

# HGMR Investment Management

## Wrap Fee Program Brochure

March 31, 2011



HGMR Investment Management  
One South Pinckney Street  
Suite 600  
Madison, Wisconsin 53703  
Toll Free: 800-684-7225  
[www.hgmrinvestmentmanagement.com](http://www.hgmrinvestmentmanagement.com)

Robert W. Baird & Co. Incorporated  
777 East Wisconsin Avenue  
Milwaukee, WI 53202  
1- 800-792-2473  
[rwbaird.com](http://rwbaird.com)

Member FINRA & SIPC  
SEC File No. 801-7571

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

## Table of Contents

<b>Services, Fees and Compensation .....</b>	<b>1</b>
HGMR Investment Management .....	1
The Client-Baird Advisory Relationship .....	1
Description of Advisory Services .....	2
Service Fees .....	7
Other Fees and Expenses .....	10
Compensation Received by Baird and HGMR .....	11
<b>Account Requirements and Types of Clients.....</b>	<b>12</b>
<b>Portfolio Manager Selection and Evaluation .....</b>	<b>12</b>
Selection and Evaluation .....	12
Performance Calculation .....	13
Portfolio Management by Related Persons.....	14
Portfolio Management by HGMR .....	14
Advisory Business.....	14
Performance-Based Fees and Side-By-Side Management .....	15
Methods of Analysis, Investment Strategies and Risk of Loss .....	15
Voting Client Securities .....	22
<b>Client Information Provided to Portfolio Managers .....</b>	<b>23</b>
<b>Client Contact with Portfolio Managers .....</b>	<b>24</b>
<b>Additional Information.....</b>	<b>24</b>
Disciplinary Information .....	24
Other Financial Industry Activities and Affiliations.....	24
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	25
Review of Accounts.....	33
Client Referrals and Other Compensation .....	34
Financial Information .....	35
Special Considerations for Retirement Accounts .....	35

## Services, Fees and Compensation

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

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

## HGMR Investment Management

This Brochure describes certain investment advisory services that HGMR offers to clients ("Services"). These Services primarily consist of an HGMR Investment Management Service; a Recommended Managers Service; and an Advisory Choice Service. The advisory services offered by HGMR include investment advice, performance reporting and related account services, and, depending upon the Service that a client selects, the Service may include portfolio management. HGMR may also offer financial planning services to certain clients.

The Services may involve any combination of discretionary services, where a client provides HGMR full discretionary authority to manage the client's account ("Discretionary Services"), non-discretionary services, where the client retains full authority with respect to management of the client's account ("Non-Discretionary Services"), and separately managed account services, where other investment managers manage the client's account with full discretion and HGMR provides additional consulting services to the client ("SMA Services").

The terms "Counseled" portfolio and "Institutional" portfolio are used throughout this Brochure. For Counseled portfolios, HGMR typically provides advice and guidance on matters including, but not limited to, asset allocation and financial planning, along with discretionary investment management. For Institutional portfolios, HGMR typically provides only

discretionary investment management to institutional investors who hire HGMR to manage a portion of the institution's assets.

Each Service is designed to address different investment needs of clients. All of the Services discussed in this Brochure may not be appropriate for a client. HGMR clients typically work with an HGMR Portfolio Manager who has been approved by Baird to provide the Services (an "HGMR Portfolio Manager"). The client, with the assistance of an HGMR Portfolio Manager, determines the services that are most appropriate given the client's goals and circumstances.

HGMR provides the Services described in this Brochure under a "wrap fee" arrangement. This means that in addition to the investment advisory services that HGMR provides in connection with each Service, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee.

The particular investment advisory services that HGMR provides in connection with each Service are further described below. Each Service may have differing structures and administration, and each Service offers different types and levels of service and has different fees and expenses. Please review this Brochure carefully.

## The Client-Baird Advisory Relationship

A client that wishes to participate in a Service will enter into an Investment Management Agreement ("Investment Management Agreement") with HGMR. The Investment Management 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 HGMR.

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

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

From time to time HGMR and Baird may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of HGMR and Baird. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates (including HGMR and its personnel) 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) HGMR and Baird conduct their businesses in a manner that is consistent with the disclosures made.

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

### Description of Advisory Services

#### **HGMR Investment Management Service.**

HGMR provides various investment portfolios to clients, including large cap equity, small cap equity, international equity, fixed income, and mutual fund portfolios in isolation and in combination with other portfolios

A client that selects the HGMR Investment Management Service generally grants full discretion to HGMR and the client's HGMR Portfolio Manager full discretion to manage the client's account.

To the extent an HGMR manages assets in a client's account, a client's HGMR Portfolio Manager seeks to meet the client's particular

investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and the client's HGMR Portfolio Manager. At the commencement of services, the client's HGMR Portfolio Manager reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, the HGMR Portfolio Manager makes a subsequent recommendation to the client as to which portfolio style the HGMR Portfolio Manager believes is best suited for the client. A client makes the final decision as to which portfolio style is chosen for the client's account.

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

An HGMR Portfolio Manager may make or recommend investments may be made in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund, exchange traded fund ("ETFs") or other investment company shares, structured products, leveraged and inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the assets in a client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds or deposited in interest-bearing bank accounts.

**Recommended Managers Service.** The Recommended Managers Service is a discretionary investment advisory service whereby a client grants full discretion to HGMR and the client's HGMR Portfolio Manager to select

investment managers to manage the client's account.

Under the Recommended Managers Service, Baird determines the investment managers eligible to manage a client's account ("Recommended Managers") through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation" below. The client's HGMR Portfolio Manager then selects and replaces a manager based upon the list of Recommended Managers that Baird makes available. Most Recommended Managers are unaffiliated with Baird but some may be affiliated with Baird or may be another investment management department of Baird, such as Baird Advisors or Baird Investment Management ("BIM").

Managers may have varying investment objectives, styles and strategies. An investment manager's strategy may change in response to market conditions and may include investing in affiliated mutual funds of the investment manager.

Recommended Managers may invest client accounts in various types of securities, including, but not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company shares (including investing in mutual funds or exchange traded funds affiliated with the investment manager), leveraged or inverse funds, mortgage and asset backed securities, collateralized mortgage obligations, United States government securities, and agency securities. All or a portion of the client's account may be held in cash or cash equivalents, including securities issued by money market mutual funds and deposits in interest-bearing bank accounts. The strategies used by a Recommended Managers are further described in the manager's brochure, which will be delivered to a client when the client elects to participate in the Recommended Managers Service or otherwise upon request.

By participating in the Recommended Managers Service, a client authorizes and empowers HGMR and the client's HGMR Portfolio Manager, with full discretion, to recommend, select and retain investment managers for the client's account and to terminate or replace investment managers for

the client's account for any reason without prior client notice or approval. If HGMR terminates an investment manager from the Service, a client authorizes HGMR to invest, with full discretion, the assets in the client's account previously managed by the terminated investment manager in other securities, including, but not limited to, mutual funds and ETFs. HGMR's discretionary authority to make such other investments will continue until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets. Clients who prefer to continue using an investment manager that has been removed from the Recommended Managers Service, or who directs or otherwise request that a particular manager not recommended by Baird be selected to manage the client's account, will generally need to enter into a separate advisory contract with that manager and a new arrangement with HGMR.

Notwithstanding the discretionary authority granted to HGMR under the Recommended Managers Service, HGMR does not manage the account and does not otherwise have any influence over the investment managers' investment decisions or securities selections to the extent the client's account is managed by another investment manager. However, HGMR is available to a client on an ongoing basis to receive deposit and withdrawal instructions from the client or the client's authorized representative(s), and to convey any changes in the client's financial circumstances or investment objectives to the investment managers on the client's behalf.

**Baird Advisory Choice Service.** The Baird Advisory Choice Service is a non-discretionary investment advisory program whereby HGMR provides advice to a client in connection with the client's own management of the client's account. HGMR does not have discretion over the assets in client's Baird Advisory Choice account and cannot purchase or sell any securities or other investments in the client's Baird Advisory Choice account without the client's consent. A client makes the final decision as to selection of investments for the client's Baird Advisory Choice account.

The investment advisory services that may be available in the Baird Advisory Choice Service include research, analysis, consultation, advice and recommendations regarding various

investment-related matters, such as financial and investment goals and needs, asset allocation strategies, investment policies and restrictions, methods for implementing investment strategies, trends and expectations regarding securities markets, economic sectors and industries, various types of securities and investments, and the purchase, holding and sale of specific securities. The specific services to be provided to a client will be determined by mutual agreement between the client and HGMR. Baird does not undertake to provide any investment advisory services other than those specifically sought by the client or individual securities recommendations made from time to time.

Baird will provide investment recommendations for a client's account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's account. Baird may recommend to a client securities, cash and/or other investments in accordance with the investment style that, in Baird's judgment, correlates with the information the client provides to Baird. Recommended investments may include, but are not limited to, common or preferred stocks, options, warrants, rights, corporate debt securities, commercial paper, certificates of deposit ("CDs"), municipal securities, investment company, exchange traded, or mutual fund shares, private investment funds, hedge funds, mortgage and asset backed securities, collateralized mortgage obligations, structured CDs and notes, managed futures, United States government securities, and agency securities. Baird may also recommend that all or a portion of the client's Baird Advisory Choice account be held in cash or cash equivalents, including securities issued by money market mutual funds or deposited in interest-bearing bank accounts.

Important Information about Baird Advisory Choice Accounts. *A Baird Advisory Choice account provides a fee-based alternative to a traditional, commission-based brokerage account. Each client should determine whether a Baird Advisory Choice account is appropriate. In making this determination, a client should carefully consider all relevant factors, including his/her investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the Account, anticipated use*

*of other Baird products and services, and the costs and benefits of the Account. A client should ask HGMR questions about the investment styles, philosophies, strategies, analyses and techniques HGMR will use in order to meet the client's objectives. The costs of a Baird Advisory Choice account may be more or less than in an account where the client is charged on a per-transaction basis. A Baird Advisory Choice account may not be appropriate for those who anticipate little or no trading activity and/or have small balances in their account, and do not receive or request investment advisory or other non-trading services. A Baird Advisory Choice account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. Accounts engaged in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion) may immediately, upon sending notice to a client, be restricted as to the activity occurring in a client's Account, terminated, converted to a commission-based account, or charged a higher fee at such rate as Baird, in its sole discretion, may elect. A client is responsible for monitoring his/her Account and determining the desirability of maintaining the Account as opposed to maintaining a traditional, commission-based brokerage account. A client should periodically reevaluate whether the ongoing use of this non-discretionary, advisory program is desired and request HGMR to explain the benefits and disadvantages of maintaining a Baird Advisory Choice account and the availability of alternative arrangements. A client is responsible for trading in a Baird Advisory Choice account because HGMR does not have investment discretion.*

*In addition to Baird Advisory Choice accounts, Baird offers various other advisory programs in which it has investment discretion. Baird also offers traditional, commission-based brokerage accounts. A client may terminate a Baird Advisory Choice account and convert it into a traditional, commission-based brokerage account at any time by contacting HGMR. HGMR and Baird also have the right, at any time upon notice to a client, to terminate a client's Baird Advisory Choice account and convert it into commission-based brokerage account.*



**ALIGN Portfolios.** HGMR may also utilize Baird's ALIGN Strategic Portfolios and/or Tactical Portfolios to manage client accounts. More information about Baird's ALIGN Portfolios is provided under the section "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—ALIGN Portfolios" below.

#### **Additional Service Information.**

*Investment Discretion.* A client retains complete trading authorization over assets in Non-Discretionary Service accounts, and HGMR will only execute transactions pursuant to the client's instruction or authorization.

If a client elects to participate in a Discretionary Service, the client authorizes HGMR to manage the client's account in accordance with the terms of the Service selected by the client and grants to HGMR complete and unlimited trading authorization and appoints HGMR as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. The appointment provides HGMR 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 generally be executed by Baird, in its capacity as broker-dealer, unless the client has provided other instructions to HGMR in writing.

If a client participates in an SMA Service, the client authorizes investment managers selected for the client's account to manage the assets in the client's account and grants to such managers complete and unlimited discretionary trading authorization. The third party investment managers selected to manage the client's account will have full discretionary authority to purchase, hold and sell securities, cash equivalents, and other investments in the client's account. HGMR does not have discretion over the assets in a client's account that are managed by an investment manager and cannot purchase or sell any securities or other investments in the account without the consent of the client or the client's investment manager. The investment manager for a client's account will initiate securities transactions through Baird, in its capacity as broker-dealer, subject to the manager's duty to achieve best execution. Baird, as broker-dealer, will rely upon any such instructions of any

investment managers selected to manage a client's account.

Such trading authorizations, whether granted to HGMR or a third party investment manager, shall remain in full force and effect until terminated by the client or HGMR.

The Discretionary and SMA Services offer 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. Reasonable investment restrictions requested by a client will apply only to those assets over which HGMR or a client's investment managers have discretion.

In the event that a client's account is restricted from investing in certain securities, HGMR or the client's investment 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 HGMR or the client's investment 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.

*Eligible Investments.* A client's account may generally only hold investment products that Baird has determined are eligible for the Service the client selected. Eligible investment products vary by Service.

Eligible investments for client accounts, depending upon the Service, 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 purchased through Baird in which the client was charged a front-end sales load or commission at least 24 months prior to their being an eligible asset, annuities, and interests in unit investment trusts that have cost structures designed for use in fee-based investment programs; and certain other alternative investment products approved by Baird for use in connection with the Services such as: hedge funds, private equity and venture capital funds, managed futures; leveraged and inverse funds and other special situation mutual funds; structured CDs and notes ("structured products"); and exchange funds (collectively, "alternative investments").

Assets that are ineligible for those Services, depending upon the Service, generally include, but are not limited to: unit investment trusts with a sales load; mutual funds that charge a back-end or level load (commonly referred to as B and C shares, respectively); variable annuities charging a sales load; 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 and other private investment funds not approved by Baird; insurance products; commodities, futures or options on commodities, and commodity pools; and real estate.

*HGMR may change the list of eligible and ineligible investments for any Service at any time in its discretion.*

HGMR in its sole discretion may accept a client request to place certain ineligible assets into a client's Service account. If a client decides to hold ineligible assets in an advisory account, the client does so with the understanding that Baird and HGMR 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 HGMR Portfolio Manager for further information.

*Custody and Trade Execution Services.* A client who uses a custodian other than Baird will pay a custody fee in addition to the Service fee and may not receive performance review or reporting from Baird.

A client who uses a third party custodian authorizes HGMR 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.

If Baird is the custodian of a client's assets, Baird will provide certain custody services, which shall include holding securities in nominee or "street" name, crediting interest and dividends received on securities held in a client's account, and crediting principal on called or matured securities. "Street" name refers to securities and assets being registered in Baird's name or in a name that Baird designates, rather than in a client's name directly. A client may obtain information about Baird by contacting Baird or at [www.rwbaird.com](http://www.rwbaird.com). Baird's headquarters are located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, and its main telephone number is 414-765-3500.

If Baird provides execution services to a client, 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 of 1934, as amended (the "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 the Financial Industry Regulatory Authority ("FINRA"), including "omnibus" accounts established for the purpose of combining orders for more than one client.

**Updating Client Information.** A client is responsible for providing information to HGMR and any third party investment managers managing client's account reasonably requested by them in order to provide the services selected by the client. HGMR and third party investment managers will rely on this information when providing services to the client. A client is also responsible for promptly informing HGMR and any third party investment managers managing client's account of any changes in the client's investment objectives, financial condition, or other circumstances that may affect the manner in which the client's assets are invested. Neither HGMR nor the third party investment manager is responsible for any adverse consequence arising out of the client's failure to promptly inform HGMR or the third party investment 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. HGMR does not provide any tax advice in connection with any of the Services. 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 HGMR to implement a particular investment strategy for tax purposes, and HGMR agrees to implement such strategy, HGMR will not be responsible for the development, evaluation or efficacy of any such strategy.

## Service Fees

**Fee Schedules.** A client's Investment Management Agreement will set forth the actual compensation the client will pay to Baird for HGMR's services. In most instances, a client pays Baird an ongoing fee based upon the value of assets in the client's account (an "asset-based fee"), although other options may be available.

HGMR typically offers clients a tiered fee arrangement.

Under a tiered fee arrangement, the asset-based fee will vary for different segments of client assets, gradually decreasing as the account balance increases. For example, a client with an account value of \$7 million may pay one rate on the first \$2 million of assets in the account, a lower rate on the next \$3 million of assets in the account and a still lower rate on the remaining \$2 million of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

In addition, the fee may be a fixed percentage across all asset categories, may be a percentage that varies by asset category (e.g., large cap equity and small cap equity securities may have a different applicable fee rate).

The typical asset-based fee varies depending upon the account type and the fee option selected by the client. Fee options and rates may also differ among different accounts held by the same client, depending on the services selected for a given account. The fee schedules and minimum account sizes that apply are shown below.

**Counseled Portfolios.** The following fee schedule sets forth the maximum fee rates for Counseled portfolios utilizing the HGMR Investment Management Service.

### Fee Schedule

#### HGMR Investment Management Service

#### Counseled Portfolios

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$2 million	1.25%
Next \$3 million	1.00%
Next \$5 million	0.80%
Over \$10 million	0.60%

The minimum asset value to open a Counseled portfolio is typically \$2 million. The minimum annual fee is generally \$25,000. For Counseled clients seeking fixed income management only, fees are negotiable. International equity securities management and portfolio of mutual

fund portfolios is only available to Counseled portfolios as part of a larger diversified portfolio.

*Institutional Portfolios.* The following fee schedule sets forth the maximum fee rates for the Institutional portfolios utilizing the HGMR Investment Management Service.

Fee Schedule		
HGMR Investment Management Service		
Institutional Portfolios		
	Small Cap	Large Cap
<u>Value of Assets</u>	<u>Annual Fee Rate</u>	<u>Annual Fee Rate</u>
First \$5 million	0.90%	0.75%
Next \$15 million	0.75%	0.60%
Next \$30 million	0.65%	0.55%
Over \$50 million	0.50%	0.45%

The minimum asset value to open an Institutional portfolio is typically \$3 million for Small Cap Institutional portfolios, and \$5 million for Large Cap Institutional portfolios.

*Additional Advisory Services.* The following fee schedule sets forth the maximum fee rates for other advisory services provided by HGMR, including Recommended Managers, Baird Advisory Choice, and ALIGN Portfolios.

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

The minimum asset value to open an account in those additional advisory services is set forth in the table below.

#### Additional Advisory Services

##### Account Minimums

<u>Program</u>	<u>Asset Level</u>
ALIGN Portfolios	\$50,000
Baird Advisory Choice	\$25,000
Recommended Managers	\$100,000

A client account may also be subject to a minimum quarterly fee regardless of the value of the assets in the client's account. Such minimum will be set forth in the client's Investment Management Agreement.

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

If requested by a client and approved by Baird, a Service fee may be determined based upon the aggregate value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. The terms of any such household fee arrangement will be set forth in the client's Investment Management Agreement.

The value of a client's assets is determined by the client's custodian. If Baird is the client's custodian, Baird will determine the value of the assets in the client's account and obtain prices from third party sources for that purpose. If the assets in the client's account are held by a custodian other than Baird, and HGMR receives reports from the custodian setting forth current market prices or values of the assets, HGMR relies on that information in determining the value of the assets in the client's account. Neither HGMR nor Baird conducts 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.

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

The Service fees and charges will be automatically deducted from the client's account, unless the client elects, and Baird agrees, to send to the client an invoice ("direct billing"). Direct billing may not be available for retirement accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or individual retirement accounts ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"). If a client's account is subject to direct billing, the client is required to pay each bill within fifteen (15) days of the date of the invoice. HGMR may automatically debit a client's account for the fees and other charges in the event that HGMR does not receive payment from the client within fifteen (15) days of the invoice. HGMR may rescind a direct billing arrangement with a client at any time.

HGMR 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.

If either HGMR or the client terminates the client's Investment Management Agreement or a client's participation in a Service, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's account. HGMR makes no fee adjustment during any fee period for asset value appreciation or depreciation in a client's account during a billing period. However, HGMR, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's account occurring during a billing period that result from contributions to, or withdrawals from, the client's account.

Depending upon the Service selected, clients may use margin (borrowing money to buy securities). Whether a client maintains a balance in his or her margin account with Baird has no bearing on the asset-based fees charged on client's account. In other words, the margin balance (i.e., the outstanding amounts a client owes to Baird) in any of the client's accounts will not be applied to reduce the client's billable account value in calculating the asset-based fees payable to HGMR. For purposes of determining the asset-based fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based fee on options, the absolute value of the current market price of the option will be used.

Each Service may have a minimum asset value in order to open an account, and a minimum fee may be assessed against a client's account as further described under "Service Fees—Fee Schedules" above. The minimum fee will be described in the client's Investment Management Agreement. HGMR may waive the minimum fee at its discretion. The minimum fee is subject to change upon notice to the client.

The Service fee and minimum account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's account, the client's particular investment

style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee table above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

In certain circumstances, HGMR makes other compensation options available to eligible clients besides asset-based fees, such as a fixed dollar amount.

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

**Additional Service Fee Information.** Each individual service provided to a client in connection with a particular Service may be available to a client outside of the Service separately. Thus, a client's participation in a Service could cost the client more or less than if the client purchased each service separately. A number of factors bear upon the relative cost of each Service, such as the cost of services if they were provided separately, the trading activity in a client's account, the size of a client's account, and the investment strategies and the nature and level of service sought by a client.

**Payment to Portfolio Managers.** With respect to the Recommended Managers Service, Baird pays a portion of the Service fee to the client's investment manager as compensation for the manager's services. The portion of Service fee paid to investment managers pursuing equity and balanced investment styles or strategies may range from 0.45% to over 1.00%. The portion of Program fees paid to investment managers pursuing a fixed income investment style or strategy may range from 0.25% to over 0.50%. As the portion of the Service fee paid to an investment manager increases, the portion of the Service fee that is retained by Baird and paid to HGMR Portfolio Managers decreases. Thus, Baird and HGMR Portfolio Managers may have an

incentive to recommend investment managers that are paid less, because they will receive a higher portion of the Service fee. In addition, Baird may have an incentive to recommend affiliated managers over other investment managers because the entire Service fee is retained by Baird and affiliated investment managers.

Baird may also have an incentive to recommend Baird Advisors, BIM or other affiliated investment managers over unaffiliated investment managers because a greater fee will be paid to Baird and/or affiliated investment managers. However, due to the nature of how Baird compensates its HGMR Portfolio Managers, HGMR Portfolio Managers have no direct financial incentive to recommend an affiliated manager over an unaffiliated manager.

HGMR Portfolio Managers are compensated based upon their total production level at Baird, which takes into account all of the fees and commissions paid by clients for which they are responsible. Thus, although HGMR Portfolio Managers do not receive any portion of the Service fee for providing portfolio management under the HGMR Investment Management Service, their compensation is directly related to the size of the Service fee that a client pays to Baird and the amount of the Service fee, if any, paid to other investment managers managing a client's account. The compensation paid to an HGMR Portfolio Manager for providing portfolio management services in connection with the HGMR Investment Management Service may, therefore, be higher than the compensation paid to the HGMR Portfolio Manager who recommends that other investment managers manage a client's account. As a result, an HGMR Portfolio Manager may have a financial incentive to recommend the HGMR Investment Management Service over other Services. From time to time, Baird Financial Advisors outside of HGMR may refer their clients to HGMR Portfolio Managers. In those instances, the HGMR Portfolio Manager shares a portion of his or her compensation with the referring Baird Financial Advisor.

### Other Fees and Expenses

In addition to the Service fee described above, a client may incur other fees and expenses. A client 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, margin interest, transfer taxes, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation.

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 Service fees. 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 Service fee. 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 appoint a third party unaffiliated with Baird to have custody of their account assets will be responsible for paying the fees and expenses of such third party custodian in addition to the Service fee.

The Service fee only covers the costs of trades executed by Baird, as broker-dealer. A client may be assessed other trading costs in addition to the Service fee if a client executes trades through another firm. For example, a third party investment manager managing a client's account may direct a transaction to another broker-dealer if the third party investment manager decides that its best execution obligations so require. Under that circumstance, a client may be assessed other trading costs in addition to the Service fee.

If a client is allowed to buy or sell an ineligible asset in the client's Service account, the client may be charged a commission in connection with the purchase or sale. The cash proceeds from the sale of an ineligible asset that remain in a client's Service account are considered eligible assets subject to the asset-based fee. If an ineligible asset is purchased during a quarterly billing period, that asset will not be included for purposes of determining the asset-based fee beginning at the start of the next quarterly billing period, and no portion of the asset-based fee paid by a client in advance for the quarter during which the ineligible asset is purchased is refunded or rebated to the client. Additionally, Baird may, upon notice to clients, impose a set-up fee and/or an annual maintenance or administrative fee on ineligible assets maintained in a Service account.

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

### **Compensation Received by Baird and HGMR**

The individual who recommends a Service to a client, including an HGMR Portfolio Manager, receives compensation from Baird that is based upon the amount of the Service fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory services or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Service over other programs or services offered by Baird. However,



when providing investment advisory services to clients, Baird, HGMR and its HGMR Portfolio Managers are fiduciaries and are required to act solely in the best interest of clients. 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 "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

### Account Requirements and Types of Clients

HGMR offers the Services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities. Applicable requirements for opening or maintaining an account in connection with each Service, such as minimum account size, are discussed in the applicable Service fee section set forth under the heading "Service, Fees and Compensation—Service Fees" above.

### Portfolio Manager Selection and Evaluation

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

#### Selection and Evaluation

**HGMR Investment Management Service.** Portfolio management services under the HGMR Investment Management Service are provided by HGMR Portfolio Managers. In order to provide portfolio management services, Baird requires that HGMR Portfolio Managers meet all applicable requirements set forth by self-regulatory organizations, such as the FINRA, exchanges, and governmental agencies. Typically, HGMR Portfolio Managers must also meet the following additional criteria: successful completion of either the series 63 and 65 or the series 66 examination; completion of a portfolio management course acceptable to Baird, which includes a CFA designation; and completion of an application to provide the Services, which includes one or more investment philosophy statements acceptable to

Baird. The Investment Advisory Oversight Committee of Baird oversees the standards and implementation of the Services. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis. Potential causes for removal include operating outside of the policies of the Services, a change in investment philosophy or style, significant drift from stated objectives, underperformance in relation to peers, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

**Recommended Managers Service.** When selecting and evaluating managers for the Recommended Managers Service, HGMR typically utilizes Baird's Recommended Managers list.

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

Baird's Advisory Services Research group is primarily responsible for selecting and evaluating investment managers included on Baird's Recommended Managers list. In selecting investment managers, Advisory Services Research utilizes quantitative and qualitative measures to evaluate managers based on the:

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



Baird's Advisory Services Research group may employ the use of computers and application software to assist with its evaluation.

Baird's initial screening process begins with a proprietary, multi-factor model that evaluates managers on different factors including risk-adjusted performance, consistency of returns and downside protection. These factors are scored over various time periods and relative to a specific peer group universe, narrowing the pool of managers for further evaluation. The Advisory Services Research group then performs a more in-depth evaluation of managers that are identified through the initial screening process, including an examination of the level of personnel turnover at the investment management level at the investment management firm to assess the stability of the organization and how the manager adds value. The final determination of the Recommended Managers list is subject to the approval of Baird's Manager & Policy Committee.

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

Based on the managers made available on Baird's Recommended Managers list, HGMR Portfolio Managers will select or replace, or recommend the selection or replacement of, a particular Recommended Managers based upon a the client's particular goals and circumstances.

A client should note that Recommended Managers are those managers which, in Baird's professional judgment, are appropriate to help clients pursue their financial goals. However, Baird does not

represent that the Recommended Managers are or will be the best available managers in the industry.

### Performance Calculation

As part of the selection and evaluation process described above, Baird reviews performance of portfolio managers managing client accounts. Baird calculates portfolio manager performance, except in the case of third party investment managers that are not included on Baird's Recommended Managers list.

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

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

- A total return calculation is used in reporting.
- Current market value including accrued income is used.
- Trade date accounting is used in deriving valuations.
- Monthly returns are calculated using the Modified Dietz calculation.
- Returns for periods greater than a month are calculated by geometrically linking the monthly returns. Returns for periods greater than one year are annualized.
- Reporting is net of fees at the total portfolio, but gross of fees for individual investment categories (e.g., equity or fixed income).

The performance information for HGMR's Large Cap Core Equity Composite and HGMR Small Cap Core Equity Composite has been independently verified for the period January 1, 2006 through September 30, 2010 by Ashland Partners & Company LLP. The verification assesses whether (1) HGMR has complied with all the composite construction requirements of the GIPS standards on a HGMR-wide basis and (2) HGMR's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.

If Baird does not calculate performance information for a portfolio manager, Baird obtains performance information directly from the managers and/or from other external sources that Baird believes is reliable. A client should note that: Baird does not recalculate the performance provided by such managers or external sources; generally, neither Baird nor any independent third party reviews the performance information provided by such managers to verify its accuracy or compliance with presentation standards; those managers may not calculate performance on a uniform or consistent basis; and Baird does not guarantee the accuracy of information provided by such managers or any external source.

A client should note that Baird does not generally present its performance calculations to clients. The information that Baird provides to clients about these portfolio managers from time to time may not be calculated by Baird but may be calculated by the portfolio managers themselves or derived from external sources. A client should ask the client's HGMR Portfolio Manager for more information.

### **Portfolio Management by Related Persons**

Portfolio management services under the Recommended Managers Service may be provided by Baird Advisors, BIM, other investment management departments of Baird or other investment managers affiliated with Baird. Such arrangements create a potential conflict of interest because Baird and/or its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, Baird, HGMR and its HGMR Portfolio Managers are fiduciaries and are required to act solely in the best interest of clients. For more specific

information about these potential conflicts and how Baird addresses them, please see the sections "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

When Baird and HGMR determine manager eligibility for the Recommended Managers Service, affiliated investment managers are subject to the same selection and review process that Baird and HGMR apply to unaffiliated investment managers.

### **Portfolio Management by HGMR**

Portfolio management services under the HGMR Investment Management Service are provided by HGMR and HGMR Portfolio Managers. Additional information about Baird, HGMR and this Service is provided below.

### **Advisory Business**

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

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 and HGMR tailor advisory services to the individual needs of clients. For

more information about the services offered by HGMR, please see "Services, Fees and Compensation" above.

Subject to the agreement of HGMR, a client may impose reasonable restrictions on the securities or types of securities to be held in the client's account. Please see "Services, Fees and Compensation—Description of Advisory Service Services—Additional Service Information—Investment Discretion" above for more information.

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

As of December 31, 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.

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

HGMR does not advise any client accounts that are subject to performance-based fee arrangements.

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. 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 (but not HGMR) 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 (but not HGMR) 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.

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

**HGMR Investment Management.** HGMR provides various investment portfolio styles and strategies, including large and small cap equity, international equity, fixed income, and mutual funds, in isolation and in combination, as described below. Relying on its core investment principles and investment philosophy, HGMR primarily employs quality and valuation screens and fundamental analysis in making investment decisions. Its main sources of information are company annual reports, prospectuses, other SEC filings, press releases and conference calls, inspections of corporate activities, financial newspapers and magazines, third party research reports and research, data and analysis provided by FactSet Research Systems, Inc. HGMR Portfolio Managers may also use research reports created by other departments of Baird, Baird's ALIGN model asset allocation portfolios, Baird's Recommended Managers list, and lists of alternative investments that Baird has deemed eligible for use in the Services. 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. For more information about how Baird selects managers for the Recommended Managers Service, see

"Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers Service" above. More information about how Baird constructs its ALIGN Portfolios and lists of eligible alternative investments is provided below.

Large and Small Cap Equity Portfolios. HGMR's investment approach is principles-based, whereby principles drive investment philosophy and investment philosophy drives investment process.

*Principles:* (1) Valuation and quality must always factor into an investment manager's decision making process. (2) There is no substitute for independently assessing a company's valuation and future growth prospects. (3) Investment practitioners have a perpetual obligation to evaluate the risks and merits of going against the crowd.

*Investment Philosophy:* HGMR believes inefficient market behavior offers buying and selling opportunities to capture superior investment return. Using quality as a cornerstone, HGMR owns companies that trade at a discount to intrinsic value based upon conservative future growth prospects. HGMR believes controlling risk is vital to producing consistent long-term investment results, and uses diversification by sector and company to accomplish this goal. HGMR believes a patient and objective discipline supported by these fundamental tenets governs consistent and superior long-term investment performance.

*Investment Process:*

- **SECURITY SELECTION:** HGMR approaches the selection process similar to that of a business owner: by evaluating the cash generating potential of a new asset, which ultimately gives HGMR a guide as to what a company is worth.
- **BACKTESTING:** The firm's backtesting exercise is an exhaustive process designed to generate industry specific quality screens that provide a quantitative advantage. That is, the tests evaluate which financial metrics (or combination of financial metrics) are good predictors of future excess returns. The backtesting process is conducted at least every two years, with changes to the quality screens made accordingly.

- **QUALITY SCREEN:** HGMR's search for investment opportunities involves finding companies that (1) have consistently created economic value for shareholders, or (2) are showing a trend of improvement in creating economic value. In an effort to focus its efforts on the best opportunities, HGMR screens its investable universe (companies above \$2 billion in market capitalization for large cap and between \$100 million and \$2 billion in market capitalization for small cap) on this measure of quality. More specifically, HGMR defines quality as the difference between the return on invested capital (ROIC) and the weighted average cost of capital (WACC), otherwise known as "spread". HGMR focuses on those companies that have the most attractive historical spreads and/or those companies where the spread is improving, overlaying this assessment with early identification of a catalyst.
- **VALUATION SCREEN:** HGMR then uses valuation techniques to further refine the list. HGMR primarily uses discounted cash flow analysis to give it an initial sense of the enterprise value of a company. Through the initial quality and valuation screening processes, HGMR efficiently refines its large cap universe to 70-80 names and its small cap universe to approximately 100-125 names.
- **FUNDAMENTAL ANALYSIS:** After conducting its quality and valuation screens, HGMR applies fundamental analysis to find eligible portfolio companies. By examining trends in the balance sheet, income and cash flow statements along with other qualitative factors specific to each company, HGMR refines its valuation models to arrive at an intrinsic value of the company. HGMR's analysis becomes complete when it identifies, and the HGMR investment committee agrees on, the catalysts that will move a mispriced security towards HGMR's estimate of intrinsic value. HGMR buys companies that trade at greater than a 20% discount to intrinsic value. Large cap portfolios typically consist of at least 35-45 companies. Small cap portfolios generally range between at least 55-65 securities. Positions may be phased in over a 2-3 month period so as to mitigate timing errors.

- **VALUATION IS DYNAMIC.** HGMR continually updates its models to reflect the most recent financial and other information available.

*Sell Discipline:* HGMR's sell decisions are underpinned by a five point discipline:

- When a stock reaches our estimate of intrinsic value, HGMR evaluates the company further and recalibrates the valuation model. That is, HGMR incorporates any recent developments that may change its assessment of the company's intrinsic value. A company trading at a premium to this value is sold from the portfolio.
- A company experiencing other than temporary deteriorating fundamentals is sold.
- If the catalyst originally identified is realized or eliminated, this triggers a further evaluation (as described above), and often times, sale of the stock.
- Once a stock reaches 3% or 4% of the small cap or large cap portfolio, respectively, it is reviewed for partial sale.
- A stock that is within 10% of HGMR's estimate of the company's intrinsic value may be used as a source of funds if a more attractive alternative exists.

Once the sell decision has been made based on valuation or the realization of an event-driven situation, the position may be phased out over time to mitigate timing error impact. In the case where a position is phased out, the position may be reduced to one-half of its initial model percentage immediately, with the remainder typically phased out over a 2-3 month period. A company that is experiencing other than temporary deteriorating fundamentals is sold in its entirety.

In order to preserve the value of the portfolio, the pace of any sale is subject to liquidity constraints.

*Portfolio Construction:* HGMR's investment process is bottom-up, and any sector weighting deviation from our benchmarks is reflective of the level of opportunities present in each sector. However, as a guideline for larger sectors (those with greater than 5% representation in our

benchmark), HGMR generally limits its sector exposure to 2.0x to that of its benchmark on the top end and 0.5x on the bottom end. For small sectors (those with less than 5% representation in our benchmark), HGMR may choose to have no exposure on the bottom end, and may have greater than a 2.0x exposure on the top end. Under normal circumstances, portfolios hold 3% or less in cash.

International Equity Portfolios. As it applies to Counseled portfolios, for international equity, HGMR typically uses mutual funds and may use exchange-traded funds. HGMR's aim is to provide clients with access to funds that can provide a broad spectrum of international equities. By doing so, HGMR strives to deliver greater diversification of client assets and thus reduce overall market risk in their portfolio. Further, HGMR will seek funds who believe that controlling risk is vital to producing consistent long-term investment results and use diversification by country, sector and company to accomplish their goal. Please note that investments in mutual funds/ETFs involve separate management fees and other operating expenses that are indirectly borne by shareholders of those funds, resulting in a double layer of fees (fees payable to Baird/HGMR and the expense ratios of the funds in which client assets are invested).

Fixed Income Portfolios. As it applies to Counseled portfolios, fixed income portfolios managed by HGMR will consist of high quality securities with an emphasis on government backed securities, including US Treasury and agency bonds, insured certificates of deposit, high quality corporate bonds and, when appropriate for tax purposes, high quality municipal bonds. The interest rate spread between corporate and government bonds is important to the percentage of corporate bonds owned in an account. Typically, fixed income instruments are held to maturity.

Portfolios of Mutual Funds Portfolios. As it applies to Counseled portfolios, mutual fund portfolios are used to provide clients with access to funds that can provide a broad spectrum of investment assets. Portfolios of mutual funds are used to accommodate Counseled portfolio clients' collateral portfolio needs. A "collateral" portfolio is defined as an account too small to be practically managed using individual securities. HGMR manages collateral portfolios in the interest of



serving the overall investment needs of a client relationship.

**Alternative Investments.** When providing investment advice to clients about alternative investments, HGMR Portfolio 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 HGMR Portfolio Manager for more information about how Baird and HGMR evaluate alternative investments and their sponsors.

**ALIGN Portfolios.** Baird's ALIGN Portfolios are model asset allocation portfolios that use mutual funds and/or ETFs to implement the asset allocation. Each ALIGN Portfolio provides for specific levels of investment across different asset classes, including equity and fixed income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed income securities, mutual funds with fund of hedge fund strategies, and cash. Baird's ALIGN Program offers both strategic ("Strategic") and tactical ("Tactical") asset allocation model portfolios.

The ALIGN Strategic Portfolios generally have five (5) primary investment strategies, consisting of the following model portfolios: (1) an All Growth Portfolio, which is designed to provide aggressive growth of capital; (2) a Capital Growth Portfolio, which is designed to provide growth of capital; (3) a Growth with Income Portfolio, which is designed to provide moderate growth of capital and limited current income; (4) an Income with Growth Portfolio, which is designed to provide current income and some growth; and (5) a Conservative Income Portfolio, which is designed to provide current income. Each ALIGN Strategic Portfolio will have differing allocations across each asset class, and some Portfolios may have no allocation to one or more asset classes.

Each ALIGN Strategic Portfolio uses mutual funds and/or ETFs in order to achieve the model asset allocation. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios consist of passive ETFs that replicate different indices; and hybrid ALIGN Strategic Portfolios

consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a "sleeve").

The ALIGN Tactical Portfolios generally have three (3) primary investment strategies, consisting of the following model portfolios: (1) a Tactical Equity Portfolio, which is designed to outperform a broad measure of the domestic and international equity markets over time; (2) a Tactical Allocation Portfolio, which is designed to outperform a broad measure of the domestic equity, international equity, and domestic fixed income markets over time; and (3) a Tactical Opportunity Portfolio, which is designed to provide consistent capital appreciation. Each ALIGN Tactical Portfolio primarily uses ETFs in order to achieve the model asset allocation.

When selecting mutual funds and ETFs for its ALIGN Strategic Portfolios, Baird generally seeks mutual funds and ETFs that have investment managers with tenure of at least five (5) years and have underlying investments that adhere to the fund's market capitalization policy and are consistent with the manager's stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or are managed by individuals or firms that have demonstrated success in other, related asset classes, that have performance histories showing sufficient ability to achieve returns in excess of their respective style index, and that have satisfactory investment processes, infrastructure, personnel and other resources. All else being equal, Baird seeks funds that protect wealth in bear markets (i.e., do not decline as much as the comparative index).

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

Baird's Advisory Services Research group is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. In selecting funds, Advisory Services Research utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and



removing funds for the ALIGN Strategic Portfolios Program is similar to the process Baird uses to select and remove Recommended Managers described under "Portfolio Manager Selection and Evaluation" above, except that the final determination of the funds made available in the Program is subject to the approval of Baird's ALIGN Oversight Committee. The ALIGN Strategic Portfolios Program may include funds included on Baird's Mutual Fund Recommended list. Certain Baird-affiliated funds may be included in the ALIGN Strategic Portfolios from time to time.

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

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

Depending on the ALIGN Tactical Portfolio chosen, the ETFs in the ALIGN Tactical Portfolio may

consist of funds having various investment objectives and principal strategies, including but not limited to, the following: domestic equities, specific styles, capitalizations and sectors, domestic fixed income securities, international equities, real estate, currencies, commodities and short domestic equities (i.e., ETFs that are inversely correlated to a equities index).

The ALIGN Tactical Portfolios are actively managed. The Portfolio allocations and the ETFs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETFs may be removed or added as Baird determines is appropriate. ALIGN Tactical Portfolios may experience relatively high portfolio turnover.

Baird and the client's HGMR Portfolio Manager have the discretion to rebalance the client's account invested in an ALIGN Portfolio at such times as they may determine. They may also change a client's asset allocation for any reason which may include, but shall not be limited to, changes in market conditions, Baird's opinion on the future performance of particular asset classes or the client's financial circumstances. Any rebalance of a client's account or other change in asset allocation may result in taxable gains.

**Advisory Choice Service.** When recommending investment products to clients under the Advisory Choice Service, HGMR Portfolio Managers may use any of the investment strategies and methods of analysis discussed above. They may also utilize Baird's Recommended Managers list, Baird's ALIGN Portfolios and lists of alternative investments that Baird has deemed eligible for use in the Services. More information about how Baird selects managers for the Recommended Managers Service and how Baird compiles its ALIGN Portfolios and lists of eligible alternative investments is provided above.

HGMR may also manage client assets using other investment strategies and investment products based upon a client's particular needs. An HGMR Portfolio Manager may use certain investment strategies, such as concentrated investment strategies and margin, and certain types of investment products, such as illiquid securities, leveraged or inverse funds and structured products. These investment strategies and products involve special risks and may not be

appropriate for all clients. Please see "Principal Risks" below for more information.

**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 a Service, a client may be subject to the risks described below. The risks discussed below vary by Service and investment style or strategy, and may or may not apply to a client. Clients are encouraged to discuss with their HGMR Portfolio Manager the risks that apply to them.

General risks of the Services 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 HGMR Portfolio Manager 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 HGMR Portfolio Manager of these considerations so the HGMR Portfolio 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.* High portfolio turnover may 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](http://www.rwbaird.com/disclosures).

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

**Foreign Issuer Risks.** Securities of foreign issuers and ADRs are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting

international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

**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](http://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](http://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, FINRA and the 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](http://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](http://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 HGMR Portfolio Manager.

### Voting Client Securities

**Non-Discretionary Services.** Under the Non-Discretionary Services, each client retains the right to vote proxies with respect to the securities held in his or her accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and HGMR is under no obligation to take any action or render any advice regarding such matters. The client's HGMR Portfolio Manager may, upon the client's request, provide advice on how a proxy should be voted or what other action the client should take.

**SMA Services and SMA Accounts.** Under the SMA Services and with respect to SMA accounts managed by other investment managers, 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 the investment manager selected to manage the client's account. A client may select either option by making the appropriate election in the client's Investment Management Agreement (or by providing proper instructions to the third party investment manager directly). For information about a manager's voting policies and procedures, clients should review the manager's brochure. Baird has no authority, direct or implicit, and accepts no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in SMA Service accounts.

**Discretionary Services.** Under the Discretionary Services, 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 HGMR Portfolio 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 and HGMR will monitor corporate events and vote proxies in a manner that Baird and HGMR believe is consistent with the client's best interests. Baird and HGMR utilize 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 HGMR Portfolio Manager has the right to override ISS's recommendations when the HGMR Portfolio Manager determines it to be in the clients' best interests to do so. The HGMR Portfolio Manager also has the right to suggest how to vote on a particular matter not addressed by ISS. When an HGMR Portfolio Manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the HGMR Portfolio Manager will bring the matter to the attention of Baird's Proxy Voting Committee who will then be responsible for determining the vote to be cast.

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 HGMR Portfolio Manager. However, neither Baird nor the client's HGMR Portfolio 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.

## Client Information Provided to Portfolio Managers

Under the Recommended Managers Service, Baird and HGMR provide certain information about the client to the investment managers managing the client's account when the client establishes the advisory relationship with such manager. Such information includes the client's investment objectives, risk tolerance, age, investment timeframe, and liquidity requirements. Unless specifically requested to do so by a client, Baird and HGMR do not generally provide ongoing information about the client to the other



investment managers managing the client's account.

## Client Contact with Portfolio Managers

HGMR does not place any restrictions upon clients that wish to contact or consult with third party investment managers managing their accounts. HGMR encourages clients to discuss their accounts with their HGMR Portfolio Manager.

## Additional Information

### 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](http://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.

HGMR Portfolio Managers and certain other of Baird's and HGMR's personnel 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, HGMR and HGMR Portfolio 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, HGMR, HGMR Portfolio Managers and/or their 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, HGMR and HGMR Portfolio 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 HGMR Portfolio Managers may, from time to time refer clients to Baird Advisors, Baird Investment Management, or Baird Public Investment Advisors, investment management departments of Baird.

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

Baird also provides certain administrative services to the Baird Bond Funds. As compensation for those services, Baird receives a fee that is paid



monthly at an annual rate of 0.05% of each of the Bond Fund's average daily net assets.

Baird Financial Advisors who refer clients to the Baird Funds are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. HGMR Portfolio Managers do not receive any such referral compensation.

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

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

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

If a client expresses an interest, HGMR may refer clients to BPE. HGMR does not charge fees on client assets invested in private equity funds affiliated with Baird. Instead, Baird may provide compensation to the client's HGMR Portfolio Manager for referring the client to BPE.

## 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 HGMR Portfolio 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, HGMR and HGMR Portfolio 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. Baird, HGMR and HGMR Portfolio Managers receive compensation based upon the sale of such securities 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. If a client is paying commissions to HGMR for advisory services it provides to the client (in those advisory programs in which commissions may be charged), Baird, HGMR and HGMR Portfolio Managers could have a financial incentive to recommend an investment management firm that trades actively, thereby executing more trades and generating higher compensation for Baird, HGMR and HGMR Portfolio Managers. However, Baird, HGMR and HGMR Portfolio Managers act in the best interest of clients when selecting or recommending investment management firms or their investment products to clients. Further, Baird and HGMR do 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 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 (in those Services such option is available), a mutual fund may compensate Baird, HGMR and HGMR Portfolio Managers based on the front-end or back-end sales charges, if any, paid by the client.

Baird, HGMR and HGMR Portfolio Managers may also receive compensation from a mutual fund company relating to the client's continued investment in a mutual fund. Baird, HGMR and HGMR Portfolio 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 HGMR Portfolio 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 account and client is paying an asset-based fee to Baird on such investment, Baird rebates the fee to the client's account, except with respect to a client's non-Retirement Account in the HGMR Investment Management Service. Accordingly, the receipt of these fees provides Baird and HGMR Portfolio 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 an HGMR Portfolio 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 Program 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 Financial Advisors 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 Baird Financial Advisors 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 Baird's ALIGN Program.

The financial support and other payments that Baird receives from mutual funds are not paid to HGMR Portfolio Managers, and HGMR Portfolio Managers' compensation is not tied to such payments.

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](http://www.rwbaird.com/mutualfunds). Clients may also contact Baird or the client's HGMR Portfolio 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 HGMR Portfolio Managers and the compensation Baird pays to HGMR Portfolio 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 HGMR Portfolio Managers. If Baird receives distribution (12b-1) fees and other shareholder servicing fees from Schwab with respect to a mutual fund investment in a client's account and client is paying an asset-based fee to Baird on such investment, Baird rebates the fee to the client's account, except with respect to a client's non-Retirement Account in the HGMR Investment Management Service. This may provide Baird and HGMR Portfolio 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, its Financial Advisors and HGMR Portfolio Managers for selling their insurance products. Baird, its Financial Advisors and HGMR Portfolio 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 Financial Advisors. 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 Baird Financial Advisors 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 Financial Advisors, and Financial Advisors' compensation is not tied to such financial support. Baird Financial Advisors and Baird associates may, however, receive non-cash compensation and other benefits from Baird and insurance companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide Baird Financial Advisors 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 Financial Advisors 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](http://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, HGMR and HGMR Portfolio Managers. Baird, HGMR and HGMR Portfolio 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 an HGMR Portfolio 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, HGMR Portfolio 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 HGMR Portfolio 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, HGMR and HGMR Portfolio 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 HGMR Portfolio 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 PrivateBancorp, 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 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 HGMR Portfolio Managers. The compensation that Baird, HGMR and HGMR Portfolio 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](http://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 HGMR. In some circumstances, the receipt of such compensation may extend beyond a client's advisory relationship with HGMR 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, HGMR 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 Investment Management Agreement discusses agency cross transactions and authorizes HGMR 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 HGMR 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, HGMR, 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, HGMR 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 HGMR Portfolio 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 Investment Management Agreement discloses, where applicable, the possibility of Baird's role in potential principal transactions, and each transaction confirmation sent to HGMR clients discloses the capacity in which Baird served in the transaction and whether Baird is a market maker in each security the client bought or sold.

To the extent not otherwise prohibited by ERISA, if a client selects non-discretionary advisory services to be provided by Baird or if a client selects third party investment advisors to manage the client's account, the client's Investment Management Agreement provides Baird with a blanket authorization to act as principal for Baird's own account in selling any security to or purchasing any security from the client's account. With this authorization, Baird may effect any and all principal transactions with the client's account without having to provide specific written disclosures and obtain written client consent prior to completion of each proposed principal trade, subject to the requirements of Rule 206(3)-3T under the Advisers Act (including any amendments to such rule or successors to such rule) and/or other applicable rules and interpretations. **This authorization to enable Baird to trade as principal with a client's account may be revoked at any time by the client in client's sole discretion by notifying the client's HGMR Portfolio Manager in writing.**

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.

*Block Transactions.* HGMR may aggregate contemporaneous buy and sell orders for the accounts of its discretionary advisory clients

("block transactions"). This practice may enable HGMR to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated.

The advisory clients participating in block transactions may not all be participants in the services described in this Brochure. All advisory clients participating in a block transaction will receive the same execution price for the security bought or sold. Average prices may be used when allocating purchases and sales to a client's account because such securities may be purchased and sold in a series of transactions.

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

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

permitted by regulatory requirements. When HGMR is not able to aggregate trades, HGMR generally uses a trade rotation process that is designed to be fair and equitable to all HGMR clients.

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

Similarly, if a client directs HGMR to use a designated broker-dealer for trade execution (a "directed brokerage arrangement"), HGMR may not be able to aggregate the client's account trades with orders for other HGMR clients. Directed brokerage arrangement orders, because they are directed to the specified broker-dealer, may be manually executed by HGMR after the trade execution is completed for other HGMR client accounts. Directed brokerage arrangements may cost the client more money as they may result in the client paying commissions and greater bid/offer spreads, or receiving a less favorable net price than the client may experience than if Baird executed trades for client's account.

Certain client accounts, including those of the mutual funds identified above, managed by HGMR and Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. This creates a potential conflict of interest as HGMR and Baird may have an incentive to favor client accounts that generate a higher level of compensation than accounts with lower fee or commission rates. HGMR and Baird address potential conflicts of interest posed by different client fee arrangements by complying with their fiduciary duties, avoiding or disclosing conflicts of interest to clients, and adopting and enforcing internal procedures designed to ensure that securities allocations made to client accounts are made in a manner such that all clients receive equitable treatment.

*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 Service accounts. To avoid favoring one client over another client, Baird attempts to use objective market data in the correction of any trading errors.

*Interest in Other Client Transactions.* Baird, HGMR and HGMR Portfolio 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 "Additional Information—Other Financial Industry Activities and Affiliations" above.

*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.*

## Review of Accounts

*Client Account Review.* Client accounts are monitored on an ongoing basis by the client's HGMR Portfolio Manager and are subject to review by HGMR's Baird Compliance Administrative Manager. The client's HGMR Portfolio Manager generally reviews the performance of the client's account at least quarterly. HGMR's Baird Compliance Administrative Manager (or his or her designee) reviews a client's account's daily trading activity and also performs a quarterly

review of the HGMR Portfolio Manager's accounts, focusing on clients' investment objectives and the accounts' performance. As it relates to the HGMR Investment Management Service, additional reviews performed by HGMR personnel include drift reports, review of over- and underweighted holdings, and for Counseled portfolios, holdings not included in HGMR's model and an asset allocation review that compares a client's investment policy statement to each account's cash and investment allocation. These reviews are performed quarterly, or more often, if deemed necessary.

*Performance and Account Reports.* Baird generally provides written reports to clients on the performance of their 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. HGMR Portfolio Managers also provide clients with general market and portfolio performance commentary, typically on a quarterly basis.

Benchmarks shown in performance reports are for informational purposes only. HGMR'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 benchmarks used by Baird with respect to a client's SMA Service account may differ from the benchmarks used by the manager of the client's SMA account. As a result, the performance comparisons in Baird's performance reports may

differ from reports provided to clients directly by the client's SMA account manager.

If Baird provides transaction execution services to the client, 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.

For most Services, Baird gives each client the option of either receiving a trade confirmation for each transaction or suppressing delivery of trade confirmations by making the relevant selection in the client's Investment Management Agreement.

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 or HGMR 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 "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above, for providing investment advice or advisory services to clients.

### Financial Information

Neither Baird nor HGMR requires or solicits 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. Neither Baird nor HGMR is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

### Special Considerations for Retirement Accounts

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

When HGMR, 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, HGMR 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 HGMR charged to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client acknowledges in the client's Investment Management Agreement that: (i) the investment in Baird-affiliated mutual funds for the client's account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those funds; (ii) subject to Baird Advisor's investment strategies and the investment guidelines for the client's account, all assets of the account may be invested in one or more of the Baird-affiliated mutual funds that may be used in connection with the client's account; (iii) the client received prospectuses or other disclosure documents for the Baird-affiliated mutual funds that may be used in connection with the account, each of which include a summary of all fees that may be paid by the Baird-affiliated mutual funds to Baird; and (iv) the client received information concerning the nature and extent of any differential between the rate of such fees and the investment advisory fees payable by the client to HGMR. The differential between the fees to be charged by HGMR for its investment management or advisory services pursuant to the client's Investment Management Agreement, if applicable, and the investment advisory and other similar fees paid by the affiliated mutual fund to Baird with respect to the services it or any of its affiliates provides to the affiliated mutual fund is the difference between any such fee disclosed on the fee schedule attached to the client's Investment Management Agreement and the applicable investment management, investment advisory and other similar fees detailed in the relevant affiliated mutual fund prospectus.

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