

# Baird Private Wealth Management

## Wrap Fee Program Brochure

April 25, 2016



### Discretionary Programs

ALIGN Dynamic Portfolios

ALIGN Strategic Portfolios

ALIGN Tactical Portfolios

BairdNext Portfolios

Private Investment Management

Russell Model Strategies

### Non-Discretionary Programs

ALIGN Custom Portfolios

Baird Advisory Choice

### Separate Managed Account Programs and Services

Baird Investment Management Portfolios

Referred Managers

Client Selected Managers

Riverfront Managed Portfolios

Recommended Managers

### Unified Managed Account Programs

UMA Custom Portfolios

ALIGN UMA Select Portfolios

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

## Material Changes

Not applicable.

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## Services, Fees and Compensation

This Brochure describes some of the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through its Private Wealth Management department ("PWM"). Baird and PWM offer other investment advisory services not described in this Brochure. Separate brochures describe those other investment advisory services and discuss the agreements, fees and potential conflicts of interest for each service.

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

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

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

## The Client-Baird Fiduciary Relationship

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

Baird and its associates that require them to: provide investment advice that is suitable for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of interest; 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 Baird to address them are discussed in other sections of this Brochure.

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

## Summary of Services

This Brochure describes certain investment advisory programs that Baird PWM offers to clients ("Programs") and applies to each advisory account enrolled in a Program ("Account"). The investment advisory services offered under the Programs generally include investment advice and consulting services, which are provided by Baird's home office investment professionals or the client's Baird Financial Advisor, and, depending upon the Program that a client selects, the Program may include portfolio management. The Programs consist of:

- discretionary programs, whereby a client gives Baird (including its home office investment professionals, or the client's Baird Financial Advisor) full discretionary authority to manage the client's Account ("Discretionary Programs");
- non-discretionary programs, whereby Baird provides investment advice and recommendations but the client retains full authority with respect to the management of the client's Account ("Non-Discretionary Programs");
- separately managed account ("SMA") programs and services, whereby third party investment managers, which may include affiliates of Baird ("Other Managers"), or asset management departments of Baird, manage the client's Account according to a strategy (each, an "SMA Strategy") with full discretionary authority, and Baird provides additional consulting services to the client (collectively "SMA Programs and Services"); and

- unified managed account (“UMA”) Programs, whereby the client gives Baird and an overlay management firm (the “Overlay Manager”) selected by Baird full discretionary authority to manage the client’s Account according to a strategy (each, a “UMA Strategy”) selected by the client (“UMA Programs”).

The Discretionary Programs described in this Brochure include: ALIGN Dynamic Portfolios; ALIGN Strategic Portfolios; ALIGN Tactical Portfolios; BairdNext Portfolios (“BairdNext Portfolios”); Private Investment Management (“PIM”); and Russell Model Strategies. The Non-Discretionary Programs include: ALIGN Custom Portfolios and Baird Advisory Choice. The SMA Programs and Services include: Baird Investment Management Portfolios; Client Selected Managers (“CSM”) Service; Recommended Managers; Referred Managers; and Riverfront Managed Portfolios. The UMA Programs include: UMA Custom Portfolios and ALIGN UMA Select Portfolios.

The SMA Programs and Services make available two types of investment managers: (1) managers that manage a client’s Account directly; and (2) managers that make model portfolios available to Program clients (“Model Portfolios”) but the managers do not directly manage a client’s Account (“Model Managers”). The SMA Programs and Services are generally offered under a “single contract” arrangement. Under a single contract arrangement, a client enters into an advisory agreement with Baird and Baird, in turn, enters into a subadvisory or similar agreement with the investment manager on the client’s behalf. This type of arrangement is frequently referred to as a single contract arrangement because there is only one contract between the client and Baird; the client does not have an agreement directly with the client’s investment manager. Under certain circumstances, a client may have a “dual contract” arrangement. Under a dual contract arrangement, the client has two contracts; one contract with Baird and another contract with the client’s investment manager.

The UMA Programs allow a client to invest in a combination of mutual funds, exchange traded products (“ETPs”), primarily exchange traded funds (“ETFs”) and exchange traded notes (“ETNs”), and SMA Strategies using a single Account.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with certain SMA Programs and Services and the UMA Programs. If a client selects an SMA Strategy provided by a Model Manager, the Model Manager will provide the Model Portfolio and updates to the Model Portfolio to the Overlay Manager, and the Overlay Manager will manage the client’s Account with full discretionary authority according to the strategy selected by the client (a “Model-Traded Strategy”). Otherwise, if the SMA Strategy is offered by a non-Model Manager, the investment manager will directly manage the client’s Account with full discretionary authority (a “Manager-Traded Strategy”).

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the “Exchange Act”). Baird provides the Programs described in this Brochure under a “wrap fee” arrangement. This means that in addition to the investment advisory services that Baird provides in connection with each Program, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee (“Program Fee”). *A client should note that the client may incur costs in addition to the Program Fee. See “Additional Program Information—Trading for Client Accounts” and “Other Fees and Expenses” below for more information.*

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

In addition, certain investment strategies and investment products made available to a client may not be appropriate for the client. Certain Programs make available 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”). The use of certain strategies and investment products involves special risks, and a client should not engage in a strategy or purchase an investment

product unless the client understands the related risks. See “Additional Program Information—Alternative Strategies and Alternative Investment Products” and “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Program Risks” below for more information.

Baird clients typically work with a Baird Financial Advisor to determine the services that are appropriate given their financial goals and circumstances. During the new account process, clients provide information that assists the client and the client’s Financial Advisor with determining the client’s investment needs, objectives, investment time horizon, and risk tolerances for the assets being invested. However, it is a client that ultimately selects the Program and investment strategy that is most appropriate for the client.

A client that wishes to participate in a Program will enter into a client relationship agreement or other investment advisory agreement with Baird (“advisory agreement”). The client’s advisory agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client, and other terms applicable to the client’s advisory relationship with Baird. A client should note that the client’s advisory relationship with Baird does not begin until Baird enters into the applicable advisory agreement with the client, which occurs when Baird’s home office has accepted the client’s advisory agreement and determined that all of the client’s paperwork is in order. See “Account Requirements and Types of Clients” below for more information.

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

Each Program has different structures, administration, types and levels of service, and fees and expenses. In particular, a client should

note that the investment advisory services provided by Baird and its associates, including the depth of initial and ongoing research, evaluation, monitoring and review of a client’s Account and investments, and the level of compensation that Baird and its associates receive, varies by Program. The particular investment advisory services that Baird provides in connection with each Program are further described below. Clients are encouraged to review this Brochure and their advisory agreement carefully.

## Discretionary Programs

### ***ALIGN Dynamic Portfolios Program***

Under the ALIGN Dynamic Portfolios Program, Baird manages a client’s Account with full discretionary authority according to a proprietary model strategic and tactical asset allocation strategy developed by Baird (each such model an “ALIGN Dynamic Portfolio”) that is selected by the client. Each ALIGN Dynamic Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds and ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation. Each ALIGN Dynamic Portfolio consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed below. For more information about the Program, see “Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs” below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client’s Account. Typically, a client selects the ALIGN Dynamic Portfolio appropriate for the client’s Account with the assistance of the client’s Baird Financial Advisor.

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



Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Dynamic Portfolio strategy, or change the client's asset allocation in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

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

#### **ALIGN Strategic Portfolios Program**

Under the ALIGN Strategic Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model an "ALIGN Strategic Portfolio") that is selected by the client. Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds and ETFs in order to implement the model asset allocation. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the ALIGN Strategic Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

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

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

Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Strategic Portfolio strategy, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

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

#### **ALIGN Tactical Portfolios Program**

Under the ALIGN Tactical Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model tactical asset allocation strategy developed by Baird (each such model an "ALIGN Tactical Portfolio") that is selected by the client. Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes and generally uses ETPs in order to implement the model asset allocation. ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive allocation strategies, with the use of tactical decisions involving the overweighting of certain asset classes. ALIGN Tactical Portfolios are not intended to be a



complete investment program. The ALIGN Tactical Portfolios are actively managed and thus have had, and will likely continue to experience, relatively high portfolio turnover. Because of this turnover, a client's Account may realize significant taxable gains or losses. Because the ALIGN Tactical Portfolios generally seek to outperform their indicated benchmark by overweighting specific market sectors rather than holding a more diversified portfolio, the Portfolios are subject to concentration risk. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the ALIGN Tactical Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

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

Baird periodically rebalances a client's Account assets to be consistent with the client's chosen ALIGN Tactical Portfolio strategy, and Baird may replace investments in a client's Account or change the client's asset allocation in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

### ***BairdNext Portfolios Program***

Under the BairdNext Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model asset allocation strategy developed by Baird (each such model a "BairdNext Portfolio") that is selected by the client. Each BairdNext Portfolio provides for

specific levels of investment across different asset classes and generally uses mutual funds and ETFs in order to implement the model asset allocation. Each BairdNext Portfolio may consist of a limited number of mutual fund and ETF holdings. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the BairdNext Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

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

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

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

### ***Private Investment Management Program***

The PIM Program is a Discretionary Program whereby a client grants full discretionary authority and management of the client's Account to Baird

and a Baird Financial Advisor who has been approved by Baird to manage client accounts in the PIM Program (a "PIM Manager").

In the PIM Program, a client's PIM Manager seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's PIM Manager. At the commencement of services, the client's PIM Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PIM Manager makes a subsequent recommendation to the client as to which investment style the PIM Manager believes is best suited for the client. Some PIM Managers have model portfolios and distinct investment strategies, while others take a "counseled" or more customized approach to management of client accounts. The client's PIM Manager will manage the client's PIM Account in accordance with the investment style that, in the PIM Manager's judgment, correlates with the information the client provides to the client's PIM Manager. A client's PIM Manager will provide the client with more specific information as to how the PIM Manager will manage the client's Account.

A PIM Manager may make investments in various types of securities, including, but not limited to, equity and fixed income securities, foreign securities, mutual funds, ETPs, non-traditional assets and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments a PIM Manager may use for client accounts is contained under the heading "Eligible Assets" below. For more information about the PIM Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Private Investment Management" below.

As mentioned above, under the PIM Program, a client gives full discretionary authority and management to Baird. Baird may remove any PIM Manager or strategy from the PIM Program at any time and transfer day-to-day management responsibility of a client's Account to another PIM

Manager or Baird Financial Advisor at any time without providing prior notice to, or obtaining the consent of, a client.

#### **Important Information about PIM Accounts.**

*A client should note that PIM Managers may engage in strategies that involve: concentrated and less diversified portfolios of securities; leverage or margin; and frequent trading for client accounts. In addition, PIM Managers may invest client accounts in illiquid securities, community bank stocks and Alternative Investment Products. These types of strategies and investments involve special, sometimes significant, risks and are not appropriate for all clients. A client should understand those risks before engaging in those strategies or investing in those products. See "Additional Program Information—Alternative Strategies and Alternative Investment Products" and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Program Risks" below for more information.*

#### **Russell Model Strategies Program**

Under the Russell Model Strategies Program (the "Russell Program"), Baird manages a client's Account with full discretionary authority according to a model mutual fund asset allocation strategy (a "Russell Strategy") developed by Russell Investments ("Russell"), a subsidiary of the Russell Investment Group, that is selected by a client. Each Russell Strategy uses mutual funds in the Russell Funds family of funds ("Russell Funds") to implement the strategy. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Russell Model Strategies" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the Russell Model Strategy appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Russell constructs each Russell Strategy and adjusts the Strategy from time to time. Russell also determines the Russell Funds that are available in each Russell Strategy, including the percentage each Russell Fund comprises in each

Strategy. From time to time, Russell may remove Russell Funds and replace them with other Russell Funds.

Baird anticipates that it generally will implement a Russell Strategy as proposed by Russell. However, Baird has sole discretionary authority over a client's Account invested in a Russell Strategy, and Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client's Russell Funds if Baird determines such action to be necessary and in the client's best interest.

Baird may rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy, or change the client's asset allocation in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

## Non-Discretionary Programs

### ***ALIGN Custom Portfolios Program***

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

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account.

While a client retains discretionary authority and management over the client's ALIGN Custom Portfolios Account, a client participating in the ALIGN Custom Portfolios Program gives Baird the

authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Custom Portfolio strategy, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

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

The Baird Advisory Choice Program is a Non-Discretionary Program whereby Baird provides advice to a client in connection with the client's own management of the client's Account. As part of the Baird Advisory Choice Program, a client may also select investment managers to manage the client's Account with full discretion. See "SMA Programs and Services—Client Selected Managers Service" below for more information.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account.

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

The investment advisory services that may be available in the Baird Advisory Choice Program include research, analysis, consultation, advice and recommendations regarding various investment-related matters, such as financial and investment goals and needs, asset allocation strategies, investment strategies and restrictions, methods for implementing investment strategies, trends and expectations regarding securities markets, economic sectors and industries, various types of securities and investments, and the purchase, holding and sale of specific securities. Some or all of these services may be provided to a client by a Baird Financial Advisor assigned to the client's Account. The specific services to be provided to a client will be determined by mutual agreement between the client and the client's Financial Advisor. Baird does not undertake to provide any investment advisory services other

than those set forth above or individual securities recommendations made from time to time.

Baird or client's Financial Advisor will provide investment recommendations for a client's Account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account. Baird and its Financial Advisors may recommend investments in various types of securities, including, but not limited to, equity and fixed income securities, foreign securities, mutual funds, ETPs, non-traditional assets and Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments Baird or its Financial Advisors may recommend for client accounts is contained under the heading "Eligible Assets" below. For more information about the Baird Advisory Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Baird Advisory Choice" below.

**Important Information about Baird Advisory Choice Accounts.** *A Baird Advisory Choice Account provides a fee-based alternative to a traditional, commission-based brokerage account. Unlike a traditional brokerage account where a client is paying for traditional brokerage services, an Advisory Choice client is also paying for investment advice and other investment advisory services above and beyond those available in a traditional brokerage account. Each client should determine whether a Baird Advisory Choice Account is appropriate. In making this determination, a client should carefully consider all relevant factors, including the client's investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the Account, anticipated use of other Baird products and services, and the costs and benefits of the Account. A client should ask Baird questions about the investment styles, philosophies, strategies, analyses and techniques Baird will use in order to meet the client's objectives. The costs of a Baird Advisory Choice Account may be more or less than in an account where the client is charged on a per-transaction*

*basis. A Baird Advisory Choice Account may not be appropriate for a client who anticipates little or no trading activity, a client who prefers to direct the client's own investment strategies and security selection independent of the advice of Baird or their Financial Advisor or a client who does not receive or request investment advisory or other non-trading services from Baird. A Baird Advisory Choice Account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. If a client's Baird Advisory Choice Account engages in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion), Baird may immediately, upon sending notice to the client, restrict the activity occurring in the client's Account, terminate the Account, convert the Account to a commission-based account, or charge a higher fee at such rate as Baird, in its sole discretion, may elect. A client is responsible for monitoring the client's Account and determining the desirability of maintaining the Account as opposed to maintaining a traditional, commission-based brokerage account. In addition to Baird Advisory Choice Accounts and traditional, commission-based brokerage accounts, Baird offers various other advisory programs in which it has investment discretion. A client should periodically reevaluate whether the ongoing use of this Non-Discretionary, advisory program is desired and request a Baird Financial Advisor to explain the benefits and disadvantages of maintaining a Baird Advisory Choice Account and the availability of alternative arrangements.*

*Additional information regarding the differences between brokerage and advisory relationships can be found in the Important Information about Brokerage and Investment Advisory Services document that is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).*

*A client may terminate a Baird Advisory Choice Account and convert it into a traditional, commission-based brokerage account at any time by contacting the client's Baird Financial Advisor. Baird also has the right, at any time upon notice to a client, to terminate a client's Baird Advisory Choice Account and convert it into commission-based brokerage account.*



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

## SMA Programs and Services

### **Baird Investment Management Portfolios**

Under the Baird Investment Management Portfolios Program ("BIM Portfolios Program"), a client grants full discretionary authority and management of the client's Account to Baird Investment Management ("BIM"), an investment management department of Baird, or an Other Manager selected by the client, to manage the client's Account. Under the BIM Portfolios Program, BIM determines the Other Managers and their strategies eligible to participate in the Program. Affiliates of Baird may manage client accounts under the BIM Portfolios Program.

### **BIM Strategies**

BIM provides portfolio management to clients desiring investments in equity and balanced portfolios. 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").

BIM also manages client portfolios according to other strategies selected by clients ("Other BIM

Strategies", and with the BIM Growth Strategies, the SAM Strategies, and the BIM Value Strategies, the "BIM 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.

#### *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.

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 fixed income securities, foreign fixed income securities, 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 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 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 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.

The BIM Value Portfolios seek 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.

### **Additional Information about 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.

Additional important information about BIM's strategies and the types of investments BIM may use for a client's Account is contained in BIM's Form ADV Part 2A Brochure, which is available upon request.

### **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 Baird at the phone number listed on the cover of this Brochure.

### **Selecting a Strategy**

If the client has decided to retain BIM or an Other Manager to manage the client's Account, the client's Financial Advisor will generally assist the client in selecting a Portfolio suitable for the client's Account.

Once the client has selected a Strategy, a client authorizes and directs Baird to appoint BIM to serve as sub-advisor to the client's Account. If the client has selected a BIM Strategy, the client also authorizes and directs BIM to manage the client's Account with full discretionary authority in accordance with the BIM Strategy selected by the client. If the client has selected an Other Manager strategy, the client authorizes and directs BIM to appoint the Other Manager as sub-advisor, and the client also authorizes and directs such Other Manager to manage the client's Account with full discretionary authority in accordance with the Other Manager strategy selected by the client.

The services that Baird makes available to a client in connection with the BIM Portfolios Program generally include: assistance in selecting the strategy or strategies offered by BIM or an Other Manager once a client has decided to retain BIM or an Other Manager and periodic reviews of BIM's or the Other Manager's performance. Some or all of these services may be provided to the client by a Baird Financial Advisor assigned to the client's Account.

A client's appointment and continued retention of BIM or an Other Manager to manage the client's Account are based upon the client's review of BIM or such Other Manager and their services. In selecting a strategy, a client determines that the strategy to be used by BIM or such Other Manager in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, BIM or the Other Manager will only be removed from managing the client's Account upon the client's direction to do so. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—BIM Portfolios" for further information.

**Important Information about BIM.** *BIM is an investment management department of Baird. Baird has a potential conflict of interest to the extent Baird would advise clients to participate in advisory services offered by BIM. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Client Selected Managers Service**

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

Under the CSM Service, Baird and the Overlay Manager determine the investment managers eligible to participate in the Service (each, a "CSM Eligible Manager"). However, a client should note that Baird does not make any recommendation to clients regarding any CSM Eligible Manager or any

representations regarding a CSM Eligible Manager's qualifications as an investment adviser or abilities to manage client assets. Other investment management departments of Baird, such as Baird Advisors, BIM, or Chautauqua Capital Management ("CCM") or managers affiliated with Baird, such as Baird Kailash Group, LLC ("BKG"), Greenhouse Funds LP ("Greenhouse") or Riverfront may manage client accounts under the CSM Service.

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

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

Baird may, in its discretion, permit a client to select an investment manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such investment manager in addition to the advisory agreement the client enters into with Baird (i.e., a "dual contract" arrangement). A client that enters into a dual contract arrangement is solely responsible for negotiating the client's agreement with the client's investment manager, and neither

Baird nor its Financial Advisors will participate or advise a client regarding the terms of such an agreement, the advisability of entering into such an agreement, or the retention of the client's investment manager.

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

If a client's Account is managed by an Other Manager, a client should understand that: Baird does not manage the Account and does not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, Baird is not responsible for the decisions made by such Other Manager; Baird does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account; and Baird only provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment strategies and restrictions, and periodically reviewing the positions and transactions made in the client's Account, the manager's performance and other characteristics.

Some or all of services provided under the CSM Service may be provided to a client by a Baird Financial Advisor assigned to the client's Account, and the client's Financial Advisor may provide his or her own advice and recommendations about investment managers. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

A client that participates in the CSM Service is strongly encouraged to contact the client's investment manager on a periodic basis to discuss: the Account and its investment

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

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

**Important Information about the CSM Service.** *Because the CSM Service is designed for a client who wishes to independently select an investment manager to manage the client's Account, the client assumes sole responsibility for monitoring the client's Account and client's investment manager's performance. It is important to note that Baird will not monitor, evaluate or review any Other Manager or the performance of a client's Account managed by an Other Manager, even if the manager or its strategy is on a Baird recommended list, such as Baird's Recommended Managers List. A client's appointment and continued retention of an Other Manager to manage the client's Account is based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA Strategy to be used in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a manager will only be removed from managing the client's Account upon the client's direction to do so. A client, and especially a client selecting a manager on Baird's Recommended Manager List, should carefully consider the foregoing when deciding to participate in the CSM Service and also consider whether another Baird Program, such as the Baird*

*Recommended Managers Program (discussed below), may be more appropriate for the client.*

### **Recommended Managers Program**

Under the Recommended Managers Program, a client provides Baird and the client's Financial Advisor with full discretionary authority to select investment managers to manage the client's Account. A client also authorizes such investment managers to manage such Account with full discretionary authority.

Under the Recommended Managers Program, Baird determines the investment managers ("Recommended Managers") and their strategies ("BRM Strategies") eligible to participate in the Program through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers" below. Other investment management departments of Baird, such as BIM, may manage client accounts under the Recommended Managers Program.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. A client, typically working with a Baird Financial Advisor, initially selects the Recommended Manager and BRM Strategy for the client's Account. Thereafter, whenever Baird or client's Financial Advisor deem it necessary, Baird or the client's Financial Advisor will replace a Recommended Manager or BRM Strategy with another Recommended Manager or BRM Strategy for the client's Account based upon the list of Recommended Managers and BRM Strategies that Baird makes available.

Some Recommended Managers are implementation managers ("Implementation Managers") that manage client Accounts according to a Model Portfolio provided by a Model Manager. If a client selects such a BRM Strategy, at the Implementation Manager's discretion, the Implementation Manager will implement the Model Portfolio as proposed by the Model Manager. However, the Implementation Manager may implement the Model Portfolio differently than proposed by the Model Manager if the Implementation Manager determines such action to be necessary and in the client's best interest. It is important for the client to note that Baird's selection and ongoing evaluation of a BRM Strategy is based upon an assumption that the

Model Portfolio will be fully and faithfully implemented by the Implementation Manager on a continuous basis. A client should understand that the Implementation Manager has discretion over the client's Account and may invest the client's Account in a manner that differs from the Model Portfolio. Baird does not monitor the Implementation Manager's implementation of the Model Portfolio nor does it ascertain whether the Implementation Manager is implementing the Model Portfolio as provided by the Model Manager. If the Implementation Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Implementation Manager or the performance of a client's Account under those circumstances. Additional Information is available in the manager's Form ADV Part 2A Brochure, which may be obtained by contacting Baird at the phone number listed on the cover of this Brochure. A client should periodically discuss the Implementation Manager's implementation of the Model Portfolio with the client's Financial Advisor and the Implementation Manager.

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

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

client's Account with full discretionary authority in accordance with the selected BRM Strategy.

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

If a Model-Traded Strategy is selected, it is important for the client to note that Baird's selection and ongoing evaluation of a BRM Strategy is based upon an assumption that the investment manager's Model Portfolio will be fully and faithfully implemented by the Overlay Manager on a continuous basis. A client should understand that the Overlay Manager has discretion over the client's Account and may invest the client's Account in a manner that differs from the Model Portfolio. Baird does not monitor the Overlay Manager's implementation of the Model Portfolio nor does it ascertain whether the Overlay Manager is implementing the Model Portfolio as provided by the Recommended Manager. If the Overlay Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Overlay Manager or the performance of a client's Account under those circumstances. A client should periodically discuss the Overlay Manager's implementation of the Model Portfolio with the client's Financial Advisor and the Overlay Manager.

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

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

From time to time, Baird may remove investment managers from the Recommended Managers Program, and Baird may select a replacement investment manager to manage the client's Account. In such event, Baird or the client's replacement manager may sell all of the securities or other investments in the Account that were managed by the prior manager and the replacement manager will reinvest the cash proceeds of those sales. Sales of securities or other investments could result in adverse tax consequences for the client. A client who prefers to continue using an investment manager that has been removed from the Recommended Managers Program, or who directs or otherwise requests that a particular investment manager not recommended by Baird be selected to manage the client's Account, will generally need to move to another Program, such as the CSM Service. See "Client Selected Managers Service" above for more information. Clients who elect to do so will no longer receive ongoing monitoring, evaluation, or review of that investment manager from Baird.

**Important Information about Affiliated Managers.** *The Recommended Managers Program makes available to clients investment services that are offered by BIM, an investment management department of Baird. Baird has a potential conflict of interest to the extent Baird would advise a client to select investment products offered by BIM. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Referred Managers Service**

The Referred Managers Service is a service whereby a client independently selects an Other Manager to manage the client's Account with full discretionary authority according to a strategy selected by the client. This Service is designed to accommodate a client who wishes to independently select an Other Manager to

manage the assets in the client's Account with full discretion.

Referred Managers are Other Managers that meet certain minimum qualification requirements imposed by Baird and that have indicated to Baird they prefer to act as sub-adviser to Baird rather than enter into contracts directly with clients. However, a client should note that Baird does not make any recommendation to clients regarding any Referred Manager or any representations regarding a Referred Manager's qualifications as an investment adviser or abilities to manage client assets.

If a client participates in the Referred Managers Service, the client authorizes and directs Baird to appoint the Referred Manager selected by the client to serve as sub-adviser to the client's Account. The client also authorizes and directs the Referred Manager to manage client's Account with full discretionary authority in accordance with the strategy selected by the client.

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

By selecting an Other Manager under the Referred Managers Service, a client should understand that: Baird does not manage the Account and does not otherwise have any influence over the Other Manager's investment decisions or securities selections, and therefore, Baird is not responsible for the decisions made by such Other Manager; Baird does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account; and Baird only provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment strategies and restrictions, and periodically



reviewing the positions and transactions made in the client's Account, the manager's performance and other characteristics.

Some or all of the services provided under the Referred Managers Service may be provided to a client by a Baird Financial Advisor assigned to the client's Account, and the client's Financial Advisor may provide his or her own advice and recommendations about investment managers. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

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

The investment managers made available under the Referred Managers Service are subject to change or removal at any time in Baird's sole discretion. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers, Referred Managers and Riverfront Managed Portfolios" below for further information.

**Important Information about the Referred Managers Service.** *Because the Referred Managers Service is designed for a client who wishes to independently select an investment manager to manage the client's Account, the client assumes sole responsibility for monitoring the client's Account and client's Referred Manager's performance. It is important to note that Baird only provides a limited review of Referred Managers. A client's appointment and continued retention of a Referred Manager to manage the client's Account is based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA Strategy to be used in*

*managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a Referred Manager will only be removed from managing the client's Account upon the client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the Referred Managers Service and also consider whether another Baird Program may be more appropriate for the client.*

### **Riverfront Managed Portfolios Program**

The Riverfront Managed Portfolios Program is a Program whereby a client independently selects Riverfront Investment Group, LLC ("Riverfront") to manage the client's Account with full discretionary authority according to a strategy offered by Riverfront (a "Riverfront Portfolio") that is selected by the client.

The Riverfront Portfolio strategies that Riverfront offers under the Riverfront Managed Portfolios Program include asset allocation strategies and ETF strategies. The asset allocation strategies currently include the following model portfolios: a global growth portfolio; a global allocation portfolio; a dynamic equity income portfolio; a dynamic fixed income portfolio; a moderate growth and income portfolio; a conservative growth portfolio; and a conservative income builder portfolio. The ETF strategies currently include the following model portfolios: an ETF global growth portfolio; an ETF global allocation portfolio; an ETF dynamic equity income portfolio; an ETF dynamic fixed income portfolio; an ETF moderate growth and income portfolio; and an ETF conservative income builder portfolio.

The asset allocation and ETF strategies involve strategic asset allocation, tactical asset allocation, sector and security selection, and risk management. Riverfront's ETF strategies invest exclusively in ETFs; and Riverfront's asset allocation strategies invest in individual securities supplemented with investments in sector-specific ETFs. Riverfront may invest a client's Account in wide-ranging types of securities, which include large cap, mid cap, small cap and international equities in various economic sectors, traditional fixed income securities such as U.S. Government and Agency securities, corporate debt securities, mortgage-backed securities, asset-backed securities, emerging market debt, commodities, real estate investment trusts ("REITs"), closed-

end funds, ETFs, leveraged or inverse funds and other Alternative Investment Products. Riverfront may also invest the client's Account in mutual funds, ETFs or other investment products affiliated with Riverfront or Baird. A client should review Riverfront's Form ADV Part 2A Brochure for more information.

If the client has decided to retain Riverfront to manage the client's Account, the client's Financial Advisor will generally assist the client in selecting a Riverfront Portfolio suitable for the client's Account. Once the client has selected a Riverfront Portfolio, a client authorizes and directs Baird to appoint Riverfront to serve as sub-advisor to the client's Account. The client also authorizes and directs Riverfront to manage the client's Account with full discretionary authority in accordance with the Riverfront Portfolio selected by the client.

If a client participates in the Riverfront Managed Portfolios Program, Baird only provides non-discretionary advisory services to the client. The services that Baird makes available to a client in connection with the Riverfront Managed Portfolios Program are limited to: assistance in selecting the strategy or strategies offered by Riverfront once a client has decided to retain Riverfront and limited periodic reviews of Riverfront's performance. Some or all of these services may be provided to the client by a Baird Financial Advisor assigned to the client's Account. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

Under the Riverfront Managed Portfolios Program, Baird does not manage the client's Account and does not otherwise have any influence over Riverfront's investment decisions or securities selections. Baird also does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account. Therefore, Baird is not responsible for the decisions made by Riverfront.

**Important Information about Riverfront.** *Baird is affiliated, and may be deemed to be under common control, with Riverfront by virtue of their common indirect ownership. Baird has a potential conflict of interest to the extent Baird would advise a client to participate in advisory programs offered by Riverfront. For more*

*information, see "Additional Information—Other Financial Industry Affiliations and Activities" below. It is important to note that Baird only provides a limited review of Riverfront. A client's appointment and continued retention of Riverfront to manage the client's Account are based upon the client's review of Riverfront and its services. In selecting the Riverfront Portfolio, the client determines that the strategy to be used by Riverfront in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, Riverfront will only be removed from managing the client's Account upon the client's direction to do so. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers, Referred Managers and Riverfront Managed Portfolios" below for further information.*

## UMA Programs

### UMA Custom Portfolios

Under the UMA Custom Portfolios Program, Baird and the Overlay Manager generally manage a client's Account on a non-discretionary basis according to a model asset allocation strategy that is selected by the client (each such model, a "UMA Custom Portfolio"). A client may select a proprietary asset allocation model developed by Baird or the client may select a custom model that the client develops with the assistance of Baird and the client's Financial Advisor. A UMA Custom Portfolio provides a client with a customized level of investment across different asset classes using mutual funds, ETPs, and SMA Strategies offered by investment managers. To implement the asset allocation, a client selects the investments for the Account from among those mutual funds, ETPs, and SMA Strategies that Baird has determined are eligible for use in the Program. *While a client retains discretionary authority over the selection of mutual funds, ETFs and SMA Strategies for the Account, by selecting an SMA Strategy, the client authorizes and directs Baird and the Overlay Manager to manage the SMA Strategy portion of the Account with full discretionary authority in accordance with the SMA Strategy selected by the client.* For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—UMA Programs" below.



Once the client has selected a UMA Custom Portfolio, the client authorizes and directs Baird to manage all SMA Strategies within the client's Account with full discretionary authority in accordance with the UMA Custom Portfolio selected by the client. The client also authorizes and directs Baird to appoint the Overlay Manager to serve as sub-advisor to the client's Account. The client also authorizes and directs the Overlay Manager to manage all SMA Strategies within the client's Account with full discretionary authority in accordance with the UMA Custom Portfolio selected by the client.

The SMA Strategies offered under the UMA Custom Portfolios Program currently only consist of Model-Traded Strategies. At the Overlay Manager's discretion, the Overlay Manager will implement a Model-Traded Strategy as proposed by the investment manager. However, the Overlay Manager may implement the Model Portfolio differently than proposed by the investment manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

A client participating in the UMA Custom Portfolios Program gives the Overlay Manager and Baird the authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

### ***ALIGN UMA Select Portfolios***

Under the ALIGN UMA Select Portfolios Program, Baird and the Overlay Manager manage a client's Account with full discretionary authority according to a proprietary model asset allocation strategy developed by Baird (each such model, an "ALIGN UMA Select Portfolio") that is selected by the client. Each ALIGN UMA Select Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds, ETPs, and SMA Strategies offered by investment managers in order to implement the model asset allocation. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment

Strategies and Methods of Analysis—UMA Programs" below.

Typically, a client selects the ALIGN UMA Select Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Baird constructs each ALIGN UMA Select Portfolio and adjusts the asset allocation of each ALIGN UMA Select Portfolio from time to time. Baird also determines the mutual funds, ETPs, or SMA Strategies that are available in the ALIGN UMA Select Portfolios Program, including the percentage each investment comprises in each asset class within an ALIGN UMA Select Portfolio.

Baird may remove mutual funds, ETPs, or SMA Strategies used in the ALIGN UMA Select Portfolios Program from time to time and replace them with other investment options. Baird may make changes to an ALIGN UMA Select Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Once the client has selected an ALIGN UMA Select Portfolio, the client authorizes and directs Baird to manage the client's Account with full discretionary authority in accordance with the ALIGN UMA Select Portfolio selected by the client. The client also authorizes and directs Baird to appoint the Overlay Manager to serve as sub-advisor to the client's Account. The client also authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the ALIGN UMA Select Portfolio selected by the client.

The SMA Strategies offered under the ALIGN UMA Select Program currently only consist of Model-Traded Strategies. At the Overlay Manager's discretion, the Overlay Manager will implement a Model-Traded Strategy as proposed by the investment manager. However, the Overlay Manager may implement the Model Portfolio differently than proposed by the investment manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

A client participating in the ALIGN UMA Select Program gives the Overlay Manager and Baird the authority to replace investments in a client's

Account, rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients" below for more information.

**Important Information about Affiliated Products.** *Some of the investment services and products offered by Riverfront, and mutual funds offered by the Baird Funds, both of which are affiliated with Baird, have been selected by Baird for inclusion in certain ALIGN UMA Select Portfolios. This presents a conflict of interest. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

## Additional Program Information

### Investment Discretion

#### Investment Selection and Trading Authorizations

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

If a client's Account participates in a Discretionary or UMA Program, the client's advisory agreement authorizes Baird to manage the client's Account in accordance with the terms of the Program selected by the client and also authorizes Baird 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 investment strategy. The client's advisory agreement also grants to Baird complete and unlimited trading authorization and appoints Baird as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, Baird may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the client's Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary

or incidental to the handling of the client's Account without prior notice to the client. Orders for the purchase and sale of securities in a client's Account will generally be executed by Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", unless Baird's duty to seek to obtain best execution otherwise requires or unless the client has provided other instructions to Baird in writing.

If a client's Account participates in a UMA Program, the client also authorizes the Overlay Manager to manage the client's Account in accordance with the UMA Program selected by the client.

If a client participates in the Recommended Managers Program, the client authorizes and empowers Baird and the client's Financial Advisor, with full discretionary authority, to recommend, select and retain investment managers for the client's Account and to terminate or replace investment managers for the client's Account for any reason without prior notice to the client. If Baird terminates an investment manager from the Recommended Managers Program, a client authorizes Baird to invest, with full discretion, the assets in the client's Account previously managed by the terminated investment manager in other securities, including, but not limited to, mutual funds and ETPs. Baird's discretionary authority to make such other investments will continue until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets.

If a client's Account participates in an SMA Program or Service, the client authorizes the investment manager selected for the client's Account, which may include the Overlay Manager, to manage the assets in the client's Account and grants to such investment manager the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account, subject to the client's portfolio strategy. The client also grants to such investment manager complete and unlimited trading authorization and appoints such investment manager as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, such investment manager may, in its sole discretion and at the client's risk,

purchase, sell, exchange, convert and otherwise trade the securities and other investments in the Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the Account without prior notice to the client. Baird does not have discretion over the assets in a client's Account that is managed by an Other Manager and cannot purchase or sell any securities or other investments in that Account without the consent of the client or the client's manager. The investment manager for a client's Account may initiate securities transactions through Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", subject to the manager's duty to seek to obtain best execution, or unless a client has provided other instructions in writing. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage the client's Account.

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

If a client participates in an SMA or UMA Program, the client authorizes Baird to share client's information with the Overlay Manager and any Other Manager managing the client's Account. The client also authorizes and directs Baird to transmit to the Overlay Manager and any such Other Manager any instructions that the client may provide to Baird to the extent necessary to carry out the client's instructions.

### **Client Investment Restrictions**

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

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

In the event that a client's Account is restricted from investing in certain securities, Baird or the client's investment manager, as applicable, 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 Baird or the client's investment 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.

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

### **Affiliated Investment Products**

Baird and its 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 advisory agreement with Baird, a client consents to Baird and its 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). Baird and its 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 Baird, clients should review the section of the Brochure entitled "Portfolio Manager Selection and Evaluation" below. For more information about the criteria used by Baird's affiliates, clients should review the affiliate's Form ADV Part 2A Brochure. A client's consent may be revoked at any time.

Other Managers may use the discretionary authority granted to them by a client to invest the client's Account in investment products affiliated with the Other Manager or that pay fees to the Other Manager or to any of its affiliates for investment advisory or other services they provide.

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

## Investment Policy Statements

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

## Conversion, Exchange or Sale of Certain Investments

By participating in a Program, a client authorizes Baird to convert or exchange any shares of investment funds, such as mutual funds, ETFs, closed-end funds, unit investment trusts ("UITs"), Alternative Investments Products, and other similar investment pools (collectively, "Investment Funds") held in the client's Account to a class of shares of the same fund that has lower operating expenses, such as advisory class shares, institutional class shares, financial intermediary class shares, or another class of shares primarily designed for use in advisory programs (collectively "Advisory Class Shares"), to the extent made available by the mutual fund or other Investment Fund.

A client should understand that, the client may not hold Advisory Class Shares in a non-Advisory Account and that the client may not be able to hold certain Advisory Class Shares in an account held at another firm. Upon the termination of a Program for an Account or the closure of an Account for any reason, Baird may convert or exchange the Advisory Class Shares held in the Account to an appropriate non-Advisory Class Shares issued by the same fund, or, if an appropriate non-Advisory Class Shares is not available, Baird may redeem or sell such Advisory Class Shares.

## Trading for Client Accounts

### Baird's Trading Practices

#### Placement of Client Trade Orders

Baird will select the broker-dealers that will execute trade orders for Non-Discretionary Accounts and with respect to Accounts that are managed directly by Baird unless the client has provided instructions to Baird to the contrary. As an investment adviser, Baird has an obligation to seek "best execution" of client trade orders. "Best execution" means that Baird must place client trade orders with those broker-dealers that Baird

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, including the value of the research provided (if any), the broker-dealer's execution capabilities, the cost of the trade, the broker-dealer's financial responsibility, and its responsiveness to Baird. It is important to note that Baird's best execution obligation does not require Baird to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as Baird reasonably believes that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances.

Because a client does not pay commissions to Baird when Baird, acting as broker-dealer, executes a client's trade orders, and because a client may incur commission costs in addition to the Program Fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever Baird executes client transactions. For this reason, and given Baird's execution capabilities as broker-dealer, Baird expects that it will generally execute trade orders, as broker-dealer, for Non-Discretionary Accounts and Accounts that are directly managed by Baird.

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

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

Baird 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 Baird 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 Baird 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.

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

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

The amount of securities available in the marketplace, at a particular price at a particular time, may not satisfy the needs of all clients participating in a block transaction and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird has adopted trade allocation policies and procedures that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment 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, Baird may also make random allocations to client accounts in certain circumstances, such as when Baird deems a partial fill for the total block order to be low. Adjustments to trade allocations may also be made, at the discretion of Baird, 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 Baird is not able to aggregate trades, Baird generally uses a trade rotation process that is designed to be fair and equitable to its advisory clients over time. However, a client should be aware that Baird's trade rotation practices may at times result in a transaction being effected for the client's Account 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 Baird is unable to buy or sell any security for a client's Non-Discretionary Accounts without the client's authorization, Baird 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 Baird'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 Baird or the client's Baird Financial Advisor.

#### *Directed Brokerage Arrangements*

In some cases, a client may direct Baird to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and Baird may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs Baird 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 Baird and trades must be executed through that platform. A client should understand that Baird considers such

arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, Baird may be unable to achieve best execution for the client's transactions. A client should note that any costs related to the directed brokerage arrangement are not included in the Program 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 Baird generally will not aggregate the client's directed brokerage trade orders with orders for other Baird 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 Baird may obtain for its other clients. A client should further note that Baird generally will not include such client trade orders in its trade rotation process and that Baird will generally place the client's trade orders with the directed broker-dealer after Baird completes its trading for other Baird client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in Baird's rotation. As a result, the client may receive a less favorable net price for the trade.

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

Before directing Baird 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 Baird believes that each respective transaction is consistent with the client's best interest, Baird, acting as investment

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

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

Baird offers 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.

If a client's Account is managed by an Other Manager, the client should review the Other Manager's Brochure and contact the Other Manager for information about how the Other Manager corrects trade errors.

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

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

Investment managers may participate in other wrap fee programs sponsored by firms other than Baird. In addition, investment managers may manage institutional and other accounts not part of a wrap fee program. In the event an investment manager purchases or sells a security for all accounts using a particular SMA Strategy offered by the investment manager, the investment manager may have to potentially effect similar transactions through a number of different broker-dealers. In some cases, to address this situation, investment managers may decide to aggregate all such client transactions into a block trade that is executed through one broker-dealer. This practice may enable the investment manager to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also assist the investment manager in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing client orders. However, as it pertains to Baird Program clients, this practice may result in "trading away" from Baird, which is more fully described below.

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



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

In some instances, step out trades are executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If a client's investment manager places trade orders for the client's Account with a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Program Fee.

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

A list of managers that have informed Baird that they have traded away from Baird during 2014 - 2015 and general information about the additional cost of those trades (if any) is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). The information about each manager provided on Baird's website is based solely upon the information provided to Baird by such manager. Baird has not independently verified the information, and as a result, none of Baird or any of its affiliates or associates makes any representation as to the accuracy of any such information.

A client should contact the client's Baird Financial Advisor or investment manager if the client would like to obtain specific information about trade away and the amount of commissions or other costs, if any, the client incurred in connection with step out trades.

*A client should note that each investment manager is solely responsible for ensuring that it complies with its best execution obligations to the client. A client should review the manager's trading for the client's Account because Baird does not monitor, review or evaluate whether the manager is complying with its best execution obligations to the client. A client should review the manager's Form ADV Part 2A Brochure, inquire about the manager's trading practices, and consider that information carefully, before selecting a manager. In particular, the client should carefully consider any additional trading costs the client may incur before selecting a manager to manage the client's Account.*

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

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

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

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 the Program Fee.

#### *Agency Cross Transactions*

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

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

#### *Principal Transactions*

Subject to the requirements of applicable law, Baird and its Financial Advisors may execute transactions for a client's Account while acting as principal for Baird's own account. Baird acts as principal when Baird or its Financial Advisors sell a security from Baird's inventory to a client, or Baird or its Financial Advisors 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. Baird commonly engages in principal trades with clients in the Baird Advisory Choice Program.

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 Baird in a principal transaction is in addition to the Program Fee paid by the client. Thus, in trading as principal with a client, Baird and its Financial Advisors will have potentially conflicting division of loyalties and responsibilities regarding their own interests and the interests of the client. This profit potential may give Baird or its Financial Advisors an incentive to recommend a transaction in which Baird acts as principal over other transactions. Nonetheless, Baird and its Financial Advisors have a fiduciary duty to act in the client's best interest and to seek best execution for advisory clients. Baird addresses this conflict through disclosure in this Brochure. Furthermore, Baird has adopted internal procedures that require Baird and its Financial Advisors, 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.

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

To the extent permitted by applicable law and regulation, if a client's Account participates in a Non-Discretionary Program or other non-discretionary service, or if the Account is managed by an Other Manager, the client's advisory agreement provides Baird and its Financial Advisors with a blanket authorization to act as principal for Baird's own account in selling

any security to, or purchasing any security from, the client's Account. With this authorization, Baird and its Financial Advisors may effect any and all principal transactions with the client's Account without having to provide specific written disclosures or obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of Rule 206(3)-3T under the Advisers Act (including any amendments to such rule or successors to such rule) and other applicable rules and interpretations. **This authorization to enable Baird and its Financial Advisors to trade as principal with a client's Account may be revoked at any time by the client in client's sole discretion by notifying the client's Baird Financial Advisor in writing.**

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

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

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

### **Non-Traditional Assets**

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

### **Margin and Leverage**

#### ***Margin***

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

#### ***Leverage***

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

### **Short Sales**

Short selling attempts to benefit from an anticipated decline in the market value of a

security. To affect a short sale, a client sells a security the client does not own. When a client sells a security short, Baird borrows the security from a lender and makes delivery to the buyer on the client's behalf. Because short sales involve an extension of credit from Baird to the client, a client must use a margin account. A client must also eventually purchase the same shares sold short and return them back to the lender. It is possible that the prices of securities that a client sells short may increase in value, in which case the client may lose money on the short position. Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate.

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

## Options and Other Derivative Instruments

### *Derivative Instruments*

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

### *Options*

Options transactions may involve the buying or writing of puts or calls on securities. In some

cases, Baird may require clients to open a margin account to engage in options trading.

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

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

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

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

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

### **Alternative Investment Products**

Alternative Investment Products typically invest primarily in non-traditional assets or engage in one or more Alternative Strategies. Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), ETNs, business development companies ("BDCs"), REITs, master limited partnerships ("MLPs"), and managed futures.

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

### **Additional Important Information**

The use of Alternative Strategies or Alternative Investment Products is not appropriate for some clients because they involve special risks. A client

should not engage in those strategies or invest in those products unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Program Risks" below for more information. Before using those types of strategies or products, a client is strongly urged to discuss them with the client's Financial Advisor and any investment manager managing the client's Account. A client should also carefully review the client's agreements with Baird and related disclosure documents, which the client should have received when opening the Account. Additional information about Alternative Strategies and Alternative Investment Products is provided under the heading "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies" below and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

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

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



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

### **Eligible Assets**

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

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

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

**ALIGN, BairdNext Portfolios and UMA Programs.** The ALIGN, BairdNext Portfolios and UMA Programs generally only permit investments in the mutual funds and ETPs, and with respect to UMA Portfolios, SMA Strategies, that Baird has made available for use in those Programs. For more information, see the descriptions of each Program under "Services, Fees and Compensation" above.

**BIM Portfolios Program.** Eligible assets for the BIM Portfolios Program are described in BIM's Form ADV Part 2A Brochure and the Other Managers' Form ADV Part 2A Brochures, which are available upon request.

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

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

- BDCs, publicly-traded REITs and MLPs (which may be organized as limited liability companies ("LLCs"));
- ETNs, leveraged funds, inverse funds, and other special situation mutual funds, and exchange or swap funds;
- certain hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, structured products, and managed futures that Baird has made available for use in the Program; and
- variable annuities that have cost structures designed for use in fee-based investment advisory programs.

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

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

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

- put options;

- hedge funds, funds of hedge funds, private equity funds, funds of private equity funds structured products, and managed futures; and
- variable annuities.

**SMA Programs and Services.** Except for the BIM Strategies under the BIM Portfolios Program, Baird does not determine the eligibility of investment products under the SMA Programs and Services. Investment products under the SMA Programs and Services are selected solely by the investment manager providing services to the client. *The investment products used by an investment manager may include products that Baird deems ineligible for use in connection with the other Programs and Services described above.* A client should review the investment manager's Form ADV Part 2A Brochure for more information.

**Russell Program.** The Russell Program generally only permits investments in Russell Funds selected by Russell.

### ***Unsupervised Assets***

Under certain circumstances, Baird, in its sole discretion, may accept a client request to place an ineligible asset into a client's Account. In most cases, an ineligible asset is an "unsupervised" asset, meaning that Baird and its Financial Advisors do not manage or provide investment advisory services regarding such asset. Baird, in its sole discretion, may also designate an asset that is otherwise eligible for a client's Account as "unsupervised" under certain circumstances, such as when a client acquires an asset in an unsolicited transaction, transfers an asset from an account held at another firm, or continues to hold an asset against Baird's or the client's Financial Advisor's recommendation. If a client holds an unsupervised asset in an Account, the client should understand that the unsupervised asset may not be included in performance reports provided to the client and that Baird and its Financial Advisors do not manage, provide investment advice, or otherwise act as an investment adviser with respect to the unsupervised asset, even if the unsupervised asset is included in account statements or performance reports provided to the client. Baird may impose administrative or other fees upon such asset, and there is a risk that the asset will be inadvertently included in the calculation of the client's Program Fee. See "Other Fees and



Expenses" below for more information. A client should also understand that holding an unsupervised asset in an Account may increase the risk of trade errors, overinvestment, and negative Account performance. A client should consult the client's Financial Advisor for further information.

***Special Considerations for ALIGN, BairdNext Portfolios, Russell Model Strategies, SMA and UMA Clients***

**Selection of Investment Options.** Baird solely determines the investment options made available to clients under the ALIGN, BairdNext Portfolios, Russell and UMA Programs. While ALIGN, BairdNext Portfolios, Russell and UMA Program Accounts will generally be invested in mutual funds or ETPs, and, with respect to UMA Portfolios, SMA Strategies, Baird may invest client's Account participating in those Programs in any investment product it deems appropriate for the clients participating in those Programs.

**Replacement of Investment Options.** From time to time, Baird may remove mutual funds, ETPs, and, with respect to UMA Portfolios, SMA Strategies, and replace them with other mutual funds, ETPs, or SMA Strategies. A client participating in those Programs authorizes Baird to replace any such investments in the client's Account whenever Baird removes the investment option from those Programs. Baird may make such replacement in a client's Account without providing prior notice to, or obtaining the consent of, a client.

**Tax Management.** Clients participating in the ALIGN Strategic Portfolios Program, the BairdNext Portfolios Program, and the ALIGN UMA Select Portfolios Program, grant Baird the discretion to sell their mutual fund investments from time to time and invest the proceeds temporarily in comparable ETFs, ETNs, or similar securities in order to avoid the recognition of capital gain distributions to be made by those funds and to recognize taxable losses. Baird may provide this service to a client participating in the ALIGN Custom Portfolios Program or the UMA Custom Portfolios Programs if the client directs Baird to do so.

Clients participating in an SMA Program or Service, grant their investment manager the discretion to sell investments from time to time

and or invest in securities in order to avoid the recognition of capital gain distributions and in order to recognize taxable losses. Any such tax management by Baird or an investment manager is done at Baird's or the manager's discretion, and there is no guarantee they will do so. A client should understand that some investment managers do not provide tax management. A client should discuss tax management needs and expectations with the client's Financial Advisor and manager prior to investing.

**Asset Allocation Changes and Rebalancing.**

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

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

With respect to the ALIGN Dynamic, Strategic, and Tactical Portfolios Programs, the BairdNext Portfolios Program, the ALIGN UMA Select Portfolios Program, and the Russell Program, Baird may also change a client's asset allocation for any reason which may include, but shall not be limited to, changes in market conditions,

Baird's opinion on the future performance of particular asset classes or the client's financial circumstances.

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

Under the UMA Programs, the tax management services, asset allocation changes, rebalancing, and other changes described above may be performed or implemented by the Overlay Manager.

### **Custody Services**

Each Program generally requires clients to custody their account assets at Baird. If Baird is the custodian of a client's assets, Baird will provide certain custody services, including holding the client's Account assets, crediting contributions and interest and dividends received on securities held in a client's Account, and making or "debiting" distributions from the Account. Information about account statements and performance reports, if any, that Baird provides to clients is contained under the heading "Additional Information—Review of Accounts" below.

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

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

Personal Trading—Participation or Interest in Client Transactions—Other Interests in Client Transactions" below for more information.

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.*

Baird in its sole discretion may accept certain clients into a Program whose assets are held by another custodian that is acceptable to Baird in its sole discretion (a "third party custodian"). A client who uses a third party custodian to hold Program assets does so at the client's risk. A client should understand that Baird does not monitor, evaluate or review any third party custodian. The client should also understand that the client will pay a custody fee to the third party custodian in addition to the Program Fee and that the client may not receive performance review or reporting from Baird. In addition, a client who uses a third party custodian is not eligible for cash sweep services offered by Baird. Clients using a third party custodian are encouraged to establish appropriate cash sweep arrangements.

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

### ***Updating Client Information***

A client is responsible for providing information to Baird and any investment managers managing client's Accounts reasonably requested by them in order to provide the services selected by the client. Baird and investment managers will rely on this information when providing services to the client. A client is also responsible for promptly informing Baird and any investment managers managing client's Accounts of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. Neither Baird nor any investment manager managing a client's Account is responsible for any adverse consequence arising out of the client's failure to promptly inform Baird and any such investment manager of any such changes. Since investment goals and financial circumstances change over time, a client should review the client's participation in a Program with the client's Financial Advisor at least annually.

### ***Legal and Tax Considerations***

Baird and its associates do not provide legal or tax advice to clients in connection with the Programs.

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

The investment strategies used for a client's Account and transactions in a client's Account, including liquidations, redemptions, and rebalancing transactions, may cause the client to

realize gains or losses for income tax purposes. In addition, a client's Account may be invested in investment products classified as partnerships for U.S. federal income tax purposes, which may result in unique tax treatment, including Schedule K-1 reporting. Baird does not provide any tax advice in connection with any of the Programs. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor. If a client wishes for Baird to implement a particular investment strategy for tax purposes, and Baird agrees to implement such strategy, Baird will not be responsible for the development, evaluation, or efficacy of any such strategy.

## **Program Fees**

### ***Fee Options and Fee Schedules***

A client's advisory agreement will set forth the actual compensation the client will pay to Baird. In most instances, a client pays Baird an ongoing Program Fee based upon the value of assets in the client's Account (an "asset-based fee"), although other options may be available. Depending upon the Program selected, there may be up to three asset-based fee options available: a flat fee, a breakpoint fee, or a tiered fee. Some Programs also make available an advice fee arrangement.

**Flat Fee Arrangement.** Under the flat fee arrangement, the asset-based fee may be a flat or single percentage that may or may not vary by asset type or category (such as equity securities and fixed income securities). The maximum annual flat Program Fee rate is 3.00%.

**Tiered Fee Arrangement.** Under a tiered fee arrangement, the asset-based fee will vary for different segments of client assets, gradually decreasing as the Account balance increases. For example, a client with an Account value of \$1,000,000 may pay one rate on the first \$250,000 of assets in the Account, a lower rate on the next \$250,000 of assets in the Account and a still lower rate on the remaining \$500,000 of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

The following fee schedule sets forth the maximum tiered Program Fee rates for the Programs.

## Tiered Program Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$250,000	3.00%
Next \$250,000	2.50%
Next \$500,000	2.25%
Next \$1,000,000	2.00%
Next \$3,000,000	1.75%
Above \$5,000,000	1.50%

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

The following fee schedule sets forth the maximum breakpoint Program Fee rates for the Programs.

## Breakpoint Program Fee Schedule

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

A tiered or breakpoint fee arrangement may be a fixed percentage across all asset categories, or may be a percentage that varies by asset category (e.g., equity and fixed income securities may have a different applicable fee rate).

**Advice Fee Arrangement.** Under an advice fee arrangement, the asset-based Program Fee is comprised of an advice fee ("Advice Fee") and, for some Programs, an additional a portfolio fee ("Portfolio Fee"). The Advice Fee covers certain investment advisory, brokerage and custody services provided by Baird. The Portfolio Fee covers portfolio management and other services provided by Baird and the manager to the client's Account, which may include departments or affiliates of Baird. If a client has an advice fee arrangement, the client's Program Fee rate will be

equal to the sum of the applicable Advice Fee rate and the applicable Portfolio Fee rate, if any.

Clients with an advice fee arrangement may generally choose a flat, tiered or breakpoint fee arrangement for the Advice Fee. The maximum annual flat Advisory fee rate is 2.50%.

The following fee schedule sets forth the maximum tiered Advice Fee rates for the Programs.

## Advice Fee Arrangement

## Tiered Advice Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$250,000	2.50%
Next \$250,000	2.00%
Next \$500,000	1.75%
Next \$1,000,000	1.50%
Next \$3,000,000	1.25%
Above \$5,000,000	1.00%

The following fee schedule sets forth the maximum breakpoint Advice Fee rates for the Programs.

## Advice Fee Arrangement

## Breakpoint Advice Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
\$0 to \$249,999	2.50%
\$250,000 to \$499,999	2.00%
\$500,000 to \$999,999	1.75%
\$1,000,000 to \$1,999,999	1.50%
\$2,000,000 to \$4,999,999	1.25%
\$5,000,000 and above	1.00%

The Portfolio Fee rate varies by Program, investment vehicle, and the type of investment strategy or style being pursued by the Account. The following fee schedule sets forth the maximum Portfolio Fee rates or range of rates for the Programs.

### Advice Fee Arrangement

#### Portfolio Fee Schedule

<u>Program</u>	<u>Annual Fee Rate or Range</u>
<b>ALIGN Custom Portfolios</b>	0.00%
<b>ALIGN Dynamic Portfolios</b>	0.25%
<b>ALIGN Strategic Portfolios</b>	0.00%
<b>ALIGN Tactical Portfolios</b>	0.25%
<b>Baird Advisory Choice</b>	0.00%
<b>BairdNext Portfolios</b>	0.00%
<b>BIM Portfolios</b>	0.50%
<b>Client Selected Managers</b>	
Equity Strategies	0.43% - 1.40%
Balanced Strategies	0.48% - 0.65%
Fixed Income Strategies	0.33% - 0.50%
Global and International Strategies	0.48% - 0.60%
Alternative Strategies	0.48% - 0.96%
<b>Private Investment Management</b>	0.00%
<b>Recommended Managers</b>	
Equity Strategies	0.35% - 0.60%
Balanced Strategies	0.35% - 0.60%
Fixed Income Strategies	0.25% - 0.35%
Global and International Strategies	0.35% - 0.60%
Alternative Strategies	0.35% - 0.60%
<b>Referred Managers</b>	
Equity Strategies	0.35% - 0.60%
Balanced Strategies	0.35% - 0.60%
Global and International Strategies	0.35% - 0.60%
Alternative Strategies	0.35% - 0.60%
<b>Riverfront Managed Portfolios</b>	0.35% - 0.50%
<b>Russell Model Strategies</b>	0.00%
<b>UMA Custom Portfolios</b>	
Equity SMA Strategies	0.50%
Riverfront Strategies	0.50%
Mutual Funds	0.00%
ETFs	0.00%

### Advice Fee Arrangement

#### Portfolio Fee Schedule

<u>Program</u>	<u>Annual Fee Rate or Range</u>
ALIGN Strategic Portfolio	0.00%
ALIGN Tactical Portfolio	0.25%
Baird Recommended Portfolio	0.00%
Baird Value Focus Portfolio	0.00%
<b>ALIGN UMA Select Portfolios</b>	
Equity SMA Strategies	0.50%
Riverfront Strategies	0.50%
Mutual Funds	0.00%
ETFs	0.00%
ALIGN Strategic Portfolio	0.00%
ALIGN Tactical Portfolio	0.25%
Baird Recommended Portfolio	0.00%
Baird Value Focus Portfolio	0.00%

*Important Information about UMAs and Blended Rates.* UMAs offer investments in different investment vehicles (such as mutual funds, ETFs, and SMAs) and asset classes (such as equity securities and fixed income securities). Each investment vehicle and asset class may have a different Portfolio Fee rate, which is shown in the table above. For purposes of calculating the Portfolio Fee for a UMA, the Portfolio Fee rate applicable to each investment vehicle or asset class will be applied to the value of assets invested in each such investment vehicle or asset class in the Account. In other words, the overall Portfolio Fee rate for the UMA as a whole will be a blended rate. The blended Portfolio Fee rate, and the actual Portfolio Fee paid by a client, will vary over time due to many factors, including market appreciation or depreciation of the assets in the Account and changes in allocations to different investment vehicles or asset classes in the Account.

**Other Fee Options.** Baird makes other compensation options available to eligible clients besides asset-based fees, such as a fixed dollar amount or a commission-based account. Baird may enter into those other fee arrangements, including performance-based fee arrangements with eligible clients. Performance-based fee arrangements are further described in the section



entitled “Portfolio Manager Selection and Evaluation—Performance-Based Fees and Side-By-Side Management” below.

### **Program Account Minimums**

The minimum asset value to open an Account in a Program is set forth in the table below.

<u>Program</u>	<u>Asset Level</u>
ALIGN Custom Portfolios	\$25,000
ALIGN Dynamic Portfolios	\$150,000
ALIGN Strategic Portfolios	\$25,000 <sup>(1)</sup>
ALIGN Tactical Portfolios	\$50,000
Baird Advisory Choice	\$25,000
BairdNext Portfolios	\$5,000
BIM Growth Portfolios	\$150,000 <sup>(2)</sup>
BIM SAM Portfolios	\$250,000 <sup>(2)</sup>
BIM Value Portfolios	\$100,000
Client Selected Managers	\$100,000 <sup>(3)</sup>
Private Investment Management	\$50,000
Recommended Managers	\$100,000 <sup>(3)</sup>
Referred Managers	\$100,000 <sup>(3)</sup>
Riverfront Managed Portfolios	\$200,000 <sup>(4)</sup>
Russell Model Strategies	\$10,000
UMA Custom Portfolios	\$25,000 <sup>(5)</sup>
ALIGN UMA Select Portfolios	\$400,000

(1) ALIGN Strategic Retirement Portfolios have a minimum account requirement of \$5,000.

(2) BIM's SAM Strategic Portfolios have a minimum account requirement of \$250,000. BIM's SAM Custom Portfolios have a minimum account requirement of \$1,000,000. BIM Mid Cap Growth Portfolios have a minimum account value of \$350,000. All other BIM Growth Portfolios have a minimum of \$150,000.

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

(4) Some Riverfront Managed Portfolios have an account minimum of \$250,000.

(5) UMA Custom Retirement Portfolios have a minimum account requirement of \$5,000.

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

A client is encouraged to periodically review with the client's Financial Advisor the client's Program Fee and the services provided to determine if the services and fees continue to meet the client's needs.

### **Calculation and Payment of Program Fees**

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

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

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

the client's third party custodian in determining the value of the assets in the client's Account.

Baird does not conduct a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and it does not verify or guarantee the accuracy of such information. Baird does not accept responsibility for valuations provided by third parties that are inaccurate unless Baird has a reason to believe that the source of such valuations is unreliable. Valuation data for investments, particularly Alternative Investment Products, community bank stocks and private limited partnerships, may not be provided to Baird in a timely manner, resulting in valuations that are not current. The prices obtained by Baird from third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used for fee-calculation purposes may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the Program Fee for some securities may be calculated based on values that are greater than the amount a client would receive if the securities were actually sold from the client's Account.

As mentioned above, Baird will include cash and cash equivalent balances in a client's Account when calculating a client's asset-based Program Fee. However, Baird has adopted internal policies that may restrict the percentage of cash or cash equivalents for sustained periods in an Account. These internal policies are designed to benefit clients who hold large cash balances in their accounts for sustained periods and attempt to ensure that such clients pay an advisory fee that is reasonable for the services provided. However, this internal policy, in some cases, could create a financial incentive for Baird or its Financial Advisors to recommend or select riskier investments for a client's Account.

If a client maintains a balance in the client's margin account with Baird, such balance has no bearing on the asset-based Program 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 Program Fee. For purposes of determining the asset-based Program 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 Program Fees on options, the absolute value of the current market price of the option will be used.

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

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

A client's Program Fees and other charges will be automatically deducted from the client's Account, unless the client requests, and Baird agrees, to an alternate arrangement, such as having Baird issue the client an invoice for the Program Fees ("direct billing"). A client should understand that the client's Program Fees and other charges relating to the client's Account may be satisfied from free credit balances and other assets in the client's Account. If free credit balances in a client's Account are insufficient to pay the Program Fees

or other charges when due, Baird and any investment manager managing the client's Account may sell investments from the client's Account to the extent they deem necessary and appropriate, in their sole discretion, to pay the client's Program Fees and other charges.

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

To the extent permitted by applicable law, Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with 30 days' prior written notice.

If either Baird or the client terminates the client's advisory agreement or the client's participation in a Program, 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 affected Accounts. Baird will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust Program 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, Baird, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's Account occurring during a billing period that result from contributions to, or withdrawals from, the client's Account.

Each Program may have a minimum asset value in order to open an Account as further described under "Program Fees—Program Account Minimums" above. A client's Account may be subject to a minimum Program Fee. The minimum Program Fee will be described in the client's advisory agreement. Baird may waive the

minimum Program Fee at its discretion. The minimum Program Fee is subject to change upon notice to the client.

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

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

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

Baird does not offer the Programs to clients on an unbundled basis. In other words, the Programs do not permit clients to pay for services, such as investment advice, trade execution, and custody separately. However, each service provided to a client in connection with a particular Program may be available to a client outside of the Program separately. Thus, a client's participation in a Program could cost the client more or less than if the client purchased each service separately. A number of factors bear upon the relative cost of each Program. In comparing the Programs to other services, a client should consider a number of factors, including, but not limited to:

- whether the client prefers an advisory or brokerage relationship, a discretionary or non-discretionary relationship, or a fee-based or commission-based relationship;
- the anticipated size of the Account and the types of investment strategies and products available for that account;
- the level of anticipated trading activity;

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

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

### **Program Fee Payments to Baird, Financial Advisors and Investment Managers**

Baird and its affiliates and associates benefit from the Program Fees and charges clients pay for the services described in this Brochure.

Baird retains the entire Program Fee paid by clients, except as further described below. With respect to the BIM Portfolios, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, and with respect to the Overlay Manager and CSM Eligible Managers under the CSM Service, and the Overlay Manager and investment managers providing SMA Strategies under the UMA Programs, Baird pays a portion of the Program Fee to the manager as compensation for the manager's services. The amount of the Program Fee paid to a particular manager varies based upon, among other factors, the Program selected by a client, the investment strategy and other services sought by a client, the subadvisory fee Baird negotiated with the manager, the manager's investment style or strategy, the level of services provided by the manager, and the size of a client's Account. The range of subadvisory fees paid to investment managers (which includes amounts paid to the Overlay Manager, if any) out of the Program Fee is set forth in the table below.

#### **Portion of Program Fee Paid to Investment Managers**

<u>Investment Style or Strategy</u>	<u>Range of Annual Subadvisory Fee Rates</u>
Equity Strategies	0.35% - 1.40%
Balanced Strategies	0.35% - 0.65%
Fixed Income Strategies	0.25% - 0.50%

#### **Portion of Program Fee Paid to Investment Managers**

<u>Investment Style or Strategy</u>	<u>Range of Annual Subadvisory Fee Rates</u>
Global and International Strategies	0.35% - 0.60%
Alternative Strategies	0.35% - 0.96%

The portion of Program Fees paid to investment managers could be higher or lower than the amounts shown above if Baird adds new investment managers to the Programs with higher or lower fees or if Baird and a manager renegotiate the amount of the subadvisory fee. As the portion of the Program Fee paid to an investment manager increases, the portion of the Program Fee that is retained by Baird decreases. Thus, Baird has an incentive to recommend or favor investment managers that are paid less, because Baird will receive a higher portion of the Program Fee. With respect to advice fee arrangements, Baird, in many instances, receives a portion of the Portfolio Fee even if a client's Account is managed by an unaffiliated third party. The amount of the Portfolio Fee retained by Baird varies based upon the same factors described above. In addition, Baird has an incentive to favor related managers, such as Baird Advisors, BIM, CCM, BKG, Greenhouse and Riverfront, over other investment managers because the entire Program Fee is retained by Baird and affiliated investment managers. Given the nature of the Program Fee, Baird also has an incentive to recommend or select investment managers that trade less frequently with or that trade away from Baird because Baird will incur lower trading costs with respect to such managers and such relationships will be more profitable to Baird. With respect to the UMA Portfolios, Baird shares a portion of the Program Fee with investment managers to the extent a UMA Portfolio contains an SMA Strategy, but it retains the entire Program Fee to the extent a UMA Portfolio contains mutual funds or ETPs. Thus, Baird has an incentive to favor mutual funds and ETPs over SMA Strategies with respect to the UMA Programs because it will be more profitable for Baird.

Baird Financial Advisors and other associates offering services and providing ongoing assistance to clients receive compensation from Baird. A Baird Financial Advisor is generally compensated based upon the Financial Advisor's total production level at Baird, which takes into

account all of the advisory fees, commissions and similar compensation paid to Baird by the clients for which the Financial Advisor is responsible. Baird may reduce the rate of compensation it pays to Baird Financial Advisors when the Program Fees paid by clients are below certain levels. This creates an incentive for Baird Financial Advisors to charge Program Fees at or above those levels and a disincentive to reduce the Program Fees below a level that will negatively impact their production. Due to the manner in which Baird compensates its Financial Advisors, a Financial Advisor generally will have a financial incentive to trade less for Baird Advisory Choice Accounts than traditional brokerage accounts and to reduce trading or increase a client's Program Fees if trading for a client's Advisory Choice Account exceeds certain levels established by Baird. Although Baird Financial Advisors do not receive any portion of the Program Fee, their compensation is directly related to the size of the Program Fee that a client pays to Baird and the amount of the Program Fee, if any, paid to other investment managers managing a client's Account. Thus, Baird Financial Advisors have an incentive to recommend or favor Programs with higher fees. This also creates an incentive for them to recommend or favor investment managers that are paid less, because they will receive higher compensation. In addition, the compensation paid to a Baird Financial Advisor acting as a PIM Manager may be higher than the compensation that would be paid to a Baird Financial Advisor who recommends that other investment managers manage a client's Account. As a result, a Baird Financial Advisor acting as a PIM Manager may have a financial incentive to recommend the PIM Program over other Programs. From time to time, Baird Financial Advisors outside of the PIM Program may refer their clients to PIM Managers. In those instances, the PIM Manager generally shares a portion of his or her compensation with the referring Baird Financial Advisor.

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

## Other Fees and Expenses

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

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



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

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

In addition to the Program Fee, a client will be responsible for paying the fees charged by each investment manager selected by the client under a dual contract arrangement. If a client directs Baird to pay the client's dual contract manager's fee out of the client's Account, and Baird agrees to do so, Baird will not be responsible for verifying the calculation or accuracy of such fee.

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

A client may also be assessed other trading costs in addition to the Program Fee if client trades are executed through another firm. Please see "Services, Fee and Compensation—Additional

Program Information—Trading for Client Accounts" above for more information.

If a client holds an unsupervised asset in the client's Account, the client may be charged a commission, markup or markdown in connection with its purchase or sale. The cash proceeds from the sale of an unsupervised asset that remain in a client's Account are considered eligible assets subject to the asset-based Program Fee. If an asset becomes an unsupervised asset during a quarterly billing period, that asset will be excluded for purposes of determining the asset-based Program Fee beginning at the start of the next quarterly billing period, and no portion of the asset-based Program Fee paid by a client in advance for the quarter will be refunded or rebated to the client. Additionally, Baird may, upon notice to clients, impose a set-up fee and a maintenance or administrative fee on unsupervised assets maintained in an Account.

Clients who have Accounts may also have other accounts with Baird under programs or services not described in this Brochure. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of Program Fees.

### Compensation Received by Baird and Baird Financial Advisors

The individual who recommends a Program to a client, including a Baird Financial Advisor, receives compensation from Baird that is based upon the amount of the Program Fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory programs or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Program over other programs or services offered by Baird. However, when providing investment advisory services to clients, Baird and its Financial Advisors are fiduciaries and are required to act solely in the best interest of clients. Baird addresses this conflict through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about Baird's compensation and other benefit

arrangements and how Baird addresses the potential conflicts of interest, please see the sections “Services, Fees and Compensation—Additional Program Information” and “Services, Fees and Compensation—Program Fees—Program Fee Payments to Baird, Financial Advisors and Investment Managers” above, and “Additional Information—Other Financial Industry Activities and Affiliations” and “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

## Account Requirements and Types of Clients

### Opening an Account

A client that wishes to participate in a Program will enter into an advisory agreement with Baird. The client’s advisory agreement will contain the specific terms applicable to the services selected by the client, Program Fees payable by the client, and other terms applicable to the client’s advisory relationship with Baird.

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

After a client has signed and delivered an advisory agreement to Baird, the agreement is subject to review and acceptance by the client’s Financial Advisor, his or her Branch Office Manager or PWM Supervision department supervisor (or his or her respective designee), and Baird’s Home Office. The agreement and Baird’s advisory relationship with a client will become effective when the client’s paperwork is accepted by Baird’s Home Office and following such acceptance Baird has delivered to the client written confirmation of the Account’s enrollment in the applicable Program. A client should understand that the advisory agreement will not become effective, and Baird will not provide any advisory services to the client, until such time that Baird has accepted the advisory agreement. Baird may delay acceptance of the advisory agreement and the provision of advisory services

to the client for various reasons, including deficiencies in the client’s paperwork. Once it has become effective, the agreement shall continue until it is terminated in accordance with the terms described in the advisory agreement.

The terms of a client’s agreements and this Brochure apply to all Accounts that a client establishes with Baird, including any Accounts that a client may open with Baird in the future. Some of the information in those documents may not apply to a client now, but may apply in the future if a client changes Programs or services or establishes other Accounts with Baird. Baird will generally not provide a client another copy of the agreements or this Brochure when a client changes Programs or services or establishes new Accounts unless the client requests a copy from a Financial Advisor. Therefore, a client should retain those documents for future reference as they contain important information if a client changes Programs or services or establishes other Accounts with Baird.

### Certain Account Requirements

#### Minimum Account Size

Each Program has a minimum account size and may have a minimum Program Fee, which are described in the section entitled “Service, Fees and Compensation—Program Fees” above. Baird may remove a client from a Program and immediately terminate the advisory agreement with respect to an Account upon written notice to the client if the client fails to maintain the required minimum asset levels in an Account or if the client fails to otherwise abide by the terms of a Program as determined by Baird in its sole discretion.

#### Account Contributions and Withdrawals

A client may fund an Account with cash and with securities that Baird and the client’s investment manager, if any, deem to be acceptable in their sole discretion. For SMA Programs and Services and UMA Programs with Other Managers, funds deposited or transferred to a client’s Account from another Baird account and funds deposited or transferred to a client’s Account from outside of Baird will not be available for investment by an Other Manager until the next business day and therefore the investment of such funds, at the discretion of the Other Manager, will occur no earlier than the next business day. When a client funds an Account with securities, including when a

client changes Programs for an Account or changes investment managers for an Account within the same Program, the client should understand that Baird's or the client's investment manager's review of securities used to fund the Account may delay investing. In addition, Baird or the client's investment manager, if any, may determine that the securities contributed to the Account may not be appropriate for the client's strategy, and Baird or the investment manager, if any, may sell, or recommend the sale of, such securities. A sale could result in adverse tax consequences for the client. A client should note that securities transferred into an Account may be subject to the Program Fee immediately upon its transfer into the Account, even if the client paid a commission or front-end sales charge on the security prior to its transfer into the Account. In addition, if the securities are subject to deferred sales charges or redemption fees, the client will be responsible for paying those charges and fees. To the extent permitted by applicable law, certain funding transactions may be handled by Baird on a principal basis, and such transactions are not considered investment advisory services of Baird or the client's investment manager.

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

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

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

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

As security for the full and complete payment when due of any debts and other obligations that a client owes to Baird, and to the extent permitted by applicable law or regulation, all assets in a client's Account held at Baird will be subject to a first priority security interest, lien and right of setoff in favor of Baird. Baird may sell assets in an Account to satisfy the lien. As a secured party, Baird may have interests that are adverse to a client. Neither Baird nor its Financial Advisors will act as investment adviser to a client with respect to such sale of assets held in an Account. Any such sale of assets will be executed in Baird's capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis. A client should review the client's agreements for more information.

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

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

A client is required to disclose the terms of the client's agreements with Baird to any lender seeking to use Account assets as collateral. A client must promptly notify Baird of any default or

similar event under the client's collateral arrangements.

A client should understand that Baird and its Financial Advisors will not provide advice on or oversee a collateral arrangement and they will not act as investment adviser to the client with respect to the liquidation of securities held in the client's Account to meet a collateral call. Any such liquidation will be executed in Baird's capacity as broker-dealer and may, as permitted by law, result in executions on a principal basis.

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

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

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

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

### **Termination of Accounts**

Baird may remove an Account from a Program and immediately close an Account upon written notice to a client if the client fails to abide by the terms of the Program. Baird may also remove an Account from a Program at any time upon written notice to a client if the client fails to maintain the required minimum asset levels in such Account.

Upon the termination of an Account's enrollment in a Program, Baird and, if relevant, any other investment manager managing such Account, shall have no obligation to act as investment adviser to such Account. If such Account is custodied at Baird, the Account shall be converted to and designated as a brokerage account. Baird, and, if relevant, any other investment manager

managing such Account, shall be under no obligation to recommend any action with regard to, or to liquidate the securities or other investments in, such Account. After an Account is removed from a Program, it is the client's exclusive responsibility to issue instructions, in writing, regarding the management of any assets in such Account.

If Client's assets are liquidated in connection with a closure of an Account, the client will generally be charged commissions in accordance with Baird's standard commission schedule then in effect.

A client may incur significant expenses and liabilities, including tax-related liabilities for which the client will be solely liable, if the client closes an Account, terminates an advisory agreement, or transfers assets out of Baird's custody. Baird will not be liable to a client in any way with respect to the termination, closure, transfer or liquidation of the client's Accounts.

Some of the investments offered in connection with the Programs contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of an Account. For example, certain Investment Funds held in an Account may only be available to a client through a Baird Program or may not be held at another firm. If such restrictions apply and the client terminates a Program or closes an Account, the Client will be required to sell or redeem such Investment Funds or exchange them for other Investment Funds that may be more costly to the client or have poorer performance. A client should consider restrictions applicable to investments carefully before participating in a Program. A client should contact the client's Financial Advisor for specific information as to how Account closure, termination of an agreement, or asset transfers might impact the assets in the client's Accounts.

The client's advisory agreement will survive any event that causes the client's Financial Advisor to be unable to provide services to the client (either on a temporary or permanent basis), including if the client's Financial Advisor ceases to be employed by Baird. In any such event, Baird will continue to provide services to the client and will as promptly as practicable assign another Financial Advisor to the client's Accounts (either on a temporary or permanent basis) and the

client will be notified of any such change. Similarly, if a client's PIM Manager ceases to participate in the PIM Program or be employed by Baird, Baird may assign the client's PIM Account to another PIM Manager or Financial Advisor.

### Types of Clients

Baird offers the Programs to all types of current or prospective clients, including, but not limited to: individuals; trusts; estates; Retirement Accounts; pension and profit sharing plans; charitable organizations; and corporations or other business entities.

## Portfolio Manager Selection and Evaluation

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

### Selection and Evaluation

#### *Recommended Managers*

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

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

- quality and stability of their organization

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

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

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

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

It is important for the client to note that Baird's selection and ongoing evaluation of a BRM



Strategy managed by an Implementation Manager is based upon an assumption that the Model Portfolio will be fully and faithfully implemented by the Implementation Manager on a continuous basis. A client should understand that the Implementation Manager has discretion over the client's Account and may invest the client's Account in a manner that differs from the Model Portfolio. Baird does not monitor the Implementation Manager's implementation of the Model Portfolio nor does it ascertain whether the Implementation Manager is implementing the Model Portfolio as provided by the Model Manager. If the Implementation Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Implementation Manager or the performance of a client's Account under those circumstances.

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

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

Using the managers made available for Baird's Recommended Managers Program, Baird Financial Advisors will select or replace, or recommend the selection or replacement of, a particular Recommended Manager based upon the client's particular goals and circumstances.

Baird assumes no responsibility for the manager's investment decisions, performance, compliance

with applicable laws or regulations, or for any other matters involving or affecting the manager.

### ***Client Selected Managers, Referred Managers and Riverfront Managed Portfolios***

Clients participating in the CSM Service, the Referred Managers Service or the Riverfront Managed Portfolios Program should note that any investment manager selected by the client under those Programs, including a CSM Eligible Manager, is not on Baird's Recommended Managers List, and Baird does not recommend or select the investment managers for the client's Account under those Programs. A client should further note that Baird does not make any representation or recommendation to clients regarding such managers or their abilities or qualifications as an investment adviser or to manage client assets.

A client should understand that Baird conducts only limited due diligence and ongoing reviews of Riverfront and investment managers under the Referred Managers Service. Ongoing limited due diligence and reviews of Riverfront and a Referred Manager may include requesting the manager to answer a quarterly research questionnaire and utilizing third party software to monitor the manager's performance.

Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the CSM Service, including the Overlay Manager, unless Baird otherwise specifically agrees to do so in writing. The Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review Overlay Manager's Form ADV Part 2A Brochure for more information, which is available upon request, or contact their Financial Advisor for more information.

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

### ***ALIGN, BairdNext Portfolios, PIM, Russell and UMA Programs***

Portfolio management services under the ALIGN, BairdNext Portfolios, PIM, Russell and UMA Programs are provided by Baird, Baird's home office investment professionals, and Baird Financial Advisors. Under the UMA Programs, portfolio management services are also provided by the Overlay Manager.

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

Typically, PIM Managers must also meet the following additional criteria: endorsement by his or her Branch Office Manager; completion of a portfolio management course acceptable to Baird, which may include a CFA designation; and completion of an application to the PIM Program, which typically requires the PIM Manager to complete one or more investment strategy statements acceptable to Baird. Certain PIM Managers may have been admitted to the PIM Program using different qualifications than those currently in place. In some instances, Baird may waive certain eligibility requirements when it deems it appropriate to do so, such as when a PIM Manager acted as a portfolio manager (or in a similar capacity) at another investment firm prior to joining Baird.

Potential causes for removal from the PIM Program include operating outside of the policies of the PIM Program, a change in investment philosophy or style, significant drift from stated objectives, significant underperformance over time, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of the performance of the Overlay Manager.

The process Baird uses for selecting and removing SMA Strategies under the ALIGN UMA Select Portfolios Program is substantially similar to the process Baird uses to select and remove BRM Strategies provided by Recommended Managers

described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers" above. An ALIGN UMA Select Portfolio may include SMA Strategies offered by investment managers included on Baird's Recommended Managers List or managers affiliated with Baird.

Baird may, in its discretion, permit a client to select an SMA Strategy under the UMA Custom Portfolios Program that has not been approved by Baird for inclusion in the ALIGN UMA Select Portfolios Program. If a client selects such an SMA Strategy, a client should note that the investment selected by the client is not on Baird's Recommended Manager List or any other Baird-recommended product list, and Baird does not recommend or select the investment for the client. Additionally, Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any such investment, unless Baird otherwise specifically agrees to do so in writing.

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

### ***BIM Portfolios***

Portfolio management services under the BIM Portfolios Program may be provided by BIM or Other Managers. In order to provide portfolio management services, Baird requires that BIM associates meet all applicable requirements set forth by self-regulatory organizations. BIM also requires BIM portfolio managers to have an undergraduate degree. Furthermore, BIM strongly encourages all BIM portfolio managers to pursue

and work towards the attainment of the CFA designation or a relevant graduate level degree. BIM's Director and Baird's Investment Advisory Oversight Committee oversee the BIM portfolio managers. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis. Baird generally does not remove any of the BIM or Other Manager strategies from the BIM Portfolios Program, but may remove a BIM portfolio manager from providing services under the Program if Baird deems circumstances warrant removal. Potential causes for removal may include significant drift from stated objectives, sustained underperformance in relation to peers, or other adverse changes affecting the manager.

### Performance Calculation

As part of Baird's selection and evaluation of investment managers, Baird calculates the performance of PIM Managers and Recommended Managers providing Manager-Traded Strategies.

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

When calculating composite performance, Baird seeks to utilize calculation methods that adhere to Global Investment Performance Standards (GIPS®) recommendations. Baird calculates composite performance generally using the following principles:

- A total return calculation is used in reporting.
- Current market value including accrued income is used.
- Trade date accounting is used in deriving valuations.
- Monthly returns are calculated using the Modified Dietz calculation.

- Returns for periods greater than a month are calculated by geometrically linking the monthly returns. Returns for periods greater than one year are annualized.
- Reporting is net of fees at the total portfolio, but gross of fees for individual investment categories (e.g., equity or fixed income).

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

A client should note that Baird does not generally present its performance calculations to clients. The information that Baird provides to clients about investment managers from time to time may not be calculated by Baird but may be calculated by the managers themselves or derived from external sources. Baird does not audit or verify that performance information presented to clients that is calculated by managers or external sources is accurate. In addition, a client should note that such performance information may not be calculated on a uniform or consistent basis or reviewed by any independent third party. A client should ask the client's Financial Advisor for more information.

### Portfolio Management by Baird and Related Persons

Portfolio management services under the ALIGN, BairdNext Portfolios, Russell and UMA Programs are provided by Baird and its home office investment professionals. Portfolio management services under the BIM Portfolios Program may be provided by BIM and may be provided by BIM under the Recommended Managers Program, depending upon the BRM Strategy a client selects. Portfolio management services under the PIM

Program are provided by PIM Managers. Portfolio management services under the Riverfront Managed Portfolios Program are provided by Riverfront and may be provided by Riverfront under the UMA Programs, depending upon the UMA Portfolio selected by the client. Portfolio management services under the CSM Service could include an investment management department of Baird or a manager affiliated with Baird should a client select such a manager. Such arrangements create a potential conflict of interest because Baird and its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, Baird and its Financial Advisors are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about these potential conflicts and how Baird addresses them, please see the sections “Additional Information—Other Financial Industry Activities and Affiliations” and “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

When Baird determines manager availability or eligibility for the CSM Service, the Recommended Managers Program, or the UMA Programs, affiliated investment managers are subject to the same selection and review process, if any, that Baird applies to unaffiliated investment managers participating in each respective Program.

The ALIGN, BairdNext Portfolios, BIM Portfolios, PIM, Riverfront Managed Portfolios, and Russell Programs exclusively offer portfolio management by Baird, its associates, or investment managers that are affiliated with Baird, and the portfolio managers under those Programs are not subject to an independent selection or review process. Additional information about Baird and those Programs is provided below.

### Advisory Business

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

equity firm formed in the State of Wisconsin in 1919.

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

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

Subject to the agreement of Baird, a client may impose reasonable restrictions on the securities or types of securities to be held in the client’s Account. Please see “Services, Fees and Compensation—Additional Program Information—Investment Discretion” above for more information.

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

As of December 31, 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.

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

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

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

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

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

##### **Investment Strategies**

The investment styles, philosophies, strategies, techniques and methods of analysis that Baird, its home office investment professionals, its Financial Advisors and Other Managers use in formulating investment advice for clients vary widely by Program and the person providing the advice. A

brief description of commonly used strategies is provided below.

#### ***Equity Strategies***

Equity strategies generally have an objective to provide growth of capital and primarily invest in equity securities, such as common stocks. However, these strategies may also invest in other types of investments, such as fixed income securities and cash. Equity strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges, such as large cap, mid cap or small cap companies. Equity strategies may be combined with other strategies described below, such as growth, value, income, economic industry or sector focused, international, global, or geographic region or country focused strategies.

#### ***Fixed Income or Bond Strategies***

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

#### ***Balanced Strategies***

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



above. Balanced strategies may be combined with other strategies described below, such as economic industry or sector focused, international, global, or geographic region or market focused strategies.

#### *Value Strategies*

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

#### *Growth Strategies*

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

#### *Income Strategies*

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

#### *Economic Industry or Sector Focused Strategies*

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

#### *International Strategies*

Generally, international strategies primarily invest in securities issued by foreign companies, which may include companies in developed and emerging markets. International strategies may invest in companies of all market capitalization ranges and in investments having any credit

rating, maturity or duration, or they may they may focus on specific capitalization ranges, industries or sectors, geographic regions, credit ratings, maturities or durations.

#### *Global Strategies*

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

#### *Geographic Region or Country Focused Strategies*

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

#### *Alternative Strategies*

Alternative Strategies may invest in a wide range of investments, which may include equity securities, fixed income securities, foreign securities, non-traditional assets, Alternative Investment Products and cash. Alternative Strategies generally involve the use of margin, leverage, short sales and derivative instruments. Many Alternative Strategies have no substantive restrictions on the types of investments that may be used. Examples of Alternative Strategies include the following.

- Relative Value Strategies. Relative value strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets and the use of short sales and derivative instruments in an attempt to exploit price differences among securities that share similar economic or financial characteristics.

- Long/Short Strategies. Long/short strategies generally involve the purchase of securities believed to be undervalued and selling short securities believed to be overvalued. They may also involve the use of non-traditional assets, leverage and derivative instruments.
- Market Neutral Strategies. Market neutral strategies generally involve the purchase of securities and selling securities short in similar dollar amounts in an attempt to produce returns that are independent of general market performance. They may also involve the use of non-traditional assets, leverage and derivative instruments.
- Statistical Arbitrage Strategies. Statistical Arbitrage is based on the theory that stocks have a tendency to return to a short-term trend line. This type of strategy typically involves the "systematic" or automated trading of securities based upon where a security is relative to its trend line.
- Convertible Arbitrage Strategies. Convertible arbitrage involves the purchase and short sale of multiple securities of the same company. The strategy is implemented by purchasing securities believed to be undervalued and selling short securities believed to be overvalued. Often, the strategy involves the purchase of a convertible bond issued by a company and selling short that company's common stock. This strategy may involve the use of a wide range of derivative instruments.
- Fixed Income Arbitrage Strategies. Fixed income arbitrage strategies generally seek to profit from interest rate, credit spread and other arbitrage opportunities by investing in fixed income securities, interest rate instruments and derivative instruments.
- Capital Structure Arbitrage Strategies. Capital structure arbitrage generally involves investing in multiple levels of a single company's capital structure, often taking long and short positions in a company's debt or equity in order to capitalize on perceived mispricings resulting from market inefficiencies or different pricing assumptions. This type of strategy typically involves the use of derivatives and structured products.
- Absolute Return and Real Return Strategies. Absolute and real return strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle. They may also involve the use of derivative instruments.
- Event-Driven Strategies. Event-driven strategies generally involve the use of non-traditional assets, short sales and derivative instruments in an attempt to seek arbitrage opportunities, particularly those triggered by corporate events (such as mergers, restructurings, and liquidations). These strategies typically involve the assessment of if, how and when an announced transaction will be completed.
- Merger Arbitrage/Special Situations Strategies. Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. These strategies often involve short selling, options trading, and the use of other derivative instruments.
- Distressed Strategies. Distressed strategies generally involve the purchase of securities in companies that are in financial distress, or companies that are entering into or are already in bankruptcy. They may also involve the use of short sales and derivative instruments.
- Macro Strategies. Macro strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets and the use of short sales and derivative instruments in an attempt to profit from anticipated changes in securities markets, commodities markets, currency values, and/or interest rates.
- Discretionary and Systematic Trading Strategies. Discretionary trading strategies generally attempt to identify and capitalize on patterns or trends in the markets. Systematic trading strategies generally rely on computerized trading systems or models to identify and capitalize on those patterns or

trends. These strategies often involve the use of non-traditional assets, short sales, derivative instruments and significant leverage.

- Private Investment Strategies. Private investment strategies generally involve purchasing common stock or securities convertible into common stock in private transactions. Private investment strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges. They may also focus on companies in one or more economic industries or sectors or geographic regions. Some private investment strategies focus on companies that are newly formed, in financial distress or already in bankruptcy. The securities purchased are typically unregistered and illiquid. Private Investment Strategies may also involve the use of leverage.
- Leveraged Strategies. Leveraged strategies generally involve the use of non-traditional assets, leverage, short sales and derivative instruments in an attempt to amplify returns or produce returns that are a multiple of a benchmark index.
- Inverse Strategies. Inverse strategies generally involve the use of non-traditional assets, leverage, short sales and derivative instruments in an attempt to produce returns that are the opposite of a benchmark index.

*Alternative Strategies are not appropriate for some clients because they are subject to special risks. See "Services, Fees and Compensation—Additional Program Information—Alternative Strategies and Alternative Investment Products" above and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Program Risks" below for more information.*

#### *Asset Allocation Strategies*

Asset allocation strategies, including the strategies used by some PIM Managers and in the ALIGN, BairdNext Portfolios and UMA Programs, involve investments in one or more of the following categories of assets, also known as asset classes:

- Equity securities, including, but not limited to, equity securities issued by U.S. large cap, mid

cap and small cap companies (which may include value and growth companies);

- Fixed income securities, including, but not limited to, short-term, intermediate-term and long-term fixed income securities issued by U.S. companies and obligations issued by U.S. or state governments or their agencies (which may include high yield corporate bonds, mortgage-backed and asset-backed securities, and municipal securities);
- Foreign securities, including equity and fixed income securities issued by foreign companies and governments (which may include companies and governments in emerging markets);
- Non-traditional assets, including, but not limited to, real estate (which may include U.S. and foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;
- Alternative Investment Products, including, but not limited to mutual funds and ETFs that pursue Alternative Strategies; and
- cash, including, but not limited to, money market funds.

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

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

Baird's most common asset allocation strategies are described below. A client should note that the specific investments in an Account following a particular asset allocation strategy could vary from the description below for a number of reasons, including market conditions.

All Growth Portfolio. An All Growth Portfolio typically seeks to provide aggressive growth of capital. Under normal market conditions, this strategy generally invests nearly all of its assets in equity securities. This strategy may also invest in other asset classes, such as fixed income securities, foreign securities, non-traditional assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. This strategy typically has the same risk profile as an All Growth Portfolio described below.

Capital Growth Portfolio. A Capital Growth Portfolio typically seeks to provide growth of capital. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities. This strategy may also invest in other asset classes, such as foreign securities, non-traditional assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a significantly higher allocation to equity securities than fixed income securities. This strategy typically has the same risk profile as a Capital Growth Portfolio described below.

Growth with Income Portfolio. A Growth with Income Portfolio typically seeks to provide moderate growth of capital and some current income. Generally, under normal market conditions, this strategy will primarily invest in a mix of equity securities and fixed income securities. This strategy may also invest in other asset classes, such as foreign securities, non-traditional assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a slightly higher allocation to equity securities than fixed income securities. This strategy typically has the same risk profile as a Growth with Income Portfolio described below.

Income with Growth Portfolio. An Income with Growth Portfolio typically seeks to provide high current income and some growth of capital. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities and equity securities. This

strategy may also invest in other asset classes, such as foreign securities, non-traditional assets and cash. This strategy may also invest in Alternative Investment Products or may involve the use of leverage, short sales and derivative instruments. Generally, under normal market conditions, this strategy will have a slightly higher allocation to fixed income securities than equity securities. This strategy typically has the same risk profile as an Income with Growth Portfolio described below.

Conservative Income Portfolio. A Conservative Income Portfolio typically seeks to provide high current income. Generally, under normal market conditions, this strategy will primarily invest in a mix of fixed income securities, cash and equity securities. This strategy may also invest in other asset classes, such as foreign securities and non-traditional assets. Generally, under normal market conditions, this strategy will have a significantly higher allocation to fixed income securities and cash than equity securities. This strategy typically has the same risk profile as a Conservative Income Portfolio described below.

Capital Preservation Portfolio. A Capital Preservation Portfolio typically seeks to preserve capital. Under normal market conditions, this strategy generally invests nearly all of its assets in a mix of fixed income securities and cash. This strategy may also invest in other asset classes, such as equity securities, foreign securities and non-traditional assets. This strategy typically has the same risk profile as a Capital Preservation Portfolio described below.

*A client should note that an Account pursuing a particular asset allocation strategy will from time to time have an actual risk profile that may be higher or lower than the target risk profile associated with that strategy due to many factors, including asset fluctuations in the Account and market movements. In addition, the client's Financial Advisor or investment manager may determine that it is appropriate to invest the client's Account, or recommend that the client invest the Account, in such a manner that would cause the Account to have a risk profile that is higher or lower than the target risk profile associated with that strategy.*

### *Additional Strategy Information*

A client should note that, to implement a strategy, a client's Financial Advisor or investment manager may use or recommend mutual funds, ETPs or other Investment Funds that primarily invest in particular types of securities instead of direct investment in those types of securities. A client should also note that the client's Financial Advisor or investment manager may use a strategy not described above or they may use a strategy with the same or similar name that is implemented differently. A client should ask the client's Financial Advisor or investment manager for more specific information about the strategy being used for the client's Account.

A client's Account is subject to the risks associated with the Account's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

### **Methods of Analysis**

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

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

include review of manager performance, investment style, style consistency, risk, and risk-adjusted performance.

- *Technical Analysis.* Technical analysis is a method of analyzing past price and volume patterns and trends in the trading markets to attempt to predict the direction of both the overall market and specific investments.

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

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

When providing investment advice to clients, Baird Financial Advisors may also use model portfolios or recommended lists made available by Baird's Asset Manager Research Department or other Baird departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. The level of initial and ongoing evaluation, monitoring and review that Baird and its Financial Advisors perform on managers and on investment products varies. Managers and investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those managers or



products that are included in a model portfolio or on a recommended list. More specific information about Baird model portfolios, recommended product lists and available product lists is provided below.

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

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

#### *Certain Model Portfolios*

Baird Recommended Portfolio. The Baird Recommended Portfolio, which is managed by Baird's Stock Selection Committee, seeks to outperform the S&P 500 Index by investing in a diversified core portfolio of typically 40-50 stocks. The portfolio invests primarily in large cap stocks, as defined by a market capitalization of \$10 billion or greater at the time of investment. Although the portfolio may contain stocks with a market capitalization of less than \$10 billion, these stocks will not represent more than 35% of the total portfolio. The Portfolio is managed by using a top-down approach starting with the macroeconomic and market outlooks provided by Baird's Investment Strategy team. With this information, the Stock Selection Committee chooses to underweight or overweight particular industry sectors compared to the S&P 500 Index. Individual stocks are selected with an emphasis on higher quality companies that the Committee believes have strong fundamental characteristics and management teams, attractive growth

prospects, and reasonable price-appreciation expectations. Each stock is assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks can be sold or positions reduced for a variety of reasons such as valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

Baird Value Focus Portfolio. The Value Focus Portfolio, which is managed by Baird's Value Equity Research Team, is intended for investors pursuing long-term capital appreciation, with income being a secondary consideration. The Portfolio typically holds 30-40 stocks. The Value Focus Portfolio invests primarily in mid cap and large cap companies, as defined by a market capitalization of \$1 billion or greater at the time of investment. The Portfolio will be concentrated at times, such that about 20 stocks may account for 70% or more of the Portfolio's total assets. Each investment is identified and vetted by research analysts using a fundamental process that focuses on a company's competitive position, profitability, valuation and risks. Many stocks selected for the Portfolio will be contrarian in nature and generally out of favor in the broad market when they are first recommended. Growth-type investments and companies with smaller market capitalization may appear in the Portfolio from time to time. The Value Focus Portfolio's benchmark index is the S&P 500 index. The Value Focus Portfolio does not try to match sector weights of benchmark index and will often be overweight or underweight certain sectors or areas of the market compared to the index for long periods of time. A stock will be sold out of the Portfolio if the Team's price objective has been reached, and the position weighting may be trimmed if market movements have made that investment an outsized percentage of the overall Portfolio. The Team may also sell a stock in response to heightened downside risk, if the Team's investment thesis has changed due to unforeseen operational or environmental changes.

#### *Certain Recommended Product Lists*

Baird's Recommended Mutual Fund List. Baird's Recommended Mutual Fund List is designed to include mutual funds and ETFs across numerous asset classes. When selecting funds for inclusion on the List, Baird uses substantially the same

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

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

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

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

Before adding a prospective FOHF to the List, Baird’s Asset Manager Research Department conducts an in-depth due diligence process. The

process begins with a review of the FOHF’s responses to a due diligence questionnaire and marketing and legal documents (e.g., subscription documentation, limited partnership agreement, offering memorandum, and the adviser’s Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the FOHF identifies, hires, monitors, and terminates individual hedge funds. Baird also evaluates how the FOHF constructs its hedge fund portfolio and manages risk. In addition, Baird undertakes a brief review of the FOHF’s third party service providers. At the conclusion of the onsite review, the Asset Manager Research Department writes and presents an investment thesis to Baird’s Investment Committee. The Committee determines whether to add the FOHF to Baird’s Recommended Funds of Hedge Fund List. In making that determination, the Committee considers the information presented by the Asset Manager Research Department, taking into account the merits of the individual FOHF, how that FOHF compares to other FOHFs that Baird offers, and the level of expected demand for the particular FOHF.

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

Baird may place a FOHF on “Watch” status if it has experienced a material event that, in Baird’s opinion, may negatively affect the FOHF’s performance going forward or possibly lead to the departure of an important member(s) of the FOHF. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any firm that is placed on Watch is evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will

remove a FOHF from Watch and return it to active status if, in Baird's opinion, the problem has been or is in process of being adequately addressed. However, Baird will terminate a FOHF from the List if it believes the issue is likely to be long-term and adversely affect the FOHF's future performance.

Using the FOHFs on Baird's Recommended Funds of Hedge Funds List, Baird Financial Advisors will select or replace, or recommend the selection or replacement of, a particular FOHF based upon each client's particular goals and circumstances.

#### *Certain Available Product Lists*

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

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

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

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

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

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

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

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

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

Funds of Private Equity Funds. When making funds of private equity funds available to its clients, Baird generally seeks to identify fund of private equity fund products that have the

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

Baird's Product Management Department along with the Asset Manager Research Department are primarily responsible for selecting and evaluating the funds of private equity funds made available to clients under the Programs. Baird's initial evaluation of a fund of private equity product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Product Strategy Committee determines whether to make a fund of private equity funds product available to Baird clients.

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

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

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

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

More specific information about the particular investment strategies and methods of analysis that Baird uses in connection with each Program is further described below.

### **ALIGN Programs**

Each ALIGN Portfolio provides for specific levels of investment (or allocation) across the following asset classes:

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

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have no allocation to one or more

asset classes or types of investments described above.

Each ALIGN Portfolio uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation. Depending on the ALIGN Portfolio chosen, the ALIGN Portfolio may consist of 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); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies.

#### *ALIGN Custom Portfolios*

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

#### *ALIGN Dynamic Portfolios*

The ALIGN Dynamic Portfolios Program offers model portfolios, described below, that have varying strategic and tactical investment strategies. Each ALIGN Dynamic Portfolio generally consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed further below.

The ALIGN Dynamic Portfolios are described below.

Dynamic Growth Portfolio. The Dynamic Growth Portfolio seeks to provide growth of capital with little consideration for current income. This Portfolio generally invests 70% of its assets in the ALIGN Strategic All Growth Portfolio and 30% in the ALIGN Tactical Equity Portfolio, which are described below. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds and ETFs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

Dynamic Moderate Growth Portfolio. The Dynamic Moderate Growth Portfolio seeks to provide growth of capital with some consideration for current income. This Portfolio generally invests 70% of its assets in the ALIGN Strategic Capital Growth Portfolio and 30% in the ALIGN Tactical Allocation Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

Dynamic Balanced Portfolio. The Dynamic Balanced Portfolio seeks to provide growth of capital balanced with consideration for current income. This Portfolio generally invests 60% of its assets in the ALIGN Strategic Growth with Income Portfolio, 20% in the ALIGN Tactical Equity Portfolio, and 20% in the ALIGN Tactical Opportunity Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily mutual funds and ETFs, that pursue those strategies. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This



Portfolio may also invest in other asset classes described above, including non-traditional assets and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

Dynamic Yield Portfolio. The Dynamic Yield Portfolio seeks to provide high current income from diversified sources of income-producing securities. This Portfolio generally invests 50% of its assets in the ALIGN Strategic (Diversified Yield) Portfolio and 50% in the ALIGN Tactical Yield Portfolio, which are described below. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds and ETFs that in turn principally invest in fixed income securities, equity securities or foreign securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds and ETFs that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Preservation Portfolio described below.

The descriptions of the ALIGN Dynamic Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

An ALIGN Dynamic Portfolio is subject to the risks associated with the Portfolio's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

The process for constructing the ALIGN Dynamic Portfolios and the process for selecting mutual funds and ETPs that are available for use in connection with the ALIGN Dynamic Portfolios Program are the same as described below with respect to the ALIGN Strategic Portfolios and ALIGN Tactical Portfolios Programs.

### *ALIGN Strategic Portfolios*

The ALIGN Strategic Portfolios Program offers model portfolios that have varying strategic investment strategies. The ALIGN Strategic Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a "sleeve").

Generally, under normal market conditions, the equity security allocation of each ALIGN Strategic Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The non-traditional asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

Some ALIGN Strategic Portfolios are designed for certain Retirement Accounts. Those Portfolios offer the ability to invest in either actively managed mutual funds or passively managed ETFs.

Some ALIGN Strategic Portfolios invest a material portion of assets in mutual funds and ETFs that pursue Alternative Strategies designed to provide absolute return. Those strategies generally involve the purchase of traditional assets, such as stocks and bonds, and non-traditional assets and the use of derivative instruments in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle.

Some ALIGN Strategic Portfolio Strategies invest a material portion of assets in mutual funds and

ETFs that focus on investments that provide diversified yield or sources of income, such as dividend-paying stocks, preferred stocks, high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments.

The ALIGN Strategic Portfolios are described below.

ALIGN Strategic All Growth Portfolio. The ALIGN Strategic All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN Strategic All Growth Hybrid Portfolio. The ALIGN Strategic All Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic All Growth (Retirement) Portfolio. The ALIGN Strategic All Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described above, except that this Portfolio tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic All Growth (Retirement) ETF Portfolio. The ALIGN Strategic All Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic All Growth (Absolute Return) Portfolio. The ALIGN Strategic All Growth (Absolute Return) Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, other Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN Strategic All Growth Hybrid (Absolute Return) Portfolio. The ALIGN Strategic All Growth Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic All Growth (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Capital Growth Portfolio. The ALIGN Strategic Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign 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 non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

ALIGN Strategic Capital Growth Hybrid Portfolio. The ALIGN Strategic Capital Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Capital Growth (Retirement) Portfolio. The ALIGN Strategic Capital Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Capital Growth (Retirement) ETF Portfolio. The ALIGN Strategic Capital Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Capital Growth (Tax Exempt) Portfolio. The ALIGN Strategic Capital Growth (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Capital Growth Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Capital Growth Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Capital Growth (Absolute Return) Portfolio. The ALIGN Strategic Capital Growth (Absolute Return) Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset

allocation to equity securities than fixed income securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including non-traditional assets, other Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

ALIGN Strategic Capital Growth Hybrid (Absolute Return) Portfolio. The ALIGN Strategic Capital Growth Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Capital Growth Hybrid (Tax Exempt with Absolute Return) Portfolio. The ALIGN Strategic Capital Growth Hybrid (Tax Exempt with Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Capital Growth (Absolute Return) Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Capital Growth (Diversified Yield) Portfolio. The ALIGN Strategic Capital Growth (Diversified Yield) Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio normally will have a significantly higher underlying asset allocation to equity securities than fixed income securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments.

This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

ALIGN Strategic Growth with Income Portfolio. The ALIGN Strategic Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN Strategic Growth with Income Hybrid Portfolio. The ALIGN Strategic Growth with Income Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Growth with Income (Retirement) Portfolio. The ALIGN Strategic Growth with Income (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Growth with Income (Retirement) ETF Portfolio. The ALIGN Strategic Growth with Income (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Growth with Income (Tax Exempt) Portfolio. The ALIGN Strategic Growth

with Income (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income (Absolute Return) Portfolio. The ALIGN Strategic Growth with Income (Absolute Return) Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally seek to provide absolute return by investing in Alternative Investment Products, primarily mutual funds, that pursue that strategy. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including non-traditional assets, other Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN Strategic Growth with Income Hybrid (Absolute Return) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income (Absolute Return) Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Growth with Income Hybrid (Tax Exempt with Absolute Return) Portfolio. The ALIGN Strategic Growth with Income Hybrid (Tax Exempt with Absolute Return) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Growth with Income (Absolute Return) Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Growth with Income (Diversified Yield) Portfolio. The ALIGN Strategic Growth with Income (Diversified Yield) Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN Strategic Income with Growth Portfolio. The ALIGN Strategic Income with Growth Portfolio seeks to provide high current income and some growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities or equity securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio described below.

ALIGN Strategic Income with Growth Hybrid Portfolio. The ALIGN Strategic Income with Growth Hybrid Portfolio has the same objective, underlying investments, target allocations and

risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Income with Growth (Retirement) Portfolio. The ALIGN Strategic Income with Growth (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Income with Growth (Retirement) ETF Portfolio. The ALIGN Strategic Income with Growth (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to non-traditional assets or Alternative Investment Products.

ALIGN Strategic Income with Growth (Tax Exempt) Portfolio. The ALIGN Strategic Income with Growth (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Income with Growth Hybrid (Tax Exempt) Portfolio. The ALIGN Strategic Income with Growth Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Income with Growth Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

ALIGN Strategic Income with Growth (Diversified Yield) Portfolio. The ALIGN Strategic Income with



Growth (Diversified Yield) Portfolio seeks to provide high current income and some growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities or equity securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. A material portion of this Portfolio will normally seek to provide diversified yield by investing in mutual funds that pursue that strategy. This may involve material exposure to high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including foreign securities, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio described below.

ALIGN Strategic Conservative Income Portfolio.

The ALIGN Strategic Conservative Income Portfolio seeks to provide high current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in fixed income securities and equity securities. This Portfolio normally will have a significantly higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including foreign securities, non-traditional assets and cash. This Portfolio has the same risk profile as a Conservative Income Portfolio described below.

ALIGN Strategic Conservative Income Hybrid Portfolio.

The ALIGN Strategic Conservative Income Hybrid Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio also includes investments in passively managed ETFs in addition to actively managed mutual funds.

ALIGN Strategic Conservative Income (Retirement) Portfolio.

The ALIGN Strategic Conservative Income (Retirement) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio tends to have little or no allocation to non-traditional assets.

ALIGN Strategic Conservative Income (Retirement) ETF Portfolio. The ALIGN Strategic Conservative Income (Retirement) ETF Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio primarily invests in passively managed ETFs instead of actively managed mutual funds and it tends to have little or no allocation to non-traditional assets.

ALIGN Strategic Conservative Income (Tax Exempt) Portfolio.

The ALIGN Strategic Conservative Income (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN Strategic Conservative Income Hybrid (Tax Exempt) Portfolio.

The ALIGN Strategic Conservative Income Hybrid (Tax Exempt) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN Strategic Conservative Income Portfolio described above, except that this Portfolio: (1) includes investments in passively managed ETFs in addition to actively managed mutual funds; and (2) primarily invests its fixed income allocation in actively managed mutual funds and ETFs that in turn principally invest in municipal securities.

The descriptions of the ALIGN Strategic Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

An ALIGN Strategic Portfolio is subject to the risks associated with the Portfolio's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

When selecting investments for ALIGN Strategic Portfolios, Baird generally seeks mutual funds and ETFs that have investment managers with tenure

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

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

Baird's Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. In selecting funds, Baird's Asset Manager Research Department utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and removing funds for the ALIGN Strategic Portfolios Program is similar to the process Baird uses to select and remove Recommended Managers described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers" above. The ALIGN Strategic Portfolios Program may include funds included on Baird's Recommended Mutual Fund List and funds affiliated with Baird.

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

#### *ALIGN Tactical Portfolios*

The ALIGN Tactical Portfolios Program offers model portfolios that have varying tactical investment strategies.

The ALIGN Tactical Portfolios are actively managed. Given the nature of the investment strategies pursued by the ALIGN Tactical

Portfolios, such Portfolios may invest a significant amount in cash from time to time and they will likely experience relatively high portfolio turnover in excess of 100%. Also, because the ALIGN Tactical Portfolios generally seek to outperform their indicated benchmark by overweighting specific market sectors rather than holding a more diversified portfolio, the Portfolios may be subject to concentration risk.

The ALIGN Tactical Portfolios are described below.

**ALIGN Tactical ETF Equity Portfolio.** The ALIGN Tactical ETF Equity Portfolio seeks to provide aggressive growth of capital with the understanding that there may be large fluctuations in annual returns and overall market value of the portfolio. The objective is to meet or modestly exceed the return performance of the S&P 500 Index and the Russell 3000® Index by overweighting sectors and/or market segments that are expected to outperform the general market. Under normal market conditions, this Portfolio generally invests nearly all of its assets in ETFs that in turn principally invest in equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

**ALIGN Tactical ETF Allocation Portfolio.** The ALIGN Tactical ETF Allocation Portfolio seeks to provide growth of capital with the understanding that there may be moderate fluctuations in annual returns and overall market value of the portfolio. The objective is to meet or modestly exceed the return performance of the S&P 500 Index and the Russell 3000® Index by overweighting sectors and/or market segments that are expected to outperform the general market. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in equity securities and fixed income securities. This Portfolio may also invest in other asset classes described above, including foreign securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

**ALIGN Tactical ETF Opportunity Portfolio.** The ALIGN Tactical ETF Opportunity Portfolio seeks to provide moderate growth of capital with the understanding that there may be moderate fluctuations in annual returns and overall market value of the portfolio. The objective is for consistent capital appreciation, with a willingness to forgo upside equity market participation in providing downside protection. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in equity securities, fixed income securities or foreign securities. A material portion of this Portfolio will normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily ETFs, that pursue those strategies. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including non-traditional assets and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

**ALIGN Tactical ETF Yield Portfolio.** The ALIGN Tactical ETF Yield Portfolio seeks to provide total return while reducing risk and preserving capital with an understanding that there may be moderate fluctuations in the annual returns and overall market value of the portfolio. The objective of the Tactical Yield Portfolio is to provide regular cash distributions in excess of the yield on the 5-year Treasury Note. Under normal market conditions, this Portfolio primarily invests its assets in ETFs that in turn principally invest in fixed income securities, equity securities or non-traditional assets. A portion of this Portfolio will seek diversified yield, which may involve a material underlying investment in preferred stocks, high yield bonds, foreign (including emerging markets) fixed income securities, non-traditional assets, REITs, MLPs, and derivative instruments. This Portfolio may also invest in other asset classes described above, including foreign securities, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Conservative Income Portfolio described below.

The descriptions of the ALIGN Tactical Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer

other model portfolios under the Program from time to time.

An ALIGN Tactical Portfolio is subject to the risks associated with the Portfolio's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

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

The Portfolio allocations and the ETPs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETPs may be removed or added as Baird determines is appropriate.

### **BairdNext Portfolios Program**

Each BairdNext Portfolio provides for specific levels of investment (or allocation) across the following asset classes:

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

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have no allocation to one or more asset classes or types of investments described above.

While the BairdNext Portfolios may invest in non-traditional assets and Alternative Investment Products, those Portfolios tend to have little or no allocation to those asset classes.

Each BairdNext Portfolio uses mutual funds and ETPs, primarily ETFs, in order to implement the model asset allocation. Depending on the BairdNext Portfolio chosen, the BairdNext Portfolio may consist of 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); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies.

Generally, under normal market conditions, the equity security allocation of each BairdNext Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The non-traditional asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

The BairdNext Portfolios are described below.

**BairdNext Growth Portfolio.** The BairdNext Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

**BairdNext Capital Growth Portfolio.** The BairdNext Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign 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 non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

**BairdNext Growth with Income Portfolio.** The BairdNext Growth with Income Portfolio seeks to provide moderate growth of capital and some

current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

**BairdNext ETF Growth Portfolio.** The BairdNext ETF Growth Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Growth Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

**BairdNext ETF Capital Growth Portfolio.** The BairdNext Capital Growth Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Capital Growth Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

**BairdNext ETF Growth with Income Portfolio.** The BairdNext ETF Growth with Income Portfolio has the same objective, underlying investments, target allocations and risk profile as the BairdNext Growth with Income Portfolio described above, except that this Portfolio invests in passively managed ETFs instead of actively managed mutual funds.

The descriptions of the BairdNext Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

A BairdNext Portfolio is subject to the risks associated with the Portfolio's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

The process Baird uses for selecting and removing funds and ETFs for the BairdNext Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and

ETFs in connection with the ALIGN Strategic Portfolio Program described under "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" above. A BairdNext Portfolio may include funds included on Baird's Recommended Mutual Fund List and funds and ETFs offered by managers affiliated with Baird.

The Portfolio asset allocations and the investment options included in the BairdNext Portfolios Program are evaluated on an ongoing basis, generally at least quarterly.

### **Baird Advisory Choice**

When recommending investment products to clients under the Baird Advisory Choice Program, Baird Financial Advisors may use the investment strategies described in the section "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies" above. They may also use model portfolios or recommended lists made available by Baird's Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. For more information about Baird model portfolios, recommended lists and "available" lists, see "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis" above.

### **Private Investment Management**

Under the PIM Program, a PIM Manager may use various investment strategies. A client's particular investment strategy is typically determined by the client's PIM Manager in consultation with the client.

PIM Managers, as a group, utilize a wide variety of investment styles, philosophies, strategies and techniques, including the investment strategies described in the section "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies" above. They may also use model portfolios or recommended lists made available by Baird's Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. For more information



about Baird model portfolios, recommended lists and “available” lists, see “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Methods of Analysis” above.

PIM Managers may use a wide variety of investment products to implement the client’s investment strategy, which investments are further described under “Services, Fees and Compensation—Additional Program Information—Eligible Assets” above. PIM Managers may also engage in certain strategies and use certain investments that involve special, sometimes significant, risks. See “Services, Fees and Compensation—Discretionary Programs—Private Investment Management Program” above for more information.

A client should ask the client’s PIM Manager for additional information about the investment styles, philosophies, strategies, analyses, techniques and investments the PIM Manager will use in order to meet the client’s objectives.

### **Russell Model Strategies**

The Russell Model Strategies Program offers a number of investment strategies through two primary models: a core model (the “Russell Model”); and a tax-managed model (the “Russell Tax-Managed Model”). The Russell Models and Russell Tax-Managed Models offer five style strategies (each a “Russell Strategy”).

As determined by Russell, each Russell Strategy consists of an allocation to various Russell Funds, which may include equity mutual funds, fixed income mutual funds and a real estate mutual fund. The Russell Funds employ a “multi-style, multi-manager” approach whereby the assets of the Russell Funds are allocated to different money managers who employ distinct investment styles. For example, a single Russell Fund may consist of six separate money managers; two managers employing a growth investment style; two managers employing a market-oriented style; and two managers employing a value investment style. Assets of a Russell Fund not allocated to a money manager are managed by Russell Investment Management Company, an affiliate of Russell Investment Group. The investment styles of the equity money managers generally include growth, value and market-oriented (i.e., investments across the broad equity market). The

investment styles of the real estate money managers generally include global market-oriented, growth, market-oriented and value. The investment styles of the fixed income money managers generally include full discretionary (i.e., money managers that apply a variety of strategies, including, but not limited to, sector rotation, interest rate, yield curve and duration) and section rotation (i.e., a money manager may identify sectors of the fixed income market that they believe are undervalued and focus their investments in those sectors, which may differ over time). Russell has the right to engage or terminate a money manager at any time. These money managers may or may not be affiliated with Russell Investment Management Company or Baird. For additional information regarding the characteristics of a Russell Fund, clients should contact their Baird Financial Advisor or review the applicable Russell Fund prospectus.

Russell performs a quantitative and qualitative assessment in the selection of money managers for the Russell Funds. The quantitative review generally includes a performance and investment profile analysis. Russell generally reviews the performance patterns of the money managers relative to historic market trends, comparing the manager’s performance to benchmarks and peer group performance statistics. Russell also may review the money manager’s performance in volatile markets for adherence to the money manager’s stated investment philosophy and relative performance in such markets. The qualitative review may include a review of the money manager’s organization, ownership, leadership, experience, research and development efforts, information management, investment process, stability of personnel, adherence to philosophy and risk management. Based on Russell’s quantitative and qualitative assessment, Russell establishes an overall opinion of the money manager.

Each Russell Strategy allocates a portion of the client’s Account to a short term component, typically a money market mutual fund. This allocation is typically for the payment of fees and other charges. Russell determines the percent allocated to this short term component; however, Baird determines which short term investment product is used. This short term investment allocation may include investments in money market mutual funds affiliated with Baird.

### *Russell Model Strategies*

The Russell Model includes: (1) a Conservative Model Strategy, which seeks to provide low long-term capital appreciation and high current income; (2) a Moderate Model Strategy, which seeks to provide moderate long-term capital appreciation and high current income; (3) a Balanced Model Strategy, which seeks to provide above average capital appreciation and moderate current income; (4) a Growth Model Strategy, which seeks to provide high long-term capital appreciation and low current income; and (5) an Equity Growth Model Strategy, which seeks to provide high long-term capital appreciation. Each Russell Model Strategy will have differing allocations across each available Russell Fund, and some Strategies may have no allocation to one or more Russell Funds. The Russell Funds to be actually used and their allocation will depend on the particular Strategy chosen by the client. The Russell Funds to be used for the Russell Model Strategies and their allocation across Strategies may change from time to time.

A client's assets invested in a Strategy are subject to rebalancing by Baird at any time if, in Baird's determination, there has been significant drift from the client's chosen Strategy. Such rebalancing may occur at any time and as often as Baird, in its sole discretion, deems appropriate. Any reallocation to the client's portfolio may result in taxable gains or losses. The client's Account may be rebalanced because of market fluctuation, a change at the mutual fund, a change to the client's circumstances, if the client's cash deposits or withdrawals take the client's portfolio significantly out of balance relative to the recommended allocation or for any other reason as Baird so determines.

### *Russell Tax-Managed Model Strategies*

The Tax-Managed Model generally includes a Tax-Managed Conservative Model Strategy; a Tax-Managed Moderate Model Strategy; a Tax-Managed Balanced Model Strategy; a Tax-Managed Growth Model Strategy; and a Tax-Managed Equity Growth Strategy. Each Tax-Managed Model has an investment style similar to its counterpart Russell Model Strategy discussed above, except that the Tax-Managed Model Strategies place a higher priority on managing tax liability. Each Tax-Managed Model Strategy will have differing allocations across each available Russell Fund, and some Strategies may have no

allocation to one or more Russell Funds. The Russell Funds to be actually used and their allocation will depend on the particular Strategy chosen by the client. The Russell Funds to be used for the Russell Model Strategies and their allocation across Strategies may change from time to time.

Not all Russell Tax-Managed Model Strategies will use all of the available Russell Funds, and the Russell Funds to be used for the Russell Tax-Managed Model Strategies may change from time to time.

### *Implementation by Baird*

At Baird's discretion, Baird will implement the changes proposed by Russell. However, Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client's Russell Funds if Baird determines such action to be necessary and in the client's best interest.

Clients should contact their Baird Financial Advisor with any questions regarding the Russell Strategies.

### **UMA Programs**

Each UMA Portfolio provides for specific levels of investment (or allocation) across the following asset classes:

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

foreign REITs), commodities, commodity-linked instruments, currencies and currency-linked instruments;

- Alternative Investment Products, which include mutual funds and ETFs that pursue Alternative Strategies; and
- cash, which include money market funds.

The amount allocated to each asset class and type of investment varies by Portfolio. However, some Portfolios may have no allocation to one or more asset classes or types of investments described above.

Each UMA Portfolio uses mutual funds, ETPs, primarily ETFs, and SMA Strategies in order to implement the model asset allocation. Depending on the UMA Portfolio chosen, the UMA Portfolio may consist of mutual funds, ETFs and SMAs 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); balanced strategies; international and global equity and fixed income strategies; real estate strategies; commodities strategies; currency strategies; and Alternative Strategies.

#### *UMA Custom Portfolios*

UMA Custom Portfolios involve the use of various different portfolio investment strategies because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's Financial Advisor. Mutual funds, ETPs, and SMA Strategies may be available to clients to pursue an investment objective or implement a customized asset allocation strategy. The mutual funds, ETPs, and SMA Strategies that are generally available for use in connection with the UMA Custom Portfolios Program may include investment options made available under the ALIGN UMA Select Portfolios Program, which is described below. A client should ask the client's Financial Advisor for additional information about the investment styles, philosophies, strategies, analyses and techniques the Financial Advisor will use in order to meet the client's objectives.

With respect to the UMA Custom Portfolios Program, Baird may, in its sole discretion, permit a client to select a mutual fund, ETP, or SMA Strategy that has not been approved by Baird for inclusion in the ALIGN UMA Select Portfolios Program. If a client selects such an investment, a client should note that the investment selected by the client generally will be considered an unsupervised asset. A client should also note that such investment is not on Baird's Recommended Mutual Fund List, Baird's Recommended Manager List, or any other Baird-recommended product list, and Baird does not recommend or select the investment for the client. Additionally, Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any such investment, unless Baird otherwise specifically agrees to do so in writing.

#### *ALIGN UMA Select Portfolios*

The ALIGN UMA Select Portfolios Program offers model portfolios that have varying investment strategies. The ALIGN UMA Select Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Generally, under normal market conditions, the equity security allocation of each ALIGN UMA Select Portfolio is designed to be global in nature and attempts to be diversified across countries, industry sectors and company capitalization sizes, with an objective to participate in the total return potential of the global stock markets. The fixed income allocation is also normally global in nature and diversified across credit quality and maturity. The non-traditional asset and Alternative Investment Product allocations provide diversification and are intended to reduce correlation to U.S. stock and bond markets.

The ALIGN UMA Select Portfolios are described below.

**ALIGN UMA Select All Growth Portfolio.** The ALIGN UMA Select All Growth Portfolio seeks to provide aggressive growth of capital. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-

traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN UMA Select Opportunistic Equity Portfolio.

The ALIGN UMA Select Opportunistic Equity Portfolio seeks to provide growth of capital, with limited consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN UMA Select Traditional Equity Portfolio.

The ALIGN UMA Select Traditional Equity Portfolio seeks to provide growth of capital, with some consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. While this Portfolio may invest in companies across all market capitalizations, the equity securities portion of this Portfolio tends to emphasize mid cap and large cap companies. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN UMA Select Conservative Equity Portfolio.

The ALIGN UMA Select Conservative Equity Portfolio seeks to provide growth of capital, with great consideration for volatility. Under normal market conditions, this Portfolio generally invests nearly all of its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities or foreign equity securities. While this Portfolio may invest in companies across all market capitalizations and geographic locations, the equity securities portion of this Portfolio tends to emphasize mid cap and large cap companies

and the foreign equity securities portion of this Portfolio tends to emphasize developed market companies. This Portfolio may also invest in other asset classes described above, including fixed income securities, foreign fixed income securities, non-traditional assets, Alternative Investment Products and cash. However, it tends to have little or no allocation to those asset classes, except for cash. This Portfolio has the same risk profile as an All Growth Portfolio described below.

ALIGN UMA Select Capital Growth Portfolio.

The ALIGN UMA Select Capital Growth Portfolio seeks to provide growth of capital. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities, fixed income securities or foreign 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 non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Capital Growth Portfolio described below.

ALIGN UMA Select Capital Growth (Municipal) Portfolio.

The ALIGN UMA Select Capital Growth (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Capital Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds, ETPs and SMAs that in turn principally invest in municipal securities.

ALIGN UMA Select Growth with Income Portfolio.

The ALIGN UMA Select Growth with Income Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in equity securities, fixed income securities or foreign securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN UMA Select Growth with Income (Municipal) Portfolio.

The ALIGN UMA Select

Growth with Income (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Growth with Income Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

ALIGN UMA Select Global Balanced Portfolio. The ALIGN UMA Select Global Balanced Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in foreign securities, equity securities or fixed income securities. This Portfolio will normally involve significant exposure to foreign (including emerging markets) equity and fixed income securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN UMA Select Global Alternative Portfolio. The ALIGN UMA Select Global Alternative Portfolio seeks to provide moderate growth of capital and some current income. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally invest in foreign securities, equity securities or fixed income securities. This Portfolio will normally involve significant exposure to foreign (including emerging markets) equity and fixed income securities. A significant portion of this Portfolio will also normally pursue Alternative Strategies by investing in Alternative Investment Products, primarily mutual funds, ETFs and SMAs, that pursue those strategies. This may involve material exposure to non-traditional assets, leverage, short sales, and derivative instruments. This Portfolio may also invest in other asset classes described above, including non-traditional assets and cash. This Portfolio has the same risk profile as a Growth with Income Portfolio described below.

ALIGN UMA Select Income with Growth Portfolio. The ALIGN UMA Select Income with Growth Portfolio seeks to provide current income and some growth. Under normal market conditions, this Portfolio primarily invests its assets in mutual funds, ETFs and SMAs that in turn principally

invest in fixed income securities, equity securities or foreign securities. This Portfolio normally will have a higher underlying asset allocation to fixed income securities than equity securities. This Portfolio may also invest in other asset classes described above, including non-traditional assets, Alternative Investment Products and cash. This Portfolio has the same risk profile as an Income with Growth Portfolio described below.

ALIGN UMA Select Income with Growth (Municipal) Portfolio. The ALIGN UMA Select Income with Growth (Municipal) Portfolio has the same objective, underlying investments, target allocations and risk profile as the ALIGN UMA Select Income with Growth Portfolio described above, except that this Portfolio primarily invests its fixed income allocation in actively managed mutual funds that in turn principally invest in municipal securities.

The descriptions of the ALIGN UMA Select Portfolios are current as of the date of this Brochure. However, Baird may change the objective, investments, target allocations or risk profile for any Portfolio at any time. Baird may also offer other model portfolios under the Program from time to time.

An ALIGN UMA Select Portfolio is subject to the risks associated with the Portfolio's particular strategies and investments. A client should review the risks associated with those strategies and investments described under the heading "Principal Program Risks" below.

The process Baird uses for selecting and removing funds and ETPs for the ALIGN UMA Select Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolio and ALIGN Tactical Portfolio Programs described under "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" above. The process Baird uses for selecting and removing investment managers providing SMA Strategies under the ALIGN UMA Select Portfolio Program is described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—ALIGN, BairdNext Portfolios, PIM and Russell Programs" above. An ALIGN UMA Select Portfolio may include funds included on Baird's Recommended Mutual Fund



List, BRM Strategies, and funds and SMA Strategies offered by managers affiliated with Baird.

The Portfolio asset allocations and the investment options included in the ALIGN UMA Select Program are evaluated on an ongoing basis, generally at least quarterly.

### **Principal Program Risks**

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

### **General Risk Information**

General risks of the Programs include the following:

**Market Risks.** A client's Account may change in value due to overall market fluctuations. General economic conditions, political developments, international events and other factors may cause the overall market to decline, which in turn may

reduce the value of the client's Account regardless of the relative strength of the securities held in the Account. Securities prices often vary for reasons unrelated to matters directly affecting the issuers of the securities.

### **Management and Securities Selection Risks.**

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

### **Investment Objective and Asset Allocation Risks.**

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

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

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

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

**Common Stock Risks.** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic and banking crises. Holders of common stocks are generally subject to greater risk than holders of preferred stocks and debt obligations of the same issuer because common stockholders generally have inferior rights to receive payments from issuers in comparison with the rights of preferred stockholders, bondholders and other creditors.

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

**Interest Rate Risk.** The value of some investment products, particularly fixed income securities, is affected significantly by changes in interest rates. Generally, when interest rates rise,

the product's market value declines and when interest rates decline, its market value rises. In addition, a rise in interest rates may have a negative impact on the issuer, which, in turn, could have a negative impact on the market value of the investment product.

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

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

**Investment Style Risks.** Investment styles or strategies that focus on growth stocks may perform better or worse than styles or strategies that focus on value stocks or that are broader or more diversified. Similarly, investment styles or strategies that focus on value stocks may perform better or worse than styles or strategies that focus on growth stocks or that are broader or more diversified. A particular style of investing may go out of favor at times and for extended periods. Growth stocks are often characterized by high price-to-earnings ratios and may be more volatile than stocks with lower price-to-earnings ratios. Value stocks are subject to the risk that the broader market may not agree with the manager's assessment of, or recognize, the investments' intrinsic value.

**Foreign Issuer and Investment Risks.** Securities of foreign issuers, ADRs, Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs"), and investments in foreign markets generally, are subject to certain inherent risks, such as political or economic

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

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

**Government Obligation Risks.** Client assets may be invested in securities issued, sponsored or guaranteed by the U.S. Government, its agencies and instrumentalities. However, no assurance can be given that the U.S. Government will provide financial support to U.S. Government-sponsored agencies or instrumentalities where it is not obligated to do so by law. For instance, securities issued by the Government National Mortgage

Association ("Ginnie Mae") are supported by the full faith and credit of the United States. Securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") have historically been supported only by the discretionary authority of the U.S. Government. While the U.S. Government provides financial support to various U.S. Government-sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.

**Municipal Securities Risks.** Repayment of municipal securities depends on the ability of the issuer or project backing such securities to generate taxes or revenues. Municipal securities may also decrease in value during times when tax rates are falling. Since interest income on municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing federal tax-exempt status of, such interest income. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the liquidity, marketability and supply and demand for municipal securities, which would in turn affect Baird's ability to acquire and dispose of municipal securities at desirable yield and price levels. Investment in tax-exempt debt obligations poses additional risks. In many cases, the IRS has not ruled on whether the interest received on a tax-exempt obligation is tax-exempt, and accordingly, purchases of these municipal securities are based on the opinion of bond counsel to the issuers at the time of issuance. Thus, there is a risk that interest may be taxable on a municipal security that is otherwise expected to produce tax-exempt interest.

**Money Market Fund Risks.** An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds typically seek to preserve the value of an investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value per share fall. In some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the

fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund would not be available for purchases or withdrawals. New SEC regulations for money market funds that go into effect in October 2016 may impact how some money market funds operate. The new regulations make a distinction between: (1) government money market funds (funds that invest nearly all assets in cash, government securities, and/or repurchase agreements collateralized by cash or government securities); (2) retail money market funds (funds that have policies and procedures reasonably designed to limit beneficial ownership to natural persons); and (3) institutional money market funds (funds that permit beneficial ownership by institutions and natural persons). Beginning in October 2016, institutional money market funds will be required to calculate their NAV in a manner such that the NAV will vary based upon the market value of assets and liabilities of the fund (also known as a "floating NAV"). In addition, retail and institutional money market funds will be required to impose redemption fees (also known as liquidity fees) and suspend redemptions (also known as redemption gates) in certain circumstances. Government money market funds may also impose redemption fees and suspend redemptions in those same circumstances. More specific information about how a money market fund calculates its NAV and the circumstances under which it will impose a redemption fee or suspend redemptions is set forth in the prospectus for that money market fund.

**Illiquid Securities and Liquidity Risks.** Certain securities may have more or less liquidity than other securities. Securities with less liquidity generally have wider bid and ask spreads. Also, the volatility of the price of a thinly traded security may be more than the volatility of the price of a widely traded security because of the impact of low trading volume. It may be difficult to sell an illiquid security at any given time and a client may not be able to obtain a favorable price for the security. As a result, illiquid securities may have a negative effect on the performance of the client's Account. In the event the client directs Baird to liquidate an illiquid investment, the client should understand that Baird may have difficulty finding a buyer in the market for such investment and such investment may be held in the Account for a period of time while Baird attempts to satisfy the client's liquidation request.

**Quantitative Investment Risks.** Some investment managers may employ quantitative investment methodologies or processes to make investment decisions. The success of the quantitative investment methodologies and processes used by investment 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, an investment 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 investment manager's quantitative methodologies and processes. It is also possible that prices of securities may move in directions that were not predicted by the investment 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 the client's objective.

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

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

consequences due to the fact that the client may have increased instances of realized gains and losses and such gains and losses may commonly be characterized as short term gains and losses under applicable tax law.

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

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

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

**Exchange Traded Fund Risks.** An ETF is different from a mutual fund in that an ETF does not sell its shares directly to public investors and does not redeem shares from public investors. Rather, shares of an ETF are commonly purchased or sold in the secondary market on a securities exchange, like common stocks. An ETF maintains a net asset value but, based on demand and other factors, the market price of shares of an ETF may vary from its net asset value. ETFs invest in and hold securities and other assets, such as stocks, bonds, commodities and currencies, and have stated investment objectives and principal strategies. ETFs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Many ETFs seek to track the performance of an index or other underlying benchmark. Passively managed ETFs will not be able to replicate exactly the performance of the indices the ETFs track because the total return generated by the securities will be reduced by management fees, transaction costs and other expenses incurred by the ETF. ETFs have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest



rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain ETFs pursue Alternative Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of ETF selected.

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

**Unit Investment Trust Risks.** A UIT is a pooled investment vehicle in which a portfolio of

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

**Investment Fund Risks; Purchase and Redemption Risks.** Investment Funds are generally subject to the same risks as the securities or other assets in which they invest. In addition, from time to time Baird, a PIM Manager, or an investment manager may decide to add or remove an Investment Fund to or from an investment strategy or Program. In addition, they may decide to increase or decrease their clients’ account allocations to an Investment Fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in question and consequently, a client’s investment. An Investment Fund receiving large purchase orders may have difficulty investing the cash, which may have a negative impact on the fund’s performance. An Investment Fund experiencing

large redemption orders may have to sell portfolio securities, which may negatively impact performance and which may have negative tax consequences. Large redemptions could also reduce liquidity as the fund may suspend or delay redemptions. These risks are more pronounced with respect to newer Investment Funds and those with smaller asset sizes.

**Community Bank Stock Risks.** Stocks issued by community banks, small banks and their holding companies are subject to unique risks. Unlike national or larger regional banks, community banks are less geographically diversified and their businesses and revenues tend to be closely tied to the economies in which they are located. Investments in community bank stocks could therefore be negatively impacted by adverse conditions affecting those local economies. Community bank stocks are also subject to capitalization risk and illiquid securities and liquidity risks described above.

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

**Non-Traditional Assets Risks.** Non-traditional assets, such as real estate, commodities, currencies and private companies, are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Some non-traditional assets are less transparent and more sensitive to domestic and foreign political and economic conditions than more traditional investments. Non-traditional assets are also generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

**Commodities Risks.** Investments in commodities markets or a particular sector of the commodities markets, and investments in securities or other instruments denominated in or indexed or linked to commodities, are subject to certain risks. Those investments generally will subject a client Account to greater volatility than investments in traditional securities. The commodities markets are impacted by a variety of factors, including changes in overall market movements, domestic and foreign political and economic conditions, interest rates, inflation rates and investment and trading activities in commodities. Prices of commodities may also be affected by factors such as drought, floods, weather, livestock disease, embargoes, tariffs and

other regulatory developments. The prices of commodities can also fluctuate widely due to supply and demand disruptions in major producing or consuming regions. Certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers or groups of producers. As a result, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities. No active trading market may exist for certain commodities investments, which may impair the value of the investments.

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

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

**Short Sales Risks.** Short selling runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate. In addition, a lender may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, which may result having to buy the securities sold short

at an unfavorable price. A client should not engage in short sales unless the client is prepared to experience significant losses in the client's Account.

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

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

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

## Alternative Investment Product Risks

### Hedge Funds and Funds of Hedge Fund Risks.

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

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

Private equity funds are pools of actively managed capital that invest primarily in private companies with the intent of creating value in the companies in which they invest by improving operations, reducing costs, selling non-core assets and maximizing cash flow. Private equity funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments. Funds of private equity funds typically invest substantially all of their assets in other private equity funds. Private equity funds and funds of private equity funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private equity funds and funds of private equity funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private equity funds and funds of private equity funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus an incentive fee or carried interest. Private equity funds and funds of private equity fund are also generally subject to administrative service fees and portfolio company transaction fees. Because of the existence of a carried interest, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private equity funds and funds of private equity funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private equity investing is very risky. Many investments made in portfolio companies are not profitable. In addition, investments made by private equity funds and funds of private equity funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes of companies. Investing in private equity funds and funds of private equity funds involves other special risks, including, but not limited to, dependence upon key personnel and conflicts of interest risks. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk.

*Private equity funds and funds of private equity funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in private equity funds and funds of private equity funds should have a high tolerance for risk, including the willingness and ability to accept lack of liquidity and potential loss of their investment.*

**Exchange Traded Notes Risks.** An ETN is a type of debt security that trades on an exchange and provides a return linked to the performance of an underlying benchmark. The underlying benchmark can be a particular security, bond, commodity, currency, or other non-traditional asset type, a group or basket of companies, securities, commodities, currencies, derivative instruments, non-traditional asset investments or other assets, or an index or other benchmark linked to stocks, market volatility, bonds, interest rates, Treasury yields, yield curves and spreads, derivative instruments, strategies, commodities, currencies or other assets. ETNs trade on exchanges throughout the day at prices determined by the market. Unlike ETFs, issuers of ETNs do not buy or hold assets to replicate or approximate the performance of the underlying benchmark. Also in contrast to ETFs, ETNs also do not calculate their net asset value, are generally not redeemable on a daily basis, and are not registered under the Investment Company Act of 1940. Issuers may also have the right and option to redeem ETNs. Redemptions are made at the ETN's "indicative value" or "closing indicative value". An ETN's closing indicative value is computed by the issuer and is distinct from an ETN's market price, which is the price at which an ETN trades in the secondary market. Issuers of ETNs may also issue and redeem notes as a means to keep the ETN's market price in line with its indicative value, which have caused significant fluctuations in ETN prices. Investing in ETNs involves special risks, including, but not limited to, risks associated with non-traditional assets and derivative instruments and the risk that the actual market price for an ETN may vary significantly from the indicative value computed by the issuer. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *ETNs*



*are complex investments and involve significant, special risks. As a result, ETNs may not be suitable for some clients.*

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

**Leveraged Fund and Inverse Fund Risks.** Leveraged funds and inverse funds may be structured as ETNs, ETFs or open-end mutual funds. Leveraged funds seek to deliver multiples of the performance of the index or benchmark they track. Inverse funds seek to deliver the

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

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



investment risk, emerging market risk, commodities risk and currency risk. *Structured products are complex investments and involve special risks. As a result, they may not be suitable for some clients.*

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

stock market risk, equity securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *REITs involve significant, special risks and may not be suitable for some clients. Clients investing in REITs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility and volatility of regular distribution amounts, potential lack of liquidity and potential loss of their investment.*

**Business Development Company Risks.** A BDC is typically a domestic, closed-end investment company that is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. As a result, investments made by BDCs tend to be risky and speculative. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to make riskier investments that have the potential for significant growth in value. BDCs commonly use borrowings or leverage to make investments in portfolio companies. Adverse interest rate movements can negatively impact a BDC's ability to make investments. Investments made by BDCs are typically illiquid, and valuing such investments is challenging. It is possible that valuations on investments used are materially different from the values that BDCs will ultimately receive upon disposition of those investments. Changing market and economic conditions affecting a BDC's investments may cause significant volatility in the BDC's net asset value and stock price. Due to the nature of BDCs' investments, securities issued by BDCs are subject to greater liquidity risk than other investments. A debt security or preferred stock issued by a BDC, in many cases, is non-rated or is rated below investment grade, which can carry its own risks. Investing in BDCs involves other special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, capital markets access risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, and interest rate risk. *BDCs can be speculative investments because of the types of investments they make and involve significant, special risks.*

*As a result, BDC investments may not be suitable for some clients. Clients investing in BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.*

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

**Additional information about certain Alternative Investment Products and other investments pursuing Alternative Strategies, including the risks associated with those investments, is available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) and on FINRA’s website at [www.finra.org/](http://www.finra.org/)**

**Investors.** *A client is encouraged to read the disclosure documents included on those websites carefully before investing.*

#### **Risk Information for ALIGN, PIM, and UMA Program Accounts and Other Accounts Following Asset Allocation Strategies**

Certain ALIGN Programs, UMA Programs, PIM Managers and Financial Advisors offer portfolio strategies that have a risk profile of (1) All Growth Portfolio, (2) Capital Growth Portfolio, (3) Growth with Income Portfolio, (4) Income with Growth Portfolio, (5) Conservative Income Portfolio, or (6) Capital Preservation Portfolio. Risk information about those portfolio strategies is provided below.

**All Growth Portfolio.** An All Growth Portfolio will generally be invested in a manner that seeks to provide aggressive growth of capital. All Growth Portfolios have historically experienced high fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions. The Portfolio’s investments are subject to a high risk of price declines, especially during periods when stock markets in general are declining. An All Growth Portfolio’s primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio’s specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, fixed income security risks, below investment grade (high yield or “junk” bonds) securities risks, and the risks described under the headings “Non-Traditional Assets and Alternative Strategies Risks” and “Alternative Investment Product Risks” above.

**Capital Growth Portfolio.** A Capital Growth Portfolio will generally be invested in a manner that seeks to provide growth of capital. Capital Growth Portfolios have historically experienced moderately high fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions. The Portfolio’s investments are subject to a risk of price declines, especially during periods when stock markets in general are declining. A Capital Growth Portfolio’s primary risks generally include:

market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, fixed income securities risk, interest rate risk, credit risk, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Alternative Strategies Risks" and "Alternative Investment Product Risks" above.

**Growth with Income Portfolio.** A Growth with Income Portfolio will generally be invested in a manner that seeks to provide moderate growth of capital and some current income. Growth with Income Portfolios have historically experienced moderate fluctuations in annual returns and overall market value, typically as a result of changes to market and economic conditions and interest rates. The Portfolio's investments are subject to a risk of price declines, especially during periods when stock markets in general are declining or when interest rates are rising. A Growth with Income Portfolio's primary risks generally 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, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Alternative Strategies Risks" and "Alternative Investment Product Risks" above.

**Income with Growth Portfolio.** An Income with Growth Portfolio will generally be invested in a manner that seeks to provide high current income and some growth of capital. Income with Growth Portfolios have historically experienced moderate fluctuations in annual returns and overall market value, typically as a result of changes to interest rates and market and economic conditions. The

Portfolio's investments are subject to a risk of price declines, especially during periods when interest rates are rising or when stock markets in general are declining. An Income with Growth Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, money market fund risk, stock market risk, equity securities risk, common stock risk, and capitalization risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, emerging market risks, asset-backed securities risks, below investment grade (high yield or "junk" bonds) securities risks, and the risks described under the headings "Non-Traditional Assets and Alternative Strategies Risks" and "Alternative Investment Product Risks" above.

**Conservative Income Portfolio.** A Conservative Income Portfolio will generally be invested in a manner that seeks to provide high current income. Relative to the portfolios described above, Conservative Income Portfolios have historically experienced smaller fluctuations in annual returns and overall market value as a result of changes in stock market conditions, but have experienced fluctuations in relation to changes in interest rates and economic conditions. The Portfolio's investments are subject to risk of price declines, especially during periods when interest rates are rising. A Conservative Income Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, money market fund risk, equity securities risk, and common stock risks. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including investment style risks, foreign issuer and investment risks, asset-backed securities risks, and below investment grade (high yield or "junk" bonds) securities risks.

**Capital Preservation Portfolio.** A Capital Preservation Portfolio will generally be invested in a manner that seeks to preserve capital while generating current income. Relative to the portfolios described above, Capital Preservation Portfolios have historically experienced smaller fluctuations in annual returns and overall market

value as a result of changes in stock market conditions, but have experienced fluctuations in relation to changes in interest rates and economic conditions. The Portfolio's investments are subject to risk of price declines, especially during periods when interest rates are rising. A Capital Preservation Portfolio's primary risks generally include: market risk, management and securities selection risk, investment objective and asset allocation risk, fixed income securities risk, interest rate risk, credit risk, and money market fund risk. Depending upon the Portfolio's specific investments, the Portfolio may also be subject to other primary risks, including foreign issuer and investment risks, asset-backed securities risks, and below investment grade (high yield or "junk" bonds) securities risks.

**Additional Considerations.** In addition to the specific risks described above, a client's Account may be subject to additional risks, depending upon the particular investments in the client's Account. A client should discuss the risks of particular investments with the client's Financial Advisor. A client should also note that there is no guarantee as to how a portfolio will perform in the future. It is possible that a portfolio could experience more dramatic return or market value fluctuations than occurred in the past.

### **Recent Market Events**

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

### **Voting Client Securities**

#### ***Baird Advisory Choice Program and Other Non-Discretionary Accounts***

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

#### ***UMA Programs and Separately Managed Accounts***

With respect to the ALIGN UMA Select Portfolios, UMA Custom Portfolios, BIM Portfolios, Client Selected Managers, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or the client may delegate such right to the Overlay Manager or investment manager selected to manage the client's Account, as applicable. A client may select either option by making the appropriate election in the client's advisory agreement (or in the case of a dual contract arrangement under the CSM Service, by providing proper instructions to the manager directly). For information about a manager's voting policies and procedures, clients should review the manager's Form ADV Part 2A Brochure. Except to the extent a client has delegated proxy voting authority to Baird, Baird has no authority, direct or implicit, and accepts no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in a client's SMA.

#### ***Discretionary and Other ALIGN Programs***

Under the ALIGN Custom Portfolios, ALIGN Dynamic Portfolios, ALIGN Strategic Portfolios, ALIGN Tactical Portfolios, BairdNext Portfolios, PIM, and Russell Programs, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or a client may delegate such right to Baird.



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

If a client delegates voting authority to Baird, Baird will vote proxies solicited by, or with respect to, securities held in the client's Account for the exclusive benefit of the client and in accordance with policies and procedures adopted by Baird.

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

In situations in which a client has delegated to Baird voting authority with respect to securities in the client's Account, Baird will monitor corporate events and vote proxies in a manner that Baird believes is consistent with the client's best interests. Baird utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by companies to their shareholders for consideration. These guidelines provide an indication as to how Baird will actually vote on particular issues. Baird will generally vote proxies for client accounts based on the recommendations of ISS; however, the client's Financial Advisor may suggest voting against ISS's recommendations when the Financial Advisor determines it to be in the clients' best interests to do so. The Financial Advisor also may suggest how to vote on a particular matter not addressed by ISS. When a Financial Advisor suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the Financial Advisor 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 Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern that Baird would be inclined to vote in favor of management because of its relationship or pursuit of a relationship with the company. Baird takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client.

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

Clients wishing to direct particular votes once they have granted Baird discretionary voting authority may do so by contacting their Baird Financial Advisor. However, if Baird has been granted discretionary authority, neither Baird nor the client's Financial Advisor will provide a client with notice that Baird has received a proxy solicitation, nor will they consult with the client before casting a vote, unless the client otherwise directs them to do so.

### ***Legal Proceedings and Corporate Actions***

Generally, neither Baird nor any Other Manager responsible for managing all or a portion of the assets in a client's Account will render advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. Also, they may or may not vote or advise clients on other corporate actions, like



tender offers, that are not solicited by a proxy statement. At a client's request, Baird will forward information that Baird actually receives to the client.

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

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

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

Under the UMA, BIM Portfolios, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, and under the CSM Service, Baird provides certain information about the client to the Overlay Manager or investment manager managing the client's Account, as applicable, when the client establishes the advisory relationship with such manager. Such information includes the client's investment objectives and risk tolerance. Under the Recommended Managers, Referred Managers and Riverfront Managers Programs, Baird also provides to the investment manager a client's age, investment timeframe, and liquidity requirements.

Unless specifically requested to do so by a client, Baird does not generally provide such information about the client on an ongoing basis to the Overlay Manager, or other investment manager managing the client's Account.

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

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

Baird does not place any restrictions upon clients who wish to contact or consult with Other Managers managing their accounts. Baird

encourages clients to discuss their accounts with their Baird Financial Advisor.

### **Additional Information Disciplinary Information**

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

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

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

## Other Financial Industry Activities and Affiliations

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

From time to time, Baird and its Financial Advisors may recommend that clients invest assets with investment advisors or in investment products that are affiliated with Baird. Such a recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird, its Financial Advisors and its affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. Baird addresses this potential conflict through disclosure in this Brochure. Further, when acting as fiduciary investment advisers, Baird and its Financial Advisors 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. *However, a client should note that certain Programs and certain categories of investment products made available to clients only offer advisors or investment products that are affiliated with Baird. In those cases, Baird and its Financial Advisors do not impose the same criteria or level of review.*

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

### Investment Management Activities

Baird and its Financial Advisors may, from time to time refer clients to Baird Advisors or BIM, investment management departments of Baird, or CCM, a division of BIM. 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. *Baird Financial Advisors may have a financial incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.*

BIM acts as investment manager to clients pursuing the BIM Strategies under the BIM Portfolios Program. Certain investment strategies offered by BIM have been selected by Baird for inclusion in Baird's Recommended Managers Program and on Baird's Recommended Managers List. *Baird has a financial incentive to favor BIM and CCM because Baird receives more compensation if BIM or CCM manages a client's Account rather than other unaffiliated managers.*

### Certain Affiliations

#### Affiliated Investment Advisors

Baird is affiliated, and may be deemed to be under common control, with BKG by virtue of their common indirect ownership by BFG. Additional information about BKG is available in BKG's Form ADV Part 2A Brochure. *Due to its affiliation with BKG, Baird has a financial incentive to favor BKG investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Riverfront by virtue of their common indirect ownership by BFG. Additional information about Riverfront is available in Riverfront's Form ADV Part 2A Brochure. Riverfront provides investment management services under the Riverfront Managed Portfolios Program. Certain Riverfront

investment products and services have been selected by Baird for inclusion in the UMA Programs and are made available to clients under other Programs. *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, Baird Financial Advisors may use or recommend Greenhouse or Greenhouse GP investment products and services. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor their investment products and services.*

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

Baird is the investment adviser and principal underwriter for 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. Certain Baird Equity Funds have investment objectives and strategies substantially similar to certain of the BIM Portfolio strategies discussed above. As compensation for their services, Baird and BKG receive fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). Certain Baird Funds have been selected by Baird for inclusion in the ALIGN, BairdNext Portfolios and UMA Programs and on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to clients under other Programs. *Baird has a financial incentive to favor the Baird Funds because Baird receives more compensation if a client invests in the Baird Funds rather than other unaffiliated funds.*

Baird Financial Advisors who refer clients to the Baird Funds are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by

Baird. The amount of the referral compensation is disclosed in each Baird Fund's statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). *Baird Financial Advisors may have a financial incentive to favor investments in the Baird Funds over investments in other mutual funds and to favor the Baird Equity Funds over the Baird Bond Funds.*

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

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

CCM serves as investment sub-adviser to a mutual fund series of each of The Advisors' Inner Circle Fund and Pace® Select Advisors Trust. Additional information about those mutual funds, including information relating to the compensation paid to Baird by those funds for investment management services, is available in the funds' prospectus and statement of additional information.

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

### **Affiliated Private Limited Partnerships**

CCM acts as investment manager for, and Baird is the general partner of, the Chautauqua International Growth Equity QP Fund, LP and the Chautauqua Global Growth Equity QP Fund, LP

(the “Chautauqua Limited Partnerships”), and CCM serves as investment sub-adviser to the Multi-Advisor Funds International Fund. Those funds are private pooled investment vehicles that are not required to be registered with the SEC as investment companies. *Due to their affiliation with the Chautauqua Limited Partnerships and the Multi-Advisor Funds International Fund, BIM, CCM and Baird have a financial incentive to favor those funds.*

### **Affiliated Private Equity Funds**

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

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

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

### **Affiliated Hedge Funds**

Greenhouse acts as investment manager for, and Greenhouse GP is the general partner of, the Greenhouse Master Fund LP and the Greenhouse Onshore Fund LP. Greenhouse also acts as investment adviser for the Greenhouse Offshore Fund LP. Those funds are hedge funds that are not required to be registered with the SEC as investment companies. The Greenhouse Onshore



Fund LP is available to clients under the Programs. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor those hedge funds.*

### **Other Financial Industry Activities**

Baird has business relationships with many investment managers, including those participating in the Programs, separate and apart from the Programs. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird is a fiduciary that is required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Baird addresses this potential conflict through disclosure in this Brochure. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for Baird's advisory programs (including when Baird constructs its ALIGN Programs, BairdNext Portfolios Program, Recommended Managers Program, UMA Programs, or Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution as described under the heading "Services, Fees and Compensation—Additional Program Information—Trading for Client Accounts" above. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

Baird Financial Advisors and other Baird associates may receive non-cash compensation and other benefits from investment managers with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits provides Baird Financial Advisors an incentive to favor managers that provide greater levels of such benefits. Baird addresses this potential conflict through disclosure in this Brochure. Baird has also adopted policies and procedures for its Financial Advisors and other Baird associates providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

Certain Baird associates from time to time may provide clients with tax return preparation, bill pay or related services. In some instances, the fee for those services may be bundled with the Program Fee. A client should understand that the provision of such services is separate from, and not related to, the Programs offered under this Brochure and will be governed by an agreement separate from the client's advisory agreement with Baird. *A client should understand that Baird and its associates do not act as investment adviser to the client when providing tax return preparation, bill pay or related services to the client.*

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

#### **Code of Ethics**

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



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

Baird has also implemented certain policies and procedures relating to Baird’s and its associates’ trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird’s advisory clients. In addition, Baird’s Compliance Department monitors the personal trading activities of all of Baird’s associates providing advisory-related services to clients.

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

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

In their broker-dealer capacities, Baird and its Financial Advisors provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, Alternative Investment Products and other securities. Baird and its Financial Advisors receive

compensation based upon the sale of such investment products.

Baird and its affiliates may buy or sell securities for their own accounts, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to their own accounts or that of another client. Baird may also engage in agency cross transactions and principal transactions with clients as further described under “Services, Fees and Compensation—Additional Program Information—Trading for Client Accounts—Trade Execution Services Performed by Baird” above.

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

As a registered broker-dealer, Baird 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 suitable for advisory clients (based upon the information provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment over time. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

## **Investment Product Selling and Servicing**

### *Mutual Funds*

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

If Baird receives 12b-1 fees from a fund with respect to a client's mutual fund investment in the client's Account and the client is paying an asset-based Program Fee to Baird 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 the Program Fee.

Marketing and Other Financial Support. In addition to 12b-1 fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in the ALIGN, BairdNext Portfolios or UMA Programs or held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing", is typically allocated toward the costs of training and educating Baird Financial Advisors and other 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.

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

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to Baird Financial Advisors, and the compensation that Baird pays to its Financial Advisors is not tied to such payments. Baird Financial Advisors may, however, receive non-cash compensation and other benefits from Baird and mutual fund companies and their sponsors with which Baird does business. Such non-cash compensation and other benefits may

include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits provides Baird Financial Advisors an incentive to favor mutual funds and their sponsors that provide greater levels of such benefits.

**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 Baird Financial Advisors, and the compensation that Baird pays to Baird Financial Advisors 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 Baird clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird 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. Baird compensates Baird Financial Advisors based upon the 12b-1 fees it receives and retains.

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 Program Fee to Baird 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 the Program Fee.

The receipt of administrative fees and revenue sharing payments provides Baird an incentive to favor funds that provide higher compensation.

**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 Baird Financial Advisor 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 Baird Financial Advisors, and the compensation that Baird pays to its Financial Advisors is not tied to such payments. More detailed information about UITs and the compensation that Baird receives from a UIT and its sponsor is available in the prospectus or other offering documents for the UIT and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

#### *Alternative Investment Products*

Baird and its Financial Advisors may receive compensation related to the sale of Alternative Investment Products or the servicing of client accounts that hold those products. If an Alternative Investment Product is registered as an investment company (that is, a mutual fund), Baird and its Financial Advisors 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 Baird Financial Advisor for more specific information about the

amount of compensation Baird may receive from the sale or servicing of Alternative Investment Products.

#### *Annuities and Insurance Products*

Insurance companies compensate Baird and its Financial Advisors for selling their insurance products. Baird and its Financial Advisors are paid by the insurance companies in various forms including upfront commissions based upon the initial sale of the product and ongoing trail commissions or residuals relating to a client's continued holding of the product.

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain products that it sells for training and educating Financial Advisors. This support, which varies from insurance company to insurance company, is commonly referred to as "marketing support" payments. Receipt of marketing support payments provides Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However, Baird does not consider the receipt of marketing support payments in compiling its "Baird Focus List" of insurance companies.

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

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

Baird addresses conflicts posed by the selling and servicing of the foregoing investment products

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

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

##### *Cash Sweep Program*

In addition to the asset-based Program Fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for certain administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled "Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds" above. Baird may waive receipt of any or all of this compensation. The compensation that Baird receives from the Bank Sweep Option and the Money Market Option gives it 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 Financial Advisors may also receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, Baird Financial Advisors who refer securities underwriting or other business opportunities to the Investment Banking

or Public Finance Departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. Baird and its Financial Advisors may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. However, Baird and its Financial Advisors will only recommend such securities to an advisory client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any securities underwritten by Baird will be sold to a client by Baird in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's or the client's Financial Advisor's interest in the transaction. For more information, please see "Services, Fees and Compensation—Additional Program Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

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

#### *Research Activities*

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

#### *Trust Services Arrangements*

Baird maintains alliances with certain unaffiliated institutions, including Comerica Bank & Trust, National Association, that provide trust services. These unaffiliated institutions offer various types of trust services, including trust administration, custody, tax reporting and recordkeeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may

be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution. This provides Baird a financial incentive to recommend firms that are part of the alliance.

#### *Margin Loans*

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

#### *Lending Arrangements*

Baird maintains alliances with certain unaffiliated lenders, including Tristate Capital Bank, that provide financing opportunities to Baird clients. Baird receives a referral fee from the lender in some instances. The referral fee is generally shared with the client's Financial Advisor. The amount of the referral fee varies, depending upon the lender and the amount of the financing. It is Baird's practice to provide more specific information about the referral fee at the time a client obtains such financing. As a result of the foregoing, Baird and the client's Financial Advisor have a financial incentive to recommend that the client obtain loans from lenders that pay Baird referral fees.

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

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



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

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

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

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

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

may extend beyond a client's advisory relationship with Baird if the client continues to hold those assets at Baird.

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

## **Review of Accounts**

### **Client Account Review**

Client accounts are monitored on a periodic basis by the client's Financial Advisor and are subject to review by the Baird Branch Office Manager or PWM Supervision department supervisor (or his or her respective designee) responsible for supervising the client's Financial Advisor. A client's Baird Financial Advisor generally reviews the performance of the client's Account at least annually. However, the client's Financial Advisor may not review the performance of a client's SMAs managed by Other Managers under the Client Selected Managers or Referred Managers Services. Baird has designated individuals who are responsible for monitoring a client's Financial Advisor with respect to the client account's trading activity, verifying that the PIM Manager's composites of client accounts are generally being managed in accordance with the PIM Manager's investment philosophy statement and attempting to ascertain whether client accounts within each composite are being treated equitably.

The performance of a client's PIM Account may be compared to one or more benchmark indices that the PIM Manager, in conjunction with a PIM Product Manager, determines is most suitable for comparison with the portfolio's investment style or the Account may be monitored using a risk score assigned to the Account by Baird based upon information provided by the client. Baird may at times change a client's PIM Account benchmark index without prior notice to the client.

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

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

A client's Baird Financial Advisor will provide the client with a written report on the client's Account's performance as often as the client and the Financial Advisor may from time to time mutually agree. However, PIM Managers are generally required to provide a written performance report to their PIM clients at least quarterly. Performance reporting may not be available for Account assets that are not custodied at Baird. Baird may change or discontinue performance reporting to a client at any time for any reason upon notice.

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

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

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

included in a client's Account generally do not exactly mirror the securities included in the index.

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

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

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

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

### Client Referrals and Other Compensation

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

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

### Financial Information

Baird does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of its most recent fiscal year. Baird is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary of a client should understand that Baird may 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 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, Baird will waive its asset-based Program Fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or Baird will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Program Fee that Baird charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, the client and each Retirement Account Fiduciary of the client acknowledge in the client's advisory agreement that: (i) the investment in affiliated investment products for the client's Account is appropriate because of, among other things, the investment goals, redeemability, liquidity, and diversification of those products; (ii) subject to the terms of the applicable Program, 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 Program Fees payable by the client. The differential between the fees to be charged by Baird for the investment advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the affiliated investment product to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment product is the difference between the Program Fee disclosed in the client's advisory 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 Baird 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 Baird is not responsible for determining whether a directed broker-dealer is capable of providing best execution.

If a client's Account is a Retirement Account and if the client has selected an investment manager or product affiliated with Baird (such as the use of services or products offered by Baird Advisors, BIM, CCM, BKG, Greenhouse, Riverfront or any mutual fund affiliated with Baird, BKG, Greenhouse or Riverfront), each Retirement Account Fiduciary of the client understands and agrees that in making such selection: (a) Baird and its affiliates may receive higher aggregate compensation than if the client selected investment managers, funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated investment managers, funds or other products; (b) Baird makes available to the client investment managers, funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated investment

managers, funds or products at any time by contacting the client's Baird Financial Advisor; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use investment managers, funds or products affiliated with Baird at any time by contacting the client's Baird Financial Advisor. For more information about investment managers and products that are affiliated with Baird, please see "Additional Information—Other Financial Industry Activities and Affiliations" above.