

# Baird Private Wealth Management

## Brochure

March 28, 2013



## Baird Private Investment Management Program (Commission-Based Pricing)

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

## Material Changes

Robert W. Baird & Co. Incorporated ("Baird") updated the Form ADV Part 2A brochure for its Baird Private Investment Management Program (Commission-Based Pricing) (the "Brochure") on March 28, 2013. The following summary discusses the material changes that Baird has made to the Brochure since March 30, 2012, the date of the last annual update to the Brochure.

- Baird has updated the information about its ownership structure and its regulatory assets under management. See the section of the Brochure entitled "Advisory Business" for more information.
- Baird has added new disclosures about special, and in some cases, significant risks posed by certain types of investment products and investment strategies. See the sections of the Brochure entitled "Advisory Business—Summary of Services", "Advisory Business—Description of PIM Program", "Advisory Business—Additional Program Information—Special Situation Strategies and Investments" and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" for more information.
- Baird has updated the list of the types of investments that are eligible for PIM Accounts. See the section of the Brochure entitled "Advisory Business—Additional Program Information—Eligible Investments" for more information.
- Baird has updated the information about the requirements for opening and maintaining an account in the PIM Program. See the section of the Brochure entitled "Advisory Business—Additional Program Information—Account Requirements" for more information.
- Baird has provided additional information about the fees and expenses a client may incur in addition to the fee the client pays to Baird. See the section of the Brochure entitled "Fees and Compensation—Other Fees and Expenses" for more information.
- Baird has enhanced the disclosures regarding: (a) the investment strategies and methods of analysis used by its home office professionals and PIM Managers when they provide investment advice to clients; (b) the level of initial on ongoing evaluation, monitoring and review they perform on investment products; and (c) the risks posed by certain investment strategies and products. See the sections of the Brochure entitled "Methods of Analysis, Investment Strategies and Risk of Loss" for more information.
- Baird has updated the information about the compensation that it and its associates may receive relating to client investments and the conflicts of interest the receipt of such compensation may pose. See the Brochure sections entitled "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" for more information.
- Baird has enhanced the disclosures pertaining to its trading practices. See the section of the Brochure entitled "Brokerage Practices" for more information.
- Baird has provided additional information on how account values are determined for purposes of calculating a client's performance reports. See the section of the Brochure entitled "Review of Accounts—Account Statements and Performance Reports" for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 30, 2012. The updated Brochure contains changes that are not listed above.

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## Advisory Business

This Brochure describes the Baird Private Investment Management Program (Commission-Based Pricing) that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through Baird Private Wealth Management ("PWM"), a department of Baird. Separate brochures describe other investment advisory services that Baird offers to its clients and discuss the agreements, fees and potential conflicts of interest for each service. If you would like to request a brochure for another investment advisory service provided by Baird, please contact a Baird Financial Advisor or call Baird toll-free at 1-800-792-2473.

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

## Robert W. Baird & Co.

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

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

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

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

As of December 31, 2012, Baird had approximately \$48.3009 billion in regulatory assets under management, approximately \$33.2377 billion of which was managed on a discretionary basis and approximately \$15.0632 billion of which was managed on a non-discretionary basis.

## The Client-Baird Fiduciary Relationship

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Baird and its associates are deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure. That means that Baird and its associates are required to act in the best interest of the client when providing investment advisory services. From time to time, Baird or its associates may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of Baird or its associates. Baird generally addresses potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure, Brochure supplements that contain information about individuals providing investment advice to clients, and the agreements clients enter into with Baird. In addition, Baird has adopted internal policies and procedures for Baird and its associates that require them to: provide investment advice that is suitable for advisory clients (based upon the information provided by such clients); make full disclosure of all potential, material conflicts of interest; act with utmost care and good faith in dealings with advisory clients; and seek to obtain "best execution" of advisory client transactions. The specific business practices that create potential conflicts of interest with clients and additional measures used by Baird to address them are discussed in other sections of this Brochure.

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

## Summary of Services

This Brochure describes certain investment advisory services that Baird PWM offers to clients and their advisory account(s) ("Account") through its Private Investment Management Program (Commission-Based Pricing) ("PIM Program"). The PIM Program is a discretionary program where a client provides to Baird full discretionary authority to manage the client's Account. The investment advisory services offered under the PIM Program generally include portfolio management, investment advice and consulting services, performance reporting, and related account services. Baird tailors its advisory services under the PIM Program to the individual needs of clients.

The PIM Program discussed in this Brochure is designed to address certain investment needs of clients and may not be appropriate for every client. For example, the PIM Program discussed in this Brochure may not be appropriate for clients who have high trading activity or who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as "unsolicited" transactions.

In addition, certain investment strategies and investment products made available to a client may not be appropriate for the client. The use of certain strategies and investment products involves special risks, and a client should not engage in a strategy or purchase an investment product unless the client understands the related risks. See "Additional Program Information—Special Situation Strategies and Investments" and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

Baird clients typically work with a Baird Financial Advisor who has been approved by Baird to provide services under the PIM Program (a "PIM Manager"). Clients generally complete a Client Investment Profile or provide information that assists the client and the client's PIM Manager with determining the client's investment needs, objectives, investment time horizon and risk tolerances for the assets being invested. The client, with the assistance of a PIM Manager,

ultimately selects the investment strategy and services that are most appropriate for the client.

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition to the investment advisory services that Baird provides in connection with the PIM Program, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services.

In contrast to many advisory programs, a client who participates in the PIM Program described in this Brochure does not pay an asset-based fee (i.e., a fee based on a percentage of the assets in the client's Account). Instead, a client pays Baird and the PIM Manager commissions and other costs and expenses of the transactions that are effected for the client's Account ("Transaction Fees"). These commissions and other transaction charges compensate Baird and the PIM Manager for the combination of investment advice and brokerage services they provide.

A client that wishes to participate in the PIM Program will enter into an advisory agreement with Baird. The client's advisory agreement will contain the specific terms applicable to the services selected by the client, fees payable by the client and other terms applicable to the client's advisory relationship with Baird. A client should note that the client's advisory relationship with Baird does not begin until Baird enters into an advisory agreement with the client, which occurs when Baird's home office has accepted the client's advisory agreement and determined that all of the client's paperwork is in order. See "Advisory Business—Additional Program Information—Account Requirements" below for more information.

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

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

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

### Description of PIM Program

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

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

Investment Strategies and Methods of Analysis—Private Investment Management" below.

As mentioned above, under the PIM Program, a client gives full discretionary authority and management to Baird. Baird may remove any PIM Manager or strategy from the PIM Program at any time and to transfer day-to-day management responsibility of a client's Account to another PIM Manager or Baird Financial Advisor at any time without providing prior notice to, or obtaining the consent of, the client.

### Important Information about PIM Accounts.

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

### Additional Program Information

#### Special Situation Strategies and Investments Alternative Investment Products

Certain Services make available complex securities and investment products that pursue non-traditional, alternative investment strategies ("Alternative Investment Products"). Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), exchange-traded notes ("ETNs"), business development companies ("BDCs"), real estate investment trusts ("REITs"), master limited partnerships ("MLPs"), and managed futures.

In addition, a client should be aware that more traditional investments, such as mutual funds, exchange traded funds ("ETFs"), unit investment



trusts ("UITs") and variable annuities may also pursue alternative investment strategies, thereby making them Alternative Investment Products. A client should carefully review the prospectus or other offering document for each investment and understand the strategy being pursued before deciding to invest.

Investing in these products is not appropriate for many clients because they involve special risks. A client should not invest in these products unless the client understands the related risks and is prepared to experience significant losses in the client's Account. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information.

### **Margin, Short Sales, Options and Other Derivative Instruments**

In special situations, the strategy used for a client's Account may involve leverage or margin (when the client borrows money from a firm, such as Baird, to buy securities). A client may also elect to use margin as a method to pay for securities outside of the strategy being pursued by the client's Account.

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

In special situations, the strategy used for a client's Account may also involve short sales, options or other derivative instruments.

Short selling attempts to benefit from an anticipated decline in the market value of a security. To affect a short sale, a client sells a security the client does not own. When a client sells a security short, Baird borrows the security from a lender and makes delivery to the buyer on the client's behalf. Because short sales involve an extension of credit from Baird to the client, a

client must use a margin account. A client must also eventually purchase the same shares sold short and return them back to the lender.

An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying security at a specific price (exercise or strike price) on or before a certain date (expiration date). The two types of options available are calls and puts. A call option gives the holder the right to buy a security at a certain exercise price within a specific period of time. If the market value of the security underlying the option rises above the exercise price, the holder of a call option will be able to buy the security at a price below its current market value. A put option gives the holder the right to sell a security at a certain exercise price within a specific period of time. If the market value of the security underlying the option falls below the strike price, the holder of a put option will be able to sell the security at a price above its current market value. In some cases, Baird may require clients to open a margin account to engage in options trading.

The use of these strategies is not appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before engaging in these types of strategies, a client is strongly urged to discuss the strategy with the client's PIM Manager and any investment manager managing the client's Account and to carefully review the client's client account agreement and related disclosure documents, which the client should have received when opening the Account. Additional information about these strategies generally is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

A client assumes responsibility for engaging in these types of strategies. If a client determines that the client no longer wants to engage in any of these strategies, the client is responsible for notifying the client's PIM Manager and any investment manager managing the client's Account. Baird is not responsible for any losses resulting from any third party investment

manager's failure or delay in implementing any such instructions.

A client should understand that Baird and the client's PIM Manager may have a financial incentive to use, or recommend the use of, these strategies or to increase, or recommend the increase of, margin loans. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions" below.

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

### **Eligible Assets**

A client's Account may generally only hold investment products that Baird has determined to make available for use in the PIM Program ("eligible assets"). Although Baird determines the investment products made available under those Programs, the level of initial and ongoing evaluation, monitoring and review that Baird and its PIM Managers perform on investment products varies. Investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those products that are included on a recommended list. For more information, see the description of the PIM Program above and under "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis" below.

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

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

Eligible and ineligible assets for the PIM Program generally include the following types of investments:

- equity securities, including, but not limited to, common stocks, preferred stocks, convertible preferred stocks, American Depositary Receipts ("ADRs"), and ordinary shares, including whether exchange-traded, or over-the-counter traded;
- fixed-income securities, including but not limited to, debt securities issued by domestic and foreign corporations and other entities; asset-backed securities (including mortgage-backed securities and collateralized mortgage obligations ("CMOs")); convertible debt securities; obligations issued by U.S., state, or foreign governments or their agencies, instrumentalities, or authorities, such as securities issued by the U.S. Treasury, federal government agencies or federal government-sponsored enterprises ("Agency securities"), or foreign governments; municipal securities; money market mutual funds; certificates of deposit ("CDs") (primary or secondary); commercial paper; and cash and cash equivalents;
- rights or warrants on equity securities and written covered call equity options;
- open-end mutual funds shares, including funds with a sales load or sales charge (such as Class B and Class C shares);
- closed-end funds, ETFs, and UITs, including those that impose an initial or deferred sales charge;
- BDCs, publicly-traded REITs and MLPs (which may be organized as limited liability companies ("LLCs")); and
- ETNs, leveraged funds, inverse funds, and other special situation mutual funds, and exchange or swap funds;

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

- put options;



- private REITs and other real estate interests, and MLPs and LLC units that are not publicly-traded;
- annuities and insurance products;
- commodities, futures or options on commodities, and commodity pools; and
- hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, structured products, and managed futures.

### ***Unsupervised Assets***

Under certain circumstances, Baird, in its sole discretion, may accept a client request to place an ineligible asset into a client's Account. In most cases, an ineligible asset is an "unsupervised" asset, meaning that Baird and its PIM Managers do not manage or provide investment advisory services regarding such asset. Baird, in its sole discretion, may also designate an asset that is otherwise eligible for a client's Account as "unsupervised" under certain circumstances, such as when a client acquires an asset in an unsolicited transaction, transfers an asset from an account held at another firm, or continues to hold an asset against Baird's or the client's PIM Manager's recommendation. If a client holds an unsupervised asset in an Account, the client does so with the understanding that the unsupervised asset may not be included in performance reports provided to the client and that Baird and its PIM Managers do not manage, provide investment advice, or otherwise act as an investment adviser with respect to the unsupervised asset, even if the unsupervised asset is included in Account statements or performance reports provided to the client. Baird may impose administrative or other fees upon such assets. See "Fees and Compensation—Other Fees and Expenses" below. A client should also understand that holding an unsupervised asset in an Account may increase the risk of trade errors, overinvestment, and negative Account performance. A client should consult the client's PIM Manager for further information.

### ***Account Requirements***

#### ***Opening an Account***

A client that wishes to participate in the PIM Program will enter into an advisory agreement with Baird. The client's advisory agreement will

contain the specific terms applicable to the services selected by the client, fees payable by the client, and other terms applicable to the client's advisory relationship with Baird.

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

After a client has signed and delivered an advisory agreement to Baird, the agreement is subject to review and acceptance by the client's PIM Manager, his or her Branch Office Manager, and Baird's Fee Based Account Administration Department. The agreement will become effective when it is accepted by Baird's Fee Based Account Administration Department and Baird has delivered to the client all applicable agreement- and Brochure-related documents. A client should understand that the agreement will not become effective, and Baird will not provide any advisory services selected by the client, until such time that Baird has accepted the agreement. Baird may delay acceptance of the agreement and the provision of advisory services to the client for various reasons, including deficiencies in the client's paperwork. Once it has become effective, the agreement shall continue until it is terminated in accordance with the terms described in the agreement.

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

important information if a client changes Programs or services or establishes other advisory accounts with Baird.

### **Certain Account Requirements**

#### *Minimum Account Size*

The PIM Program has a minimum Account size and may have a minimum fee, which are described in the section entitled “Fees and Compensation” below. Baird may remove a client from the Program and immediately terminate the advisory agreement with respect to an Account upon written notice to the client if the client fails to maintain the required minimum asset levels in an Account or if the client fails to otherwise abide by the terms of the Program. Upon the termination of the advisory agreement, with respect to an Account held at Baird, a client’s Account will be converted to and designated as a brokerage account. The advisory agreement will no longer apply to such Account and the terms and conditions of the client’s client account agreement will govern such Account.

#### *Account Contributions and Withdrawals*

A client may fund an Account with cash and with securities that Baird deems to be acceptable in its sole discretion. A client should consider all relevant factors before contributing securities to the Account. For example, Baird’s or the client’s investment manager’s review of securities used to fund the Account may delay investing, and/or the securities contributed to the Account may not be appropriate for the client’s strategy, and Baird or the investment manager may sell, or recommend the sale of, such securities. A sale could result in adverse tax consequences for the client. In addition, if the securities are subject to deferred sales charges or redemption fees, the client will be responsible for paying those charges and fees. Certain funding transactions may be handled by Baird on a principal basis for trade execution, and are not considered investment advisory services of Baird or the client’s investment manager.

If an asset transferred to an Account is an ineligible asset under the terms of the applicable Program, Baird, the client’s PIM Manager or the client’s investment manager may sell the asset or transfer it into a separate brokerage account. Alternatively, they may designate such asset as an unsupervised asset as further described under “Advisory Business—Additional Program Information—Unsupervised Assets” above.

A client is responsible for notifying the client’s PIM Manager of any contributions made into the Account and to instruct the client’s PIM Manager to liquidate positions in the event the client wishes to withdraw assets from the Account.

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

#### *Changes to Accounts*

A client’s direction to change programs, investment strategies or to make other changes to an Account will not become effective until such time that such change has been accepted by Baird’s Fee Based Account Administration Department and Baird has delivered to the client the applicable advisory agreement or Brochure and any related documents.

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

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

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

If a client wishes to obtain loans secured by assets in the client’s Account (commonly referred to as “collateralizing”) and Baird agrees to the arrangement, the client should understand that

the lender may exercise certain rights and powers over the assets in the Account, including the disposition and sale of any and all assets pledged as collateral for the loan to meet a collateral call, which may occur without prior notice to the client. A collateral call could have adverse tax consequences, disrupt a client's investment strategy, and have an adverse impact on the Account's performance. A client should be aware of these and other potential adverse effects of collateralizing Accounts before deciding to do so.

A client is required to disclose the terms of the client's agreements with Baird to any lender seeking to use Account assets as collateral. In the event of any conflict between the terms of the client's agreements with Baird and the client's collateral arrangements, the terms of the client's agreements with Baird will prevail. A client must promptly notify Baird of any default or similar event under the client's collateral arrangements.

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

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

Securities purchased on margin are used as Baird's collateral for the margin loan. Clients that have a margin account should review the section "Advisory Business—Additional Program Information—Special Situation Strategies and Investments" above for additional information.

#### *Electronic Delivery of Documents*

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

#### **Termination of Accounts**

A client's advisory agreement may be terminated in accordance with the terms of the agreement. Termination of the agreement will not, however, affect the liabilities or obligations of the parties under the agreement arising from transactions initiated prior to the termination, including, without limitation, the validity of any action previously taken by Baird regarding a client's Account or a client's obligation to complete any transactions that Baird initiated on a client's behalf prior to the effectiveness of the termination. Following termination of the agreement with respect to an Account, Baird retains the right to complete any transactions open as of the termination date and it may retain such amounts in a client's Account that it deems to be necessary to effect completion of such transactions.

Upon the termination of the agreement with respect to an Account held at Baird, a client's Account will be converted to and designated as a brokerage account. The advisory agreement will no longer apply to such Account and the terms and conditions of the client's client account agreement will govern such Account. Baird, and, if relevant, any other investment manager managing such Account, will be under no obligation to recommend any action with regard to, or to liquidate the securities or other investments in, such Account. Upon termination, it is a client's exclusive responsibility to issue instructions, in writing, regarding any assets in the client's Account. A client must provide the name of another custodian to Baird at the time the agreement is terminated if the client elects to move custody of the assets from Baird.

If a client requests Baird to liquidate the client's investments in connection with a termination of an Account, the client may be charged commissions in accordance with Baird's standard commission schedule then in effect. When processing liquidation requests in such cases, Baird will sell readily marketable and otherwise unrestricted securities in the Account, leaving any investments that Baird is not able to sell in the client's Account until such time that Baird is able to sell them. For example, if a client's Account includes illiquid securities or securities with limited liquidity or redemption schedules, such as Alternative Investment Products, Baird may be unable to sell those investments upon request. A

client will generally have to wait for specific liquidity windows applicable to investments the client owns.

A client may incur additional expenses and liabilities, including tax-related liabilities, if a client closes an Account, terminates the advisory agreement, or transfers of assets out of Baird's custody. Some of the investments offered in connection with the Program contain restrictions that limit their use, and such investments may be unavailable for purchase or holding outside of a Baird Account. For example, certain investment funds held in an Account may only be available to a client through the Program or may not be held at another firm. If restrictions apply, a client will be required to sell or redeem such shares or exchange them for another class that has higher ongoing operating expenses. A client should consider restrictions applicable to Program investments carefully before participating in the Program. A client should contact the client's PIM Manager for specific information as to how Account closure, termination of the advisory agreement, or asset transfers might impact the assets in the client's Account.

The end of a client's PIM Manager's employment with Baird will not automatically terminate the client's advisory agreement. If a client's PIM Manager ceases to participate in the PIM Program or be employed by Baird, Baird may assign the client's PIM Account to another PIM Manager or Financial Advisor.

### **Updating Client Information**

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

### **Legal and Tax Considerations**

Baird and its associates do not provide legal or tax advice to clients.

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

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

### **Fees and Compensation**

#### **Advisory Fee**

A client's advisory agreement will set forth how the compensation the client will pay to Baird and the PIM Manager will be determined. Instead of an asset-based fee, clients who participate in the PIM Program (Commission-Based Pricing) pay to Baird Transaction Fees for each transaction effected for their Accounts.

For equity securities and ETPs the Transaction Fees generally will be determined according to Baird's standard commission schedule then in

effect, unless otherwise stated in the client's advisory agreement. The commission rates may be negotiated by the client. Baird's standard commission schedule considers the share price or principal amount and the number of shares traded in determining the applicable commission. Baird may change its standard commission schedule at any time without notice to the client. The transaction confirmation sent to the client will disclose the amount of the commission and other applicable charges for that transaction. Clients are encouraged to discuss commission rates with their PIM Manager.

For fixed-income securities, such as bonds, a client typically pays a fixed dollar amount per security bought or sold for the client's Accounts, or the client may pay a certain dollar amount that varies depending upon the aggregate value of the transaction.

For other investment products, such as mutual funds, a client generally will pay the commissions, sales charges and other transaction-based compensation disclosed in the prospectus or other offering documents for the applicable investment product. More information about this compensation is disclosed on [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

For equity securities, ETFs, bond and no-load mutual fund transactions, a client is subject to a minimum commission charge then in effect. The minimum commission charge may change from time to time without notice to a client and can be found on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) or by contacting a PIM Manager.

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

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

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

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

The Transaction Fees and minimum Account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's Account, the client's particular investment style or objective, and any particular services requested by the client. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

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

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



Departments also periodically monitor for excessive trading in PIM Program client accounts.

### Other Fees and Expenses

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

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

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

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

If a client holds an unsupervised asset in the client's Account, the client may be charged a commission, markup or markdown in connection with the purchase or sale. Additionally, Baird may, upon notice to clients, impose a set-up fee and/or a maintenance or administrative fee on unsupervised assets maintained in an Account.

Clients who have PIM Program Accounts may also have other accounts with Baird. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the PIM Program.



### Other Compensation Received by Baird

Baird is registered as a broker-dealer under the Securities Exchange Act, and PIM Managers are registered broker-dealer representatives of Baird. In such capacities, Baird and PIM Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. At times, Baird and PIM Managers provide such brokerage and related services to clients in connection with the Services described in this Brochure. Baird and PIM Managers receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and PIM Managers an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and PIM Managers are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures that are designed to ensure that investments made for client accounts are appropriate for the client (based upon the information provided by the client). For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Advisory Business" and "Fees and Compensation" above, and "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

With respect to clients participating in the PIM Program with a Commission-Based Pricing fee arrangement, Baird and its PIM Managers will generally not purchase for client accounts, or recommend the purchase of, "no load" mutual funds.

The PIM Program generally requires clients to custody their assets at Baird and requires them to effect transactions through Baird, as broker-dealer. Please see the section "Brokerage Practices" below for more information. A client that wishes to purchase investment products through other brokers or agents that are not

affiliated with Baird should contact a PIM Manager about other Baird investment advisory programs that might be right for them.

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

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

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

### Types of Clients

Baird offers the PIM Program to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities. Applicable requirements for opening or maintaining an account with Baird, such as minimum account size, are discussed in the section entitled "Fees and Compensation" above.

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

### Investment Strategies and Methods of Analysis

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

The strategies used by a PIM Manager may involve various investment styles, such as, aggressive growth, growth, moderate growth, growth and income, income, value, and others. The strategies may focus on certain types of investments (e.g., equity securities), market capitalization ranges (e.g., large cap companies), geographic regions or markets (e.g., emerging markets), industries, sectors, credit quality, maturities and durations. They may use various forms of security analyses, including:

- fundamental analysis: analyzing an issuer's sales, earnings, balance sheets, its services and products, its management, its competitors and industry, and the outlook for the issuer and its industry to identify an investment's intrinsic value; this analysis may include qualitative and/or quantitative analyses;
- qualitative analysis: the use of subjective judgment to analyze factors that may be difficult to quantify or measure objectively; as it pertains to managers and investment products, qualitative analysis may include review of the background and experience of a manager or a mutual fund company;
- quantitative analysis: the use of complex statistical analysis techniques or models (which are based upon certain assumptions) to review quantitative factors to understand behavior and attempt to predict market events, market prices, etc.; as it pertains to managers and investment products, quantitative analysis may include review of manager performance, investment style, style consistency, risk, and risk-adjusted performance; and
- technical analysis: analyzing past price and volume patterns and trends in the trading markets to attempt to predict the direction of

both the overall market and specific investments.

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

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

When providing investment advice to clients, PIM Managers may use recommended lists made available by Baird's Asset Manager Research Department or other Baird Departments. For more information about Baird recommended lists, see "Certain Recommended Lists" below.

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

Under certain circumstances when requested by a client, Baird may allow a client to select an investment product that is not on a Baird recommended list or that is generally not made available to Baird clients. A client should note that Baird does not provide any initial or ongoing

evaluation, monitoring or review of any such investment products and that the client's decision to select such investment product is based solely upon the client's review of the investment product.

PIM Managers may use a wide variety of investment products to implement the client's investment strategy, which investments are further described under "Advisory Business—Additional Program Information—Eligible Assets" above. PIM Managers may also engage in certain strategies and use certain investments that involve special, sometimes significant, risks. See "Advisory Business—Description of the PIM Program" above for more information.

The performance of a client's PIM Account is compared to one or more benchmark indices that the PIM Manager, in conjunction with a PIM Product Manager, determines is most suitable for comparison with the portfolio's investment style. Baird may at times change a client's PIM Account benchmark index without prior notice to the client.

### **Certain Recommended Lists**

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

Associates for inclusion in Baird's Recommended Mutual Fund List.

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

### **Principal Risks**

Risk is inherent in any investment product and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Also, a client's Account value may fluctuate, sometimes dramatically, depending upon the nature of the client's investments, market conditions and other factors.

By participating in a Program, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by Program and investment style or strategy, and may or may not apply to a client. Clients should not pursue a strategy or invest in an investment product unless they are prepared to accept the associated risks. Clients are encouraged to discuss with their PIM Manager the risks that apply to them. A client should also review the prospectus or other disclosure document for any security or other investment product in which the client invests, as it will contain important information about the risks associated with investing in such security or other investment product.

General risks of the Programs include the following:

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

**Management and Securities Selection Risks.**

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

**Investment Objective and Asset Allocation Risks.**

A client's investment objective and asset allocation strategies involve the risk that certain asset classes selected for the client's Account may not perform as well as other asset classes during varying periods. In addition, clients who pursue more aggressive investment objectives and asset allocation strategies, while hoping to achieve high

returns, may face greater risk of loss than clients with more conservative objectives and strategies. In developing investment objectives and asset allocation strategies, clients should carefully consider their financial situation and needs, investment goals, investment time horizon and risk tolerance. A client should inform the client's PIM Manager of these considerations so the PIM Manager can assist in determining the client's investment objectives and asset allocation strategies.

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

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

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

**Common Stock Risks.** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic and banking crises. Holders of common

stocks are generally subject to greater risk than holders of preferred stocks and debt obligations of the same issuer because common stockholders generally have inferior rights to receive payments from issuers in comparison with the rights of preferred stockholders, bondholders and other creditors.

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

**Interest Rate Risk.** The value of some investment products, particularly fixed income securities, is affected significantly by changes in interest rates. Generally, when interest rates rise, the product's market value declines and when interest rates decline, its market value rises. In addition, a rise in interest rates may have a negative impact on the issuer, which, in turn, could have a negative impact on the market value of the investment product.

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

**Investment Fund Purchase and Redemption Risks.** From time to time Baird, a PIM Manager, or an investment manager may decide to add or remove an investment fund to or from an investment strategy or Program. In addition, they may decide to increase or decrease their clients' account allocations to an investment fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in question and consequently, a client's investment. An investment fund receiving large purchase orders may have difficulty investing the cash,

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

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

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



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

**Money Market Fund Risks.** An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds typically seek to preserve the value of an investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value per share fall. In some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund would not be available for purchases or withdrawals.

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

**Concentration Risks.** A client's Account may consist of a portfolio of securities that is concentrated in an issuer or group of issuers, an

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

**Frequent Trading and Portfolio Turnover Risks.** Some of the investment strategies offered to clients in this Brochure may involve frequent or active trading for client accounts, which could result in high portfolio turnover. A portfolio with a high turnover rate will incur more transaction costs than one with a lower rate. Higher transaction costs may negatively impact the return of the portfolio. High portfolio turnover may also cause a client to experience adverse tax consequences due to the fact that the client may have increased instances of realized gains and losses and such gains and losses may commonly be characterized as short term gains and losses under applicable tax law.

**Asset-Backed Securities Risks.** Asset-backed securities are securities secured or backed by mortgage loans, student loans, automobile loans, installment sale contracts, credit card receivables or other assets and are issued by entities such as commercial banks, trusts, financial companies, finance subsidiaries of industrial companies, savings and loan associations, mortgage banks and investment banks. These securities represent interests in pools of assets in which periodic payments of interest and/or principal on the securities are made, thus, in effect passing through periodic payments made by the individual borrowers on the assets that underlie the securities, net of any fees paid to the issuer or guarantor of the securities. Asset-backed securities are issued in multiple classes (or tranches) and their relative payment rights may be structured in many ways. Asset-backed securities may be subject to greater risk of default during periods of economic downturn than other instruments. Asset-backed securities are also more sensitive to interest rate risk than other types of fixed-income securities. Modest movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of these securities. Asset-backed securities are subject to a number



of other risks, including, but not limited to, market and valuation risks, liquidity risk, and prepayment risk.

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

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

**Options, Futures, and Short Sales Risks.** The strategy used for a client's Account may involve the use of options, futures, short sales or other derivative instruments. 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 Account's value. The use of these strategies is not appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value.

**Exchange Traded Notes Risks.** ETNs are complex investments and involve significant, special risks. As a result, ETNs may not be

suitable for all clients. An ETN is a type of debt security that trades on an exchange and provides a return linked to the performance of an underlying benchmark. The underlying benchmark can be a particular security, bond, commodity, currency, emerging markets or other alternative investment type, a group or basket of companies, securities, commodities, currencies, derivatives, alternative investments or other assets, or an index or other benchmark linked to stocks, market volatility, bonds, interest rates, Treasury yields, yield curves and spreads, derivatives, strategies, commodities, currencies or other assets. ETNs trade on exchanges throughout the day at prices determined by the market. Unlike ETFs, issuers of ETNs do not buy or hold assets to replicate or approximate the performance of the underlying benchmark. Also in contrast to ETFs, ETNs also do not calculate their net asset value, are generally not redeemable on a daily basis, and are not registered under the Investment Company Act of 1940. Issuers may also have the right and option to redeem ETNs. Redemptions are made at the ETN's "indicative value" or "closing indicative value". An ETN's closing indicative value is computed by the issuer and is distinct from an ETN's market price, which is the price at which an ETN trades in the secondary market. Issuers of ETNs may also issue and redeem notes as a means to keep the ETN's market price in line with its indicative value, which have caused significant fluctuations in ETN prices. Investing in ETNs involves special risks, including, but not limited to, credit risk, market risk, liquidity risk, commodity price risk, conflicts of interest risk, tax uncertainty risk, and the risk that the actual market price for an ETN may vary significantly from the indicative value computed by the issuer.

**Leveraged or Inverse Fund Risks.** Leveraged funds and inverse funds are complex investments and involve significant, special risks. As a result, they may not be suitable for all clients. 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. Leveraged and inverse funds have an increased risk of loss compared to other funds, and a client should not invest in these securities unless the client is prepared to experience significant losses in the value of the client's Account

**Real Estate Investment Trusts Risks.** REITs involve significant, special risks and may not be suitable for all clients. A REIT is a corporation, trust or association that owns and typically operates income-producing real estate or real estate-related assets. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, multi-family housing, student housing, hotels, resorts, hospitals and health care facilities, self-storage facilities, data centers, warehouses, telecommunications facilities, and mortgages or loans. Many REITs are registered with the SEC and their common stock and preferred stock are publicly traded on a stock exchange. These are known as publicly traded REITs. Others may be registered with the SEC but are not publicly traded. These are known as private REITs (also known as non-traded or non-exchange traded REITs). The shareholders of a REIT are responsible for paying taxes on the dividends that they receive and on any capital gains associated with their investment in the REIT. Dividends paid by REITs generally are treated as ordinary income and are not entitled to the reduced tax rates on other types of corporate dividends. Common risks associated with an investment in a REIT include, but are not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), general economic risk, market and liquidity risk, interest rate risk, sector diversification and geographic concentration risk, leverage risk, distribution risk, capital markets risk, growth risk, counterparty risk, conflicts of interest risk, key personnel risk, and structural and regulatory risk. These risks may cause volatility in the prices of REIT securities and trading volumes, and affect liquidity. Clients investing in REITs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility and volatility of regular distribution amounts, potential lack of liquidity and potential loss of their investment.

**Business Development Company Risks.** BDCs can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, BDC investments may not be suitable for all clients. A BDC is typically a domestic, closed-end investment company that is operated for the purpose of making equity and debt investments in small and developing businesses, as well as financially troubled businesses. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based compensation. A debt security or preferred stock issued by a BDC, in many cases, is non-rated or is rated below investment grade, which can carry its own risks and rewards. Investing in BDCs involves special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in BDCs should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Master Limited Partnership Risks.** MLPs are complex investments that have unique tax characteristics and significant, special risks. As a result, MLPs may not be suitable for all clients. A client should consult with a tax advisor before investing in MLPs. An MLP is a form of publicly-traded partnership and taxed as a partnership. An MLP must generally earn at least 90% of its income from certain qualifying sources, which includes income and gains from certain activities involving natural resources such as oil, natural gas, natural gas liquids, refined petroleum products, coal, carbon dioxide and biofuels. An MLP is generally structured as a limited partnership or limited liability company and managed and operated by a general partner or manager. Shareholders of an MLP are called "limited partners" or "unit holders." Unit holders own interests or units in the MLP ("units") that are traded on a stock exchange. MLPs make distributions to unit holders of their available cash flows. Investing in MLPs involves special risks, including, but not limited to, market risk, commodity price risk, macroeconomic risk, interest rate risk, liquidity risk, operating risks, capital access risk, growth risk, conflicts of interest risk, tax risk, and regulatory risk. Clients

investing in MLPs should have a high tolerance for risk, including the willingness and ability to accept potential lack of liquidity and potential loss of their investment.

**Recent Market Events.** 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 a client's Account.

***Some of the investment strategies and investment products described above are complex and involve special risks. Additional information about these strategies and investment products, including the risks associated with those strategies and investment products, is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures) and on FINRA's website at [www.finra.org/Investors](http://www.finra.org/Investors). A client is encouraged to read the disclosure documents included on those websites carefully.***

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

## Disciplinary Information

In December 2008, Baird, without admitting or denying the allegations, consented to the findings of Financial Industry Regulatory Authority ("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 with the SEC as a broker-dealer under the Exchange Act, and as an investment adviser under the Advisers Act. Baird is engaged in a broad range of activities, including: individual and institutional brokerage transactions; origination of, and participation in, underwritings of corporate and municipal securities; market making and trading activities in corporate securities and municipal and governmental bonds; distribution of mutual fund shares; option transactions; and research services.

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

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

## Other Investment Management Departments

Baird and its PIM Managers may, from time to time refer clients to Baird Advisors, Baird

Investment Management, or Baird Public Investment Advisors, investment management departments of Baird. PIM Managers are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. PIM Managers may have a financial incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.

## Certain Affiliations

### Affiliated Mutual Funds

Baird is the investment adviser and principal underwriter for the Baird Funds. Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed-income securities (the "Baird Bond Funds"). 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 fees from each Baird Fund, which are disclosed in each Fund's prospectus and statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com).

PIM Managers who refer clients to the Baird Funds are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. The amount of the referral compensation is disclosed in the each Baird Fund's statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com). PIM Managers may have an incentive to favor investments in the Baird Funds over investments in other mutual funds and to favor the Baird Equity Funds over the Baird Bond Funds.

Certain Baird Funds have been selected by Baird for inclusion on Baird's Recommended Mutual Fund List, and all Baird Funds are made available to clients under the PIM Program. Baird has a financial incentive to favor the Baird Funds because Baird receives more compensation if a client invests in the Baird Funds rather than other unaffiliated funds.

Currently, Baird Advisors serves as sub-adviser to a mutual fund series of CNI Charter Funds, Inc. Additional information about that mutual fund, including information relating to the compensation paid to Baird by that fund for investment

management services, is available in the fund's prospectus and statement of additional information.

### Affiliated Investment Advisors

Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's indirect equity ownership of Riverfront. 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-adviser 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 accounts of Riverfront's clients. *Riverfront investment products and services are available to a PIM Manager's clients. Baird has a financial incentive to favor Riverfront investment products and services because the value of Baird's investment in Riverfront increases as Riverfront's assets under management increase.*

### Affiliated Private Equity Funds

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. Baird and its PIM Managers may refer clients to Baird Capital. Baird Capital 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"); Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"); and Baird Capital Partners Europe Limited. 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. Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Services Authority and is the manager of certain partnerships formed to acquire businesses and make investments across a range of industry sectors.

PIM Managers who assist in obtaining a client's investment in a private equity fund affiliated with Baird are eligible for special referral compensation from the general partner of the private equity fund. The actual amount of compensation may vary based upon the client's investment commitment and will be disclosed to a client prior to the time of investment.

### Other Financial Industry Activities

Baird has business relationships with many investment managers. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. Because a client is paying

commissions to Baird for advisory services it provides to the client Baird and PIM Managers could have a financial incentive to favor an investment management firm that trades actively, thereby executing more trades and generating higher compensation for Baird and PIM Managers. However, Baird and PIM Managers are fiduciaries that are required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering the eligibility of an investment management firm for advisory programs (including when Baird constructs its Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

PIM Managers may receive non-cash compensation and other benefits from investment managers with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide PIM Managers an incentive to favor managers that provide greater levels of such benefits. Baird addresses this potential conflict through disclosure in this Brochure. Baird has also adopted policies and procedures for PIM Managers providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.



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

### Code of Ethics

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

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

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

### Participation or Interest in Client Transactions

#### Broker-Dealer and Related Activities

In their broker-dealer capacities, Baird and its PIM Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, Alternative Investment Products and other securities. Baird and its PIM Managers receive compensation based upon the sale of such investment products.

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. Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Brokerage Practices—Trade Execution Services Performed by Baird" below.

Baird, as broker-dealer, continually engages in various securities transactions and trading activities through its institutional trading departments, including market making and corporate stock buyback activities. PIM Managers who refer corporate buyback opportunities to the institutional trading departments are eligible for referral compensation from Baird that is based upon, among other factors, the commissions that Baird receives. Baird and its PIM Managers may, therefore, have an incentive to sell, or to make sell recommendations with respect to, the securities of issuers for which Baird provides such buyback services.



As a registered broker-dealer, Baird may also benefit from the possession or use of any free credit balances in client accounts, subject to restrictions imposed by Rule 15c3-3 under the Exchange Act.

The foregoing activities could create a conflict of interest with clients. Baird addresses these potential conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's and its associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

## **Investment Product Selling and Servicing**

### *Mutual Funds*

**Sales Charges.** A mutual fund may compensate Baird and the client's PIM Manager based on the front-end or back-end sales charges ("loads"), if any, paid by the client. This may provide Baird and the client's PIM Manager an incentive to favor mutual funds that have higher sales charges.

**Distribution and Shareholder Servicing Fees.** Baird and its PIM Managers provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to Baird clients that hold shares of such mutual funds in their accounts. Baird and its PIM Managers may receive distribution and shareholder servicing fees from those funds out of their 12b-1 plans ("12b-1 fees") on an ongoing basis as compensation for the services provided. The 12b-1 fees paid by a mutual fund are disclosed in the mutual fund's prospectus. Accordingly, the receipt of these fees provides Baird and PIM Managers an incentive to favor mutual funds over other investment products, or to favor mutual funds that offer 12b-1 fees greater than other funds.

**Marketing and Other Financial Support.** In addition to 12b-1 fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing", is typically allocated toward the costs of training and educating PIM Managers and other Baird associates about the funds offered by the fund company, due diligence on the funds and marketing support.

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

Receipt of marketing support payments and expense reimbursements may provide Baird an incentive to favor mutual funds and their sponsors that make greater levels of such payments. However, Baird is a fiduciary that is required to act in the best interests of advisory clients when recommending mutual funds to those clients, and Baird does not consider the receipt of these payments in compiling its Recommended Mutual Fund List.

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

Networking Fees. Baird receives compensation from certain mutual funds in consideration for recordkeeping, sub-transfer agency and related services that it provides to those funds. While this may provide Baird an incentive to favor funds paying higher fees, these fees are not paid to PIM Managers, and the compensation that Baird pays to PIM Managers is not tied to such fees.

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual fund families for Baird on behalf of Baird clients. Under the clearing arrangement, Schwab provides clearing services for nearly all "no load" funds held by Baird clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird and its PIM Managers a portion of the compensation that Schwab receives from those funds (including 12b-1 and recordkeeping fees and revenue sharing payments) for services that Baird and its PIM Managers provide to clients who invest in those funds. Accordingly, the receipt of these fees may provide Baird and PIM Managers an incentive to favor funds that provide higher compensation.

Additional Information. More detailed information about the compensation that Baird receives from a mutual fund company is available in the mutual fund company's prospectus or statement of additional information and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Clients may also contact Baird or a PIM Manager for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies. More detailed information about the compensation that Baird receives from Schwab is also available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

#### *Unit Investment Trusts*

Baird may receive additional compensation related to the sale of shares of UITs. Sponsors of UITs typically make marketing or concession payments to the firms that sell their UITs, including Baird. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during a particular period. That percentage typically increases as higher sales volume levels are achieved. Descriptions of these additional payments are provided in a UIT's prospectus. The

marketing and concession payments that Baird receives from UIT sponsors are not paid to PIM Managers, and the compensation that Baird pays to its PIM Managers is not tied to such payments.

#### *Alternative Investment Products*

Baird and the client's PIM Manager receive transaction-based compensation related to sales of Alternative Investment Products. This may provide Baird and the client's PIM Manager an incentive to favor alternative investments that pay higher compensation.

If an Alternative Investment Product is registered as an investment company (that is, a mutual fund), Baird and the client's PIM Manager may receive compensation described in the section entitled "Mutual Funds" above.

Baird and PIM Managers may also receive compensation related to the servicing of client accounts that hold those products. More detailed information about the compensation that Baird receives from an Alternative Investment Product and its sponsor is available in the prospectus or other offering documents for the Alternative Investment Product and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Clients may also contact Baird or a PIM Manager for more specific information about the amount of compensation Baird may receive from the sale or servicing of Alternative Investment Products.

#### *Annuities and Insurance Products*

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

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain products that it sells for training and educating PIM Managers. This support, which varies from insurance company to insurance company, is commonly referred to as "marketing support" payments. Receipt of marketing support payments may provide Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However,

Baird does not consider the receipt of marketing support payments in compiling its "Baird Focus List" of insurance companies.

The marketing support payments that Baird receives from insurance companies are not paid to PIM Managers, and the compensation that Baird pays to its PIM Managers is not tied to such financial support. PIM Managers and Baird associates may, however, receive non-cash compensation and other benefits from Baird and insurance companies with which Baird does business. Such non-cash compensation and other benefits may include invitations to attend conferences or educational seminars, payment of related travel, lodging and meal expenses, and receipt of gifts and entertainment. Receipt of these benefits may provide PIM Managers an incentive to favor insurance companies that provide greater levels of such benefits.

More detailed information about the compensation that Baird receives from insurance companies is available in the disclosure documents related to the applicable insurance product and on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

Baird addresses conflicts posed by the selling and servicing of the foregoing investment products through disclosure in this Brochure and the prospectuses or other offering documents provided to clients. In addition, Baird has adopted internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). In addition, Baird has adopted policies and procedures for its PIM Managers and other Baird associates providing advisory services that address and limit the receipt of non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

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

#### *Cash Sweep Program*

Baird offers to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or "swept" into an interest-bearing deposit account or money market mutual fund. See "Custody" below for more information. In addition to the Transaction Fee paid by the client, Baird receives a fee from each bank or money market fund for certain

administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled "Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds" above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with its PIM Managers. 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. The compensation that Baird and its PIM Managers receive from the Bank Sweep Option and the Money Market Option gives 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 and the compensation Baird and its PIM Managers receive is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

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

Through its Investment Banking and Public Finance Departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. PIM Managers may also receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, PIM Managers who refer securities underwriting or other business opportunities to the Investment Banking or Public Finance Departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. Baird and its PIM Managers may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. However, Baird and its PIM Managers will only recommend such securities to an advisory client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and

Baird's policies, any securities underwritten by Baird will be sold to a client by Baird in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's or the client's PIM Manager's interest in the transaction. For more information, please see "Brokerage Practices—Trade Execution Services Performed by Baird—Principal Transactions" below.

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

#### *Research Activities*

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

#### *Trust Services Arrangements*

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

#### *Margin Loans*

Baird generally receives margin interest, administrative fees and other compensation in addition to the Transaction Fee when a client obtains margin loans from Baird. If Baird extends a margin loan to a client, the costs incurred by the client, as well as the compensation received by Baird and the client's PIM Manager, will

generally increase as the size of the outstanding margin loan increases. As a result of the foregoing, Baird and the client's PIM Manager may have a financial incentive to use, or recommend the use of, strategies using margin or to increase, or recommend the increase of, margin loans.

#### *Lending Arrangements*

Baird maintains alliances with certain unaffiliated lenders that provide financing opportunities to Baird clients. Baird receives a referral fee from the lender in some instances. The amount of the referral fee varies, depending upon the lender and the amount of the financing. The referral fee is generally not shared with the client's PIM Manager. It is Baird's practice to provide more specific information about the referral fee at the time a client obtains financing.

#### *Other Clients, Products and Services*

Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird and its PIM Managers. Baird and its PIM Managers may have an incentive to favor those investment products and services that generate a higher level of compensation than those that generate a lower level of compensation. For more information about the other investment products and services offered by Baird, clients should contact Baird or a PIM Manager.

Baird and its PIM Managers likely will receive higher overall compensation from advisory clients than from brokerage clients. Baird also periodically incentivizes PIM Managers and other Baird associates to recommend advisory products and services to a client and to increase the asset levels in a client's Accounts. PIM Managers and other Baird associates thus may have a financial incentive to provide investment advice based upon the compensation received or to recommend or invest a client's Account in riskier or more speculative products than would be the case in the absence of such arrangements. Certain client accounts managed by Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, Baird and its PIM Managers may have an incentive to favor client accounts that generate a higher level of compensation.

Baird addresses these conflicts through disclosure in this Brochure. In addition, Baird has adopted internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients) and that are designed to make securities allocations to discretionary client accounts in a manner such that all such clients receive fair and equitable treatment.

Other sections of this Brochure also describe instances when Baird and its PIM Managers may recommend to clients, and may buy and sell for client's Account, securities in which Baird and its affiliates and associates have a material financial interest. For more information, please see and "Other Financial Industry Activities and Affiliations" above, and "Client Referrals and Other Compensation" below.

### **Duration Compensation Will Be Received**

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

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

### **Brokerage Practices**

#### **Broker-Dealer Selection; Directed Brokerage Arrangement**

Clients who participate in the PIM Program are generally required to maintain their accounts at Baird (and Baird has custody over the assets in those accounts). Clients also authorize and direct the PIM Manager to execute all securities transactions through Baird, as broker-dealer.

*A client should understand that, in the PIM Program (Commission-Based Pricing), Baird and the client's PIM Manager will not select other broker-dealers on a best execution basis to effect trades for the client's Account. Rather all trades for the client's Account will be directed to Baird for execution. This constitutes a directed brokerage arrangement. Baird and the PIM Manager benefit from the client's directed brokerage arrangement. Because of these potential benefits, Baird and the PIM Manager have an economic interest in having the client continue the directed brokerage arrangement. The benefits received may conflict with the client's interest in having Baird and the PIM Manager recommend that the client utilize another broker-dealer to execute some or all transactions for the client's Account.*

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

A client's PIM Manager generally aggregates buy and sell orders when executing trades for those accounts when it has the opportunity to do so. When utilizing block transactions, a PIM Manager generally aggregates a client's trade orders with trade orders for clients who are pursuing the same model portfolio or strategy. In some cases, a PIM Manager may aggregate a client's trade orders with trade orders for other advisory clients who are not participants in the PIM Program described in this Brochure. However, a PIM Manager determines whether or not to utilize block transactions for a client in its sole discretion. A PIM Manager will aggregate a client's trade orders only when a PIM Manager deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements.

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



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

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

When a PIM Manager is not able to aggregate trades, a PIM Manager generally uses a trade rotation process that is designed to be fair and equitable to its advisory clients.

### **Soft Dollar Benefits**

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

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

From time to time, when Baird believes that each respective transaction is consistent with the

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

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

### **Trade Error Correction**

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

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

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

Baird provides execution services to a client under the PIM Program. Baird will generally act as agent



when routing client trade orders for execution. However, Baird may cross trades between client accounts or may act as principal for its own account in certain circumstances to the extent permitted by applicable law as is more fully described below. Additional information about Baird's routing of equity orders is available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

Baird 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 Exchange Act, and Rule 11a2-2(T) thereunder. Therefore, some transactions effected by Baird for certain clients on a national or regional securities exchange must be executed through a floor broker unaffiliated with Baird.

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

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

### Agency Cross Transactions

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

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

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

### Principal Transactions

Subject to the requirements of applicable law, Baird may, when it is in the best interest of a client to do so, execute transactions for a client's 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).

Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup, markdown or spread from the prevailing market price, an underwriting fee, selling dealer concession, or other incentive to execute the transaction. Thus, 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 over other transactions. Nonetheless, Baird has a fiduciary duty to act in the client's best interest and to seek best execution for advisory clients. Furthermore, Baird has adopted internal procedures that require Baird and its PIM Managers, when acting in a principal capacity, to disclose all material information regarding Baird's and the client's PIM Manager's interest in the transaction, and obtain

the client's written approval of the transaction prior to settlement.

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

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

## Review of Accounts

### Client Account Review

Client accounts are monitored on an ongoing basis by the client's PIM Manager and are subject to review by the Baird Branch Office Manager (or his or her designee) responsible for supervising the client's PIM Manager. A client's PIM Manager generally reviews the performance of the client's Account at least annually. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's PIM Manager is required to review the client's Account's daily trading activity. The Baird Branch Office Manager (or his or her designee) is also required to perform a quarterly review of his or her branch's PIM Accounts, focusing on verifying that the PIM Manager's composites of client accounts are generally being managed in accordance with the PIM Manager's investment philosophy statement and attempting to ascertain whether client accounts within each composite are being treated equitably.

### Account Statements and Performance Reports

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

A client's PIM Manager will provide the client with a written report on the client's Account's performance as often as the client and the PIM Manager may from time to time mutually agree.

However, PIM Managers are generally required to provide a written performance report to their PIM clients at least quarterly. Performance reporting may not be available for Account assets that are not custodied at Baird. Baird may change or discontinue performance reporting to a client at any time for any reason upon notice.

Client performance reports usually contain a portfolio valuation and typically show the asset allocation of the client's portfolio, changes in a client's portfolio, and account performance compared to a benchmark market index or indices (such as the S&P 500® Index or the Barclays U.S. Intermediate Government/Credit Bond Index). The benchmark may be a blended benchmark that combines the returns for two or more indices.

A client should note that past performance does not indicate or guarantee future results. None of Baird, its associates or investment managers managing the client's Account promise or guarantee any level of investment returns or that the client's investment objective will be achieved.

Benchmarks shown in performance reports are for informational purposes only. Baird's selection and use of benchmarks is not a promise or guarantee that the performance of a client's Account will meet or exceed the stated benchmark. When the client compares Account performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and the index performance does not take into account management fees, execution costs, and other expenses related to investing for a client's Account. The securities included in a client's Account generally do not exactly mirror the securities included in the index.

When preparing a client's Account statements and performance reports, Baird generally relies upon third party sources, such as third party pricing services. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset. Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account. This frequently occurs with respect to the valuation of Alternative Investment Products. If the assets in

the client's Account are held by a custodian other than Baird, Baird generally relies on valuation information provided by the client's third party custodian.

Baird does not conduct a review of valuation information provided by third party pricing services, issuers, sponsors, or custodians, and it does not verify or guarantee the accuracy of such information. Valuation data for investments, particularly Alternative Investment Products, may not be provided to Baird in a timely manner, resulting in valuations that are not current. The prices obtained by Baird from the third party pricing services, issuers, sponsors and custodians may differ from prices that could be obtained from other sources. Values used in account statements and performance reports may vary from prices received in actual transactions and are not firm bids, offers or guarantees of any type with respect to the value of assets in an Account, and the values may be greater than the amount a client would receive if the securities were actually sold from the client's Account.

If a client has assets held by a third party custodian, the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by Baird. See "Custody" below for more information.

## Client Referrals and Other Compensation

Baird may provide compensation to individuals who refer clients in some instances. When applicable, the compensation paid is a percentage of the client's fee payments or the value of the client's Account. The amount of compensation will vary, with the specific level determined based upon consideration of various factors including, but not limited to, the individual's role in developing the client relationship and the assets under management. Baird may pay these fees to registered representatives of Baird and its affiliates as well as to unaffiliated, solicitors that have entered into a written agreement with Baird.

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

Participation or Interest in Client Transactions and Personal Trading" above.

## Custody

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

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

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

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

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

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

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

## Investment Discretion

### Investment Selection and Trading Authorizations

If a client elects to participate in the PIM Program, the client's advisory agreement authorizes Baird and client's PIM Manager to manage the client's Account in accordance with the terms of the PIM Program and authorizes Baird and client's PIM Manager to make investment decisions for the client's Account, with the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and

other assets for the client's Account. The client's advisory agreement also grants to Baird and client's PIM Manager complete and unlimited trading authorization and appoints Baird and client's PIM Manager as agent and attorney-in-fact with respect to the client's Accounts and all related trading and other decisions. Pursuant to such authorization, Baird and client's PIM Manager may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the client's Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's Account without prior notice to the client. Orders for the purchase and sale of securities in a client's Account will be executed by Baird, in its capacity as broker-dealer.

Such trading authorization shall remain in full force and effect until terminated by the client or Baird.

### Client Investment Restrictions

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

In the event that a client's Account is restricted from investing in certain securities, Baird or the client's investment manager will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the classification or credit rating of a security held in the client's Account, a client's investment restrictions may force Baird 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 investment vehicle (such as a mutual fund or ETF), any

investment restrictions the client places on the client's Account may not flow through to the securities owned by that investment vehicle.

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

### Affiliated Investment Products

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

By signing an advisory agreement with Baird, a client consents to Baird and the client's PIM Manager investing all or a portion of the client's Account in investment products or deposit accounts with banks that pay advisory or other fees to Baird or its affiliates ("affiliated investment products"). The amount of fees received by Baird and/or its affiliates is described in this Brochure in the section entitled "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" above and/or the prospectus or other offering documents for the investment product. Baird and the client's PIM Manager will use their discretionary authority to invest the client's Account in affiliated investment products when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to invest in affiliated investment products are the same as those used in deciding to invest a client's assets in investment products unaffiliated with Baird. A client's consent may be revoked at any time.

### Investment Policy Statements

Baird and its PIM Managers will not review, monitor, accept or adhere to an investment policy statement or similar document that was not prepared by Baird, unless Baird otherwise

specifically agrees to do so in writing. Adherence to any such investment policy statement or similar document is solely a client's responsibility.

### Voting Client Securities

Under the PIM Program, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or a client may delegate such right to Baird.

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

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

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

In situations in which a client has delegated to Baird voting authority with respect to securities in the client's Account, Baird will monitor corporate events and vote proxies in a manner that Baird believes is consistent with the client's best interests. Baird utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by companies to their shareholders for consideration. These guidelines provide an indication as to how Baird will actually vote on particular issues. Baird will generally vote proxies for client accounts based on the recommendations of ISS; however,



the client's PIM Manager may suggest voting against ISS's recommendations when the PIM Manager determines it to be in the clients' best interests to do so. The PIM Manager also may suggest how to vote on a particular matter not addressed by ISS. When PIM Manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the PIM Manager will bring the matter to the attention of Baird's Proxy Voting Committee, which will then be responsible for determining how the vote will be cast.

The proxy voting policies and procedures also address instances in which Baird's interests may appear to conflict with client interests, such as when Baird or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern that Baird would be inclined to vote in favor of management because of its relationship or pursuit of a relationship with the company. Baird takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the conflict to the client.

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

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

Generally, neither Baird nor client's PIM Manager will render advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. At a client's request, Baird will forward information that Baird actually receives about such claims to the client.

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

### Financial Information

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

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary acting on behalf of the client understands that Baird may invest for the client, or recommend that the client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary acting on behalf of the client understands that when Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4. For the

purpose of complying with the terms of DOL PTE 77-4, each such client and Retirement Account Fiduciary acting on behalf of the client acknowledge in the client's advisory agreement that: (i) the investment in affiliated investment products for the client's Account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those products; (ii) subject to terms of the PIM Program, all assets of the client's Account may be invested in one or more of the affiliated investment products; and (iii) the client received prospectuses or other disclosure documents for the affiliated investment products that may be used in connection with the Account, each of which include a summary of all fees that may be paid by the affiliated investment products to Baird or its affiliates.

Each Retirement Account Fiduciary acting on behalf of the client understands that any directed brokerage arrangement must be for the exclusive benefit of participants and beneficiaries of the Retirement Account 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, each trustee or other fiduciary acting on behalf of 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.

Each Retirement Account Fiduciary acting on behalf of the client authorizes Baird, in its capacity as broker-dealer, to effect or execute securities transactions for the client's Account and to receive commissions for such services, the arrangement is subject to DOL PTE 86-128. DOL PTE 86-128 exempts from certain ERISA and corresponding Internal Revenue Code restrictions a fiduciary's use of its authority to cause an ERISA qualified plan, plan participant or IRA to pay a fee (including a commission) for effecting or executing securities transactions for that plan or account, as agent, but only to the extent that such transactions are not excessive, under the circumstances, in either amount or frequency. DOL PTE 86-128 contains a number of conditions that must be satisfied, including written

authorization from the client to effect or execute securities transactions for the client's Account, which authorization is terminable at will, at any time, without penalty; delivery to the client of trade confirmations or quarterly statements showing the securities transactions that were effected for the client's Account and the commissions incurred by the client and retained by Baird, and annual summaries of such transaction information. Baird is also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to Baird to effect or execute securities transaction for the client's Account. To ensure that the client has sufficient information on which to determine whether such authorization should be made, Baird provides certain clients with a copy of DOL PTE 86-128 and the form to be used to terminate such authorization, as well as the description of Baird's brokerage placement practices set forth below. Baird also will provide such other reasonably available information that the client may request for such purpose.

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

that provide research products and services to Baird.

If a client's Account is a Retirement Account and if the client has selected an investment product affiliated with Baird (such as any mutual fund affiliated with Baird or Riverfront), each Retirement Account Fiduciary acting on behalf of the client understands and agrees that in making such selection: (a) Baird and/or its affiliates may receive higher aggregate compensation than if the client selected investment funds or other products not affiliated with Baird and thus Baird may have an incentive to offer such affiliated investment funds or other products; (b) Baird makes available to the client investment funds and products not affiliated with Baird and the client may obtain additional information about such unaffiliated investment funds or products at any time by contacting the client's PIM Manager; and (c) the client is free to choose another investment option or participate in another Baird advisory program that does not use investment funds or products affiliated with Baird at any time by contacting the client's PIM Manager. For more information about investment managers and products that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.