

# Robert W. Baird & Co. Incorporated

## Brochure

March 30, 2012



## Institutional Consulting Services

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SEC File No. 801-7571

**This brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and its Institutional Consulting Services. You 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 Institutional Consulting Services (the "Brochure") on March 30, 2012. The following summary discusses the material changes that Baird has made to the Brochure since March 31, 2011, the date of the last annual update to the Brochure.

- Baird has updated information about the compensation it may receive from third parties relating to client investments and the compensation it may pay to its ICS Consultants for referring business to other departments of Baird. See the Brochure section entitled "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" for more information.
- Baird and its ICS Consultants do not provide retirement account clients with recommendations or advice regarding the client's decision to retain investment managers that are affiliated with Baird. See the section of the Brochure entitled "Special Considerations for Retirement Accounts" for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 31, 2011. The updated Brochure contains changes that are not listed above.

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## Advisory Business

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

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

## Robert W. Baird & Co.

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

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

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

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

As of December 31, 2011, Baird had approximately \$39.5143 billion in regulatory assets under management, approximately \$27.7661 billion of which was managed on a discretionary basis and approximately \$11.7482 billion of which was managed on a non-discretionary basis.

## ICS Consultants

The advisory services offered by ICS Consultants generally may include the provision of investment policy statement reviews, asset allocation reviews, investment recommendations, investment option due diligence, periodic performance reviews, assistance in educational campaigns for employees exploring retirement plan investment options, fee analysis of qualified plan expenses, qualified plan provider reviews, and qualified plan requests for proposal (the "Services"). These Services may be aggregated to oversee an entire investment program or may be utilized separately. Clients may negotiate with ICS Consultants to provide other investment advisory services.

The Services are non-discretionary in nature and a client retains full discretionary authority to manage the client's assets.

ICS Consultants tailor their advisory services to the individual needs of clients.

## The Client-Baird Relationship

A prospective client that wishes to participate in the Service will enter into an Institutional Consulting Services Agreement (a "Consulting Agreement") with Baird. The Consulting 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.

Baird and its ICS Consultants are deemed to have a fiduciary relationship with a client when providing the advisory services that are described in this Brochure. As a fiduciary, Baird and its ICS Consultants are required to act in the best interest of clients when providing investment advice, make a full disclosure to clients of all material conflicts of interest, and in the event a conflict of interest occurs, Baird and its ICS Consultants are required to place a client's interests ahead of their own.

From time to time Baird and its ICS Consultants may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of Baird and its ICS Consultants. Baird generally addresses potential conflicts of interest by adopting and enforcing policies and procedures for Baird and its associates to follow that are designed to ensure that: (i) Baird and its advisory personnel comply with applicable fiduciary standards and act in the best interest of a client when providing investment advice; (ii) potential conflicts of interest are avoided or disclosed to a client; and (iii) Baird conducts its business in a manner that is consistent with the disclosures made.

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

### Description of Services

**Investment Policy Statement.** If a client elects to have the client's ICS Consultant review an already existent investment policy statement, or alternatively, assist in the formation of a new investment policy statement, the client's ICS Consultant will advise the client to incorporate the client's investment objectives, investment time horizon, investment constraints, investment diversification requirements, and risk tolerance into the document. The investment policy statement is designed to provide guidance to the client by establishing performance benchmarks that account for changing market conditions.

The client is responsible for the review and final approval of the investment policy statement.

**Asset Allocation Review.** The Asset Allocation Review is designed to identify investment portfolio options for the client, weighing risk versus potential return on investment based upon the client's investment objectives, investment time horizon, investment constraints, the need for investment diversification, and risk tolerance. The client's ICS Consultant makes allocation recommendations to the client after analyzing asset mixes as they correlate to identified risk parameters, thereby assisting the client in establishing reasonable investment return expectations.

The client's ICS Consultant reviews and evaluates the client's current asset allocation and periodically recommends revisions to the allocation based upon changes to the client's situation.

The client is responsible for ensuring that all relevant information, including but not limited to, an investment policy statement approved by the client (including revisions), is provided to the client's ICS Consultant before the client's ICS Consultant formulates any asset allocation recommendation.

**Investment Due Diligence.** The client's ICS Consultant assists the client in analyzing current and/or prospective investment options.

Quantitative analysis (the application of advanced statistical analysis techniques to review quantitative factors such as manager performance, investment style, style consistency, risk, and risk-adjusted performance)

of the investment option's performance is coupled with a qualitative screening (a review of factors such as the background and experience of the investment manager or the mutual fund company) of the investment option. Quantitative analysis of some investments options may be limited because a holdings-based analysis may not be available. "Holdings-based analysis" determines investment style by examining the actual securities held in a portfolio, and is used as an alternative to returns-based style analysis, which is a method for determining the style of an investment portfolio by analyzing its return performance.

The client is solely responsible for selecting an investment option and is solely responsible for hiring, terminating, and/or replacing an investment manager, and for buying, selling, or otherwise replacing any investment option. The client's ICS Consultant makes recommendations to the client, but in no event utilizes discretion.

**Investment Recommendations.** The client's ICS Consultant provides the client investment options consistent with the client's investment objectives, investment guidelines and asset allocation needs. Investment options may include, but are not limited to, mutual funds, exchange traded funds ("ETFs"), insurance company separate accounts, variable annuities, and/or separate account investment managers. Investment options may also include certain alternative investment products approved by Baird such as: hedge funds, fund of hedge funds, private equity and venture capital funds, managed futures; leveraged and inverse funds and other special situation mutual funds; structured CDs and notes ("structured products"); and exchange funds (collectively, "alternative investments").

**Periodic Performance Reviews.** The client's ICS Consultant performs a review of the client's asset allocation and provides an evaluation of the historical performance of the client's investments by comparing the performance of those investments with benchmark indices determined by the client's ICS Consultant or with mutually agreed upon benchmark indices. The client's ICS Consultant relies upon information provided by the client and/or the client's custodian when performing a performance review. The client's ICS Consultant is not obligated to verify the accuracy of the information provided by the client and/or the client's custodian when performing a performance review.

**Employee Education.** The client's ICS Consultant, in cooperation with the client's retirement plan provider, offers guidance to the client in the development and implementation of educational campaigns for plan participants. The general education services provided by the client's ICS Consultant and the client's plan provider may include, but are not limited to, topics such as plan options, saving for retirement, asset allocation, and the benefits of diversification. The client's ICS Consultant

will work with the plan provider to distribute plan provider educational materials to the client's employees.

**Fee Review.** The client's ICS Consultant performs a fee analysis which includes a review of costs incurred by the plan, the benefits derived from payment for such services, and compares them to industry costs and services. The client's ICS Consultant summarizes the results in writing, and provides those results to the client. The client's ICS Consultant's analysis does not consider fees and charges assessed to the client pursuant to this arrangement.

**Qualified Plan Provider Review.** The client's ICS Consultant performs an analysis of the client's plan provider. This analysis includes a review of services and benefits provided to the client by the plan provider, as well as the costs incurred to receive such services. The client's ICS Consultant summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided to them by the client and third party sources to provide this service. The client's ICS Consultant believes such information to be accurate and true and is not obligated to verify its accuracy.

**Qualified Plan Request for Proposal.** The client's ICS Consultant performs a solicitation for proposal on behalf of the client. The Request for Proposal solicits responses from multiple qualified plan providers whom the client's ICS Consultant believes meet the client's criteria, as that criterion has been disclosed to the client's ICS Consultant by the client. The client's ICS Consultant performs a cost-benefit analysis of the services and features provided by each vendor, summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided to them by the client and third party sources to provide this service. The client's ICS Consultant believes such information to be accurate and true and is not obligated to verify its accuracy.

**Other Services.** The client's ICS Consultant may offer other consulting services specifically formulated for a client.

#### Other Service Information

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

promptly inform Baird and the client's ICS Consultants of any such changes.

**Tax Considerations.** Baird and its ICS Consultants do not provide any tax advice in connection with the Services. A client should discuss the potential tax implications of the client's investment strategies and transactions with the client's tax advisor.

## Fees and Compensation

### Advisory Fee

The client's fee alternatives for the Services are (i) an asset based fee paid quarterly, in advance, (ii) an annual fixed rate fee that is paid by the client over four calendar quarters, or (iii) a one-time fixed rate fee paid at the time that the Consultant Agreement is accepted by Baird.

If the asset based fee is elected, the client's initial billing period begins when the client signs the Consultant Agreement and such agreement is subsequently accepted by Baird, or billing begins at a pre-defined date that is mutually agreeable to Baird and the client.

The initial asset based fee is based upon the value of the assets in the client's account(s) as displayed on a custodian's quarterly statement on the day the agreement is accepted by Baird, or an estimated value mutually agreed upon by both parties. Thereafter, the applicable asset based quarterly fees are calculated in accordance with the client's account asset value as displayed on a custodian's quarterly statement as of the last business day of the prior calendar quarter, such payment to be made by the client to Baird on the first business day of the then current quarter or upon receipt of a Baird invoice.

The annual and the one-time fixed rate fee options are negotiated at the time the Consultant Agreement is signed by the client and accepted by Baird. If the client elects the annual fixed rate fee, Baird will bill the client the quarterly amount of the annual fixed rate fee, in advance. Billing is adjusted for the number of days remaining in the current calendar quarter. The client receives an invoice from Baird detailing the quarterly fee. The client must pay Baird within fifteen (15) days after receipt of the bill.

In the event that either Baird or the client terminates the Consultant Agreement, the client shall receive a pro-rated refund for amounts paid in advance for the period including the date of termination through the end of the applicable billing period.

Fee adjustments are not made during any period because of appreciation or depreciation in the client's account asset value during any billing period. Baird, in its sole discretion, may make fee adjustments in response to account asset fluctuation resulting from

contributions to, or periodic withdrawals from, the client's account.

No fee increase takes effect without at least thirty (30) days written notice to the client. Fees may be negotiated and may vary based upon the specific services requested by the client. To the extent that fees are negotiated, such fees may differ from client to client based on a number of factors, including, but not limited to, the type, size, investment objective, or client-related services provided to the account.

Because the level of service varies by client, Baird has no fee schedule for the Services. The maximum asset-based fee that Baird charges for the Services is 100 basis points.

Since its inception, Baird has had fee schedules in effect, which may provide fees lower or higher, as the case may be, than those shown above. If new fee schedules are put into effect, they are made applicable only to new clients, and fee schedules applicable to existing clients are not affected.

Baird may waive the minimum annual fee on a temporary or indefinite basis or set a different payment schedule.

The minimum account or household size is \$10 million for individuals and \$25 million for institutional accounts. Baird, in its sole discretion, may waive the account minimum requirement.

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

#### Other Fees and Expenses

The fees paid to Baird by the client only cover the consulting services provided by Baird. The fees do not include any fees that may be charged by investment managers recommended by Baird. A client may also pay for other services, such as custody and trade execution, separately, when implementing recommendations made by Baird.

In addition, a client of Baird may incur other fees and expenses associated with investments made by the client. A client also bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with purchases and sales of certain securities (such as securities traded over-the-counter and fixed-income securities) because such costs are inherently reflected in the price the client pays or receives for such securities. A client is also responsible for fees and

expenses resulting from certain odd-lot differential, Securities and Exchange Commission ("SEC") and exchange fees, electronic fund and wire transfer fees, transfer taxes, margin interest, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation.

A client may, from time to time, invest in bank deposit accounts, money market funds, mutual funds, exchange traded funds and other registered investment companies, hedge funds, private investment partnerships, and other investment pools (including such funds and other products affiliated with Baird). These types of funds have their own fees and expenses that are borne either directly or indirectly by their shareholders or unit holders, including a client. These fees and expenses may include investment management fees, distribution (12b-1) fees, transfer agency fees, networking fees, accounting fees, marketing support payments, administration fees, custody fees, shareholder servicing fees, expense reimbursements, and expenses associated with executing securities transactions for the fund's portfolio ("ongoing fund expenses"). These ongoing fund expenses are separate from, and in addition to, the fees and expenses a client pays for services provided by Baird. As a result of making investments in these types of funds, a client should be aware that the client is paying multiple layers of fees and expenses on the amount of client's assets so invested—the ongoing fund expenses and expenses the client pays for services provided by Baird. A client is also responsible for any redemption fees that a fund may impose on the client for frequent trading in the fund's securities. Clients should review the prospectus and statement of additional information (or other applicable offering documents) for each fund in which the client invests for further information.

Clients may also subscribe to other services or programs offered by Baird. Those service and programs may be subject to fees, commissions or other expenses that are entirely separate from the payment of fees and expenses for the Service.

#### Other Compensation Received by Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its Financial Advisors, including ICS Consultants, are registered broker-dealer representatives of Baird. In such capacities, Baird and its Financial Advisors provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird and its Financial Advisors receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of



interest because it gives Baird and its Financial Advisors an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and its Financial Advisors are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these potential conflicts by adopting and enforcing policies and procedures that are designed to ensure that Baird and its Financial Advisors comply with their fiduciary duties as is further described under the section "Advisory Business—The Client-Baird Relationship" above. For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest they create, please see the sections "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

Baird and its ICS Consultants will recommend the purchase of, various investment products, including "no load" mutual fund or mutual funds with waived sales loads. A client has the option to purchase investment products through brokers or agents that are not affiliated with Baird.

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

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). 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 and avoiding or disclosing conflicts of interest to clients, Baird typically addresses potential conflicts of interest posed by performance-based fee arrangements by periodically monitoring the holdings and performance of performance-based fee accounts and comparing them to accounts not subject to a performance fee that are also managed using a similar strategy in an attempt to detect any possible inequitable treatment. Baird also attempts to minimize potential conflicts of interest posed by performance-based fee arrangements by adopting and enforcing internal procedures designed to ensure that securities allocations made to advisory client accounts are made in a manner such that all advisory clients receive equitable treatment.

### **Types of Clients**

Baird offers the Services to all types of current or prospective clients, including, but not limited to: banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; corporations or other business entities; and individuals. Applicable requirements 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 Service, an ICS Consultant may use various different investment strategies because strategies are customized for each client. A client's particular investment strategy is typically determined by the client's ICS Consultant by fact finding and analysis with the client.

ICS Consultants, as a group, utilize a wide variety of investment styles, philosophies, strategies and techniques, which may change depending upon market conditions. ICS Consultants may follow different investing styles. The strategies may focus on certain market capitalization ranges, industries, sectors, credit quality, maturities and durations.

ICS Consultants, as a group, offer advice to clients with equity, balanced and fixed income portfolios. Some ICS Consultants recommend registered investment companies (such as mutual funds, exchange-traded funds and closed-end funds) to help achieve a client's investment objective or to hedge a portion of the client's portfolio. Some ICS Consultants may recommend illiquid securities for client accounts. An ICS Consultant may elect to use one or more model portfolios created by Baird for purposes of preparing a recommendation for a client.

ICS Consultants may also utilize the services of Baird's home office investment professionals when providing the Services.

ICS Consultants and Baird's home office investment professionals may use various forms of security analyses, including fundamental, qualitative, quantitative and technical analyses. ICS Consultants 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. ICS Consultants may also use research reports created by other departments of Baird, Baird's Recommended Manager's List, Baird's Recommended Mutual Fund List, and lists of alternative investments that Baird has deemed eligible for use in its



advisory programs. They may also employ the use of computers and third party application software to more readily display information and to assist with evaluation and analysis and making recommendations. Although they use information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used. For more information about how Baird compiles its Recommended Mutual Fund List, the Baird Recommended Portfolio and lists of eligible alternative investments, see "Baird's Recommended Managers List", "Baird's Recommended Mutual Fund List", and "Alternative Investments", respectively below. The level of initial or ongoing review or evaluation that Baird performs on these products and their sponsors varies. Investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing review or evaluation as those products that are included on a Baird recommended list.

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

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

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

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

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

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

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

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

Certain investment strategies offered by Baird Investment Management ("BIM"), and investment management department of Baird, have been selected by Baird for inclusion on Baird's Recommended Managers List.

**Baird's Recommended Mutual Fund List.** ICS Consultants 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 the List. The list is designed to include mutual funds across numerous asset classes. In constructing the list of recommended mutual funds, Wilshire Associates may base its assessment of a particular mutual fund or the

sponsor of a particular mutual fund on the organization's strength and performance quality; information gathering ability; forecasting ability; portfolio construction capability; idea implementation ability; self measurement capability; and use of various statistical techniques designed to assist in forecasting the expected future excess return of the fund. Baird's Mutual Fund Oversight Committee reviews the recommendations made by Wilshire Associates. Wilshire Associates also provides ongoing oversight and due diligence services to Baird in connection with maintaining the List. The Baird Aggregate Bond Fund, a mutual fund offered by Baird Funds, Inc. ("Baird Funds"), which is affiliated with Baird, has been selected by Wilshire Associates for inclusion in the Recommended Mutual Fund List.

### Alternative Investments

*Baird's Recommended Fund of Hedge Fund List.* When selecting funds of hedge funds for Baird's Recommended Fund of Hedge Fund List, Baird generally seeks to offer funds of hedge funds that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well diversified portfolio of hedge funds; and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). Baird also considers the principals' experience in managing fund of hedge fund portfolios and whether they have a network of contacts in the industry.

Baird's Advisory Services Research Department is primarily responsible for selecting and evaluating funds of hedge funds selected for Baird's Recommended Fund of Hedge Fund List. In selecting funds of hedge funds, Baird's Advisory Services Research group uses a due diligence process with a goal of determining whether the firm has an "edge" that Baird believes will result in favorable fund of hedge fund performance going forward. The process includes reviewing due diligence questionnaires and legal documents (e.g., subscription document, limited partnership agreement, offering memorandum, Form ADV brochures), completing an onsite review of the fund, and receiving approval by both Baird's Advisory Services Research Department and Baird's Manager & Policy Committee.

As part of its onsite review, Baird evaluates the fund's processes for: evaluating, hiring and terminating individual hedge funds; constructing a fund of hedge fund portfolio; and managing risk. Baird generally also meets with the fund's compliance personnel to understand their processes for evaluating prospective and current hedge fund investments from an operational and compliance standpoint. Following the onsite review, an investment thesis is written and presented to the Advisory Services Research Department and Baird's Manager & Policy Committee. Baird's Manager & Policy Committee ultimately determines whether to include a

fund of hedge fund on Baird's Recommended Fund of Hedge Fund List.

Baird monitors each recommended fund of hedge fund on a periodic basis. As part of its monitoring process, Baird reviews monthly and/or quarterly commentaries from the fund, and generally holds a quarterly conference call during which Baird reviews issues with fund personnel that Baird deems relevant, which may include the following: assets under management, asset flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), changes made to the fund (e.g., hedge funds added or terminated), and reasons for the fund's under- or out-performance relative to a benchmark. In addition, Baird conducts subsequent onsite reviews of each fund on a periodic basis when deemed necessary by Baird.

Baird may place a fund of hedge fund on "watch" status if the fund has experienced a material event that, in Baird's opinion, may negatively affect the fund's performance going forward. Examples include a significant decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, or regulatory problems. Any firm that is placed on watch status is subject to an onsite review to determine if the issue is likely to be temporary or long-term. Baird will remove a fund from watch if, in Baird's opinion, the issue has been adequately addressed. Baird will remove a fund from the List if it believes the issue is likely to be long-term.

Using the funds on Baird's Recommended Fund of Hedge Funds list, ICS Consultants will select or replace, or recommend the selection or replacement of, a particular fund of hedge fund based upon each client's particular goals and circumstances.

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

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

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

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

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

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

Baird tends to favor larger-sized issuers of structured products over smaller-sized issuers and also tends to favor structured products that have shorter maturities and offer principal protection.

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

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

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

## Principal Risks

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

Principal risks include the following:

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

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

**Investment Objective and Asset Allocation 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 ICS Consultant of these considerations so the ICS Consultant can assist in determining the client's investment objectives and asset allocation strategies.

**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 a portfolio that is diversified across several industries or sectors and asset classes.

**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.

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

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

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

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

**Bond Risks.** To the extent a strategy may involve investing in fixed-income securities, the strategy is subject to bond market risks. A bond's market value is affected significantly by changes in interest rates—generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk and the lower its yield ("maturity risk"). A bond's value may also be affected by changes in its credit quality rating or the issuer's financial condition ("credit-quality risk"). Because bond values may fluctuate, a client's portfolio value may fluctuate. Client accounts may also be invested in municipal securities, and/or bonds that are not rated or are below investment grade. For more information, a client is encouraged to read the

disclosure documents entitled "Important Information about Investing in Municipal Bonds" and "Important Information about Non-Rated or Below Investment Grade Securities" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

**Capitalization Risks.** A client may be invested in small and mid 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.** Certain securities issued by U.S. government-sponsored agencies or instrumentalities are not supported by the full faith and credit of the U.S. government. Examples of such securities are those issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which are supported only by discretionary authority of the U.S. Government, and the Student Loan Marketing Association, which are supported only by the credit of that agency.

**Money Market Fund 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 seek to preserve the value of your investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund value per share fall. In some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market

fund would not be available for purchases or withdrawals.

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

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

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

**Structured Products Risks.** Structured products are a hybrid between two asset classes typically issued in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. These investment products are complex and involve special risks. A client is encouraged to read the disclosure document entitled "Important Information

about Structured Products" available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

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

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

### Disciplinary Information

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

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

### Other Financial Industry Activities and Affiliations

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

Certain ICS Consultants 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 ICS Consultants 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 ICS Consultants 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, as fiduciaries, Baird and its ICS Consultants will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

### Other Investment Management Departments of Baird

Baird and its ICS Consultants may, from time to time refer clients to Baird Advisors, Baird Investment Management, or Baird Public Investment Advisors, investment management departments of Baird. ICS Consultants are eligible for special referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. ICS Consultants may have an incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.

### Affiliated Mutual Funds

Baird is the investment adviser and principal underwriter for the Baird Funds, Inc. ("Baird Funds"), a registered open-end management investment company. Baird Advisors provides investment management and other services to certain Baird Funds investing primarily in fixed-income securities (the "Baird Bond Funds"). Baird Investment Management provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). As compensation for those services, Baird receives fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available at [www.bairdfunds.com](http://www.bairdfunds.com).

ICS Consultants 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). ICS Consultants may have a financial incentive to favor investments in the Baird Funds over investments in other mutual funds and to favor the Baird Equity Funds over the Baird Bond Funds.

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

### Affiliated Investment Advisors

Baird is affiliated with, and may be deemed to control, Riverfront Investment Group, LLC ("Riverfront") by virtue of Baird's equity ownership of Riverfront. 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 account of 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 Private Equity ("BPE"), Baird's global private equity group. Baird and its ICS Consultants may refer clients to BPE. BPE makes venture capital, growth equity and buyout investments in the business services, manufactured products and healthcare/life sciences sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"); 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.

ICS Consultants 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.

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

### Code of Ethics

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

To address the potential for conflicts of interest, Baird has adopted a Code of Ethics (the "Code") that applies to its associates that provide investment advice to clients, including ICS Consultants, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. In addition, an Access Person who has discretionary authority over client accounts must generally pre-clear his or her trades or obtain prior authorization from his or her supervisor or Baird's Compliance Department before executing a trade. The Code also generally prohibits Access Persons who have discretionary authority over client accounts from executing a security transaction for their personal accounts during a blackout period that can extend from one to seven days before or after the

date that a client transaction in that same security is executed. The Code provides for certain exceptions deemed appropriate by Baird management and/or by Baird's Compliance Department. In addition, orders for the accounts of Access Persons and other Baird associates that are under discretionary management by Baird may be aggregated with orders for other Baird client accounts, so long as the order is executed as part of a block transaction with client orders. A copy of the Code is available to clients or prospective clients upon request.

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

## Baird's Participation or Interest in Client Transactions

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

**Brokerage and Related Trading Activities.** Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. These investment management firms may also receive research in addition to execution services provided by Baird. Baird receives compensation for those execution services. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird and its ICS Consultants 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 Baird's advisory programs (including when Baird constructs its Recommended Managers or Recommended Mutual Fund Lists). 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.

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. ICS Consultants 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 ICS Consultants 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. However, Baird and ICS Consultants will only sell or recommend a sale of such securities to an advisory client when they believe it is in the client's best interest to do so.

Baird may buy or sell securities for its own account, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. These activities could create a conflict of interest with its clients. Baird addresses this potential conflict by adopting and enforcing internal procedures designed to ensure that securities allocations made to advisory client accounts are made in a manner such that all advisory clients receive equitable treatment. In addition, Baird has adopted a Code of Ethics and other internal trading policies and procedures relating to Baird's, its affiliates' and associates' trading activities that are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients. See "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Code of Ethics" above.

#### *Mutual Fund Selling and Servicing*

**Marketing and Other Financial Support.** 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 ICS Consultants 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 such payments over mutual funds and their sponsors that do not. However, Baird acts in the best interests of clients when recommending mutual funds to clients, and Baird does not consider the receipt of these payments in compiling its Mutual Fund Leaders List, Recommended Mutual Fund List, or in selecting investments offered through Baird's ALIGN Programs.

The marketing support and other payments that Baird receives from mutual funds and their sponsors are not paid to ICS Consultants, and the compensation that Baird pays to ICS Consultants is not tied to such payments. ICS Consultants 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 ICS Consultants an incentive to favor mutual funds and their sponsors that provide such benefits over mutual funds and their sponsors that do not. However, ICS Consultants act in the best interests of clients when selecting or recommending funds in connection with the Services. In addition, Baird has adopted policies and procedures for ICS Consultants and other Baird associates providing advisory services that address and limit the receipt of such non-cash benefits in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

**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/mutualfunds](http://www.rwbaird.com/mutualfunds). Clients may also contact Baird or an ICS Consultant for more specific information about the amount of compensation Baird may receive from any of these mutual fund companies.

**Alternative Investment Product Selling and Servicing.** If an alternative investment product is registered as an investment company (that is, a mutual fund), Baird and

ICS Consultants may receive compensation described in the section entitled "Mutual Fund Selling and Servicing" above.

More detailed information about the compensation that Baird receives from an alternative investment product and its sponsor is available in the offering documents for the alternative investment product and in Baird's Important Information about Your Investment series of disclosure documents, which are available on Baird's website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures). Clients may also contact Baird or an ICS Consultant for more specific information about the amount of compensation Baird may receive from the sale of alternative investment products.

*Annuities and Insurance Product Selling and Servicing.* Insurance companies compensate Baird and its ICS Consultants for selling their insurance products. Baird and its ICS Consultants 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 ICS Consultants. 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 ICS Consultants, and ICS Consultants' compensation is not tied to such financial support. ICS Consultants 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 ICS Consultants an incentive to favor insurance companies and their sponsors that provide such benefits over insurance companies and their sponsors that do not. However, Baird has adopted policies and procedures for its ICS Consultants and other advisory personnel that address and limit the receipt of such non-cash benefits in an attempt to avoid having the investment advice provided to clients being compromised by such benefits.

More detailed information about the 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/annuities](http://www.rwbaird.com/annuities).

### **Baird's Other Financial Industry Activities**

*Investment Banking and Public Finance.* Through its Investment Banking and Public Finance departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. In addition, ICS Consultants 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 ICS Consultants 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 ICS Consultants will only recommend such securities to a client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any 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 ICS Consultant's interest in the transaction. For more information, please see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Principal Transactions" below.

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

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

In addition to the asset-based fee paid by the client on the funds invested in the Cash Sweep Program, Baird receives a fee from each bank or money market fund for the provision of certain administrative, accounting and other services to the fund or bank. 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 "Baird's Participation or Interest in Client Transactions—Baird's Broker-Dealer and Related Activities—Mutual Fund Selling and Servicing—Marketing and Other Financial Support" 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 ICS Consultants. The compensation that Baird and ICS Consultants receive from the Bank Sweep Option and the Money Market Option give them a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program and the compensation Baird and ICS Consultants receive is available on Baird's website at [www.rwbaird.com/moneymarkets](http://www.rwbaird.com/moneymarkets).

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.

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

**Other Investment Products and Services.** Baird offers to clients other investment products and services not described in this Brochure. These investment products and services provide different levels of compensation to Baird and its ICS Consultants. Baird and its ICS Consultants 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 an ICS Consultant.

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

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

### Brokerage Practices

Not applicable.

### Review of Accounts

The nature and frequency of client account reviews performed by ICS Consultants and the reports provided to clients varies by the particular needs of each client and will be set forth in the client's Consulting Agreement. Typically, clients receive quarterly reports that show asset performance compared to benchmarks within the same asset class.

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

### Custody

Not applicable.

### Investment Discretion

Not applicable.

### **Voting Client Securities**

Not applicable.

### **Financial Information**

Not Applicable.

### **Special Considerations for Retirement Accounts**

If a client is a Retirement Account, each owner, trustee or other fiduciary acting on behalf of the client understands that Baird may invest for the client, or recommend that the client invest in, Baird-affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each owner, trustee or other fiduciary acting on behalf of the client understands that when Baird invests with discretion the assets of a Retirement Account in a Baird-affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor ("DOL") Prohibited Transaction Exemption ("PTE") 77-4, and, as required thereby, Baird will waive its advisory fees on that portion of the assets invested in the Baird-affiliated investment product for such period of time so invested or Baird will offset the investment advisory fees received by Baird or any of its affiliates from the Baird-affiliated investment product against the advisory fee that Baird charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client acknowledges in the client's agreement that: (i) the investment in Baird-affiliated investment products for the client's account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those funds; (ii) all assets of the client's account may be invested in one or more of the Baird-affiliated investment products; (iii) the client received prospectuses or other disclosure documents for the Baird-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 Baird-affiliated investment products to Baird or its affiliates; and (iv) the client received information concerning the nature and extent of any differential between the rate of such Baird-affiliated investment products fees and the advisory fees payable by the client to Baird. The differential between the fees to be charged by Baird for the advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the Baird-affiliated investment products to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the Baird-affiliated investment products is the difference between Baird's fee disclosed in the client's agreement and the applicable investment management, investment advisory and other similar fees detailed in the section entitled "Code of Ethics, Participation or Interest in

Client Transactions and Personal Trading—Baird's Participation or Interest in Client Transactions" above and/or in the relevant prospectus or other offering document for the Baird-affiliated investment product.

Baird and ICS Consultants do not provide Retirement Account clients with recommendations or advice regarding the client's decision to retain investment managers that are affiliated with Baird. Investment managers affiliated with Baird will be retained or removed from management from a Retirement Account only upon the client's direction to do so. For more information about investment managers that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.