

Baird Advisors

Brochure

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Baird Advisors
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Toll Free: 800-792-2473
www.bairdadvisors.com

Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, WI 53202
1- 800-792-2473
rwbaird.com

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This Brochure provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Advisors, an investment management department operating within Baird. Clients should carefully consider this information before becoming a client of Baird Advisors. 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.

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Advisory Business

This Brochure describes the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Advisors, an investment management department of Baird. Separate brochures describe other investment advisory services that Baird offers to its clients and discuss the agreements, fees and potential conflicts of interest for each service. If you would like to request a brochure for another investment advisory service provided by Baird, please call Baird toll-free at 1-800-792-2473.

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

Introduction to Robert W. Baird & Co.

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

Associates of Baird, together with Baird Financial Corporation, own substantially all of the outstanding stock of Baird. Associates of Baird, together with Baird Holding Company, own substantially all of the outstanding stock of Baird Financial Corporation. Associates of Baird own substantially all of the outstanding stock of Baird Holding Company.

Baird offers various investment advisory services to clients. The advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and investment strategies; research, analysis and recommendations regarding investment managers and individual securities; investment consulting; financial planning; investment policy development; and account performance monitoring. Baird also offers clients execution of brokerage transactions and administrative services, including maintaining custody of account assets. Clients may also negotiate other services with Baird. Baird offers its services separately or in combination with other services.

Baird participates in wrap fee programs 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, 2010, Baird had approximately \$32.6983 billion in assets under management, approximately \$27.4167 billion of which was managed on a discretionary basis and approximately \$5.2816 billion of which was managed on a non-discretionary basis.

Introduction to Baird Advisors

Baird Advisors offers professional portfolio management to clients desiring investments in fixed-income products.

The advisory services offered by Baird Advisors generally include portfolio management, investment advice and consulting services, performance reporting, and related account services.

Baird Advisors manages client portfolios with full investment discretion and tailors its advisory services to the individual needs of clients. Baird Advisors analyzes a client's specific needs, investment time horizon, and risk tolerance to develop investment objectives and guidelines for the client's portfolio. As part of its analysis, Baird Advisors works with a client to select a benchmark index that characterizes the risk tolerance and return expectations for the client. Baird Advisors then uses an investment strategy that is intended to generate an annual rate of return that, before the deduction of fees, is greater than the benchmark selected for the client's portfolio.

Subject to the agreement of Baird Advisors, a client may impose reasonable restrictions on the securities or types of securities to be held in the client's account. Please see "Investment Discretion" below for more information. Clients may negotiate with Baird Advisors to provide other investment advisory services. However, Baird Advisors generally limits its services to providing investment advice relating to fixed-income investment products.

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

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

The Client-Baird Advisory Relationship

Baird Advisors is deemed to have a fiduciary relationship with a client when providing the advisory services that are described in this Brochure.

Baird Advisors generally does not engage in business practices that present a conflict of interest with clients. However, from time to time Baird Advisors and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of Baird Advisors and Baird. Baird Advisors and Baird generally address potential conflicts of interest by adopting and enforcing policies and procedures for Baird Advisors, Baird and their associates to follow that are designed to ensure that: (i) Baird Advisors and Baird comply with applicable fiduciary standards and act in the best interest of a client when providing investment advice; (ii) potential conflicts of interest are avoided or disclosed to a client; and (iii) Baird Advisors and Baird conduct their businesses in a manner that is consistent with the disclosures made.

Baird Advisors and Baird disclose potential conflicts of interest to a client by including relevant information in documents provided to the client, including, without limitation, this Brochure, brochure supplement(s) that contain information about individuals providing investment advice to the client, and the client's investment management agreement. The specific business practices that create potential conflicts of interest with clients and additional measures used by Baird Advisors and Baird to address those particular conflicts of interest are discussed in other sections of this Brochure.

A client is responsible for providing to Baird Advisors information that Baird Advisors reasonably requires in order to provide the services selected by the client including, but not limited to, any investment policy statement and anticipated liquidity needs. Baird Advisors will

rely on this information when providing its advisory services. A client is also responsible for informing Baird Advisors in writing of any material change in circumstances that might materially affect the manner in which the client's account assets should be invested.

Fees and Compensation

Advisory Fee

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

Baird Advisors Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$25,000,000	0.30%
On the next \$25,000,000	0.25%
On the next \$50,000,000	0.20%
On the remaining assets	0.15%

Baird Advisors typically assesses its fees at the rates set forth above against the client's account in arrears following the end of each calendar quarter based on the market value of the assets in the account, including cash or its equivalent held for investment, on the last business day of the applicable quarter. However, if assets are added to or withdrawn from the client's account during the quarter and the cumulative net addition to or withdrawal from the account during the quarter is 10% or more of the market value of the assets in the account at the beginning of the quarter, then the fee will be determined by multiplying the time weighted average market value of the assets in the account for the quarter by the fee set forth above.

The value of assets in a client's account is determined by the client's custodian. Baird Advisors periodically reviews valuation information provided by custodians. However, Baird Advisors and Baird do not perform an in-

depth review and they do not verify or guarantee the accuracy of such information.

Clients may instruct Baird Advisors to deduct the advisory fees from their accounts, but if Baird Advisors agrees, a client may elect to receive an invoice ("direct billing"). Direct billing may not be available for all retirement accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or an individual retirement account ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"). If a client's account is subject to direct billing, the client is generally required to pay each bill within fifteen (15) days after receipt of the bill. Baird Advisors may automatically debit a client's account for its fees and other charges in the event that Baird Advisors does not receive payment from the client within thirty (30) days of the invoice.

If a client's investment management agreement is in effect for only a portion of a quarter, the fee is pro-rated for such portion based on the number of days the agreement was in effect in relation to the number of days in the quarter. In the event termination occurs other than at the end of the billing period, the fee is based upon the value of the assets on the date of termination.

Some or all of the assets in a client's account may be invested in an institutional share class of one or more bond mutual funds within the Baird Funds family of funds, for which Baird Advisors serves as investment adviser. If any assets are held in any of the Baird Funds, Baird Advisors will not charge the fees set forth above on those assets.

Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with ninety (90) days' prior written notice.

The minimum asset value to open an account with Baird Advisors is typically \$25,000,000.

The advisory fee and minimum account value applicable to a client are negotiable in certain instances and may vary based upon a number of factors, including but not limited to 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. 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.

Baird Advisors may enter into other fee arrangements, including performance-based fee arrangements with eligible clients. Performance-based fee arrangements are further described under the heading "Performance-Based Fees and Side-By-Side Management" below.

As new fee schedules are put into effect, they are made applicable only to new clients, and fee schedules applicable to existing clients are not affected. Therefore, some clients may pay different fees than those shown above.

Other Fees and Expenses

In addition to the asset-based advisory fee described above, a client of Baird Advisors may incur other fees and expenses. The asset-based fee only covers portfolio management and investment advice provided by Baird Advisors, and a client may pay for other services, such as custody and trade execution, separately in addition to Baird Advisors' fee. Please see the section "Brokerage Practices" below for more information.

A client also bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with purchases and sales of certain securities (such as securities traded over-the-counter and fixed income securities) because such costs are inherently reflected in the price the client pays or receives for such securities. A client is also responsible for fees and expenses resulting from electronic fund and wire transfer fees, transfer taxes, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation. In addition, Baird Advisors may purchase or sell debt securities through electronic trading platforms that may impose an execution or transaction fee that is imbedded in the price the client pays or receives for the security.

A client's account may, from time to time, be invested in bank deposit accounts, money market funds, mutual funds, exchange traded funds and other registered investment companies, and other investment pools (including such funds and other products affiliated with Baird). These types of

funds have their own fees and expenses that are borne either directly or indirectly by their shareholders or unit holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, shareholder servicing fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing fund expenses"). These ongoing fund expenses are separate from, and in addition to, the fees and expenses a client pays for services provided by Baird Advisors. As a result of making investments in these types of funds, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of client's assets so invested—the fees and expenses charged by the funds and the fees and expenses the client pays for services provided by Baird Advisors. Clients should review the prospectus and statement of additional information (or other applicable offering documents) for each fund in which the client invests for further information.

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

Other Compensation Received by Baird Advisors and Baird

Baird Advisors. Baird Advisors and its personnel do not receive compensation based upon the sale of securities or other investment products, and the compensation Baird pays to Baird Advisors' personnel remains the same regardless of the type of investment product recommended to clients or purchased for client accounts.

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

fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird (but not Baird Advisors or its personnel) an incentive to recommend investment products based upon the compensation received rather than on a client's needs. For more specific information about Baird's compensation and other benefit arrangements that present potential conflicts of interest with respect to clients of Baird Advisors and how Baird addresses those conflicts, please see the sections "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

Baird Advisors will purchase for client accounts, or will recommend the purchase of, various investment products, including "no load" mutual funds. A client has the option to purchase investment products through other brokers or agents that are not affiliated with Baird.

Performance-Based Fees and Side-By-Side Management

Baird Advisors and Baird advise client accounts that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). A client's agreement to a performance-based fee arrangement may create an incentive for Baird Advisors to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of a performance-based fee arrangement. Performance-based fee arrangements also present a potential conflict of interest for Baird Advisors and Baird with respect to client accounts they also manage that are not subject to performance-based fee arrangements because such arrangements give Baird Advisors and 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 their fiduciary duties and avoiding or disclosing conflicts of interest to clients, Baird Advisors typically addresses potential conflicts of interest posed by performance-based fee arrangements by capping

the amount of performance-based fees that may be earned with respect to a client's account. By capping performance-based fees, Baird Advisors attempts to reduce the incentive to invest a client's account in riskier or more speculative products. Baird Advisors also periodically monitors the holdings and performance of performance-based fee accounts and compares them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird Advisors and Baird also attempt to minimize potential conflicts of interest posed by performance-based fee arrangements by adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

Types of Clients

Baird Advisors offers its services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; colleges; hospitals; endowments and foundations; corporations or other business entities; and registered investment companies. Applicable requirements for opening or maintaining an account with Baird Advisors, such as minimum account size, are discussed under the heading "Fees and Compensation" above.

Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategies

Baird Advisors analyzes a client's specific needs, investment time horizon and risk tolerance to develop investment objectives and guidelines for the client's portfolio. As part of its analysis, Baird Advisors selects for the client's portfolio a benchmark index that characterizes the risk tolerance and return expectations for the client. Baird Advisors then uses an investment strategy that is intended to generate an annual rate of return that, before the deduction of fees, is greater than the benchmark selected for the client's portfolio. Baird Advisors also manages portfolios in a manner designed to limit the dispersion of investment returns in comparison to the client's benchmark index.

Baird Advisors offers the following investment strategies to clients:

Short-Term Bond Portfolio Strategy. The investment objective of the Short-Term Bond Portfolio Strategy is to seek an annual rate of total return, before expenses, greater than the annual rate of total return of the Barclays Capital 1-3 Year U.S. Government/Credit Bond Index. The Barclays Capital 1-3 Year U.S. Government/Credit Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt including government and corporate securities with maturities between one and three years.

Intermediate Bond Portfolio Strategy. The investment objective of the Intermediate Bond Portfolio Strategy is to seek an annual rate of total return, before expenses, greater than the annual rate of total return of the Barclays Capital Intermediate U.S. Government/Credit Bond Index. The Barclays Capital Intermediate U.S. Government/Credit Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt including government and corporate securities with maturities between one and ten years.

Intermediate Municipal Bond Portfolio Strategy. The primary investment objective of the Intermediate Municipal Bond Portfolio Strategy is to seek current income that is substantially exempt from federal income tax. A secondary objective is to seek total return with relatively low volatility of principal. The Intermediate Municipal Bond Portfolio Strategy uses the Barclays Capital 7-Year General Obligation Bond Index as its benchmark. The Barclays Capital 7-Year General Obligation Bond Index is an unmanaged, market value weighted index consisting of investment grade state and local general obligation bonds that have been issued as part of an offering of at least \$50 million; have a minimum amount outstanding of at least \$5 million; have been issued within the last five years; and have a maturity of six to eight years.

Aggregate Bond Portfolio Strategy. The investment objective of the Aggregate Bond Portfolio Strategy is to seek an annual rate of total return, before fund expenses, greater than the annual rate of total return of the Barclays Capital U.S. Aggregate Bond Index. The Barclays Capital U.S. Aggregate Bond Index is an unmanaged, market value weighted index of investment grade, fixed-rate debt issues, including government, corporate, asset-backed,

and mortgage-backed securities, with maturities of at least one year.

Core Plus Bond Portfolio Strategy. The investment objective of the Core Plus Bond Portfolio Strategy is to seek an annual rate of total return, before fund expenses, greater than the annual rate of total return of the Barclays Capital U.S. Universal Bond Index. The Barclays Capital U.S. Universal Bond Index is an unmanaged, market value weighted index of fixed income securities issued in U.S. dollars, including U.S. government and investment grade debt, non-investment grade debt, asset-backed and mortgage-backed securities, Eurobonds, 144A securities and emerging market debt with maturities of at least one year.

Other Strategies. Baird Advisors also manages client assets in accordance with other investment strategies specifically designed for clients in light of a client's particular needs.

Although each portfolio strategy targets the annual rate of return of a specific benchmark index, the securities selected by Baird Advisors generally will not mirror the assets in their respective benchmark indices. There can be no assurance that any particular portfolio strategy will be successful in achieving the client's investment goals and objectives.

To achieve a client's investment objectives, Baird Advisors attempts to keep the duration of each client's portfolio substantially equal to that of the client's benchmark index. Baird Advisors seeks to control credit quality risk by purchasing only investment grade, U.S. dollar-denominated securities for client accounts pursuing the Short-Term Bond, Intermediate Bond, Intermediate Municipal Bond or Aggregate Bond Portfolio Strategies. Client accounts pursuing the Core Plus Bond Portfolio Strategy will be invested primarily in investment grade securities, but Baird Advisors may also invest up to 20% of a client's net assets in non-investment grade securities. Client accounts pursuing the Intermediate Municipal Bond Portfolio Strategy may be invested in short-term municipal obligations and tax-exempt commercial paper. Baird Advisors attempts to diversify each client's portfolio by holding securities of many different issuers and choosing issuers in a variety of sectors.

During normal market conditions, the dollar-weighted average portfolio effective maturity for each portfolio strategy described above will be as follows:

<u>Portfolio Strategy</u>	<u>Dollar-Weighted Average Portfolio Effective Maturity</u>
Short-Term Bond	More than 1 year but less than 3 years
Intermediate Bond	More than 3 years but less than 6 years
Intermediate Municipal Bond	More than 5 years but less than 8 years
Aggregate Bond	More than 5 years but less than 10 years
Core Plus Bond	More than 5 years but less than 10 years

The stated maturity of a bond is the date when the issuer must repay the bond's entire principal value to an investor. Some types of bonds may also have an "effective maturity" that is shorter than the stated maturity due to prepayment or call provisions. Securities without prepayment or call provisions generally have an effective maturity equal to their stated maturity. Dollar-weighted effective maturity is calculated by averaging the effective maturity of bonds held by a client's portfolio with each effective maturity "weighted" according to the percentage of net assets that it represents.

Baird Advisors attempts to achieve annual rates of total return greater than each client's respective benchmark index over a full market cycle. Client portfolios pursuing the Aggregate Bond and Core Plus Bond Portfolio Strategies will generally hold bonds with longer maturities than clients pursuing the Intermediate Bond, Short-Term Bond and Intermediate Municipal Bond Portfolio Strategies, thus providing a greater potential for return, with an increased level of risk. Each client's portfolio is based on, although does not replicate, the securities composition of the client's applicable benchmark index. Consequently, each client's portfolio composition and risks will differ. For example, clients pursuing the Core Plus Bond Portfolio Strategy may have up to 20% of the client's net assets invested in non-investment grade debt securities (high yield or junk bonds).

Methods of Analysis

Baird Advisors uses a combination of quantitative and fundamental analysis when selecting securities for a client's account. In determining which securities to buy for a client, Baird Advisors attempts to achieve returns that exceed a client's benchmark index primarily in the following three ways:

Yield curve positioning. The yield curve is a graphic representation of the actual or projected yields of fixed-income securities in relation to their maturities and durations. Baird Advisors selects securities with maturities and yields that it believes have the greatest potential for achieving a client's objective, while attempting to match the average duration of the securities in the client's portfolio with the average duration of the securities in the client's benchmark index. The securities held by a client, though, will not be identical to the securities in the client's benchmark index. Because the yield curve is constantly changing, Baird Advisors regularly adjusts a client's portfolio to purchase securities that it believes will best assist a client in achieving the client's objectives.

Sector allocation. Baird Advisors next evaluates the return potential of each sector. These sectors include: asset-backed securities, mortgage-backed securities, government and governmental agency bonds, and corporate bonds for clients pursuing the Short-Term Bond, Intermediate Bond, Aggregate Bond and Core Plus Bond Portfolio Strategies; and general obligation bonds, revenue bonds, pre-refunded bonds, and insured bonds for clients pursuing the Intermediate Municipal Bond Portfolio Strategy. Baird Advisors invests in securities in those sectors which it believes represent the greatest potential for achieving a client's objectives. Baird Advisors regularly adjusts a client's portfolio in order to address changes in yields and underlying risks in various sectors.

Security selection. Baird Advisors then focuses on selecting individual securities. Baird Advisors determines which issuers it believes offer the best relative value within each sector and then decides which available securities of that issuer to purchase.

Baird Advisors uses research information and related tools provided by various third parties to

select portfolio investments and provide investment advice to clients. These sources of information and tools include, among others, regulatory filings and company-issued literature (e.g., annual reports, prospectuses, press releases and other information), analyses by outside investment houses, government and Federal Reserve Bank publications, financial and other newspapers, journals and corporate ratings services (e.g., Moody's, Fitch, Standard and Poor's), electronic data information sources (e.g., Bloomberg, Dow Jones, Reuters). Baird Advisors may also employ the use of computers and application software to more readily display this information and to quantify various risk characteristics at both the individual security level and the overall portfolio level. Although Baird Advisors uses information and tools that it deems reliable, Baird Advisors does not independently verify or guarantee the accuracy of the information or tools it uses.

Baird Advisors' portfolio managers continuously monitor client portfolios to evaluate the impact of changing economic and market conditions. The appropriateness of the client's portfolio holdings will also be assessed in terms of the client's overall objectives, such as return expectations, risk tolerance, and liquidity needs. Ongoing trading opportunities are analyzed, reviewed and, when deemed appropriate, executed on a daily basis. Each portfolio manager may advise multiple portfolios for a particular client. Furthermore, each client portfolio may have more than one portfolio manager.

Portfolio Investments

Baird Advisors may invest a client's account from time to time in any combination of fixed income-related instruments, including without limitation, government and government agency debt, corporate bonds (including high yield or junk bonds), municipal obligations, obligations of foreign issuers, mortgage-backed and asset-backed instruments, mutual funds, exchange traded funds, other registered investment companies, and other investment pools (including such funds affiliated with Baird), money market funds, and money market deposit accounts. From time to time, Baird Advisors may also use common or preferred stocks, warrants, rights, publicly-traded master limited partnerships.

Debt Securities. Baird Advisors will generally invest at least 90% of the net assets of client portfolios pursuing the Short-Term Bond, Intermediate Bond, Aggregate Bond and Core Plus Bond Portfolio Strategies in the following types of U.S. dollar-denominated debt securities: U.S. government, U.S. government agencies, asset-backed and mortgage-backed, corporate debt of U.S. and foreign issuers obligations of U.S. issuers. Such investments primarily include bonds with fixed rates of interest and other fixed terms, but may also include floating or variable rate bonds. Asset-backed obligations are backed with underlying assets such as credit card receivables, auto receivables, student loans, utilities, reimbursement/rate increase allowances and certain residential home loans.

Municipal Obligations. Clients pursuing the Intermediate Municipal Bond Portfolio Strategy will be invested principally in investment grade, intermediate-term municipal obligations issued by state and local authorities exempt from federal income tax. During normal market conditions, clients pursuing the Intermediate Municipal Bond Portfolio Strategy will have at least 90% of their portfolios invested in bonds and debentures, the interest on which is exempt from regular federal income and alternative minimum taxes. Municipal obligations purchased for clients will generally be:

- Investment grade at the time of purchase (*i.e.*, BBB or higher by S&P or Fitch, or Baa or higher by Moody's, or in the highest four categories by another nationally recognized rating agency), or unrated at the time of purchase but determined to be of comparable quality by Baird Advisors;
- Municipal notes and other short-term obligations rated SP-1 by S&P or MIG-1 by Moody's; or
- Tax-exempt commercial paper rated A-1 by S&P or VMIG-1 by Moody's.

It is possible that 25% or more of a client's municipal obligation portfolio could be invested in municipal securities that would tend to respond similarly to particular economic or political developments or the interest on which is based on revenues or otherwise related to similar types of projects. An example would be securities of issuers whose revenues are paid from similar

types of projects, such as education, housing or transportation.

Investment Grade Debt Securities. Debt obligations acquired for clients pursuing the Short-Term Bond, Intermediate Bond, Intermediate Municipal Bond and Aggregate Bond Portfolio Strategies will generally be "investment grade" at the time of purchase, as rated by at least one nationally recognized rating agency. Clients pursuing the Core Plus Bond Portfolio Strategy will be invested primarily in investment grade bonds, but may also invest in non-investment grade bonds, as described below. Baird Advisors may purchase unrated obligations for each client that are determined by Baird Advisors to be comparable in quality to the rated obligations. After purchase, a security may cease to be rated or may have its rating reduced. In such cases, Baird Advisors will consider whether to continue to hold the security.

Non-Investment Grade Debt Securities (High Yield or Junk Bonds). Clients pursuing the Core Plus Bond Portfolio Strategy may have up to 20% of their portfolios invested in non-investment grade bonds (sometimes referred to as "high yield" or "junk" bonds), which are debt securities that are not rated in one of the four highest rating categories of S&P, Moody's, Fitch or another nationally recognized rating agency. Baird Advisor will generally purchase noninvestment grade bonds that are rated at least B or higher by S&P or Moody's or have an equivalent rating by another nationally recognized rating agency at time of purchase, but may purchase bonds below this rating if Baird Advisors believes the issuer's credit fundamentals or future prospects suggest a higher rating. In addition, in limited circumstances Baird Advisors may invest client assets in bonds in default if the issuer is going through a bankruptcy or restructuring and the new bonds to be issued in replacement are expected to have improved credit fundamentals.

Investments in Investment Companies. Baird Advisors may invest client assets in securities of investment companies, such as money market funds, mutual funds, exchange traded funds, other registered investment companies, hedge funds, private investment partnerships and other investment pools (including such funds affiliated with Baird) that invest in fixed income securities or track bond-related indices. With the client's consent, Baird Advisors may invest client assets

in mutual funds affiliated with Baird and managed by Baird Advisors. Baird Advisors will invest client assets in one or more mutual funds advised or otherwise affiliated with Baird when Baird Advisors determines it to be in the client's best interest to do so. The criteria used by Baird Advisors in deciding to invest in Baird-affiliated mutual funds are the same as those used in deciding to invest client assets in unaffiliated investment products. A client may revoke his or her consent to investing in Baird-affiliated mutual funds at any time.

Illiquid Investments. Baird Advisors may invest up to 15% of client portfolios in illiquid securities, measured at the time of purchase. In general, illiquid securities are securities that cannot be sold or disposed of within seven days at their approximate market value. Securities that are not registered under the federal securities laws and cannot be sold to the U.S. public because of SEC regulations (known as "restricted securities") generally are regarded as illiquid securities unless Baird Advisors determines otherwise, as in the case of Rule 144A securities and certain commercial paper.

Foreign Securities. Clients may be invested in U.S. dollar-denominated debt obligations of foreign issuers. Foreign debt obligations are debt obligations issued by a corporation or other issuer domiciled outside the United States that derives more than 50% of its assets or revenues from outside the U.S.; provided, however, debt obligations issued by a foreign entity that are subject to a guarantee of a U.S. corporate parent or other U.S. entity are not regarded as foreign securities.

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

Principal Risks

Risk is inherent in any investment in securities and Baird Advisors does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. A Baird Advisors client may be subject to the risks described below.

The main risks of the portfolio strategies used by Baird Advisors are substantially similar. However, certain risks are enhanced for each portfolio strategy. Specifically, the Aggregate Bond and Core Plus Bond Portfolio Strategies both maintain longer maturities than the Short-Term Bond and Intermediate Bond Portfolio Strategies, and typically maintain longer maturities than the Intermediate Municipal Bond Portfolio Strategy, thus providing a greater potential for return, with an increased level of risk. In addition, although the Aggregate and Core Plus Bond Portfolio Strategies' maturities are similar, the portfolio composition and the resulting risks are different. In particular, because the Core Plus Bond Portfolio Strategy includes securities that are rated below investment grade, the Core Plus Bond Portfolio Strategy exposes clients to greater credit risk, including risk of default, and other risks associated with non-investment grade bonds than the Aggregate Bond Portfolio Strategy.

Management Risks. Baird Advisors may err in its choices of securities or portfolio mixes. Such errors could result in a negative return and a loss to clients. Each client's portfolio may hold fewer securities than the client's benchmark index, material events affecting a client's portfolio (for example, an issuer's decline in credit quality) may influence the performance to a greater degree than such events will influence the client's benchmark index.

Bond Market Risks. The major risks of each strategy are those of investing in the bond market. A bond's market value is affected significantly by changes in interest rates—generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate 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 ("maturity risk"). A bond's value may also be affected by changes in its credit

quality rating or the issuer's financial condition ("credit-quality risk"). Because bond values may fluctuate, a client's portfolio value may fluctuate.

Credit Quality Risks. Individual issues of fixed-income securities may be subject to the credit risk of the issuer. Therefore, the underlying company may experience unanticipated financial problems and may be unable to meet its payment obligations. Bonds receiving the lowest investment grade rating or a high yield ("junk bond") rating may have speculative characteristics and, compared to higher grade securities, may have a weakened capacity to make principal and interest payments due to changes in economic conditions or other adverse circumstances. Ratings agencies such as Moody's, Fitch and S&P provide ratings on bonds based on their analyses of information they deem relevant. Ratings are essentially opinions or judgments of the credit quality of an issuer and may prove to be inaccurate. In addition, there may be a delay between events or circumstances adversely affecting the ability of an issuer to pay interest and/or repay principal and an agency's decision to downgrade a security.

Non-Investment Grade Bond Risks. Non-investment grade bonds, while generally offering higher yields than investment grade securities with similar maturities, involve greater risk, including the possibility of default or bankruptcy. Non-investment grade debt securities tend to be more sensitive to economic conditions than higher-rated debt securities. As a result, they generally are more sensitive to credit risk and are considered more speculative than securities in the higher-rated categories. During an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of non-investment grade debt securities may experience financial stress and may not have sufficient revenues to meet their payment obligations. The risk of loss due to default by an issuer of these securities is significantly greater than issuers of higher-rated securities because such securities are generally unsecured and are often subordinated to other creditors. Baird Advisors may have difficulty disposing of certain non-investment grade debt securities because there may be a thin trading market for such securities. To the extent a secondary trading market does exist, it is generally not as liquid as the secondary market for higher-rated securities. Periods of economic uncertainty generally result in increased volatility

in the market prices of these securities and will also increase the volatility of the client's portfolio value.

Liquidity Risks. Liquidity risk is the risk that certain securities may be difficult or impossible to sell at the time and price that Baird Advisors would like to sell. Baird Advisors may have to lower the price, sell other securities or forego an investment opportunity, any of which may have a negative effect on the management or performance of client portfolios. The liquidity of a particular security depends on the strength of demand for the security, which is generally related to the willingness of broker-dealers to make a market for the security as well as the interest of other investors to buy the security. During significant economic and market downturns and periods in which financial services firms are unable to commit capital to make a market in, or otherwise buy, certain debt securities, the Baird Advisors may experience challenges in selling such securities at optimal prices.

Foreign Securities Risks. Foreign investments, even those that are U.S. dollar-denominated, may involve additional risk, including political and economic instability and differences in financial reporting standards, in addition to less regulated securities markets.

Mortgage- and Asset-Backed Securities Risks. Mortgage- and asset-backed securities are 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. When interest rates fall, mortgage- and asset-backed securities may be subject to prepayment risk. Prepayment risk is the risk that the borrower will prepay some or the entire principal owed to the investor. If that happens, Baird Advisors may have to replace the security by investing the proceeds in a security with a lower yield. When interest rates rise, certain types of mortgage- and asset-backed securities are subject to extension risk. Mortgage- and asset-backed securities can also be subject to the risk of default on the underlying residential or commercial mortgage(s) or other assets. Weakening real estate markets may cause default rates to rise, which would result in a decline in the value of mortgage-backed securities.

Extension Risk. Extension risk is the risk that debt securities, including mortgage- and asset-backed securities, will be paid off more slowly than originally anticipated, increasing the average life of such securities and the sensitivity of the prices of such securities to future interest rate changes. For example, rising interest rates could cause property owners to pay their mortgages more slowly than expected, resulting in slower payments of mortgage-backed securities. This could lengthen the duration of the security, causing its price to decline.

Government Obligations Risks. Baird Advisors may invest client assets 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 Fannie Mae and Freddie Mac have historically been supported only by the discretionary authority of the U.S. government. Securities issued by the Student Loan Marketing Association ("Sallie Mae") are supported only by the credit of that agency. While the U.S. government provides financial support to various U.S. government-sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.

Tax Risks. Municipal securities may decrease in value during times when tax rates are falling. Since interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations 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 obligations, which would in turn affect Baird Advisors' ability to acquire and dispose of municipal obligations at desirable yield and price levels. Investment in tax-exempt securities poses additional risks. In many cases, the Internal Revenue Service ("IRS") has not ruled on whether the interest received on a tax-exempt obligation is tax-exempt, and

accordingly, purchases of these securities are based on the opinion of bond counsel to the issuers at the time of issuance. Baird Advisors relies on these opinions and will not review the basis for them.

Municipal Obligations Risks. Clients pursuing the Intermediate Municipal Bond Portfolio Strategy may have more than 25% of their portfolios invested in municipal obligations issued by entities located in the same state or the interest on which is paid solely from revenues of similar projects. As a result, changes in economic, business or political conditions relating to a particular state or types of projects may have a disproportionate impact on client's portfolio value. Municipal obligations that Baird Advisors may acquire include municipal lease obligations, which are issued by a state or local government or authority to acquire land and a wide variety of equipment and facilities. If the funds are not appropriated for the following year's lease payments, the lease may terminate, with the possibility of default on the lease obligation and significant loss to clients. The repayment of principal and interest on some of the municipal securities in which clients may invest may be guaranteed or insured by a monoline insurance company. The monoline guarantee or insurance will generally enhance the credit rating and lower the interest rate payable on the security. Certain monoline insurers have suffered losses from insuring structured products and other securities backed by residential mortgages. If a company insuring municipal securities in which a client invests experiences financial difficulties, the credit rating and price of the security may deteriorate.

Recent Market Events. U.S. and international markets have experienced extreme price volatility, reduced liquidity, credit downgrades, increased likelihood of default and valuation difficulties in recent years. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on client portfolios.

Money Market Fund Risk. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your 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.

Disciplinary Information

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

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

Additional information about Baird's disciplinary history is available on the SEC's website at www.adviserinfo.sec.gov.

Other Financial Industry Activities and Affiliations

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

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

Baird is affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs and private equity funds.

Other Investment Management Departments of Baird. Baird and its Financial Advisors may, from time to time refer clients to Baird Advisors or to Baird Investment Management or Baird Public Investment Advisors, other investment management departments of Baird. Baird Financial Advisors are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird.

Affiliated Mutual Funds. Baird is the investment adviser and principal underwriter for the Baird Funds, Inc. ("Baird Funds"), a registered open-end management investment company. Baird Advisors provides investment management and other services to certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). The Baird Bond Funds have investment objectives and strategies substantially similar to the portfolio strategies discussed above. Baird Investment Management provides investment management and other services to certain Baird Funds investing primarily in equity securities. As compensation for those services, Baird receives a fee from each Baird Fund, which is disclosed in each Fund's prospectus.

Baird also provides certain administrative services to the Baird Bond Funds. As compensation for those services, Baird receives a fee that is paid monthly at an annual rate of 0.05% of each of the Bond Fund's average daily net assets.

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

Currently, Baird Advisors serves as sub-adviser to a mutual fund series of the New Covenant Funds

and a mutual fund series of CNI Charter Funds, Inc. Additional information about these mutual funds, including information relating to the compensation paid to Baird by these funds for investment management services, is available in each fund's prospectus and statement of additional information.

Affiliated Investment Advisors. Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's equity ownership of Riverfront and representation on Riverfront's Board of Directors. Riverfront is an investment advisor that is based in Richmond, Virginia. Riverfront offers asset allocation, mutual fund, ETF and foundation strategies. Riverfront acts as investment sub-advisor for certain mutual fund series of the Financial Investors Trust. Baird is not involved in the day-to-day management of Riverfront or the investment decisions made by Riverfront for the account of clients.

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

transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general partner of three limited partnerships and is an investment adviser registered with the SEC.

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 advice to clients, including Baird Advisors personnel, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or

Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management and/or by Baird's Compliance Department. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. For example, except for principal trades specifically authorized by clients, Baird conducts trading activity for advisory clients through trading personnel that are different from the trading personnel executing trades for Baird's own accounts. In addition, Baird's Compliance Department monitors the personal trading activities of all of Baird's associates providing advisory-related services to clients.

Baird's Participation or Interest in Client Transactions

Baird's Broker-Dealer and Related Activities. In its capacity as broker-dealer, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, options, and sales of life insurance policies and annuities. Baird receives compensation based upon the sale of such securities and insurance and other investment products as further described below.

Brokerage and Related Trading Activities. Other investment management firms may select Baird to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. These investment management firms may also receive research in addition to execution services provided by Baird. Baird receives

compensation for those execution services. This compensation is not paid to Baird Advisors or its personnel. This compensation provides Baird (but not Baird Advisors or its personnel) an incentive to recommend investment management firms or their investment products based upon compensation it receives for providing execution services. However, in accordance with its fiduciary duties, Baird Advisors acts in the best interests of clients when recommending investment products to clients. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the statement of additional information, available from each fund.

Baird, as broker-dealer, continually engages in various securities transactions and trading activities, including market making and corporate stock buyback activities. Baird may buy or sell securities for its own account, 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 its own account or that of another client. These activities could create a conflict of interest with its clients. Baird addresses this potential conflict by adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's, its affiliates' and 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" above.

Baird's Other Financial Industry Activities.

Other Investment Products and Services. Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird and its associates. For more information about the other investment products and services offered by Baird, clients should contact Baird or Baird Advisors.

Investment Banking and Public Finance. 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 issuers in connection with the services it provides. Baird may, therefore, have an incentive to recommend to clients the securities of issuers for which Baird provides investment banking services over the securities of issuers for which Baird does not provide investment banking services. However, Baird Advisors will only recommend such securities to a client when it believes it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any such securities will be purchased for a client's account only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's interest in the transaction.

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.

Cross Trading Involving Baird Advisory Accounts. From time to time, Baird Advisors may engage in cross transactions involving the sale of securities by a client to a Baird Bond Fund in exchange for shares of such Baird Bond Fund. Baird Advisors will only engage in such a transaction when Baird Advisors believes that the transaction is consistent with the client's best interest. When effecting such transactions, Baird Advisors seeks to comply with the requirements of Rule 17a-7 under the Investment Company Act of 1940, as amended.

Interest in Other Client Transactions. Baird and Baird Advisors may recommend to clients, and may buy and sell for client accounts, securities in which Baird and its affiliates and associates may have a material financial interest as described in the sections "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" below.

If Baird, or an affiliate or associate of Baird, receives any compensation or benefit described in this Brochure from a client's investment in funds or other investment products, they will generally retain the compensation or benefit. Except as otherwise described above, Baird generally does not rebate these amounts to a client's account or credit the amount against the advisory fees payable by a client unless Baird may not keep such compensation under applicable law.

Brokerage Practices

Broker-Dealer Selection. Clients generally give Baird Advisors the authority to determine independently the specific broker(s) or dealer(s) used to execute trades for their accounts. Baird Advisors selects brokers or dealers to execute a client's transactions based on the broker or dealer's ability to provide best execution for the client. When selecting a broker or dealer, Baird Advisors may consider the following factors: client preferences; research services; execution capability and past execution performance; commission rates; financial standing of executing firm and counterparty risk; timeliness in rendering services; availability, cost and quality of custodial services; and continuity and quality of the overall provision of services. To avoid potential conflicts of interest, Baird Advisors has adopted an internal policy that it will not typically use Baird to provide execution services, unless specifically requested or directed to do so by a client.

Baird Advisors may also purchase or sell debt securities through electronic trading platforms. These electronic trading platforms typically provide access to bids and offers from a greater number of dealers on a timely basis; however, these electronic platforms may impose an execution or transaction fee imbedded in the price paid or received for the security (i.e., a markup or markdown).

Soft Dollar Benefits. Baird Advisors does not receive research in addition to execution services from a broker-dealer in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". Baird Advisors may from time to time receive generic market commentaries or market research from broker-dealer firms. However, the receipt of those materials is not tied to the execution of client transactions.

Baird Advisors seeks to select broker-dealers based upon the broker's or dealer's ability to provide best execution, and Baird Advisors will not cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers for the purpose of obtaining soft dollar benefits. Furthermore, Baird Advisors does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

Research services provided by internal and external sources are used in managing client accounts, and in the business judgment of Baird Advisors are important to each client; although, perhaps, in differing degrees at different times. As a general matter, such research services are used to service all of Baird Advisors accounts. However, each and every research service may not be used to service each and every account managed by Baird Advisors. Research information and its application and the interpretation of its worth are matters of professional judgment made by Baird Advisors.

Directed Brokerage. Baird Advisors will comply with any guidelines and/or limitations reasonably requested by a client relating to brokerage for the client's account. Specific guidelines and/or limitations requested by clients vary from client to client based upon a client's particular objectives and other factors. When possible, Baird Advisors will also observe any non-binding statement of client preferences with respect to brokerage direction.

If a client directs Baird Advisors to use a designated broker-dealer for trade execution (a "directed brokerage arrangement"), Baird Advisors may be unable to achieve best execution for the client's transactions because Baird Advisors cannot negotiate better prices and lower commission rates for the client, nor can Baird Advisors aggregate the client's account trades with orders for other Baird Advisors clients in order to seek volume discounts (i.e., "block transactions"). Directed brokerage arrangements may cost the client more money as they may result in the client paying higher commissions and greater bid/offer spreads, or receiving a less favorable net price than the client may experience if Baird Advisors negotiated commission rates and spreads and selected broker-dealers to execute trades for client's account. Directed brokerage arrangement orders, because they are directed to

the specified broker-dealer, may be manually executed by Baird Advisors after the trade execution is completed for other Baird Advisors' client accounts. Any benefit that a client receives, including the receipt of goods and services, as a result of directing brokerage to a broker-dealer, is to be negotiated solely by the client for the client's benefit.

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

Before directing Baird Advisors to use a particular broker-dealer, clients may wish to compare the possible costs or disadvantages of directed brokerage arrangements.

Block Transactions. In order to seek best execution for clients, Baird Advisors may aggregate contemporaneous buy and sell orders for the accounts of its discretionary advisory clients ("block transactions"). This practice may enable Baird Advisors to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated.

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 in a series of transactions. A client's commissions or transaction costs may vary depending upon, among other things, the type of advisory client account and the commission rate that the client has negotiated.

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 trade and may be insufficient to provide full allocation across all client accounts. To address this possibility, Baird has adopted trade allocation policies and procedures for Baird Advisors to follow that require Baird Advisors to make security allocations to client accounts in a manner such that all clients receive equitable treatment. If a block transaction cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day will generally be allocated pro rata among the clients participating in the block trade. Adjustments to this pro rata allocation may be made, at the discretion of Baird Advisors, 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 a client account.

Baird Advisors generally aggregates buy and sell orders when executing trades for discretionary client accounts when it has the opportunity to do so. However, Baird Advisors determines whether or not to utilize block transactions for a client in its sole discretion and Baird Advisors' decision is subject to its duty to seek best execution. Baird Advisors will aggregate a client's trade orders only when Baird Advisors 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.

Similarly, if a client's account is subject to a directed brokerage arrangement, Baird Advisors may not be able to aggregate the client's account trades with orders for other Baird Advisors clients. See "Directed Brokerage" above.

Certain client accounts, including those of the mutual funds identified above, managed by Baird Advisors and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. This creates a potential conflict of interest as Baird Advisors and Baird may have an incentive to favor client accounts that generate a higher level of compensation than accounts with lower fee or commission rates. Baird Advisors and Baird address potential conflicts of interest posed by different client fee arrangements by complying with their fiduciary duties, avoiding or disclosing

conflicts of interest to clients, and adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

In connection with the execution of block transactions, Baird Advisors may, on occasion, employ the use of "step-outs" to satisfy client directed brokerage arrangements. A "step-out" typically occurs when an executing broker executes the trade at no commission and then "steps out" the trade to a clearing broker that confirms and settles the 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 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 an error. If the trade error results in a gain, the gain may be retained by Baird; however, any gain retained by Baird may not be used to offset previous losses charged to a Baird associate.

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

Review of Accounts

Baird Advisors' portfolio management team provides continuous review of all Baird Advisors' client accounts. The Baird Advisors' portfolio management team generally performs daily reviews on each client account's duration, yield curve position, sector allocation, overall portfolio exposure to individual securities, compliance with the account's investment strategy and client-imposed guidelines, and deviation from other accounts using the same strategy. The portfolio management team generally reviews reports documenting each account's performance compared to the performance of a relevant benchmark index at least monthly.

Baird Advisors generally provides written performance reports to clients on a quarterly basis. These quarterly performance reports contain the client account's characteristics, performance, attribution and asset quality. Baird Advisors may provide additional information in the performance report to meet the specific reporting needs of a client as the client and Baird Advisors may agree.

A client's account performance may be compared to a benchmark market index or indices. The benchmark may be a blended benchmark that combines the returns for two or more indices. Benchmarks shown in performance reports are for informational purposes only. Baird Advisors' 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 portfolio performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and does not take into account management fees, execution costs, and other expenses related to the operation of a portfolio. The securities included in a client's portfolio generally do not mirror the securities included in the index.

When preparing performance reports, Baird Advisors will generally rely on the value of a client's assets provided by the client's custodian. Baird Advisors and Baird do not verify or guarantee the accuracy of such valuation information.

Client Referrals and Other Compensation

Baird or Baird Advisors 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 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, described under the headings "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above, for providing investment advice or advisory services to clients.

Custody

Each client is responsible for appointing the client's custodian, which will have possession of the assets of the client's account and settle transactions for the account. Clients receiving advisory services from Baird Advisors generally select a third party unaffiliated with Baird to have custody of the client's securities and other assets.

A client who uses a third party custodian authorizes Baird Advisors 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 their selected custodian. Clients should carefully review those account statements and compare them with any account statements provided by Baird Advisors or Baird.

Investment Discretion

Clients generally give Baird Advisors the discretionary investment authority to determine independently the specific securities purchased or sold, the amount of securities purchased or sold, and the broker(s) or dealer(s) used to execute trades for their accounts. By executing an investment management agreement with Baird Advisors, a client grants to Baird Advisors complete and unlimited trading authorization and appoints Baird Advisors as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. The appointment provides Baird Advisors the authority, in its sole discretion and at the client's risk, to 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 account.

Baird Advisors generally accepts reasonable limitations to its discretionary authority with

respect to brokerage direction and securities selection. Any such limitations agreed to by client and Baird Advisors are generally included in the client's investment policy statement, as an addendum to the client's investment management agreement or in a separate letter of understanding. When possible, Baird Advisors will also attempt to observe any non-binding statement of client preferences with respect to factors such as brokerage direction, holding periods, and securities selection.

In the event that a client's account is restricted from investing in certain securities, Baird Advisors will select such other replacement securities as it deems appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's account, a client's investment restrictions may force Baird Advisors to sell such security at an inopportune time, possibly negatively impacting account performance and/or causing a taxable event to the client. A client should also be aware that, if the client's account holds any pooled investment vehicles (such as mutual funds or ETFs), any investment restrictions the client places on the client's account may not flow through to the securities owned by those pooled investment vehicles.

Voting Client Securities

Baird Advisors does not typically recommend or select for client accounts securities that have voting rights. However, by signing an investment management agreement, clients authorize and delegate the right to Baird Advisors to vote proxies with respect to the securities held in their accounts.

Baird Advisors 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 Advisors' interests and those of its clients. Although a description of Baird Advisors' proxy voting policies and procedures is provided below, Baird Advisors will furnish a copy of its proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how Baird Advisors actually

voted proxies with respect to the securities held in their accounts by contacting Baird Advisors by calling (414) 765-3500.

In situations in which a client has delegated to Baird Advisors voting authority with respect to securities in the client's account, Baird Advisors will monitor corporate events and vote proxies in a manner that Baird Advisors believes is consistent with the client's best interests.

In the normal course of business Baird Advisors does not invest in equity securities on behalf of clients. Only in very rare situations do Baird Advisors clients hold equity securities, at which time Baird Advisors attempts to sell the equity securities as quickly as practical. In the event Baird Advisors clients hold equity securities, Baird Advisors utilizes 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 Advisors will actually vote equity securities on particular issues. The portfolio managers for the client's account will generally vote proxies with respect to equity securities for client accounts based on the recommendations of ISS; however, the managers have the right to override ISS' recommendations when the managers determine it to be in the clients' best interests to do so. The manager also has the right to suggest how to vote on a particular matter not addressed by ISS. When a portfolio manager suggests voting against ISS' recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the portfolio manager will bring the matter to the attention of Baird's Proxy Voting Committee who will then be responsible for determining the vote to be cast.

Baird Advisors considers each proposal regarding a fixed income security on a case by case basis. The portfolio managers for the client's account will generally vote proxies with respect to fixed income securities for client accounts based upon Baird Advisors' knowledge and understanding of the situation, market environment as well as any other relevant facts and circumstances at the time of the vote, and with the intent to promote what Baird Advisors believes is good corporate governance. Baird Advisors will review the proxy

to determine whether there is a material conflict of interest. If no material conflict exists, Baird Advisors will vote the proxy according to the portfolio managers' recommendation. If a material conflict exists, Baird Advisors will follow the conflict procedures with respect to proxy voting described below.

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 Advisors would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. Baird Advisors 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. Baird's investment advisory compliance department is responsible for overseeing the operation of the proxy voting policies and procedures.

Baird Advisors generally does not permit clients to direct particular votes once they have granted Baird Advisors discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary authority granted to Baird Advisors.

Baird Advisors may participate in securities class action claims or claims arising from bankruptcy. At a client's request, it will forward information about such claims to the client.

Financial Information

Baird Advisors does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of Baird's most recent fiscal year. Neither Baird nor Baird

Advisors is aware of any financial condition that is reasonably likely to impair their ability to meet contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

Special Considerations for Retirement Accounts

If the client is acting as an owner, fiduciary or otherwise on behalf of a Retirement Account, the client understands that, the client's investment management agreement permits Baird Advisors to invest for the client, or recommend that the client invest in open-end registered investment companies (i.e., mutual funds), including mutual funds which pay fees to Baird or to any of its affiliates for investment advisory or other services provided to the mutual funds. In addition, short-term cash balances in a client's account may be invested in one or more money market mutual funds and individual deposit accounts, whether advised by Baird, its affiliates, or a third party.

When Baird Advisors, acting with discretion, invests the assets of a Retirement Account in an open-end registered investment company that is managed for an advisory fee by Baird or any of its affiliates, including in connection with any cash sweep services, Baird or any of its affiliates may receive such fee in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, Baird Advisors will waive its investment advisory fees on that portion of the assets invested in the affiliated mutual fund for such period of time so invested or offset the investment advisory or similar fees received by Baird or any of its affiliates from the affiliated mutual fund against the investment advisory fees Baird Advisors charged to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client acknowledges in the client's investment management agreement that: (i) the investment in Baird-affiliated mutual funds for the client's account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those funds; (ii) subject to Baird Advisor's investment strategies and the investment guidelines for the client's account, all assets of the account may be invested in one or more of the Baird-affiliated mutual funds that may be used in connection with the client's account; (iii) the client received prospectuses or other

disclosure documents for the Baird-affiliated mutual funds that may be used in connection with the account, each of which include a summary of all fees that may be paid by the Baird-affiliated mutual funds to Baird; and (iv) the client received information concerning the nature and extent of any differential between the rate of such fees and the investment advisory fees payable by client to Baird Advisors. The differential between the fees to be charged by Baird Advisors for its investment management or advisory services pursuant to the client's investment management agreement, if applicable, and the investment advisory and other similar fees paid by the affiliated mutual fund to Baird with respect to the services it or any of its affiliates provides to the affiliated mutual fund is the difference between any such fee disclosed on the fee schedule attached to the client's investment management agreement and the applicable investment management, investment advisory and other similar fees detailed in the relevant affiliated mutual fund prospectus.

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