

# Baird Private Wealth Management

## Brochure

April 25, 2016



## Institutional Consulting Services

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Member FINRA & SIPC  
SEC File No. 801-7571

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



**Material Changes**

Not applicable.

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## Advisory Business

This Brochure describes the institutional consulting services ("ICS") that the Private Wealth Management Department of Robert W. Baird & Co. Incorporated ("Baird") offers to its clients. Separate brochures describe other investment advisory services that Baird offers to its clients 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 call Baird toll-free at 1-800-792-2473.

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

## Robert W. Baird & Co.

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

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

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

providing portfolio management services under those wrap fee programs.

As of December 31, 2015, Baird had approximately \$83.9098 billion in regulatory assets under management, approximately \$63.1077 billion of which was managed on a discretionary basis and approximately \$20.8021 billion of which was managed on a non-discretionary basis.

## The Client-Baird Fiduciary Relationship

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Baird and its associates 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 Baird and its associates are required to act in the best interest of the client when providing investment advisory services. From time to time, Baird or its associates 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 Baird or its associates. Baird generally addresses 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 Baird. In addition, Baird has adopted internal policies and procedures for Baird and its associates that require them to: provide investment advice that is suitable for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of interest; and act with utmost care and good faith in dealings with advisory clients. The specific business practices that create potential conflicts of interest with clients and additional measures used by 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 Institutional Consulting Services

The institutional consulting services generally offered by Baird may include: the provision of investment policy statement reviews, asset allocation reviews, investment recommendations, investment option due diligence, periodic performance reviews, assistance in educational campaigns for employees exploring retirement plan investment options, fee analysis of qualified retirement plan expenses, qualified retirement plan provider reviews, and qualified retirement plan requests for proposal (the "Services"). These Services may be aggregated to oversee an entire investment program or may be utilized separately.

The Services are non-discretionary in nature and a client retains full discretionary authority to manage the client's assets.

ICS clients typically work with or are introduced to a Baird associate who has been approved by Baird to provide the Services (an "ICS Consultant"). Baird's home office investment professionals may also provide advice and assistance to the client. The client, with the assistance of an ICS Consultant, determines the services that are most appropriate given the client's goals and circumstances. However, it is the client that ultimately selects the Services and investment strategy that is most appropriate for the client.

ICS Consultants tailor their advisory services to the individual needs of clients. Clients may negotiate with ICS Consultants to provide other investment advisory services.

A prospective client that wishes to participate in a Service will enter into an Institutional Consulting Services Agreement (a "Consulting Agreement") with Baird. The Consulting Agreement will contain the specific terms applicable to the services selected by the client, advisory fee ("Advisory Fee") payable by the client and other terms applicable to the client's advisory relationship with Baird. A client should note that the client's advisory relationship with Baird does not begin until Baird enters 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 and Baird has delivered to the client all applicable Consulting Agreement- and Brochure-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 Consulting 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.

### Description of Services

The description of the Services below is only a general description of the investment consulting services offered by Baird to clients. The specific Services, the level of service to be provided, and the frequency of periodic reviews, if any, will be set forth in the client's Consulting Agreement. A client should refer to the client's Consulting Agreement for more specific information about the Services being provided.

### Investment Policy Statement Creation or Review

A client may elect to have Baird provide assistance in creating an investment policy statement or reviewing an existing investment policy statement. If a client elects

this Service, the client's ICS Consultant will typically assist the client in determining the client's investment objectives, investment time horizon, investment constraints, investment diversification requirements, and risk tolerance. The ICS Consultant will also typically assist the client with incorporating that information into an investment policy statement, or updating the information in an existing document, as the case may be. The investment policy statement is intended to provide guidance to the client by establishing performance benchmarks that account for changing market conditions.

The client is responsible for the review and final approval of the client's investment policy statement.

### Asset Allocation Review

A client may elect to have Baird provide an Asset Allocation Review. This Service is designed to identify investment portfolio options for the client, weighing risk versus potential return on investment based upon the client's investment objectives, investment time horizon, investment constraints, the need for investment diversification, and risk tolerance. The client's ICS Consultant makes allocation recommendations to the client after analyzing asset mixes as they correlate to identified risk parameters, thereby assisting the client in establishing reasonable investment return expectations.

The client is responsible for ensuring that all relevant information, including but not limited to, an investment policy statement approved by the client (including revisions), is provided to the client's ICS Consultant before the client's ICS Consultant formulates any asset allocation recommendation.

Subject to the terms of the client's agreement, the client's ICS Consultant will periodically review and evaluate the client's current asset allocation and recommend revisions to the allocation based upon changes to the client's situation.

### Investment Due Diligence

If a client elects to have Baird provide Investment Due Diligence, the client's ICS Consultant assists the client in analyzing current and/or prospective investment options. The client is solely responsible for selecting an investment option and is solely responsible for hiring, terminating, and/or replacing an investment manager, and for buying, selling, or otherwise replacing any investment option.

### Investment Recommendations

If a client elects to receive Investment Recommendation Services, the client's ICS Consultant will provide the client investment options consistent with the client's investment objectives, investment guidelines and asset allocation needs. Investment options may include, but are not limited to:

- 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;
- open-end mutual funds, closed-end funds, exchange-traded funds ("ETFs"), and unit investment trusts ("UITs");
- insurance company separate accounts and variable annuities; and
- separately managed account ("SMA") services provided by investment managers.

In some cases, ICS Consultants may recommend investments in concentrated and less diversified portfolios of securities. They may also recommend investments in illiquid securities and/or investments in complex securities and investment products that pursue non-traditional, complex or alternative investment strategies ("Alternative Strategies") or that involve special risks not apparent in more traditional investments ("Alternative Investment Products"). ICS Consultants may also recommend managers that pursue Alternative Strategies.

#### **Periodic Performance Reviews**

If a client elects to have Baird provide periodic performance reviews, a client's ICS Consultant will provide the client with a written report on the client's account's performance as often as the client and the ICS Consultant may from time to time mutually agree. The client's ICS Consultant typically performs a review of the client's asset allocation and provides an evaluation of the historical performance of the client's investments by comparing the performance of those investments with benchmark indices, which may be determined by the client's ICS Consultant or may be jointly determined by the client and ICS Consultant.

A client should note that past performance does not indicate or guarantee future results. None of Baird, its associates 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.

The 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.

Baird and the client's ICS Consultant rely upon information provided by the client and/or the client's custodian when performing a performance review. Baird and ICS Consultants do not conduct a review of valuation information provided by clients or third party custodians, and they do not verify or guarantee the accuracy of such information.

#### **Retirement Plan Participant Education**

If a client elects to have Baird provide retirement plan participant education, the client's ICS Consultant, in cooperation with the client's retirement plan provider, will offer general guidance to the client in the development and implementation of educational campaigns for plan participants. The general education services provided by the client's ICS Consultant and the client's plan provider may include, but are not limited to, topics such as plan options, saving for retirement, asset allocation, and the benefits of diversification. The client's ICS Consultant may also work with the plan provider to distribute plan provider educational materials to the client's employees.

#### **Retirement Plan Fee Review**

If a client elects to have Baird provide a retirement plan fee review, the client's ICS Consultant will perform a fee analysis which includes a review of costs incurred by the plan, the benefits derived from payment for such services, and compares them to industry costs and services. The client's ICS Consultant typically also summarizes the results in writing, and provides those results to the client. The client's ICS Consultant's analysis does not generally consider fees and charges assessed to the client pursuant to the client's Consulting Agreement.

### **Retirement Plan Provider Review**

If a client elects to have Baird provide a retirement plan provider review, the client's ICS Consultant will perform an analysis of the client's plan provider. This analysis includes a review of services and benefits provided to the client by the plan provider, as well as the costs incurred to receive such services. The client's ICS Consultant typically also summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided by the client and third party sources to provide this Service. Baird and ICS Consultants do not conduct a review of such information, and they do not verify or guarantee the accuracy of such information.

### **Retirement Plan Provider Request for Proposal**

If a client elects to have Baird provide a retirement plan provider request for proposal ("RFP") Service, the client's ICS Consultant will assist the client in preparing RFP documents, identifying and distributing the RFP documents to multiple retirement plan providers, and analyzing their responses to the RFP. The client's ICS Consultant typically performs a cost-benefit analysis of the services offered by each provider and the fees, summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided by the client, RFP participants, and third party sources to provide this Service. Baird and ICS Consultants do not conduct a review of such information, and they do not verify or guarantee the accuracy of such information. A client should note that the client's ICS Consultant will solicit providers based solely on the criteria the client has provided to the client's ICS Consultant.

### **Other Services**

The client's ICS Consultant may offer other consulting Services specifically tailored for the client. Any such Services will be set forth in the client's Consulting Agreement.

### **Other Service Information**

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

Alternative Strategies involve special risks not apparent in more traditional investments like stocks and bonds. Alternative Strategies may be pursued in multiple ways, including alternative mutual funds, ETFs, hedge funds, managed futures, private equity funds and SMAs managed by third party managers. Some Alternative Strategies invest in non-traditional assets, such as real estate, commodities (which may include metals, mining, energy and agricultural products), currencies, movements in securities indices, credit spreads and interest rates, and venture capital and buyout investments in private companies. Some Alternative Strategies engage in the use of margin or leverage or selling securities short ("short sales"). Some Alternative Strategies invest in derivative instruments such as options, convertible securities, futures, swaps, or

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

### **Non-Traditional Assets**

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

### **Margin and Leverage**

#### **Margin**

Margin involves borrowing money from a firm to buy securities. If a client wishes to pay for securities by borrowing part of the purchase price from a firm, a client must open a margin account with that firm, and the firm will provide the client with a margin loan. The securities purchased on margin are used as the firm'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, the firm may take action, such as issue a margin call and sell securities in the account.

#### **Leverage**

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

### **Short Sales**

Short selling attempts to benefit from an anticipated decline in the market value of a security. To affect a short sale, a client sells a security the client does not own. When a client sells a security short, a firm 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 the firm to the client, a client must generally use a margin account. A client



must also eventually purchase the same shares sold short and return them back to the lender. It is possible that the prices of securities that a client sells short may increase in value, in which case the client may lose money on the short position. Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate.

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

## Options and Other Derivative Instruments

### *Derivative Instruments*

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

### *Options*

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

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

In buying a call option, the purchaser expects that the market value of the underlying security or index will

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

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

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

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

## Alternative Investment Products

Alternative Investment Products typically invest primarily in non-traditional assets or engage in one or more Alternative Strategies. Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds,



structured certificates of deposit and structured notes ("structured products"), ETNs, business development companies ("BDCs"), REITs, master limited partnerships ("MLPs"), and managed futures.

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

### **Additional Important Information**

The use of Alternative Strategies or Alternative Investment Products is not appropriate for some clients because they involve special risks. A client should not engage in those strategies or invest in those products unless the client is prepared to experience significant losses in the client's account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before using those types of strategies or products, a client is strongly urged to discuss them with the client's ICS Consultant and any investment manager managing the client's account. A Additional information about Alternative Strategies and Alternative Investment Products is provided under the heading "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies" below and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

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

### **Updating Client Information**

A client is responsible for providing information to Baird or the client's ICS Consultants reasonably requested by them in order to provide the services selected by the client. Baird and the client's ICS Consultants will rely on this information when providing services to the client. A client is also responsible for promptly informing Baird and the client's ICS Consultants of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. Neither Baird nor

the client's ICS Consultant is responsible for any adverse consequence arising out of the client's failure to promptly inform Baird and the client's ICS Consultants 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 ICS Consultant at least annually.

### **Legal and Tax Considerations**

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

Additional laws, regulations and other conditions apply to retirement accounts, which include 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 Baird and its associates 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.

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. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor.

### **Fees and Compensation**

#### **Advisory Fee**

Baird generally offers three (3) fee alternatives for the Services: (i) an asset-based Advisory Fee paid quarterly, in advance, (ii) an annual fixed rate Advisory Fee that is paid by the client over four calendar quarters, or (iii) a one-time fixed rate Advisory Fee paid at the time that the Consulting Agreement is accepted by Baird.

Because the Services selected and the level of service varies by client, Baird has no fee schedule for the Services. The maximum annual rate for an asset-based Advisory Fee charged by Baird for the Services is 1.00% (100 basis points).

If the asset-based Advisory Fee is elected, the client's initial billing period begins when the client signs the Consulting Agreement and such agreement is subsequently accepted by Baird, or billing begins at a pre-defined date that is mutually agreeable to Baird and the client.

The initial asset-based Advisory Fee is based upon the value of the assets in the client's account(s) as displayed on a custodian's quarterly statement on the day the agreement is accepted by Baird or an agreed upon effective date. The initial Advisory Fee may also be based upon an estimated value of assets mutually agreed upon by both parties. Thereafter, the applicable asset-based quarterly Advisory Fee are calculated in accordance with the client's account asset value as displayed on a custodian's quarterly statement as of the last business day of the prior calendar quarter, such payment to be made by the client to Baird on the first business day of the then current quarter or upon receipt of a Baird invoice.

Baird does not conduct a review of valuation information provided by client's custodian, and it does not verify or guarantee the accuracy of such information. Baird does not accept responsibility for valuations provided by third parties that are inaccurate unless Baird has a reason to believe that the source of such valuations is unreliable. The prices obtained by Baird from a client's custodian 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 a client's account, and the 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.

The annual and the one-time fixed rate Advisory Fee options are negotiated at the time the Consulting Agreement is signed by the client and accepted by Baird. If the client elects the annual fixed rate Advisory Fee, Baird will bill the client the quarterly amount of the annual fixed rate Advisory Fee, in advance. Billing is adjusted for the number of days remaining in the current calendar quarter. The client receives an invoice from Baird detailing the quarterly fee. The client must pay Baird within fifteen (15) days after receipt of the bill.

In the event that either Baird or the client terminates the Consulting Agreement, the client shall receive a pro-rated refund for amounts paid in advance for the period including the date of termination through the end of the applicable billing period.

Advisory Fee adjustments are not made during any period because of appreciation or depreciation in the client's account asset value during any billing period. Baird, in its sole discretion, may make fee adjustments in response to account asset fluctuation resulting from contributions to, or periodic withdrawals from, the client's account.

No Advisory Fee increase takes effect without at least 30 days written notice to the client. Fees may be negotiated and may vary based upon the specific

services requested by the client. To the extent that fees are negotiated, such fees may differ from client to client based on a number of factors, including, but not limited to, the type, size, investment objective, or client-related services provided to the account.

The minimum account or household size is \$10 million for individuals and \$25 million for institutional accounts. Baird, in its sole discretion, may waive the account minimum requirement.

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 client's particular investment style or objective and any particular services requested by the client. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

### Other Fees and Expenses

The fees paid to Baird by the client only cover the consulting services provided by Baird. The fees do not include any fees that may be charged by investment managers recommended by Baird. A client may also pay for other services, such as custody and trade execution, separately, when implementing recommendations made by Baird.

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

- commissions, sales charges, markups, markdowns, and spreads charged by broker-dealers that buy securities from, or sell securities to, the client's account (such costs may be inherently reflected in the price the client pays or receives for such securities);
- underwriting discounts, dealer concessions or similar fees related to the public offering of investment products;
- custody fees;
- extra or special fees or expenses that may result from the execution of odd lot trade orders (i.e., "odd-lot differential");
- electronic fund fees, wire transfer fees, fees for transferring an investment between firms, and similar fees or expenses related to account transfers (including any such fees imposed by Baird);
- currency conversions and transactions;
- securities conversions, including, without limitation, the conversion of ADRs to or from foreign ordinary shares;
- interest, fees and other costs related to margin accounts, short sales and options trades;

- fees related to the establishment, administration or termination of Retirement Accounts, retirement or profit sharing plans, trusts or any other legal entity;
- fees imposed by the SEC or securities markets, including transaction fees imposed by electronic trading platforms, which fees may be imbedded in the price the client receives for the security; and
- taxes imposed upon or resulting from transactions effected for a client's account, such as income, transfer or transaction taxes, or any other costs or fees mandated by law or regulation.

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

Certain investment products, such as mutual funds, 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 investment product's portfolio ("ongoing operating expenses"). These ongoing operating expenses are separate from, and in addition to, the Advisory Fees. As a result of making investments in these types of products, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of the client's assets so invested—the ongoing operating expenses and the Advisory Fee. A client is also responsible for any redemption fees, surrender charges or similar fees that the investment product, annuity or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment product or annuity in which the client invests for further information.

Clients may also subscribe to other services or programs offered by Baird. Those service and programs may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the Service.

#### Other Compensation Received by Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its Financial Advisors, including ICS Consultants, are registered broker-dealer representatives of Baird. In such capacities, Baird and ICS Consultants provide brokerage and related services

to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. At times, Baird and ICS Consultants provide such brokerage and related services to clients in connection with the Services described in this Brochure. Baird and ICS Consultants receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and ICS Consultants an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and ICS Consultants are fiduciaries and are required to act solely in the best interest of clients. Baird addresses this conflict through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Advisory Business" and "Fees and Compensation" above, and "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

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

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

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 with respect to other client accounts that are not subject to performance-based fee arrangements because such arrangements give Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees.

In addition to complying with its fiduciary duties by disclosing this conflict of interest to clients through this Brochure, Baird generally addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings

and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements through internal trade allocation procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time.

## Types of Clients

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

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

### Investment Strategies and Methods of Analysis

#### Investment Strategies

Under the Service, an ICS Consultant may use various different investment strategies because strategies are customized for each client. If a client has selected the Investment Policy Statement Creation or Review Service, a client's particular investment strategy is typically jointly developed by the client and the client's ICS Consultant through a fact finding and analysis process. ICS Consultants may also utilize the services of Baird's home office investment professionals as a part of that process. If a client does not select the Investment Policy Statement Creation or Review Service, the ICS Consultant will generally follow the investment strategies set forth in the investment policy statement provided to Baird by the client. A client is ultimately responsible for approving any investment policy statement and determining the investment strategies to be used.

The investment styles, philosophies, strategies, techniques and methods of analysis that Baird, its home office investment professionals, its ICS Consultants and investment managers use in formulating investment advice for clients vary widely. A brief description of commonly used strategies is provided below.

#### Equity Strategies

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

of specific capitalization ranges, such as large cap, mid cap or small cap companies. Equity strategies may be combined with other strategies described below, such as growth, value, income, economic industry or sector focused, international, global, or geographic region or country focused strategies.

#### Fixed Income or Bond Strategies

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

#### Balanced Strategies

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

#### Value Strategies

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

#### Growth Strategies

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

### *Income Strategies*

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

### *Economic Industry or Sector Focused Strategies*

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

### *International Strategies*

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

### *Global Strategies*

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

### *Geographic Region or Country Focused Strategies*

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

### *Alternative Strategies*

Alternative Strategies may invest in a wide range of investments, which may include equity securities, fixed income securities, foreign securities, non-traditional assets, Alternative Investment Products and cash.

Alternative Strategies generally involve the use of margin, leverage, short sales and derivative instruments. Many Alternative Strategies have no substantive restrictions on the types of investments that may be used. Examples of Alternative Strategies include the following.

- Relative Value Strategies. Relative value strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets and the use of short sales and derivative instruments in an attempt to exploit price differences among securities that share similar economic or financial characteristics.
- Long/Short Strategies. Long/short strategies generally involve the purchase of securities believed to be undervalued and selling short securities believed to be overvalued. They may also involve the use of non-traditional assets, leverage and derivative instruments.
- Market Neutral Strategies. Market neutral strategies generally involve the purchase of securities and selling securities short in similar dollar amounts in an attempt to produce returns that are independent of general market performance. They may also involve the use of non-traditional assets, leverage and derivative instruments.
- Statistical Arbitrage Strategies. Statistical Arbitrage is based on the theory that stocks have a tendency to return to a short-term trend line. This type of strategy typically involves the "systematic" or automated trading of securities based upon where a security is relative to its trend line.
- Convertible Arbitrage Strategies. Convertible arbitrage involves the purchase and short sale of multiple securities of the same company. The strategy is implemented by purchasing securities believed to be undervalued and selling short securities believed to be overvalued. Often, the strategy involves the purchase of a convertible bond issued by a company and selling short that company's common stock. This strategy may involve the use of a wide range of derivative instruments.
- Fixed Income Arbitrage Strategies. Fixed income arbitrage strategies generally seek to profit from interest rate, credit spread and other arbitrage opportunities by investing in fixed income securities, interest rate instruments and derivative instruments.
- Capital Structure Arbitrage Strategies. Capital structure arbitrage generally involves investing in multiple levels of a single company's capital structure, often taking long and short positions in a company's debt or equity in order to capitalize on perceived mispricings resulting from market inefficiencies or



different pricing assumptions. This type of strategy typically involves the use of derivatives and structured products.

- **Absolute Return and Real Return Strategies.** Absolute and real return strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle. They may also involve the use of derivative instruments.
- **Event-Driven Strategies.** Event-driven strategies generally involve the use of non-traditional assets, short sales and derivative instruments in an attempt to seek arbitrage opportunities, particularly those triggered by corporate events (such as mergers, restructurings, and liquidations). These strategies typically involve the assessment of if, how and when an announced transaction will be completed.
- **Merger Arbitrage/Special Situations Strategies.** Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. These strategies often involve short selling, options trading, and the use of other derivative instruments.
- **Distressed Strategies.** Distressed strategies generally involve the purchase of securities in companies that are in financial distress, or companies that are entering into or are already in bankruptcy. They may also involve the use of short sales and derivative instruments.
- **Macro Strategies.** Macro strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets and the use of short sales and derivative instruments in an attempt to profit from anticipated changes in securities markets, commodities markets, currency values, and/or interest rates.
- **Discretionary and Systematic Trading Strategies.** Discretionary trading strategies generally attempt to identify and capitalize on patterns or trends in the markets. Systematic trading strategies generally rely on computerized trading systems or models to identify and capitalize on those patterns or trends. These strategies often involve the use of non-traditional assets, short sales, derivative instruments and significant leverage.
- **Private Investment Strategies.** Private investment strategies generally involve purchasing common stock or securities convertible into common stock in private

transactions. Private investment strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges. They may also focus on companies in one or more economic industries or sectors or geographic regions. Some private investment strategies focus on companies that are newly formed, in financial distress or already in bankruptcy. The securities purchased are typically unregistered and illiquid. Private Investment Strategies may also involve the use of leverage.

- **Leveraged Strategies.** Leveraged strategies generally involve the use of non-traditional assets, leverage, short sales and derivative instruments in an attempt to amplify returns or produce returns that are a multiple of a benchmark index.
- **Inverse Strategies.** Inverse strategies generally involve the use of non-traditional assets, leverage, short sales and derivative instruments in an attempt to produce returns that are the opposite of a benchmark index.

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

#### **Asset Allocation Strategies**

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

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

- Alternative Investment Products, including, but not limited to mutual funds and ETFs that pursue Alternative Strategies; and
- cash, including, but not limited to, money market funds.

Each asset allocation strategy has different allocations across each asset class, and some strategies may have no allocation to one or more asset classes described above.

In developing its proprietary asset allocation strategies, Baird conducts an analysis of different asset classes and the different levels of risk associated with those investments. That analysis involves the consideration of past performance and the use of forward looking projections that are based upon certain assumptions made by Baird about how markets will perform in the future.

### **Methods of Analysis**

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

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

If a client selects the Investment Due Diligence Services, the ICS Consultant may perform a quantitative analysis of the investment option's performance coupled with a qualitative screening of the investment option. Quantitative analysis of some investments options may be limited because a holdings-based analysis may not be available. "Holdings-based analysis" determines investment style by examining the actual securities held in a portfolio, and is used as an alternative to returns-based style analysis, which is a method for determining the style of an investment portfolio by analyzing its return performance.

Baird, its home office investment professionals, and ICS Consultants use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others, issuer-supplied literature (such as annual reports, press releases and other information) and external market, economic, financial and investment data and analyses provided by organizations not affiliated with Baird. They may also employ the use of computers and third party software to more readily display information, assist with the evaluation and analysis, and create asset allocation recommendations. Although they generally use information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

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

When providing investment advice to clients, ICS Consultants may also use model portfolios or 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 Baird and its ICS Consultants perform on managers and on investment products varies. Managers and investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those managers or products that are included in a model portfolio or on a recommended list. More specific information about Baird model portfolios, recommended product lists and available product lists is provided below.

A client should note that investment products recommended to the client or selected for the client's account, including investment managers or products included on a Baird recommended list, are those which,



in Baird's professional judgment, may be appropriate to help the client pursue the client's financial goals. Baird and ICS Consultants do not represent or guarantee that such investment managers or products are or will be the best investment managers or products available.

ICS Consultants may use a wide variety of investment products to implement the client's investment strategy, which investments are further described under "Advisory Business—Description of Services" above. ICS Consultants may also engage in certain strategies and use certain investments that involve special, sometimes significant, risks. See "Advisory Business—Description of Services" above for more information.

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

### ***Certain Model Portfolios***

**Baird Recommended Portfolio.** The Baird Recommended Portfolio, which is managed by Baird's Stock Selection Committee, seeks to outperform the S&P 500 Index by investing in a diversified core portfolio of typically 40-50 stocks. The portfolio invests primarily in large cap stocks, as defined by a market capitalization of \$10 billion or greater at the time of investment. Although the portfolio may contain stocks with a market capitalization of less than \$10 billion, these stocks will not represent more than 35% of the total portfolio. The Portfolio is managed by using a top-down approach starting with the macroeconomic and market outlooks provided by Baird's Investment Strategy team. With this information, the Stock Selection Committee chooses to underweight or overweight particular industry sectors compared to the S&P 500 Index. Individual stocks are selected with an emphasis on higher quality companies that the Committee believes have strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. Each stock is assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks can be sold or positions reduced for a variety of reasons such as valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

**Baird Value Focus Portfolio.** The Value Focus Portfolio, which is managed by Baird's Value Equity Research Team, is intended for investors pursuing long-term capital appreciation, with income being a secondary consideration. The Portfolio typically holds 30-40 stocks. The Value Focus Portfolio invests primarily in mid cap and large cap companies, as defined by a market capitalization of \$1 billion or greater at the time of investment. The Portfolio will be concentrated at

times, such that about 20 stocks may account for 70% or more of the Portfolio's total assets. Each investment is identified and vetted by research analysts using a fundamental process that focuses on a company's competitive position, profitability, valuation and risks. Many stocks selected for the Portfolio will be contrarian in nature and generally out of favor in the broad market when they are first recommended. Growth-type investments and companies with smaller market capitalization may appear in the Portfolio from time to time. The Value Focus Portfolio's benchmark index is the S&P 500 index. The Value Focus Portfolio does not try to match sector weights of benchmark index and will often be overweight or underweight certain sectors or areas of the market compared to the index for long periods of time. A stock will be sold out of the Portfolio if the Team's price objective has been reached, and the position weighting may be trimmed if market movements have made that investment an outsized percentage of the overall Portfolio. The Team may also sell a stock in response to heightened downside risk, if the Team's investment thesis has changed due to unforeseen operational or environmental changes.

### ***Certain Recommended Lists***

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

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

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

Baird's Asset Manager Research Department may also employ the use of computers and third party software to

more readily display information and assist with the evaluation and analysis.

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

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

Certain investment strategies offered by Baird Investment Management ("BIM"), an investment management department of Baird, have been selected by Baird for inclusion on Baird's Recommended Managers List.

Baird assumes no responsibility for the manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

Baird's Recommended Mutual Fund List. Baird's Recommended Mutual Fund List is designed to include mutual funds and ETFs across numerous asset classes. When selecting funds for inclusion on the List, 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. 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 on the List. The Baird Aggregate Bond Fund, Baird Intermediate Municipal Bond Fund, Baird Short-Term Bond Fund, and Baird MidCap Fund, mutual funds affiliated with Baird, have been selected by Baird for inclusion in Baird's Recommended Mutual Fund List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated mutual funds for Baird's Recommended Mutual Fund List are the same as those used for unaffiliated mutual funds.

Baird's Recommended Funds of Hedge Fund List. Baird's Recommended Funds of Hedge Fund List contains a variety of funds of hedge funds ("FOHFs") that pursue various Alternative Strategies. Some FOHFs primarily use credit-oriented investment strategies, which are known as fixed income diversifiers. Some FOHFs primarily use equity-oriented investment strategies, which are known as equity diversifiers. Other FOHFs primarily use a combination of credit- and equity-oriented strategies, which are known as balanced diversifiers. In certain circumstances, FOHFs may be an appropriate substitute for part of a client's allocation to traditional fixed income or equity investments.

To be added to Baird's Recommended FOHF List, a FOHF must generally meet the following requirements: SEC registration (by the general partner or investment advisor under the Investment Advisers Act of 1940), stable to growing assets under management as determined by Baird, principals with an appropriate level of hedge fund management experience and network of contacts in the industry according to Baird, adequate diversification by number of hedge funds and type of hedge fund strategy in Baird's opinion, effective risk management, and reputable service providers (e.g., auditor, administrator, and legal counsel). Baird also seeks FOHFs that it believes possess one or more unique attributes that may lead to favorable performance relative to their peers going forward.

Before adding a prospective FOHF to the List, Baird's Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the FOHF's responses to a due diligence questionnaire and marketing and legal documents (e.g., subscription documentation, limited partnership agreement, offering memorandum, and the adviser's Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the FOHF

identifies, hires, monitors, and terminates individual hedge funds. Baird also evaluates how the FOHF constructs its hedge fund portfolio and manages risk. In addition, Baird undertakes a brief review of the FOHF's third party service providers. At the conclusion of the onsite review, the Asset Manager Research Department writes and presents an investment thesis to Baird's Investment Committee. The Committee determines whether to add the FOHF to Baird's Recommended Funds of Hedge Fund List. In making that determination, the Committee considers the information presented by the Asset Manager Research Department, taking into account the merits of the individual FOHF, how that FOHF compares to other FOHFs that Baird offers, and the level of expected demand for the particular FOHF.

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

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

Using the FOHFs on Baird's Recommended Funds of Hedge Funds List, Baird Financial Advisors will select or replace, or recommend the selection or replacement of, a particular FOHF 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 along with the Asset Manager Research Department are primarily responsible for selecting and evaluating managed futures products made available to ICS clients. 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, an ICS Consultant may recommend the selection or replacement of, a particular managed futures product based upon each client's particular goals and circumstances.

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

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

Baird's Product Management Department is primarily responsible for selecting and evaluating structured products made available to ICS clients. 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, an ICS Consultant may 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 ICS clients. Baird's initial evaluation of a fund of private equity product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Product Strategy Committee determines whether to make a fund of private equity funds product available to Baird clients.

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

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

Using the funds of private equity funds that Baird makes available, an ICS Consultant may 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 "Other Financial Industry Activities and Affiliations—Certain Affiliations—Affiliated Private Equity Funds" below.

### Principal Risks

Risk is inherent in any investment product and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Baird's recommendations are based in part upon the use of forward looking projections, which in turn are based upon certain assumptions about how markets will perform in the future. There can be no guarantee that markets will perform in the manner assumed and the actual performance of markets and a client's account could differ materially from those assumptions. Also, a client's account value may fluctuate, sometimes dramatically, depending upon the nature of the client's investments, market conditions and other factors. By investing, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by investment style or strategy, and may or may not apply to a client. Clients should not pursue a strategy or invest in an investment product unless they are prepared to accept the associated risks. Clients are encouraged to discuss with their ICS Consultant the risks that apply to them. A client should also review the prospectus or other disclosure document for any security or other investment product in which the client invests, as it will contain important information about the risks associated with investing in such security or other investment product.

### General Risk Information

General risks of investing include the following:

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

**Management and Securities Selection Risks.** A client's account may fluctuate in value differently than, or in the opposite direction as, the overall market or

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

**Investment Objective and Asset Allocation Risks.**

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

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

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

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

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

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

**Fixed-Income Security Risks.** Fixed-income securities are subject to certain risks, including interest rate risk 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.

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

**Investment Style Risks.** Investment styles or strategies that focus on growth stocks may perform better or worse than styles or strategies that focus on value stocks or that are broader or more diversified. Similarly, investment styles or strategies that focus on value stocks may perform better or worse than styles or strategies that focus on growth stocks or that are



broader or more diversified. A particular style of investing may go out of favor at times and for extended periods. Growth stocks are often characterized by high price-to-earnings ratios and may be more volatile than stocks with lower price-to-earnings ratios. Value stocks are subject to the risk that the broader market may not agree with the manager's assessment of, or recognize, the investments' intrinsic value.

**Foreign Issuer and Investment Risks.** Securities of foreign issuers, ADRs, Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs"), and investments in foreign markets generally, are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. Investors in foreign markets may face delayed settlements, currency controls and adverse economic developments as well as higher overall transaction costs. In addition, fluctuations in the U.S. dollar's value versus other currencies may enhance, erode, reverse gains or widen losses from investments denominated in foreign currencies. For instance, foreign governments may limit or prevent investors from transferring their capital out of a country. This may affect the value of a client's investment in the country that adopts such currency controls. Exchange rate fluctuations also may impair an issuer's ability to repay U.S. dollar denominated debt, thereby increasing the credit risk of such debt. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

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

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

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

**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. New SEC regulations for money market funds that go into effect in October 2016 may impact how some money market funds operate. The new regulations make a distinction between: (1) government money market funds (funds that invest nearly all assets in cash, government securities, and/or repurchase agreements collateralized by cash or government securities); (2) retail money market funds (funds that have policies and procedures reasonably designed to limit beneficial ownership to natural persons); and (3) institutional money market funds (funds that permit beneficial ownership by institutions and natural persons). Beginning in October 2016, institutional money market funds will be required to calculate their NAV in a manner such that the NAV will vary based upon the market value of assets and liabilities of the fund (also known as a "floating NAV"). In addition, retail and institutional money market funds will be required to impose redemption fees (also known as liquidity fees) and suspend redemptions (also known as redemption gates) in certain circumstances. Government money market funds may also impose redemption fees and suspend redemptions in those same circumstances. More specific information about how a money market fund calculates its NAV and the circumstances under which it will impose a redemption fee or suspend redemptions is set forth in the prospectus for that money market fund.

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

**Mutual Fund Risks.** Mutual funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Mutual funds have risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain mutual funds pursue Alternative Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of mutual fund selected. Also, investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

**Exchange Traded Fund Risks.** An ETF is different from a mutual fund in that an ETF does not sell its shares directly to public investors and does not redeem shares from public investors. Rather, shares of an ETF are commonly purchased or sold in the secondary market on a securities exchange, like common stocks. An ETF maintains a net asset value but, based on demand and other factors, the market price of shares of an ETF may vary from its net asset value. ETFs invest in and hold securities and other assets, such as stocks, bonds, commodities and currencies, and have stated investment objectives and principal strategies. ETFs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region.



Many ETFs seek to track the performance of an index or other underlying benchmark. Passively managed ETFs will not be able to replicate exactly the performance of the indices the ETFs track because the total return generated by the securities will be reduced by management fees, transaction costs and other expenses incurred by the ETF. ETFs have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain ETFs pursue Alternative Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of ETF selected.

**Closed-End Fund Risks.** Unlike mutual funds which continuously offer and redeem their shares on a daily basis at net asset value, closed-end funds typically raise money by selling a fixed number of shares of common stock in a single, one-time offering, much the way a company issues stock in an initial public offering. Closed-end funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Closed-end fund shares are not redeemable, meaning that investors cannot require closed-end funds to buy back their shares, although closed-end fund shares are listed and traded on an exchange. For many reasons, closed-end fund shares often trade at a discount to their net asset value and the market prices of closed end fund shares often fall below their public offering prices. Clients are therefore cautioned about buying shares of a closed-end fund in its initial public offering. Closed-end funds often engage in leverage to raise additional capital for purposes of making investments through borrowings and issuances of senior securities (such as preferred stock). Such leverage may present the opportunity to enhance potential returns but also involve the risk of exacerbating losses and depreciation in the value of the underlying securities. Closed-end funds have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain closed-end funds pursue Alternative Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of close-end fund selected.

**Unit Investment Trust Risks.** A UIT is a pooled investment vehicle in which a portfolio of securities is selected by the sponsor and deposited into the trust for a specified period of time. The portfolio of a UIT is

designed to follow an investment objective over a specified time period, although there is no guarantee that the objective will be met. UITs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. UITs are passively managed and follow a “buy and hold” strategy, meaning that UITs buy a fixed portfolio of securities and hold on to that portfolio until their termination date at which time the portfolio is liquidated with the net proceeds paid to investors. UITs, thus, generally have a relatively higher risk of loss than other funds in the event of adverse changes in market or economic conditions. UITs have other risks, which may include management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain UITs pursue Alternative Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of UIT selected. Also, investment return and principal value will fluctuate, and units, if and when redeemed, may be worth more or less than their original cost.

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

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

**Non-Traditional Assets Risks.** Non-traditional assets, such as real estate, commodities, currencies and private companies, are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Some non-traditional assets are less

transparent and more sensitive to domestic and foreign political and economic conditions than more traditional investments. Non-traditional assets are also generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

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

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

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

**Short Sales Risks.** Short selling runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This

risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate. In addition, a lender may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, which may result having to buy the securities sold short at an unfavorable price. A client should not engage in short sales unless the client is prepared to experience significant losses in the client's account.

**Derivative Instrument Risks.** The values of options, convertible securities, futures, swaps, forward contracts and other derivative instruments is derived from an underlying asset, such as a security, commodity, currency, or index. Derivative instruments often have risks similar to the underlying asset, however, in certain cases, those risks are greater than the risks presented by the underlying asset. Derivative instruments may experience dramatic price changes and imperfect correlations between the price of the derivative and the underlying asset, which may increase volatility. Derivatives generally create leverage, and as a result, a small movement in the underlying asset's value can result in large change in the value of the derivative instrument. Derivatives are also subject to liquidity risk, interest rate risk, market risk, credit risk, management risk and counterparty risk. The use of these instruments is not appropriate for some clients because they involve special risks. A client should not invest in these instruments unless the client is prepared to experience volatility and significant losses in the client's account.

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

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

#### **Alternative Investment Product Risks**

**Hedge Funds and Funds of Hedge Fund Risks.** Hedge funds typically engage in one or more Alternative Strategies, including the use of non-traditional assets, short sales, leverage and other derivative instruments. Funds of hedge funds typically invest substantially all of their assets in other hedge funds. Hedge funds and

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

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

Private equity funds are pools of actively managed capital that invest primarily in private companies with the intent of creating value in the companies in which they invest by improving operations, reducing costs, selling non-core assets and maximizing cash flow. Private equity funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments. Funds of private equity funds typically invest substantially all of their assets in other private equity funds. Private equity funds and funds of private equity funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private equity funds and funds of private equity funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private

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

**Exchange Traded Notes Risks.** An ETN is a type of debt security that trades on an exchange and provides a return linked to the performance of an underlying benchmark. The underlying benchmark can be a particular security, bond, commodity, currency, or other non-traditional asset type, a group or basket of companies, securities, commodities, currencies, derivative instruments, non-traditional asset investments or other assets, or an index or other benchmark linked to stocks, market volatility, bonds, interest rates, Treasury yields, yield curves and spreads, derivative instruments, strategies, commodities, currencies or other assets. ETNs trade on exchanges throughout the day at prices determined by the market. Unlike ETFs, issuers of ETNs do not buy or hold assets to replicate or approximate the performance of the underlying benchmark. Also in contrast to ETFs, ETNs also do not calculate their net asset value, are generally not redeemable on a daily basis, and are not registered under the Investment Company Act of 1940. Issuers may also have the right and option to redeem ETNs. Redemptions are made at the ETN's "indicative value" or "closing indicative value". An ETN's closing indicative value is computed by the issuer and is distinct from an

ETN's market price, which is the price at which an ETN trades in the secondary market. Issuers of ETNs may also issue and redeem notes as a means to keep the ETN's market price in line with its indicative value, which have caused significant fluctuations in ETN prices. Investing in ETNs involves special risks, including, but not limited to, risks associated with non-traditional assets and derivative instruments and the risk that the actual market price for an ETN may vary significantly from the indicative value computed by the issuer. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *ETNs are complex investments and involve significant, special risks. As a result, ETNs may not be suitable for some clients.*

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

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

**Structured Products Risks.** Structured products are a hybrid between two asset classes (typically issued in the form of a CD or note) but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and a foreign currency or basket of foreign currencies. Investing in structured products involves special risks, including, but not limited to, risks associated with derivative instruments. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, emerging market risk, commodities risk and currency risk. *Structured products are complex investments and involve special risks. As a result, they may not be suitable for some clients.*

**Real Estate Investment Trusts Risks.** A REIT is a corporation, trust or association that owns and typically



operates income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, multi-family housing, student housing, hotels, resorts, hospitals and health care facilities, self-storage facilities, data centers, warehouses, telecommunications facilities, and mortgages or loans. Many REITs are registered with the SEC and their common stock and preferred stock are publicly traded on a stock exchange. These are known as publicly traded REITs. Others may be registered with the SEC but are not publicly traded. These are known as private REITs (also known as non-traded or non-exchange traded REITs). Private REITs are generally subject to limited regulation and offer limited disclosure and transparency. The shareholders of a REIT are responsible for paying taxes on the dividends that they receive and on any capital gains associated with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. Prices of REIT securities and trading volumes may be more volatile than other investments. Many REITs focus on a particular sector of the real estate market, such as apartments, student housing, hotels and hospitality, health care, office buildings, shopping malls, warehouses, self-storage facilities and the like. Those REITs are subject to risks associated with sectors in which they are focused. Additionally, many REITs may own properties that are concentrated in a particular geographic region or regions, which subject them to the risk of deteriorating economic conditions in those areas. Investing in REITs involves other special risks, including, but not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), liquidity risk, leverage risk, distribution risk, capital markets access risk, growth risk, counterparty risk, conflicts of interest risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *REITs involve significant, special risks and may not be suitable for some clients. Clients investing in REITs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility and volatility of regular distribution amounts, potential lack of liquidity and potential loss of their investment.*

**Business Development Company Risks.** A BDC is typically a domestic, closed-end investment company that is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. As a result, investments made by BDCs tend to be risky and speculative. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to

make riskier investments that have the potential for significant growth in value. BDCs commonly use borrowings or leverage to make investments in portfolio companies. Adverse interest rate movements can negatively impact a BDC's ability to make investments. Investments made by BDCs are typically illiquid, and valuing such investments is challenging. It is possible that valuations on investments used are materially different from the values that BDCs will ultimately receive upon disposition of those investments. Changing market and economic conditions affecting a BDC's investments may cause significant volatility in the BDC's net asset value and stock price. Due to the nature of BDCs' investments, securities issued by BDCs are subject to greater liquidity risk than other investments. A debt security or preferred stock issued by a BDC, in many cases, is non-rated or is rated below investment grade, which can carry its own risks. Investing in BDCs involves other special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, capital markets access risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, and interest rate risk. *BDCs can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, BDC investments may not be suitable for some clients. Clients investing in BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.*

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

interest rate risk, liquidity risk, operating risk, capital markets access risk, growth risk, distribution risk, conflicts of interest risk, and regulatory risk. *MLPs are complex investments that have significant, special risks. As a result, MLPs may not be suitable for some clients. Clients investing in MLPs should have a high tolerance for risk, including the willingness and ability to accept potential lack of liquidity and potential loss of their investment.*

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

#### **Recent Market Events**

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

#### **Disciplinary Information**

In December 2008, Baird, without admitting or denying the allegations, consented to the sanctions and findings of the Financial Industry Regulatory Authority, Inc. ("FINRA") that it violated NASD Rules 2110, 3010(a) and 3010(b) by failing to establish and maintain an adequate supervisory system reasonably designed to review and monitor its fee-based brokerage business and its registered representatives. Baird was found to have failed to: implement fee breakpoint discounts on certain fee-based brokerage accounts; clearly identify the specific fee applicable to each customer; implement a system to automatically credit customers with the fee breakpoint discounts specified in their account agreements; and adequately disclose inclusion of margin activity and short sales in fee calculations for fee-based accounts. Baird was fined \$500,000 and paid restitution of \$434,510 plus interest to affected customers.

In April 2016, Baird, without admitting or denying the findings, consented to the sanctions and findings of the Financial Industry Regulatory Authority, Inc. ("FINRA") that it violated NASD Conduct Rule 3010, FINRA Rule 3110, and FINRA Rule 2010, by failing to establish and maintain a supervisory system and procedures reasonably designed to ensure that customers who purchased mutual fund shares received the benefit of applicable sales charge waivers. In May 2015, Baird began a review to determine whether Baird had provided available sales charge waivers to eligible customers. Based on this review, in May 2015, Baird self-reported to FINRA that various eligible customers had not received available sales charge waivers. Baird was found to have disadvantaged certain retirement plan and charitable organization customers that were eligible to purchase Class A shares in certain mutual funds without a front-end sales charge. The findings also stated that these customers were instead sold Class A shares with a front-end sales charge or Class B or C shares with higher ongoing fees and the potential application of a contingent deferred sales charge. Baird was censured and required to pay restitution to affected customers estimated to be approximately \$2.1 million including interest.

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

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

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

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

### Broker-Dealer Activities

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

Certain ICS Consultants and certain management persons of Baird are registered, or have an application pending to register, as registered representatives and associated persons of Baird to the extent necessary or appropriate to perform their job responsibilities.

### Investment Management Activities

Baird and its ICS Consultants may, from time to time refer clients to Baird Advisors or BIM, investment management departments of Baird, or Chautauqua Capital Management ("CCM"), a division of BIM. ICS Consultants are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. *ICS Consultants may have a financial incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.*

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. 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") and Greenhouse Fund GP LLC ("Greenhouse GP") by virtue of their common indirect

ownership by BFG. From time to time, ICS Consultants may use or recommend Greenhouse or Greenhouse GP investment products and services. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor their investment products and services.*

#### Affiliated Mutual Funds and ETFs

Baird is the investment adviser and principal underwriter for Baird Funds, Inc. (the "Baird Funds"). Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). CCM provides investment management and other services to certain Baird Funds pursuing global or international investment strategies (the "Chautauqua Funds"). BKG acts as the investment sub-adviser for a Baird Equity Fund. As compensation for their 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 on Baird's Recommended Mutual Fund List. *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.*

ICS Consultants who refer clients to the Baird Funds are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. The amount of the referral compensation is disclosed in each Baird Fund's statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). *ICS Consultants may have a financial incentive to favor investments in the Baird Funds over investments in other mutual funds and to favor the Baird Equity Funds over the Baird Bond Funds.*

Baird Advisors serves as investment sub-adviser to a mutual fund series of the Bridge Builder Trust. 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.

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



Pace® Select Advisors Trust. Additional information about those mutual funds, including information relating to the compensation paid to Baird by those funds for investment management services, is available in the funds' prospectus and statement of additional information.

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

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

CCM acts as investment manager for, and Baird is the general partner of, the Chautauqua International Growth Equity QP Fund, LP and the Chautauqua Global Growth Equity QP Fund, LP (the "Chautauqua Limited Partnerships"), and CCM serves as investment sub-adviser to the Multi-Advisor Funds International Fund. Those funds are private pooled investment vehicles that are not required to be registered with the SEC as investment companies. *Due to their affiliation with the Chautauqua Limited Partnerships and the Multi-Advisor Funds International Fund, BIM, CCM and Baird have a financial incentive to favor those funds.*

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

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. Baird and its ICS Consultants may refer clients to Baird Capital. Baird Capital makes venture capital, growth equity and private equity investments primarily in the healthcare, technology and services, and products sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); Baird Venture Partners Management Company IV, LLC ("BVP IV"); Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"); Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"); Baird Principal Group Management Company I, LLC ("BPG I") and Baird Capital Partners Europe Limited. BVP I, BVP III, and BVP IV participate in venture capital opportunities by generally investing in equity securities of early-to-growth stage companies. BVP I is the general partner of the three limited partnerships and is an investment adviser registered with the SEC. BVP III is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BVP

IV is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCP III, BCP IV and BCP V generally invest in equity securities of growing lower-middle market companies issued in management buyouts, recapitalizations, industry consolidations and growth equity transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BPG I co-invests with private equity funds and private equity professionals in transactions in the United States and Europe. BPG I is the general partner of one limited partnership and is an investment adviser registered with the SEC. Only Baird employees were permitted to invest in the BPG I limited partnership. 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.

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

#### **Affiliated Hedge Funds**

Greenhouse acts as investment manager for, and Greenhouse GP is the general partner of, the Greenhouse Master Fund LP and the Greenhouse Onshore Fund LP. Greenhouse also acts as investment adviser for the Greenhouse Offshore Fund LP. Those funds are hedge funds that are not required to be registered with the SEC as investment companies. The Greenhouse Onshore Fund LP is available to clients. *Due to its affiliation with Greenhouse and Greenhouse GP, 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 Baird's advisory programs (including when Baird constructs its Recommended Managers List or Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution. 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.

ICS Consultants and other Baird associates may receive non-cash compensation and other benefits from investment managers with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits provides ICS Consultants an incentive to favor managers that provide greater levels of such benefits. Baird addresses this potential conflict through disclosure in this Brochure. Baird has also adopted policies and procedures for its ICS Consultants and other Baird 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.

Certain Baird associates from time to time may provide clients with tax return preparation, bill pay or related services. In some instances, the fee for those services may be bundled with the Advisory Fee. A client should understand that the provision of such services is

separate from, and not related to, the Programs offered under this Brochure and will be governed by an agreement separate from the client's advisory agreement with Baird. *A client should understand that Baird and its associates do not act as investment adviser to the client when providing tax return preparation, bill pay or related services to the client.*

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

#### Code of Ethics

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advisory services to clients, including ICS Consultants, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management or by Baird's Compliance Department. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of

Baird's advisory clients. In addition, Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

## Participation or Interest in Client Transactions

### Broker-Dealer and Related Activities

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

Baird and its affiliates may buy or sell securities for their own accounts, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to their own accounts or that of another client. Baird may also engage in agency cross transactions and principal transactions with clients in connection with other programs and services offered by Baird.

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. ICS Consultants who refer corporate buyback opportunities to the institutional trading departments of Baird are eligible for referral compensation from Baird that is based upon, among other factors, the commissions that Baird receives. Baird and its ICS Consultants may, therefore, have an incentive to sell, or to make sell recommendations with respect to, the securities of issuers for which Baird provides such buyback services.

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 Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to 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. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

## Investment Product Selling and Servicing Mutual Funds

Distribution and Shareholder Servicing Fees. Baird and its ICS Consultants provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to Baird clients that hold shares of such mutual funds in their accounts. Baird and its ICS Consultants 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 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 fee to Baird on such investment, Baird will either: (1) rebate such 12b-1 fees to the client's account or (2) reduce its asset-based fee in an amount equal to the 12b-1 fees it received by reason of the client's account. If any rebated fees remain in a client's account at the time of billing, those rebated amounts will be included in the account assets subject to the Advisory Fee.

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

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

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

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not

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

**Additional Information.** More detailed information about the compensation that 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 Baird or an ICS Consultant for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies.

### Unit Investment Trusts

Baird generally receives compensation related to the sale of units of UITs. Sponsors of UITs typically make marketing or concession payments to the firms that sell their UITs, including Baird. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during a particular period. That percentage typically increases as higher sales volume levels are achieved. Descriptions of these additional payments are provided in a UIT's prospectus. Baird has a financial incentive to favor UITs making higher marketing and concession payments. The marketing and concession payments that Baird receives from UIT sponsors are not paid to ICS Consultants, and the compensation that Baird pays to its ICS Consultants is not tied to such payments. More detailed information about UITs and the compensation that Baird receives from a UIT and its sponsor is available in the prospectus or other offering documents for the UIT and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### Alternative Investment Products

Baird and its ICS Consultants 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 and ICS Consultants 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 Baird or an ICS

Consultant 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 Baird and its ICS Consultants for selling their insurance products. Baird and its ICS Consultants 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 ICS Consultants. This support, which varies from insurance company to insurance company is commonly referred to as "marketing support" payments. Receipt of marketing support payments provides 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 ICS Consultants, and ICS Consultants' compensation is not tied to such financial support. ICS Consultants and Baird associates may, however, receive non-cash compensation and other benefits from Baird and insurance companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits provides ICS Consultants an incentive to favor insurance companies that provide greater levels of such benefits.

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 Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). In addition, Baird has adopted policies and procedures for its ICS Consultants and other Baird 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***

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

#### **Research Activities**

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

#### **Trust Services Arrangements**

Baird maintains alliances with certain unaffiliated institutions, including Comerica Bank & Trust, National Association, that provide trust services. These unaffiliated institutions offer various types of trust services, including trust administration, custody, tax

reporting and recordkeeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution. This provides Baird a financial incentive to recommend firms that are part of the alliance.

#### **Lending Arrangements**

Baird maintains alliances with certain unaffiliated lenders, including Tristate Capital Bank, that provide financing opportunities to 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. It is Baird's practice to provide more specific information about the referral fee at the time a client obtains such financing. As a result of the foregoing, Baird has a financial incentive to recommend that the client obtain loans from lenders that pay Baird referral fees.

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

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

Baird and its ICS Consultants likely will receive higher overall compensation from advisory clients than from brokerage clients. Baird also periodically incentivizes ICS Consultants and other Baird associates to recommend advisory products and services to a client and to increase the asset levels in a client's accounts. ICS Consultants and other Baird associates thus have a financial incentive to provide investment advice based upon the compensation received or to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of such arrangements. Certain client accounts managed by Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, Baird and its ICS Consultants may have an incentive to favor client accounts that generate a higher level of compensation.

Baird addresses these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information

provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time.

Other sections of this Brochure also describe instances when Baird and its ICS Consultants may recommend to clients, and may buy and sell for client's account, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Other Financial Industry Activities and Affiliations" above, and "Client Referrals and Other Compensation" below.

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

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

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

#### **Brokerage Practices**

The Services provided under this Brochure only include non-discretionary investment advice. Baird does not recommend or select broker-dealers to effect transactions for client accounts as part of the Services. However, some clients elect to participate in other advisory programs or services provided by Baird to implement the advice provided by ICS Consultants. Under those circumstances, Baird may select broker-dealers. A client should consult with the client's ICS Consultant or review the Form ADV Part 2A Brochure for the other advisory program or service for more information.

#### **Review of Accounts**

The nature and frequency of client account reviews performed by ICS Consultants and the reports provided to clients varies by the particular needs of each client and will be set forth in the client's Consulting Agreement. Typically, clients receive quarterly reports that show asset performance compared to benchmarks within the same asset class.

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

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.

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 "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above.

#### **Custody**

Baird does not have custody of client assets as part of the Services. However, some clients elect to participate in other advisory programs or services provided by Baird to implement the advice provided by ICS Consultants. Under those circumstances, Baird may serve as custodian. A client should consult with the client's ICS Consultant or review the Form ADV Part 2A Brochure for the other advisory program or service for more information.

#### **Investment Discretion**

Baird does not have discretionary authority to buy or sell securities for client accounts or otherwise act for client accounts in connection with the Services. A client retains full discretionary authority over client's accounts.

#### **Voting Client Securities**

Baird does not have authority to vote proxies with respect to the securities held in the client's account or otherwise act for client accounts in connection with the Services. A client retains the right to vote proxies with respect to the securities held in such accounts and is solely responsible for voting any such proxies.

#### **Financial Information**

Baird 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 its most recent fiscal year. Baird is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary of a client should understand that Baird may recommend that the client invest in affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary should also understand that when the assets of a Retirement Account are invested 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, Baird 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 Baird will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Advisory Fee that Baird charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, the client and each Retirement Account Fiduciary of the client acknowledge in the client's 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) all assets of the client's account may be invested in one or more of the affiliated investment products; (iii) the client and such Retirement Account Fiduciary received prospectuses or other offering or disclosure documents for the affiliated investment products that may be used in connection with the account, each of which include a summary of all fees that may be paid by the affiliated investment products to Baird or its affiliates; and (iv) the client received information concerning the nature and extent of any differential between the rate of such affiliated investment product fees and the Advisory Fees payable by the client. The differential between the fees to be charged by Baird 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 product to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment product is the difference between the Advisory Fee disclosed in the client's agreement and the applicable investment management, investment advisory and other similar fees detailed in the applicable prospectus or other offering or disclosure documents for the affiliated investment product.

If a client's account is a Retirement Account and if the client has selected an investment manager or product affiliated with Baird (such as the use of services or products offered by Baird Advisors, BIM, CCM, BKG, Greenhouse, Riverfront or any mutual fund affiliated with Baird, BKG, Greenhouse or Riverfront), each Retirement Account Fiduciary of the client understands

and agrees that in making such selection: (a) Baird and its affiliates may receive higher aggregate compensation than if the client selected investment managers, funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated investment managers, funds or other products; (b) Baird makes available to the client investment managers, funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated investment managers, funds or products at any time by contacting the client's ICS Consultant; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use investment managers, funds or products affiliated with Baird at any time by contacting the client's ICS Consultant. For more information about investment managers and products that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.