trade Error Correction.* It is Baird's policy that if there is a trade error for which Baird is responsible, trades will be adjusted or reversed as needed in order to put the client's account in the position that it would have been in as if the error had not occurred. Errors will be corrected at no cost to client's account, with the client's account not recognizing any loss from the error. The client's account will be fully compensated for any losses incurred as a result of an error. If the trade error results in a gain, the gain may be retained by Baird; however, any gain retained by Baird

may not be used to offset previous losses charged to a Baird associate.

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

### Review of Accounts

*Client Account Review.* Client accounts are monitored on an ongoing basis by the client's PAM Manager and are subject to review by the Branch Office Manager (or his or her designee). The client's PAM Manager generally reviews the performance of the client's account at least quarterly. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's PAM Manager reviews a client's account's daily trading activity and also performs a quarterly review of the PAM Manager's accounts, focusing on clients' investment objectives and the accounts' performance.

*Performance and Account Reports.* Baird generally provides written reports to clients on the performance of their accounts on a quarterly basis, although performance reporting may not be available for account assets that are not custodied at Baird. Client performance reports usually contain a portfolio valuation and typically show the asset allocation of the client's portfolio, changes in a client's portfolio, and account performance compared to a benchmark market index or indices (such as the S&P 500® Index or the Barclays Capital U.S. Intermediate Government/Credit Bond Index). The benchmark may be a blended benchmark that combines the returns for two or more indices.

Benchmarks shown in performance reports are for informational purposes only. Baird's selection and use of benchmarks is not a promise or guarantee that the performance of a client's account will meet or exceed the stated benchmark. When the client compares portfolio performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and does not take into account management fees, execution costs, and other expenses related to the operation of a

portfolio. The securities included in a client's portfolio generally do not mirror the securities included in the index.

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

If Baird provides transaction execution services to the client, the client will receive a monthly Baird brokerage account statement when activity occurs during that month. A quarterly statement is provided if there has not been any intervening monthly activity.

For most Services, Baird gives each client the option of either receiving a trade confirmation for each transaction or suppressing delivery of trade confirmations by making the relevant selection in the client's Consulting Agreement.

When preparing a client's account statements and performance reports, Baird relies upon third parties when determining the value of account assets. If Baird has custody of a client's account assets, Baird will generally rely on third party quotation services to determine the value of such assets. If a client's account assets are held by a custodian unaffiliated with Baird, Baird will generally rely on the value of a client's assets provided by the client's custodian. Baird does not conduct an in-depth review of valuation information provided by third party quotation services or custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

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

Baird or PAM 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 relationship and the assets under management. Baird may pay these fees to registered representatives of Baird and its affiliates as well as to unaffiliated, solicitors that have entered into a written agreement with Baird.

Baird and its affiliates and associates may receive certain economic benefits, described under the headings "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above, for providing investment advice or advisory services to clients.

### **Custody**

The Services generally require clients to custody their account assets at Baird. However, PAM in its sole discretion may accept certain clients whose assets are custodied with other financial institutions that are acceptable to Baird. A client who uses a custodian other than Baird will pay a custody fee in addition to the Service fee and may not receive performance review or reporting from Baird.

A client who uses a third party custodian authorizes PAM to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's account. Also, the client will receive account statements directly from their selected custodian. Clients should carefully review those account statements and compare them with any account statements provided by Baird.

If Baird is the custodian of client assets, Baird will provide certain custody services, which shall include holding securities in nominee or "street" name, crediting interest and dividends received on securities held in a client's account, and crediting principal on called or matured securities. "Street" name refers to securities and assets being registered in Baird's name or in a name that Baird designates, rather than in a client's name directly. A client may obtain information about Baird by contacting PAM or at [www.rwbaird.com](http://www.rwbaird.com). Baird's headquarters are located at 777 East



Wisconsin Avenue, Milwaukee, Wisconsin 53202, and its main telephone number is 414-765-3500.

### **Investment Discretion**

A client retains complete trading authorization over assets in Non-Discretionary Service accounts, and PAM will only execute transactions pursuant to the client's instruction or authorization.

If a client elects to participate in a Discretionary Service, the client authorizes PAM to manage the client's account in accordance with the terms of the Service selected by the client and grants to PAM complete and unlimited trading authorization and appoints PAM as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. The appointment provides PAM the authority to buy, sell or otherwise trade securities or other investments for a client's account without consulting the client. Orders for the purchase and sale of securities in a client's account may be executed by Baird, in its capacity as broker-dealer.

If a client participates in an SMA Service, the client authorizes investment managers selected for the client's account to manage the assets in the client's account and grants to such managers complete and unlimited discretionary trading authorization. The third party investment managers selected to manage the client's account will have full discretionary authority to purchase, hold and sell securities, cash equivalents, and other investments in the client's account. PAM does not have discretion over the assets in a client's account that are managed by an investment manager and cannot purchase or sell any securities or other investments in the account without the consent of the client or the client's investment manager. The investment manager for a client's account may initiate securities transactions through Baird, in its capacity as broker-dealer, subject to the manager's duty to achieve best execution. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage a client's account.

Such trading authorizations, whether granted to PAM or a third party investment manager, shall remain in full force and effect until terminated by the client or PAM.

The Discretionary and SMA Services offer clients the ability to impose reasonable investment restrictions on the management of their accounts, including the designation of particular securities or types of securities that should not be purchased for the client's account, but not the right to require that particular funds or securities (or types) be purchased for the client's account. Reasonable investment restrictions requested by a client will apply only to those assets over which PAM or a client's investment managers have discretion.

In the event that a client's account is restricted from investing in certain securities, PAM or the client's investment manager will select such other replacement securities as deemed appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's account, a client's investment restrictions may force PAM or the client's investment manager to sell such security at an inopportune time, possibly negatively impacting account performance and/or causing a taxable event to the client. A client should also be aware that, if the client's account holds any pooled investment vehicles (such as mutual funds or ETFs), any investment restrictions the client places on the client's account may not flow through to the securities owned by those pooled investment vehicles.

### **Voting Client Securities**

#### **Non-Discretionary Services**

Under the Non-Discretionary Services, each client retains the right to vote proxies with respect to the securities held in his or her accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and PAM is under no obligation to take any action or render any advice regarding such matters. The client's PAM Manager may, upon the client's request, provide advice on how a proxy should be voted or what other action the client should take.

#### **SMA Services and SMA Accounts**

Under the SMA Services and with respect to SMA accounts managed by other investment managers, clients may retain the right to vote proxies with respect to the securities held in the



client's account, or the clients may delegate such right to the investment manager selected to manage the client's account. A client may select either option by making the appropriate election in the client's Consulting Agreement (or by providing proper instructions to the third party investment manager directly). For information about a manager's voting policies and procedures, clients should review the manager's brochure. Baird has no authority, direct or implicit, and accepts no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in SMA Service accounts.

### Discretionary Services

Under the Discretionary Services, clients may retain the right to vote proxies with respect to the securities held in the client's account, or the clients may delegate such right to Baird. If a client delegates voting authority to Baird, Baird will vote proxies solicited by, or with respect to, securities held in the client's account for the exclusive benefit of the client and in accordance with policies and procedures adopted by Baird.

Baird has adopted written policies and procedures that are reasonably designed to ensure that it votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between Baird's interests and those of its clients. Although a description of Baird's proxy voting policies and procedures is provided below, Baird will furnish a copy of its proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how Baird actually voted proxies with respect to the securities held in their accounts by contacting their PAM Manager 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 monitor corporate events and vote proxies in a manner that Baird believes is consistent with the client's best interests. Baird utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by companies to their shareholders for consideration.

These guidelines provide an indication as to how Baird will actually vote on particular issues. Baird will generally vote proxies for client accounts based on the recommendations of ISS; however, the PAM Manager has the right to override ISS's recommendations when the PAM Manager determines it to be in the clients' best interests to do so. The PAM Manager also has the right to suggest how to vote on a particular matter not addressed by ISS. When a PAM Manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the PAM Manager will bring the matter to the attention of Baird's Proxy Voting Committee who will then be responsible for determining the vote to be cast.

The proxy voting policies and procedures also address instances in which Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern that Baird would be inclined to vote in favor of management because of its relationship or pursuit of a relationship with the company. Baird takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client. Baird's investment advisory compliance department is responsible for overseeing the operation of the proxy voting policies and procedures.

Clients wishing to direct particular votes once they have granted Baird discretionary voting authority may do so by contacting their PAM Manager. However, neither Baird nor the client's PAM Manager will provide a client with prior notice of any proxy solicitation if Baird has been granted discretionary authority.

Baird generally does not participate in securities class action claims or claims arising from

bankruptcy. At a client's request, it will forward information about such claims to the client.

### Financial Information

Neither Baird nor PAM requires or solicits prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of its most recent fiscal year. Neither Baird nor PAM is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

### Special Considerations for Retirement Accounts

If the client is acting as an owner, fiduciary or otherwise on behalf of a Retirement Account, the client understands that, the client's Consulting Agreement permits PAM to invest for the client, or recommend that the client invest in open-end registered investment companies (i.e., mutual funds), including mutual funds which pay fees to Baird or to any of its affiliates for investment advisory or other services provided to the mutual funds. In addition, short-term cash balances in a client's account may be invested in one or more money market mutual funds and individual deposit accounts, whether advised by Baird, its affiliates, or a third party.

When PAM, acting with discretion, invests the assets of a Retirement Account in an open-end registered investment company that is managed for an advisory fee by Baird or any of its affiliates, including in connection with any cash sweep services, Baird or any of its affiliates may receive such fee in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, PAM will waive its investment advisory fees on that portion of the assets invested in the affiliated mutual fund for such period of time so invested or offset the investment advisory or similar fees received by Baird or any of its affiliates from the affiliated mutual fund against the investment advisory fees PAM charged to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client acknowledges in the client's Consulting Agreement that: (i) the investment in Baird-affiliated mutual funds for the client's account is appropriate because of, among other things, the

investment goals, redeemability/liquidity, and diversification of those funds; (ii) subject to Baird Advisor's investment strategies and the investment guidelines for the client's account, all assets of the account may be invested in one or more of the Baird-affiliated mutual funds that may be used in connection with the client's account; (iii) the client received prospectuses or other disclosure documents for the Baird-affiliated mutual funds that may be used in connection with the account, each of which include a summary of all fees that may be paid by the Baird-affiliated mutual funds to Baird; and (iv) the client received information concerning the nature and extent of any differential between the rate of such fees and the investment advisory fees payable by the client to PAM. The differential between the fees to be charged by PAM for its investment management or advisory services pursuant to the client's Consulting Agreement, if applicable, and the investment advisory and other similar fees paid by the affiliated mutual fund to Baird with respect to the services it or any of its affiliates provides to the affiliated mutual fund is the difference between any such fee disclosed on the fee schedule attached to the client's Consulting Agreement and the applicable investment management, investment advisory and other similar fees detailed in the relevant affiliated mutual fund prospectus.

For client accounts subject to ERISA, the client understands that a directed brokerage arrangement must be for the exclusive benefit of participants and beneficiaries of the plan and that the client must not constitute or cause the account to be engaged in a prohibited transaction as defined by ERISA. If the client is an ERISA plan, the client is responsible for adhering to the fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1 including, without limitation, the duty to determine that the directed brokerage arrangement decision has been made prudently in the interests of the plan participants and beneficiaries and that the specified broker-dealer executing the trades is capable of providing best execution.

If an ERISA plan, plan participant or IRA client authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the accounts of ERISA and IRA clients and to receive commissions for such services, the arrangement is subject to DOL PTE 86-128. DOL PTE 86-128 exempts from certain ERISA and corresponding

Internal Revenue Code restrictions a fiduciary's use of its authority to cause an ERISA qualified plan, plan participant or IRA to pay a fee (including a commission) for effecting or executing securities transactions for that plan or account, as agent, but only to the extent that such transactions are not excessive, under the circumstances, in either amount or frequency. DOL PTE 86-128 contains a number of conditions that must be satisfied, including written authorization from the client to effect or execute securities transactions for the client's account, which authorization is terminable at will, at any time, without penalty; delivery to the client of trade confirmations or quarterly statements showing the securities transactions that were effected for the client's account and the commissions incurred by the client and retained by Baird, and annual summaries of such transaction information. Baird is also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to Baird to effect or execute securities transaction for the client's account. To ensure that the client has sufficient information on which to determine whether such authorization should be made, Baird provides certain clients with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the following description of Baird's brokerage placement practices. Baird also agrees to provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of

payment for order flow, although Baird receives such payments on limit orders routed to and executed on the NASDAQ Stock Market and on orders for stock options routed to Interactive Broker. Baird also does not place orders with market makers or other third parties for the purpose of compensating such firms for their efforts in marketing Baird-affiliated mutual funds. Baird may place orders for securities transactions with third party broker-dealers and other firms that provide research products and services to Baird.