

# Baird Investment Management

## Brochure

March 30, 2012



Baird Investment Management  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202  
Toll Free: 800-792-2473  
[www.bairdinvestmentmanagement.com](http://www.bairdinvestmentmanagement.com)

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

Member FINRA & SIPC  
SEC File No. 801-7571

**This brochure ("Brochure") provides information about the qualifications and business practices of Robert W. Baird & Co. Incorporated ("Baird") and Baird Investment Management ("BIM"), an investment management department operating within Baird. Clients should carefully consider this information before becoming a client of BIM. If you have any questions about the contents of this Brochure, please contact BIM 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

Baird Investment Management ("BIM"), an investment management department operating within Robert W. Baird & Co. Incorporated ("Baird"), updated its Form ADV Part 2A brochure (the "Brochure") on March 30, 2012. The following summary discusses the material changes that BIM has made to the Brochure since March 31, 2011, the date of the last annual update to the Brochure.

- BIM now offers value investment strategies to clients as further described in the Brochure sections entitled "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss".
- BIM has updated its disclosures relating to the soft dollar benefits it received during the past year and may receive in the future. The research services received by BIM during Baird's last fiscal year ended December 31, 2011 included, and may include in the future, both proprietary research offered by the broker or dealer executing a client transaction or it may be research offered by a third party through the broker or dealer executing a client transaction. Typically all of the brokerage commissions paid by BIM clients are paid to brokers and dealers who provide research services to BIM. See the section of the Brochure entitled "Brokerage Practices—Soft Dollar Benefits" for more specific information.
- BIM has clarified that the discretionary authority granted to BIM under the client's advisory agreement includes the authority to: make investment and trading decisions for client accounts (including the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets); and act in all matters necessary or incidental to the handling of client accounts as further described in the section of the Brochure entitled "Investment Discretion".

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

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

## 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.

## Baird Investment Management

BIM offers professional portfolio management to clients desiring investments in equity and fixed-income products. The advisory services offered by BIM generally include portfolio management, investment advice and consulting services, performance reporting, and related account services.

BIM manages client portfolios with full investment discretion and tailors its advisory services to the individual needs of clients. BIM analyzes a client's specific needs and risk tolerance to select an investment strategy appropriate for the client. BIM offers five (5) primary growth investment strategies: a Large Cap Growth Select Portfolio; a Large Cap Core Growth Portfolio; a Large Cap Balanced Portfolio; a Mid Cap Growth Portfolio; and a Specialized Asset Management Portfolio (the "BIM Growth Strategies"). BIM also offers three (3) primary value investment strategies: a Small Cap Value Portfolio; a Small/Mid Cap Value Portfolio; and an All Cap Value Portfolio (the "BIM Value Strategies"). Certain Portfolios have substantially identical objectives and benchmarks for investment returns.

Subject to the agreement of BIM, 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 BIM to provide other investment advisory services.

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

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

*Important Note about Wrap Fee Programs.* BIM participates in wrap fee programs sponsored and administered by Baird and unaffiliated parties (the "Sponsors"). As compensation for its services, BIM receives a portion of the wrap fees that a client pays to the Sponsor. If a client is participating in such a program, the client should review the client's agreement with the Sponsor and the Sponsor's brochure for a full description of the services provided and fees charged by the Sponsor.

#### **The Client-Baird Advisory Relationship**

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

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

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

A client is responsible for providing to BIM information that BIM reasonably requires in order to provide the services selected by the client including, but not limited to, any investment policy statement and anticipated liquidity needs. BIM will rely on this information when providing its advisory services. A client is also responsible for informing BIM in writing of any material change in circumstances which might materially affect the manner in which the client's assets should be invested.

### **Fees and Compensation**

#### **Advisory Fee**

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

#### **BIM Fee Schedule**

Large Cap Growth Select Portfolio  
Large Cap Core Growth Portfolio  
Large Cap Balanced Portfolio  
Specialized Asset Management Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$5,000,000	0.75%
On the next \$5,000,000	0.55%
On the next \$15,000,000	0.45%
On the next \$25,000,000	0.40%
On the remaining assets	0.35%

#### **Mid Cap Growth Portfolio**

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$5,000,000	0.85%
On the next \$5,000,000	0.65%
On the next \$15,000,000	0.55%
On the next \$25,000,000	0.50%
On the remaining assets	0.45%

#### **Small Cap Value Portfolio**

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	1.00%
On the remaining assets	0.80%

#### Small/Mid Cap Value Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	0.95%
On the remaining assets	0.75%

#### All Cap Value Portfolio

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
On the first \$20,000,000	0.85%
On the remaining assets	0.65%

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

The value of assets in a client's account is generally determined by Baird. Baird determines the value of the assets in the client's account using prices from third party quotation services. However, if the client has its assets custodied with a custodian other than Baird and if the third party quotation service does not provide a price for assets in the client's account, Baird will rely upon the price reported by the client's third party custodian. BIM and Baird do not conduct an in-depth review of valuation information provided by third party quotation services or custodians, and they do not verify or guarantee the accuracy of such information. The prices obtained by Baird from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by Baird due to the use of different valuation sources by the custodian and Baird.

The fees are payable on a calendar quarterly basis, in advance, in accordance with the terms of the client's investment management agreement. The initial billing period begins when the client's investment management agreement is signed by the client and accepted by Baird (the "Opening Date"). The initial fee payment will be adjusted for the number of days remaining in the then current quarter. The initial fee will be based on the initial value of the client's account. The period which such payment covers shall run from the Opening Date through the last business day of the then current calendar quarterly billing period.

Thereafter, the quarterly fees shall be calculated based upon the account's asset value on the last business day of the prior calendar quarter and shall become payable on the first business day of the then current calendar quarter.

The asset-based fees and charges will be automatically deducted from the client's account, unless the client elects, and BIM agrees, to send to the client an invoice ("direct billing"). Direct billing may not be available for retirement plan accounts or other accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or individual retirement accounts ("IRA") subject to the Internal Revenue Code (collectively, "Retirement Accounts"). If a client's account is subject to direct billing, the client is required to pay each bill within thirty (30) days of the date of the invoice. BIM or Baird may automatically debit a client's account for the fees and other charges in the event that Baird does not receive payment from the client within thirty (30) days of the date of the invoice. BIM or Baird may rescind a direct billing arrangement with a client at any time.

BIM or Baird may modify a client's existing fees and other charges or add additional fees or charges by providing the client with sixty (60) days' prior written notice.

If either BIM or the client terminates the client's investment management agreement, a pro-rated refund from the date of termination through the end of the applicable billing period will generally be made to the client in the client's account. Generally, BIM makes no fee adjustment during any fee period for asset value appreciation or depreciation in a client's account during a billing period nor does it make any adjustment or refund with respect to partial withdrawals by a client during any billing period. However, BIM, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's account occurring during a billing period that result from contributions to the client's account.

Whether a client maintains a balance in his or her margin account with Baird has no bearing on the asset-based fees charged on client's account. In other words, the margin balance (i.e., the outstanding amounts a client owes to Baird) in any of the client's accounts will not be applied to reduce the client's billable account value in

calculating BIM's fee. For purposes of determining the asset-based fees imposed on an open short sale position, a client will be charged on the market value of the underlying securities sold short rather than on the difference between the price at which the underlying securities were sold and the current value of those securities. For purposes of determining the asset-based fee on options, the absolute value of the current market price of the option will be used.

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

The minimum asset value to open a Growth Strategy account is typically \$5,000,000 and a Value Strategy account is typically \$1,000,000. BIM generally imposes a minimum annual fee of \$7,500. Unless otherwise agreed in writing, the minimum fee will apply if a client's portfolio asset value falls below the minimum account value.

The advisory fee and minimum account value applicable to a client are negotiable in certain instances and may vary based upon a number of factors, including but not limited to, whether a client is participating in a wrap fee program, the size and nature of the assets in the client's account, the client's particular investment style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedule above. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above. BIM may enter into other fee arrangements with eligible clients.

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

### Other Fees and Expenses

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

A client also bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with purchases and sales of certain securities (such as securities traded over-the-counter and fixed-income securities) because such costs are inherently reflected in the price the client pays or receives for such securities. A client is also responsible for fees and expenses resulting from certain odd-lot differential, Securities and Exchange Commission ("SEC") and exchange fees, electronic fund and wire transfer fees, margin interest, transfer taxes, certain fees in connection with the establishment or administration or termination of retirement or profit sharing plans or trust accounting, or other costs or fees mandated by law or regulation.

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



A client should review the prospectus and statement of additional information (or other applicable offering documents) for each fund in which the client invests for further information.

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

#### **Other Compensation Received by BIM and Baird**

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

*Baird.* Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in such capacity, Baird provides brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. Baird receives compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird (but not BIM or its personnel) an incentive to recommend investment products based upon the compensation received rather than on a client's needs. For more specific information about Baird's compensation and other benefit arrangements that present potential conflicts of interest with respect to clients of BIM and how Baird addresses those conflicts, please see the sections "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

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

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

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

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). A client's agreement to a performance-based fee arrangement may create an incentive for Baird (but not BIM) to recommend or invest a client's account in riskier or more speculative products than would be the case in the absence of a performance-based fee arrangement.

Performance-based fee arrangements also present a potential conflict of interest for Baird (but not BIM) 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**

BIM offers its services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; corporations or other



business entities; and registered investment companies. Applicable requirements for opening or maintaining an account with BIM, such as minimum account size, are discussed in the section entitled "Fees and Compensation—Advisory Fee" above.

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

### Investment Strategies

#### *BIM Growth Strategies*

Large Cap Growth Select Portfolio. The Large Cap Growth Select Portfolio invests in large- and medium-sized, high-quality growth companies holding leadership positions within their industries that BIM's portfolio managers believe are capable of producing above average growth in a variety of market environments. The Portfolio typically emphasizes companies with a market capitalization between \$5 billion and \$80 billion. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at the greater of 30% of the Portfolio or double the weighting of the applicable sector in the Russell 1000 Growth Index. The Portfolio may not have full exposure to sectors where satisfactory growth opportunities are not available.

Large Cap Core Growth Portfolio. The Large Cap Core Growth Portfolio emphasizes large cap, high-quality growth companies holding leadership positions within their industries that BIM's portfolio managers believe are capable of producing consistent performance in a variety of market environments. The Portfolio will emphasize companies with a market capitalization over \$5 billion. However, a portion of the equities may be allocated to small- and medium-sized company stocks when, in BIM's opinion, it is appropriate. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at the greater of 30% of the Portfolio or double the weighting of the applicable sector in the S&P 500 Index. The Portfolio may not have full exposure to sectors where satisfactory growth opportunities are not available.

Large Cap Balanced Portfolio. The equity portion of the Large Cap Balanced Portfolio includes the same types of securities utilized in the Large Cap

Growth Portfolio. In the absence of specific client guidelines, the equity investments generally range from 45% to 65% of total Portfolio value over a full market cycle. The fixed income portion of the Portfolio consists of high-quality securities, which may include a mix of U.S. Treasury, U.S. Government agency, corporate bonds or municipal bonds selected to provide a consistent source of income and reduced principal risk. Fixed-income securities must be rated investment grade or better at the time of purchase by a nationally recognized statistical rating organization. In order to achieve adequate diversification, mutual funds managed or selected by Baird that satisfy the foregoing guidelines may be used. Exchange traded funds ("ETFs") may also be utilized.

Mid Cap Growth Portfolio. The Mid Cap Growth Portfolio invests in medium-sized, high-quality growth companies holding leadership positions within their industries that BIM's portfolio managers believe are capable of producing above average growth in a variety of market environments. The Portfolio will emphasize companies with a market capitalization between \$2 billion and \$15 billion. To help control risk, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors, with sector limits for any one sector at the greater of 30% of the Portfolio or double the weighting of the applicable sector in the Russell Mid Cap Growth Index.

Specialized Asset Management Portfolio. The Specialized Asset Management Portfolio emphasizes asset allocation among multiple investment strategies, which may include large cap, mid cap, small cap, international and fixed income. Depending on the size of the account, individual stocks may be purchased for some of the equity strategies described above. In order to achieve adequate diversification in individual strategies, mutual funds managed or selected by Baird may be utilized. ETFs may also be utilized. BIM believes mutual funds and ETFs provide broad diversification, which contributes to Portfolio risk control.

#### *BIM Value Strategies*

Small Cap Value Portfolio. The Small Cap Value Portfolio invests in small cap companies, typically defined as those with a market cap range of \$100 million to \$2.5 billion at time of purchase. The

Portfolio seeks to own securities that BIM expects to exceed Wall Street expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no single holding in the Portfolio will exceed 5% of the Portfolio at cost or 8% of the Portfolio measured at market value.

Small/Mid Cap Value Portfolio. The Small/Mid Cap Value Portfolio invests in small and mid cap companies typically defined as those with a market cap range of \$300 million to \$8.0 billion at time of purchase. The Portfolio seeks to own securities that BIM expects to exceed Wall Street expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no one sector (excluding financials) will exceed 30% of the total market value of the Portfolio, and typically no single holding in the Portfolio will exceed 5% of the Portfolio at cost or 8% of the Portfolio measured at market value.

All Cap Value Portfolio. The All Cap Value Portfolio invests in small, mid and large cap companies typically defined as those with a market cap greater than \$100 million at time of purchase. The Portfolio seeks to own securities that BIM expects to exceed Wall Street expectations and that trade at a discount to BIM's proprietary calculations of fair value. The Portfolio typically owns companies exhibiting high-quality characteristics including, but not limited to, strong balance sheets, high returns on equity, competitive advantages, high barriers to entry and above average profit margins. To help control risks, the Portfolio is generally diversified among companies in a broad range of industries and economic sectors. Typically, no single holding in the Portfolio will exceed 5% of the

Portfolio at cost or 8% of the Portfolio measured at market value.

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

A Portfolio may target the annual rate of return of a specific benchmark index or indices (such as the S&P 500 Index or the Russell Mid Cap Growth Index) that BIM determines relevant. The benchmark may also be a blended benchmark that combines the returns for two or more indices. The securities selected by BIM generally will not mirror the assets in their respective benchmark indices. There can be no assurance that any particular strategy will be successful in achieving the client's investment goals and objectives.

#### Methods of Analysis

BIM both develops its own research and valuation systems and uses such services provided by others. Information provided by others includes company-issued literature (e.g., annual reports, prospectuses, press releases and other information) and analyses by many outside investment firms. Government and Federal Reserve Bank publications, financial and other newspapers, journals and corporate ratings services (e.g., Moody's, Standard and Poor's) as well as electronic data information sources (e.g., Bloomberg, Morningstar, MTI, First Call, INSYNC, Dow Jones, Reuters, and International Strategy and Investment) may provide data for security analysis and general economic information. BIM may also utilize research reports created by other departments of Baird. BIM may also employ the use of computers and third party application software to more readily display information and to assist with the evaluation and analysis. Although BIM uses information and tools that BIM deems reliable, BIM does not independently verify or guarantee the accuracy of the information or tools used.

BIM provides portfolio advice and management for investors desiring long-term investments and does not service speculators seeking to optimize results through short-term trading. Consequently, BIM focuses on the investment rather than speculative value of equity and debt securities. Nevertheless, changing investment

viewpoints, security prices or other factors might lead at times to short holding periods for selected securities. Certain tax-exempt institutional portfolios which target investment returns in relationship to specified benchmarks will, because of the specialized nature of their objectives, frequently employ investment strategies that produce a higher turnover of investment holdings. Short sales and margin transactions are not generally used. However, a client may specifically request BIM to consider using those strategies. BIM may include investments in options or futures contracts as a normal part of its portfolio advice and management services, but will only offer such services in limited instances.

BIM will refrain from providing services to clients who have an investment objective that does not match an investment style or philosophy of BIM, set unrealistic expectations considering current market and economic conditions, prescribe unreasonable investment restrictions, or utilize benchmarks that are inappropriate for their stated objectives and goals. BIM's investment philosophy and processes are further described below.

***BIM Growth Strategies.*** For the BIM Growth Strategies, BIM relies principally on fundamental analysis to evaluate the relative strength of companies and to isolate a universe of desirable securities. The investment philosophy of BIM is based on the belief that the value of a business over the long-term is primarily determined by the earnings growth and profitability of that business. BIM's approach in applying this philosophy is to focus on the long-term, to invest in quality, growth companies, and to control investment risk. BIM's philosophy is applied consistently across all equity products.

BIM seeks to construct each BIM Growth Strategy Portfolio so that is comprised of companies which reflect PRIME growth factors. These factors are analyzed as part of the BIM's investment process and are represented in the following ways:

- **Durable Profitability.** Companies with attractive margins and favorable margin trends can drive superior earnings growth.
- **Sustainable Revenue Growth.** Solid barriers to entry, favorable pricing, and demonstrated

product/service track record can aid top-line prospects.

- **Favorable Industry dynamics.**
- **Management strength and integrity** is a critical element of a high quality company. Growth, profitability, and shareholder returns provide insight into management effectiveness. BIM seeks companies with management who position their company's balance sheet to be a source of strength.
- **Understanding market Expectations** of a company is important in assessing risk/return opportunities.

BIM believes an analysis of these PRIME factors yields insights to the competitive strength of a business model. BIM applies the following strategies when purchasing securities for a Portfolio:

- **Intentionally avoiding short-term trading strategies and rapid shifts in industry positions.**
- **Setting sector limits** at the greater of 30% of the Portfolio's style or double the weighting of the Portfolio's benchmark index in any one sector, as defined by such index.
- **Typically holding the securities of fewer than 60 companies with exposure to approximately 20 industries.**
- **Seeking securities whose growth prospects, in BIM's opinion, are not reflected in their current stock prices.**
- **Limiting the size of any one new position.** No security will represent more than 5% of the Portfolio total assets at the time of purchase.
- **Leveraging key tools, such as BIM's proprietary tier-board, which provides a visual representation of portfolio positions and enables discussion on relative weights of our underlying positions.**

As it relates to the BIM Growth Strategies, BIM bases the valuation of a security (i.e., the determination of whether a security is "cheap" or "expensive" in terms of its historical profitability, long-range prospects and other factors) on

fundamental analysis and economic forecasts. Issues and industry groupings that have historically demonstrated sensitivity to business cycles may require valuation adjustments. BIM may sell a security due to achievement of valuation targets, significant change in the initial investment premise, or fundamental deterioration.

As it relates to the BIM Growth Strategies, BIM may use technical analysis (which includes insider transaction data and graphic representations of price, volume and other characteristics for a security) to assist in determining the timing of purchases or sales of securities after an analysis of fundamental or cyclical factors relevant to the security. BIM considers the expanding role of government worthy of continuing review from both a macro- and micro-economic standpoint, and at times, its analysis of domestic or international factors related to political and regulatory influences on economic processes is an important factor in investment decisions.

*BIM Value Strategies.* For the BIM Value Strategies, BIM relies principally on bottom-up, fundamental analysis to determine the best potential combination of securities. BIM may also utilize top-down analysis to evaluate macro, sector, and/or industry trends to assist in evaluating individual company opportunities.

As it relates to the BIM Value Strategies, the investment philosophy is based on the belief that growth and value investing are not mutually exclusive. BIM seeks to invest in what it believes are outstanding businesses with attractive valuations that offer under-appreciated growth potential. BIM looks for companies that demonstrate above-average Return on Equity ("ROE"), above-average profit margin, solid revenue growth, strong balance sheets, a competitive advantage, and high barriers to entry. BIM also looks for companies that exhibit the following valuation metrics: low forward price-to-earnings ratio, low price-to-earnings growth ("PEG") ratio, low price-to-sales ratio, low price-to-book ratio, and low price-to-cash flow ratio. Generally, BIM believes the presence of these criteria is indicative of a company likely to exceed "Wall Street" expectations, but that trades at a discount to its fair value.

BIM utilizes an internal research process seeking catalyst for change not currently recognized by Wall Street. Such catalyst may be underleveraged resources, M&A synergies, hidden assets/cash, cyclical opportunities, or turnaround situations. BIM derives proprietary earnings estimates for each potential portfolio candidate by decompiling ROE. Potential additions to a Portfolio are those companies mispriced relative to what BIM believes is their intrinsic value.

BIM generally applies the following strategies when purchasing securities for a Portfolio:

- concentrated approach typically holding 40-50 companies;
- broad sector and industry representation; individual sectors are capped at 30% (excluding financials) and industry limits of 20%;
- limiting the size of one position; no security is typically more than 8% of a Portfolio at market, 5% at cost; and
- a Portfolio typically remains fully invested with cash equivalents less than 5%.

BIM may sell a security out of a BIM Value Strategy Portfolio if the company or security experiences a fundamental deterioration, the security price exceeds BIM's target valuation, for diversification needs, or if there is a change in BIM's macroeconomic outlook.

#### Portfolio Investments

BIM may invest client accounts in, and provides advice on, the following types of securities: equity securities (exchange-listed, over-the-counter, American Depositary Receipts ("ADRs"), and foreign-issued), warrants, options, corporate debt securities, commercial paper, certificates of deposit, municipal securities, mortgage and asset backed securities, collateralized mortgage obligations and United States government and agency securities. BIM does not normally use its discretionary authority to purchase interests in limited partnerships.

BIM may also invest client assets in securities of investment companies, such as money market funds, mutual funds, exchange traded funds, other registered investment companies, hedge

funds, private investment partnerships and other investment pools that invest in securities or track securities-related indices.

### Principal Risks

Risk is inherent in any investment in securities and BIM 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 BIM client may be subject to the risks described below. The risks discussed below vary by investment style or strategy, and may or may not apply to a client.

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

*Growth-Style Investing Risks.* Different types of stocks tend to shift into and out of favor with stock market investors depending on market and economic conditions. Because each Portfolio focuses on growth-style stocks, a Portfolio's performance may at times be better or worse than the performance of investments that focus on other types of stocks or that have a broader investment style. Growth stocks are often characterized by high price-to-earnings ratios, which may be more volatile than stocks with lower price to-earnings ratios.

*Value Investing Risks.* With respect to the BIM Value Strategies, investments are selected based upon BIM's distinct principles of value investing. Value investments are subject to the risk that the broad market may not agree with BIM's assessment of, or recognize, the investments' intrinsic value.

*Management Risks.* BIM's judgments about the attractiveness, value and potential appreciation of particular companies' stocks may prove to be

incorrect. Such errors could result in a negative return and a loss to clients.

*Capitalization Risks.* Certain Portfolios invest primarily in large cap stocks, which perform differently from, and at times worse than, stocks of medium and smaller cap companies. Other Portfolios invest primarily 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 small- and mid-size companies may be substantially less than is typical of larger companies. Therefore, the securities of small- and mid-size 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.

*Bond Market 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.

*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.

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 Portfolios.

### **Disciplinary Information**

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

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

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

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

### **Other Departments of Baird**

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

### **Affiliated Mutual Funds**

Baird is the investment adviser and principal underwriter for the Baird Funds. Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed-income securities (the "Baird Bond Funds"). BIM provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"). The Baird Equity Funds have investment objectives and strategies substantially similar to the portfolio strategies discussed above. 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).

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-advisor for certain mutual fund series of the Financial Investors Trust. Baird is not involved in the day-to-day management of Riverfront or the investment decisions made by Riverfront for the account of clients. From time to time, BIM may use Riverfront investment products and services for its 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. Certain departments of Baird, other than BIM, 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.

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



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

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

#### **Baird's Participation or Interest in Client Transactions**

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

Brokerage and Related Trading Activities. Other investment management firms may select Baird, 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 compensation is not paid to BIM or its personnel. This compensation provides Baird (but not BIM or its personnel) an incentive to favor investment management firms or their investment products based upon compensation it receives for providing execution services. However, in accordance with its fiduciary duties, BIM acts in the best interests of clients when recommending investment management firms or their investment products to clients. 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.

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

Baird, as broker-dealer, continually engages in various securities transactions and trading activities, including market making and corporate stock buyback activities. Baird may buy or sell securities for its own account, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. These activities could create a conflict of interest with its clients. Baird addresses this potential conflict by adopting and enforcing internal procedures designed to ensure that securities allocations made to 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*

Distribution (12b-1) and Shareholder Serving Fees. BIM and its personnel do not receive compensation from mutual fund companies for selling shares of funds, and the compensation Baird pays to BIM associates remains the same regardless of the type of investment product recommended or purchased for client accounts.

Baird provides certain distribution and other shareholder-related services to mutual funds and their vendors with respect to BIM clients that hold shares of such mutual funds in their accounts. Baird receives distribution (12b-1) fees and other shareholder servicing fees on an ongoing basis as compensation for the services provided.

Accordingly, the receipt of these fees provides Baird (but not BIM or its personnel) an incentive to favor mutual funds over other investment products, or to favor mutual funds that offer distribution (12b-1) and shareholder servicing fees greater than other funds. For further information regarding these fees, clients should review the prospectus and statement of additional information for the applicable fund or contact their BIM representative.

Marketing and Other Financial Support. In addition to distribution (12b-1) and shareholder serving 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 Baird's ALIGN Programs or held in Retirement Accounts. This support, which varies from fund company to fund company and is commonly referred to as "revenue sharing", is typically allocated toward the costs of training and educating certain 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.

The financial support and other payments that Baird receives from mutual funds is not paid to BIM or its personnel, and the compensation Baird pays BIM's personnel is not tied to such financial support.

Receipt of financial support payments and expense reimbursements may provide Baird (but not BIM or its personnel) an incentive to favor mutual funds and their sponsors that make such payments over mutual funds and their sponsors that do not.

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 BIM, and the compensation Baird pays to BIM is not tied to such fees.

Schwab Clearing Arrangement. Baird has a clearing arrangement with Charles Schwab & Co., Inc. ("Schwab") whereby Schwab maintains an omnibus account with certain mutual funds for Baird on behalf of Baird and BIM clients. Although Baird pays Schwab a fee for the clearing service, Schwab passes through to Baird a portion of the compensation that Schwab receives from the funds (including distribution (12b-1), shareholder servicing and revenue sharing payments) for services that Baird provides to its clients who invest in the funds. The compensation Baird receives from Schwab is not paid to BIM or its personnel, and the compensation Baird pays to BIM's personnel is not tied to such compensation. This may provide Baird (but not BIM or its personnel) an incentive to favor certain funds that are part of the Schwab clearing arrangement.

Additional Information. More detailed information about 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 a BIM representative 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/mutualfunds](http://www.rwbaird.com/mutualfunds).

*Alternative Investment Product Selling and Servicing.* If an alternative investment product is registered as an investment company (that is, a mutual fund), Baird (but not BIM or its personnel) may receive compensation described in the section entitled "Mutual Fund Selling and Servicing" above.

More detailed information about 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 a BIM representative for more specific information about the amount of compensation Baird may receive from the sale of alternative investment products.

#### *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. Baird 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, BIM will only recommend such securities to a client when it believes it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any securities underwritten by Baird will be sold to a client by BIM 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 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, BIM and their 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 and BIM offer 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 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 "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. The compensation Baird receives in connection with the Cash Sweep Program is not paid to BIM or its personnel, and the compensation Baird pays to BIM's personnel is not tied to such compensation. The compensation that Baird receives from the Bank Sweep Option and the Money Market Option gives it (but not BIM or its personnel) 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 receives 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 BIM and Baird. In some circumstances, the receipt of such compensation may extend beyond a client's advisory relationship with BIM and 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. The compensation Baird receives in connection with these arrangements is not paid to BIM or its personnel, and the compensation Baird pays to BIM's personnel is not tied to such compensation.

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

*Agency Cross Transactions.* In certain circumstances and to the extent permitted by applicable law and regulation, BIM may effect "agency cross" transactions through Baird with respect to a client's account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on

both sides of the transaction. As compensation for its brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, BIM 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, BIM will comply with additional conditions imposed by ERISA if the client account is a Retirement Account.

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

In such cases, because BIM is acting as investment adviser for both buyer and seller, BIM is subject to potentially conflicting interests in causing (or recommending) the transactions. Also, because BIM 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. In these transactions, BIM seeks to obtain best execution for each respective advisory client and to ensure that each client receives fair and equitable treatment.

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

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

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

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

*If BIM or Baird, or an affiliate or associate of them, 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, BIM and Baird generally do not rebate these amounts to a client's account or credit the amount against the advisory fees payable by a client unless BIM or Baird may not keep such compensation under applicable law.*

## Brokerage Practices

### Broker-Dealer Selection

Clients generally give BIM the authority to determine independently the specific broker(s) or dealer(s) used to execute trades for their accounts. BIM selects brokers or dealers to execute a client's transactions based on the broker or dealer's ability to provide best execution for the client. When selecting a broker or dealer, BIM may consider the following factors: client preferences; research services (including strategy reviews, domestic and international economic analysis, technical commentary and other materials); execution capability and past execution performance; commission rates; financial standing of executing firm and counterparty risk; timeliness in rendering services; availability, cost and quality of custodial services; and continuity and quality of the overall provision of services.

### Soft Dollar Benefits

BIM may receive research (in addition to execution services) from broker-dealers in connection with its clients' securities transactions. These research benefits are commonly referred to as "soft dollar benefits". In accordance with applicable law and Baird's policies, BIM may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers who provide execution-only services in return for soft dollar benefits. However, BIM will seek to obtain commission rates that it considers appropriate for each client for the level and quality of service received from brokerage firms.

The research services received by BIM may be proprietary research offered by the broker or dealer executing a client transaction or it may be research offered by a third party through the broker or dealer executing a client transaction. Typically all of the brokerage commissions paid by BIM clients are paid to brokers and dealers who provide research services to BIM. The brokerage commissions on equity security transactions generally amount to an average of \$0.05 per share.

BIM has three formal soft dollar arrangements involving third party research. Under an arrangement with International Strategy & Investment Group ("ISI"), ISI provides research data, reports and analyses on economic and



market trends and individual company research at a cost of \$40,000. The expectation is that BIM will target approximately \$40,000 per year in commissions to a designated broker-dealer for access to this research.

In the two other arrangements described below, BIM places trades with designated executing broker-dealers (currently, BNY Convergenx and Knight Securities) at the rate of \$0.05 per share, of which \$0.015 per share is retained by the broker-dealer for trade execution and the remaining \$0.035 per share is placed into a research credit account and used to pay for the research provided by third parties.

Under an arrangement with Market Trends Investors ("MTI"), MTI provides research and analysis on macroeconomic conditions, trends and movements, sector trend and rotation analyses and weekly communications with and direct access upon request to MTI analysts at a cost of \$30,000 per year. BIM pays for a portion of MTI's research in hard dollars and the balance is paid by the designated broker-dealer out of the research credit account.

Under an arrangement with Cornerstone Analytics ("Cornerstone"), Cornerstone provides macro-level analytics for energy prices, including political and governmental analysis at a cost of \$5,000 per year. The cost is paid by the designated broker-dealer out of the research credit account.

Some broker-dealers indicate the amount of commissions they expect to receive in exchange for the provision of a particular research service. Although BIM does not agree to direct a specific amount of commissions to a firm in that circumstance, it maintains an internal procedure to identify the broker-dealers that provide BIM with research services and the value of those research services, and seeks to direct sufficient commissions to ensure the continued receipt of research services it feels are valuable.

During Baird's last fiscal year ended December 31, 2011, BIM received the following soft dollar benefits in connection with effecting client transactions: economic analysis and forecasts, financial market analysis and forecasts, industry and company specific analysis, interest rate forecasts; and analysis of pending and proposed governmental legislation and regulations. The

research BIM received included both proprietary research (i.e., research created or developed by the broker-dealer) and research created or developed by a third party (e.g., research provided by ISI, MTI and Cornerstone). Research services were received primarily in the form of written reports, computer generated services, telephone contacts, and personal meetings with security analysts. Research services were also provided in the form of meetings arranged with corporate and industry spokespersons, invitations to conferences and were generated by third parties but are provided to BIM by or through broker-dealers.

During Baird's last fiscal year ended December 31, 2011, BIM used the procedures described below to direct client transactions to broker-dealers in return for the soft dollar benefits that BIM received. BIM seeks to allocate brokerage commissions to broker-dealers in a way that, in BIM's judgment, reflects the quality and consistency of service provided by broker-dealers and research service providers. At the beginning of each year, a commission budget is established. BIM investment professionals then jointly determine which broker-dealers will be eligible to execute client transactions and establish a target commission amount for each such broker-dealer based upon the total commission budget. BIM investment professionals review and vote on the quality of research and level of support a minimum of six times per year. Each vote is followed by an analysis of the vote rankings and performance trends. BIM then makes adjustments to target commission amounts, if any, and adds or removes broker-dealers based upon the voting results. Baird's managed account trading desk takes the commission budget and voting into consideration, as part of BIM's obligation to seek best execution, when selecting brokers and dealers to execute portfolio transactions for BIM clients. To the extent more than one broker-dealer is considered capable of providing best execution for a particular client transaction, BIM may direct the client transaction to a broker-dealer based upon the target commission amounts then in effect.

The research information so received is in addition to, and not in lieu of, services performed by BIM and does not reduce the advisory fees payable to BIM by clients. As a practical matter, it would not be possible for BIM to generate all of the information presently provided by brokers and

dealers. When BIM uses client brokerage commissions (or markups or markdowns) to obtain research, BIM receives a benefit because BIM does not have to produce or pay for the research itself. BIM, therefore, may have an incentive to select or recommend a broker-dealer based on BIM's interest in receiving soft dollar benefits, rather than on clients' interest in receiving most favorable execution. However, BIM seeks to select broker-dealers based upon the broker's or dealer's ability to provide best execution. Furthermore, BIM does not select broker-dealers to execute transactions for client accounts based upon client referrals received from broker-dealers.

Research services provided by internal and external sources are used in managing client accounts and, in the business judgment of BIM, are important to each client; although, perhaps, in differing degrees at different times. As a general matter, such research services, including soft dollar benefits, are used to service all BIM client accounts. However, each and every research service may not be used to service each and every account managed by BIM, and BIM does not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Accordingly, research that BIM receives for a particular client's securities transactions may not be particularly useful for that client or may be useful not only for that client but for other clients as well. Similarly, clients may benefit from the research received from the transactions of other clients. Research information and its application and the interpretation of its worth are matters of professional judgment made by BIM.

### **Block Transactions**

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

The advisory clients participating in block transactions may not all be participants in the services described in this Brochure. All advisory clients participating in a block transaction will receive the same execution price for the security

bought or sold. Average prices may be used when allocating purchases and sales to a client's account because such securities may be purchased and sold at different prices in a series of block transactions. A client's commissions or transaction costs may vary depending upon, among other things, the type of advisory client account and the commission rate that the client has negotiated.

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

BIM generally aggregates buy and sell orders when executing trades for discretionary client accounts when it has the opportunity to do so. However, BIM determines whether or not to utilize block transactions for a client in its sole discretion and BIM's decision is subject to its duty to seek best execution. BIM will aggregate a client's trade orders only when BIM deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements. When BIM is not able to aggregate trades, BIM generally uses a trade rotation process that is designed to be fair and equitable to all BIM clients.



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

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

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

In connection with the execution of block transactions, BIM may, on occasion, employ the use of "step-outs" to satisfy client directed brokerage arrangements. A "step-out" typically occurs when an executing broker executes the trade at no commission and then "steps out" the trade to a clearing broker that confirms and settles the trade.

#### **Directed Brokerage**

BIM will comply with any guidelines and/or limitations reasonably requested by a client relating to brokerage for the client's account. Specific guidelines and/or limitations requested by

clients vary from client to client based upon a client's particular objectives and other factors.

If a client's account is subject to a directed brokerage arrangement, BIM may be unable to achieve best execution for the client's transactions because BIM cannot negotiate better prices and lower commission rates for the client, nor can BIM aggregate the client's account trades with orders for other BIM clients in order to seek volume discounts. Directed brokerage arrangements may cost the client more money as they may result in the client paying higher commissions and greater bid/offer spreads, or receiving a less favorable net price than the client may experience if BIM negotiated commission rates and spreads and selected broker-dealers to execute trades for client's account. Directed brokerage arrangement orders, because they are directed to the specified broker-dealer, may be manually executed by BIM after the trade execution is completed for other BIM client accounts.

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

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

#### **Other Brokerage Matters**

If Baird, as broker-dealer, provides execution services to a client, Baird will arrange for delivery and payment in connection with the execution services rendered to a client, and the client authorizes Baird to act on the client's behalf in all other matters necessary or incidental to the handling of the client's account.

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

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

### Trade Error Correction

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

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

### Review of Accounts

BIM's portfolio management team reviews BIM's client accounts. BIM portfolio managers monitor client portfolios to evaluate the impact of changing economic and market conditions on the client's securities and investment objectives. Major factors considered in all reviews include the market activity of individual securities and industries; the mix among cash alternatives, fixed income, and equity instruments; and the appropriateness of the portfolio's holdings in terms of long-term objectives such as income, risk and growth.

At least quarterly, BIM portfolio managers review client portfolios for allocation of client assets among cash, equity securities, and fixed income holdings and review each managed account focusing on the appropriateness of the client's investments in light of each client's investment objective, risk tolerance, and income requirements. Additional reviews performed by BIM personnel include drift reports for wrap program accounts, which are generally performed quarterly, and an asset allocation review that compares a client's investment policy statement to the client account's investment allocation, which is performed at least annually.

BIM portfolio managers generally review trading in a client's account each day there is a trade in the client's account. The portfolio management team typically reviews each account's relative performance compared to a relevant benchmark index at least quarterly.

Baird's Performance Reporting department performs reviews for variance in an account's performance compared to the account's composite. These reviews are generally performed monthly.

BIM generally provides written performance reports to clients on a quarterly basis. These quarterly performance reports contain the client account's performance, portfolio valuation, holdings, and portfolio manager commentary regarding market and sector performance. BIM may provide additional information in the performance report to meet the specific reporting needs of a client as the client and BIM may agree.

A client's account performance may be compared to a benchmark market index or indices (such as the S&P 500® Index or the Russell Mid Cap Growth Index). The benchmark may be a blended benchmark that combines the returns for two or more indices. Benchmarks shown in performance reports are for informational purposes only. BIM's selection and use of benchmarks is not a promise or guarantee that the performance of a client's account will meet or exceed the stated benchmark. When the client compares portfolio performance to the performance of a market index, the client should recognize that a market index merely reflects the performance of a list of unmanaged securities included in the index and does not take into account management fees,

execution costs, and other expenses related to the operation of a portfolio. The securities included in a client's portfolio generally do not mirror the securities included in the index.

*Special Note for Wrap Fee Program Clients.* The benchmarks used by BIM with respect to a client's account may differ from the benchmarks used by the wrap fee program Sponsor. As a result, the performance comparisons in BIM's performance reports may differ from reports provided to clients directly by the Sponsor.

If Baird provides transaction execution services to a client, 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.

If Baird has custody of a client's account assets, Baird will generally rely on third party quotation services to determine the value of such assets. These values are shown on client's account statements and are used in preparing a client's performance reports. However, if the client has its assets custodied with a custodian other than Baird and if the third party quotation service does not provide a price for assets in the client's account, BIM will rely upon the price reported by the client's third party custodian. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian may be different from the prices shown on statements and reports provided by BIM due to the use of different valuation sources by the custodian and BIM.

### **Client Referrals and Other Compensation**

Baird or BIM 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**

Each client is responsible for appointing the client's custodian, which will have possession of the assets of the client's account and settle transactions for the account. Clients may choose Baird or a service provider unaffiliated with Baird to serve as custodian.

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

### **Investment Discretion**

Clients generally give BIM the discretionary investment authority to determine independently the specific securities purchased or sold, the amount of securities purchased or sold, and the broker(s) or dealer(s) used to execute trades for their accounts. By executing an investment management agreement with BIM, a client authorizes BIM 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, subject to the client's portfolio strategy. The client's investment management agreement also grants to BIM complete and unlimited trading authorization and appoints BIM as agent and attorney-in-fact with respect to the client's accounts and all related trading and other decisions. Pursuant to such authorization, BIM 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 consulting the client.

BIM generally accepts reasonable limitations to its discretionary authority with respect to brokerage direction and securities selection, 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. Any such limitations agreed to by client and BIM are generally included in the client's investment policy statement or in a separate letter of understanding. When possible, BIM will also attempt to observe any non-binding statement of client preferences with respect to factors such as brokerage direction, holding periods, and securities selection.

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

BIM may use the discretionary authority granted to it by a client to invest the client's accounts in mutual funds that pay fees to Baird or to any of its affiliates for investment advisory or other services they provide to the mutual funds. 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 individual deposit accounts, whether advised 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 agreement with BIM, a client consents to BIM investing all or a portion of the client's account in mutual funds or deposit accounts with banks that pay advisory or other fees to Baird or its affiliates ("Baird-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—Baird's Participation or Interest in Client Transactions" above and/or the prospectus or other offering documents for the investment product. BIM will use its discretionary authority to invest the client's account in Baird-affiliated investment products when BIM determines it to be in the client's best interest to do so. The criteria used by BIM in deciding to invest in Baird-affiliated investment products are the same as those used in deciding to invest a client's assets in unaffiliated investment products. A client's consent may be revoked at any time.

### **Voting Client Securities**

Clients may elect on a schedule attached to their contract whether to authorize and delegate the right to BIM to vote proxies with respect to the securities held in their accounts. Unless a client makes that election, the client will be responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and BIM is under no obligation to take any action or render any advice regarding such matters. BIM generally does not permit clients to direct particular votes once they have granted Baird discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary authority granted to BIM.

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

In situations in which a client has delegated to BIM voting authority with respect to securities in the client's account, Baird will monitor corporate events and vote proxies in a manner that BIM believes is consistent with the client's best interests. BIM 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 BIM will actually vote on particular issues. The portfolio managers for the client's account will generally vote proxies with respect to equity securities for client accounts based on the recommendations of ISS; however, the managers may suggest voting against ISS's recommendations when the managers determine it to be in the clients' best interests to do so. The manager also may suggest how to vote on a particular matter not addressed by ISS. When a portfolio manager suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the portfolio 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 BIM's or 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 BIM would be inclined to vote in favor of management because of Baird's relationship or pursuit of a relationship with the company. BIM takes one of the following steps to address these potential conflicts: (1) casts the vote in accordance with the recommendations of ISS or other independent third party; (2) refers the proxy to the client or to a fiduciary of the client for voting purposes; (3) suggests that the client engage another party to determine how the proxy should be voted; or (4) obtain the client's direction to vote the proxy after disclosing the

conflict to the client. Baird's Compliance Department is responsible for overseeing the operation of the proxy voting policies and procedures.

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

### Financial Information

BIM does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of Baird's most recent fiscal year. Neither Baird nor BIM is aware of any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to clients, nor has either been the subject of a bankruptcy petition at any time during the past ten years.

### Special Considerations for Retirement Accounts

If a client is a Retirement Account, each owner, trustee or other fiduciary acting on behalf of the client understands that BIM or 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 BIM or 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, BIM 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 BIM 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 BIM 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 investment management 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) subject to BIM's investment strategies, 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 BIM. The differential between the fees to be charged by BIM 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 BIM's fee disclosed in the client's investment management 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.

If the client is a Retirement Account, each owner, trustee or other 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.

If client is a Retirement Account and 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 BIM or Baird, and annual summaries of such transaction information. BIM and Baird are also required for certain clients to provide the client annually with a form that the client can use to terminate the authorization given to BIM and 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, BIM and Baird provide 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.