

# HGMR Investment Management

## Brochure

March 31, 2014



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

## Material Changes

HGMR Investment Management (“HGMR”), a money management firm operating within Robert W. Baird & Co. Incorporated (“Baird”), updated its Form ADV Part 2A brochure (the “Brochure”) on March 31, 2014. The following summary discusses the material changes that HGMR has made to the Brochure since March 28, 2013, the date of the last annual update to the Brochure.

- HGMR has updated the information about Baird’s ownership structure, Baird’s regulatory assets under management, and certain of Baird’s affiliates. See the sections of the Brochure entitled “Advisory Business” and “Other Financial Industry Activities and Affiliations” for more information.
- HGMR has updated information about certain risks of investing, including those associated with the statutory debt ceiling, rising interest rates, and the tapering of quantitative easing by the Federal Reserve Board. See “Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Recent Market Events” for more information.

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

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## Advisory Business

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through HGMR Investment Management ("HGMR"), a money management firm operating within Baird. Separate brochures describe other investment advisory services offered by Baird and discuss the agreements, fees and potential conflicts of interest for each service.

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

If you would like to request a brochure for another investment advisory service provided by Baird, or if you would like a paper copy of any of the other documents referenced in this Brochure, please contact an HGMR representative toll-free at 1-800-684-7225 or Baird toll-free at 1-800-792-2473.

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

## Robert W. Baird & Co.

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

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

Baird offers various investment advisory services to clients, including services not described in this Brochure. The investment advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting;

financial planning; investment policy development; and account performance monitoring. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services.

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

As of December 31, 2013, Baird had approximately \$58.7335 billion in regulatory assets under management, approximately \$39.7578 billion of which was managed on a discretionary basis and approximately \$18.9757 billion of which was managed on a non-discretionary basis.

## The Client-Baird Fiduciary Relationship

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). HGMR and Baird are deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure. That means that HGMR and Baird are required to act in the best interest of the client when providing investment advisory services. From time to time HGMR 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 HGMR and Baird. HGMR and Baird generally address potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure, Brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with HGMR and Baird. In addition, Baird has adopted internal policies and procedures for HGMR and Baird that require them to: provide investment advice that is suitable for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material

conflicts of interest; act with utmost care and good faith in dealings with advisory clients; and seek to obtain “best execution” of advisory client transactions. The specific business practices that create potential conflicts of interest with clients and additional measures used by HGMR and Baird to address them are discussed in other sections of this Brochure.

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

### Summary of HGMR’s Services

This Brochure describes certain investment advisory services that HGMR offers to clients. The investment advisory services offered by HGMR include portfolio management, investment advice, performance reporting, and related account services. HGMR may also offer financial planning services to certain clients.

Typically, a client provides HGMR full discretionary authority to manage the client’s advisory account(s) advised by HGMR (“Account”). In certain circumstances, HGMR may also agree to provide non-discretionary services, where the client retains full authority with respect to management of the client’s Account.

HGMR tailors its advisory services to the individual needs of clients. All of the services discussed in this Brochure may not be appropriate for every client. For example, the services may not be appropriate for clients who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as “unsolicited” transactions.

In addition, certain investment strategies and investment products made available to a client may not be appropriate for the client. HGMR may use complex securities and investment products that pursue non-traditional, alternative investment strategies (“Alternative Investment Products”). The use of certain strategies and investment products involves special risks, and a client should not engage in a strategy or purchase an investment product unless the client understands the related risks. See “Additional Service Information—Complex Investment Strategies and Products” and “Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks” below for more information.

HGMR clients typically work with an HGMR portfolio manager who has been approved by Baird to provide the services (an “HGMR Portfolio Manager”). The client, with the assistance of an HGMR Portfolio Manager, determines the services that are most appropriate given the client’s goals and circumstances.

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

A client that wishes to retain HGMR will enter into an investment management agreement with HGMR and Baird. The client’s investment management 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 HGMR and Baird. A client should note that the client’s advisory relationship with HGMR and Baird does not begin until they enter into an investment management agreement with the client, which occurs when Baird’s home office has accepted the client’s investment management agreement and determined that all of the client’s paperwork is in order. See “Advisory Business—Additional Program Information—Account Requirements” below for more information.

Subject to the agreement of HGMR, 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.

As mentioned above, Baird, in its capacity as broker-dealer, may also provide clients with trade execution, custody and other standard brokerage services. For this reason, a client may also enter into a client account agreement with Baird if the client has not already done so. The client account agreement is a brokerage agreement that

authorizes Baird to execute trades for, and perform related services to, the client's Account.

The services offered by HGMR may have different structures, administration, types and levels of service, and the level of compensation that HGMR and Baird receive varies by service. The particular investment advisory services that HGMR provides are further described below. Clients are encouraged to review this Brochure and their investment management agreement carefully.

#### **Important Note about Wrap Fee Programs.**

HGMR may participate in wrap fee programs sponsored and administered by Baird and unaffiliated parties (the "Sponsors"). As compensation for its services, HGMR receives a portion of the wrap fees that a client pays to the Sponsor. If a client is participating in such a program, the client should review the client's agreement with the Sponsor and the Sponsor's brochure for a full description of the services provided and fees charged by the Sponsor.

#### **Description of Advisory Services**

If a client retains HGMR, HGMR will manage the client's Account according to a portfolio style or strategy selected by the client.

HGMR offers two primary investment strategies to institutional clients: (1) a Large Cap Core Equity Institutional Portfolio; and (2) a Small Cap Core Equity Institutional Portfolio (the "Institutional Portfolios"). If a client selects an Institutional Portfolio, HGMR typically only provides the client discretionary investment management over the portion of the client's assets that the client has designated for management by HGMR.

HGMR offers two primary investment strategies to individual clients: (1) a Large Cap Core Equity Counseled Portfolio; and (2) a Small Cap Core Equity Counseled Portfolio (the "Counseled Portfolios"). HGMR may also offer certain Counseled Portfolio clients fixed income portfolios, international equity portfolios, or portfolio of mutual fund portfolios. International equity portfolios and portfolio of mutual fund portfolios are only available to Counseled Portfolio clients as part of a larger diversified portfolio. HGMR typically provides Counseled Portfolio clients with advice and guidance on matters including, but not limited to, asset allocation and financial planning,

along with discretionary investment management over the client's Account.

For more information about the portfolio styles offered by HGMR, see "Methods of Analysis, Investment Strategies and Risk of Loss" below.

A client's HGMR Portfolio 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 HGMR Portfolio Manager. At the commencement of services, the client's HGMR Portfolio Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the HGMR Portfolio Manager makes a subsequent recommendation to the client as to which investment style the HGMR Portfolio Manager believes is best suited for the client. A client makes the final decision as to which investment style is chosen for the client's Account.

A client typically provides HGMR and the Client's HGMR Portfolio Manager with full discretionary authority to make investment decisions for the client's Account as further described in the section entitled "Additional Service Information—Investment Discretion" below.

An HGMR Portfolio Manager generally selects or recommends investments in equity and debt securities, mutual funds, and exchange traded funds ("ETFs"). In some cases an HGMR Portfolio Manager may select or recommend certain Alternative Investment Products (defined below). All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments an HGMR Portfolio Manager may use for client accounts is contained under the heading "Eligible Assets" below.

#### **Additional Service Information**

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

##### **Alternative Investment Products**

In special situations, HGMR may use Alternative Investment Products. Alternative Investment Products include, but are not limited to: private equity funds, funds of private equity funds, real

estate investment trusts ("REITs"), master limited partnerships ("MLPs"), and managed futures.

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, and variable annuities may also pursue alternative investment strategies, thereby making them Alternative Investment Products. A client should carefully review the prospectus or other offering document for each investment and understand the strategy being pursued before deciding to invest.

Investing in these products is not appropriate for many clients because they involve special risks. A client should not invest in these products unless the client understands the related risks and is prepared to experience significant losses in the client's Account. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

### **Margin**

In some circumstances, the strategy used for a client's Account may involve margin. If the strategy used for a client's Account involves the use of margin, the client will borrow money from a firm, such as Baird, to buy securities. A client may also elect to use margin as a method to pay for securities outside of the strategy being pursued by the client's Account.

If a client wishes to pay for securities by borrowing part of the purchase price from Baird, a client must open a margin account with Baird, and Baird will provide the client with a margin loan. The securities purchased on margin are used as Baird's collateral for the margin loan. The value of the collateral in the margin account must be maintained at a certain level relative to the margin loan for the duration of the loan. If the securities in the client's Account decline in value, so does the value of the collateral supporting the margin loan, and as a result, Baird may take action, such as issue a margin call and/or sell securities in the Account.

The use of margin is not appropriate for many clients because it involves special risks. A client should not use margin unless the client is prepared to experience significant losses in the client's Account. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before using

margin, a client is strongly urged to discuss the strategy with the client's HGMR Portfolio Manager and to carefully review the client's client account agreement and related disclosure documents, which the client should have received when opening the Account. Additional information about margin generally is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

A client assumes responsibility for using margin. If a client determines that the client no longer wants to use margin, the client is responsible for notifying the client's HGMR Portfolio.

The use of margin has a unique impact upon the calculation of a client's asset-based Advisory Fee. See "Advisory Fee—Calculation and Payment of Advisory Fees" below for more information. A client should also understand that HGMR and Baird may have a financial incentive to use, or recommend the use of, margin or to increase, or recommend the increase of, margin loans. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions" below.

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

### **Eligible Assets**

A client's Account may generally only hold investment products that HGMR and Baird have determined to make available for use by HGMR ("eligible assets"). For more information, see the descriptions of the services under "Advisory Business" above and under "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis" below.

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

Some of the eligible assets contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of an Account. See "Advisory Business—Additional



Program Information—Account Requirements” below for more information.

Eligible assets for Accounts generally include, but are not limited to, the following types of investments:

- equity securities, including, but not limited to, common stocks, preferred stocks, convertible preferred stocks, American Depositary Receipts (“ADRs”), and ordinary shares, including whether exchange-traded, or over-the-counter traded;
- fixed-income securities, including but not limited to, debt securities issued by domestic and foreign corporations and other entities; asset-backed securities (including mortgage-backed securities and collateralized mortgage obligations (“CMOs”)); convertible debt securities; obligations issued by U.S., state, or foreign governments or their agencies, instrumentalities, or authorities, such as securities issued by the U.S. Treasury, federal government agencies or federal government-sponsored enterprises (“Agency securities”), or foreign governments; municipal securities; money market mutual funds; certificates of deposit (“CDs”) (primary or secondary); commercial paper; and cash and cash equivalents;
- rights or warrants on equity securities, written covered call equity options;
- open-end mutual funds shares that Baird has made available for use by HGMR, which generally includes only those funds with which Baird has a selling agreement and only those funds that are no-load, load-waived, or that were purchased through Baird and at least 24 months has elapsed since a front-end sales charge (load) or commission was imposed;
- closed-end funds, ETFs, and UITs that have cost structures designed for use in fee-based investment advisory programs;
- publicly-traded REITs and MLPs (which may be organized as limited liability companies (“LLCs”)); and

- certain private equity funds, funds of private equity funds, and managed futures that Baird has made available for use by HGMR.

The types of investments that are ineligible generally include, but are not limited to:

- Class B or Class C shares offered by mutual funds or any other class of mutual fund shares that impose a contingent deferred or level sales charge (back-end or level load);
- UITs that impose an initial or deferred sales charge (load);
- put options;
- private REITs and other real estate interests, and MLPs and LLC units that are not publicly-traded;
- annuities and insurance products;
- commodities, futures or options on commodities, and commodity pools; and
- structured products, private investment funds and Alternative Investment Products that have not been made available by Baird for use by HGMR.

### ***Unsupervised Assets***

Under certain circumstances, HGMR and Baird, in their sole discretion, may accept a client request to place an ineligible asset into a client’s Account. In most cases, an ineligible asset is an “unsupervised” asset, meaning that HGMR and Baird do not manage or provide investment advisory services regarding such asset. HGMR and Baird, in their sole discretion, may also designate an asset that is otherwise eligible for a client’s Account as “unsupervised” under certain circumstances, such as when a client acquires an asset in an unsolicited transaction, transfers an asset from an account held at another firm, or continues to hold an asset against HGMR’s or Baird’s recommendation. If a client holds an unsupervised asset in an Account, the client does so with the understanding that the unsupervised asset may not be included in performance reports provided to the client and that HGMR and Baird do not manage, provide investment advice, or otherwise act as an investment adviser with respect to the unsupervised asset, even if the



unsupervised asset is included in account statements or performance reports provided to the client. HGMR may also include the unsupervised asset in the calculation of the client's Advisory Fee and/or may impose administrative or other fees upon such asset. See "Advisory Fee—Other Fees and Expenses" below. A client should also understand that holding an unsupervised asset in an Account may increase the risk of trade errors, overinvestment, and negative Account performance. A client should consult the client's HGMR Portfolio Manager for further information.

## **Account Requirements**

### **Opening an Account**

A client that wishes to engage HGMR will enter into an investment management agreement with HGMR and Baird. The client's investment management 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 HGMR and Baird.

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

After a client has signed and delivered an investment management agreement to Baird, the agreement is subject to review and acceptance by the client's HGMR Portfolio Manager, his or her supervisor, and Baird's Fee Based Account Administration Department. The agreement will become effective when it is accepted by Baird's Fee Based Account Administration Department and Baird has delivered to the client all applicable agreement documents, brochure(s) and any related documents. A client should understand that the agreement will not become effective, and Baird will not provide any advisory services selected by the client, until such time that Baird has accepted the agreement. Baird may delay acceptance of the agreement and the provision of advisory services to the client for various reasons,

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

The terms of a client's agreement, client account agreements and this Brochure apply to all Accounts that a client establishes with HGMR, including any Accounts that a client may open with Baird in the future. Some of the information in those documents may not apply to a client now, but may apply in the future if a client changes services or establishes other advisory accounts with HGMR. HGMR will generally not provide a client another copy of the agreement, client account agreement or this Brochure when a client changes services or establishes new advisory accounts unless the client requests a copy from HGMR. 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 HGMR.

## **Certain Account Requirements**

### *Minimum Account Size*

The services have a minimum Account size and may have a minimum Advisory Fee, which are described in the section entitled "Fees and Compensation—Advisory Fee" below. HGMR or Baird may immediately terminate the advisory agreement with respect to an Account upon written notice to the client if the client fails to maintain the required minimum asset levels in an Account or if the client fails to otherwise abide by the terms of HGMR's service. Upon the termination of the advisory agreement, with respect to an Account held at Baird, a client's Account will be converted to and designated as a brokerage account. The investment management agreement will no longer apply to such Account and the terms and conditions of the client's client account agreement will govern such Account.

### *Account Contributions and Withdrawals*

A client may fund an Account with cash and with securities that HGMR and Baird deem to be acceptable in their sole discretion. A client should consider all relevant factors before contributing securities to the Account. For example HGMR's review of securities used to fund the Account may delay investing, and/or the securities contributed to the Account may not be appropriate for the client's strategy and HGMR may sell, or

recommend the sale of, such securities. A sale could result in adverse tax consequences for the client. A client should note that securities transferred into an Account may be subject to the Advisory Fee immediately upon its transfer into the Account, even if the client paid a commission or front-end sales charge on the security prior to its transfer into the Account. In addition, if the securities are subject to deferred sales charges or redemption fees, the client will be responsible for paying those charges and fees. Certain funding transactions may be handled by Baird on a principal basis for trade execution and clearing, and are not considered investment advisory services of HGMR or Baird.

If an asset transferred to an Account is an ineligible asset, HGMR or Baird may sell the asset or transfer it into a separate non-advisory account. Alternatively, they may designate such asset as an unsupervised asset as further described under "Advisory Business—Additional Service Information—Unsupervised Assets" above.

A client is responsible for notifying HGMR of any contributions made into the Account and to instruct HGMR to liquidate positions in the event the client wishes to withdraw assets from the Account. HGMR and Baird have no responsibility for any losses that may result from a client's failure to notify HGMR regarding deposits or withdrawals.

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

#### *Changes to Accounts*

A client's direction to change services, investment strategies or to make other changes to an Account will not become effective until such time that such change has been accepted by Baird's Fee Based Account Administration Department and Baird has delivered to the client the applicable advisory agreement, brochure(s) and any related documents.

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

As security for the full and complete payment when due of any debts and other obligations that a client owes to HGMR and Baird, and to the extent permitted by applicable law or regulation,

all assets in a client's Account held at Baird will be subject to a first priority security interest, lien and right of setoff in favor of Baird. Baird may sell assets in an Account to satisfy the lien. As a secured party, Baird may have interests that are adverse to a client. Neither HGMR nor Baird will act as investment adviser to a client with respect to such sale of assets held in an Account. Any such sale of assets will be executed in Baird's capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis. A client should review the client's client account agreement for more information.

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

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

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

A client should understand that neither HGMR nor Baird will provide advice on or oversee a collateral arrangement and they will not act as investment adviser to the client with respect to the liquidation

of securities held in the client's Account to meet a collateral call. Any such liquidations will be executed in Baird's capacity as broker-dealer and may, as permitted by law, result in executions on a principal basis.

In some instances, HGMR or Baird may refer a client to a lender that pays Baird a referral fee. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Other Interests in Client Transactions" below for more information.

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

#### *Electronic Delivery of Documents*

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

#### **Termination of Accounts**

A client's investment management agreement may be terminated in accordance with the terms of the agreement. Termination of the agreement will not, however, affect the liabilities or obligations of the parties under the agreement arising from transactions initiated prior to the termination, including, without limitation, the validity of any action previously taken by HGMR or Baird regarding a client's Account or a client's obligation to complete any transactions that HGMR or Baird initiated on a client's behalf prior to the effectiveness of the termination. Following termination of the agreement with respect to an Account, HGMR and Baird retain the right to complete any transactions open as of the termination date and they may retain such amounts in a client's Account that they deem to be necessary to effect completion of such transactions.

Upon the termination of the agreement with respect to an Account held at Baird, a client's Account will be converted to and designated as a

non-advisory account. The investment management agreement will no longer apply to such Account and the terms and conditions of the client's client account agreement will govern such Account. Neither HGMR nor Baird will be under any obligation to recommend any action with regard to, or to liquidate the securities or other investments in, such Account. Upon termination, it is a client's exclusive responsibility to issue instructions, in writing, regarding any assets in the client's Account. A client must provide the name of another custodian to HGMR at the time the agreement is terminated if the client elects to move custody of the assets from Baird.

If a client requests HGMR to liquidate the client's investments in connection with a termination of an Account, the client may be charged commissions in accordance with Baird's standard commission schedule then in effect. When processing liquidation requests in such cases, HGMR will sell readily marketable and otherwise unrestricted securities in the Account, leaving any investments that HGMR is not able to sell in the client's Account until such time that HGMR is able to sell them. For example, if a client's Account includes illiquid securities or securities with limited liquidity or redemption schedules, such as Alternative Investment Products, HGMR may be unable to sell those investments upon request. A client will generally have to wait for specific liquidity windows applicable to investments the client owns.

A client may incur additional expenses and liabilities, including tax-related liabilities, if a client closes an Account, terminates the investment management agreement, or transfers assets out of Baird's custody. Some of the investments offered in connection with HGMR's services contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of a Baird account. For example, certain investment funds held in an Account may only be available to a client through HGMR's services or may not be held at another firm. If such restrictions apply, a client will be required to sell or redeem such shares or exchange them for another class that may have higher ongoing operating expenses. A client should consider restrictions applicable to investments carefully before engaging HGMR. A client should contact the client's HGMR Portfolio Manager for specific information as to how Account closure, termination of the investment

management agreement, or asset transfers might impact the assets in the client's Account.

The end of a client's HGMR Portfolio Manager's employment with Baird will not automatically terminate the client's investment management agreement. In the event that a client's HGMR Portfolio Manager is no longer able to service the client's Account, Baird may transfer that Account to another HGMR or Baird representative and the client will be notified of any such change.

### **Updating Client Information**

A client is responsible for providing information to HGMR reasonably requested by it in order to provide the services selected by the client. HGMR will rely on this information when providing services to the client. A client is also responsible for promptly informing HGMR 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 Baird nor HGMR is responsible for any adverse consequence arising out of the client's failure to promptly inform HGMR of any such changes. Since investment goals and financial circumstances change over time, a client should review the client's Account with the client's HGMR Portfolio Manager at least annually.

### **Legal and Tax Considerations**

HGMR and Baird do not provide legal or tax advice to clients.

Additional laws, regulations and other conditions apply to retirement accounts, which include accounts that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and individual retirement accounts ("IRAs") subject to the Internal Revenue Code ("IRC") (collectively, "Retirement Accounts"). Each owner, trustee, responsible plan fiduciary, or other fiduciary acting on behalf of a Retirement Account ("Retirement Account Fiduciary") should understand that HGMR and Baird do not provide legal advice regarding Retirement Accounts. A Retirement Account Fiduciary is urged to consult with the client's legal advisor with respect to laws and regulations that may apply to Retirement Accounts.

The investment strategies used for a client's Account and transactions in a client's Account, including liquidations, redemptions, and

rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. In addition, a client's Account may be invested in investment products classified as partnerships for U.S. federal income tax purposes, which may result in unique tax treatment, including Schedule K-1 reporting. HGMR does not provide any tax advice in connection with any of the Services. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor. If a client wishes for HGMR to implement a particular investment strategy for tax purposes, and HGMR agrees to implement such strategy, neither HGMR nor Baird will be responsible for the development, evaluation or efficacy of any such strategy.

## **Fees and Compensation**

### **Advisory Fee**

#### **Fee Options**

A client's investment management agreement will set forth the actual compensation the client will pay for HGMR's services. In most instances, a client pays an ongoing Advisory Fee based upon the value of assets in the client's Account (an "asset-based fee"), although other options may be available. HGMR typically offers clients a tiered fee arrangement.

Under a tiered fee arrangement, the asset-based fee will vary for different segments of client assets, gradually decreasing as the Account balance increases. For example, a client with an Account value of \$7 million may pay one rate on the first \$2 million of assets in the Account, a lower rate on the next \$3 million of assets in the Account and a still lower rate on the remaining \$2 million of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

In addition, the asset-based fee may be a fixed percentage across all asset categories or may be a percentage that varies by asset category (e.g., large cap equity and small cap equity securities may have a different applicable fee rate).

The typical asset-based fee varies depending upon the Account type 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 fee schedules and minimum account sizes that apply are shown below.

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

### Fee Schedules

**Institutional Portfolios.** The following fee schedule sets forth the maximum fee rates for the Institutional Portfolios.

#### Institutional Portfolios

<u>Value of Assets</u>	<u>Small Cap Annual Fee Rate</u>	<u>Large Cap Annual Fee Rate</u>
First \$5 million	0.90%	0.75%
Next \$15 million	0.75%	0.60%
Next \$30 million	0.65%	0.55%
Over \$50 million	0.50%	0.45%

The minimum asset value to open Institutional Portfolios is typically \$3 million for a Small Cap Institutional Portfolio and \$5 million for a Large Cap Institutional Portfolio.

**Counseled Portfolios.** The following fee schedule sets forth the maximum fee rates for Counseled Portfolios.

#### Counseled Portfolios

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$2 million	1.25%
Next \$3 million	1.00%
Next \$5 million	0.80%
Over \$10 million	0.60%

The minimum asset value to open a Counseled Portfolio is typically \$2 million. The minimum annual Advisory Fee is generally \$25,000. For Counseled clients seeking fixed-income management only, fees are negotiable. International equity securities management and portfolio of mutual fund portfolios is only available to Counseled Portfolios as part of a larger diversified portfolio.

A client is encouraged to periodically review with the client's HGMR Portfolio Manager the client's Advisory Fee and the services provided to

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

### Calculation and Payment of Fees

Baird will calculate a client's Advisory Fee by applying the applicable fee rate to the value of all of the assets in the client's Account, including cash and its equivalent and including all assets held by any third party custodian.

If requested by a client and approved by Baird, a client's Advisory Fee may be determined by also including the aggregate value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. A client should note that Retirement Accounts may not be included in to the extent a prohibited transaction under ERISA or the IRC may result. The terms of any such household fee arrangement will be set forth in the client's investment management agreement.

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

Neither HGMR nor Baird conducts a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and they do not verify or guarantee the accuracy of such information. Valuation data for investments, particularly Alternative Investment



Products, may not be provided to Baird in a timely manner, resulting in valuations that are not current. The prices obtained by Baird from third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used for fee-calculation purposes may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the Advisory Fee for some securities may be calculated based on values that are greater than the amount a client would receive if the securities were actually sold from the client's Account.

As mentioned above, Baird will include cash balances in a client's Account when calculating a client's asset-based Advisory Fee. However, Baird has adopted an internal policy that generally excludes large cash balances (currently 40% or more of an Account's total value) from the fee calculation after six (6) months, unless the client's HGMR Portfolio Manager's supervisor or, in some cases, Baird's Compliance Department, has granted an exception to the policy or the client has been informed in writing that the large cash balance will continue to be included in the fee calculation. This internal policy was designed to benefit clients who hold large cash balances in their accounts and attempt to ensure that such clients pay an advisory fee that is reasonable for the services provided. However, this internal policy, in some cases, could create a financial incentive for HGMR or Baird to recommend or select riskier investments for a client's Account.

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

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

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

A client's Advisory Fees and charges will be automatically deducted from the client's Account, unless the client elects, and HGMR and Baird agree, to send to the client an invoice ("direct billing"). A client should understand that the client's Advisory Fees and other charges relating to the client's Account may be satisfied from free credit balances and other assets in the client's Account. If free credit balances in a client's Account are insufficient to pay the Advisory Fees or other charges when due, HGMR and Baird may sell investments from the client's Account to the extent they deem necessary and appropriate, in their sole discretion, to pay the client's Advisory Fees and other charges.

If a client's Account is subject to direct billing, the client is required to pay each bill within fifteen (15) days of the date of the invoice. HGMR and Baird may automatically deduct a client's Advisory Fees and other charges from the client's Account as described above in the event that Baird does not receive payment from the client within fifteen (15) days of the date of the invoice. HGMR or Baird may rescind a direct billing arrangement with a client at any time. Direct billing may not be available for Retirement Accounts.

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

If either HGMR or the client terminates the client's investment management agreement with respect to an Account, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's Account. HGMR will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust Advisory Fees during any such period for asset value appreciation or depreciation in a client's Account during such period. For example, if a client's Account is subject to a tiered or breakpoint fee schedule and the asset levels of the Account move into a new tier or cross a breakpoint during such period, no rebate or fee adjustment will be made. However, HGMR, 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.

The services may have a minimum asset value in order to open an Account as further described under "Advisory Fee—Fee Schedules" above. A client's Account may be subject to a minimum Advisory Fee. The minimum Advisory Fee will be described in the client's investment management agreement. HGMR may waive the minimum Advisory Fee at its discretion. The minimum Advisory Fee is subject to change upon notice to the client.

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

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

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

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



as income, transfer or transaction taxes, or any other costs or fees mandated by law or regulation.

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

Certain investment products, such as mutual funds, ETFs, alternative investments products, and other similar investment pools (collectively, "investment funds"), and annuities have their own internal fees and expenses that are borne either directly or indirectly by their holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, shareholder servicing fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, expense reimbursements, and expenses associated with executing securities transactions for the product's portfolio ("ongoing operating expenses"). These ongoing operating expenses are separate from, and in addition to, the Advisory Fees. As a result of making investments in these types of products, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of the client's assets so invested—the ongoing operating expenses and the Advisory Fee. A client is also responsible for any redemption fees, surrender charges or similar fees that the product or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment fund or annuity in which the client invests for further information.

If a client holds an unsupervised asset in the client's Account, the client may be charged a commission, markup or markdown in connection with the purchase or sale. The cash proceeds from the sale of an unsupervised asset that remain in a client's Account are considered eligible assets subject to the asset-based Advisory Fee. If an unsupervised asset is purchased during a quarterly billing period, that asset will not be included for purposes of determining the asset-based Advisory Fee beginning at the start of the next quarterly billing period, and no portion of the asset-based Advisory Fee paid by a client in advance for the quarter during which the

unsupervised asset is purchased is refunded or rebated to the client. Additionally, Baird may, upon notice to clients, impose a set-up fee and/or a maintenance or administrative fee on unsupervised assets maintained in an Account.

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

### Other Compensation Received by HGMR and Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and HGMR Portfolio Managers are registered broker-dealer representatives of Baird. In such capacities, Baird and its HGMR Portfolio 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. Baird and HGMR Portfolio 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 HGMR and Baird 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 HGMR Portfolio Managers are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these potential conflicts by adopting and enforcing policies and procedures that are designed to ensure that Baird and HGMR Portfolio Managers comply with their fiduciary duties as is further described under the section "Advisory Business—The Client-Baird Fiduciary Relationship" above. For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

HGMR 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**

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

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

In addition to complying with its fiduciary duties by disclosing this conflict of interest to clients through this Brochure, Baird generally addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements through internal trade allocation procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment.

### **Types of Clients**

HGMR offers its services to all types of current or prospective clients, including, but not limited to:

individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities. Applicable requirements for opening or maintaining an account, such as minimum account size, are discussed in the section entitled “Fees and Compensation—Advisory Fee” above.

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

#### **Investment Strategies and Methods of Analysis**

HGMR provides various investment portfolio styles and strategies, including large and small cap core equity, international equity, fixed income, and mutual funds, in isolation and in combination, as described below. Relying on its core investment principles and investment philosophy, HGMR primarily employs quality and valuation screens and fundamental analysis in making investment decisions. Its main sources of information are data from FactSet Research Systems, Inc. and SNL Financial, LC, company annual reports, SEC filings, corporate presentations, discussions with management, earnings and press releases, conference calls, inspections of corporate activities, financial newspapers and magazines. In addition, secondary sources may include a review of third party research. They may also employ the use of computers and third party software to more readily display information, assist with the evaluation and analysis, and create asset allocation recommendations. Although HGMR uses information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

#### **Large and Small Cap Core Equity Portfolios**

HGMR’s investment approach is principles-based, whereby principles drive investment philosophy and investment philosophy drives investment process.

*Principles:* (1) Valuation and quality must always factor into an investment manager’s decision making process. (2) There is no substitute for independently assessing a company’s valuation and future growth prospects. (3) Investment practitioners have a perpetual obligation to evaluate the risks and merits of going against the crowd.

*Investment Philosophy:* HGMR believes inefficient market behavior offers buying and selling opportunities to capture superior investment return. Using quality as a cornerstone, HGMR owns companies that trade at a discount to intrinsic value based upon conservative future growth prospects. HGMR believes controlling risk is vital to producing consistent long-term investment results, and uses diversification by sector and company to accomplish this goal. HGMR believes a patient and objective discipline supported by these fundamental tenets governs consistent and superior long-term investment performance.

*Investment Process:*

- **SECURITY SELECTION:** HGMR approaches the selection process similar to that of a business owner by evaluating the cash generating potential of a new asset, which ultimately gives HGMR a guide as to what a company is worth.
- **BACKTESTING:** The firm's backtesting exercise is an exhaustive process designed to generate industry specific quality screens that provide a quantitative advantage. That is, the tests evaluate which financial metrics (or combination of financial metrics) are good predictors of future excess returns. The backtesting process is conducted at least every two years, with changes to the quality screens made accordingly.
- **QUALITY SCREEN:** HGMR's search for investment opportunities involves finding companies that (1) have consistently created economic value for shareholders, or (2) are showing a trend of improvement in creating economic value. In an effort to focus its efforts on the best opportunities, HGMR screens its investable universe (companies above \$2 billion in market capitalization for large cap core equity portfolios and between \$100 million and \$2 billion in market capitalization for small cap core equity portfolios) on this measure of quality. More specifically, HGMR defines quality as the difference between the return on invested capital (ROIC) and the weighted average cost of capital (WACC), otherwise known as "spread". HGMR focuses on those companies that have the most attractive historical spreads and/or those companies where the spread is improving,

overlaying this assessment with early identification of a catalyst.

- **VALUATION SCREEN:** HGMR then uses valuation techniques to further refine the list. HGMR primarily uses discounted cash flow analysis to calculate an enterprise value of a company. Through the initial quality and valuation screening processes, HGMR efficiently refines its large cap core equity portfolios universe to 70-80 names and its small cap core equity portfolios universe to approximately 100-125 names.
- **FUNDAMENTAL ANALYSIS:** After conducting its quality and valuation screens, HGMR applies fundamental analysis to find eligible portfolio companies. By examining trends in the balance sheet, income and cash flow statements along with other qualitative factors specific to each company, HGMR refines its valuation models to arrive at an intrinsic value of the company. HGMR's analysis becomes complete when it identifies, and the HGMR investment committee agrees on, the catalysts that will move a mispriced security towards HGMR's estimate of intrinsic value. HGMR buys companies that trade at greater than a 20% discount to intrinsic value. Large cap core equity portfolios typically consist of at least 35-45 companies. Small cap core equity portfolios generally range between at least 55-65 securities. Positions may be phased in over a 1-3 month period so as to mitigate timing errors.
- **VALUATION IS DYNAMIC.** HGMR continually updates its valuation models to reflect the most recent financial and other information available.

*Sell Discipline:* HGMR's sell decisions are underpinned by a five point discipline:

- When a stock reaches our estimate of intrinsic value, HGMR evaluates the company further and recalibrates the valuation model. That is, HGMR incorporates any recent developments that may change its assessment of the company's intrinsic value. A company trading at a premium to this value is sold from the portfolio.
- A company experiencing other than temporary deteriorating fundamentals is sold.

- If the catalyst originally identified is realized or eliminated, this triggers a further evaluation (as described above), and often times, sale of the stock.
- Once a stock reaches 3% or 4% of the small cap or large cap core equity portfolio, respectively, it is reviewed for partial sale.
- A stock that is within 10% of HGMR's estimate of the company's intrinsic value may be used as a source of funds if a more attractive alternative exists.

Once the sell decision has been made based on valuation or an event-driven situation, the position may be phased out over time to mitigate timing error impact. In the case where a position is phased out, the position may be reduced to one-half of its initial model percentage immediately, with the remainder typically phased out over a 1-3 month period. A company that is experiencing other than temporary deteriorating fundamentals is typically sold in its entirety.

In order to preserve the value of the portfolio, the pace of any sale is subject to liquidity constraints.

**Portfolio Construction:** HGMR's investment process is bottom-up, and any sector weighting deviation from its benchmarks is reflective of the level of opportunities present in each sector. However, as a guideline for larger sectors (those with greater than 5% representation in the benchmark), HGMR generally limits its sector exposure to 2.0x to that of its benchmark on the top end and 0.5x on the bottom end. For small sectors (those with less than 5% representation in the benchmark), HGMR may choose to have no exposure on the bottom end, and may have greater than a 2.0x exposure on the top end. Under normal circumstances, portfolios hold 3% or less in cash.

### **International Equity Portfolios**

As it applies to Counseled Portfolios, for international equity, HGMR typically uses mutual funds and may use exchange-traded funds. HGMR's aim is to provide clients with access to funds that can provide a broad spectrum of international equities. By doing so, HGMR strives to deliver greater diversification of client assets and thus reduce overall market risk in their portfolio. Further, HGMR will seek funds who

believe that controlling risk is vital to producing consistent long-term investment results and use diversification by country, sector and company to accomplish their goal. Please note that investments in mutual funds/ETFs involve separate management fees and other operating expenses that are indirectly borne by shareholders of those funds, resulting in a double layer of fees (fees payable to Baird/HGMR and the expense ratios of the funds in which client assets are invested).

### **Fixed Income Portfolios**

As it applies to Counseled Portfolios, fixed-income portfolios managed by HGMR will consist of high quality securities with an emphasis on government backed securities, including US Treasury and agency bonds, insured certificates of deposit, high quality corporate bonds and, when appropriate for tax purposes, high quality municipal bonds. The interest rate spread between corporate and government bonds is important to the percentage of corporate bonds owned in an Account. Typically, fixed-income instruments are held to maturity.

### **Portfolios of Mutual Funds Portfolios**

As it applies to Counseled Portfolios, mutual fund portfolios are used to provide clients with access to funds that can provide a broad spectrum of investment assets. Portfolios of mutual funds are used to accommodate Counseled Portfolio clients' collateral portfolio needs. A "collateral" portfolio affiliated with a larger relationship is defined as an Account too small to be practically managed using individual securities. HGMR manages collateral portfolios in the interest of serving the overall investment needs of a client relationship.

HGMR may also manage client assets using other investment strategies and investment products based upon a client's particular needs. An HGMR Portfolio Manager may use certain investment strategies, such as concentrated investment strategies, and certain types of investment products, such as illiquid securities. These investment strategies and products involve special risks and may not be appropriate for all clients. Please see "Principal Risks" below for more information.

### **Principal Risks**

Risk is inherent in any investment product and HGMR and Baird do not guarantee any level of

return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Also, a client's Account value may fluctuate, sometimes dramatically, depending upon the nature of the client's investments, market conditions and other factors. By investing, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by investment style or strategy, and may or may not apply to a client. Clients should not pursue a strategy or invest in an investment product unless they are prepared to accept the associated risks. Clients are encouraged to discuss with their HGMR Portfolio Manager the risks that apply to them. A client should also review the prospectus or other disclosure document for any security or other investment product in which the client invests, as it will contain important information about the risks associated with investing in such security or other investment product.

General risks of investing include the following:

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

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

**Investment Objective and Asset Allocation Risks.** A client's investment objective and asset allocation strategies involve the risk that certain

asset classes selected for the client's Account may not perform as well as other asset classes during varying periods. In addition, clients who pursue more aggressive investment objectives and asset allocation strategies, while hoping to achieve high returns, may face greater risk of loss than clients with more conservative objectives and strategies. In developing investment objectives and asset allocation strategies, clients should carefully consider their financial situation and needs, investment goals, investment time horizon and risk tolerance. A client should inform the client's HGMR Portfolio Manager of these considerations so the HGMR Portfolio Manager can assist in determining the client's investment objectives and asset allocation strategies.

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

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

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

**Common Stock Risks.** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors



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

**Fixed-Income Security Risks.** Fixed-income securities are subject to certain risks, including interest rate risk and credit risk. In addition, they are subject to maturity risk. Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk and the lower its yield. Non-rated, split-rated, below investment grade, and asset-backed securities, including mortgage-backed securities and CMOs, have additional, special risks.

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

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

**Investment Fund Purchase and Redemption Risks.** From time to time Baird, an HGMR Portfolio Manager, or an investment manager may decide to add or remove an investment fund to or from an investment strategy or Program. In addition, they may decide to increase or decrease their clients' account allocations to an investment fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large

purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in question and consequently, a client's investment. An investment fund receiving large purchase orders may have difficulty investing the cash, which may have a negative impact on the fund's performance. An investment fund experiencing large redemption orders may have to sell portfolio securities, which may negatively impact performance and which may have negative tax consequences. Large redemptions could also reduce liquidity as the fund may suspend or delay redemptions. These risks are more pronounced with respect to newer investment funds and those with smaller asset sizes.

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

**Foreign Issuer Risks.** Securities of foreign issuers and ADRs are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

**Government Obligation Risks.** Client assets may be invested in securities issued, sponsored or guaranteed by the U.S. Government, its agencies and instrumentalities. However, no assurance can be given that the U.S. Government will provide

financial support to U.S. Government-sponsored agencies or instrumentalities where it is not obligated to do so by law. For instance, securities issued by the Government National Mortgage Association ("Ginnie Mae") are supported by the full faith and credit of the United States. Securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") have historically been supported only by the discretionary authority of the U.S. Government. Securities issued by the Student Loan Marketing Association ("Sallie Mae") are supported only by the credit of that agency. While the U.S. Government provides financial support to various U.S. Government-sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.

The total public debt of the United States as a percentage of gross domestic product has grown rapidly since the beginning of the 2008-2009 financial downturn. Although high debt levels do not necessarily indicate or cause economic problems, they may create certain systemic risks if sound debt management practices are not implemented. A high national debt can raise concerns that the U.S. Government will not be able to make principal or interest payments when they are due. This increase has also necessitated the need for the U.S. Congress to negotiate adjustments to the statutory debt ceiling to increase the cap on the amount the U.S. government is permitted to borrow to meet its existing obligations and finance current budget deficits. In August 2011, S&P lowered its long-term sovereign credit rating on the U.S. In explaining the downgrade at that time, S&P cited, among other reasons, controversy over raising the statutory debt ceiling and growth in public spending. Any controversy or uncertainty regarding the statutory debt ceiling may impact the U.S. long-term sovereign credit rating and may cause market uncertainty. As a result, market prices and yields of securities supported by the full faith and credit of the U.S. government may be adversely affected.

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

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

**Illiquid Securities and Liquidity Risks.** 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 to 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. In the event the client directs Baird to liquidate an illiquid investment, the client should understand that Baird may have difficulty finding a buyer in the market for such investment and such investment may be held in the Account for a period of time while Baird attempts to satisfy the client's liquidation request.

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

**Portfolio Turnover Risks.** 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. Portfolio turnover may also cause a client to experience adverse tax consequences due to the fact that the client may have increased instances of realized gains and losses and such gains and losses may commonly be characterized



as short term gains and losses under applicable tax law.

**Asset-Backed Securities Risks.** Asset-backed securities are securities secured or backed by mortgage loans, student loans, automobile loans, installment sale contracts, credit card receivables or other assets and are issued by entities such as commercial banks, trusts, financial companies, finance subsidiaries of industrial companies, savings and loan associations, mortgage banks and investment banks. These securities represent interests in pools of assets in which periodic payments of interest and/or principal on the securities are made, thus, in effect passing through periodic payments made by the individual borrowers on the assets that underlie the securities, net of any fees paid to the issuer or guarantor of the securities. Asset-backed securities are issued in multiple classes (or tranches) and their relative payment rights may be structured in many ways. Asset-backed securities may be subject to greater risk of default during periods of economic downturn than other instruments. Asset-backed securities are also more sensitive to interest rate risk than other types of fixed-income securities. Modest movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of these securities. Asset-backed securities are subject to a number of other risks, including, but not limited to, market and valuation risks, liquidity risk, and prepayment risk.

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

**Leverage or Margin Risks.** The strategy used for a client's Account may involve leveraging, which may include the use of margin. Leveraging strategies may amplify the impact of any increase

or decrease in the value of underlying securities in the client's Account, thereby increasing a client's risk of loss. Strategies involving margin can cause a client to lose more money than deposited in the client's margin account, and a client should not engage in margin or leveraging strategies unless the client is prepared to experience significant losses in the value of the client's Account.

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

**Managed Futures Risks.** Managed futures can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, they may not be suitable for all clients. Managed futures are commodity pools (typically structured as investment partnerships) managed by a futures trading adviser that trade speculatively in various commodities and related futures contracts, spot and forward contracts, options, swaps and other derivative instruments on U.S. and foreign exchanges and markets. Sponsors or managers for these pools often receive a management fee plus incentive or performance-based compensation. The types of commodities in which managed futures invest may include interest rates, currencies, stock, bond and other indices, and physical commodities such as agricultural commodities, metals and energy products. Managed futures often employ computerized, systematic and often proprietary trading models and systems. Investing in managed futures involves special risks, including, but not limited

to, portfolio investment risk, commodity price risk, market risk, conflicts of interest risk, price volatility risk, liquidity risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Real Estate Investment Trusts Risks.** REITs involve significant, special risks and may not be suitable for all clients. A REIT is a corporation, trust or association that owns and typically operates income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, multi-family housing, student housing, hotels, resorts, hospitals and health care facilities, self-storage facilities, data centers, warehouses, telecommunications facilities, and mortgages or loans. Many REITs are registered with the SEC and their common stock and preferred stock are publicly traded on a stock exchange. These are known as publicly traded REITs. Others may be registered with the SEC but are not publicly traded. These are known as private REITs (also known as non-traded or non-exchange traded REITs). The shareholders of a REIT are responsible for paying taxes on the dividends that they receive and on any capital gains associated with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. Common risks associated with an investment in a REIT include, but are not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), general economic risk, market and liquidity risk, interest rate risk, sector diversification and geographic concentration risk, leverage risk, distribution risk, capital markets risk, growth risk, counterparty risk, conflicts of interest risk, key personnel risk, and structural and regulatory risk. These risks may cause volatility in the prices of REIT securities and trading volumes, and affect liquidity. Clients investing in REITs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility and volatility of regular distribution amounts, potential lack of liquidity and potential loss of their investment.

**Master Limited Partnership Risks.** MLPs are complex investments that have unique tax characteristics and significant, special risks. As a result, MLPs may not be suitable for all clients. A client should consult with a tax advisor before investing in MLPs. An MLP is a form of publicly-traded partnership and taxed as a partnership. An MLP must generally earn at least 90% of its income from certain qualifying sources, which includes income and gains from certain activities involving natural resources such as oil, natural gas, natural gas liquids, refined petroleum products, coal, carbon dioxide and biofuels. An MLP is generally structured as a limited partnership or limited liability company and managed and operated by a general partner or manager. Shareholders of an MLP are called "limited partners" or "unit holders." Unit holders own interests or units in the MLP ("units") that are traded on a stock exchange. MLPs make distributions to unit holders of their available cash flows. Investing in MLPs involves special risks, including, but not limited to, market risk, commodity price risk, macroeconomic risk, interest rate risk, liquidity risk, operating risks, capital access risk, growth risk, conflicts of interest risk, tax risk, and regulatory risk. Clients investing in MLPs should have a high tolerance for risk, including the willingness and ability to accept potential lack of liquidity and potential loss of their investment.

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

***Some of the investment strategies and investment products described above are complex and involve special risks. Additional information about these strategies and investment products, including the risks associated with those strategies and investment products, is available on Baird's***

**website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) and on FINRA's website at [www.finra.org/Investors](http://www.finra.org/Investors). A client is encouraged to read the disclosure documents included on those websites carefully.**

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 HGMR Portfolio Manager.

### Disciplinary Information

In December 2008, Baird, without admitting or denying the allegations, consented to the findings of Financial Industry Regulatory Authority ("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 with the SEC as a broker-dealer under the Exchange Act and as an investment adviser under the Advisers Act. Baird is also affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs, private equity funds and hedge funds. Certain HGMR associates and certain management persons of Baird may invest in those funds.

From time to time, HGMR and Baird may recommend that clients invest assets with those 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 HGMR, Baird and/or Baird's affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. HGMR and Baird address this potential conflict through disclosure in this Brochure. Further, when acting as fiduciary investment advisers, HGMR and Baird are required to select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are generally the same as those used for unaffiliated investment products.

### Broker-Dealer Activities

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

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

### Investment Management Activities

HGMR and Baird may, from time to time refer clients to Baird Advisors, Baird Investment Management, or Baird Public Investment Advisors, investment management departments of Baird.

### Certain Affiliations

#### **Affiliated Investment Advisors**

Baird is affiliated, and may be deemed to be under common control, with BKG by virtue of their common indirect ownership by BFG. BKG provides research to clients. BKG has agreed to provide research to Baird's Institutional Equity Services Department ("IES") Department. Baird's

IES Department, in turn, distributes research to certain of its institutional clients. BKG receives a fee from Baird for providing that research. Additional information about BKG is available in BKG's Form ADV Part 2A Brochure.

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

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

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

Baird is the investment adviser and principal underwriter for Baird Funds, Inc. (the "Baird Funds"). Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed-income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). BKG is the investment sub-adviser for a Baird Equity Fund. As compensation for those services, Baird and BKG receive fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com).

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

BIM serves as investment sub-adviser to a mutual fund series of the Principal Funds, Inc. Additional information about that mutual fund, including information relating to the compensation paid to

Baird by that fund for investment management services, is available in the fund's prospectus and statement of additional information.

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

#### **Affiliated Private Equity Funds**

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

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

If a client expresses an interest, HGMR may refer clients to Baird Capital. HGMR does not charge fees on client assets invested in private equity funds affiliated with Baird. Instead, the general partner of the private equity fund may provide compensation to HGMR for referring the client to Baird Capital. The actual amount of compensation may vary based upon the client's investment commitment and will be disclosed to a client prior to the time of investment. *Due to Baird's affiliation with those private equity funds and the referral compensation paid to HGMR, Baird and HGMR have a financial incentive to favor those private equity funds.*

#### **Affiliated Hedge Funds**

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

#### **Other Financial Industry Activities**

Baird has business relationships with many investment managers, including those participating in the Programs, separate and apart from the Services. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money

market funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird is a fiduciary that is required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Baird addresses this potential conflict through disclosure in this Brochure. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for Baird's advisory programs. In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

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

#### **Code of Ethics**

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code")



that applies to its associates that provide investment advisory services to clients, including HGMR Portfolio 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. In addition, Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

## **Participation or Interest in Client Transactions**

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

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

HGMR and Baird may buy or sell securities for Baird's own account, or may act as broker or agent for other HGMR or Baird clients, including other advisory clients. HGMR, Baird and Baird's affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. HGMR and Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Brokerage Practices—Trade Execution Services Performed by Baird" below.

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

As a registered broker-dealer, Baird may also benefit from the possession or use of any free credit balances in client accounts, subject to restrictions imposed by Rule 15c3-3 under the Exchange Act.

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

## ***Investment Product Selling and Servicing Mutual Funds***

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

If HGMR or Baird receives 12b-1 fees from a fund with respect to a client's mutual fund investment in the client's Account and the client is paying an asset-based Advisory Fee on such investment, Baird rebates such 12b-1 fees to the client's Account, except for any non-Retirement Account managed directly by HGMR. Accordingly, the receipt of these fees provides HGMR and Baird an incentive with respect to non-Retirement Accounts managed directly by HGMR to favor mutual funds over other investment products, or to favor mutual funds that pay higher 12b-1 fees. If any rebated fees remain in a client's Account at the time of billing, those rebated amounts will be included in the Account assets subject to the Advisory Fee.

Marketing and Other Financial Support. In addition to 12b-1 fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in 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 HGMR Portfolio Managers about the funds offered by the fund company, due diligence on the funds and marketing support.

In addition to marketing support payments described above, Baird may be reimbursed by mutual fund companies or their service providers for expenses incurred by Baird for various sales meetings, seminars, and conferences held in the

normal course of business. Any such reimbursement is at the entire discretion of a particular mutual fund company.

Receipt of marketing support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make greater levels of such payments. However, Baird is a fiduciary that is required to act in the best interests of advisory clients when recommending mutual funds to those clients, and Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List or Recommended Mutual Fund List.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to HGMR, and the compensation Baird pays to HGMR is not tied to such payments. HGMR Portfolio Managers may, however, receive non-cash compensation and other benefits from Baird and mutual fund companies and their sponsors with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide HGMR Portfolio Managers an incentive to favor mutual funds and their sponsors that provide greater levels of such benefits.

Networking Fees. Baird receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides to those funds. While this may provide Baird an incentive to favor funds paying higher fees, these fees are not paid to HGMR, and the compensation that Baird pays to HGMR is not tied to such fees.

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



sharing payments) for services that HGMR and Baird provide to clients who invest in those funds.

If HGMR or Baird receives distribution (12b-1) fees or 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 Advisory Fee on such investment, Baird rebates such 12b-1 fees to the client's Account, except for any non-Retirement Account managed directly by HGMR. Accordingly, the receipt of these fees may provide HGMR and Baird an incentive with respect to non-Retirement Accounts managed directly by HGMR to favor funds that provide higher compensation. If any rebated fees remain in a client's Account at the time of billing, those rebated amounts will be included in the Account assets subject to the Advisory Fee.

**Additional Information.** More detailed information about the compensation that HGMR or Baird receives from a mutual fund company is available in the mutual fund company's prospectus or statement of additional information and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Clients may also contact HGMR or Baird for more specific information about the amount of compensation HGMR or Baird may receive from any of these mutual fund companies. More detailed information about the compensation that Baird receives from Schwab is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### **Alternative Investment Products**

HGMR and Baird may receive compensation related to the sale of Alternative Investment Products or the servicing of client accounts that hold those products. If an Alternative Investment Product is registered as an investment company (that is, a mutual fund), HGMR and Baird may receive compensation described in the section entitled "Mutual Funds" above.

More detailed information about the compensation that HGMR or Baird receives from an Alternative Investment Product and its sponsor is available in the prospectus or other offering documents for the Alternative Investment Product and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Clients may also contact HGMR or Baird for more specific information about the amount of compensation HGMR or Baird may receive from the sale or servicing of Alternative Investment Products.

### **Annuities and Insurance Products**

Insurance companies compensate HGMR and Baird for selling their insurance products. HGMR and Baird 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.

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 educating HGMR Portfolio Managers. This support, which varies from insurance company to insurance company is commonly referred to as "marketing support payments". 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 HGMR, and the compensation that Baird pays to HGMR is not tied to such financial support. HGMR Portfolio Managers may, however, receive non-cash compensation and other benefits from Baird and insurance companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide HGMR Portfolio Managers an incentive to favor insurance companies that provide greater levels of such benefits.

More detailed information about the compensation that HGMR and Baird receive from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

Baird addresses conflicts posed by the selling and servicing of the foregoing investment products through disclosure in this Brochure and the prospectuses or other offering documents provided to clients. In addition, Baird has adopted internal policies and procedures for HGMR and

Baird that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). In addition, Baird has adopted policies and procedures for HGMR associates providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

### ***Other Interests in Client Transactions***

#### **Cash Sweep Program**

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 or money market mutual fund. See "Custody" below for more information. In addition to the asset-based Advisory Fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for certain administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled "Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds" above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with HGMR. The compensation that HGMR and Baird receive from the Bank Sweep Option and the Money Market Option gives 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 and the compensation HGMR and Baird receive is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### **Investment Banking and Public Finance Activities**

Through its Investment Banking and Public Finance Departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Certain HGMR associates may also

receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, certain HGMR associates who refer securities underwriting or other business opportunities to the Investment Banking or Public Finance Departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. HGMR and Baird may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. However, HGMR and Baird will only recommend such securities to an advisory client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any securities underwritten by Baird will be sold to a client by HGMR in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's and HGMR's interest in the transaction. For more information, please see "Brokerage Practices—Trade Execution Services Performed by Baird—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, HGMR and their associates are not permitted to divulge such information to any client or act upon such information with respect to a client's Account or their own accounts.

### **Trust Services Arrangements**

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

### Margin Loans

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

### Lending Arrangements

Baird maintains alliances with certain unaffiliated lenders that provide financing opportunities to HGMR and Baird clients. Baird receives a referral fee from the lender in some instances. The amount of the referral fee varies, depending upon the lender and the amount of the financing. The referral fee is generally not shared with HGMR associates. It is Baird's practice to provide more specific information about the referral fee at the time a client obtains financing.

### Other Clients, Products and Services

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

HGMR and Baird likely will receive higher overall compensation from advisory clients than from brokerage clients. HGMR associates thus may have a financial incentive to provide investment advice based upon the compensation received. Certain client accounts managed by HGMR and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, HGMR and Baird may have an incentive to favor client accounts that generate a higher level of compensation.

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

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

### Duration Compensation Will Be Received

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

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

### Brokerage Practices

#### HGMR's Trading Practices

##### Broker-Dealer Selection

HGMR and Baird will select the broker-dealers, which may include Baird, that will execute trade

orders for client's Accounts unless the client has provided instructions to HGMR to the contrary. As investment adviser, HGMR and Baird have an obligation to seek "best execution" of client trade orders. "Best execution" means that they must place client trade orders with those broker-dealers that they believe are capable of providing the best qualitative execution of client trade orders under the circumstances, taking into account the full range and quality of the services offered by the broker-dealer, including the value of the research provided (if any), the broker-dealer's execution capabilities, the cost of the trade, the broker-dealer's financial responsibility, and its responsiveness to HGMR and Baird. It is important to note that their best execution obligation does not require them to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as they reasonably believe that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances. From time to time, clients may direct HGMR to execute trades through Baird. See "Directed Brokerage" below.

### ***Soft Dollar Benefits***

HGMR and Baird may receive research (in addition to execution services) from broker-dealers in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". HGMR has no formal soft dollar arrangements requiring a fixed minimum level of commissions. However, some unaffiliated broker-dealers and other research services, periodically advise HGMR and/or Baird of certain suggested minimums related to specific levels of service with respect to direct trading access, access to research analysts, invitations to industry conferences, contact with specialists and other matters. Under these arrangements, HGMR may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits. However, HGMR and Baird will seek to obtain commission rates that they consider appropriate for each client for the level and quality of service received from brokerage firms.

During Baird's last fiscal year ended December 31, 2013, HGMR and Baird received no soft dollar benefits in connection with effecting HGMR client transactions. However, HGMR and Baird may

receive soft dollar benefits in connection with effecting HGMR client transactions in the future.

When HGMR and Baird use client brokerage commissions (or markups or markdowns) to obtain research, HGMR and Baird receive a benefit because HGMR and Baird do not have to produce or pay for the research themselves. HGMR and Baird, therefore, may have an incentive to select or recommend a broker-dealer based on their interest in receiving soft dollar benefits, rather than on clients' interest in receiving most favorable execution. However, HGMR and Baird seek to select broker-dealers based upon the broker's or dealer's ability to provide best execution. Furthermore, HGMR does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

Research services provided by internal and external sources are used in managing client accounts and, in the business judgment of HGMR, are important to each client; although, perhaps, in differing degrees at different times. As a general matter, such research services, including soft dollar benefits, are used to service all HGMR client accounts. However, each and every research service may not be used to service each and every account managed by HGMR, and HGMR does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Accordingly, research that HGMR receives for a particular client's securities transactions may not be particularly useful for that client or may be useful not only for that client but for other clients as well. Similarly, clients may benefit from the research received from the transactions of other clients. Research information and its application and the interpretation of its worth are matters of professional judgment made by HGMR.

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

HGMR may aggregate contemporaneous buy and sell orders for the accounts over which it has discretionary authority (a practice also known as bunching trades or block transactions). This practice may enable HGMR to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also

assist HGMR in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing, client orders.

HGMR generally aggregates buy and sell orders when executing trades for client accounts under its discretionary management when it has the opportunity to do so. When utilizing block transactions, HGMR generally aggregates a client's trade orders with trade orders for clients who are pursuing the same model portfolio or strategy. In some cases, HGMR may aggregate a client's trade orders with trade orders for other advisory clients who are not participants in the services described in this Brochure. However, HGMR determines whether or not to utilize block transactions for a client in its sole discretion and HGMR's decision is subject to its duty to seek best execution. HGMR will aggregate a client's trade orders only when HGMR deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements.

All advisory clients participating in a block transaction will receive the same execution price for the security bought or sold. Average prices may be used when allocating purchases and sales to a client's Account because such securities may be purchased and sold at different prices in a series of block transactions. As a result, the average price received by a client may be higher or lower than the price the client may have received had the transaction been effected for the client independently from the block transaction. In addition, a client's transaction costs may vary depending upon, among other things, the type of security bought or sold, and the commission or markup or markdown charged by the executing broker-dealer.

The amount of securities available in the marketplace, at a particular price at a particular time, may not satisfy the needs of all clients participating in a block transaction and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird has adopted trade allocation policies and procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment. If a block transaction cannot be executed in full at the same price or time, the

securities actually purchased or sold by the close of each business day will generally be allocated pro rata among the clients participating in the block transaction. However, HGMR may also make random allocations to client accounts in certain circumstances, such as when Baird deems a partial fill for the total block order to be low. Adjustments to trade allocations may also be made, at the discretion of HGMR, to take into consideration account specific investment restrictions, undesirable position size, account portfolio weightings, client tax status, client cash positions and client preferences. Adjustments may also be made to avoid a nominal allocation to client accounts.

When HGMR is not able to aggregate trades, HGMR generally uses a trade rotation process that is designed to be fair and equitable to its advisory clients.

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

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

In some cases, a client may direct HGMR to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and HGMR may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs HGMR to execute trades through such firm, or when a client's Retirement Account or other account is maintained on a platform operated and managed by a third party unaffiliated with HGMR or Baird and trades must be executed through that platform. A client should understand that HGMR and Baird consider such arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, Baird may be unable to achieve best execution for the client's transactions. A



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

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

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

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

From time to time, when HGMR and Baird believe that each respective transaction is consistent with the client's best interest, HGMR, acting as investment manager, may cause (or in the case of non-discretionary accounts, recommend) the sale of securities from the account of an advisory client while at or about the same time causing

(or, in the case of non-discretionary accounts, recommending) the purchase of the same securities for the account of another HGMR advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

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

### **Trade Error Correction**

It is Baird's policy that if there is a trade error for which HGMR or Baird is responsible, trades will be adjusted or reversed as needed in order to put the client's Account in the position that it would have been in as if the error had not occurred. Errors caused by HGMR or Baird will be corrected at no cost to client's Account, with the client's Account not recognizing any loss from the error. The client's Account will be fully compensated for any losses incurred as a result of any such error. If the trade error results in a gain, the gain may be retained by Baird but such gain is not given to or shared with any HGMR or Baird associate.

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

### **Trade Execution Services Performed by Baird**

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

Baird's routing of equity orders is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures)

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 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.

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

### **Agency Cross Transactions**

In certain circumstances and to the extent permitted by applicable law and regulation, HGMR and Baird may effect "agency cross" transactions with respect to a client's Account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for their brokerage services, HGMR and Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, HGMR and Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, HGMR and 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 regulations applicable to retirement accounts.

Where applicable, a client's investment management agreement discusses agency cross transactions and authorizes HGMR and Baird to effect agency cross transactions for a client's Account. **A client's authorization to HGMR and 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 HGMR.**

### **Principal Transactions**

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

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



client's approval of the transaction prior to settlement.

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

To the extent permitted by applicable law and regulation, if a client selects non-discretionary advisory services for an Account, the client's investment management agreement provides HGMR and 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, HGMR and Baird may affect 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 HGMR and 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 HGMR in writing.**

HGMR and 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.

## Review of Accounts

### Client Account Review

Client accounts are monitored on an ongoing basis by the client's HGMR Portfolio Manager and are subject to review by HGMR's Baird Compliance Administrative Manager. The client's HGMR Portfolio Manager generally reviews the performance of the client's Account at least quarterly. HGMR's Baird Compliance Administrative Manager (or his or her designee) is required to review an HGMR client's Account's daily trading activity and also required to perform

a quarterly review of the HGMR Portfolio Manager's accounts, focusing on verifying that the HGMR Portfolio Manager's composites of client accounts are generally being managed in accordance with the HGMR Portfolio Manager's investment philosophy statement and attempting to ascertain whether client accounts within each composite are being treated equitably. Additional reviews performed by HGMR Portfolio Managers include drift reports, review of over- and under-weighted holdings, and for Counseled Portfolios, holdings not included in HGMR's model and an asset allocation review that compares a client's investment policy statement to each account's cash and investment allocation. These reviews are performed quarterly, or more often, if deemed necessary.

### Account Statements and Performance Reports

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

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

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

A client should note that past performance does not indicate or guarantee future results. Neither HGMR nor Baird promise or guarantee an level of investment returns or that the client's investment objective will be achieved.

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

When preparing a client's Account statements and performance reports, HGMR and Baird generally rely upon third party sources, such as third party pricing services. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset. Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account. This frequently occurs with respect to the valuation of Alternative Investment Products. If the assets in the client's Account are held by a custodian other than Baird, Baird generally relies on valuation information provided by the client's third party custodian.

HGMR and Baird do not conduct a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and they do not verify or guarantee the accuracy of such information. Valuation data for investments, particularly Alternative Investment Products, may not be provided to HGMR or Baird in a timely manner, resulting in valuations that are not current. The prices obtained by HGMR and Baird from the third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used in account statements and performance reports may vary from prices

received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the values may be greater than the amount a client would receive if the securities were actually sold from the client's Account.

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

## Client Referrals and Other Compensation

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

HGMR and Baird and its affiliates and associates may receive certain economic benefits in connection with providing advisory services to clients, which are described in the sections entitled "Advisory Fees", "Advisory Business—Additional Program Information—Account Requirements", "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above.

## Custody

Each client is responsible for appointing the client's custodian, which will have possession of the assets of the client's Account and settle transactions for the account. Clients may choose Baird or a service provider unaffiliated with Baird to serve as custodian.

If Baird is the custodian of a client's assets, Baird will provide certain custody services, including holding the client's Account assets, crediting contributions and interest and dividends received

on securities held in a client's Account, and debiting distributions from the Account. Information about account statements and performance reports, if any, that HGMR and Baird provide to clients is contained under the heading "Review of Accounts" below.

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

Baird 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. HGMR and Baird generally receive compensation in addition to the Advisory Fee when clients participate in the Cash Sweep Program. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions" above for more information.

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

A client who uses a third party custodian will pay a custody fee in addition to the Advisory Fee. Counseled Portfolio clients with Account assets that are not custodied at Baird may not receive performance review or reporting from Baird. In addition, a client who uses a third party custodian is not eligible for cash sweep services offered by Baird. Clients using a third party custodian are encouraged to establish appropriate cash sweep arrangements.

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

## Investment Discretion

### Investment Selection and Trading Authorizations

Clients generally give HGMR the discretionary investment authority to determine independently the specific securities purchased or sold, and the amount of securities purchased or sold. By executing an investment management agreement with HGMR, a client authorizes HGMR to make investment decisions for the client's Account, with the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account, subject to the client's portfolio strategy. The client's investment management agreement also grants to HGMR complete and unlimited trading authorization and appoints HGMR as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, HGMR may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the

client's Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's Account without prior notice to 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, subject to HGMR's and Baird's duty to achieve best execution, unless the client has provided other instructions to HGMR in writing.

If HGMR agrees to provide non-discretionary services to a client, HGMR will only execute transactions for such account pursuant to the client's instruction or authorization.

### Client Investment Restrictions

A client may impose reasonable investment restrictions on the management of the client's Account, including the designation of particular securities or types of securities that should not be purchased for the client's Account, but a client may not require that particular funds or securities (or types) be purchased for the client's Account. Reasonable investment restrictions requested by a client will apply only to those assets over which HGMR has discretion.

HGMR may also offer clients a socially responsible investing ("SRI") service, which assists a client in restricting investments to those that are consistent with the client's social investment guidelines or objectives. Clients electing the SRI service generally bear the cost of the SRI service as it is generally included in the Advisory Fee.

In the event that a client's Account is restricted from investing in certain securities, HGMR will select such other replacement securities, if any, as it deems appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's Account, a client's investment restrictions may force HGMR to sell such security at an inopportune time, possibly negatively impacting Account performance and/or causing the client's Account to realize taxable gains or losses, which could be significant. A client should also be aware that, if the client's Account holds any investment vehicle (such as a mutual fund or ETF), any

investment restrictions the client places on the client's Account may not flow through to the securities owned by that investment vehicle.

Should a client wish to impose or modify existing restrictions, or the client's financial condition or investment objectives have changed, the client should contact the client's HGMR Portfolio Manager.

### Affiliated Investment Products

HGMR may use the discretionary authority granted to it by a client to invest the client's Account in investment products affiliated with Baird or that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide. In addition, if the client participates in cash sweep services provided by Baird, short-term cash balances in the client's Account may be invested in one or more money market mutual funds and/or individual deposit accounts offered by Baird, its affiliates, or a third party. Baird and its affiliates may receive fees or other compensation related to such cash balance investments made by the client.

By signing an investment management or advisory agreement with HGMR, a client consents to HGMR investing all or a portion of the client's Account in investment products or in bank deposit accounts that pay advisory or other fees to Baird or its affiliates ("affiliated investment products"). The amount of fees received by Baird and/or its affiliates is generally described in the prospectus or other offering or disclosure documents for the investment product or deposit account. Additional information is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). HGMR will use its discretionary authority to invest the client's Account in affiliated investment products when HGMR determines it to be in the client's best interest to do so. Generally, the criteria used by HGMR in deciding to invest in affiliated investment products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with Baird. For more information about the criteria used by HGMR, clients should review the section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss" above. A client's consent may be revoked at any time.

### Investment Policy Statements

HGMR and Baird will not review, monitor, accept or adhere to an investment policy statement or similar document that was not prepared by HGMR or Baird, unless they otherwise specifically agree to do so in writing. Adherence to any such investment policy statement or similar document is solely a client's responsibility.

### Voting Client Securities

A client may retain the right to vote proxies with respect to the securities held in the client's Account, or a client may delegate such right to HGMR.

If a client retains proxy voting authority, Baird will forward proxy materials that Baird actually receives to the client. The client will then be solely responsible for analyzing the materials and casting the vote.

If a client delegates voting authority to HGMR, HGMR 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 HGMR votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between HGMR's or Baird's interests and those of their clients. Although a description of Baird's proxy voting policies and procedures is provided below, HGMR will furnish a copy of Baird's proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how HGMR actually voted proxies with respect to the securities held in their accounts by contacting their HGMR Portfolio Manager or by calling 800-684-7225.

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

The proxy voting policies and procedures also address instances in which HGMR's or 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 HGMR would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. HGMR takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client.

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

Clients wishing to direct particular votes once they have granted HGMR discretionary voting authority may do so by contacting their HGMR



Portfolio Manager. However, if HGMR has been granted discretionary authority, neither HGMR nor the Baird will provide a client with notice that HGMR has received a proxy solicitation, nor will they consult with the client before casting a vote, unless the client otherwise directs them to do so.

If HGMR agrees to provide non-discretionary services to a client, the client retains the right to vote proxies with respect to the securities held in the client's Accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and HGMR and Baird are under no obligation to take any action or render any advice regarding such matters.

Generally, neither HGMR nor Baird will render advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. Also, they may or may not vote or advise clients on other corporate actions, like tender offers, that are not solicited by a proxy statement. At a client's request, Baird will forward information that Baird actually receives to the client. The client's HGMR Portfolio Manager may, upon the client's request, provide advice on proxy voting or what other action the client could take.

As mentioned above, Baird may be the holder of record for certain securities in a client's Account. If the client retains voting authority over such securities (or delegates such authority to party other than HGMR), and a proxy is solicited with respect to any such securities, the client (or other authorized party) will need to provide voting instructions to Baird. To the extent the client (or other authorized party) does not provide timely voting instructions, Baird will vote such securities to the extent permitted by law and in compliance with the rules of the New York Stock Exchange and the SEC relating to such matters.

## Financial Information

HGMR does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of Baird's most recent fiscal year. Neither Baird nor HGMR is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to

clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

## Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary acting on behalf of the client understands that HGMR or Baird may invest for the client, or recommend that the client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary acting on behalf of the client understands that when HGMR or Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, HGMR will waive its asset-based Advisory Fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or HGMR will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Advisory Fee that HGMR charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client and Retirement Account Fiduciary acting on behalf of the client acknowledge in the client's investment management agreement that: (i) the investment in affiliated investment products for the client's Account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those products; (ii) subject to HGMR's investment strategy selected by the client, all assets of the client's Account may be invested in one or more of the affiliated investment products; (iii) the client received prospectuses or other disclosure documents for the affiliated investment products that may be used in connection with the Account, each of which include a summary of all fees that may be paid by the affiliated investment products to Baird or its affiliates; and (iv) the client received information concerning the nature and extent of any differential between the rate of such affiliated investment products fees and the Advisory Fees payable by the client. The

differential between the fees to be charged by HGMR for the investment advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the affiliated investment products to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment products is the difference between the Advisory Fee disclosed in the client's investment management agreement and the applicable investment management, investment advisory and other similar fees detailed in the section entitled "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" above and/or in the relevant prospectus or other offering document for the affiliated investment product.

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

If client is a Retirement Account and the client authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the client's Account and to receive commissions for such services, the arrangement is subject to DOL PTE 86-128. DOL PTE 86-128 exempts from certain ERISA and corresponding Internal Revenue Code restrictions a fiduciary's use of its authority to cause an ERISA qualified plan, plan participant or IRA to pay a fee (including a commission) for effecting or executing securities transactions for that plan or account, as agent, but only to the extent that such transactions are not excessive, under the circumstances, in either amount or frequency. DOL PTE 86-128 contains a number of conditions that must be satisfied, including written authorization from the client to

effect or execute securities transactions for the client's Account, which authorization is terminable at will, at any time, without penalty; delivery to the client of trade confirmations or quarterly statements showing the securities transactions that were effected for the client's Account and the commissions incurred by the client and retained by HGMR or Baird, and annual summaries of such transaction information. HGMR and Baird are also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to HGMR and Baird to effect or execute securities transaction for the client's Account. To ensure that the client has sufficient information on which to determine whether such authorization should be made, HGMR and Baird provide certain clients with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the description of Baird's brokerage placement practices set forth below. Baird also will provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to DOL PTE 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of payment for order flow, although Baird receives such payments on limit orders routed to and executed on the NASDAQ Stock Market and on orders for stock options routed to Interactive Broker. Baird also does not place orders with market makers or other third parties for the purpose of compensating such firms for their efforts in marketing affiliated mutual funds. Baird may place orders for securities transactions with

third party broker-dealers and other firms that provide research products and services to Baird.

If a client's Account is a Retirement Account and if the client has selected an investment product affiliated with Baird (such as any mutual fund affiliated with Baird), each Retirement Account Fiduciary acting on behalf of the client understands and agrees that in making such selection: (a) Baird and/or its affiliates may receive higher aggregate compensation than if the client selected funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated funds or other products; (b) Baird makes available to the client funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated funds or products at any time by contacting the client's HGMR Portfolio Manager; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use funds or products affiliated with Baird at any time by contacting the client's HGMR Portfolio Manager. For more information about products that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.