

# Baird Private Asset Management

## Wrap Fee Program Brochure

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

## Material Changes

Baird Private Asset Management ("PAM"), part of the Private Wealth Management department of Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A wrap fee program brochure (the "Brochure") on March 31, 2014. The following summary discusses the material changes that PAM has made to the Brochure since March 28, 2013, the date of the last annual update to the Brochure.

- PAM has updated the information pertaining to the "trade away" practices of investment managers that manage client accounts and the additional costs of those trades, if any, during 2013. See the section of the Brochure entitled "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trading Practices of Investment Managers" and Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) for more information.
- PAM has changed the minimum asset value required to open certain accounts. See the section of the Brochure entitled "Services, Fees and Compensation—Advisory Fee—Fee Options and Fee Schedules" for more information.
- PAM has updated the information about the portion of client advisory fees paid to investment managers that manage certain types of client accounts. See the section of the Brochure entitled "Services, Fees and Compensation—Advisory Fee—Advisory Fee Payments to PAM, Baird and Investment Managers" for more information.
- PAM 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 "Portfolio Manager Selection and Evaluation—Advisory Business" and "Additional Information—Other Financial Industry Activities and Affiliations" for more information.
- Baird has modified the process by which it selects mutual funds included in its ALIGN Strategic Portfolios Program and on its Recommended Mutual Fund List. See the section of the Brochure entitled "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis" for more information.
- PAM 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 "Portfolio Manager Selection and Evaluation—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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## Services, Fees and Compensation

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Private Asset Management ("PAM"), part of Baird's Private Wealth Management department. 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 a PAM representative or call Baird toll-free at 1-800-792-2473.

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

## The Client-Baird Fiduciary Relationship

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). PAM and Baird are deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure. That means that PAM and Baird are required to act in the best interest of the client when providing investment advisory services. From time to time PAM and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of PAM and Baird. PAM and Baird generally address potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure. Brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with PAM and Baird. In addition, Baird has adopted internal policies and procedures for PAM and Baird that require them to: provide investment advice that is

suitable for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of interest; act with utmost care and good faith in dealings with advisory clients; and seek to obtain "best execution" of advisory client transactions. The specific business practices that create potential conflicts of interest with clients and additional measures used by PAM and Baird to address them are discussed in other sections of this Brochure.

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

## Summary of PAM's Services

This Brochure describes certain investment advisory programs and services that PAM offers to clients ("Services") and their advisory account(s) ("Account"). The Services may involve any combination of discretionary services, where a client provides Baird and/or PAM full discretionary authority to manage the client's Account ("Discretionary Services"), non-discretionary services, whereby the client retains full authority with respect to management of the client's Account ("Non-Discretionary Services"), and separately managed account ("SMA") services, whereby third party investment managers, which may include affiliates of Baird ("Other Managers"), or asset management departments of Baird, manage the client's Account according to a strategy (each, an "SMA Strategy") with full discretion and PAM and Baird provide additional consulting services to the client (collectively "SMA Services").

These Services primarily consist of: a PAM Recommended Managers Service; a PAM Investment Management Service; a Baird Advisory Choice Program; a Client Selected Managers ("CSM") Service; a Baird ALIGN Portfolios Program; and other consulting services, such as: assisting a client with the development of an investment policy statement or a search for an investment manager, providing performance reviews and performance monitoring. In certain instances, PAM may also provide clients with asset allocation and funding requirement analysis and asset liability modeling. The investment advisory services offered by PAM include investment advice and consulting services, performance reporting and related account

services, and, depending upon the Service that a client selects, the Service may include portfolio management.

The SMA Services make available two types of investment managers: (1) managers that manage a client's Account directly; and (2) managers that make model portfolios available to PAM clients ("Model Portfolios") but the managers do not directly manage a client's Account ("Model Managers"). Baird has engaged an overlay management firm (the "Overlay Manager") to provide certain subadvisory services in connection with certain SMA Services. If a client selects an SMA Strategy provided by a Model Manager, the Model Manager will provide the Model Portfolio and updates to the Model Portfolio to the Overlay Manager, and the Overlay Manager will manage the client's Account with full discretionary authority according to the strategy selected by the client (a "Model-Traded Strategy"). Otherwise, if the SMA Strategy is offered by a non-Model Manager, the investment manager will directly manage the client's Account with full discretionary authority (a "Manager-Traded Strategy").

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

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the "Exchange Act"). PAM provides the Services described in this Brochure under a "wrap fee" arrangement. This means that in addition to the investment advisory services that PAM provides in connection with each Service, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee ("Advisory Fee"). *A client should note that the client may*

*incur costs in addition to the Advisory Fee. See "Additional Service Information—Trading for Client Accounts" and "Other Fees and Expenses" below for more information.*

Each Service is designed to address different investment needs of clients. All of the Services discussed in this Brochure may not be appropriate for every client. For example, the Services may not be appropriate for clients who have low or no trading activity, who maintain their accounts invested in high levels of cash, or who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as "unsolicited" transactions.

In addition, certain investment strategies and investment products made available to a client may not be appropriate for the client. Certain Services make available 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 "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

PAM clients typically work with a Baird associate who has been approved by Baird to provide the Services (a "PAM Manager"). The client, with the assistance of a PAM Manager, determines the services that are most appropriate given the client's goals and circumstances. The client will provide financial, tax, and liquidity requirements information to their PAM Manager to assist in determining the client's investment needs, objectives and risk tolerances for the assets being invested. However, it is a client that ultimately selects the Service and investment strategy that is most appropriate for the client.

A client that wishes to participate in a Service will enter into an advisory agreement with PAM and Baird. The client's advisory agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client, and other terms applicable to the client's advisory

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

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

Each Service has different structures, administration, types and levels of service, and fees and expenses. In particular, a client should note that the investment advisory services provided by PAM and Baird, including the depth of initial and ongoing research, evaluation, monitoring and review of a client's Account and its investments, and the level of compensation that PAM and Baird receive, varies by Service. The particular investment advisory services that PAM provides in connection with each Service are further described below. Clients are encouraged to review this Brochure and their advisory agreement carefully.

## Description of Advisory Services

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

Under the PAM Recommended Managers Service, a client typically provides PAM with full discretionary authority to select investment managers to manage the client's Account. A client also authorizes such investment managers to manage such Accounts with full discretionary authority.

PAM and Baird determine the investment managers ("PAM Recommended Managers") and their strategies ("PRM Strategies") eligible to manage client accounts through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation" below.

In most cases, PAM engages PAM Recommended Managers directly on the client's behalf. However, certain PRM Strategies are only available through the Overlay Manager, and Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with those PRM Strategies. The PRM Strategies made available by the Overlay Manager include both Manager-Traded Strategies and Model-Traded Strategies, although PAM Recommended Managers generally only provide either Manager-Traded or Model-Traded Strategies.

To the extent necessary to implement the PRM Strategy selected by the client, the client authorizes and directs PAM to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If a Model-Traded Strategy is selected, the client also authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the PRM Strategy selected by the client. If a Manager-Traded Strategy is selected, the client authorizes and directs the Overlay Manager to appoint the applicable PAM Recommended Manager as sub-adviser, and the client also authorizes and directs such PAM Recommended Manager to manage the client's Account with full discretionary authority in accordance with the selected PRM Strategy.

If a client selects a Model-Traded Strategy, at the Overlay Manager's discretion, the Overlay Manager will implement the Model Strategy as proposed by the PAM Recommended Manager. However, the Overlay Manager may implement the Model Strategy differently than proposed by the PAM Recommended Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

If a client selects a PRM Strategy that is a Model-Traded Strategy, it is important to note that PAM and Baird's selection and ongoing evaluation of a PRM Strategy is based upon an assumption that the Manager's Model Portfolio will be fully and faithfully implemented by the Overlay Manager on a continuous basis. A client should understand that the Overlay Manager has discretion over the client's Account and may invest the client's Account in a manner that differs from the Model Portfolio. PAM and Baird do not monitor the Overlay Manager's implementation of the Model Portfolio nor do they ascertain whether the Overlay Manager is implementing the Model Portfolio as provided by the PAM Recommended



Manager. If the Overlay Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. PAM and Baird are not monitoring, evaluating or reviewing the Overlay Manager or the performance of a client's Account under those circumstances. A client should periodically discuss the Overlay Manager's implantation of the Model Portfolio with the client's PAM Manager.

PAM Recommended Managers (which may include the Overlay Manager) will have full discretionary authority to manage the client's Account. PAM Recommended Managers may have varying investment objectives, styles and strategies. PAM Recommended Manager may invest the client's Account in various types of securities, which will be chosen by the PAM Recommended Manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird. A client should review the PAM Recommended Manager's Form ADV Part 2A Brochure for more information.

To the extent an Other Manager manages a client's Account, a client should understand that, notwithstanding the discretionary authority granted to PAM under the PAM Recommended Managers Service, PAM does not manage the Account and does not otherwise have any influence over the PAM Recommended Manager's investment decisions or securities selections, and therefore, PAM and Baird are not responsible for the decisions made by such PAM Recommended Manager.

From time to time, PAM may remove investment managers from the PAM Recommended Managers Service, and PAM will select a replacement manager to manage the client's Account. A client who prefers to continue using an investment manager that has been removed from the PAM Recommended Managers Service, or who directs or otherwise requests that a particular investment manager not recommended by PAM be selected to manage the client's Account, will generally need to move to another Service, such as the CSM Service. See "Client Selected Managers Service" below for more information. Clients who elect to do so will no longer receive ongoing monitoring, evaluation, or review of that investment manager from PAM or Baird.

**Important Information about Affiliated Managers.** *The PAM Recommended Managers Service makes available to clients investment services that are offered by Baird Advisors and Baird Investment Management ("BIM"), investment management departments of Baird. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **PAM Investment Management Service**

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

A client's PAM Manager seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's PAM Manager. At the commencement of services, the client's PAM Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PAM Manager makes a subsequent recommendation to the client as to which investment style the PAM 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.

PAM will manage the client's Account in accordance with the investment style that, in PAM's judgment, correlates with the information the client provides to PAM. PAM will provide the client with more specific information as to how PAM will manage the client's Account.

A PAM Manager may make investments in various types of securities, including, but not limited to, equity and debt securities, mutual funds, exchange traded funds ("ETFs") and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments a PAM Manager may use for client

accounts is contained under the heading "Eligible Assets" below. For more information about this Service, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss" below.

### **Additional Advisory Services**

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

The Baird Advisory Choice Program is a Non-Discretionary Program whereby PAM provides advice to a client in connection with the client's own management of the client's Account.

PAM does not have discretionary authority over the assets in a client's Baird Advisory Choice Account and cannot purchase or sell any securities or other investments in the client's Baird Advisory Choice Account without the client's direction. A client makes the final decision as to selection of investments for the client's Baird Advisory Choice Account.

The investment advisory services that may be available in the Baird Advisory Choice Program include research, analysis, consultation, advice and recommendations regarding various investment-related matters, such as financial and investment goals and needs, asset allocation strategies, investment strategies and restrictions, methods for implementing investment strategies, trends and expectations regarding securities markets, economic sectors and industries, various types of securities and investments, and the purchase, holding and sale of specific securities. The specific services to be provided to a client will be determined by mutual agreement between the client and PAM. PAM and Baird do not undertake to provide any investment advisory services other than those set forth above or individual securities recommendations made from time to time.

Baird and/or client's PAM Manager will provide investment recommendations for a client's Account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account. Baird and/or client's PAM Manager may recommend investments in various types of securities, including, but not limited to, equity and debt securities, mutual funds, ETFs and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities

issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments Baird or client's PAM Manager may recommend for client accounts is contained under the heading "Eligible Assets" below. For more information about the Baird Advisory Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Baird Advisory Choice" below.

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

*A Baird Advisory Choice Account provides a fee-based alternative to a traditional, commission-based brokerage account. Each client should determine whether a Baird Advisory Choice Account is appropriate. In making this determination, a client should carefully consider all relevant factors, including the client's investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the Account, anticipated use of other Baird products and services, and the costs and benefits of the Account. A client should ask PAM questions about the investment styles, philosophies, strategies, analyses and techniques PAM will use in order to meet the client's objectives. The costs of a Baird Advisory Choice Account may be more or less than in an account where the client is charged on a per-transaction basis. A Baird Advisory Choice Account may not be appropriate for a client who anticipates little or no trading activity, and/or a client that has small balances in the Account and does not receive or request investment advisory or other non-trading services from PAM or Baird. A Baird Advisory Choice Account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. If a client's Baird Advisory Choice Account engages in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion), PAM or Baird may immediately, upon sending notice to the client, restrict the activity occurring in the client's Account, terminate the Account, convert the Account to a commission-based account, or charge a higher fee at such rate as Baird, in its sole discretion, may elect. A client is responsible for monitoring the client's Account and determining the desirability of maintaining the*



*Account as opposed to maintaining a traditional, commission-based brokerage account. A client should periodically reevaluate whether the ongoing use of this Non-Discretionary, advisory program is desired and request a PAM Manager to explain the benefits and disadvantages of maintaining a Baird Advisory Choice Account and the availability of alternative arrangements.*

*In addition to Baird Advisory Choice Accounts, Baird offers various other advisory programs in which it has investment discretion. Baird also offers traditional, commission-based brokerage accounts. A client may terminate a Baird Advisory Choice Account and convert it into a traditional, commission-based brokerage account at any time by contacting PAM. PAM and Baird also have the right, at any time upon notice to a client, to terminate a client's Baird Advisory Choice Account and convert it into commission-based brokerage account.*

*A client should note that the client's Baird Advisory Choice Account may be engaged in strategies that involve concentrated and less diversified portfolios of securities, leverage or margin, options, and/or frequent trading. In addition, the client's Baird Advisory Choice Account may be invested in illiquid securities and/or Alternative Investment Products. These types of strategies and investments involve special, sometimes significant, risks and are not appropriate for all clients. A client should understand those risks before engaging in those strategies or investing in those products. See "Additional Service Information—Complex Investment Strategies and Products" and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.*

### **Client Selected Managers Service**

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

Under the CSM Service, Baird determines the investment managers eligible to participate in the Service (each, a "CSM Eligible Manager"). However, a client should note that PAM and Baird do not make any recommendation to clients regarding any CSM Eligible Manager or any representations regarding a CSM Eligible Manager's qualifications as an investment adviser or abilities to manage client assets. Other investment management departments of Baird, such as Baird Advisors or BIM, or managers affiliated with Baird, such as Baird Kailash Group, LLC ("BKG"), may manage client accounts under the CSM Service.

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

If a client selects a Model-Traded Strategy, at the Overlay Manager's discretion, the Overlay Manager will implement the Model Strategy as proposed by the CSM Eligible Manager. However, the Overlay Manager may implement the Model Strategy differently than proposed by the CSM Eligible Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

PAM and Baird may, in their discretion, permit a client to select an investment manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such manager in addition to the advisory

agreement the client enters into with PAM and Baird (i.e., a “dual contract” arrangement). A client that enters into a dual contract arrangement is solely responsible for negotiating the client’s agreement with the client’s investment manager, and neither PAM nor Baird will participate or advise a client regarding the terms of such an agreement, the advisability of entering into such an agreement, or the retention of the client’s investment manager unless PAM and Baird agree to do so in writing.

The investment manager selected by a client under the CSM Service (which may include the Overlay Manager) will have full discretionary authority to manage the client’s Account. Investment managers may have varying investment objectives, styles and strategies. The investment manager selected by a client may invest the client’s Account in various types of securities, which will be chosen by the investment manager and which may include mutual funds, ETFs or other investment products affiliated with the manager or Baird. A client should review the investment manager’s Form ADV Part 2A Brochure for more information.

If a client’s Account is managed by an Other Manager, a client should understand that: PAM and Baird do not manage the Account and they do not otherwise have any influence over the investment manager’s investment decisions or securities selections, and therefore, PAM and Baird are not responsible for the decisions made by such investment manager; PAM and Baird also do not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client’s Account; and PAM only provides a client with consulting services, such as assistance in determining a client’s financial needs, investment goals, asset allocation strategies, investment strategies and restrictions, and periodically reviewing the positions and transactions made in the client’s Account, the manager’s performance and other characteristics. The client’s PAM Manager may also provide his or her own advice and recommendations about the manager. PAM and Baird do not undertake to provide any investment advisory services other than those specifically agreed to by them in writing.

A client that participates in the CSM Service is strongly encouraged to contact the client’s investment manager on a periodic basis to

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

The CSM Strategies and CSM Eligible Managers made available under this Service are subject to change or removal at any time in Baird’s or the Overlay Manager’s discretion. See “Portfolio Manager Selection and Evaluation—Selection and Evaluation” below for more information. If a client wishes to continue using a manager that Baird or the Overlay Manager has removed from this Service, and Baird agrees, the client will need to enter into a dual contract arrangement.

Under certain circumstances, a client may provide PAM, and PAM may accept, full discretionary authority to select investment managers to manage the client’s CSM accounts as described above under “PAM Recommended Managers Service”. Any such arrangement will be set forth in the client’s advisory agreement.

**Important Information about the CSM Service.** *The CSM Service is designed for a client who wishes to independently select an investment manager to manage the client’s Account. Unless PAM and Baird otherwise agree in writing, the client assumes sole responsibility for monitoring the client’s Account and client’s investment manager’s performance. It is important to note that neither PAM or Baird will monitor, evaluate or review any Other Manager or the performance of a client’s Account managed by an Other Manager, even if the manager or its strategy is on a Baird recommended list. A client’s appointment and continued retention of an Other Manager to manage the client’s Account is based solely upon the client’s independent review of such manager and such manager’s services. The client solely determines that the SMA Strategy to be used in managing the client’s Account is consistent with the client’s stated investment objectives and financial needs and risk tolerance. Once retained by the client, a manager will only be removed from managing the client’s Account upon the*

*client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the CSM Service and also consider whether another Service, may be more appropriate for the client.*

## **ALIGN Portfolios**

### *ALIGN Custom Portfolios Program*

The ALIGN Custom Portfolios Program is a Non-Discretionary Program whereby PAM and Baird manage a client's Account on a non-discretionary basis according to a custom model asset allocation strategy determined by the client with the assistance of Baird and the client's PAM Manager (an "ALIGN Custom Portfolio"). An ALIGN Custom Portfolio provides a client with a customized level of investment across different asset classes generally using mutual funds and exchange traded products ("ETPs"), primarily ETFs and exchange traded notes ("ETNs"). To implement the asset allocation, a client selects the investments for the Account from among those mutual funds and ETFs that Baird has determined are eligible for use in the Program. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—ALIGN Programs" below.

Typically, a client selects the ALIGN Custom Portfolio appropriate for the client's Account with the assistance of the client's PAM Manager.

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

### *ALIGN Dynamic Portfolios Program*

Under the ALIGN Dynamic Portfolios Program, PAM and Baird manage a client's Account with full discretionary authority according to a proprietary model strategic and tactical asset allocation strategy developed by Baird (each such model an "ALIGN Dynamic Portfolio") that is selected by the client. Each ALIGN Dynamic Portfolio provides for

specific levels of investment across different asset classes and generally uses mutual funds and ETPs in order to implement the model asset allocation. Each ALIGN Dynamic Portfolio consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed below.

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

Typically, a client selects the ALIGN Dynamic Portfolio appropriate for the client's Account with the assistance of the client's PAM Manager.

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

### *ALIGN Strategic Portfolios*

Under the ALIGN Strategic Portfolios Program, PAM and Baird manage a client's Account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model an "ALIGN Strategic Portfolio") that is selected by the client. Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds and/or ETFs in order to implement the model asset allocation. Each ALIGN Strategic Portfolio may consist of numerous mutual fund and/or ETF holdings. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and

hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss” below.

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

Typically, a client selects the ALIGN Strategic Portfolio appropriate for the client’s Account with the assistance of the client’s PAM Manager.

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

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

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

#### *ALIGN Tactical Portfolios*

Under the ALIGN Tactical Portfolios Program, PAM and Baird manage a client’s Account with full discretionary authority according to a proprietary model tactical asset allocation strategy developed

by Baird (each such model an “ALIGN Tactical Portfolio”) that is selected by the client. Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes and generally uses ETPs in order to implement the model asset allocation. ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive allocation strategies, with the use of tactical decisions involving the overweighting of certain asset classes. ALIGN Tactical Portfolios are not intended to be a complete investment program. The ALIGN Tactical Portfolios are actively managed and thus have had, and will likely continue to experience, relatively high portfolio turnover. Because of this turnover, a client’s Account may realize significant taxable gains or losses. For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—ALIGN Programs” below.

Typically, a client selects the ALIGN Tactical Portfolio appropriate for the client’s Account with the assistance of the client’s PAM Manager.

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

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

#### **Additional Consultant Services**

PAM offers the following additional consultant services.

*Investment Policy Statement.* PAM will assist a client in preparing an Investment Policy



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

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

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

*Past Performance Reviews.* PAM provides to a client a Past Performance Review which, based on information supplied by the client, includes the historical performance of the client's portfolios and compares various aspects of such performance to one or more benchmark indices. Account data will be derived from information provided by the client or its agent(s) for the

agreed upon time period. PAM is not responsible for verifying information supplied by the client or its agent(s).

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

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

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

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

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

## Additional Service Information

### **Investment Discretion**

#### **Investment Selection and Trading Authorizations**

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

If a client's Account participates in a Discretionary Service, the client's advisory agreement authorizes PAM to manage the client's Account in accordance with the terms of the Service selected by the client and authorizes PAM 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 investment strategy selected by the client. The client's advisory agreement also grants to PAM complete and unlimited trading authorization and appoints PAM as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, PAM 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 will generally be executed by Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", unless Baird's duty to seek to obtain best execution otherwise requires or unless the client has provided other instructions to PAM in writing.

If a client's Account participates in a Discretionary Service, a client also authorizes and empowers PAM, with full discretionary authority, to recommend, select and retain investment managers for the client's Account and to terminate or replace investment managers for the client's Account for any reason without prior notice to the client. If PAM terminates an investment manager from management of a client's Account, a client authorizes PAM to invest,

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

If a client's Account participates in an SMA Service, the client authorizes the investment manager selected for the client's Account to manage the assets in the client's Account and grants to such investment manager 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 also grants to such investment manager complete and unlimited trading authorization and appoints such investment manager as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, such investment manager 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 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 Account without prior notice to the client. PAM does not have discretion over the assets in a client's Account that is managed by an Other Manager and cannot purchase or sell any securities or other investments in that Account without the consent of the client or the client's manager. The investment manager for a client's Account may initiate securities transactions through Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", subject to the manager's duty to seek to obtain best execution, or unless a client has provided other instructions in writing. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage the client's Account.

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



If a client participates in SMA Services, a client authorizes PAM and Baird to communicate with any Other Manager managing the client's Account. The client also authorizes and directs PAM and Baird to transmit to any such Other Manager any instructions that the client may provide to PAM or Baird to the extent necessary to carry out the client's instructions.

### **Client Investment Restrictions**

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

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

In the event that a client's Account is restricted from investing in certain securities, PAM or the client's investment manager will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's Account, a client's investment restrictions may force PAM or the client's investment manager 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 PAM Manager.

### **Affiliated Investment Products**

PAM, Baird and their affiliates may use the discretionary authority granted to them by a client to invest the client's Account in investment products affiliated with Baird or that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide. In addition, if the client participates in cash sweep services provided by Baird, short-term cash balances in the client's Account may be invested in one or more money market mutual funds and/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 advisory agreement with PAM, a client consents to PAM, Baird and their affiliates investing all or a portion of the client's Account in investment products or in bank deposit accounts that pay advisory or other fees to Baird or its affiliates ("affiliated investment products"). The amount of fees received by Baird and/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). PAM, Baird and their affiliates will use their discretionary authority to invest the client's Account in affiliated investment products when they determine it to be in the client's best interest to do so. Generally, the criteria used by them in deciding to invest in affiliated investment products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with Baird. For more information about the criteria used by PAM and Baird, clients should review the section of the Brochure entitled "Portfolio Manager Selection and Evaluation" below. For more information about the criteria used by Baird's affiliates, clients should review the affiliate's Form ADV Part 2A Brochure. A client's consent may be revoked at any time.

Other Managers may use the discretionary authority granted to them by a client to invest the client's Account in investment products affiliated

with the Other Manager or that pay fees to the Other Manager or to any of its affiliates for investment advisory or other services they provide.

By signing an advisory agreement with PAM, a client consents to each Other Manager managing client's Account investing all or a portion of the client's Account in investment products that pay advisory or other fees to the Other Manager or its affiliates. Each Other Manager is responsible for providing to the client information about the amount of fees received by the Other Manager and/or its affiliates and the criteria used by the Other Manager in deciding to invest in products affiliated with the Other Manager. A client should contact the Other Manager and review the Other Manager's Form ADV Part 2A Brochure for more information. A client's consent may be revoked at any time.

### **Investment Policy Statements**

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

### **Trading for Client Accounts**

#### **PAM's Trading Practices**

##### *Placement of Client Trade Orders*

PAM will select the broker-dealers that will execute trade orders for Non-Discretionary Accounts and with respect to Accounts that are managed directly by PAM unless the client has provided instructions to PAM to the contrary. As investment adviser, PAM and Baird have an obligation to seek "best execution" of client trade orders. "Best execution" means that they must place client trade orders with those broker-dealers that they believe are capable of providing the best qualitative execution of client trade orders under the circumstances, taking into account the full range and quality of the services offered by the broker-dealer, including the value of the research provided (if any), the broker-dealer's execution capabilities, the cost of the trade, the broker-dealer's financial responsibility, and its responsiveness to PAM and Baird. It is important to note that 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.

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

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

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

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

PAM generally aggregates buy and sell orders when executing trades for client accounts under the direct discretionary management of PAM when it has the opportunity to do so. When utilizing block transactions, PAM generally aggregates a client's trade orders with trade orders for clients

who are participating in the same Service and pursuing the same model portfolio or strategy. In some cases, PAM may aggregate a client's trade orders with trade orders for other advisory clients who are not participants in the Services described in this Brochure. However, PAM determines whether or not to utilize block transactions for a client in its sole discretion and PAM's decision is subject to its duty to seek best execution. PAM will aggregate a client's trade orders only when PAM deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements.

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

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

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

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

#### *Directed Brokerage Arrangements*

In some cases, a client may direct PAM to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and PAM may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs PAM to execute trades through such firm, or when a client's retirement account or other account is maintained on a platform operated and managed by a third party unaffiliated with PAM or Baird and trades must be executed through that platform. A client should understand that PAM and Baird consider such arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, PAM and Baird may be unable to achieve best execution for the client's transactions. A client should note that any costs related to the directed brokerage arrangement are not included in the Advisory Fee and that the client will be solely responsible for monitoring, evaluating and reviewing the arrangement with the directed broker-dealer and paying any commissions or markups or markdowns or other costs imposed by the directed broker-dealer. A client should also note that PAM generally will not aggregate the client's directed brokerage trade orders with orders for other PAM clients. As a result, a client's transaction costs may be higher because the client will not benefit from any volume discounts or other reduced transaction costs that PAM may obtain for its other clients. A client should further note that PAM generally will

not include such client trade orders in its trade rotation process and that PAM will generally place the client's trade orders with the directed broker-dealer after PAM completes its trading for other PAM client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in PAM's rotation. As a result, the client may receive a less favorable net price for the trade.

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

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

#### *Cross Trading Involving Advisory Accounts*

From time to time, when PAM and Baird believe that each respective transaction is consistent with the client's best interest, PAM, acting as investment manager, may cause (or in the case of Non-Discretionary accounts, recommend) the sale of securities from the account of an advisory client while at or about the same time causing (or, in the case of Non-Discretionary accounts, recommending) the purchase of the same securities for the account of another PAM advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

In such cases, because Baird is acting as investment adviser for both buyer and seller, Baird is subject to potentially conflicting interests in causing (or recommending) the transactions. Also, because Baird is acting as investment adviser for both buyer and seller, transaction prices may be determined more by reference to market information or dealer indications for the securities involved, and less through the type of independent arms-length negotiation that might

otherwise occur. Baird has adopted internal policies and procedures that require PAM and Baird to obtain approval of Baird's Compliance Department before affecting a cross trade.

#### *Trade Error Correction*

It is Baird's policy that if there is a trade error for which PAM or Baird is responsible, 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 PAM or Baird will be corrected at no cost to client's Account, with the client's Account not recognizing any loss from the error. 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 PAM or Baird associate.

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

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

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

Investment managers may participate in other wrap fee programs sponsored by firms other than Baird. In addition, investment managers may manage institutional and other accounts not part of a wrap fee program. In the event an investment manager purchases or sells a security for all accounts using a particular SMA Strategy offered by the investment manager, the investment manager may have to potentially effect similar transactions through a number of different broker-dealers. In some cases, to address this situation, investment managers may decide to aggregate all such client transactions into a block trade that is executed through one broker-dealer. This practice may enable the investment manager to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also assist the investment

manager in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing client orders. However, as it pertains to PAM clients, this practice may result in “trading away” from Baird, which is more fully described below.

Alternatively, investment managers may utilize a trade rotation process where one group of clients may have a transaction effected before or after another group of the investment manager’s clients. A client should be aware that an investment manager’s trade rotation practices may result in a transaction being affected for the client’s Account that occurs near or at the end of the investment manager’s rotation and the client’s trade orders may significantly bear the market price impact, if any, of those trades executed earlier in the investment manager’s rotation, and, as a result, the client may receive a less favorable net price for the trade. Additional information regarding an investment manager’s trade rotation policies, if any, is available in the investment manager’s Form ADV Part 2A Brochure.

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

In some instances, step out trades are executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the

trade. If a client’s investment manager places trade orders for the client’s Account with a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Advisory Fee.

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

A list of managers that have informed Baird that they have traded away from Baird during 2013 and general information about the additional cost of those trades (if any) is available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). The information about each manager provided on Baird’s website is based solely upon the information provided to Baird by such manager. Baird has not independently verified the information, and as a result, none of Baird or any of its affiliates or associates makes any representation as to the accuracy of any such information.

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

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



*inquire about the manager's trading practices, and consider that information carefully, before selecting a manager. In particular, the client should carefully consider any additional trading costs the client may incur before selecting a manager to manage the client's Account.*

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

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

If Baird provides trade execution services for a client's Account, Baird will generally act as agent when routing client trade orders for execution. However, Baird may cross trades between client accounts or may act as principal for its own account in certain circumstances to the extent permitted by applicable law as is more fully described below. 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 the Financial Industry Regulatory Authority ("FINRA"), including "omnibus" accounts established for the purpose of combining orders for more than one client.

For certain Discretionary and SMA Services, a client has the option of receiving trade confirmations directly or having Baird send trade confirmations to the client's investment manager.

A client may indicate the client's preference by selecting the preferred option in the client's advisory agreement.

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, PAM 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, PAM and Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, PAM and Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, PAM 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 advisory agreement discusses agency cross transactions and authorizes PAM and Baird to effect agency cross transactions for a client's Account. **A client's authorization to PAM 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 PAM.**

### *Principal Transactions*

Subject to the requirements of applicable law, PAM 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, PAM or Baird may sell a security from Baird's inventory to a client, or PAM or Baird may purchase a security from a client for Baird's inventory). PAM commonly engages in principal trades with clients in the Baird Advisory Choice Program.

PAM 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 PAM 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, PAM and Baird will have potentially conflicting division of loyalties and responsibilities regarding PAM's and Baird's own interests and the interests of the client. This profit potential may give PAM and Baird an incentive to recommend a transaction in which PAM and Baird act as principal over other transactions. Nonetheless, PAM 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 PAM and Baird, when acting in a principal capacity, to disclose all material information regarding PAM's and Baird's interest in the transaction, and obtain the client's approval of the transaction prior to settlement.

A client's advisory agreement discloses, where applicable, the possibility of PAM's and Baird's role in potential principal transactions, and each transaction confirmation sent to PAM clients discloses the capacity in which PAM 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 or if a client selects an Other Manager to manage the client's Account, the client's advisory agreement provides PAM 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, PAM and Baird may effect any and all principal transactions

with the client's Account without having to provide specific written disclosures and obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of Rule 206(3)-3T under the Advisers Act (including any amendments to such rule or successors to such rule) and/or other applicable rules and interpretations. **This authorization to enable PAM 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 PAM in writing.**

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

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

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

#### **Alternative Investment Products**

Certain Services make available Alternative Investment Products. Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), exchange-traded notes ("ETNs"), business development companies ("BDCs"), real estate investment trusts ("REITs"), master limited partnerships ("MLPs"), and managed futures.

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, unit investment trusts ("UITs") 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 "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

### **Margin, Short Sales, Options, Leverage and Other Derivative Instruments**

In some circumstances, the strategy used for a client's Account may involve margin, short sales, options, leverage or other derivative instruments. A description of these strategies and investments is provided below.

#### *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. It is generally PAM's practice to not use margin as part of an investment strategy, although a client's investment manager may do so. 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.

#### *Short Sales*

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

possible that the prices of securities that a client sells short may increase in value, in which case the client may lose money on the short position. Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate.

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

#### *Options*

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

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

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

or index is less than the sum of the strike price plus the premium received.

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

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

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

#### *Leverage*

Investment managers managing a client's Account or investment products in the client's Account may also use leverage in the form of short selling and other borrowings to potentially enhance performance. Leverage provides a means of providing exposure to investments whose value exceeds the amount of capital needed to obtain such exposure. While leverage can potentially

enhance returns, it can also exacerbate losses if there are adverse changes in the values of the investments being financed with borrowings. Those losses may exceed the initial costs of the investments. Leverage may also increase an Account's volatility.

#### *Additional Important Information*

The use of the strategies described above is not appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before engaging in these types of strategies, a client is strongly urged to discuss the strategy with the client's PAM Manager and any investment manager managing the client's Account 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 these strategies generally is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

A client assumes responsibility for engaging in these types of strategies. If a client determines that the client no longer wants to engage in any of these strategies, the client is responsible for notifying the client's PAM Manager and any investment manager managing the client's Account. PAM and Baird are not responsible for any losses resulting from any Other Manager's failure or delay in implementing any such instructions.

The use of these strategies 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 Baird may have a financial incentive to use, or recommend the use of, these strategies or to increase, or recommend the increase of, margin loans. See "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions" below.

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

### **Eligible Assets**

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

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

Some of the eligible assets offered in connection with the Services contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of an Account. See "Account Requirements and Types of Clients" below for more information.

**ALIGN Programs.** The ALIGN Programs generally only permit investments in the mutual funds and/or ETPs that Baird has made available for use in those Programs. For more information, see the descriptions of each ALIGN Program under "Services, Fees and Compensation" above.

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

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

futures that Baird has made available for use in the Program; and

- variable annuities that have cost structures designed for use in fee-based investment advisory programs.

The types of investments that are ineligible for the Baird Advisory Choice Program, generally include, but are not limited to:

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

**PAM Investment Management Service.** Eligible and ineligible assets for the PAM Investment Management Service are generally the same as the Baird Advisory Choice Program, except the following types of investments are generally ineligible for PAM Investment Management Service Accounts:

- put options;
- hedge funds, funds of hedge funds, structured products, and managed futures; and
- variable annuities.

**SMA Services.** PAM and Baird do not determine the eligibility of investment products under the SMA Services. Investment products under the SMA Services are selected solely by the

investment manager providing services to the client. *The investment products used by an investment manager may include products that Baird deems ineligible for use in connection with the other Programs and Services described above.* A client should review the investment manager's Form ADV Part 2A Brochure for more information.

### **Unsupervised Assets**

Under certain circumstances, PAM 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 PAM and Baird do not manage or provide investment advisory services regarding such asset. PAM 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 PAM'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 PAM 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. PAM 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 PAM Manager for further information.

### **Special Considerations for ALIGN Clients**

**Replacement of Investment Options.** Baird solely determines the investment options made available to clients under the ALIGN Programs. From time to time, Baird may remove mutual funds or ETPs from an ALIGN Program and replace them with other mutual funds or ETPs. A client participating in an ALIGN Program authorizes Baird to replace any such investments in the client's Account whenever Baird removes



the investment option from an ALIGN Program. Baird may make such replacement in a client's Account without providing prior notice to, or obtaining the consent of, a client.

**Tax Management.** Clients participating in the ALIGN Strategic or Tactical Portfolios Programs grant Baird the discretion to sell their mutual fund investments from time to time and invest the proceeds temporarily in comparable ETFs, exchange traded notes ("ETNs"), or similar securities in order to avoid the recognition of capital gain distributions to be made by those funds and/or to recognize taxable losses. Baird may provide this service to clients participating in the ALIGN Custom Portfolios Program if the client directs Baird to do so on the client's behalf.

**Asset Allocation Changes and Rebalancing.** Under the ALIGN Programs, Baird may rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy at any time without prior client notice if Baird determines there has been a drift from the client's chosen model allocation. A client's Account may also be rebalanced if a client's cash deposits or withdrawals take the client's Account significantly out of balance relative to the model allocation or if actions are taken to avoid recognition of capital gain distributions and/or to recognize taxable losses.

Generally, a client's Account in an ALIGN Custom, Dynamic, or Strategic Portfolio is automatically rebalanced when the targeted allocation for a particular asset class drifts by 5 percentage points or more. A client's PAM Manager has the discretion to rebalance the client's Account invested in an ALIGN Custom, Dynamic, or Strategic Portfolio at such other times as the PAM Manager may determine in accordance with rebalancing options that Baird makes available to PAM Managers. Current rebalancing options include rebalancing on the Account's anniversary date or when an asset class allocation drifts by more than 2.5 percentage points. Generally, a client's Account invested in an ALIGN Tactical Portfolio is automatically rebalanced whenever Baird changes the asset allocation of the model ALIGN Tactical Portfolio.

With respect to the ALIGN Dynamic, Strategic, and Tactical Portfolios Programs, Baird may also change a client's asset allocation for any reason

which may include, but shall not be limited to, changes in market conditions, Baird's opinion on the future performance of particular asset classes or the client's financial circumstances.

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

### **Custody Services**

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

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

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



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

PAM and Baird in their sole discretion may accept certain clients whose assets are held by another custodian that is acceptable to PAM and Baird in their sole discretion (a "third party custodian"). A client who uses a third party custodian will pay a custody fee in addition to the Advisory Fee and 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 PAM and Baird to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's Account. Also, the client will receive account statements directly from the client's selected custodian. A client should carefully review those account statements and compare them with any statements provided by PAM or Baird. A client should note that the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by PAM or Baird due to a variety of factors, including the use of different valuation sources and/or accounting methods (e.g., trade or settlement date accounting) by the custodian and Baird.

### **Updating Client Information**

A client is responsible for providing information to PAM and any investment managers managing client's Accounts reasonably requested by them in order to provide the services selected by the client. PAM and investment managers will rely on this information when providing services to the client. A client is also responsible for promptly informing PAM and any investment managers managing client's Accounts 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. None of Baird, PAM, or any investment manager managing a client's Account is responsible for any adverse consequence arising out of the client's failure to promptly inform PAM and any such investment manager of any such changes. Since investment goals and financial circumstances change over time, a client should review the client's participation in a Service with the client's PAM Manager at least annually.

### **Legal and Tax Considerations**

PAM 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 PAM 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. PAM does not provide any tax

advice in connection with any of the Services. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor. If a client wishes for PAM to implement a particular investment strategy for tax purposes, and PAM agrees to implement such strategy, neither PAM nor Baird will be responsible for the development, evaluation or efficacy of any such strategy.

## Advisory Fee

### Fee Options and Fee Schedules

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

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

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

*PAM Recommended Managers Service.* The following fee schedule sets forth the maximum fee rates for the PAM Recommended Managers Service. *The asset-based fee shown below does not include the advisory fees payable to the investment managers managing a client's Account.*

Fee Schedule	
PAM Recommended Managers Service	
<u>Value of Assets</u>	<u>Annual Fee Rate</u>
Up to \$5,000,000	1.05%

### Fee Schedule

#### PAM Recommended Managers Service

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
\$5,000,001 – \$10,000,000	0.85%
\$10,000,001 – \$20,000,000	0.80%
\$20,000,001 – \$30,000,000	0.70%
\$30,000,001 – \$50,000,000	0.55%
\$50,000,001 – \$100,000,000	0.45%
Over \$100,000,000	Negotiable

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

*PAM Investment Management Service.* The following fee schedule sets forth the maximum fee rates for the PAM Investment Management Service.

### Fee Schedule

#### PAM Investment Management Service

<u>Value of Assets</u>	<u>Equity and Balanced</u>	<u>Fixed Income</u>
	<u>Annual Fee Rate</u>	<u>Annual Fee Rate</u>
\$100,000 to \$499,999	3.00%	1.25%
\$500,000 to \$999,999	2.50%	1.25%
Over \$1,000,000	2.00%	1.00%

The minimum asset value to open an Account in the PAM Investment Management Service is typically \$100,000. The minimum annual Advisory Fee is generally \$3,000 for equity or balanced Accounts and \$1,250 for fixed-income Accounts.

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

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

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

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

**Additional Advisory Services**  
**Account Minimums**

<u>Program or Service</u>	<u>Asset Level</u>
ALIGN Portfolios	\$25,000*
Baird Advisory Choice	\$25,000
Client Selected Managers	\$100,000**

\* An ALIGN Dynamic Portfolio has a minimum Account requirement of \$150,000. An ALIGN Tactical Portfolio has a minimum Account requirement of \$50,000. All other ALIGN Portfolios have a minimum of \$25,000.

\*\* Each investment manager may have different minimum account size requirements, which can range from \$100,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts.

A client Account may also be subject to a minimum quarterly Advisory Fee regardless of the value of the assets in the client's Account. Such minimum Advisory Fee will be set forth in the client's advisory agreement.

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

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

**Fee Schedule**  
**Additional Consulting Service**

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

A client is encouraged to periodically review with the client's PAM 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 advisory agreement.

For purposes of calculating a client's asset-based Advisory Fee, the value of a client's assets is generally determined by Baird. Baird generally relies upon third party sources, such as third party pricing services when valuing Account assets. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset.

Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account. 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 PAM nor Baird conducts a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and they do not verify or guarantee the accuracy of such information. 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 PAM 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 PAM or Baird to recommend or select riskier investments for a client's Account.

If a client maintains a balance in the client's margin account with Baird, such balance has no bearing on the asset-based Advisory Fees charged on client's Account. In other words, the margin balance (i.e., the outstanding amounts of the margin loan a client owes to Baird) in client's Account will not be applied to reduce the client's billable Account value in calculating the Advisory Fee. For purposes of determining the asset-based Advisory Fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based Advisory Fees on options, the absolute value of the current market price of the option will be used.

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

A client's Advisory Fees are payable in accordance with the terms of the client's advisory agreement. Typically, Advisory Fees are payable on a calendar quarterly basis, in advance. The initial billing period begins when the client's advisory agreement is 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 other charges will be automatically deducted from the client's Account,

unless the client elects, and PAM 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, PAM, Baird and any investment manager managing the client's Account may sell investments from the client's Account to the extent they deem necessary and appropriate, in their sole discretion, to pay the client's Advisory Fees and other charges.

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

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

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

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

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

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

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

- whether the client prefers an advisory or brokerage relationship, a discretionary or non-



discretionary relationship, or a fee-based or commission-based relationship;

- the anticipated size of the Account and the types of investment strategies and products available for that account;
- the level of anticipated trading activity;
- the anticipated amount of the Account to be allocated to cash or to investment products that have additional internal ongoing operating fees and expenses (e.g., mutual funds); and
- the nature and level of advice, account oversight and review, transaction services, account performance reporting, or other ancillary services sought by the client.

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

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

PAM and Baird and Baird's affiliates and associates benefit from the Advisory Fees and charges clients pay for the services described in this Brochure. Baird retains the entire Advisory Fee paid by clients, except as further described below.

With respect to the PAM Recommended Managers Service, and with respect to the CSM Service under a dual contract arrangement, Baird does not typically pay a portion of the Advisory Fee to the client's investment manager as compensation for the manager's services. Rather, the investment manager's fee is paid directly by a client. The range of fees paid by PAM clients to investment managers pursuing equity and balanced investment styles or strategies is generally 0.45% to 0.75%. The range of Advisory Fees paid by PAM clients to investment managers pursuing a fixed-income investment style or strategy is generally 0.20% to 0.50%.

With respect to the Overlay Manager, and with respect to CSM Eligible Managers under the CSM Service, Baird typically pays a portion of the Advisory Fee to the manager as compensation for the manager's services. The amount of the Advisory Fee paid to a particular manager varies based upon, among other factors, the Service selected by a client, the investment strategy and

other services sought by a client, the subadvisory fee Baird negotiated with the manager, the manager's investment style or strategy, the level of services provided by the manager, and the size of a client's Account. The portion of Advisory Fees paid to investment managers providing equity, balanced and alternative investment styles or strategies generally range from 0.45% to 1.50%, but could exceed 1.50%, depending upon the strategy selected. The portion of Advisory Fees paid to investment managers providing a fixed-income investment style or strategy generally range from 0.25% to 0.50%, but could exceed 0.50%, depending upon the strategy selected. As the portion of the Advisory Fee paid to an investment manager increases, the portion of the Advisory Fee that is retained by Baird decreases. Thus, Baird may have an incentive to recommend or favor investment managers that are paid less, because Baird will receive a higher portion of the Advisory Fee.

In addition, Baird may have an incentive to favor Baird Advisors, BIM and other investment management departments of Baird or BKG or Riverfront Investment Group, LLC ("Riverfront"), managers affiliated with Baird, over other investment managers because the entire Advisory Fee is retained by Baird and affiliated investment managers. Given the nature of the Advisory Fee, Baird may also have an incentive to recommend or select investment managers that trade less frequently with or that trade away from Baird because Baird will incur lower trading costs with respect to such managers and such relationships will be more profitable to Baird.

PAM Managers and other associates offering services and providing ongoing assistance to clients receive compensation from Baird. A PAM Manager is generally compensated based upon the PAM Manager's total production level at Baird, which takes into account all of the advisory fees, commissions and similar compensation paid to Baird by clients for which the PAM Manager is responsible. Baird may reduce the rate of compensation it pays to PAM Managers when the Advisory Fees paid by clients are below certain levels. This creates an incentive for PAM Managers to charge Advisory Fees at or above those levels and a disincentive to reduce the Advisory Fees below a level that will negatively impact their production. Due to the manner in which Baird compensates its PAM Managers, a PAM Manager may have a financial incentive to



trade less for Baird Advisory Choice Accounts than traditional brokerage accounts and they may have an incentive to reduce trading or increase a client's Advisory Fees if trading for a client's Advisory Choice Account exceeds certain levels established by Baird. Although PAM Managers do not receive any portion of the Advisory Fee, their compensation is directly related to the size of the Advisory Fee that a client pays to Baird and the amount of the Advisory Fee, if any, paid to other investment managers managing a client's Account under the CSM Service. Thus, PAM Managers may have an incentive to recommend or favor Services with higher fees. This also creates an incentive for them to recommend or favor investment managers that are paid less in the CSM Service, because they will receive higher compensation. The compensation paid to a PAM Manager for providing portfolio management services may be higher than the compensation paid to the PAM Manager who recommends that other investment managers manage a client's Account. As a result, a PAM Manager may have a financial incentive to recommend that the PAM Manager manage the client's Account over other investment managers. From time to time, Baird Financial Advisors outside of PAM may refer their clients to PAM Managers. In those instances, the PAM Manager generally shares a portion of his or her compensation with the referring Baird Financial Advisor.

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

### Other Fees and Expenses

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

- markups, markdowns, and spreads charged by Baird in a principal transaction with a client or charged by other broker-dealers that buy securities from, or sell securities to, the client's Account (such costs are inherently reflected in the price the client pays or receives for such securities);
- front-end or deferred sales charges, redemption fees, or other commissions or charges

associated with securities transferred into or from an Account;

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

If the client's Account is custodied at Baird, the client is also responsible for all applicable account fees and service charges Baird may impose in connection with the client's 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). PAM may waive the foregoing fees and service charges in certain circumstances. Any such waiver will be reflected in a schedule to the client's advisory agreement.

Certain investment products, such as mutual funds, ETFs, closed-end funds, UITs, 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.

Depending upon the Service selected and the client's fee arrangement with PAM, a client may be responsible for paying the fees charged by each other investment manager managing the client's Account in addition to the Advisory Fee. A client's specific fee arrangement will be specified in the client's advisory agreement. If a client directs Baird to pay the client's manager's fee out of the client's Account, and PAM and Baird agree to do so, PAM and Baird will not be responsible for verifying the calculation or accuracy of such fee.

Clients who use a custodian other than, or in addition to, Baird will pay the other custodian's fees and expenses in addition to the Advisory Fee.

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

If a client holds an unsupervised asset in the client's Account, the client may be charged a commission, markup or markdown in connection with 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 PAM may also have other accounts with Baird that are not managed by PAM. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the services provided by PAM.

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

The individual who recommends a Service to a client, including a PAM Manager, receives compensation from Baird that is based upon the amount of the Advisory Fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory services or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Service over other programs or services offered by Baird. However, when providing investment advisory services to clients, PAM and Baird are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for PAM and Baird that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Services, Fees and Compensation—Advisory Fee—Advisory Fee Payments to PAM, Baird and Investment Managers" above, and "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or

Interest in Client Transactions and Personal Trading" below.

## Account Requirements and Types of Clients

### Opening an Account

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

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

After a client has signed and delivered an advisory agreement to Baird, the agreement is subject to review and acceptance by the client's PAM Manager, his or her Branch Office Manager, 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 PAM, including any Accounts that a client may open with Baird in the future. Some of the information in those documents may not apply to a client

now, but may apply in the future if a client changes services or establishes other advisory accounts with PAM. PAM 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 PAM. Therefore, a client should retain those documents for future reference as they contain important information if a client changes services or establishes other advisory accounts with PAM.

### Certain Account Requirements

#### Minimum Account Size

Each Service has a minimum account size and may have a minimum Advisory Fee, which are described in the section entitled "Service, Fees and Compensation—Advisory Fee" above. PAM or Baird may remove a client from a Service and immediately terminate the advisory agreement with respect to an Account upon written notice to the client if the client fails to maintain the required minimum asset levels in an Account or if the client fails to otherwise abide by the terms of a Service. 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 advisory 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 PAM 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 PAM's or the client's investment manager'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 PAM or the investment manager 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 are not considered investment advisory services of Baird or the client's investment manager.

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

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

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

### ***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 PAM and Baird, and to the extent permitted by applicable law or regulation, all assets in a client's Account held at Baird will be subject to a first priority security interest, lien and right of setoff in favor of Baird. Baird may sell

assets in an Account to satisfy the lien. As a secured party, Baird may have interests that are adverse to a client. Neither PAM nor Baird will act as investment adviser to a client with respect to such sale of assets held in an Account. Any such sale of assets will be executed in Baird's capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis. 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 PAM and Baird of any default or similar event under the client's collateral arrangements.

A client should understand that neither PAM nor Baird will provide advice on or oversee a 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, PAM or Baird may refer a client to a lender that pays Baird a referral fee. See "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions—Other Interests in Client Transactions" below for more information.

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

### ***Electronic Delivery of Documents***

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

### **Termination of Accounts**

A client's advisory 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 PAM, Baird or an investment manager regarding a client's Account or a client's obligation to complete any transactions PAM, Baird or an investment manager initiated on a client's behalf prior to the effectiveness of the termination. Following termination of the agreement with respect to an Account, PAM 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 deems 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 brokerage account. The advisory agreement will no longer apply to such Account and the terms and conditions of the client's client account

agreement will govern such Account. None of PAM, Baird, or, if relevant, any other investment manager managing such Account, 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 PAM at the time the agreement is terminated if the client elects to move custody of the assets from Baird.

If a client requests PAM 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, PAM will sell readily marketable and otherwise unrestricted securities in the Account, leaving any investments that PAM is not able to sell in the client's Account until such time that PAM 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, PAM 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 advisory agreement, or transfers assets out of Baird's custody. Some of the investments offered in connection with the Services contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of a Baird account. For example, certain investment funds held in an Account may only be available to a client through a Service 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 participating in the Services. A client should contact the client's PAM Manager for specific information as to how Account closure, termination of the advisory agreement, or asset transfers might impact the assets in the client's Account.



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

### Types of Clients

PAM offers the Services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities.

### Portfolio Manager Selection and Evaluation

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

#### Selection and Evaluation

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

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

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

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

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

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

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

Ongoing manager evaluation generally includes quarterly conference calls, performance attribution and periodic onsite visits. Material adverse changes affecting a manager may result in the manager being placed on Baird's "watch" list. Managers on the watch list are scrutinized to see if improvement or degradation is taking place. Potential causes for removal from Baird's Recommended Managers List include fundamental changes in the operations of the manager, turnover in key personnel, substantial changes in

management or ownership, a change in investment philosophy or style, significant drift from stated objectives, major legal, regulatory or compliance difficulties, impairment of financial condition, sustained underperformance in relation to its peers, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

If a client selects a PRM Strategy that is a Model-Traded Strategy, it is important to note that Baird's selection and ongoing evaluation of a manager is based upon an assumption that the manager's Model Portfolio will be fully and faithfully implemented by the Overlay Manager on a continuous basis. Baird does not monitor the Overlay Manager's implementation of the Model Portfolio nor does it ascertain whether the Overlay Manager is implementing the Model Portfolio as provided by the manager. If the Overlay Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Overlay Manager or the performance of a client's Account under those circumstances.

Certain investment strategies offered by BIM have been selected by Baird for inclusion on Baird's Recommended Managers List.

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

The hiring of investment managers for a client account includes an initial screening by PAM of a potential manager for overall style, firm size, the

age of the investment advisor, its compliance with GIPS composite standards, its average turnover, and its performance record in said style for at least the five (5) years preceding the review. A quantitative score calculation is assessed to each investment manager based upon the Sharpe ratio, one-year trailing return, the most recent quarter return, the up market capture ratio, and down market capture ratio. A weight is then assigned to each of the foregoing.

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

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

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

### ***Client Selected Managers Service***

Clients participating in the CSM Service should note that any investment manager selected by the client under that Service is not on Baird's Recommended Managers list. A client should further note that Baird does not make any representation or recommendation to clients regarding such managers or their abilities or qualifications as an investment adviser or to manage client assets

PAM and Baird do not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the CSM Service, including the Overlay Manager, unless PAM and Baird otherwise specifically agree to do so in

writing. The Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review Overlay Manager's Form ADV Part 2A Brochure for more information, which is available upon request or contact their PAM Manager for more information.

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

### **PAM Investment Management Services**

Portfolio management services under the PAM Investment Management Services are provided by PAM Managers. In order to provide portfolio management services, Baird requires that PAM Managers meet all applicable requirements set forth by applicable law and regulations of self-regulatory organizations, such as FINRA, exchanges, and governmental agencies. The Investment Advisory Oversight Committee of Baird, which includes members of Baird's Investment Management, Product Management, Asset Manager Research, Compliance, Legal, and Risk Management Departments, oversees the standards and implementation of such Services. The Investment Advisory Oversight Committee delegates its day-to-day oversight responsibilities to Baird's Private Wealth Management Chief Operating Officer ("PWM COO") and Compliance Departments to monitor the services and the performance of PAM Managers providing portfolio management services. Baird's PWM COO, along with the Compliance Department and other designees, provide ongoing review of the PAM Managers providing portfolio management services. Performance information is provided to the Investment Advisory Oversight Committee, or a subcommittee thereof, on a quarterly basis. Potential causes for removal include, operating outside of applicable Baird policies, a significant change in investment philosophy or style, significant drift from stated objectives, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

### **ALIGN Programs**

Portfolio management services under the ALIGN Programs are provided by Baird, Baird's home office investment professionals, and PAM Managers.

In order to provide portfolio management services under the ALIGN Programs, Baird requires that Baird associates meet all applicable requirements set forth by applicable law and regulations of self-regulatory organizations, such as the Financial Industry Regulatory Authority ("FINRA"), exchanges, and governmental agencies.

The Investment Advisory Oversight Committee of Baird oversees the standards and implementation of the ALIGN Programs. The Investment Advisory Oversight Committee delegates its day-to-day oversight responsibilities to Baird's Product Management and Compliance Departments to monitor the ALIGN Programs and the performance of persons providing portfolio management services under those programs. Baird's Product Management Department, along with the Compliance Department and other designees, provide ongoing review of the performance of Baird associates providing portfolio management services. Performance information is provided to the Investment Advisory Oversight Committee, or a subcommittee thereof, on a quarterly basis.

### **Performance Calculation**

As part of the selection and evaluation of PAM Managers and Other Managers that are included on Baird's Recommended Managers List described above, Baird calculates the manager's performance.

When Baird calculates a manager's performance, Baird generally uses composites of the manager's client accounts to calculate the manager's performance. A composite is an aggregation of client accounts managed by the manager that are representative of a particular investment strategy, style, or objective. Examples of composites include large cap growth, all-cap value, balanced (which includes equity and fixed-income securities), and fixed-income. Composites may be further broken down to separate taxable and non-taxable portfolios. Fixed income composites may be categorized by portfolio duration.

When calculating composite performance, Baird seeks to utilize calculation methods that adhere to

Global Investment Performance Standards (GIPS®) recommendations. Baird calculates composite performance generally using the following principles:

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

To the extent Baird selects or reviews investment managers other than Baird Recommended Managers or PAM Managers, Baird does not calculate performance information for such managers. Baird obtains performance information directly from the managers and/or from other external sources that Baird believes to be reliable. A client should understand that: Baird does not recalculate the performance provided by such managers or external sources; generally, neither Baird nor any independent third party reviews the performance information provided by such managers to verify its accuracy or compliance with presentation standards; those managers may not calculate performance on a uniform or consistent basis; and Baird does not guarantee the accuracy of information provided by such managers or any external source.

A client should note that Baird does not generally present its performance calculations to clients. The information that PAM or Baird provides to clients about investment managers from time to time generally is not calculated by PAM or Baird but may be calculated by the managers themselves or derived from external sources. PAM and Baird do not audit or verify that performance information presented to clients that is calculated by managers or external sources is accurate. In addition, a client should note that such performance information may not be calculated on a uniform or consistent basis or reviewed by

any independent third party. A client should ask the client's PAM Manager for more information.

### Portfolio Management by PAM and Related Persons

Portfolio management services under the PAM Recommended Managers Service and CSM Service may be provided by Baird Advisors, BIM, other investment management departments of Baird, BKG, or Riverfront. Such arrangements create a potential conflict of interest because Baird and/or its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, PAM and Baird are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for PAM and Baird that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about these potential conflicts and how Baird addresses them, please see the sections "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

When PAM and Baird determine manager availability or eligibility for the PAM Recommended Managers and CSM Services, affiliated investment managers are subject to the same selection and review process, if any, that PAM and Baird apply to unaffiliated investment managers.

### Portfolio Management by PAM and Baird

Portfolio management services under the PAM Investment Management Service and ALIGN Programs are exclusively provided by Baird, Baird's home office investment professionals, and/or PAM and PAM Managers. Thus, the portfolio managers under those Services and Programs are not subject to an independent selection or review process. Additional information about Baird, PAM and those Services is provided below.

### Advisory Business

Baird is an employee-owned wealth management, capital markets, asset management, and private

equity firm formed in the State of Wisconsin in 1919.

Baird is owned indirectly by its associates 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. PAM and Baird tailor advisory services to the individual needs of clients. For more information about the services offered by PAM, please see "Services, Fees and Compensation" above.

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

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

As of December 31, 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.

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

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

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

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

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

### Investment Strategies and Methods of Analysis

#### PAM Investment Management Service

PAM provides various investment portfolio styles and strategies, including large and small cap



equity, international equity, fixed-income, and mutual funds, in isolation and in combination, as described below.

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

#### *Phase 1: Evaluate*

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

#### *Phase 2: Strategy Design*

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

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

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

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

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

#### *Phase 3: Implement*

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

PAM may use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others, issuer-supplied literature (such as annual reports, press releases and other information), and external market, economic, financial and investment data and analyses provided by organizations not affiliated with Baird. PAM primarily relies on independent, third-party research and information when analyzing market trends and conditions, investment manager performance, and asset class characteristics and performance. PAM has built and maintains a

proprietary database of manager characteristics, including historical performance, personnel details, fees, investment philosophy, ownership and legal history. PAM has purchased and customized software to analyze the data, which we update at least quarterly. Some of the data, particularly general economic data, is publicly available, but PAM also pays for access to third-party databases which contain data used in our analyses. PAM does not accept fees or other remuneration from managers to be included in databases or in our manager search process. PAM Managers may also use research reports created by Baird. PAM may also employ the use of computers and third party software to more readily display information, assist with the evaluation and analysis, and create asset allocation recommendations. Although PAM uses information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

When providing investment advice to clients, PAM may also use recommended lists made available by Baird's Asset Manager Research Department or other Baird departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. The level of initial and ongoing evaluation, monitoring and review that PAM and Baird perform on managers and on investment products varies. Managers and investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those managers or products that are included on a recommended list. For more information about Baird recommended lists and "available" lists, see "Selection and Evaluation—PAM Recommended Managers" above and "Certain Recommended Lists" and "Certain Available Product Lists" below.

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

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

#### *Certain Recommended Lists*

Baird's Recommended Mutual Fund List. Baird's Recommended Mutual Fund List is designed to include mutual funds across numerous asset classes. When selecting funds for inclusion on the List, Baird uses substantially the same process described under "ALIGN Programs—ALIGN Strategic Portfolios" below. Baird's Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds included on the List. Baird's Investment Committee is ultimately responsible for selecting funds included the List. The Baird Aggregate Bond Fund, Baird Intermediate Municipal Bond Fund, Baird Short-Term Bond Fund, and Baird MidCap Fund, mutual funds affiliated with Baird, have been selected by Baird for inclusion in Baird's Recommended Mutual Fund List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated mutual funds for Baird's Recommended Mutual Fund List are the same as those used for unaffiliated mutual funds.

Baird Recommended Portfolio. The objective of the Baird Recommended Portfolio is to outperform the S&P 500 Index by selecting a diversified core portfolio of primarily large cap equities. Baird's Stock Selection Committee maintains the Baird Recommended Portfolio. The investment philosophy focuses on high quality companies with an emphasis on large cap stocks, as defined by a market capitalization of \$10 billion or greater. The portfolio may contain stocks with a market capitalization of less than \$10 billion, but these stocks will not represent more than 35% of the total portfolio. The portfolio is organized by industry sectors, with the Stock Selection Committee choosing to under- or overweight particular industry sectors (vs. the S&P 500 Index) based on economic analysis and input from Baird's Investment Policy Committee.

Individual stocks are selected with an emphasis on quality companies that Baird believes have strong growth prospects and attractive price-appreciation potential. The portfolio will over- or under-weight an industry sector relative to the S&P 500 Index based on Baird's view of the current economic outlook and its fundamental analysis. Within a given industry sector, companies are selected with an emphasis on quality and growth. Each stock is also assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks are sold or positions reduced primarily for three reasons: valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Baird Recommended Portfolio typically holds between 40-55 stocks. The Baird Recommended Portfolio represents a list of stocks only. It is not possible to invest directly in the Portfolio.

#### Baird's Recommended Funds of Hedge Fund List.

When selecting funds of hedge funds for Baird's Recommended Funds of Hedge Fund List, Baird generally seeks to offer funds of hedge funds that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well-diversified portfolio of hedge funds; and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). Baird also considers the principals' experience in managing fund of hedge fund portfolios and whether they have a network of contacts in the industry.

Baird's Asset Manager Research Department is primarily responsible for selecting and evaluating funds of hedge funds selected for Baird's Recommended Funds of Hedge Fund List. In selecting funds of hedge funds, Baird's Asset Manager Research Department uses a due diligence process with a goal of determining whether the firm has an "edge" that Baird believes will result in favorable fund of hedge fund performance going forward. The process includes reviewing due diligence questionnaires and legal documents (e.g., subscription document, limited partnership agreement, offering memorandum, Form ADV Part 2A Brochures), and completing an onsite review of the fund.

As part of its onsite review, Baird evaluates the fund's processes for: evaluating, hiring and terminating individual hedge funds; constructing a

fund of hedge fund portfolio; and managing risk. Baird generally also meets with the fund's compliance personnel to understand their processes for evaluating prospective and current hedge fund investments from an operational and compliance standpoint. Following the onsite review, an investment thesis is written and presented to Baird's Investment Committee, which determines whether to include a fund of hedge fund on Baird's Recommended Funds of Hedge Fund List.

Baird monitors each recommended fund of hedge fund on a periodic basis. As part of its monitoring process, Baird reviews monthly and/or quarterly commentaries from the fund, and generally holds a quarterly conference call during which Baird reviews certain factors with fund personnel that Baird deems relevant, which may include the following: assets under management, asset flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), changes made to the fund (e.g., hedge funds added or terminated), and reasons for the fund's under- or out-performance relative to a benchmark. In addition, Baird conducts subsequent onsite reviews of each fund on a periodic basis.

Baird may place a fund of hedge fund on "watch" status if the fund has experienced a material event that, in Baird's opinion, may negatively affect the fund's performance going forward. Examples include a significant decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, or regulatory problems. Any firm that is placed on watch status is subject to an onsite review to determine if the issue is likely to be temporary or long-term. Baird will remove a fund from watch if, in Baird's opinion, the issue has been adequately addressed. Baird will remove a fund from the List if it believes the issue is likely to be long-term.

Using the funds on Baird's Recommended Funds of Hedge Funds list, PAM will select or replace, or recommend the selection or replacement of, a particular fund of hedge fund based upon each client's particular goals and circumstances.

#### *Certain Available Product Lists*

Managed Futures. When making managed futures products available to its clients, Baird generally

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

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

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

Baird may remove a managed futures product if it experiences a significant decline in assets under management, or a notable change in investment strategy or key personnel, or regulatory problems.

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

Structured Products. When determining whether to make a structured product available to Baird clients, Baird reviews the offering documents for the structured product and considers: the size of the issuer and issuer's credit rating, the maturity

of the product, how interest is calculated, the underlying asset category (e.g., a basket of securities or currencies or a market index), applicable caps, barriers, and participation rate, and whether the structured product has principal protection.

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

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

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

Funds of Private Equity Funds. When making funds of private equity funds available to its clients, Baird generally seeks to identify fund of private equity fund products that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well-diversified portfolio of private equity funds; and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). In addition, Baird looks for fund of private equity fund products that offer strategies that Baird believes may be suitable for Baird clients. Baird also considers the fund's principals' experience managing a fund of private equity fund and whether they have a network of contacts in the industry.

Baird's Product Management Department along with the Asset Manager Research Department are primarily responsible for selecting and evaluating the funds of private equity funds made available to clients under the Services. Baird's initial

evaluation of a fund of private equity product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Product Strategy Committee determines whether to make a fund of private equity funds product available to Baird clients.

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

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

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

Private Equity Funds. Generally, Baird only makes available to clients private equity funds that are affiliated with Baird. This presents a potential conflict of interest. See "Additional Information—Other Financial Industry Activities and Affiliations—Affiliated Private Equity Funds" below.

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

### **Baird Advisory Choice Program**

When recommending investment products to clients under the Baird Advisory Choice Program, PAM Managers may use any of the investment strategies and methods of analysis discussed above.

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

### **ALIGN Programs**

#### *ALIGN Custom Portfolios*

ALIGN Custom Portfolios involve the use of various different portfolio investment strategies because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's PAM Manager. Mutual funds and ETPs may be available to clients to pursue an investment objective or implement a customized asset allocation strategy. The mutual funds and ETPs that are generally available for use in connection with the ALIGN Custom Portfolios Program may include funds included in the ALIGN Dynamic Portfolios, ALIGN Strategic Portfolios and ALIGN Tactical Portfolios Programs, which are discussed above, and those funds included on Baird's Recommended Mutual Fund List. A client should ask the client's PAM Manager for additional information about the investment styles, philosophies, strategies, analyses and techniques the PAM Manager will use in order to meet the client's objectives.

#### *ALIGN Dynamic Portfolios*

The ALIGN Dynamic Portfolios Program offers model portfolios that have varying strategic and tactical investment strategies. The ALIGN Dynamic Portfolios generally include: (1) a Dynamic Growth Portfolio, which is designed to provide aggressive growth of capital and outperform the broad measure of the domestic and international equity markets over time; (2) a Dynamic Moderate Growth Portfolio, which is



designed to provide growth of capital and outperform a broad measure of the domestic equity markets over time; (3) a Dynamic Balanced Portfolio, which is designed to provide growth of capital and consistent capital appreciation; (4) a Dynamic Conservative Growth Portfolio, which is designed to provide moderate growth of capital and limited current income and consistent capital appreciation; and (5) a Dynamic Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Dynamic Portfolio generally consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed above, and the mutual funds and ETPs that are available for use in connection with the ALIGN Dynamic Portfolios Program include funds and ETPs available under those Programs.

#### *ALIGN Strategic Portfolios*

The ALIGN Strategic Portfolios Program offers model portfolios that have varying strategic investment strategies, including: (1) an All Growth Portfolio, which is designed to provide aggressive growth of capital; (2) a Capital Growth Portfolio, which is designed to provide growth of capital; (3) a Growth with Income Portfolio, which is designed to provide moderate growth of capital and limited current income; (4) an Income with Growth Portfolio, which is designed to provide current income and some growth; and (5) a Conservative Income Portfolio, which is designed to provide current income. Baird may also offer other model portfolios under the Program from time to time. The ALIGN Strategic Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes, including equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, mutual funds with fund of hedge fund strategies, and cash. Each ALIGN Strategic Portfolio has different allocations across each asset class, and some Portfolios may have no allocation to one or more asset classes described above.

Each ALIGN Strategic Portfolio uses mutual funds and/or ETFs in order to achieve the model asset allocation. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a "sleeve"). Certain ALIGN Strategic Portfolio strategies offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide an absolute return. Certain ALIGN Strategic Portfolio Strategies also offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide diversified yield to the client's portfolio.

Baird generally seeks mutual funds and ETFs that have investment managers with tenure of at least five (5) years and have underlying investments that adhere to the fund's market capitalization policy and are consistent with the manager's stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or that are managed by individuals or firms that have demonstrated success in other, related asset classes; that have performance histories showing sufficient ability to achieve returns in excess of their respective style index; and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird.

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

Baird's Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. In selecting funds, Baird's Asset Manager Research Department utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and removing funds for the ALIGN Strategic Portfolios Program is similar to the process Baird

uses to select and remove Recommended Managers described under "Portfolio Manager Selection and Evaluation" above. The ALIGN Strategic Portfolios Program may include funds included on Baird's Recommended Mutual Fund List and funds affiliated with Baird.

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

#### *ALIGN Tactical Portfolios*

The ALIGN Tactical Portfolios Program offers model portfolios that have varying tactical investment strategies, including: (1) a Tactical Equity Portfolio, which is designed to outperform a broad measure of the domestic and international equity markets over time; (2) a Tactical Allocation Portfolio, which is designed to outperform a broad measure of the domestic equity, international equity, and domestic fixed-income markets over time; (3) a Tactical Opportunity Portfolio, which is designed to provide downside protection and consistent capital appreciation over time; and (4) a Tactical Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes, including styles, capitalizations, sectors, and market segments. Those asset classes may include equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, Alternative Investment Products, and cash. Some Portfolios may have no allocation to one or more asset classes described above. Each ALIGN Tactical Portfolio primarily uses ETFs and ETNs in order to achieve the model asset allocation.

The construction of the ALIGN Tactical Portfolios, including allocation and tactical decisions and the selection of the ETPs for each Tactical Portfolio, are made by Baird's Investment Strategy team. Baird uses a top-down approach to identify which asset classes and areas of the stock market to include in the ALIGN Tactical Portfolios at any

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

Depending on the ALIGN Tactical Portfolio chosen, the ETFs in the ALIGN Tactical Portfolio may consist of funds having various investment objectives and principal strategies, including but not limited to, the following: domestic equities, specific styles, capitalizations and sectors, domestic fixed-income securities, international equities, real estate, currencies, commodities and short domestic equities (i.e., ETFs that have an investment objective to provide returns that are inversely correlated to an equities index).

The ALIGN Tactical Portfolios are actively managed. The Portfolio allocations and the ETPs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETPs may be removed or added as Baird determines is appropriate. Given the nature of the investment strategies pursued by the ALIGN Tactical Portfolios, such Portfolios will likely experience relatively high portfolio turnover.

#### **Principal Risks**

Risk is inherent in any investment product and PAM and Baird do not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Also, a client's

Account value may fluctuate, sometimes dramatically, depending upon the nature of the client's investments, market conditions and other factors. By participating in a Service, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by Service and 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 PAM 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 the Services include the following:

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

**Management and Securities Selection Risks.**

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

**Investment Objective and Asset Allocation Risks.** A client's investment objective and asset allocation strategies involve the risk that certain asset classes selected for the client's Account may not perform as well as other asset classes during

varying periods. In addition, clients who pursue more aggressive investment objectives and asset allocation strategies, while hoping to achieve high returns, may face greater risk of loss than clients with more conservative objectives and strategies. In developing investment objectives and asset allocation strategies, clients should carefully consider their financial situation and needs, investment goals, investment time horizon and risk tolerance. A client should inform the client's PAM Manager of these considerations so the PAM 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 PAM 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, a PAM Manager, or an investment manager may decide to add or remove an investment fund to or from an investment strategy or Service. In addition, they may decide to increase or decrease their clients' account allocations to an investment fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in

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

**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.

**Frequent Trading and Portfolio Turnover Risks.** Some of the investment strategies offered to clients in this Brochure may involve frequent or active trading for client accounts, which could result in high portfolio turnover. A portfolio with a high turnover rate will incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also 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.

**Options, Futures, and Short Sales Risks.** The strategy used for a client's Account may involve the use of options, futures, short sales or other derivative instruments. The values of these investments are derived from an underlying asset and may fluctuate more than other investments, which may result in an unexpected decline in the Account's value. The use of these strategies is not appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value.

**Hedge Funds and Funds of Hedge Fund Risks.** Hedge fund and funds of hedge 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.

**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.

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

that the actual market price for an ETN may vary significantly from the indicative value computed by the issuer.

**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.

**Leveraged or Inverse Fund Risks.** Leveraged funds and inverse funds are complex investments and involve significant, special risks. As a result, they may not be suitable for all clients. Leveraged or inverse funds are ETNs, ETFs or open-end mutual funds seeking returns that are the opposite of the performance of an index or other benchmark on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time are not likely to track the opposite of the performance of the fund's underlying index, and may in fact be significantly different. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of short sales, swap contracts, futures, options and other derivatives with economic

characteristics that are designed to perform opposite to the securities in the underlying index. Leveraged and inverse funds have an increased risk of loss compared to other funds, and a client should not invest in these securities unless the client is prepared to experience significant losses in the value of the client's Account

**Structured Products Risks.** Structured products are complex investments and involve significant, special risks. As a result, they may not be suitable for all clients. Structured products are a hybrid between two asset classes typically issued in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. Investing in structured products involves special risks, including, but not limited to, credit risk, market risk, liquidity risk, commodity price risk, and conflicts of interest risk.

**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.

**Business Development Company Risks.** BDCs can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, BDC investments may not be suitable for all clients. A BDC is typically a domestic, closed-end investment company that is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based compensation. A debt security or preferred stock issued by a BDC, in many cases, is non-rated or is rated below investment grade, which can carry its own risks and rewards. Investing in BDCs involves special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Master Limited Partnership Risks.** 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 PAM Manager.

## Voting Client Securities

### Non-Discretionary Services

Under the Baird Advisory Choice Program and with respect to any other Accounts over which the client retains discretionary investment authority, a client retains the right to vote proxies with respect to the securities held in such Accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and PAM and Baird are under no obligation to take any action or render any advice regarding such matters. The client's PAM Manager may, upon the client's request, provide advice on proxy voting or what other action the client could take.

### Separately Managed Accounts

With respect to SMAs that are managed by investment managers, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or the client may delegate such right to the investment manager selected to manage the client's Account. A client may select either option by making the appropriate election in the client's advisory agreement (or by providing proper instructions to the third party investment manager directly). For information about a manager's voting policies and procedures, clients should review the manager's Form ADV Part 2A Brochure. Except to the extent a client has delegated proxy voting authority to Baird, PAM and Baird have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in a client's SMA.

### Discretionary Services

Under the Discretionary Services and ALIGN Programs (but not including SMAs), 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 PAM.

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 PAM, PAM 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 PAM votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between PAM's or Baird's interests and those of their clients. Although a description of Baird's proxy voting policies and procedures is provided below, PAM will furnish a copy of Baird's proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how PAM actually voted proxies with respect to the securities held in their accounts by contacting their PAM Manager or by calling (414) 765-3500.

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

The proxy voting policies and procedures also address instances in which PAM'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 PAM would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. PAM 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 PAM discretionary voting authority may do so by contacting their PAM Manager. However, if PAM has been granted discretionary authority, neither PAM nor the Baird will provide a client with notice that PAM 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.

Generally, neither PAM nor any third party investment adviser or manager responsible for managing all or a portion of the assets in a client's Account will render advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. Also, they may or may not vote or advise clients on other corporate actions, like tender offers, that are not solicited by a proxy statement. At a client's request, Baird will forward information that Baird actually receives to the client.

### ***Providing Baird Voting Instructions***

As mentioned above, Baird may be the holder of record for certain securities in a client's Account. If the client retains voting authority over such securities (or delegates such authority to party other than PAM), and a proxy is solicited with



respect to any such securities, the client (or other authorized party) will need to provide voting instructions to Baird. To the extent the client (or other authorized party) does not provide timely voting instructions, Baird will vote such securities to the extent permitted by law and in compliance with the rules of the New York Stock Exchange and the SEC relating to such matters.

### **Client Information Provided to Portfolio Managers**

Under the PAM Recommended Managers and CSM Service, PAM and Baird provide certain information about the client to the investment managers managing the client's Account when the client establishes the advisory relationship with such manager. Such information includes the client's investment objectives and risk tolerance. Under the PAM Recommended Managers Service, PAM and Baird also provide to the investment manager a client's age, investment timeframe, and liquidity requirements.

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

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

### **Client Contact with Portfolio Managers**

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

### **Additional Information**

#### **Disciplinary Information**

In December 2008, Baird, without admitting or denying the allegations, consented to the findings of FINRA that it violated NASD Rules 2110, 3010(a) and 3010(b) by failing to establish and maintain an adequate supervisory system reasonably designed to review and monitor its fee-based brokerage business and its registered representatives. Baird was found to have failed to: implement fee breakpoint discounts on certain fee-based brokerage accounts; clearly identify the

specific fee applicable to each customer; implement a system to automatically credit customers with the fee breakpoint discounts specified in their account agreements; and adequately disclose inclusion of margin activity and short sales in fee calculations for fee-based accounts. Baird was fined \$500,000 and paid restitution of \$434,510 plus interest to Baird customers.

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

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

Baird is registered 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 PAM associates and certain management persons of Baird may invest in those funds.

From time to time, PAM 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 PAM, 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. PAM and Baird address this potential conflict through disclosure in this Brochure. Further, when acting as fiduciary investment advisers, PAM 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.

PAM Managers and certain other of Baird's and PAM'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**

Baird and PAM Managers may, from time to time refer clients to Baird Advisors, BIM, or Baird Public Investment Advisors, investment management departments of Baird.

Certain investment strategies offered by BIM have been selected by Baird for inclusion on Baird's Recommended Managers List. *Baird has a financial incentive to favor BIM because Baird receives more compensation if BIM manages a client's Account rather than other unaffiliated managers.*

### **Certain Affiliations**

#### **Affiliated Investment Advisors**

Baird is affiliated, and may be deemed to be under common control, with 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. *Due to its affiliation with BKG, Baird has a financial incentive to favor BKG investment products and services.*

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. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor Riverfront investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Greenhouse Funds LP ("Greenhouse") by virtue of their common indirect ownership by BFG. Greenhouse acts as investment manager to certain hedge funds that are available to PAM 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 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). Certain Baird Funds have been selected by Baird for inclusion in the ALIGN Strategic and ALIGN Dynamic Programs and on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to PAM clients. *Baird has a financial incentive to favor the Baird Funds because Baird receives more compensation if a client invests in the Baird Funds rather than other unaffiliated funds.*

Baird Advisors serves as investment sub-adviser to a mutual fund series of the Bridge Builder Trust. 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. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor funds managed by Riverfront.*

### **Affiliated Private Equity Funds**

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. PAM 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.

PAM Managers who assist in obtaining a client's investment in a private equity fund affiliated with Baird are eligible for special referral compensation from the general partner of the private equity fund. The actual amount of compensation may vary based upon the client's investment commitment and will be disclosed to a client prior to the time of investment. *Due to Baird's affiliation with those private equity funds and the referral compensation paid to PAM Managers, Baird and PAM Managers 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 PAM 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 Services, separate and apart from the Services. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. This may create an incentive for Baird to favor the

services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird is a fiduciary that is required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Baird addresses this potential conflict through disclosure in this Brochure. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for advisory programs (including when Baird constructs its ALIGN Programs, Recommended Managers List or Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution as described under the heading "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts" above. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

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

### **Code of Ethics**

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide

investment advisory services to clients, including PAM 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, PAM 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. PAM and Baird receive compensation based upon the sale of such investment products.

PAM and Baird may buy or sell securities for Baird's own account, or may act as broker or agent for other PAM or Baird clients, including other advisory clients. PAM, 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. PAM and Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

Baird, as broker-dealer, continually engages in various securities transactions and trading activities through its institutional trading departments, including market making and corporate stock buyback activities. PAM 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. PAM 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 PAM 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 PAM'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. PAM and Baird provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to PAM clients that hold shares of such mutual funds in their accounts. PAM 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 PAM 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 PAM. Accordingly, the receipt of these fees provides PAM and Baird an incentive with respect to non-Retirement Accounts managed directly by PAM 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 the ALIGN Programs or held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing", is typically allocated toward the costs of training and educating PAM 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, Recommended Mutual Fund List, or in selecting investments offered through the ALIGN Programs.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to PAM, and the compensation Baird pays to PAM is not tied to such payments.

**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 PAM, and the compensation that Baird pays to PAM 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 PAM clients. Under the clearing arrangement, Schwab provides clearing services for nearly all "no load" funds held by PAM clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to PAM 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 PAM and Baird provide to clients who invest in those funds.

If PAM 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 PAM. Accordingly, the receipt of these fees may provide PAM and Baird an incentive with respect to non-Retirement Accounts managed directly by PAM 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 PAM 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 PAM or Baird for more specific information about the amount of compensation PAM 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).

#### *Unit Investment Trusts*

Baird may receive additional compensation related to the sale of shares of UITs. Sponsors of UITs typically make marketing or concession payments to the firms that sell their UITs, including Baird. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during a particular period. That percentage typically increases as higher sales volume levels are achieved. Descriptions of these additional payments are provided in a UIT's prospectus. The marketing and concession payments that Baird receives from UIT sponsors are not paid to Baird PAM Managers, and the compensation that Baird pays to its PAM Managers is not tied to such payments.

#### *Alternative Investment Products*

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), Baird may receive compensation described in the section entitled "Mutual Funds" above.

More detailed information about the compensation that 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 PAM or Baird for more specific information about the amount of compensation Baird may receive from the sale or servicing of Alternative Investment Products.

#### *Annuities and Insurance Products*

Insurance companies compensate PAM and Baird for selling their insurance products. PAM 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 PAM associates. 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 PAM, and the compensation that Baird pays to PAM is not tied to such financial support.

More detailed information about the compensation that Baird receives from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird's website at [www.rwbaird.com/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 PAM 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 PAM 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*

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 PAM. The compensation that PAM 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 PAM 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 PAM associates may also receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, certain PAM 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. PAM 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, PAM 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 PAM 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 PAM's interest in the transaction. For more information, please see "Services, Fees and Compensation—Additional Service Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

Baird, by reason of its investment banking or other activities, may from time to time acquire information deemed confidential, material and non-public, about corporations or other entities and their securities. Baird, PAM 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 Baird, will generally increase as the size of the

outstanding margin loan increases. As a result of the foregoing, 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 PAM 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 PAM 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 Baird. 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 PAM Manager.

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

PAM and Baird address these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for PAM and Baird that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients) 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 PAM or Baird may recommend to clients, and may buy and sell for client's Account, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Services, Fees and Compensation—Advisory Fee—Advisory Fee Payments to PAM, Baird and Investment Managers" and "Additional Information—Other Financial Industry Activities and Affiliations" above, and "Additional Information—Client Referrals and Other Compensation" below.

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

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

*If PAM 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, PAM 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 PAM or Baird may not keep such compensation under applicable law or regulation.*

## **Review of Accounts**

### **Client Account Review**

Client accounts are monitored on an ongoing basis by the client's PAM Manager and are subject to review by the Baird Branch Office Manager (or his or her designee) responsible for supervising the client's PAM Manager. The client's PAM Manager generally reviews the performance of the client's Account at least quarterly. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's PAM Manager is required to review the client's Account's daily trading activity. The Baird Branch Office Manager (or his or her designee) is also required to perform a quarterly review of his or her branch's accounts managed directly by PAM, focusing on verifying that the PAM Manager's composites of

client accounts are generally being managed in accordance with the PAM Manager's investment philosophy statement and attempting to ascertain whether client accounts within each composite are being treated equitably.

### **Account Statements and Performance Reports**

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

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

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

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

Benchmarks shown in performance reports are for informational purposes only. PAM's selection and use of benchmarks is not a promise or guarantee that the performance of a client's Account will meet or exceed the stated benchmark. When the client compares Account performance to the performance of a market index, the client should recognize that a market index merely reflects the

performance of a list of unmanaged securities included in the index and the index performance does not take into account management fees, execution costs, and other expenses related to investing for a client's Account. The securities included in a client's Account generally do not exactly mirror the securities included in the index.

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

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

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

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

### Client Referrals and Other Compensation

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

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

### Financial Information

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

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary acting on behalf of the client understands that PAM or Baird may invest for the client, or recommend that the



client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary acting on behalf of the client understands that when PAM or Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, PAM 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 PAM will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Advisory Fee that PAM 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 advisory agreement that: (i) the investment in affiliated investment products for the client's Account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those products; (ii) subject to PAM'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 PAM 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 advisory agreement and the applicable investment

management, investment advisory and other similar fees detailed in the section entitled "Additional Information—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 a client's Account is a Retirement Account and if the client has selected an investment manager and/or product affiliated with Baird (such as the use of services or products offered by BKG, BIM, Baird Advisors or 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 investment managers, funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated investment managers, funds or other products; (b) Baird makes available to the client investment managers, funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated investment managers, funds or products at any time by contacting the client's PAM Manager; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use investment managers, funds or products affiliated with Baird at any time by contacting the client's PAM Manager. For more information about investment managers and products that are affiliated with Baird, please see



"Additional Information—Other Financial Industry Activities and Affiliations" above.