

# Baird Investment Management Chautauqua Capital Management



## Brochure

April 25, 2016

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SEC File No. 801-7571

This brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird"), Baird Investment Management ("BIM"), an investment management department operating within Baird, and Chautauqua Capital Management ("CCM"), a division of BIM. Clients should carefully consider this information before becoming a client of BIM. If you have any questions about the contents of this Brochure, please contact BIM 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 investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Investment Management ("BIM"), an investment management department of Baird, and Chautauqua Capital Management ("CCM"), a group or division within BIM. For purposes of this Brochure, the term BIM shall include CCM unless otherwise noted. 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; research 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 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"). BIM is deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure.

From time to time BIM and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of BIM and Baird. BIM and Baird generally address potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure. Brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with BIM and Baird. In addition, Baird has adopted internal policies and procedures for BIM and Baird that require them to: provide investment advice that is appropriate for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of

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

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

### **Baird Investment Management**

BIM offers professional portfolio management to separate account clients desiring investments in equity and balanced portfolios. The investment advisory services offered by BIM generally include portfolio management, asset allocation, investment advice and consulting services, performance reporting, and related account services. BIM also provides investment advisory services to certain mutual funds and private limited partnerships.

### **Separate Accounts**

BIM manages client portfolios with full investment discretion and tailors its advisory services to the individual needs of clients. BIM analyzes a client’s specific needs and risk tolerance to select an investment strategy appropriate for the client. BIM offers four (4) primary growth investment strategies: a Large Cap Core Growth Portfolio; a Large Cap Balanced Portfolio; a Mid Cap Growth Portfolio; and an All Cap Growth Portfolio (the “BIM Growth Strategies”). BIM also offers Specialized Asset Management (“SAM”) portfolio strategies (the “SAM Strategies”), consisting of SAM Strategic Portfolio strategies and SAM Custom Portfolio strategies. In addition, BIM offers three (3) primary value investment strategies: a Small Cap Value Portfolio; a Small/Mid Cap Value Portfolio; and an All Cap Value Portfolio (the “BIM Value Strategies”). CCM offers two (2) primary equity investment strategies: (1) the International Growth Equity Portfolio; and (2) the Global Growth Equity Portfolio (the “CCM Strategies”).

BIM also manages client portfolios according to other strategies selected by clients (“Other BIM Strategies”, and with the BIM Growth Strategies, the SAM Strategies, BIM Value Strategies, and the CCM Strategies, the “BIM Strategies”).

BIM also makes available to clients certain investment strategies that are offered by other managers (“Other Managers”), which include BKG, an affiliate of Baird (the “Other Manager Strategies”).

Certain strategies have substantially identical objectives and benchmarks for investment returns.

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

All of the investment strategies discussed in this Brochure may not be appropriate for every client. BIM will only select or recommend those strategies believed to be suitable for a particular client.

A client that wishes to retain the services of BIM will enter into an investment management agreement with BIM. The investment management agreement will contain the specific terms applicable to the client’s advisory relationship with BIM.

A client is responsible for providing to BIM and any Other Manager managing the client’s portfolio information that BIM or the Other Manager reasonably requires in order to provide the services selected by the client including, but not limited to, any investment policy statement and anticipated liquidity needs. BIM and the Other Manager will rely on this information when providing its advisory services. A client is also responsible for informing BIM and the Other Manager in writing of any material change in circumstances that might materially affect the manner in which the client’s assets should be invested.

*Important Note for Wrap Fee Program Clients.* BIM manages client assets under wrap fee programs sponsored and administered by Baird and unaffiliated parties (the “Program Sponsors”). A list of Program Sponsors is included on Schedule D to Baird’s Form ADV Part 1A, which is available at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Clients who select BIM to manage their assets within wrap fee programs typically do so under either a “single contract” or “dual contract” arrangement.

Under a single contract arrangement, a client enters into an agreement with the Program Sponsor and the Program Sponsor, in turn, enters into a subadvisory or similar agreement with BIM on the client’s behalf. This type of arrangement is frequently referred to as a single contract arrangement because there is only one contract between the client and the Program Sponsor; the client does not have an agreement directly with BIM. Clients with single contract arrangements typically pay an asset-based wrap fee to the Program Sponsor and, out of that wrap fee, the Program Sponsor pays an advisory fee to BIM.

Under a dual contract arrangement, the client has two contracts; one contract with the Program Sponsor and another contract with BIM. Clients with a dual contract arrangement pay to BIM an advisory fee in addition to the wrap fee they pay to the Program Sponsor.

Under such wrap fee programs, Program Sponsors generally assist a client with the selection of BIM (or may have the discretion to select BIM) to manage the assets in the client’s account maintained at the Program Sponsor. They generally also provide trade execution services and custodial services for the client’s account as part of the wrap fee paid by the client.

BIM participates in those wrap fee programs in one of two ways. First, BIM may manage client portfolios with full investment discretion. Alternatively, BIM may provide the Program Sponsor with model portfolios, or other advice or consulting services regarding the asset allocation strategies, that the Program Sponsor provides to clients.

If BIM is selected to manage the assets in a client account maintained by the Program Sponsor, BIM will manage the client’s account with full investment discretion. Unless the client or Program Sponsor directs BIM to do otherwise, BIM will select the broker-dealers that will execute client trades. To the extent deemed appropriate by BIM pursuant to its duty to seek best execution, BIM may place orders with broker-dealers other than the Program Sponsor.

*As a result, a client may incur costs in addition to the wrap fee paid to the Program Sponsor if the executing firm charges a commission, markup or markdown for executing the trade. Clients participating in wrap fee programs are encouraged to read carefully the Section below entitled “Brokerage Practices” for more information.*

If BIM provides the Program Sponsor with model portfolios, advice or consulting services, BIM will not manage the client’s account or select broker-dealers to execute client trades.

If a client is participating in a wrap fee program, the client should review the client’s agreement with the Program Sponsor and the Program Sponsor’s Form ADV Part 2A Brochure for a full description of the services provided and fees charged by the Sponsor. A client should also review the sections entitled “Fees and Compensation” and “Investment Discretion” below for more information.

*Important Note about the Other Manager Strategies.* The Other Manager Strategies are made available to clients under a single contract arrangement with BIM, that is, a client enters into an agreement with BIM and BIM, in turn, enters into a subadvisory agreement with the Other Manager on the client’s behalf. If a client selects an Other Manager Strategy, the client authorizes and directs BIM to appoint the Other Manager to serve as sub-adviser to the client’s account. The client also authorizes and directs the Other Manager to manage the client’s portfolio with full discretionary authority in accordance with the Other Manager Strategy selected by the client. See the sections entitled “Fees and Compensation” and “Investment Discretion” below for more information.

**Important Information about BKG.** *BKG is affiliated with Baird. Baird has a potential conflict of interest to the extent Baird would advise clients to participate in advisory services offered by BKG. For more information, see “Other Financial Industry Affiliations and Activities—Affiliated Investment Advisors” below.*

### **Mutual Funds**

BIM provides investment management and other services to certain mutual fund series of Baird Funds, Inc. investing primarily in equity securities

(the "Baird Equity Funds"). Additional information about the services BIM provides is available in the prospectuses and statements of additional information for those Baird Funds, which are available on the Baird Funds' website at [www.bairdfunds.com](http://www.bairdfunds.com).

BIM serves as investment sub-adviser to a mutual fund series of the Principal Funds, Inc., and 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 the services that BIM and CCM provide to those funds is available in the prospectuses and statements of additional information for those funds.

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

CCM provides investment services on a discretionary basis to two private limited partnerships, the Chautauqua International Growth Equity QP Fund, LP and the Chautauqua Global Growth Equity QP Fund, LP (the "Chautauqua Limited Partnerships"), which are private pooled investment vehicles that are not required to be registered with the SEC as investment companies. Baird serves as the general partner of the Chautauqua Limited Partnerships. Chautauqua Limited Partnership interests are not publicly offered for sale and are not registered with the applicable securities regulators. Investors in the Chautauqua Limited Partnerships must be accredited investors and qualified clients pursuant to federal and state securities laws.

CCM is responsible for managing the Chautauqua Limited Partnerships' investment portfolios pursuant to the investment objectives and investment policies of the Chautauqua Limited Partnerships that is stated in each Chautauqua Limited Partnership's private offering memorandum. CCM will determine what investments will be purchased, held, sold, or exchanged. Baird is responsible for all major operational decisions of the Chautauqua Limited Partnerships and appoints service providers to perform administrative, accounting, custody and investor services for the Chautauqua Limited Partnerships. These services include, but are not be limited to, processing subscriptions and redemptions of interests in the Chautauqua Limited Partnerships, calculation of the net asset value of each Chautauqua Limited Partnership,

preparation of the financial statements, preparation of all reports to limited partners of the Chautauqua Limited Partnership including the IRS K-1, administration of the capital accounts of the Chautauqua Limited Partnership's limited partners, transfers of limited partner interests and management of overhead functions for the Chautauqua Limited Partnerships. Baird may amend the Limited Partnership Agreement without the consent or approval of the limited partners, so long as at least sixty (60) days prior written notice of the amendment is given in advance, to all limited partners. Such amendments may be made at the absolute discretion of Baird and may involve any or all provisions of the Partnership Agreement or any other matters relating to the structure or operation of the Partnership.

Baird maintains the Chautauqua Limited Partnerships' accounts at a qualified custodian(s) and provides the limited partners of the Chautauqua Limited Partnerships with notice of the qualified custodian(s) that are holding the Chautauqua Limited Partnerships' accounts. Additionally, the Chautauqua Limited Partnerships engage a public accounting firm to audit each Chautauqua Limited Partnership at least annually and distribute audited financial statements (prepared in accordance with generally accepted accounting principles) to all limited partners within 120 days after the end of the Chautauqua Limited Partnership's fiscal year (December 31).

Additional information about the Chautauqua Limited Partnerships and the services that CCM provides to them is available in the offering memoranda for those funds.

CCM serves as investment sub-adviser to the Multi-Advisor Funds International Fund, which is a private pooled investment vehicle that is not required to be registered with the SEC as an investment company. Additional information about the services that CCM provides to that fund is available in the offering memorandum for that fund.



## Fees and Compensation

### Separate Accounts

#### Advisory Fees

#### Separate Accounts

A client's investment management agreement will set forth the actual compensation a separate account client will pay to BIM. In most instances, a client pays BIM an ongoing fee based upon the value of assets in the client's account (an "asset-based fee"). The typical asset-based fee varies depending upon the total value of the client's assets in the account, as shown in the fee schedule below.

#### Fee Schedule

Large Cap Core Growth Portfolio  
Large Cap Balanced Portfolio  
Specialized Asset Management Portfolio  
Other Manager Strategies

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$10,000,000	0.75%
On the next \$40,000,000	0.60%
On the remaining assets	0.50%

#### All Cap Growth Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$10,000,000	0.80%
On the next \$40,000,000	0.65%
On the remaining assets	0.55%

#### Mid Cap Growth Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$10,000,000	0.85%
On the next \$40,000,000	0.70%
On the remaining assets	0.60%

#### Small Cap Value Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	1.00%
On the remaining assets	0.80%

#### Small/Mid Cap Value Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	0.95%
On the remaining assets	0.75%

#### All Cap Value Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	0.85%
On the remaining assets	0.65%

#### CCM International Growth Equity Portfolio CCM Global Growth Equity Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$50,000,000	1.00%
On the remaining assets	0.90%

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

For purposes of calculating a client's asset-based fee, the value of assets in a client's account is generally determined by Baird. Baird generally determines the value of the assets in the client's account using prices from third party pricing services. However, if the client has its assets held by a custodian other than Baird and if the third party pricing service does not provide a price for assets in the client's account, Baird will rely upon the price reported by the client's third party custodian. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's account when prices are not otherwise readily available. This frequently occurs with respect to the valuation of alternative investment products in a client's account.

BIM and Baird do not conduct an in-depth review of valuation information provided by third party pricing services, issuers, sponsors or custodians, and they do not verify or guarantee the accuracy of such information. BIM and Baird do not accept responsibility for valuations provided by third parties that are inaccurate unless they have a reason to believe that the source of such valuations is unreliable. The prices obtained by Baird from third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used for fee-calculation purposes may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an account, and the 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.

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

The account value used for the advisory fee calculation may differ from that shown on a client's account statement or performance report due to a variety of factors, including the client's use of margin, options, short sales, and other considerations. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

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

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

BIM or Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with sixty (60) days' prior written notice.

If either BIM or the client terminates the client's investment management agreement, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's account. Generally, BIM will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust advisory fees during any such period for asset value appreciation or depreciation in a client's account during such period. For example, if a client's account is subject to a tiered or breakpoint fee schedule and the asset levels of the account move into a new tier or cross a breakpoint during such period, no rebate or fee adjustment will be made. However, BIM, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's account occurring during a billing period that result from contributions to, or withdrawals from, the client's account.

Some or all of the assets in a client's account may be invested in an institutional share class of one or more mutual funds within Baird Funds, Inc. (the "Baird Funds"), for which Baird serves as investment adviser. If any assets are held in any of the Baird Funds, BIM generally will not charge the fees set forth above on those assets, unless those assets are held through a wrap fee program

(including wrap fee programs sponsored by Baird), in which event BIM's fee will generally be assessed on those assets.

The minimum asset value to open a Growth Strategy account is \$5,000,000, a SAM Custom account is \$1,000,000, a SAM Strategic account is \$250,000, a Value Strategy account is \$1,000,000, and a CCM Strategy account is \$50,000,000. For the BIM Growth, SAM and BIM Value Strategies, BIM generally imposes a minimum annual fee of \$7,500. For the CCM Strategies, clients may be subject to a minimum fee, which will be set forth in the client's agreement. Unless otherwise agreed in writing, the minimum fee will apply if a client's portfolio asset value falls below the minimum account value. A client should note that this will cause the client to pay a fee at a higher rate than shown in the table above.

The advisory fee and minimum account value applicable to a client are negotiable in certain instances and may vary based upon a number of factors, including but not limited to, whether a client is participating in a wrap fee program, the size and nature of the assets in the client's account, the client's particular investment style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedule above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above. BIM may enter into other fee arrangements with eligible clients.

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

*Other Manager Strategies Fees.* The Other Manager Strategies are provided under a single contract arrangement. Under the single contract arrangement, BIM is responsible for paying the Other Manager its fee out of the fee that the client pays to BIM.

*Wrap Fee Programs.* As discussed above, clients who select BIM to manage their assets within wrap fee programs typically do so under either a "single contract" or "dual contract" arrangement.

Clients with single contract arrangements typically pay an asset-based wrap fee to the Program Sponsor and, out of that wrap fee, the Program Sponsor pays an advisory fee to BIM. The portion of the wrap fee paid to BIM varies from program to program based upon the rate negotiated by the Program Sponsor, taking into account the investment strategies being pursued, the amount of client assets involved, and the level of services to be provided. Specific information on the advisory fee payable to BIM will be provided by the applicable Program Sponsor. For information on the amount, calculation and billing of the wrap fee charged by the Program Sponsor, clients should consult with the Program Sponsor or refer to their wrap fee program agreement or the Program Sponsor's Form ADV Part 2A Wrap Fee Program Brochure.

Clients with a dual contract arrangement pay to BIM an advisory fee in addition to the wrap fee they pay to the Program Sponsor. BIM's advisory fee under a dual contract arrangement is negotiable and may vary depending upon the investment strategies being pursued, the amount of client assets involved, and the level of services to be provided. The actual fee that the client will pay to BIM will be set forth in the client's investment management agreement with BIM. BIM will generally calculate and charge such client fees in the manner more fully described above.

In most cases, the wrap fee paid by a client includes only certain trade orders executed through the Program Sponsor. A client should be aware that BIM may frequently "trade away" from the Program Sponsor. A client may, therefore, incur trading costs in addition to the wrap fee paid to the Program Sponsor. See "Brokerage Practices" below for more information.

### ***Other Fees and Expenses***

In addition to BIM's fee described above, a client of BIM may incur other fees and expenses. The asset-based fee only covers portfolio management and investment advice provided by BIM, and a client will pay for other services, such as custody and trade execution, separately in addition to BIM's fee. Please see the section

entitled "Brokerage Practices" below for more information about BIM's trading practices.

A client is responsible for bearing or paying, in addition to BIM's fee, the costs of all:

- commissions, 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), including for the CCM Strategies, local charges, fees, commissions and taxes imposed on foreign securities transactions effected in foreign markets;
- 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, and similar fees or expenses related to account transfers;
- currency conversions and transactions;
- securities conversions, including, without limitation, the conversion of American Depositary Receipts ("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.

Certain investment products, such as mutual funds, exchange traded funds ("ETFs"), and other similar investment pools (collectively, "investment

funds"), 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, BIM's fee. 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 BIM's fee. A client is also responsible for any redemption fees or similar fees that the fund or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment fund in which the client invests for further information.

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

### Mutual Funds

As compensation for their services, BIM and CCM receive fees from each mutual fund they advise, which fees are disclosed in each fund's prospectus and statement of additional information. Other fees that are payable as an investor in a mutual fund are described in the fund's prospectus and statement of additional information.

### Private Limited Partnerships

As compensation for CCM's services in managing the Chautauqua Limited Partnerships, Baird charges a monthly fee in arrears that is calculated based on a pro-rata share of the Chautauqua Limited Partnership's net asset value held by each limited partner as of the close of business on the prior month's valuation date, reduced by any redemptions on such date and increased by any capital contributions on the open date immediately succeeding such prior month's valuation date (i.e., on the open date for the current month). The first business day of each

month will be the Fund's "open date" and the close of business on the immediately prior business day will be the Fund's "valuation date". Redemptions and new subscriptions will occur once a month. Each limited partner's annual fee will be disclosed in each limited partner's subscription agreement and CCM may alter, reduce or waive entirely the management fee to any limited partner at its sole discretion. However, the standard fee schedule is as follows:

#### Fee Schedule

Chautauqua International Growth Equity QP Fund, LP

Chautauqua Global Growth Equity QP Fund, LP

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$50,000,000	1.00%
On the remaining assets	0.90%

The management fees will accrue as expenses of the Chautauqua Limited Partnerships and will be taken into account when determining each limited partner's account's net asset value. Accounts under \$50,000,000 may pay more than 1%. In addition to the management fees charged by Baird to the Chautauqua Limited Partnerships, the Chautauqua Limited Partnerships will also pay or reimburse Baird, as general partner, for Chautauqua Limited Partnership expenses incurred in connection with the business of the Partnership. The Chautauqua Limited Partnerships' expenses may include, but are not limited to, insurance costs, legal, administration and accounting fees, custodial fees, brokerage commissions and securities transaction costs, the expenses of printing and mailing reports to limited partners, transfer and distribution agent charges, expenses of any Partners' meetings, interest and taxes, advisory fees paid with respect to investments in any non-affiliated money market mutual fund, any and all costs incurred in connection with computing the value of the assets, any and all costs and expenses incurred in connection with the dissolution, winding up, or termination of the Partnership and any other extraordinary expenses incurred by the Chautauqua Limited Partnerships in their course of business. Until each of the Chautauqua Limited Partnerships has a total of at least \$10,000,000 in assets, CCM will bear routine legal, tax, accounting and insurance costs of the Partnership to the extent these costs exceed 1/12th of .25%

of the Partnership's net asset value as of each monthly valuation date.

A limited partner may, on any valuation date redeem all or a portion of its interests with thirty (30) days written notice to CCM. Investors in the Chautauqua Limited Partnerships will be subject to restrictions on transferability and resale of their interest in the Chautauqua Limited Partnerships. Additionally, there may be specific limitations on the redemptions and withdrawals. Limited partners should refer to the Confidential Offering Memorandum and Chautauqua Limited Partnership Agreement for details regarding redemptions, withdrawals, transfers, and re-sales.

As compensation for its sub-advisory services, CCM receives fees from the Multi-Advisor Funds International Fund, which fees are disclosed in the fund's offering memorandum. Other fees that are payable as an investor in the fund are described in the fund's offering memorandum.

#### Other Compensation Received by BIM and Baird

*BIM.* BIM and its associates generally do not receive compensation based upon the sale of securities or other investment products, and the compensation Baird pays to BIM's associates generally remains the same regardless of the type of investment product recommended to clients or purchased for client accounts. However, Baird incentivizes certain BIM sales professionals to recommend to clients certain BIM products and services over other BIM products and services and to recommend to clients advisory products and services offered by BKG and Greenhouse Funds, LP ("Greenhouse").

*Baird.* Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in such capacity, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird receives 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.

The compensation received by certain BIM sales professionals and Baird described above presents

a conflict of interest because it gives Baird and those BIM sales professionals 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, BIM and Baird are fiduciaries and are required to act solely in the best interest of clients. BIM and Baird address this conflict through disclosure in this Brochure and by adopting internal policies and procedures that are designed to ensure that investments made for client accounts are appropriate for the client (based upon the information provided by the client). For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

BIM will purchase for client accounts, or will recommend the purchase of, various investment products, including "no load" mutual funds 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**

BIM and Baird advise client accounts 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. A client's agreement to a performance-based fee arrangement may create an incentive for BIM to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of a performance-based fee arrangement. Performance-based fee arrangements also present a potential conflict of interest for BIM and Baird with respect to client accounts they also manage that are not subject to performance-based fee arrangements because such arrangements give BIM and Baird an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees. Performance-

based fee arrangements could also create an incentive for Baird to over-value certain assets held by clients.

In addition to complying with its fiduciary duties by disclosing this conflict of interest to clients through this Brochure, BIM generally addresses potential conflicts of interest posed by performance-based fee arrangements by capping the amount of performance-based fees that may be earned with respect to a client's account. By capping performance-based fees, BIM attempts to reduce the incentive to invest a client's account in riskier or more speculative products. BIM also periodically monitors the holdings and performance of performance-based fee accounts and compares 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. BIM and Baird also attempt 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. Baird has also adopted policies and procedures reasonably designed to support fair valuations of securities in client accounts.

### **Types of Clients**

BIM offers its services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; corporations or other business entities; government entities, endowments, private funds, and registered investment companies. Applicable requirements for opening or maintaining an account with BIM, such as minimum account size, are discussed in the section entitled "Fees and Compensation—Advisory Fee" above.

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

#### **Investment Strategies**

##### ***BIM Growth Strategies***

Large Cap Core Growth Portfolio. The Large Cap Core Growth Portfolio emphasizes large cap, high-quality growth companies holding leadership positions within their industries that BIM's



portfolio managers believe are capable of producing consistent performance in a variety of market environments. The Portfolio will emphasize companies with a market capitalization over \$5 billion. However, a portion of the equities may be allocated to small- and medium-sized company stocks when, in BIM's opinion, it is appropriate. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at the greater of 30% of the Portfolio or double the weighting of the applicable sector in the S&P 500® Index. The Portfolio may not have full exposure to sectors where satisfactory growth opportunities are not available.

Large Cap Balanced Portfolio. The equity portion of the Large Cap Balanced Portfolio includes the same types of securities utilized in the Large Cap Core Growth Portfolio. In the absence of specific client guidelines, the equity investments generally range from 45% to 65% of total Portfolio value over a full market cycle. The fixed income portion of the Portfolio consists of high-quality securities, which may include a mix of U.S. Treasury, U.S. government agency, corporate bonds or municipal bonds selected to provide a consistent source of income and reduced principal risk. Individual fixed income securities must be rated investment grade or better at the time of purchase by a nationally recognized statistical rating organization, although clients may indirectly hold below investment grade or unrated fixed income securities through their mutual fund and ETF holdings. In order to achieve adequate diversification, mutual funds managed or selected by Baird that satisfy the foregoing guidelines may be used. ETFs may also be utilized.

Mid Cap Growth Portfolio. The Mid Cap Growth Portfolio primarily invests in medium-sized, high-quality growth companies holding leadership positions within their industries that BIM's portfolio managers believe are capable of producing above average growth in a variety of market environments. The Portfolio will emphasize companies with a market capitalization between \$2 billion and \$15 billion. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at the greater of 30% of the Portfolio or double the weighting of the applicable sector in the Russell Mid Cap Growth® Index.

All Cap Growth Portfolio. The All Cap Growth Portfolio primarily invests in high-quality growth companies holding leadership positions within their industries that BIM's portfolio managers believe are capable of producing above average growth in a variety of market environments. The Portfolio emphasizes companies across the entire market capitalization spectrum. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at double the weighting of the applicable sector in the Russell 3000 Growth Index. The Portfolio may not have full exposure to sectors where satisfactory growth opportunities are not available.

Cash or Similar Investments; Temporary Strategies. Under normal market conditions, up to 10% of a client's portfolio may be invested in cash or similar short-term, investment grade debt obligations such as U.S. government obligations, repurchase agreements, commercial paper or certificates of deposit. In addition, BIM may invest all of a client's assets in cash or short-term, investment grade debt obligations as a temporary defensive position during adverse market, economic or political conditions and in other limited circumstances.

### ***Specialized Asset Management Portfolio Strategies***

The SAM Portfolio Strategies are model asset allocation portfolios that have different investment objectives. Each SAM Portfolio provides for specific levels of investment across different asset classes, such as:

- equity securities issued by U.S. large cap, mid cap and small cap companies (which may include value and growth companies);
- 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, asset-backed securities, and municipal securities);
- equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);

- non-traditional assets or specialty investments (“Specialty Investments”), which may include:
  - real estate (which may include U.S. and foreign real estate investment trusts (“REITs”));
  - 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”); and
  - commodities, commodity-linked instruments, currencies and currency-linked instruments; and
- cash and cash equivalents.

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

BIM may invest the account in individual securities to implement the asset allocation. BIM may also use mutual funds and ETFs in order to achieve diversification across different asset classes. BIM believes mutual funds and ETFs provide broad diversification, which contributes to Portfolio risk control.

Depending on the SAM Portfolio, the SAM Portfolio may invest in mutual funds and ETFs that have various investment objectives and strategies, including but not limited to, the following: large cap, mid cap and small cap strategies (which may include value, growth or core strategies), short-term, intermediate-term and long-term fixed income strategies (which may include high-yield corporate bond strategies); international and global equity and fixed income strategies, real estate strategies, commodities strategies, currency strategies, and Alternative Strategies.

*BIM may use mutual funds and ETFs affiliated with Baird, including mutual funds in the Baird Funds family. This presents a conflict of interest. For more information, see “Other Financial Industry Affiliations and Activities” below.*

SAM Strategic Portfolios. The SAM Strategic Portfolios are described below.

*SAM All Growth Portfolio.* The SAM All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio seeks a target allocation of 98% equity securities, foreign equity securities and Specialty Investments and 2% cash. Under normal market conditions, this Portfolio generally invests nearly all of its assets in equity securities and foreign equity securities and mutual funds and ETFs that in turn principally invest in those securities. This Portfolio may also invest in other asset classes described above, including Specialty Investments and cash.

*SAM Capital Growth Portfolio.* The SAM Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio seeks a target allocation of 80% equity securities, foreign equity securities and Specialty Investments and 20% fixed income securities, foreign fixed income securities and cash. Under normal market conditions, this Portfolio primarily invests its assets in equity securities, fixed income securities and foreign securities and mutual funds and ETFs that in turn principally invest in those securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. This Portfolio may also invest in other asset classes described above, including Specialty Investments and cash.

*SAM Balanced Growth Portfolio.* The SAM Balanced Growth Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio seeks a target allocation of 60% equity securities, foreign equity securities and Specialty Investments and 40% fixed income securities, foreign fixed income securities and cash. Under normal market conditions, this Portfolio primarily invests its assets in equity securities, fixed income securities and foreign securities and mutual funds and ETFs that in turn principally invest in those securities. This Portfolio may also invest in other asset classes described above, including Specialty Investments and cash.

The descriptions of the SAM Strategic Portfolios are current as of the date of this Brochure. However, BIM may change the objective, investments, or target allocations for any Portfolio at any time. BIM may also offer other model portfolios from time to time. A client should note that the client’s actual asset allocation will vary



over time from the target asset allocation due to many factors, including market appreciation or depreciation of the assets in the client's portfolio, deposits and withdrawals made by the client, and investment restrictions, if any, imposed by the client.

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

### ***BIM Value Strategies***

**Small Cap Value Portfolio.** The Small Cap Value Portfolio primarily invests in small cap companies, typically defined as those with a market cap range of \$100 million to \$2.5 billion at time of purchase. The Portfolio seeks to own securities that BIM expects to exceed Wall Street analysts' expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no single holding in the Portfolio will exceed 5% of the Portfolio at cost or 8% of the Portfolio measured at market value.

**Small/Mid Cap Value Portfolio.** The Small/Mid Cap Value Portfolio primarily invests in small and mid cap companies, typically defined as those with a market cap range of \$300 million to \$8.0 billion at time of purchase. The Portfolio seeks to own securities that BIM expects to exceed Wall Street analysts' expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no one sector (excluding financials) will exceed 30% of the total market value of the Portfolio, and typically no single holding in the

Portfolio will exceed 5% of the Portfolio at cost or 8% of the Portfolio measured at market value.

**All Cap Value Portfolio.** The All Cap Value Portfolio primarily invests in small, mid and large cap companies, typically defined as those with a market cap greater than \$100 million at time of purchase. The Portfolio seeks to own securities that BIM expects to exceed Wall Street analysts' expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no single holding in the Portfolio will exceed 5% of the Portfolio at cost or 8% of the Portfolio measured at market value.

**Cash or Similar Investments; Temporary Strategies.** Under normal market conditions, up to 20% of a client's portfolio may be invested in cash or similar short-term, investment grade debt obligations such as U.S. government obligations, repurchase agreements, commercial paper or certificates of deposit. In addition, BIM may invest all of a client's assets in cash or short-term, investment grade debt obligations as a temporary defensive position during adverse market, economic or political conditions and in other limited circumstances.

### ***CCM Strategies***

**International Growth Equity Portfolio.** Under normal market conditions, the International Growth Equity Portfolio primarily invests its assets in equity securities of companies located in different regions around the world. Equity securities may include common or ordinary shares, depositary receipts representing an ownership interest in ordinary shares, preferred stocks. The International Growth Equity strategy typically excludes U.S. headquartered companies. The Portfolio invests primarily in developed markets but may invest in emerging and less developed markets. The Portfolio seeks to own securities that CCM expects to exhibit higher than average growth. The Portfolio uses both a top down and a bottom up approach to determine which securities to purchase. The companies in

which the Portfolio invests tend to have medium to large market capitalizations, with higher average profits growth rates, better profitability and less debt than their benchmarks, but often trade at a premium valuation to the broad market. As of December 31, 2015, the median market capitalization of companies held in the International Growth Equity Portfolio was approximately \$13.85 billion. The International Growth Equity Portfolio generally invests in a limited number of securities, typically ranging between 25-35 companies, but seeks to be diversified in terms of currencies, regions and economic sectors. Under normal market conditions, CCM expects that annual turnover in the Portfolio will generally be below 40%. The benchmark for the International Growth Equity strategy is currently the MSCI EAFE Index®.

**Global Growth Equity Portfolio.** Under normal market conditions, the Global Growth Equity Portfolio primarily invests its assets in equity securities of companies located in different regions around the world. Equity securities may include common or ordinary shares, depositary receipts representing an ownership interest in ordinary shares, preferred stocks. The Global Growth Equity strategy may include U.S. headquartered companies. The Portfolio invests primarily in developed markets but may invest in emerging and less developed markets. The Portfolio seeks to own securities that CCM expects to exhibit higher than average growth. The Portfolio uses both a top down and a bottom up approach to determine which securities to purchase. The companies in which the Portfolio invests tend to have medium to large market capitalizations, with higher average profits growth rates, better profitability and less debt than their benchmarks, but often trade at a premium valuation to the broad market. As of December 31, 2015, the median market capitalization of companies held in the Global Growth Equity Portfolio was approximately \$22.89 billion. The Global Growth Equity Portfolio generally invests in a limited number of securities, typically ranging between 35-45 companies, but seeks to be diversified in terms of currencies, regions and economic sectors. Under normal market conditions, CCM expects that annual turnover in the Portfolio will generally be below 40%. The benchmark for the International Growth Equity strategy is currently the MSCI ACWI Index®.

**Cash or Similar Investments; Temporary Strategies.** Under normal market conditions, up to 10% of a client's portfolio may be invested in cash or similar short-term, investment grade debt obligations such as U.S. government obligations, repurchase agreements, commercial paper or certificates of deposit. In addition, CCM may invest all of a client's assets in cash or short-term, investment grade debt obligations as a temporary defensive position during adverse market, economic or political conditions and in other limited circumstances.

*The International Growth Equity Portfolio and the Global Growth Equity Portfolio alone are not intended to satisfy a client's entire portfolio diversification needs. Those Portfolios involve investments in a limited number of securities and are subject to concentration risks. See the Section titled "Principal Risks-Concentration Risks" below for more information.*

#### **Other BIM Strategies**

BIM also manages client assets in accordance with other investment strategies specifically designed for a client in light of a client's particular needs.

#### **Other Manager Strategies**

Clients that are considering engaging an Other Manager are urged to review the Other Manager's Form ADV Part 2A Brochure ("Other Manager Brochure") for information about the strategies the Other Manager offers. Other Manager Brochures may be obtained by contacting BIM at the phone number listed on the cover of this Brochure.

#### **Benchmarks**

A Portfolio may target the annual rate of return of a specific benchmark index or indices that BIM determines relevant. The benchmark may also be a blended benchmark that combines the returns for two or more indices. The securities selected by BIM generally will not mirror the assets in their respective benchmark indices. There can be no assurance that any particular portfolio strategy will be successful in achieving the client's investment goals and objectives.

#### **Methods of Analysis**

BIM both develops its own research and valuation systems and uses such services provided by

others. Information provided by others includes company-issued literature (e.g., annual reports, prospectuses, press releases and other information) and analyses by many outside investment firms. Government and Federal Reserve Bank publications, financial and other newspapers, journals and corporate ratings services (e.g., Moody's, Standard and Poor's) as well as electronic data information sources (e.g., Bloomberg, Morningstar, MTI, First Call, Cornerstone Analytics, Gartner Inc., Dow Jones, Reuters, FactSet, Evercore ISI, RenMac and MarketSmith) may provide data for security analysis and general economic information. BIM may also utilize research reports created by other departments of Baird. BIM may also employ the use of computers and third party application software to more readily display information and to assist with the evaluation and analysis. Although BIM uses information and tools that BIM deems reliable, BIM does not independently verify or guarantee the accuracy of the information or tools used.

BIM provides portfolio advice and management for investors desiring long-term investments and does not service speculators seeking to optimize results through short-term trading. Consequently, BIM focuses on the investment rather than speculative value of equity and debt securities. Nevertheless, changing investment viewpoints, security prices or other factors might lead at times to short holding periods for selected securities. Certain tax-exempt institutional portfolios which target investment returns in relationship to specified benchmarks will, because of the specialized nature of their objectives, frequently employ investment strategies that produce a higher turnover of investment holdings.

BIM will refrain from providing services to clients who have an investment objective that does not match an investment style or philosophy of BIM, set unrealistic expectations considering current market and economic conditions, prescribe unreasonable investment restrictions, or utilize benchmarks that are inappropriate for their stated objectives and goals. BIM's investment philosophy and processes are further described below.

### ***BIM Growth and SAM Strategies***

#### **Equity Investments**

For the purpose of selecting individual equity investments for the BIM Growth and SAM

Strategies, BIM relies principally on fundamental analysis to evaluate the relative strength of companies and to isolate a universe of desirable securities. The investment philosophy of BIM is based on the belief that the value of a business over the long-term is primarily determined by the earnings growth and profitability of that business. BIM's approach in applying this philosophy is to focus on the long-term, to invest in quality, growth companies, and to control investment risk. BIM's philosophy is applied consistently across all growth equity products.

BIM seeks to construct each BIM Growth Strategy Portfolio so that is comprised of companies which reflect PRIME growth factors. These factors are analyzed as part of BIM's investment process and are represented in the following ways:

- **Durable Profitability.** Companies with attractive margins and favorable margin trends can drive superior earnings growth.
- **Sustainable Revenue Growth.** Solid barriers to entry, favorable pricing, and demonstrated product/service track record can aid top-line prospects.
- **Favorable Industry dynamics.**
- **Management strength and integrity** is a critical element of a high quality company. Growth, profitability, and shareholder returns provide insight into management effectiveness. BIM seeks companies with management who position their company's balance sheet to be a source of strength.
- **Understanding market Expectations** of a company is important in assessing risk/return opportunities.

BIM believes an analysis of these PRIME factors yields insights to the competitive strength of a business model. BIM applies the following strategies when purchasing securities for a Portfolio:

- **Intentionally avoiding short-term trading strategies and rapid shifts in industry positions.**
- **Setting sector limits at the greater of 30% of the Portfolio's style or double the weighting of**

the Portfolio's benchmark index in any one sector, as defined by such index.

- Typically holding the securities of fewer than 60 companies with exposure to at least 20 industries.
- Seeking securities whose growth prospects, in BIM's opinion, are not reflected in their current stock prices.
- Limiting the size of any one new position. No security will represent more than 5% of the Portfolio total assets at the time of purchase.
- Leveraging key tools, such as BIM's proprietary tier-board, which provides a visual representation of portfolio positions and enables discussion on relative weights of our underlying positions.

As it relates to the BIM Growth Strategies, BIM bases the valuation of a security (i.e., the determination of whether a security is "cheap" or "expensive" in terms of its historical profitability, long-range prospects and other factors) on fundamental analysis and economic forecasts. Issues and industry groupings that have historically demonstrated sensitivity to business cycles may require valuation adjustments. BIM may sell a security due to achievement of valuation targets, significant change in the initial investment premise, or fundamental deterioration.

As it relates to the BIM Growth Strategies, BIM may use technical analysis (which includes insider transaction data and graphic representations of price, volume and other characteristics for a security) to assist in determining the timing of purchases or sales of securities after an analysis of fundamental or cyclical factors relevant to the security. BIM considers the expanding role of government worthy of continuing review from both a macro- and micro-economic standpoint, and at times, its analysis of domestic or international factors related to political and regulatory influences on economic processes is an important factor in investment decisions.

### Fixed Income Investments

For the purpose of selecting individual fixed income investments for the BIM Growth and SAM Strategies, BIM focuses on what it considers to be

high-quality securities, which may include a mix of U.S. Treasury, U.S. government agency, corporate bonds or municipal bonds. Individual fixed income securities must generally be rated investment grade or better at the time of purchase by a nationally recognized statistical rating organization, although clients may indirectly hold below investment grade or unrated fixed income securities through their mutual fund and ETF holdings.

### Mutual Fund and ETF Investments

For the purpose of selecting mutual funds and ETFs for the BIM Growth and SAM Strategies, BIM generally starts with Baird's Recommended Mutual Fund List, which 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.

BIM then performs an additional level of review and selects mutual funds and ETFs that meet its criteria. Generally, BIM seeks funds and ETFs: that have demonstrated investment consistency;

that provide upside capture; that have relatively good long-term performance; that have a strong organization and investment team and significant manager tenure; and that have relatively lower management fees and turnover ratio. When selecting ETFs, BIM prefers ETFs that have relatively lower expense ratios and prices per share.

### ***BIM Value Strategies***

For the BIM Value Strategies, BIM relies principally on bottom-up, fundamental analysis to determine the best potential combination of securities. BIM may also utilize top-down analysis to evaluate macro, sector, and/or industry trends to assist in evaluating individual company opportunities.

As it relates to the BIM Value Strategies, the investment philosophy is based on the belief that growth and value investing are not mutually exclusive. BIM seeks to invest in what it believes are outstanding businesses with attractive valuations that offer under-appreciated growth potential. BIM looks for companies that demonstrate above-average Return on Equity ("ROE"), above-average profit margin, solid revenue growth, strong balance sheets, a competitive advantage, and high barriers to entry. BIM also looks for companies that exhibit the following valuation metrics: low forward price-to-earnings ratio, low price-to-earnings growth ("PEG") ratio, low price-to-sales ratio, low price-to-book ratio, and low price-to-cash flow ratio. Generally, BIM believes the presence of these criteria is indicative of a company likely to exceed "Wall Street" analysts' expectations, but that trades at a discount to its fair value.

BIM utilizes an internal research process seeking catalyst for change not currently recognized by Wall Street analysts. Such catalyst may be underleveraged resources, M&A synergies, hidden assets/cash, cyclical opportunities, or turnaround situations. BIM derives proprietary earnings estimates for each potential portfolio candidate by decompiling ROE. Potential additions to a Portfolio are those companies mispriced relative to what BIM believes is their intrinsic value.

BIM generally applies the following strategies when purchasing securities for a Portfolio:

- concentrated approach typically holding 40-50 companies;
- broad sector and industry representation; individual sectors are capped at 30% (excluding financials) and industry limits of 20%; and
- limiting the size of one position; no security is typically more than 8% of a Portfolio at market, 5% at cost.

BIM may sell a security out of a BIM Value Strategy Portfolio if the company or security experiences a fundamental deterioration, the security price exceeds BIM's target valuation, for diversification needs, or if there is a change in BIM's macroeconomic outlook.

### ***CCM Strategies***

CCM seeks to identify companies to which CCM assigns a high conviction weighting, which takes into account the company's long-term appreciation potential as adjusted for the risk of possible disappointment. In evaluating potential investments, CCM considers companies with growth characteristics that CCM believes are likely to benefit from current macro-economic and global trends and sustainable competitive advantages. CCM's investment process involves a simultaneous assessment of both top-down and bottom-up factors. The objective of CCM's top down analysis is to identify trends in economic and business developments and to understand the economic and currency impacts in the countries where the companies are doing business. With respect to its bottom-up research, CCM utilizes both qualitative as well as quantitative screens to select the best companies for the portfolios. With respect to qualitative screens, CCM primarily seeks companies that are growing faster than their peers, have a leading or growing market share and are large enough to defend themselves from competitors. CCM also checks to ensure that a company meets its strict quality requirements including conservative accounting and balance sheet strength. The quantitative screens generally emphasize profitability and growth. CCM seeks to manage risk through an emphasis on quality and thoughtful diversification based on sector, country, and region affect performance. Before making an investment, CCM will consider the reasonableness of the company's valuation. CCM will typically sell or reduce a position to mitigate



specific risk, to take advantage of better opportunities, to avoid country risks or when valuations are stretched or operational performance does not meet expectations.

### ***Other Manager Strategies***

Clients that are considering engaging an Other Manager are urged to review the Other Manager's Brochure for information about its methods of analysis and how the Other Manager selects investments. Other Manager Brochures may be obtained by contacting BIM at the phone number listed on the cover of this Brochure.

## **Portfolio Investments**

### ***BIM Growth and Value Strategies***

BIM may invest client accounts in, and provides advice on, the following types of securities: equity securities (exchange-listed, over-the-counter, ADRs, and foreign-issued), warrants, options, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mortgage- and asset-backed securities, collateralized mortgage obligations and United States government and United States Federal Agency securities. In some instances, clients may be invested in non-investment grade bonds (sometimes referred to as "high yield" or "junk" bonds). In addition, BIM may invest client assets in securities of investment companies, such as money market funds, mutual funds, ETFs, other registered investment companies, and other investment pools that invest in securities or track securities-related indices.

BIM may also invest a client's account in REITs, commodities and other non-traditional assets. BIM does not normally use its discretionary authority to purchase interests in limited partnerships. However, in certain circumstances, BIM may invest a client's account in hedge funds or other private funds. Short sales and margin transactions are not generally used. However, a client may specifically request BIM to consider using those strategies. BIM may include investments in options or futures contracts as a normal part of its portfolio advice and management services, but will only offer such services in limited instances. The use of these strategies and products involves special risks, and a client should not engage in these strategies unless the client understands these risks. See "Principal Risks" below for more information.

### ***SAM Strategies***

The types of investments used by BIM for the SAM Portfolios is described under the heading "Investment Strategies—Specialized Asset Management ("SAM") Portfolio Strategies" above.

### ***CCM Strategies***

CCM invests primarily in common stocks but may also invest in other equity securities (including preferred stocks and their equivalent). In addition, CCM may invest in foreign issuers through foreign ordinary shares, ADRs, Global Depositary Receipts ("GDRs"), European Depositary Receipts ("EDRs") and other similar investment instruments.

CCM could use derivative instruments, including forward foreign currency contracts, options, futures, ETFs and certain other derivative instruments. Such instruments would principally be used for hedging and risk management purposes, including hedging the international stock investments from the risk of a strong U.S. dollar. Such instruments may also be used to serve as a substitute for underlying securities or currency positions to enable market participation or provide liquidity.

### ***Other Manager Strategies***

Other Managers generally invest client accounts in, and provides advice on, equity securities (exchange-listed, over-the-counter, ADRs, and foreign-issued). In addition, Other Managers may invest client assets in securities of investment companies, such as money market funds, mutual funds, ETFs, other registered investment companies, and other investment pools that invest in securities or track securities-related indices. Other Managers may also invest client accounts in other types of investments, such as warrants, options, debt securities, commercial paper, and certificates of deposit, in certain circumstances. Clients are urged to review the Other Manager's Brochure for more information.

### ***Additional Important Information***

Alternative Strategies involve special risks not apparent in more traditional investments like stocks and bonds. Some Alternative Strategies invest in non-traditional assets, such as real estate, commodities (which may include metals, mining, energy and agriculture products), and currencies. 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, and currencies, 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.

### **Leverage**

Leverage generally attempts to obtain investment exposure in excess of available assets through the use of borrowings, short selling 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**

Certain mutual funds and ETFs in a client's account may engage in short selling. When selling securities short, a firm borrows securities from a broker-dealer and sells them at a particular price on the belief it will be able to buy the securities at a lower price in the future, make a profit and close out the loan. 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.

### **Options and Other Derivative Instruments**

#### *Derivative Instruments*

Certain mutual funds and ETFs in a client's account may use 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.

### **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: REITs and mutual funds and ETFs that engage in Alternative Strategies.

In addition, a client should be aware that more traditional investments, such as mutual funds, and ETFs 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 and ETFs 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 portfolio. 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 "Principal Risks" below for more information. Before using those types of strategies or products, a client is strongly urged to discuss them with BIM. Additional information



about Alternative Strategies and Alternative Investment Products generally is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

The use of Alternative Strategies or Alternative Investment Products has a unique impact upon the calculation of a client's asset-based Advisory Fee. See "Fees and Compensation—Separate Accounts—Advisory Fees" above for more information.

### Principal Risks

Risk is inherent in any investment in securities and BIM 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. A BIM 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. A client should also review the prospectuses or other disclosure documents for the securities purchased for the client's account, as they will contain important information about the risks associated with investing in such securities. Clients pursuing an Other Manager Strategy are also urged to review the Other Manager's Brochure for more specific information about the risks that may apply to them.

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

*Management Risks.* BIM's judgments about the attractiveness, value and potential appreciation of particular companies' stocks may prove to be incorrect. Such errors could result in a negative return and a loss to clients.

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

*Growth-Style Investing Risks.* Different types of stocks tend to shift into and out of favor with stock market investors depending on market and economic conditions. Because each portfolio focuses on growth-style stocks, a portfolio's performance may at times be better or worse than the performance of investments that focus on other types of stocks or that have a broader investment style. Growth stocks are often characterized by high price-to-earnings ratios, which may be more volatile than stocks with lower price-to-earnings ratios.

*Value-Style Investing Risks.* With respect to the BIM Value Strategies, investments are selected based upon BIM's distinct principles of value investing. Value investments are subject to the risk that the broader market may not agree with BIM's assessment of, or recognize, the investments' intrinsic value.

*Quantitative Investment Risks.* Some Other Managers may employ quantitative investment methodologies or processes to make investment decisions. The success of the quantitative investment methodologies and processes used by Other Managers depends on the analyses and assessments that were used in developing such methodologies and processes, as well as on the accuracy and reliability of models and data provided by third parties. Incorrect analyses and assessments or inaccurate or incomplete models and data would adversely affect performance. Additionally, and Other Manager's methodologies and processes are predictive in nature, based on historical outcomes and trends. Certain low-probability events or factors that are assigned little weight may occur or prove to be more likely or may have more relevance than expected, for short or extended periods of time, which may adversely affect the portfolios generated by the Other Manager's quantitative methodologies and processes. It is also possible that prices of securities may move in directions that were not predicted by the Other Manager's quantitative methodologies and processes or may fail to move as much as predicted, for reasons that were not expected. There can be no assurance that these methodologies will enable a client to achieve its objective.

*Sector Risks.* An Other Manager's quantitative investment processes may not limit exposure in any individual economic sector. At times, a client's account may be weighted towards one or

more economic sectors. When weighted towards one or more economic sectors, the account is subject to the risk that adverse events, changes or developments within a particular sector or major companies in that sector may result in a meaningful decline in the value of the account.

*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.

*Capitalization Risks.* Certain portfolios invest primarily in large cap stocks, which perform differently from, and at times worse than, stocks of medium and smaller cap companies. Other portfolios invest primarily 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 small- and mid-size companies may be substantially less than is typical of larger companies. Therefore, the securities of small- and mid-size companies may be subject to greater and more abrupt price fluctuations. In addition, small- and mid-size companies may lack the management experience, financial resources and product diversification of larger companies,

making them more susceptible to market pressures and business failure.

*Foreign Issuer and Investment Risks.* Securities of foreign issuers, ADRs, GDRs and 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.

***Concentration Risks.*** A client's portfolio, especially one pursuing a CCM Strategy, may consist of a limited number of securities or may be 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.

***Transaction Risk.*** For both the International Growth Equity and the Global Growth Equity Portfolios, CCM may, in certain market environments, trade securities more actively, which could increase a client's transaction costs (thereby lowering a portfolio's performance) and may increase the amount of taxes that a client pays on the investment.

***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 and collateralized mortgage obligations ("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.

***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.

*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 all clients. The risks associated with these investments include, but not limited to, price

volatility risk, credit risk, default risk, and liquidity risk. Clients investing in securities or other investment products that are not rated, split-rated or are below investment grade should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

*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.

*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 portfolio 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 portfolio, thereby increasing a client's risk of loss. The use of leverage may also increase a portfolio'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 portfolio.

*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 portfolio.

*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 portfolio.

*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.

*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.*

*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 portfolio.

### Disciplinary Information

There are no legal or disciplinary events that relate to BIM or its business operations.

The following information pertains to Baird's Private Wealth Management business.

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 management persons of Baird may invest in those funds.

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



them in deciding to select or recommend affiliated investment products are generally the same as those used for unaffiliated investment products.

### **Baird's 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 management persons of BIM are registered, or have an application pending to register, as registered representatives and associated persons of Baird to the extent necessary or appropriate to perform their job responsibilities.

### **Baird's Other Investment Management Activities**

Baird and its Financial Advisors may, from time to time refer clients to BIM or CCM, or to Baird Advisors, another investment management department of Baird. Baird Financial Advisors are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird.

### **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 the incentive compensation arrangements relating to BKG and Baird's affiliation with BKG, certain BIM sales professionals and Baird have 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. From time to time, BIM may use or recommend Riverfront investment products and services. *Due to its affiliation with Riverfront,*

*Baird has a financial incentive to favor Riverfront investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Greenhouse and Greenhouse Fund GP LLC ("Greenhouse GP") by virtue of their common indirect ownership by BFG. From time to time, BIM may use or recommend Greenhouse or Greenhouse GP investment products and services. Baird incentivizes certain BIM sales professionals to recommend to clients advisory products and services offered by Greenhouse. *Due to the incentive compensation arrangements relating to Greenhouse and Baird's affiliation with Greenhouse and Greenhouse GP, certain BIM sales professionals and Baird have a financial incentive to favor Greenhouse and Greenhouse GP investment products and services.*

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

Baird is the investment adviser and principal underwriter for the Baird Funds. Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). 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). Baird incentivizes certain BIM sales professionals to recommend to clients certain Baird Equity Funds over other BIM products and services. *Due to such incentive compensation arrangements, certain BIM sales professionals have a financial incentive to favor Baird Equity 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. From time to time, BIM may use or recommend Riverfront mutual funds and ETFs. *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 Limited Partnerships. From time to time, BIM or CCM may use or recommend Chautauqua Limited Partnerships, and CCM serves as investment sub-adviser to the Multi-Advisor Funds International Fund. *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 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.

### **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. From time to time, BIM may use or recommend Greenhouse hedge funds. *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 investment managers separate and apart from BIM. 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. That compensation is not paid to BIM or its associates.

## **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 BIM associates, 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.

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

#### ***Baird's Broker-Dealer and Related Activities***

In its capacity as broker-dealer, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, options, and other securities, and sales of life insurance policies and annuities. Baird

receives compensation based upon the sale of such securities and insurance and other investment products.

Baird, as broker-dealer, continually engages in various securities transactions and trading activities, including market making and corporate stock buyback activities. 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. BIM and Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Brokerage Practices—Trade Execution Services Performed by Baird" below.

As a registered broker-dealer, Baird effects transactions in securities on a national exchange and may receive and retain compensation for such services, subject to the limitations and restrictions made applicable to such transactions by Section 11(a) of the Exchange Act and Rule 11a2-2(T) thereunder. Baird may also benefit from the possession or use of any free credit balances in client accounts, subject to restrictions imposed by Rule 15c3-3 under the Exchange Act.

Baird selects securities trade execution venues based on the size of the order, trading characteristics of the security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution levels, and other qualitative factors. Baird receives payment on certain options or equity securities orders routed to some venues, but Baird's routing decision is always based upon obtaining favorable executions for clients rather than the availability of payment for order flow. The existence and amount of payments are dependent upon the size and type of the routed order. The source and amount of any compensation received by Baird in connection with payment for order flow will be disclosed to the non-institutional participants in the transaction upon request.

The foregoing activities could create a conflict of interest with clients. Baird addresses these potential conflicts through disclosure in this

Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is appropriate 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 Serving Fees. Except with respect to the Baird Funds, BIM and its associates do not receive compensation from mutual fund companies for selling shares of funds, and the compensation Baird pays to BIM associates remains the same regardless of the type of investment product recommended or purchased for client accounts.

Baird provides certain distribution and other shareholder-related services to mutual funds and their vendors with respect to BIM clients that hold shares of such mutual funds in their accounts. Baird receives 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 advisory fee on such investment, Baird rebates such 12b-1 fees to the client's account. If any rebated fees remain in a client's account at the time of billing, those rebated amounts will be included in the account assets subject to BIM's fee.

Marketing and Other Financial Support. In addition to 12b-1 fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds

that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as “revenue sharing”, is typically allocated toward the costs of training and educating certain Baird associates 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.

The financial support and other payments that Baird receives from mutual funds is not paid to BIM or its associates, and the compensation Baird pays BIM’s associates is not tied to such financial support.

Receipt of financial support payments and expense reimbursements may provide Baird (but not BIM or its associates) 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.

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

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. (“Schwab”) whereby Schwab maintains an omnibus account with certain mutual fund families for Baird on behalf of Baird clients. Under the clearing arrangement, Schwab provides clearing services for nearly all “no load” funds held by BIM clients. Although Baird pays Schwab a fee for the

clearing service, Schwab passes through to Baird (but not BIM) a portion of the compensation that Schwab receives from those funds (including 12b-1 and administrative fees and revenue sharing payments) for services that Baird provides to Schwab and clients who invest in those funds.

If Baird receives 12b-1 fees from Schwab with respect to a mutual fund investment in a client’s account and client is paying an asset-based advisory fee on such investment, Baird rebates such 12b-1 fees to the client’s account. If any rebated fees remain in a client’s account at the time of billing, those rebated amounts will be included in the account assets subject to BIM’s fee.

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 a BIM representative for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies. More detailed information about the compensation that Baird receives from Schwab is also available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### Unit Investment Trusts

Baird 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 BIM or its associates, and the compensation that Baird pays to BIM’s associates 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 (but not BIM or its associates) 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 (but not BIM or its associates) 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 a BIM representative for more specific information about the amount of compensation Baird may receive from the sale or servicing of alternative investment products.

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

#### **Cash Sweep Program**

Baird offers to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or "swept" into an interest-bearing deposit account or money market mutual fund. See "Custody" below for more information. In addition to the asset-based fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for certain administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled "Baird's Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds—Marketing and Other Financial Support" above. Baird may waive receipt of any or all of this compensation. The compensation Baird receives in connection with the Cash Sweep Program is not paid to BIM or its associates, and the compensation Baird pays to BIM's associates is not tied to such compensation. The compensation that Baird receives from the Bank Sweep Option and the Money Market Option gives it (but not BIM or its associates) a financial

incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program and the compensation Baird receives is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

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

Through its Investment Banking and Public Finance departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Baird may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. However, BIM will only recommend such securities to a client when it believes 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 BIM 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 interest in the transaction. For more information, please see "Brokerage Practices—Trade Execution Services Performed by Baird—Principal Transactions" below.

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

### **Research Activities**

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

### Trust Services Arrangements

Baird maintains alliances with certain unaffiliated institutions, including Comerica Bank & Trust, National Association, that provide trust services. These unaffiliated institutions offer various types of trust services, including trust administration, custody, tax reporting and recordkeeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution. This provides Baird a financial incentive to recommend firms that are part of the alliance. The compensation Baird receives in connection with these arrangements is not paid to BIM or its associates, and the compensation Baird pays to BIM's associates is not tied to such compensation.

### Margin Loans

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

### 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 associates. For more information about the other investment products and services offered by Baird, clients should contact Baird or their BIM representative.

Certain client accounts managed by BIM and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. This creates a potential conflict of interest as BIM and Baird may

have an incentive to favor client accounts that generate a higher level of compensation.

BIM and Baird address these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for BIM and Baird that require them to provide investment advice that is appropriate 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 BIM or Baird may recommend to clients, and may buy and sell for client's accounts, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" below.

### 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 BIM and Baird. In some circumstances, the receipt of such compensation may extend beyond a client's advisory relationship with BIM and Baird if the client continues to hold those assets at Baird.

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

### Brokerage Practices

#### BIM's Trading Practices

##### Broker-Dealer Selection

With respect to the BIM Strategies, BIM will select the broker-dealers, which may include Baird, that will execute trade orders for a client's accounts



unless the client has provided instructions to BIM to the contrary. As an investment adviser, BIM has an obligation to seek "best execution" of client trade orders. "Best execution" means that BIM must place client trade orders with those broker-dealers that BIM believes are capable of providing the best qualitative execution of client trade orders under the circumstances, taking into account the full range and quality of the services offered by the broker-dealer. When selecting a broker or dealer, BIM may consider the following factors: client preferences; research services (including strategy reviews, domestic and international economic analysis, technical commentary and other materials); execution capability and past execution performance; commission rates; financial standing of executing firm and counterparty risk; timeliness in rendering services; availability, cost and quality of custodial services; and continuity and quality of the overall provision of services. It is important to note that BIM's best execution obligation does not require BIM to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as BIM reasonably believes that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances.

### **Soft Dollar Benefits**

BIM may receive research (in addition to execution services) from broker-dealers in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". In accordance with applicable law and Baird's policies, BIM may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers who provide execution-only services in return for soft dollar benefits. However, BIM will seek to obtain commission rates that it considers appropriate for each client for the level and quality of service received from brokerage firms.

The research services received by BIM may be proprietary research offered by the broker or dealer executing a client transaction or it may be research offered by a third party through the broker or dealer executing a client transaction. Typically all of the brokerage commissions paid by BIM clients are paid to brokers and dealers who provide research services to BIM. The brokerage commissions on equity security transactions will

generally range between \$0.03 and \$0.04 per share.

BIM has seven (7) formal soft dollar arrangements involving third party research. In the arrangements described below, BIM places trades with designated executing broker-dealers (currently, BNY Convergenx, KCG Holdings, Inc. and Stifel Nicolaus). The executing broker-dealer retains \$0.01 per share for trade execution and the remaining commission amount is placed into a research credit account and used to pay for the research provided by third parties.

Under an arrangement with Market Trends Investors ("MTI"), MTI provides research and analysis on macroeconomic conditions, trends and movements, sector trend and rotation analyses and weekly communications with and direct access upon request to MTI analysts at a cost of approximately \$30,000 per year.

Under an arrangement with Cornerstone Analytics ("Cornerstone"), Cornerstone provides macro-level analytics for energy prices, including political and governmental analysis at a cost of approximately \$30,000 per year. The cost is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with Gartner Invest ("Gartner"), Gartner provides research on the information technology sector at a cost of approximately \$38,000 per year. The cost is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with Factset Investment Management ("Factset"), Factset provides portfolio analysis tools and global market data at a cost of approximately \$48,000. BIM pays a portion in hard dollars and the balance is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with Grants Interest Rate Observer ("Grants"), Grants provides macroeconomic, trend, and research analysis at a cost of approximately \$1,000. BIM pays a portion in hard dollars and the balance is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with RBN Energy, LLC ("RBN"), RBN provides investigation and analysis of developments in crude oil, natural gas and liquid markets at a cost of approximately \$900 per year. The cost is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with NYSE Market, Inc. ("NYSE"), NYSE provides exchange data services at a cost of approximately \$1,000 per year. The cost is paid by the designated broker-dealer out of the research credit account.

Some broker-dealers indicate the amount of commissions they expect to receive in exchange for the provision of a particular research service. Although BIM does not agree to direct a specific amount of commissions to a firm in that circumstance, it maintains an internal procedure to identify the broker-dealers that provide BIM with research services and the value of those research services, and seeks to direct sufficient commissions to ensure the continued receipt of research services it feels are valuable.

During Baird's last fiscal year ended December 31, 2015, BIM received the following soft dollar benefits in connection with effecting client transactions: economic analysis and forecasts, financial market analysis and forecasts, industry and company specific analysis, interest rate forecasts; and analysis of pending and proposed governmental legislation and regulations. The research BIM received included both proprietary research (i.e., research created or developed by the broker-dealer) and research created or developed by a third party (e.g., research provided by MTI and Cornerstone). Research services were received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings with security analysts. Research services were also provided in the form of meetings arranged with corporate and industry spokespersons, invitations to conferences and were generated by third parties but are provided to BIM by or through broker-dealers.

During Baird's last fiscal year ended December 31, 2015, BIM used the procedures described below to direct client transactions to broker-dealers in return for the soft dollar benefits that BIM received. BIM seeks to allocate brokerage commissions to broker-dealers in a way that, in

BIM's judgment, reflects the quality and consistency of service provided by broker-dealers and research service providers. At the beginning of each year, a commission budget is established. BIM investment professionals then jointly determine which broker-dealers will be eligible to execute client transactions and establish a target commission amount for each such broker-dealer based upon the total commission budget. BIM investment professionals periodically review and vote on or rank the broker-dealers and their services throughout the year, generally at least semi-annually. When voting or ranking the broker-dealers, the BIM investment professionals generally take into consideration the following criteria: execution quality, trade errors, quality of research, and access to analysts and company management. Each vote or ranking is followed by an analysis of the vote or rankings and performance trends. BIM then makes adjustments to target commission amounts, if any, and adds or removes broker-dealers based upon the voting results. Baird's managed account trading desk takes the commission budget and voting into consideration, as part of BIM's obligation to seek best execution, when selecting broker-dealers to execute portfolio transactions for BIM clients. To the extent more than one broker-dealer is considered capable of providing best execution for a particular client transaction, BIM may direct the client transaction to a broker-dealer based upon the target commission amounts then in effect.

The research information so received is in addition to, and not in lieu of, services performed by BIM and does not reduce the advisory fees payable to BIM by clients. As a practical matter, it would not be possible for BIM to generate all of the information presently provided by brokers and dealers. When BIM uses client brokerage commissions (or markups or markdowns) to obtain research, BIM receives a benefit because BIM does not have to produce or pay for the research itself. BIM, therefore, may have an incentive to select or recommend a broker-dealer based on BIM's interest in receiving soft dollar benefits, rather than on clients' interest in receiving most favorable execution. However, BIM seeks to select broker-dealers based upon the broker's or dealer's ability to provide best execution. Furthermore, BIM does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

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

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

BIM may aggregate contemporaneous buy and sell orders for the accounts over which it has discretionary authority (a practice also known as bunching trades or block transactions). This practice may enable BIM to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also assist BIM in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing, client orders.

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

All advisory clients participating in a block transaction will receive the same execution price

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

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

When BIM is not able to aggregate trades, BIM generally uses a trade rotation process that is designed to be fair and equitable to its clients over time. However, a client should be aware that BIM's trade rotation practices may at times result in a transaction being effected for the client's portfolio that occurs near or at the end of the rotation and, in such event, client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in the rotation, and, as a result, the client may receive a less favorable net price for the applicable trade.

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

### ***Wrap Fee Programs***

Generally, clients participating in wrap fee programs pay the Program Sponsor a wrap fee that includes trade execution services performed by Program Sponsor as broker-dealer. Because clients may incur trading costs in addition to the wrap fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever their Program Sponsor executes client transactions. For this reason, BIM anticipates that it will place some trade orders for the client's account with the applicable Program Sponsor, such as trades resulting from a contribution to, or distribution from, a client's account. However, in order to comply with its duty to seek best execution, BIM anticipates that it will place nearly all client trades resulting from changes to BIM's model portfolios or strategies with a broker-dealer firm other than the Program Sponsor. This practice is frequently referred to as "trading away" and these types of trades are frequently called "step out trades".

Trading away from the Program Sponsor provides BIM the ability to aggregate trade orders for wrap fee program clients with trade orders for other BIM clients. BIM trades away from the Program Sponsor when it believes that another broker-dealer will provide more favorable execution of the client's trades, taking into consideration the factors listed above.

In some instances, step out trades may be executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If BIM places trade orders for the client's account with a firm other than the Program Sponsor, and the other firm imposes a commission or a markup or markdown on the trade, the client will incur trading costs in addition

to the wrap fee the client pays to the Program Sponsor.

During the year ended December 31, 2015, all of BIM's step out trades were executed without any additional commission or markup or markdown being passed on to wrap fee program clients by the executing broker-dealer. However, there can be no assurance that a wrap fee program client will not incur increased trading costs relating to step out trades in the future.

With respect to some wrap fee programs, BIM may not be able to aggregate client trades using a trade away process. Typically this occurs in situations in which the Program Sponsor has directed BIM to place all trades with the Program Sponsor or BIM only provides a model portfolio to the Program Sponsor (and does not place trades for client accounts). In those instances, BIM generally uses a trade rotation process that is designed to be fair and equitable to all BIM clients.

A wrap fee program client should consider this information carefully and discuss it with the client's Program Sponsor when selecting a manager to manage the client's accounts.

### ***Directed Brokerage***

BIM will comply with any guidelines and/or limitations reasonably requested by a client relating to brokerage for the client's account. Specific guidelines and/or limitations requested by clients vary from client to client based upon a client's particular objectives and other factors.

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

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

If BIM aggregates a client's directed brokerage trade orders with trade orders for other BIM clients, BIM may employ the use of "step-outs" to satisfy the client's directed brokerage arrangement. A "step-out" occurs when an executing broker executes the trade and then "steps out" the trade to a clearing broker (which would be the directed broker-dealer in a directed brokerage arrangement) that confirms and settles the trade. In such a case, a client will bear the costs of any commissions, markups or markdowns imposed by the executing broker-dealer in addition to the costs of any commissions, markups or markdowns imposed by the directed broker-dealer. As a result, a directed brokerage arrangement may be more costly to a client, as it may result in the client paying higher commissions, markups, markdowns and greater bid/offer spreads, or receiving a less favorable net price.

If a client directs BIM to use a particular broker-dealer, and if the particular broker-dealer referred the client to BIM or if the particular broker-dealer refers other clients to BIM or Baird in the future, BIM or Baird may benefit from the client's directed brokerage arrangement. Because of these potential benefits, BIM and Baird may have an economic interest in having the client continue

the directed brokerage arrangement. The benefits that BIM and Baird receive conflict with the client's interest in having BIM or Baird recommend that the client utilize another broker-dealer to execute some or all transactions for the client's account.

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

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

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

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

### ***Trade Error Correction***

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



such gain is not given to or shared with any BIM or Baird associate.

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

### Other Managers' Trading Practices

With respect to the Other Manager Strategies, the Other Manager managing the client's portfolio will select the broker-dealers, which may include Baird, that will execute trade orders for a client's accounts unless the client has provided instructions to BIM and to the Other Manager to the contrary. Additional information about an Other Manager's trading practices is contained in the Other Manager's Brochure.

### Trade Execution Services Performed by Baird

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

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

### Agency Cross Transactions

In certain circumstances and to the extent permitted by applicable law and regulation, BIM and Baird may effect "agency cross" transactions with respect to a client's account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for brokerage services, BIM and Baird may receive compensation from parties on

both sides of an agency cross transaction, the amount of which may vary. Therefore, BIM and Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, BIM and Baird will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-2 under the Advisers Act. Furthermore, BIM and Baird will comply with additional regulations applicable to retirement accounts.

### Principal Transactions

Subject to the requirements of applicable law, BIM and Baird may execute transactions for a client's portfolio while acting as principal for Baird's own account. Baird acts as principal when BIM or Baird sell a security from Baird's inventory to a client, or BIM or Baird purchase a security from a client for Baird's inventory. Baird also acts as principal when it sells new issue securities to clients in offerings underwritten by Baird as further described below. Baird also acts as principal in riskless principal transactions. Riskless principal transactions refer to transactions in which Baird, after having received a client's order, executes an identical order in the marketplace to fill the client's order while acting as principal.

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

material information regarding Baird's interest in the transaction, and obtain the client's approval of the transaction prior to settlement.

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

## Review of Accounts

### Portfolios Managed by BIM

If the client's portfolio is managed by BIM, BIM's portfolio management team reviews BIM's client portfolios. BIM portfolio managers monitor client portfolios to evaluate the impact of changing economic and market conditions on the client's securities and investment objectives. Major factors considered in all reviews include the market activity of individual securities and industries; the mix among cash alternatives, fixed income, and equity instruments; and the appropriateness of the portfolio's holdings in terms of long-term objectives such as income, risk and growth.

At least quarterly, BIM portfolio managers review client portfolios for allocation of client assets among cash, equity securities, and fixed income holdings and review each managed portfolio focusing on the appropriateness of the client's investments in light of each client's investment objective, risk tolerance, and income requirements. Additional reviews performed by BIM associates include drift reports for wrap program accounts, which are generally performed quarterly, and an asset allocation review that compares a client's investment policy statement to the client portfolio's investment allocation, which is performed at least annually. CCM also reviews drift reports for client portfolios pursuing a CCM Strategy, which are generally performed at least quarterly.

BIM portfolio managers generally review trading in a client's portfolio each day there is a trade in the client's portfolio. The portfolio management team typically reviews each portfolio's relative performance compared to a relevant benchmark index at least quarterly.

Baird's Performance Reporting Department performs reviews for variance in a portfolio's

performance compared to the portfolio's composite. These reviews are generally performed monthly.

BIM generally provides written performance reports to clients on a quarterly basis. These quarterly performance reports contain the client portfolio's performance, portfolio valuation, and portfolio manager commentary regarding market and sector performance. Clients pursuing a BIM Growth, SAM or BIM Value Strategy may also receive a list of portfolio holdings as part of the quarterly report. BIM may provide additional information in the performance report to meet the specific reporting needs of a client as the client and BIM may agree.

### Accounts Managed by Other Managers

If a client portfolio is managed by an Other Manager, BIM and Baird generally only review drift reports and performance reports for the client's portfolio as described above. They generally do not provide performance or other reports to such clients, unless such clients are participating in a wrap program sponsored by Baird. Such clients should review the Other Manager's Form ADV Part 2A Brochure for information about the types of reviews performed, and reports provided, by the Other Manager.

### Other Information

A client's portfolio performance may be compared to a benchmark market index or indices. The benchmark may be a blended benchmark that combines the returns for two or more indices. Benchmarks shown in performance reports are for informational purposes only. BIM's selection and use of benchmarks is not a promise or guarantee that the performance of a client's portfolio will meet or exceed the stated benchmark. When the client compares portfolio performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and the index performance does not take into account management fees, execution costs, and other expenses related to the operation of a portfolio. The securities included in a client's portfolio generally do not exactly mirror the securities included in the index.

If Baird provides transaction execution services to a client, Baird will generally provide the client with a monthly brokerage account statement

when activity occurs during that month. Otherwise, Baird will provide the client with a quarterly statement if there has not been any intervening monthly transaction activity.

If Baird has custody of a client's account assets, Baird will generally rely on third party pricing services to determine the value of such assets. These values are shown on client's account statements and are used in preparing a client's performance reports. However, if the client has its assets held by a custodian other than Baird and if the third party pricing service does not provide a price for assets in the client's account, BIM will rely upon the price reported by the client's third party custodian. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian could be different from the prices shown on statements and reports provided by BIM. See "Custody" below for more information.

*Special Note for Wrap Fee Program Clients.* The benchmarks used by BIM with respect to a client's portfolio may differ from the benchmarks used by the wrap fee Program Sponsor. As a result, the performance comparisons in BIM's performance reports may differ from reports provided to clients directly by the Sponsor.

## Client Referrals and Other Compensation

Baird or BIM 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.

BIM and Baird and Baird's affiliates and associates may receive certain economic benefits in connection with providing advisory services to clients, which are described in the sections entitled "Other Financial Industry Activities and Affiliations", "Code of Ethics, Participation or

Interest in Client Transactions and Personal Trading" and "Brokerage Practices" above.

## Custody

### Separate Accounts

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

A client should understand that BIM does not monitor, evaluate or review any third party custodian. The client should also understand that the client will pay a custody fee in addition to the fee paid to BIM.

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

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

If a client elects to participate in Baird's Cash Sweep Program, Baird will deposit or invest (i.e., "sweep") a client's free credit balances in accordance with the client's instructions and terms of the Cash Sweep Program. Any deposits, including CDs that a client maintains directly with a bank or through an intermediary (such as Baird

or another broker), in the same capacity with the bank, will be aggregated with the client's Bank Sweep Option assets at the bank for purposes of calculating the \$250,000 FDIC insurance limit. Total deposits exceeding \$250,000 may not be fully insured by the FDIC. *A client is solely responsible for monitoring the total amount of other deposits that the client has with a bank in order to determine the extent of deposit insurance coverage available. Baird is not responsible for any insured or uninsured portion of a client's deposits at a bank.*

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

### Private Limited Partnerships

Baird may be deemed under the federal securities laws to have custody of the assets of the Chautauqua Limited Partnerships by virtue of its role as general partner of those Partnerships. The assets of each Chautauqua Limited Partnership are held by the Partnerships' custodian, Union Bank. Each limited partner will receive account statements directly from the custodian. A limited partner should carefully review those account statements and compare them with any statements provided by BIM, CCM or Baird.

### Investment Discretion

Clients generally give BIM or an Other Manager the discretionary investment authority to determine independently the specific securities purchased or sold, and the amount of securities purchased or sold. By executing an investment management agreement with BIM and selecting a BIM Strategy, a client authorizes BIM to make investment decisions for the client's account, with

the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's account, subject to the client's portfolio strategy. The client's investment management agreement also grants to BIM complete and unlimited trading authorization and appoints BIM as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, BIM may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the client's account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's account without consulting the client.

If a client selects an Other Manager Strategy, the client authorizes the Other Manager to manage the assets in the client's portfolio and grants to the Other Manager the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's portfolio, subject to the client's portfolio strategy. The client also grants to the Other Manager complete and unlimited trading authorization and appoints the Other Manager as agent and attorney-in-fact with respect to the client's portfolio and all related trading and other decisions. Pursuant to such authorization, the Other Manager may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the portfolio, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the portfolio without prior notice to the client. BIM does not have discretion over the assets in a client's portfolio that is managed by an Other Manager and cannot purchase or sell any securities or other investments in that portfolio.

A client has the ability to impose reasonable investment restrictions on the management of a portfolio, including the designation of particular securities or types of securities that should not be purchased for the client's account, but a client may not require that particular funds or securities (or types) be purchased for the client's portfolio. Reasonable investment restrictions requested by

a client will apply only to those assets over which BIM or an Other Manager has discretion. Any such limitations agreed to by client and BIM are generally included in the client's investment policy statement or in a separate letter of understanding. When possible, BIM will also attempt to observe any non-binding statement of client preferences with respect to factors such as brokerage direction, holding periods, and securities selection.

In the event that a client's account is restricted from investing in certain securities, BIM or the Other Manager will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's account, a client's investment restrictions may force BIM or the Other Manager to sell such security at an inopportune time, possibly negatively impacting account performance and causing the client's account to realize taxable gains or losses, which could be significant. A client should also be aware that, if the client's account holds any investment vehicle (such as a mutual fund or ETF), any investment restrictions the client places on the client's account may not flow through to the securities owned by that investment vehicle.

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

By signing an investment management agreement with BIM, a client consents to BIM and Baird's affiliates investing all or a portion of the client's account in investment products or in bank deposit accounts that pay advisory or other fees to Baird or its affiliates ("affiliated investment

products"). The amount of fees received by Baird and its affiliates is generally described in the prospectus or other offering or disclosure documents for the investment product or deposit account. Additional information is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). BIM and Baird's affiliates will use their discretionary authority to invest the client's account in affiliated investment products when they determine it to be in the client's best interest to do so. Generally, the criteria used by them in deciding to invest in affiliated investment products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with Baird. For more information about the criteria used by BIM, clients should review the section of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss" above. For more information about the criteria used by Baird's affiliates, clients should review the affiliate's Form ADV Part 2A Brochure. A client's consent may be revoked at any time.

## Voting Client Securities

### BIM and CCM

Clients pursuing BIM Strategies may elect in their contract whether to authorize and delegate the right to BIM to vote proxies with respect to the securities held in their accounts. Unless a client makes that election, the client will be responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and BIM is under no obligation to take any action or render any advice regarding such matters. BIM generally does not permit clients to direct particular votes once they have granted Baird discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary authority granted to BIM.

BIM has adopted written policies and procedures that are reasonably designed to ensure that it votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between BIM's or Baird's interests and those of their clients. Although a description of BIM's proxy voting policies and procedures is provided below, BIM will furnish a copy of its proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how BIM actually voted proxies with respect to



the securities held in their accounts by contacting BIM by calling (414) 765-3500.

In situations in which a client has delegated to BIM voting authority with respect to securities in the client's account, Baird will monitor corporate events and vote proxies in a manner that BIM believes is consistent with the client's best interests. BIM utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by companies to their shareholders for consideration. These guidelines provide an indication as to how BIM will actually vote on particular issues. The portfolio managers for the client's account will generally vote proxies with respect to equity securities for client accounts based on the recommendations of ISS; however, the managers may suggest voting against ISS's recommendations when the managers determine it to be in the clients' best interests to do so. The manager also may suggest how to vote on a particular matter not addressed by ISS. When a portfolio manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the portfolio manager will bring the matter to the attention of Baird's Proxy Voting Committee, which will then be responsible for determining how the vote will be cast.

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

client engage another party to determine how the proxy should be voted; (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client or (5) the Committee determines the nature and materiality of the conflict and vote the proxy in a manner it believes in the best interest of the client without any consideration of any benefit to BIM or its affiliates.

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

BIM may render advice or take action on a client's behalf with respect to securities that are or were held in the client's account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. At a client's request, BIM will forward information that BIM actually receives about such claims to the client.

### Other Manager Strategies

With respect to the Other Manager Strategies, a client may retain the right to vote proxies with respect to the securities held in the client's portfolio, or the client may delegate such right to the Other Manager. A client may select either option by making the appropriate election in the client's advisory agreement. For information about the Other Manager's voting policies and procedures, clients should review the Other Manager's Brochure.

### Financial Information

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

### Special Considerations for Retirement Accounts

If a client's account is a Retirement Account, each owner, trustee, responsible plan fiduciary, or other fiduciary ("Retirement Account Fiduciary") of the client should understand that BIM or Baird

may invest for the client, or recommend that the client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary should also understand that when BIM or Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, BIM will waive its advisory fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or BIM will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the advisory fee that BIM 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 investment management agreement that: (i) the investment in affiliated investment products for the client's account is appropriate because of, among other things, the investment goals, redeemability, liquidity, and diversification of those products; (ii) subject to BIM's investment strategies, 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 to BIM. The differential between the fees to be charged by BIM 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 BIM's fee disclosed in the client's investment management agreement and the applicable

investment management, investment advisory and other similar fees detailed in the applicable prospectus or other offering or disclosure documents for the affiliated investment product.

If the client's account is a Retirement Account and if BIM is directed to implement a directed brokerage arrangement for the account, each Retirement Account Fiduciary of the client should understand: that the directed brokerage arrangement must be for the exclusive benefit of participants and beneficiaries of the Retirement Account; and the fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1. Each Retirement Account Fiduciary should also understand that such Fiduciary is solely responsible for complying with all fiduciary responsibilities discussed in ERISA Technical Bulletin 86-1, including, without limitation, the duty to make an initial determination that the directed broker-dealer is capable of providing best execution for the client's brokerage transactions, the duty to monitor the services provided by the directed broker-dealer so as to assure that the client has received best execution of the client's brokerage transactions, and the duty to determine that the commissions paid by the client and any other fees or costs incurred by the client are reasonable in relation to the value of the brokerage and other services received by the client. The client and each Retirement Account Fiduciary of the client should also understand that the client and the client's Retirement Account Fiduciaries are solely responsible for engaging a directed broker-dealer, monitoring its performance and terminating a directed brokerage arrangement, and that BIM is not responsible for determining whether a directed broker-dealer is capable of providing best execution.

If the client's account is a Retirement Account, the client and each Retirement Account Fiduciary of the client should note that the client's investment management agreement authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the client's account and to receive commissions for such services, subject to DOL PTE 86-128. In order to assist the client and each Retirement Account Fiduciary of the client with the determination as to whether such authorization should be made, BIM will provide the client with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the description of Baird's

brokerage placement practices, which is set forth below. BIM also will provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to DOL PTE 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of payment for order flow or other remuneration, although Baird receives payments for order flow or other remuneration in certain instances. Additional information about Baird's routing of equity orders is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Baird does not place orders with market makers or other third parties for the purpose of compensating such firms for their efforts in marketing Baird-affiliated mutual funds. Baird may place orders for securities transactions with third party broker-dealers and other firms that provide research products and services to Baird.