

Baird Private Wealth Management

Brochure

March 31, 2011



Baird Private Investment Management

(Commission-Based Pricing)

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

Member FINRA & SIPC
SEC File No. 801-7571

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

Table of Contents

Advisory Business	1
Introduction to Robert W. Baird & Co.	1
Introduction to Baird Private Wealth Management	1
The Client-Baird Advisory Relationship	2
Description of the PIM Program	2
Fees and Compensation	4
Advisory Fee	4
Other Fees and Expenses	5
Other Compensation Received by Baird	5
Performance-Based Fees and Side-By-Side Management.....	6
Types of Clients.....	6
Methods of Analysis, Investment Strategies and Risk of Loss	6
Investment Strategies and Methods of Analysis	6
Principal Risks	8
Disciplinary Information	10
Other Financial Industry Activities and Affiliations	11
Code of Ethics, Participation or Interest in Client Transactions	
And Personal Trading	12
Code of Ethics	12
Baird's Participation or Interest in Client Transactions	13
Brokerage Practices	19
Review of Accounts.....	20
Client Referrals and Other Compensation	21
Custody	21
Investment Discretion	21
Voting Client Securities.....	21
Financial Information.....	22
Special Considerations for Retirement Accounts	22

Advisory Business

This Brochure describes the investment advisory services Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Private Wealth Management ("PWM"), a 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 contact a Baird Financial Advisor or call Baird toll-free at 1-800-792-2473.

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

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, including programs not described in this Brochure and it provides portfolio management services in

connection with those programs. Baird receives a portion of the wrap fee for providing portfolio management services under those wrap fee programs.

As of December 31, 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 Private Wealth Management

This Brochure describes certain investment advisory services that Baird PWM offers to clients through its Private Investment Management Program (Commission-Based Pricing) ("PIM Program").

The advisory services offered under the PIM Program generally include portfolio management, investment advice and consulting services, performance reporting, and related account services. In addition to the investment advisory services that Baird provides in connection with the PIM Program, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services.

The PIM Program is a discretionary program where a client provides to Baird full discretionary authority to manage the client's account.

Baird clients typically work with a Baird Financial Advisor who has been approved by Baird to provide services under the PIM Program (a "PIM Manager"). The client, with the assistance of a PIM Manager, determines the services that are most appropriate given the client's goals and circumstances. Most clients complete a Client Household Application and/or an investment questionnaire that assists the client and the client's PIM Manager with determining the client's investment needs, objectives and risk tolerances for the assets being invested.

In contrast to many asset management programs, clients who participate in the PIM Program do not pay an asset-based fee (i.e., a fee based on a percentage of the assets in the client's account). Instead, clients only pay commissions and other costs and expenses on the securities transactions that are effected for their accounts. These commissions and other transaction charges

compensate Baird for the combination of investment advice and brokerage services Baird provides.

Baird tailors its advisory services under the PIM Program to the individual needs of clients.

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

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

The particular investment advisory services that Baird provides in connection with the PIM Program are further described below. Please review this Brochure carefully.

The Client-Baird Advisory Relationship

A client that wishes to participate in the PIM Program will enter into an Advisory Household Agreement ("Advisory Household Agreement") with Baird. The Advisory Household Agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client and other terms applicable to the client's advisory relationship with Baird.

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

The terms of a client's Advisory Household Agreement, Client Account Agreement and this Brochure apply to all PIM Program accounts that a client establishes with Baird, including any accounts that a client may open with Baird in the future. Some of the information in those

documents may not apply to a client now, but may apply in the future if a client makes changes to the client's advisory accounts or establishes other PIM Program accounts with Baird. Baird will generally not provide a client another copy of the Advisory Household Agreement, Client Account Agreement or this Brochure when a client makes changes to the client's PIM Program account or establishes new PIM Program accounts unless the client requests a copy from a PIM Manager. Therefore, a client should retain those documents for future reference as they contain important information if a client changes services or establishes other advisory accounts with Baird.

From time to time Baird and its PIM Managers 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 and its PIM Managers. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates to follow that are designed to ensure that: (i) Baird and its advisory personnel 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 conducts its business in a manner that is consistent with the disclosures made.

Baird discloses 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 Advisory Household Agreement. The specific business practices that create potential conflicts of interest with clients and additional measures used by Baird to address those particular conflicts of interest are discussed in other sections of this Brochure.

Description of PIM Program

The PIM Program is a discretionary investment advisory program whereby a client grants full discretion to manage the client's account to a PIM Manager.

In the PIM Program, a client's PIM Manager seeks to meet the client's particular investment needs by developing a customized investment program

based upon guidelines that are jointly established by the client and the client's PIM Manager. At the commencement of services, the client's PIM Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the PIM Manager makes a subsequent recommendation to the client as to which portfolio style the PIM Manager believes is best suited for the client. Some PIM Managers have model portfolios and distinct investment strategies, while others take a "counseled" or more customized approach to management of client accounts. A client makes the final decision as to which portfolio style is chosen for the client's account.

The client's PIM Manager will make investment decisions for the client's PIM account, with the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's PIM account. The client's PIM Manager will manage the client's PIM account in accordance with the investment style that, in the PIM Manager's judgment, correlates with the information the client provides to the client's PIM Manager. A client's PIM Manager will provide the client with more specific information as to how the PIM Manager will manage the client's account. For more information about the Program, see "Methods of Analysis, Investment Strategies and Risk of Loss" below.

Eligible Investments. A client's account may generally only hold investment products that Baird has determined are eligible for the PIM Program.

Eligible investments for client accounts in the PIM Program generally include: common stocks, preferred stocks, convertible preferred stocks, convertible bonds, ETFs, closed-end funds, American Depositary Receipts ("ADRs"), rights or warrants on equity securities, written covered call and written cash secured put equity options, publicly traded master limited partnership, REITs, and limited liability company units; fixed income securities, including but not limited to U.S. Treasury and federal agency securities, corporate bonds, ETNs, municipal bonds, asset-backed and mortgage-backed securities, certificates of deposit (primary or secondary), money market fund shares, cash and cash equivalents; no-load or load-waived mutual funds, mutual funds that charge a back-end or level load (commonly

referred to as B and C shares, respectively); annuities and interests in unit investment trusts that have cost structures designed for use in fee-based investment programs or that charge a sales load; and certain other alternative investment products approved by Baird for use in connection with the PIM Program such as: leveraged and inverse funds and other special situation mutual funds, including but not limited to managed futures mutual funds, long/short mutual funds, foreign debt funds; and structured CDs and notes ("structured products") (collectively, "alternative investments").

Assets that are ineligible for the PIM Program generally include, but are not limited to: certain limited partnerships or limited liability companies (other than publicly traded master limited partnerships and limited liability companies), such as hedge funds, private equity funds, managed futures, exchange funds and other private investment funds; insurance products; commodities, futures or options on commodities, and commodity pools; and real estate.

Baird may change the list of eligible and ineligible investments for the PIM Program at any time in its discretion.

Baird in its sole discretion may accept a client request to place certain ineligible assets into a client's PIM Program account. If a client decides to hold ineligible assets in an advisory account, the client does so with the understanding that Baird and its PIM Managers do not provide advice regarding ineligible assets and ineligible assets may not be included in performance reports sent to the client. A client should consult the client's PIM Manager for further information.

Updating Client Information. A client is responsible for providing information to Baird or the client's PIM Manager reasonably requested by them in order to provide the services selected by the client. Baird and the client's PIM Manager will rely on this information when providing services to the client. A client is also responsible for promptly informing Baird and the client's PIM Manager of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. Baird and the client's PIM Manager are not responsible for any adverse consequence arising out of the

client's failure to promptly inform Baird and the client's PIM Manager of any such changes.

Tax Considerations. The investment strategies used for a client's account and transactions in a client's account, including liquidations, redemptions, and rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. Baird does not provide any tax advice in connection with the PIM Program. A client should discuss the potential tax implications of the client's investment strategies and transactions with the client's tax advisor. If a client wishes for the client's PIM Manager to implement a particular investment strategy for tax purposes, and the client's PIM Manager agrees to implement such strategy, neither Baird nor the client's PIM Manager will be responsible for the development, evaluation or efficacy of any such strategy.

Fees and Compensation

Advisory Fee

Instead of an asset-based fee, clients who participate in the PIM Program (Commission-Based Pricing) pay to Baird commissions and other costs and expenses for each securities transaction effected for their accounts. The commissions are generally determined by reference to Baird's standard commission schedule then in effect, unless otherwise stated in the client's Advisory Household Agreement, and will vary from client to client. Some clients may pay commissions that are discounted by an agreed-upon percentage from Baird's standard commission schedule. Other clients may pay commissions at a fixed amount per share or per bond or at a flat rate of a specified amount per transaction. The standard commission schedule considers the share price or principal amount and the number of shares traded in determining the applicable commission. The commission rates may be negotiated by the client. The transaction confirmation sent to the client will disclose the amount of the commission and other applicable charges for that transaction. Clients are encouraged to discuss commission rates with their PIM Manager. For equity, exchange traded fund, bond and no-load mutual fund transactions, Baird charges a minimum commission per trade. The minimum commission may change from time to time without notice to a client and can be found on Baird's website at www.rwbaird.com or by contacting a PIM Manager.

The PIM Program fees and charges will be included in the cost of the trade and, therefore, automatically deducted from the client's account. Other fees and charges, if applicable will also be deducted from the client's account.

Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with thirty (30) days' prior written notice.

A client account may also be subject to a minimum quarterly fee that will be set forth in the client's Advisory Household Agreement regardless of the values of the assets in the client's account.

The minimum account size for these accounts is typically \$50,000. This minimum may be waived in Baird's discretion.

The PIM Program fee and minimum account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's account, the client's particular investment style or objective, and any particular services requested by the client. 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.

Under the PIM Program, the compensation received by Baird and its PIM Managers is directly related to the amount of commissions paid by PIM Program clients and the number of transactions effected for their accounts. As the amount of commissions paid by PIM Program clients and the number of transactions effected for their accounts increases, the compensation that Baird receives and pays to PIM Managers also increases. Accordingly, this practice presents a conflict of interest because it gives Baird and its PIM Managers an incentive to trade actively for client accounts and to make trading decisions based upon the compensation received rather than on a client's needs. Clients should also understand that the PIM Manager acts with discretion with respect to a PIM Program client's account and that, absent a client's instructions to the contrary, the PIM Manager will effect transactions for the client's account without obtaining the

client's consent or providing notice to the client.

However, when providing investment advisory services to clients, Baird and its PIM Managers are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these potential conflicts by adopting and enforcing policies and procedures that are designed to ensure that Baird and its PIM Managers comply with their fiduciary duties as is further described under the section "Advisory Business—The Client-Baird Advisory Relationship" above. In addition, the Branch Office Manager primarily responsible for supervising a PIM Manager periodically reviews trading in client accounts. Baird's Product Management and Compliance Departments also periodically monitor for excessive trading in PIM Program client accounts.

Other Fees and Expenses

In addition to the commission-based advisory fee described above, a client of Baird will incur other fees and expenses. 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 certain odd-lot differential, Securities and Exchange Commission ("SEC") and exchange fees, electronic fund and wire transfer fees, transfer taxes, margin interest, 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.

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, hedge funds, private investment partnerships, 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. 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 the 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. A client is also responsible for any redemption fees that a fund may impose on the client for frequent trading in the fund's securities. A client 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 PIM Program accounts may also have other accounts with Baird. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the PIM Program.

Other Compensation Received by Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and its Financial Advisors, including PIM Managers, are registered broker-dealer representatives of Baird. In such capacities, Baird and its PIM Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird and its PIM Managers receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and its PIM Managers an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and its PIM Managers are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these potential conflicts by adopting and enforcing policies and procedures that are designed to ensure that Baird and its PIM

Managers comply with their fiduciary duties as is further described under the section “Advisory Business—The Client-Baird Advisory Relationship” above. For more specific information about Baird’s compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest they create, 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 and its PIM Managers will purchase for client accounts, or will recommend the purchase of, various investment products, including “no load” mutual fund or mutual funds with waived sales loads.

The PIM Program generally requires clients to custody their assets at Baird and requires them to effect transactions through Baird, as broker-dealer. Please see the section “Brokerage Practices” below for more information. A client that wishes to purchase investment products through other brokers or agents that are not affiliated with Baird should contact a PIM Manager about other Baird investment advisory programs that might be right for them.

Performance-Based Fees and Side-By-Side Management

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

In addition to complying with its fiduciary duties and avoiding or disclosing conflicts of interest to clients, Baird typically addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements 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 offers the PIM Program to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities. Applicable requirements for opening or maintaining an account with Baird, 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 and Methods of Analysis

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

PIM Managers, as a group, utilize a wide variety of investment styles, philosophies, strategies and techniques, which may change depending upon market conditions and developing portfolio theory. PIM Managers may follow different investing styles, such as, aggressive growth, growth, value, growth at a reasonable price, and others. The strategies may focus on certain market capitalization ranges, industries, sectors, credit quality, maturities and durations. Some PIM Managers may specialize in select, concentrated and less diversified portfolios of securities that the PIM Manager thinks will appreciate in the future. Some PIM Managers may use leverage, including

margin, in the management of the client's portfolio.

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

When managing client portfolios, PIM Managers may also utilize Baird's Mutual Fund Recommended List, Baird's Recommended Portfolio, and lists of certain alternative investments that Baird has deemed eligible for use in the PIM Program. For more information about how Baird compiles its Mutual Fund Recommended List and lists of eligible alternative investments, see "Baird's Mutual Fund Recommended List", "Baird Recommended Portfolio", and "Alternative Investments", respectively below.

PIM Managers, as a group, manage equity, balanced, fixed income and specialty portfolios. Some PIM Managers invest in registered investment companies (such as mutual funds, exchange-traded funds and closed-end funds) to help achieve a client's investment objective or to hedge a portion of the client's portfolio. Some PIM Managers may use illiquid securities for client accounts. Some PIM Managers invest in leveraged or inverse funds, and some PIM Managers invest in structured products. A PIM Manager may elect to use one or more model portfolios created by Baird for purposes of managing the client's account. The performance of a client's PIM account is compared to the benchmark index that the PIM Manager, in conjunction with the PIM Product Manager, determines is most suitable for comparison with the portfolio style. Baird may at times change a client's PIM account benchmark index without prior notice to the client.

A PIM Manager's use of certain investment practices, such as concentrated investment strategies and margin, and certain types of investment products, such as illiquid securities, leveraged or inverse funds and structured products, involve special risks and may not be appropriate for all clients. Please see "Principal Risks" below for more information.

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

Baird's Mutual Fund Recommended List. Baird's PIM Managers may utilize Baird's Mutual Fund Recommended List when providing investment advice to clients. Baird has engaged Wilshire Associates as an independent consultant in the construction of Baird's Mutual Fund Recommended List. The List is designed to include mutual funds across numerous asset classes. In constructing the list of recommended mutual funds, Wilshire Associates may base its assessment of a particular mutual fund or the sponsor of a particular mutual fund on the organization's strength and performance quality; information gathering ability; forecasting ability; portfolio construction capability; idea implementation ability; self measurement capability; and use of various statistical techniques designed to assist in forecasting the expected future excess return of the fund. Baird's Mutual Fund Oversight Committee reviews the recommendations made by Wilshire Associates. Wilshire Associates also provides ongoing oversight and due diligence services to Baird in connection with maintaining the list. The Baird Aggregate Bond Fund has been selected by Wilshire Associates for inclusion in the Mutual Fund Recommended list.

Baird Recommended Portfolio. Baird's Financial Advisors may utilize the Baird Recommended Portfolio when providing investment advice to clients. The objective of the Baird Recommended Portfolio is to outperform the S&P 500 Index by selecting a diversified core portfolio of primarily large capitalization equities. Baird's Stock Selection Committee maintains the Baird Recommended Portfolio. The investment philosophy focuses on high quality companies with an emphasis on large capitalization stocks, as defined by a market capitalization of \$10 billion

or greater. The portfolio may contain stocks with a market capitalization of less than \$10 billion, but these stocks will not represent more than 35% of the total portfolio. The portfolio is organized by industry sectors, with the Stock Selection Committee choosing to under- or overweight particular industry sectors (vs. the S&P 500 Index) based on economic analysis and input from Baird's Investment Policy Committee. Individual stocks are selected with an emphasis on quality companies with strong growth prospects and attractive price-appreciation potential. The portfolio will over- or under-weight an industry sector relative to the S&P 500 Index based on the economic outlook and fundamental analysis. Within a given industry sector, companies are selected with an emphasis on quality and growth. Each stock is also assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks are sold or positions reduced primarily for three reasons: valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Baird Recommended Portfolio typically holds between 40-55 stocks. The Baird Recommended Portfolio represents a list of stocks only. It is not possible to invest directly in the Portfolio.

Alternative Investments. When providing investment advice to clients about alternative investments, Baird's PIM Managers generally rely upon the lists of recommended alternative investments that Baird makes available. The level of diligence and ongoing review that Baird performs on these products and their sponsors varies. A client should contact the client's PIM Manager for more information about how Baird evaluates alternative investments and their sponsors.

Principal Risks

Risk is inherent in any investment in securities and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. By participating in the PIM Program, a client may be subject to the risks described below. The risks discussed below vary by Program and investment style or strategy, and may or may not apply to a client. Clients are encouraged to discuss with their PIM Manager the risks that apply to them.

General risks of the PIM Program include the following:

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

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

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

Concentration. A client's account may consist of a portfolio of securities that is concentrated in an issuer or group of issuers, an industry or economic sector or group of related industries or sectors, or concentrated in limited asset classes. Client accounts with concentrated positions are

susceptible to greater volatility and increased risk of loss than a portfolio that is diversified across several industries or sectors and asset classes.

Liquidity. Certain securities may have more or less liquidity than other securities. Securities with less liquidity generally have wider bid and ask spreads. Also, the volatility of the price of a thinly traded security may be more than the volatility of the price of a widely traded security because of the impact of low trading volume. It may be difficult to sell an illiquid security at any given time and a client may not be able obtain a favorable price for the security. As a result, illiquid securities may have a negative effect on the performance of the client's account.

Portfolio Turnover. A portfolio with a high turnover rate will incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also result in tax liability due to the recognition of capital gains and ordinary income.

Derivatives. The strategy used for a client's portfolio may involve the use of options, futures, and short sales to "hedge" the overall risk of the client's portfolio. The values of these investments are derived from an underlying asset and may fluctuate more than other investments, which may result in an unexpected decline in the portfolio's value.

Leveraging. The strategy used for a client's portfolio may involve the use of margin (borrowing money to buy securities) also known as leveraging. Leveraging strategies may amplify the impact of any increase or decrease in the value of underlying securities in the client's portfolio.

Stock Risks. Stock prices vary and may fall, thus reducing the value of a client's investments. Certain stocks selected for a client's portfolio may decline in value more than the overall stock market. The U.S. and international markets have experienced extreme price volatility, reduced liquidity and valuation difficulties in recent years. Continuing market problems may have adverse effects on a client's portfolio.

Bond Risks. To the extent a strategy may involve investing in fixed income securities, the strategy

is subject to bond market risks. 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. Client accounts may also be invested in municipal securities, and/or bonds that are not rated or are below investment grade. For more information, a client is encouraged to read a disclosure documents entitled "Important Information About Investing in Municipal Bonds" and "Important Information About Non-rated or Below Investment Grade Securities" available on Baird's website at www.rwbaird.com/disclosures.

Government Obligations. Certain securities issued by U.S. government-sponsored agencies or instrumentalities are not supported by the full faith and credit of the U.S. government. Examples of such securities are those issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which are supported only by discretionary authority of the U.S. Government, and the Student Loan Marketing Association, which are supported only by the credit of that agency.

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.

Hedge Funds. Investing in hedge funds presents special risks. Some of the more common risks include the following: limited regulatory oversight, lack of liquidity, management risks, limited disclosure and transparency of operations, potentially high fees, and performance fee conflicts. A client is encouraged to read a disclosure document entitled "Important Information About Fund of Hedge Funds" available on Baird's website at www.rwbaird.com/disclosures.

Managed Futures. Investing in managed futures presents special risks. Some of the more common risks include the following: performance volatility, limited regulatory oversight, lack of liquidity, management risks, potentially high fees, and performance fee conflicts. A client is encouraged to read a disclosure document entitled "Important Information Regarding Managed Futures" available on Baird's website at www.rwbaird.com/about-baird/disclosures.aspx.

Leveraged or Inverse Funds. Leveraged or inverse funds are ETNs, ETFs or open-end mutual funds seeking returns that are the opposite of the performance of an index or other benchmark on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time are not likely to track the opposite of the performance of the fund's underlying index, and may in fact be significantly different. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of short sales, swap contracts, futures, options and other derivatives with economic characteristics that are designed to perform opposite to the securities in the underlying index. Because of the unique characteristics of these funds and the special risks associated with them, the Financial Industry Regulatory Authority ("FINRA") and the Securities and Exchange Commission ("SEC") have issued a joint alert entitled "Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors," which is available on FINRA's and the SEC's websites. A client is encouraged to read a disclosure document entitled "Important Information About Leveraged and Inverse Funds" available on Baird's website at www.rwbaird.com/disclosures.

Structured Products. Structured products are a hybrid between two asset classes typically issued

in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. These investment products are complex and involve special risks. A client is encouraged to read a disclosure document entitled "Important Information about Structured Products" available on Baird's website at www.rwbaird.com/disclosures.

U.S. and international markets have experienced extreme price volatility, reduced liquidity 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 the client portfolios.

For more information regarding the risks of investing in a particular investment product, a client should carefully review the offering documents for that product or ask the client's PIM Manager.

Disciplinary Information

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

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

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

Baird is affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs and private equity funds. From time to time, Baird and its PIM Managers may recommend that clients invest assets with these investment advisors or in investment products that are affiliated with Baird. Such recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird, its PIM Managers and/or Baird's affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. However, as fiduciaries, Baird and its PIM Managers will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

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

Managers may have an incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.

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"). Baird Investment Management provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). The Baird Equity Funds have investment objectives and strategies substantially similar to BIM's portfolio strategies discussed above. 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.

PIM Managers 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. PIM Managers may have an incentive to recommend investments in the Baird Funds over investments in other mutual funds.

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. Due to its equity ownership in Riverfront, Baird has a conflict of interest to the extent Baird would advise clients to participate in advisory programs offered by or invest in mutual funds, ETFs or other investment products offered by Riverfront because the value of Baird's investment in Riverfront increases as Riverfront's assets under management increase. However, although Baird and PIM Managers provide information about Riverfront and its investment products to clients, Baird and PIM Managers do not provide a client advice regarding the client's decision to retain Riverfront or select an investment product offered by Riverfront, and Baird and PIM Managers do not cause clients to purchase Riverfront investment products or retain Riverfront to manage their accounts.

Affiliated Private Equity Funds. Baird is also engaged in a private equity business through Baird Private Equity ("BPE"), Baird's global private equity group. Baird and its PIM Managers 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.

PIM Managers who assist in obtaining a client's investment in a private equity fund affiliated with Baird are eligible for special referral compensation. The level of compensation is described in the offering documents of the applicable fund.

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

Code of Ethics

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advice to clients, including PIM Managers, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts

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

Baird has also implemented certain policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. 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 their broker-dealer capacities, Baird and its PIM Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, options, and other securities, and sales of life insurance policies and annuities. Baird and its PIM Managers receive 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, in its capacity as a broker-dealer, 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 may create an incentive for Baird to recommend or sell to clients the services of such investment management firms or their products, including the mutual funds or money market funds advised by other investment management firms. However, Baird acts in the best interest of clients when selecting or recommending investment management firms or their investment products to clients. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for Baird's advisory programs (including when constructing the Recommended Managers or Mutual Fund Recommended lists). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds in selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the statement of additional information, available from each fund.

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

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.

Mutual Fund Selling and Servicing. With respect to brokerage accounts and advisory accounts subject to a commission-based fee arrangement (wherein such option is available), a mutual fund may compensate Baird and its PIM Managers based on the front-end or back-end sales charges, if any, paid by the client.

Baird and certain of its PIM Managers may also receive compensation from a mutual fund company relating to the client's continued investment in a mutual fund. Baird and its PIM Managers provide certain distribution, sub-transfer agency, marketing, administration, custody, and other shareholder-related services to mutual funds and their vendors with respect to Baird clients that hold shares of such mutual funds in their accounts. Baird receives distribution (12b-1) fees and other shareholder servicing fees that are intended to compensate Baird for the services provided. Baird, in turn, pays a portion of these fees to the PIM Manager according to an internal compensation formula, which remains the same regardless of which mutual funds a client purchases. The distribution (12b-1) fees and other shareholder servicing fees paid to Baird are typically based upon the amount of assets Baird clients have invested in a particular mutual fund. The fee rate paid by mutual funds and their vendors to Baird is

typically 0.25% per year of the net value of the assets Baird clients have invested in a particular mutual fund, but generally ranges from 0.10% to 1.00% depending upon the particular fund and class of shares.

If Baird receives distribution (12b-1) fees and other shareholder servicing fees with respect to a mutual fund investment in a client's PIM Program account, Baird pays a portion of the distribution (12b-1) fees to the PIM Manager, except with respect to a client's Retirement Account in the PIM Program. Accordingly, the receipt of these fees provides Baird and PIM Managers an incentive to recommend mutual funds over other investment products, or to recommend mutual funds that offer distribution (12b-1) and shareholder servicing fees greater than other funds. For further information regarding these fees, clients should review the prospectus and statement of additional information for the applicable fund or ask a PIM Manager.

Revenue Sharing. In addition to distribution (12b-1) and shareholder serving fees, Baird receives additional financial support from the sponsors of certain mutual funds included on Baird's Financial Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in Baird's ALIGN Programs or held in Retirement Accounts.

This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing," is typically allocated toward the costs of training and educating for PIM Managers about the funds offered by the fund company, due diligence on the funds and marketing support. In exchange for such financial support, fund companies may receive certain benefits from Baird, including access to PIM Managers or Baird associates for educational, networking, marketing and other promotional opportunities.

The amount of financial support that Baird receives from fund companies varies and is based on the value of Baird client assets invested in certain mutual funds, a fixed dollar amount or some other method determined by the mutual fund company. However, the amount of financial

support Baird receives from mutual fund companies does not exceed 0.09% of the value of Baird client assets invested in those funds. The financial support Baird receives from sponsors of money market mutual funds is typically based on the value of Baird client assets in those funds and has generally ranged from 0.12% to 0.96%, depending on the type of fund. The financial support Baird receives from mutual funds and money market funds is paid by the advisors or distributors of such funds out of their revenues or profits and are not paid out of fund assets. However, the revenues and profits of advisors and distributors to funds may in part be derived from fees paid by such funds for services provided by the advisors or distributors.

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

Receipt of financial support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make such payments over mutual funds and their sponsors that do not. However, Baird acts in the best interests of clients when recommending funds to clients, and Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List, Mutual Fund Recommended List, or in constructing portfolios of mutual funds offered in the ALIGN Programs.

The financial support and other payments that Baird receives from mutual funds are not paid to PIM Managers, and PIM Managers' compensation is not tied to such payments. PIM Managers and Baird associates may, however, receive non-cash compensation and other benefits from Baird and mutual fund companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide PIM Managers an incentive to favor mutual funds and their sponsors that provide such benefits over mutual funds and their sponsors that do not. However, PIM

Managers act in the best interests of clients when recommending funds to clients. In addition, Baird has adopted policies and procedures for its PIM Managers and other advisory personnel that address and limit the receipt of such non-cash benefits in an attempt to avoid any question of propriety or conduct inconsistent with Baird's high standards of ethics.

More detailed information about distribution (12b-1) and shareholder servicing fees, and financial support payments that Baird receives from mutual fund companies is available in the mutual fund companies' mutual fund prospectus or statement of additional information and on Baird's Website at www.rwbaird.com/mutualfunds. Clients may also contact Baird or a PIM Manager for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies.

Recordkeeping Fees. Baird receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides. Baird processes client transactions in mutual fund shares held at Baird on a networked basis, which means that Baird executes a trade for each client with the mutual fund company on an individual client basis and that Baird must maintain certain records. The networking fee is generally paid from client assets in the applicable mutual fund and is typically a fixed dollar amount based on the number of positions or accounts in that mutual fund family held at Baird. The networking fee paid to Baird is generally \$6 per position, but the range of fees paid to Baird varies based upon the particular fund, the level of client assets invested, and the level of service provided. While this may provide Baird an incentive to recommend funds paying higher fees, these fees are not paid to PIM Managers, and the compensation Baird pays to PIM Managers is not tied to such fees.

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual funds for Baird on behalf of Baird clients. Schwab executes trades for Baird on behalf of Baird clients on an omnibus basis, which means that trades made by Baird clients in a fund are consolidated into one daily trade with the fund. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird a portion of the

compensation Schwab receives from the funds (including distribution (12b-1), shareholder service and sub-transfer agency fees and revenue sharing payments) for services Baird provides to its clients who invest in the funds, such as record maintenance, shareholder communications and transaction services. Baird, in turn, pays a portion of the distribution (12b-1) fees to its PIM Managers, except with respect to a client's retirement account in the PIM Program. This may provide Baird and PIM Managers an incentive to recommend certain funds that are part of the Schwab clearing arrangement over other investment products or funds not included in the Schwab clearing arrangement.

Annuities and Insurance Products. Insurance companies compensate Baird and its PIM Managers for selling their insurance products. Baird and its PIM Managers are paid by the insurance companies in various forms including upfront commissions based upon the initial sale of the product and ongoing trail commissions or residuals relating to a client's continued holding of the product. The amount of compensation paid varies based on the amount and type of product and the insurance company offering the product.

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain products that it sells for training and education of PIM Managers. This support, which varies from insurance company to insurance company is commonly referred to as "marketing support payments." In exchange for such marketing support payments, insurance companies may receive certain benefits from Baird, including access to PIM Managers or Baird associates for educational, networking, marketing and other promotional opportunities. Receipt of marketing support payments may provide Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However, Baird does not consider the receipt of marketing support payments in compiling its "Baird Focus List" of insurance companies.

The marketing support payments that Baird receives from insurance companies are not paid to PIM Managers, and PIM Managers' compensation is not tied to such financial support. PIM Managers and Baird associates may, however, receive non-cash compensation and other benefits from Baird and insurance

companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide PIM Managers an incentive to favor insurance companies and their sponsors that provide such benefits over insurance companies and their sponsors that do not. However, Baird has adopted policies and procedures for its PIM Managers and other advisory personnel that address and limit the receipt of such non-cash benefits in an attempt to avoid having the investment advice provided to clients being compromised by such benefits.

More detailed information about the types of compensation payments that Baird receives from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird's Website at www.rwbaird.com/annuities.

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 PIM Managers. Baird and its PIM Managers may have an incentive to recommend to clients those investment products and services that generate a higher level of compensation than those that generate a lower level of compensation. For more information about the other investment products and services offered by Baird, clients should contact Baird or a PIM Manager.

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. In addition, PIM Managers who refer securities underwriting opportunities to the Investment Banking or Public Finance departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees the issuer pays to Baird. Baird and its PIM Managers 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 and its PIM Managers will only recommend such securities to a client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any 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 or the client's PIM Manager's interest in the transaction. For more information, please see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Principal Transactions" below.

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

Cash Sweep Program. Baird offers to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or "swept" into an interest-bearing deposit account (the "Bank Sweep Option") established by Baird with one or more banks selected by Baird for inclusion in the Cash Sweep Program. Certain clients who meet the eligibility requirements may, as an alternative, invest their cash in one or more taxable or tax-exempt money market mutual funds (the "Money Market Fund Option") that Baird makes available as part of the Cash Sweep Program. The PrivateBank and Trust Company may from time to time hold client deposits under the Bank Sweep Option. Baird has an ownership interest in The PrivateBankcorp, the parent company of the PrivateBank and Trust Company.

In addition to the asset-based fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for the provision of certain administrative, accounting and other services to the client. The fee that a bank pays to Baird is typically calculated based upon the amounts Baird clients deposit at the bank, determined on a weighted average basis across the various interest rate tiers, and may be up to 1.50%,

annualized, of the daily deposit balances held in the Bank Sweep Option. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors, which may vary by fund, which compensation is further described under the heading "Baird's Participation or Interest in Client Transactions—Baird's Broker-Dealer and Related Activities—Revenue Sharing" above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with its PIM Managers. The compensation that Baird and its PIM Managers receive from the Bank Sweep Option and the Money Market Option give them a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program is available on Baird's Website at www.rwbaird.com/moneymarkets.

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

Trust Service Providers. Baird maintains alliances with certain unaffiliated institutions that provide trust services. These unaffiliated institutions offer various types of trust services, including trust administration, custody, tax reporting and record keeping, to Baird clients. In connection with these alliances and the trust services provided by these unaffiliated institutions, Baird may provide marketing support services in assisting clients in their evaluation of the trust services. Baird may be compensated by these unaffiliated institutions for providing these marketing support services. Such annual compensation generally will not exceed 10% of the annual trust service fees received by the unaffiliated institution.

Agency Cross Transactions. In certain circumstances and to the extent permitted by applicable law and regulation, Baird may effect "agency cross" transactions through Baird with respect to a client's account. An "agency cross"

transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for its brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-2 under the Advisers Act. Furthermore, Baird will comply with additional conditions imposed by ERISA if the client account is a Retirement Account.

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

Cross Trading Involving Baird Advisory Accounts. From time to time, when Baird believes that each respective transaction is consistent with the client's best interest, such as when accounts are adjusting their respective durations, when one account is in a liquidation mode while another is in an accumulation mode, or for tax management purposes, Baird, acting as investment manager, may cause (or in the case of non-discretionary accounts, recommend) the sale of securities from an advisory client's account while at or about the same time causing (or, in the case of non-discretionary accounts, recommending) the purchase of the same securities for the account of another advisory client. Such transactions may have the benefit of reducing transaction and market impact costs.

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

independent arms-length negotiation that might otherwise occur. In these transactions, Baird seeks to obtain best execution for each respective advisory client and to ensure that each client receives fair and equitable treatment.

Principal Transactions. Subject to the requirements of applicable law, Baird may, when it is in the best interest of a client to do so, execute transactions for a client account while acting as principal for Baird's own account (that is, Baird may sell a security from Baird's inventory to a client, or Baird may purchase a security from a client for Baird's inventory).

In addition to the advisory fee paid by a client, Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup or markdown from the prevailing market price, an underwriting fee, selling concession, or other incentive to execute the transaction. In trading as principal with a client, Baird will have potentially conflicting division of loyalties and responsibilities regarding Baird's own interests and the interests of the client. This profit potential may give Baird an incentive to recommend a transaction in which Baird acts as principal. Nonetheless, Baird has a fiduciary duty to act in the best interest of clients and to obtain best execution for its advisory clients. Furthermore, Baird has adopted internal procedures designed to ensure that Baird will not act in a principal capacity for any transaction in an advisory client's account, absent disclosure of the transaction to the client, including all material information regarding Baird's or the client's PIM Manager's interest in the transaction, and the client's prior written approval of the transaction or unless otherwise allowed by applicable law, and provided that such transaction is not otherwise prohibited by ERISA.

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

Baird may also act as principal in selling securities to a client's account during offerings underwritten

by Baird as further described above. In each such instance, Baird will provide certain disclosures about the transaction and obtain the client's consent to the trade.

Interest in Other Client Transactions. Baird and its PIM Managers may recommend to clients, and may buy and sell for client accounts, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see "Other Financial Industry Activities and Affiliations" above and "Brokerage Practices" below.

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; Directed Brokerage Arrangement. Clients who participate in the PIM Program are generally required to maintain their accounts at Baird (and Baird has custody over the assets in those accounts). Clients also authorize and direct the PIM Manager to execute all securities transactions through Baird, as broker-dealer. This is a "directed brokerage arrangement". A client should understand that in the PIM Program (Commission-Based Pricing), clients' contemporaneous buy and sell orders are generally not aggregated. Because trade orders are not aggregated, a PIM Manager may be unable to achieve best execution for the client's 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 a PIM Manager negotiated commission rates and spreads and selected broker-dealers to execute trades for client's account. Baird and the PIM Manager benefit from the client's directed brokerage arrangement. Because of these potential benefits, Baird and the PIM Manager have an economic interest in having the client continue the directed brokerage arrangement. The benefits received may conflict with the

client's interest in having Baird and the PIM Manager recommend that the client utilize another broker-dealer to execute some or all transactions for the client's account.

Certain client accounts, including those of the mutual funds identified above, managed by 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 and its PIM Managers may have an incentive to favor client accounts that generate a higher level of compensation than accounts with lower fee or commission rates. Baird and its PIM Managers address potential conflicts of interest posed by different client fee arrangements by complying with their fiduciary duties to clients. Baird also adopted and enforces internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

Soft Dollar Benefits. Because all trade orders under the PIM Program are executed by Baird, as broker-dealer, Baird does not receive any soft dollar benefits in connection with trades executed for PIM Program clients.

Other Brokerage Matters. Baird provides execution services to a client under the PIM Program. Baird will arrange for delivery and payment in connection with the execution services rendered to a client, and the client authorizes Baird to act on the client's behalf in all other matters necessary or incidental to the handling of the client's account.

Baird, as a broker-dealer, is subject to the provisions of Section 11(a) of the Securities Exchange Act and Rule 11a2-2(T) thereunder. Therefore, some transactions effected by Baird for certain clients on a national or regional securities exchange must be executed through a floor broker unaffiliated with Baird.

In connection with transactions effected for a client's account, Baird may establish and trade in Baird's or the client's name with members of national or regional securities exchanges and FINRA, including "omnibus" accounts established for the purpose of combining orders for more than one client.

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

Client Account Review. Client accounts are monitored on an ongoing basis by the client's PIM Manager and are subject to review by the Branch Office Manager. The client's PIM Manager generally reviews the performance of the client's account at least quarterly. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's PIM Manager reviews a client's account's daily trading activity and also performs a quarterly review of his or her branch's PIM accounts, focusing on PIM clients' investment objectives and the accounts' performance. On a quarterly basis, the Product Manager (or his or her designee) for the PIM Program generally reviews the performance of the PIM Manager's composite in which client account is grouped compared to their relevant benchmarks and attempts to identify potential client account performance outliers.

Performance and Account Reports. Baird generally provides written reports to clients on the performance of their PIM Program accounts on a quarterly basis, although performance reporting may not be available for account assets that are not custodied at Baird. Client performance reports usually contain a portfolio valuation and typically show the asset allocation of the client's portfolio, changes in a client's portfolio, and account performance compared to a

benchmark market index or indices (such as the S&P 500® Index or the Barclays Capital U.S. Intermediate Government/Credit Bond Index). 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's selection and use of benchmarks is not a promise or guarantee that the performance of a client's account will meet or exceed the stated benchmark. When the client compares 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.

The client will receive a monthly Baird brokerage account statement when activity occurs during that month. A quarterly statement is provided if there has not been any intervening monthly activity. Clients will also receive a trade confirmation for each transaction effected for client's account.

When preparing a client's account statements and performance reports, Baird relies upon third parties when determining the value of account assets. If Baird has custody of a client's account assets, Baird will generally rely on third party quotation services to determine the value of such assets. If a client's account assets are held by a custodian unaffiliated with Baird, Baird will generally rely on the value of a client's assets provided by the client's custodian. Baird does not conduct an in-depth review of valuation information provided by third party quotation services or custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

Client Referrals and Other Compensation

Baird may provide compensation to individuals who refer clients in some instances. When applicable, the compensation paid is a percentage of the client's fee payments or the value of the client's account. The amount of compensation will vary, with the specific level determined based upon consideration of various factors including, but not limited to, the individual's role in developing the 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

The PIM Program requires clients to custody their account assets at Baird. However, Baird in its sole discretion may accept certain clients into the PIM Program whose assets are custodied with other financial institutions acceptable to Baird. A client who uses a custodian other than Baird will pay a custody fee in addition to the Program fee and may not receive performance review or reporting from Baird.

A client who uses a third party custodian authorizes Baird to give instructions to the client's custodian for all actions necessary or incidental to the purchase, sale, exchange, and delivery of securities held in the client's account. Also, the client will receive account statements directly from their selected custodian. Clients should carefully review those account statements and compare them with any account statements provided by Baird.

Investment Discretion

If a client elects to participate in the PIM Program, the client authorizes Baird to manage the client's account and grants to Baird complete and unlimited trading authorization and appoints Baird as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. The appointment provides Baird the authority to buy, sell or otherwise trade

securities or other investments for a client's account without consulting the client. Orders for the purchase and sale of securities in a client's account will be executed by Baird, in its capacity as broker-dealer. Such trading authorization shall remain in full force and effect until terminated by the client or Baird.

The PIM Program offers clients the ability to impose reasonable investment restrictions on the management of their accounts, including the designation of particular securities or types of securities that should not be purchased for the client's account, but not the right to require that particular funds or securities (or types) be purchased for the client's account.

In the event that a client's account is restricted from investing in certain securities, the PIM Manager will select such other replacement securities as deemed 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 the PIM Manager 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

Under the PIM Program, clients may retain the right to vote proxies with respect to the securities held in the client's account, or the clients may delegate such right to Baird. If a client delegates voting authority to Baird, Baird will vote proxies solicited by, or with respect to, securities held in the client's account for the exclusive benefit of the client and in accordance with policies and procedures adopted by Baird.

Baird has adopted written policies and procedures that are reasonably designed to ensure that it votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between

Baird's interests and those of its clients. Although a description of Baird's proxy voting policies and procedures is provided below, Baird will furnish a copy of its proxy voting policies and procedures to clients upon their request. Additionally, clients may obtain information on how Baird actually voted proxies with respect to the securities held in their accounts by contacting their PIM Manager or by calling (414) 765-3500.

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

The proxy voting policies and procedures also address instances in which Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern that Baird would be inclined to vote in favor of management because of its relationship or pursuit of a relationship with the company. Baird takes one of the following steps to address

these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client. Baird's investment advisory compliance department is responsible for overseeing the operation of the proxy voting policies and procedures.

Clients wishing to direct particular votes once they have granted Baird discretionary voting authority may do so by contacting their PIM Manager. However, neither Baird nor the client's PIM Manager will provide a client with prior notice of any proxy solicitation if Baird has been granted discretionary authority.

Baird generally does not 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 does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of its most recent fiscal year. Baird is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

Special Considerations for Retirement Accounts

If the client is acting as an owner, fiduciary or otherwise on behalf of a Retirement Account, the client understands that, Baird may 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, 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 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 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 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 the client to Baird. The differential between the fees to be charged by Baird for its investment management or advisory services pursuant to the client's Advisory Household 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 Advisory Household 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.

If an ERISA plan, plan participant or IRA client authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the accounts of ERISA and IRA clients and to receive commissions for such services, the arrangement is subject to DOL PTE 86-128. DOL PTE 86-128 exempts from certain ERISA and corresponding Internal Revenue Code restrictions a fiduciary's use of its authority to cause an ERISA qualified plan, plan participant or IRA to pay a fee (including a commission) for effecting or executing securities transactions for that plan or account, as agent, but only to the extent that such transactions are not excessive, under the circumstances, in either amount or frequency. DOL PTE 86-128 contains a number of conditions that must be satisfied, including written authorization from the client to effect or execute securities transactions for the client's account, which authorization is terminable at will, at any time, without penalty; delivery to the client of trade confirmations or quarterly statements showing the securities transactions that were effected for the client's account and the commissions incurred by the client and retained by Baird, and annual summaries of such transaction information. Baird is also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to Baird to effect or execute securities transaction for the client's account. To ensure that the client has sufficient information on which to determine whether such authorization should be made, Baird provides certain clients with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the following description of Baird's brokerage placement practices. Baird also agrees to provide such other reasonably available information that the client may request for such purpose.

When placing orders for securities transactions for clients as a broker-dealer pursuant to 86-128, Baird has an obligation to use reasonable diligence to ascertain the best market for the subject security and to buy or sell in such market so that the resultant price to the client is as favorable as possible under prevailing market conditions. Baird routes or places client orders to various market makers, exchanges and other execution venues based on their quality of execution and execution capabilities in order to obtain the best possible price and speed of execution for clients. Baird selects market makers, exchanges and other execution venues based on the size of the order, the trading characteristics of the particular security, speed of execution, likelihood of price improvement, availability of efficient automated transaction processing, guaranteed automatic execution level and other qualitative factors. Order routing decisions are not based on the availability of payment for order flow, although Baird receives such payments on limit orders routed to and executed on the NASDAQ Stock Market and on orders for stock options routed to Interactive Broker. Baird also does not place orders with market makers or other third parties for the purpose of compensating such firms for their efforts in marketing Baird-affiliated mutual funds. Baird may place orders for securities transactions with third party broker-dealers and other firms that provide research products and services to Baird.