

# Baird Private Wealth Management

## Wrap Fee Program Brochure

January 2, 2014



### Discretionary Programs

ALIGN Dynamic Portfolios

ALIGN Strategic Portfolios

ALIGN Tactical Portfolios

Private Investment Management

Russell Model Strategies

### Non-Discretionary Programs

ALIGN Custom Portfolios

Baird Advisory Choice

### Separate Managed Account Programs and Services

Baird Investment Management Portfolios

Referred Managers

Client Selected Managers

Riverfront Managed Portfolios

Recommended Managers

### Unified Managed Account Programs

ALIGN UMA Custom Portfolios

ALIGN UMA Select Portfolios

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

## Material Changes

Robert W. Baird & Co. Incorporated ("Baird") updated the Form ADV Part 2A wrap fee program brochure for its Private Wealth Management Department (the "Brochure") on January 2, 2014. The following summary discusses the material changes that Baird has made to the Brochure since March 28, 2013, the date of the last annual update to the Brochure.

- The Baird Investment Management ("BIM") Portfolios Program now makes available to clients portfolio strategies managed by other managers, which may include affiliates of Baird. See the sections of the Brochure entitled "Services, Fees and Compensation—SMA Programs and Services—Baird Investment Management Portfolios Program" and "Portfolio Manager Selection and Evaluation" for more information.
- BIM will be eliminating a strategy currently available under the BIM Portfolios Program. Effective January 31, 2014, BIM will close its LargeCap Growth Select Portfolio Strategy, and BIM will no longer offer its LargeCap Growth Select Portfolio Strategy to clients after that date. Clients pursuing that Strategy will need to make an alternate arrangement for the management of their assets by that date.
- Baird has updated the information about its ownership and the information about certain of its affiliates. See the sections of the Brochure entitled "Portfolio Manager Selection and Evaluation—Advisory Business" and "Additional Information—Other Financial Industry Activities and Affiliations" for more information.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 28, 2013. The updated Brochure contains changes that are not listed above.

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## Services, Fees and Compensation

This Brochure describes some of the investment advisory services that Robert W. Baird & Co. Incorporated ("Baird") offers to its clients through its Private Wealth Management department ("PWM"). Baird and PWM offer other investment advisory services not described in this Brochure. Separate brochures describe those other investment advisory services and discuss the agreements, fees and potential conflicts of interest for each service. If you would like to request a brochure for another investment advisory service provided by Baird, please contact a Baird Financial Advisor or call Baird toll-free at 1-800-792-2473.

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

## The Client-Baird Fiduciary Relationship

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

specific business practices that create potential conflicts of interest with clients and additional measures used by Baird to address them are discussed in other sections of this Brochure.

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

## Summary of Services

This Brochure describes certain investment advisory programs that Baird PWM offers to clients ("Programs") and their advisory account(s) ("Account"). The investment advisory services offered under the Programs generally include investment advice and consulting services, which are provided by Baird's home office investment professionals and/or the client's Baird Financial Advisor, and, depending upon the Program that a client selects, the Program may include portfolio management. The Programs consist of:

- discretionary programs, whereby a client gives Baird (including its home office investment professionals, and/or the client's Baird Financial Advisor) full discretionary authority to manage the client's Account ("Discretionary Programs");
- non-discretionary programs, whereby Baird provides investment advice and recommendations but the client retains full authority with respect to management of the client's Account ("Non-Discretionary Programs");
- separately managed account ("SMA") programs and services, whereby investment managers, sometimes called money managers, which may include departments and affiliates of Baird, manage the client's Account according to a strategy (each, an "SMA Strategy") with full discretionary authority, and Baird provides additional consulting services to the client (collectively "SMA Programs and Services"); and
- unified managed account ("UMA") Programs, whereby the client gives Baird and an overlay management firm (the "Overlay Manager") selected by Baird full discretionary authority to manage the client's Account according to a strategy (each, a "UMA Strategy") selected by the client ("UMA Programs").

The Discretionary Programs described in this Brochure include: ALIGN Dynamic Portfolios; ALIGN Strategic Portfolios; ALIGN Tactical Portfolios; Private Investment Management ("PIM"); and Russell Model Strategies. The Non-Discretionary Programs include: ALIGN Custom Portfolios and Baird Advisory Choice. The SMA Programs and Services include: Baird Investment Management Portfolios; Client Selected Managers ("CSM") Service; Recommended Managers; Referred Managers; and Riverfront Managed Portfolios. The UMA Programs include: ALIGN UMA Custom Portfolios and ALIGN UMA Select Portfolios.

The SMA Programs and Services make available two types of investment managers: (1) managers that manage a client's Account directly; and (2) managers that make model portfolios available to Program clients ("Model Portfolios") but the managers do not directly manage a client's Account ("Model Managers"). The SMA Programs and Services are generally offered under a "single contract" arrangement. Under a single contract arrangement, a client enters into an advisory agreement with Baird and Baird, in turn, enters into a subadvisory or similar agreement with the investment manager on the client's behalf. This type of arrangement is frequently referred to as a single contract arrangement because there is only one contract between the client and Baird; the client does not have an agreement directly with the client's investment manager. Under certain circumstances, a client may have a "dual contract" arrangement. Under a dual contract arrangement, the client has two contracts; one contract with Baird and another contract with the client's investment manager.

The UMA Programs allow a client to invest in a combination of mutual funds, exchange traded products ("ETPs"), primarily exchange traded funds ("ETFs") and exchange traded notes ("ETNs"), and SMA Strategies using a single Account.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with certain SMA Programs and Services and the UMA Programs. If a client selects an SMA Strategy provided by a Model Manager, the Model Manager will provide the Model Portfolio and updates to the Model Portfolio to the Overlay Manager, and the Overlay Manager will manage the client's Account with full discretionary authority according to the

strategy selected by the client (a "Model-Traded Strategy"). Otherwise, if the SMA Strategy is offered by a non-Model Manager, the investment manager will directly manage the client's Account with full discretionary authority (a "Manager-Traded Strategy").

Baird is also registered with the SEC as a broker-dealer under Securities Exchange Act of 1934, as amended (the "Exchange Act"). Baird provides the Programs described in this Brochure under a "wrap fee" arrangement. This means that in addition to the investment advisory services that Baird provides in connection with each Program, Baird, in its capacity as broker-dealer, also provides clients with trade execution, custody and other standard brokerage services for a single fee ("Program Fee"). *A client should note that the client may incur costs in addition to the Program Fee. See "Additional Program Information—Trading for Client Accounts" and "Other Fees and Expenses" below for more information.*

Each Program is designed to address different investment needs of clients. All of the Programs discussed in this Brochure may not be appropriate for every client. For example, the Programs may not be appropriate for clients who have low or no trading activity, who maintain their accounts invested in high levels of cash, or who tend to execute transactions without the recommendation or advice of an advisor, which are commonly referred to as "unsolicited" transactions.

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

Baird clients typically work with a Baird Financial Advisor to determine the services that are most appropriate given their goals and circumstances. Clients generally complete a Client Investment Profile or provide information that assists the client and the client's Financial Advisor with

determining the client's investment needs, objectives, investment time horizon and risk tolerances for the assets being invested. However, it is a client that ultimately selects the Program and investment strategy that is most appropriate for the client.

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

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

Each Program has different structures, administration, types and levels of service, and fees and expenses. In particular, a client should note that the investment advisory services provided by Baird and its associates, including the depth of initial and ongoing research, evaluation, monitoring and review of a client's Account and its investments, and the level of compensation that Baird and its associates receive, varies by Program. The particular investment advisory services that Baird provides in connection with each Program are further described below. Clients are encouraged to review this Brochure and their advisory agreement with Baird carefully.

### **Discretionary Programs**

#### ***ALIGN Dynamic Portfolios Program***

Under the ALIGN Dynamic Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary

model strategic and tactical asset allocation strategy developed by Baird (each such model an "ALIGN Dynamic Portfolio") that is selected by the client. Each ALIGN Dynamic Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds and/or ETPs, primarily ETFs and ETNs, in order to implement the model asset allocation. Each ALIGN Dynamic Portfolio consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the ALIGN Dynamic Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Baird constructs each ALIGN Dynamic Portfolio and adjusts the asset allocation of each ALIGN Dynamic Portfolio from time to time. Baird also determines the mutual funds and ETPs that are available in the ALIGN Dynamic Portfolios Program, including the percentage each mutual fund or ETP comprises in each asset class within an ALIGN Dynamic Portfolio. Baird may make changes to an ALIGN Dynamic Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Dynamic Portfolio strategy, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

#### ***ALIGN Strategic Portfolios Program***

Under the ALIGN Strategic Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model strategic asset allocation strategy developed by Baird (each such model an "ALIGN Strategic Portfolio") that is selected by the client. Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds and/or ETFs in order to implement the model asset allocation. Each ALIGN Strategic Portfolio may



consist of numerous mutual fund and/or ETF holdings. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the ALIGN Strategic Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

*Clients should note that indexed ALIGN Strategic Portfolio investment strategies are closed to new client accounts, although client accounts currently pursuing those strategies may continue to do so.*

Baird constructs each ALIGN Strategic Portfolio and adjusts the asset allocation of each ALIGN Strategic Portfolio from time to time. Baird also determines the mutual funds and ETFs that are available in the ALIGN Strategic Portfolios Program, including the percentage each mutual fund or ETF comprises in each asset class within an ALIGN Strategic Portfolio. Baird may make changes to an ALIGN Strategic Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird may replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Strategic Portfolio strategy, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

**Important Information about Affiliated Products.** *Some of the mutual funds offered by*

*the Baird Funds, Inc. ("Baird Funds"), which is affiliated with Baird, have been selected by Baird for inclusion in certain ALIGN Strategic Portfolios. This presents a conflict of interest. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **ALIGN Tactical Portfolios Program**

Under the ALIGN Tactical Portfolios Program, Baird manages a client's Account with full discretionary authority according to a proprietary model tactical asset allocation strategy developed by Baird (each such model an "ALIGN Tactical Portfolio") that is selected by the client. Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes and generally uses ETPs in order to implement the model asset allocation. ALIGN Tactical Portfolios are designed for clients interested in pursuing more aggressive allocation strategies, with the use of tactical decisions involving the overweighting of certain asset classes. ALIGN Tactical Portfolios are not intended to be a complete investment program. The ALIGN Tactical Portfolios are actively managed and thus have had, and will likely continue to experience, relatively high portfolio turnover. Because of this turnover, a client's Account may realize significant taxable gains and income. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the ALIGN Tactical Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Baird constructs each ALIGN Tactical Portfolio and adjusts the asset allocation of each ALIGN Tactical Portfolio from time to time. Baird also determines the ETPs that are available in the ALIGN Tactical Portfolios Program, including the percentage each ETP comprises in each asset class within an ALIGN Tactical Portfolio. Baird may make changes to an ALIGN Tactical Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

Baird periodically rebalances a client's Account assets to be consistent with the client's chosen ALIGN Tactical Portfolio strategy, and Baird may replace investments in a client's Account, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

### **Private Investment Management Program**

The PIM Program is a Discretionary Program whereby a client grants full discretionary authority and management of the client's Account to Baird and a Baird Financial Advisor who has been approved by Baird to manage client accounts in the PIM Program (a "PIM Manager").

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

A PIM Manager may make investments in various types of securities, including, but not limited to, equity and debt securities, mutual funds, ETPs and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments a PIM Manager may use for client accounts is contained under the heading "Eligible

Assets" below. For more information about the PIM Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Private Investment Management" below.

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

### **Important Information about PIM Accounts.**

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

### **Russell Model Strategies Program**

Under the Russell Model Strategies Program (the "Russell Program"), Baird manages a client's Account with full discretionary authority according to a model mutual fund asset allocation strategy (a "Russell Strategy") developed by Russell Investments ("Russell"), a subsidiary of the Russell Investment Group, that is selected by a client. Each Russell Strategy uses mutual funds in the Russell Funds family of funds ("Russell Funds") to implement the strategy. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Russell Model Strategies" below.



Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. Typically, a client selects the Russell Model Strategy appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Russell constructs each Russell Strategy and adjusts the Strategy from time to time. Russell also determines the Russell Funds that are available in each Russell Strategy, including the percentage each Russell Fund comprises in each Strategy. From time to time, Russell may remove Russell Funds and replace them with other Russell Funds.

Baird anticipates that it generally will implement a Russell Strategy as proposed by Russell. However, Baird has sole discretionary authority over a client's Account invested in a Russell Strategy, and Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client's Russell Funds if Baird determines such action to be necessary and in the client's best interest.

Baird may rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy, change the client's asset allocation, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

## **Non-Discretionary Programs**

### ***ALIGN Custom Portfolios Program***

The ALIGN Custom Portfolios Program is a Non-Discretionary Program whereby Baird manages a client's Account on a non-discretionary basis according to a custom model asset allocation strategy determined by the client with the assistance of Baird and the client's Financial Advisor (an "ALIGN Custom Portfolio"). An ALIGN Custom Portfolio provides a client with a customized level of investment across different asset classes generally using mutual funds and/or ETPs. To implement the asset allocation, a client selects the investments for the Account from among those mutual funds and ETPs that Baird has determined are eligible for use in the Program. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment

Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account.

While a client retains discretionary authority and management over the client's ALIGN Custom Portfolios Account, a client participating in the ALIGN Custom Portfolios Program gives Baird the authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen ALIGN Custom Portfolio strategy, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

### ***Baird Advisory Choice Program***

The Baird Advisory Choice Program is a Non-Discretionary Program whereby Baird provides advice to a client in connection with the client's own management of the client's Account. As part of the Baird Advisory Choice Program, a client may also select investment managers to manage the client's Account with full discretion. See "SMA Programs and Services—Client Selected Managers Service" below for more information.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account.

Baird does not have discretionary authority over the assets in a client's Baird Advisory Choice Account and cannot purchase or sell any securities or other investments in the client's Baird Advisory Choice Account without the client's direction. A client makes the final decision as to selection of investments for the client's Baird Advisory Choice Account.

The investment advisory services that may be available in the Baird Advisory Choice Program include research, analysis, consultation, advice and recommendations regarding various investment-related matters, such as financial and investment goals and needs, asset allocation strategies, investment strategies and restrictions, methods for implementing investment strategies, trends and expectations regarding securities

markets, economic sectors and industries, various types of securities and investments, and the purchase, holding and sale of specific securities. Some or all of these services may be provided to a client by a Baird Financial Advisor assigned to the client's Account. The specific services to be provided to a client will be determined by mutual agreement between the client and the client's Financial Advisor. Baird does not undertake to provide any investment advisory services other than those set forth above or individual securities recommendations made from time to time.

Baird and/or client's Financial Advisor will provide investment recommendations for a client's Account and may recommend the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account. Baird and/or its Financial Advisors may recommend investments in various types of securities, including, but not limited to, equity and debt securities, mutual funds, ETFs and certain Alternative Investment Products. All or a portion of the assets in a client's Account may be held in cash or cash equivalents, including securities issued by money market mutual funds or may be deposited in interest-bearing bank accounts. Additional information about the types of investments Baird or its Financial Advisors may recommend for client accounts is contained under the heading "Eligible Assets" below. For more information about the Baird Advisory Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Baird Advisory Choice" below.

**Important Information about Baird Advisory Choice Accounts.** *A Baird Advisory Choice Account provides a fee-based alternative to a traditional, commission-based brokerage account. Each client should determine whether a Baird Advisory Choice Account is appropriate. In making this determination, a client should carefully consider all relevant factors, including the client's investment objectives, risk tolerance, past and anticipated trading practices, current assets, current investments, the value and type of eligible assets to be held in the Account, anticipated use of other Baird products and services, and the costs and benefits of the Account. A client should ask Baird questions about the investment styles, philosophies, strategies, analyses and techniques Baird will use in order to meet the client's*

*objectives. The costs of a Baird Advisory Choice Account may be more or less than in an account where the client is charged on a per-transaction basis. A Baird Advisory Choice Account may not be appropriate for a client who anticipates little or no trading activity, and/or a client that has small balances in the Account and does not receive or request investment advisory or other non-trading services from Baird. A Baird Advisory Choice Account is also not for day trading or other extreme trading activity, including excessive options trading or trading in mutual funds based on market timing. If a client's Baird Advisory Choice Account engages in "excessive trading activity" (herein defined as activity that would be considered "excessive" by industry professionals in a non-discretionary, fee-based program, as determined by Baird in its sole discretion), Baird may immediately, upon sending notice to the client, restrict the activity occurring in the client's Account, terminate the Account, convert the Account to a commission-based account, or charge a higher fee at such rate as Baird, in its sole discretion, may elect. A client is responsible for monitoring the client's Account and determining the desirability of maintaining the Account as opposed to maintaining a traditional, commission-based brokerage account. A client should periodically reevaluate whether the ongoing use of this Non-Discretionary, advisory program is desired and request a Baird Financial Advisor to explain the benefits and disadvantages of maintaining a Baird Advisory Choice Account and the availability of alternative arrangements.*

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

*A client should note that the client's Baird Advisory Choice Account may be engaged in strategies that involve concentrated and less diversified portfolios of securities, leverage or margin, options, and/or frequent trading. In addition, the client's Baird Advisory Choice Account may be invested in illiquid securities*

*and/or Alternative Investment Products. These types of strategies and investments involve special, sometimes significant, risks and are not appropriate for all clients. A client should understand those risks before engaging in those strategies or investing in those products. See "Additional Program Information—Special Situation Strategies and Investments" and "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Principal Program Risks" below for more information.*

## **SMA Programs and Services**

### **Baird Investment Management Portfolios**

Under the Baird Investment Management Portfolios Program ("BIM Portfolios Program"), a client grants full discretionary authority to Baird Investment Management ("BIM"), an investment management department of Baird, or other managers ("Other Managers"), which include Baird Kailash Group, LLC ("BKG"), an affiliate of Baird, to manage the client's Account.

BIM provides portfolio management to clients desiring investments in equity and balanced portfolios. BIM offers nine (9) primary investment strategies, consisting of six (6) growth portfolios and three (3) value portfolios. The BIM growth portfolios include the: Large Cap Growth Select Portfolio; Large Cap Core Growth Portfolio; Large Cap Balanced Portfolio; Mid Cap Growth Portfolio; All Cap Growth Portfolio; and Specialized Asset Management Portfolio (the "BIM Growth Strategies"). The BIM value portfolios include the: Small Cap Value Portfolio; Small/Mid Cap Value Portfolio; and All Cap Value Portfolio (the "BIM Value Strategies"). BIM also manages client portfolios according to other strategies selected by clients ("Other BIM Strategies", and with the BIM Growth Strategies and BIM Value Strategies, the "BIM Strategies").

*Effective January 31, 2014, BIM will close its LargeCap Growth Select Portfolio Strategy, and BIM will no longer offer its LargeCap Growth Portfolio Strategy to clients after that date. Clients pursuing that Strategy will need to make an alternate arrangement for the management of their assets by that date.*

BIM also makes available to clients certain investment strategies that are offered by Other Managers ("Other Manager Strategies").

## **BIM Strategies**

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 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 equity portion of the Large Cap Balanced Portfolio includes the same types of securities utilized in the Large Cap Growth Portfolio. The remainder of the Portfolio consists of what BIM believes are high-quality, fixed-income securities.

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 All Cap Growth Portfolio invests in 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 emphasizes companies across the entire market capitalization spectrum.

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 securities.

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 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 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 BIM value portfolios seek to own securities that BIM expects to exceed Wall Street analysts' expectations and that trade at a discount to BIM's proprietary calculations of fair value.

BIM also manages client assets in accordance with other investment strategies specifically designed for a client in light of a client's particular needs. Additional information about the types of investments BIM may use for a client's Account is contained in BIM's Form ADV Part 2A Brochure, which is available upon request.

### Other Manager Strategies

Clients that are considering engaging an Other Manager are urged to review the Other Manager's Form ADV Part 2A Brochure ("Other Manager Brochure") for information about the strategies the Other Manager offers. Other Manager Brochures may be obtained by contacting Baird at the phone number listed on the cover of this Brochure.

### Selecting a Strategy

If the client has decided to retain BIM or an Other Manager to manage the client's Account, the client's Financial Advisor will generally assist the client in selecting a Portfolio suitable for the client's Account.

Once the client has selected a Strategy, a client authorizes and directs Baird to appoint BIM to serve as sub-adviser to the client's Account. If the client has selected a BIM Strategy, the client also authorizes and directs BIM to manage the client's Account with full discretionary authority in accordance with the BIM Strategy selected by the client. If the client has selected an Other Manager Strategy, the client authorizes and directs BIM to appoint the Other Manager as sub-adviser, and the client also authorizes and directs the Other Manager to manage the client's Account with full discretionary authority in accordance with the Other Manager Strategy selected by the client. The services that Baird makes available to a client in connection with the BIM Portfolios Program generally include: assistance in selecting the strategy or strategies offered by BIM or an Other Manager once a client has decided to retain

BIM or an Other Manager and periodic reviews of BIM's or the Other Manager's performance. Some or all of these services may be provided to the client by a Baird Financial Advisor assigned to the client's Account.

A client's appointment and continued retention of BIM or an Other Manager to manage the client's Account are based upon the client's review of BIM or the Other Manager and their services. In selecting the Portfolio, a client determines that the strategy to be used by BIM or the Other Manager in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, BIM or the Other Manager will only be removed from managing the client's Account upon the client's direction to do so. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—BIM Portfolios" for further information.

### Important Information about BIM and BKG.

*BIM is an investment management department of Baird. BKG is affiliated with Baird. Baird has a potential conflict of interest to the extent Baird would advise clients to participate in advisory services offered by BIM or BKG. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### Client Selected Managers Service

The CSM Service is a service a client may elect under the Baird Advisory Choice Program whereby a client independently selects an investment manager to manage the client's Account with full discretionary authority according to a strategy (a "CSM Strategy") selected by the client. This Service is designed to accommodate a client who wishes to independently select an investment manager to manage the assets in the client's Account with full discretion.

Under the CSM Service, Baird determines the investment managers eligible to participate in the Service (each, a "CSM Eligible Manager"). However, a client should note that Baird does not make any recommendation to clients regarding any CSM Eligible Manager or any representations regarding a CSM Eligible Manager's qualifications as an investment adviser or abilities to manage client assets. Other investment management departments of Baird, such as Baird Advisors or

BIM, or managers affiliated with Baird, such as BKG, may manage client accounts under the CSM Service.

Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with the CSM Service. The CSM Service makes both Manager-Traded Strategies and Model-Traded Strategies available to clients, although CSM Eligible Managers generally only provide either Manager-Traded or Model-Traded Strategies. Once the client has selected a CSM Strategy, the client authorizes and directs Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If the client has selected a Model-Traded Strategy, the client authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the CSM Strategy selected by the client. If the client has selected a Manager-Traded Strategy, the client authorizes and directs the Overlay Manager to appoint the applicable CSM Eligible Manager as sub-adviser, and the client also authorizes and directs such CSM Eligible Manager to manage the client's Account with full discretionary authority in accordance with the CSM Strategy selected by the client.

If a client selects a Model-Traded Strategy, at the Overlay Manager's discretion, the Overlay Manager will implement the Model Strategy as proposed by the CSM Eligible Manager. However, the Overlay Manager may implement the Model Strategy differently than proposed by the CSM Eligible Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

Baird may, in its discretion, permit a client to select an investment manager that is not a CSM Eligible Manager. However, the client will need to enter into a separate agreement with such manager in addition to the advisory agreement the client enters into with Baird (i.e., a "dual contract" arrangement). A client that enters into a dual contract arrangement is solely responsible for negotiating the client's agreement with the client's investment manager, and neither Baird nor its Financial Advisors will participate or advise a client regarding the terms of such an agreement, the advisability of entering into such an agreement, or the retention of the client's investment manager.

The investment manager selected by a client under the CSM Service (which may include the Overlay Manager) will have full discretionary authority to manage the client's Account. Investment managers may have varying investment objectives, styles and strategies. The investment manager selected by a client may invest the client's Account in various types of securities, which will be chosen by the investment manager and which may include mutual funds affiliated with the manager or Baird. A client should review the investment manager's Form ADV Part 2A Brochure for more information.

If a client selects a third party manager, a client should understand that: Baird does not manage the Account and does not otherwise have any influence over the investment manager's investment decisions or securities selections, and therefore, Baird is not responsible for the decisions made by such investment manager; Baird does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account; and Baird only provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment strategies and restrictions, and periodically reviewing the positions and transactions made in the client's Account, the manager's performance and other characteristics.

Some or all of services provided under the CSM Service may be provided to a client by a Baird Financial Advisor assigned to the client's Account, and the client's Financial Advisor may provide his or her own advice and recommendations about investment managers. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

A client that participates in the CSM Service is strongly encouraged to contact the client's investment manager on a periodic basis to discuss: the Account and its investment performance; the investment manager's investment philosophy and style (to determine if the manager remains appropriate for the client); any potential conflicts of interest; and any investment restrictions the client may wish to impose or change. A client should also periodically check the registration status, disciplinary events and other information regarding the investment



manager, described on the manager's Form ADV, which is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The CSM Strategies and CSM Eligible Managers made available under this Service are subject to change or removal at any time in Baird's or the Overlay Manager's discretion. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers, Referred Managers and Riverfront Managed Portfolios" below for more information. If a client wishes to continue using a manager that Baird or the Overlay Manager has removed from this Service, and Baird agrees, the client will need to enter into a dual contract arrangement.

**Important Information about the CSM Service.** *Because the CSM Service is designed for a client who wishes to independently select an investment manager to manage the client's Account, the client assumes sole responsibility for monitoring the client's Account and client's investment manager's performance. It is important to note that Baird will not monitor, evaluate or review any third party investment manager or the performance of a client's Account managed by a third party investment manager, even if the manager or its strategy is on a Baird recommended list, such as Baird's Recommended Managers List. A client's appointment and continued retention of a third party investment manager to manage the client's Account is based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA Strategy to be used in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a third party investment manager will only be removed from managing the client's Account upon the client's direction to do so. A client, and especially a client selecting a manager on Baird's Recommended Manager List, should carefully consider the foregoing when deciding to participate in the CSM Service and also consider whether another Baird Program, such as the Baird Recommended Managers Program (discussed below), may be more appropriate for the client.*

### **Recommended Managers Program**

Under the Recommended Managers Program, Baird determines the investment managers

("Recommended Managers") and their strategies ("BRM Strategies") eligible to participate in the Program through an initial and ongoing evaluation process further described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers" below. Other investment management departments of Baird, such as BIM, may manage client accounts under the Recommended Managers Program.

Under the Recommended Managers Program, a client provides Baird and the client's Financial Advisor with full discretionary authority to select Recommended Managers to manage the client's Account. A client also authorizes such Recommended Managers to manage such Accounts with full discretionary authority.

Some of the services provided under this Program may be provided to a client by a Baird Financial Advisor assigned to the client's Account. A client typically works with a Baird Financial Advisor to determine the BRM Strategy that is most appropriate given the client's goals and circumstances. The client's Financial Advisor then selects and, when necessary, replaces Recommended Managers to manage a client's Account based upon the list of Recommended Managers that Baird makes available.

In most cases, Baird engages Recommended Managers directly on the client's behalf. However, certain BRM Strategies are only available through the Overlay Manager, and Baird has engaged the Overlay Manager to provide certain subadvisory services in connection with those BRM Strategies. The BRM Strategies made available by the Overlay Manager include both Manager-Traded Strategies and Model-Traded Strategies, although Recommended Managers generally only provide either Manager-Traded or Model-Traded Strategies.

To the extent necessary to implement the selected BRM Strategy, the client authorizes and directs Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. If a Model-Traded Strategy is selected, the client also authorizes and directs the Overlay Manager to manage the client's Account with full discretionary authority in accordance with the BRM Strategy selected by the client. If a Manager-Traded Strategy is selected, the client authorizes and directs the Overlay Manager to appoint the



applicable Recommended Manager as sub-adviser, and the client also authorizes and directs such Recommended Manager to manage the client's Account with full discretionary authority in accordance with the selected BRM Strategy.

If a client selects a Model-Traded Strategy, at the Overlay Manager's discretion, the Overlay Manager will implement the Model Strategy as proposed by the Recommended Manager. However, the Overlay Manager may implement the Model Strategy differently than proposed by the Recommended Manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

If a client selects a BRM Strategy that is a Model-Traded Strategy, it is important to note that Baird's selection and ongoing evaluation of a Recommended Manager is based upon an assumption that the Manager's Model Portfolio will be fully and faithfully implemented by the Overlay Manager on a continuous basis. A client should understand that the Overlay Manager has discretion over the client's account and may invest the client's account in a manner that differs from the Model Portfolio. Baird does not monitor the Overlay Manager's implementation of the Model Portfolio nor does it ascertain whether the Overlay Manager is implementing the Model Portfolio as provided by the Recommended Manager. If the Overlay Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Overlay Manager or the performance of client accounts under those circumstances. A client should periodically discuss the implantation of the Model Portfolio with the client's Financial Advisor and the Overlay Manager.

The Recommended Manager selected by a client under the Recommended Managers Program (which may include the Overlay Manager) will have full discretionary authority to manage the client's Account. Recommended Managers may have varying investment objectives, styles and strategies. The Recommended Manager selected by a client may invest the client's Account in various types of securities, which will be chosen by the Recommended Manager and which may include mutual funds affiliated with the manager or Baird. A client should review the

Recommended Manager's Form ADV Part 2A Brochure for more information.

If a client selects a third party Recommended Manager, a client should understand that, notwithstanding the discretionary authority granted to Baird under the Recommended Managers Program, Baird does not manage the Account and does not otherwise have any influence over the Recommended Manager's investment decisions or securities selections, and therefore, Baird is not responsible for the decisions made by such Recommended Manager.

From time to time, Baird may remove investment managers from the Recommended Managers Program, and Baird will select a replacement investment manager to manage the client's Account. A client who prefers to continue using an investment manager that has been removed from the Recommended Managers Program, or who directs or otherwise requests that a particular investment manager not recommended by Baird be selected to manage the client's Account, will generally need to move to another Program, such as the Client Selected Managers Service. See "Client Selected Managers Service" above for more information. Clients who elect to do so will no longer receive ongoing monitoring, evaluation, or review of that investment manager from Baird.

**Important Information about Affiliated Managers.** *The Recommended Managers Program makes available to clients investment services that are offered by BIM, an investment management department of Baird. Baird has a potential conflict of interest to the extent Baird would advise a client to select investment products offered by BIM. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Referred Managers Service**

The Referred Managers Service is a service whereby a client independently selects a third party investment manager to manage the client's Account with full discretionary authority according to a strategy selected by the client. This Service is designed to accommodate a client who wishes to independently select a third party investment manager to manage the assets in the client's Account with full discretion.

Referred Managers are third party investment managers that meet certain minimum qualification requirements imposed by Baird and that have indicated to Baird they prefer to act as sub-adviser to Baird rather than enter into contracts directly with clients. However, a client should note that Baird does not make any recommendation to clients regarding any Referred Manager or any representations regarding a Referred Manager's qualifications as an investment adviser or abilities to manage client assets.

If a client participates in the Referred Managers Service, the client authorizes and directs Baird to appoint the Referred Manager selected by the client to serve as sub-adviser to the client's Account. The client also authorizes and directs the Referred Manager to manage client's Account with full discretionary authority in accordance with the strategy selected by the client.

The third party investment manager selected by a client under the Referred Managers Service will have full discretionary authority to manage the client's Account. Investment managers may have varying investment objectives, styles and strategies. The investment manager selected by a client may invest the client's Account in various types of securities, which will be chosen by the investment manager and which may include mutual funds affiliated with the manager or Baird. A client should review the investment manager's Form ADV Part 2A Brochure for more information.

If a client selects an investment manager under the Referred Managers Service, a client should understand that: Baird does not manage the Account and does not otherwise have any influence over the investment manager's investment decisions or securities selections, and therefore, Baird is not responsible for the decisions made by such investment manager; Baird does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account; and Baird only provides a client with consulting services, such as assistance in determining a client's financial needs, investment goals, asset allocation strategies, investment strategies and restrictions, and periodically reviewing the positions and transactions made in the client's Account, the manager's performance and other characteristics.

Some or all of services provided under the Referred Managers Service may be provided to a client by a Baird Financial Advisor assigned to the client's Account, and the client's Financial Advisor may provide his or her own advice and recommendations about investment managers. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

A client that participates in the Referred Managers Service is strongly encouraged to contact the client's Referred Manager on a periodic basis to discuss: the Account and its investment performance; the Referred Manager's investment philosophy and style (to determine if the manager remains appropriate for the client); any potential conflicts of interest; and any investment restrictions the client may wish to impose or change. A client should also periodically check the registration status, disciplinary events and other information regarding the Referred Manager, described on the manager's Form ADV, which is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The investment managers made available under the Referred Managers Service are subject to change or removal at any time in Baird's sole discretion. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers, Referred Managers and Riverfront Managed Portfolios" below for further information.

**Important Information about the Referred Managers Service.** *Because the Referred Managers Service is designed for a client who wishes to independently select an investment manager to manage the client's Account, the client assumes sole responsibility for monitoring the client's Account and client's Referred Manager's performance. It is important to note that Baird only provides a limited review of Referred Managers. A client's appointment and continued retention of a Referred Manager to manage the client's Account is based solely upon the client's independent review of such manager and such manager's services. The client solely determines that the SMA Strategy to be used in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, a Referred Manager will only be removed from managing the client's Account upon*

*the client's direction to do so. A client should carefully consider the foregoing when deciding to participate in the Referred Managers Service and also consider whether another Baird Program may be more appropriate for the client.*

### **Riverfront Managed Portfolios Program**

The Riverfront Managed Portfolios Program is a Program whereby a client independently selects Riverfront Investment Group, LLC ("Riverfront") to manage the client's Account with full discretionary authority according to a strategy offered by Riverfront (a "Riverfront Portfolio") that is selected by the client.

The Riverfront Portfolio strategies that Riverfront offers under the Riverfront Managed Portfolios Program include asset allocation strategies, ETF strategies and foundation strategies. The asset allocation strategies currently include the following model portfolios: a global growth portfolio; a global allocation portfolio; a dynamic equity income portfolio; a moderate growth and income portfolio; a conservative growth portfolio; and a conservative income builder portfolio. The ETF strategies currently include the following model portfolios: an ETF global growth portfolio; an ETF global allocation portfolio; an ETF dynamic equity income portfolio; an ETF moderate growth and income portfolio; and an ETF conservative income builder portfolio. The foundation strategies consist of a large cap core portfolio and a small/mid cap core portfolio.

The asset allocation and ETF strategies involve strategic asset allocation, tactical asset allocation, sector and security selection, and risk management. Riverfront's ETF strategies invest exclusively in ETFs; Riverfront's asset allocation strategies invest in individual securities supplemented with investments in sector-specific ETFs; and Riverfront's foundation strategies invest in individual stocks that are consistent with the client's stated objectives. Riverfront may invest a client's Account in wide-ranging types of securities, which include large cap, mid cap, small cap and international equities in various economic sectors, traditional fixed-income securities such as U.S. Government and Agency securities, corporate debt securities, mortgage-backed securities, asset-backed securities, emerging market debt, commodities, REITs, closed-end funds, ETFs, leveraged or inverse funds and other Alternative Investment Products. A client should

review Riverfront's Form ADV Part 2A Brochure for more information.

If the client has decided to retain Riverfront to manage the client's Account, the client's Financial Advisor will generally assist the client in selecting a Riverfront Portfolio suitable for the client's Account. Once the client has selected a Riverfront Portfolio, a client authorizes and directs Baird to appoint Riverfront to serve as sub-advisor to the client's Account. The client also authorizes and directs Riverfront to manage the client's Account with full discretionary authority in accordance with the Riverfront Portfolio selected by the client.

If a client participates in the Riverfront Managed Portfolios Program, Baird only provides non-discretionary advisory services to the client. The services that Baird makes available to a client in connection with the Riverfront Managed Portfolios Program are limited to: assistance in selecting the strategy or strategies offered by Riverfront once a client has decided to retain Riverfront and limited periodic reviews of Riverfront's performance. Some or all of these services may be provided to the client by a Baird Financial Advisor assigned to the client's Account. Baird does not undertake to provide any investment advisory services other than those specifically agreed to by Baird in writing.

Under the Riverfront Managed Portfolios Program, Baird does not manage the client's Account and does not otherwise have any influence over Riverfront's investment decisions or securities selections. Baird also does not provide any recommendations, investment advice or related services regarding the purchase or sale of investment products made for the client's Account. Therefore, Baird is not responsible for the decisions made by Riverfront.

### **Important Information about Riverfront.**

*Baird is affiliated with Riverfront by virtue of Baird's indirect equity ownership of Riverfront. Baird has a potential conflict of interest to the extent Baird would advise a client to participate in advisory programs offered by Riverfront. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below. It is important to note that Baird only provides a limited review of Riverfront. A client's appointment and continued retention of Riverfront to manage the client's Account are based upon*

*the client's review of Riverfront and its services. In selecting the Riverfront Portfolio, the client determines that the strategy to be used by Riverfront in managing the client's Account is consistent with the client's stated investment objectives and financial needs and risk tolerance. Once retained by the client, Riverfront will only be removed from managing the client's Account upon the client's direction to do so. See "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Client Selected Managers, Referred Managers and Riverfront Managed Portfolios" below for further information.*

## UMA Programs

### **ALIGN UMA Custom Portfolios**

Under the ALIGN UMA Custom Portfolios Program, a client's Account is managed on a discretionary basis according to a model asset allocation strategy that is selected by the client (each such model, an "ALIGN UMA Custom Portfolio"). A client may select a proprietary asset allocation model developed by Baird or the client may select a custom model that the client develops with the assistance of Baird and the client's Financial Advisor. An ALIGN UMA Custom Portfolio provides a client with a customized level of investment across different asset classes using mutual funds, ETPs, and/or SMA Strategies offered by investment managers. To implement the asset allocation, a client selects the investments for the Account from among those mutual funds, ETPs, and SMA Strategies that Baird has determined are eligible for use in the Program. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

### **ALIGN UMA Select Portfolios**

Under the ALIGN UMA Select Portfolios Program, a client's Account is managed on a discretionary basis according to a proprietary model asset allocation strategy developed by Baird (each such model, an "ALIGN UMA Select Portfolio") that is selected by the client. Each ALIGN UMA Select Portfolio provides for specific levels of investment across different asset classes and generally uses mutual funds, ETPs, and/or SMA Strategies offered by investment managers in order to implement the model asset allocation. For more information about the Program, see "Portfolio Manager Selection and Evaluation—Methods of

Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs" below.

Typically, a client selects the ALIGN UMA Select Portfolio appropriate for the client's Account with the assistance of the client's Baird Financial Advisor.

Baird constructs each ALIGN UMA Select Portfolio and adjusts the asset allocation of each ALIGN UMA Select Portfolio from time to time. Baird also determines the mutual funds, ETPs, or SMA Strategies that are available in the ALIGN UMA Select Portfolios Program, including the percentage each investment comprises in each asset class within an ALIGN UMA Select Portfolio.

Baird may remove mutual funds, ETPs, or SMA Strategies used in the ALIGN UMA Select Portfolios Program from time to time and replace them with other investment options. Baird may make changes to an ALIGN UMA Select Portfolio from time to time as it deems appropriate and without providing prior notice to, or obtaining the consent of, a client.

**Important Information about Affiliated Products.** *Some of the investment products offered by Riverfront, and mutual funds offered by the Baird Funds, both of which are affiliated with Baird, have been selected by Baird for inclusion in certain ALIGN UMA Select Portfolios. This presents a conflict of interest. For more information, see "Additional Information—Other Financial Industry Affiliations and Activities" below.*

### **Management by Baird and Overlay Manager**

Baird has engaged the Overlay Manager in connection with the ALIGN UMA Programs to provide certain subadvisory services under the ALIGN UMA Programs. Once the client has selected an ALIGN UMA Portfolio, the client authorizes and directs Baird to manage the client's Account with full discretionary authority in accordance with the ALIGN UMA Portfolio selected by the client.

The client also authorizes and directs Baird to appoint the Overlay Manager to serve as sub-adviser to the client's Account. The client also authorizes and directs the Overlay Manager to manage the client's Account with full discretionary

authority in accordance with the ALIGN UMA Portfolio selected by the client.

The SMA Strategies offered under the ALIGN UMA Programs currently only consist of Model-Traded Strategies. At the Overlay Manager's discretion, the Overlay Manager will implement a Model-Traded Strategy as proposed by the investment manager. However, the Overlay Manager may implement the Model Strategy differently than proposed by the investment manager if the Overlay Manager determines such action to be necessary and in the client's best interest.

A client participating in an ALIGN UMA Program gives the Overlay Manager and Baird the authority to replace investments in a client's Account, rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy, or engage in tax management strategies in certain circumstances. See "Additional Program Information—Special Considerations for ALIGN and Russell Model Strategies Clients" below for more information.

### **Additional Program Information**

#### **Investment Discretion**

##### **Investment Selection and Trading Authorizations**

A client retains complete trading authorization over assets in a Non-Discretionary Account, and Baird will only execute transactions for such Account pursuant to the client's instruction or authorization.

If a client's Account participates in a Discretionary or UMA Program, the client's advisory agreement authorizes Baird to manage the client's Account in accordance with the terms of the Program selected by the client and authorizes Baird to make investment decisions for the client's Account, with the authority to determine the amount, type and timing with respect to buying, holding, exchanging, converting and selling securities and other assets for the client's Account. The client's advisory agreement also grants to Baird complete and unlimited trading authorization and appoints Baird as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such authorization, Baird may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the

client's Account, as well as arrange for delivery and payment in connection with the above, and act on the client's behalf in all matters necessary or incidental to the handling of the client's Account without prior notice to the client. Orders for the purchase and sale of securities in a client's Account will generally be executed by Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", unless Baird's duty to seek to obtain best execution otherwise requires or unless the client has provided other instructions to Baird in writing.

If a client's Account participates in a UMA Program, the client also authorizes the Overlay Manager to manage the client's Account in accordance with the UMA Program selected by the client.

If a client participates in the Recommended Managers Program, the client authorizes and empowers Baird and the client's Financial Advisor, with full discretionary authority, to recommend, select and retain investment managers for the client's Account and to terminate or replace investment managers for the client's Account for any reason without prior notice to the client. If Baird terminates an investment manager from the Recommended Managers Program, a client authorizes Baird to invest, with full discretion, the assets in the client's Account previously managed by the terminated investment manager in other securities, including, but not limited to, mutual funds and ETPs. Baird's discretionary authority to make such other investments will continue until a replacement investment manager is selected or alternative arrangements are made for the management of the client's assets.

If a client's Account participates in an SMA Program or Service, the client authorizes the investment manager selected for the client's Account to manage the assets in the client's Account and grants to such investment manager 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 also grants to such investment manager complete and unlimited trading authorization and appoints each of them as agent and attorney-in-fact with respect to the client's Account and all related trading and other decisions. Pursuant to such



authorization, such investment manager may, in its sole discretion and at the client's risk, purchase, sell, exchange, convert and otherwise trade the securities and other investments in the 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 Account without prior notice to the client. Baird does not have discretion over the assets in a client's Account that is managed by a third party investment manager and cannot purchase or sell any securities or other investments in that Account without the consent of the client or the client's investment manager. The investment manager for a client's Account may initiate securities transactions through Baird, in its capacity as broker-dealer, as further described below under the heading "Trading for Client Accounts", subject to the manager's duty to seek to obtain best execution, or unless a client has provided other instructions in writing. Baird, as broker-dealer, will rely upon any such instructions of any investment managers selected to manage the client's Account.

Such trading authorizations, whether granted to Baird or an investment manager, shall remain in full force and effect until terminated by the client or Baird.

### **Client Investment Restrictions**

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

In the event that a client's Account is restricted from investing in certain securities, Baird or the client's investment manager will select such other replacement securities, if any, as they deem appropriate. Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be poorer. In addition, in the event there is a change in the

classification or credit rating of a security held in the client's Account, a client's investment restrictions may force Baird or the client's investment manager to sell such security at an inopportune time, possibly negatively impacting Account performance and/or causing a taxable event to the client. A client should also be aware that, if the client's Account holds any investment vehicle (such as a mutual fund or ETF), any investment restrictions the client places on the client's Account may not flow through to the securities owned by that investment vehicle.

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

### **Affiliated Investment Products**

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

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



to invest a client's assets in investment products unaffiliated with Baird. A client's consent may be revoked at any time.

### **Investment Policy Statements**

Baird and its Financial Advisors will not review, monitor, accept or adhere to an investment policy statement or similar document that was not prepared by Baird, unless Baird otherwise specifically agrees to do so in writing. Adherence to any such investment policy statement or similar document is solely a client's responsibility.

### **Trading for Client Accounts**

#### **Baird's Trading Practices**

##### *Placement of Client Trade Orders*

Baird will select the broker-dealers that will execute trade orders for Non-Discretionary Accounts and with respect to Accounts that are managed directly by Baird unless the client has provided instructions to Baird to the contrary. As an investment adviser, Baird has an obligation to seek "best execution" of client trade orders. "Best execution" means that Baird must place client trade orders with those broker-dealers that Baird believes are capable of providing the best qualitative execution of client trade orders under the circumstances, taking into account the full range and quality of the services offered by the broker-dealer, including the value of the research provided (if any), the broker-dealer's execution capabilities, the cost of the trade, the broker-dealer's financial responsibility, and its responsiveness to Baird. It is important to note that Baird's best execution obligation does not require Baird to solicit competitive bids for each transaction or to seek the lowest available cost of trade orders, so long as Baird reasonably believes that the broker-dealer selected can be reasonably expected to provide clients with the best qualitative execution under the circumstances.

Because a client does not pay commissions to Baird when Baird, acting as broker-dealer, executes a client's trade orders, and because a client may incur commission costs in addition to the Program Fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever Baird executes client transactions. For this reason, and given Baird's execution capabilities as broker-dealer, Baird expects that it will generally execute trade orders, as broker-dealer, for Non-

Discretionary Accounts and with respect to Accounts that are directly managed by Baird.

However, in some instances, circumstances may arise that may require Baird, in compliance with its best execution obligations to a client, to place a client's trade order with a firm other than Baird. If Baird places trade orders for the client's Account for execution by a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Program Fee.

##### *Trade Aggregation, Allocation and Rotation Practices*

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

With respect to the Discretionary Accounts and with respect to SMA and UMA Accounts that are managed by Baird, Baird generally aggregates buy and sell orders when executing trades for those accounts when it has the opportunity to do so. When utilizing block transactions, Baird generally aggregates a client's trade orders with trade orders for clients who are participating in the same Program and pursuing the same model portfolio or strategy. In some cases, Baird may aggregate a client's trade orders with trade orders for other advisory clients who are not participants in the Programs described in this Brochure. However, Baird determines whether or not to utilize block transactions for a client in its sole discretion and Baird's decision is subject to its duty to seek best execution. Baird will aggregate a client's trade orders only when Baird deems it to be appropriate and in the best interests of the client, consistent with a client's investment objectives and risk tolerance, and permitted by regulatory requirements.

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

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

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

Because Baird is unable to buy or sell any security for a client's Non-Discretionary Accounts without the client's authorization, Baird generally does not aggregate or bunch trades for those Accounts with the same or similar trades for other client accounts, and it places orders for those Accounts promptly after receiving the client's authorization to do so. Because similar orders for the client and Baird'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 Baird or the client's Baird Financial Advisor.

#### *Directed Brokerage Arrangements*

In some cases, a client may direct Baird to use a particular broker-dealer for execution of the client's trade orders (a "directed brokerage arrangement"), and Baird may agree to the arrangement. This may occur when a client's Account is held at another broker-dealer firm and a client directs Baird to execute trades through such firm, or when a client's retirement account or other account is maintained on a platform operated and managed by a third party unaffiliated with Baird and trades must be executed through that platform. A client should understand that Baird considers such arrangements to be directed brokerage arrangements. A client should also understand that if the client has a directed brokerage arrangement, Baird may be unable to achieve best execution for the client's transactions. A client should note that any costs related to the directed brokerage arrangement are not included in the Program Fee and that the client will be solely responsible for monitoring, evaluating and reviewing the arrangement with the directed broker-dealer and paying any commissions or markups or markdowns or other costs imposed by the directed broker-dealer. A client should also note that Baird generally will not aggregate the client's directed brokerage trade orders with orders for other Baird clients. As a result, a client's transaction costs may be higher because the client will not benefit from any volume discounts or other reduced transaction costs that Baird may obtain for its other clients. A client should further note that Baird generally will not include such client trade orders in its trade rotation process and that Baird will generally place the client's trade orders with the directed broker-dealer after Baird completes its trading for other Baird client accounts. The client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in Baird's rotation. As a result, the client may receive a less favorable net price for the trade.

If a client directs Baird to use a particular broker-dealer, and if the particular broker-dealer referred the client to Baird or if the particular broker-dealer refers other clients to Baird in the future,

Baird may benefit from the client's directed brokerage arrangement. Because of these potential benefits, Baird may have an economic interest in having the client continue the directed brokerage arrangement. The benefits that Baird receives may conflict with the client's interest in having Baird recommend that the client utilize another broker-dealer to execute some or all transactions for the client's Account.

Before directing Baird to use a particular broker-dealer, a client should carefully consider the possible costs or disadvantages of directed brokerage arrangements.

#### *Cross Trading Involving Advisory Accounts*

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

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

#### *Trade Error Correction*

It is Baird's policy that if there is a trade error for which Baird is responsible, trades will be adjusted or reversed as needed in order to put the client's Account in the position that it would have been in as if the error had not occurred. Errors caused by Baird will be corrected at no cost to client's Account, with the client's Account not recognizing

any loss from the error. The client's Account will be fully compensated for any losses incurred as a result of any such error. If the trade error results in a gain, the gain may be retained by Baird but such gain is not given to or shared with any Baird associate.

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

#### **Trading Practices of Investment Managers**

If a client's Account or a portion thereof is managed by an investment manager, the client should note that, like Baird, such investment manager has a duty to seek best execution for the client's Account.

Investment managers may participate in other wrap fee programs sponsored by firms other than Baird. In addition, investment managers may manage institutional and other accounts not part of a wrap fee program. In the event an investment manager purchases or sells a security for all accounts using a particular SMA Strategy offered by the investment manager, the investment manager may have to potentially effect similar transactions through a number of different broker-dealers. In some cases, to address this situation, investment managers may decide to aggregate all such client transactions into a block trade that is executed through one broker-dealer. This practice may enable the investment manager to obtain more favorable execution, including better pricing and enhanced investment opportunities, than would otherwise be available if orders were not aggregated. Using block transactions may also assist the investment manager in potentially avoiding an adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing client orders. However, as it pertains to Baird Program clients, this practice may result in "trading away" from Baird, which is more fully described below.

Alternatively, investment managers may utilize a trade rotation process where one group of clients may have a transaction effected before or after another group of the investment manager's clients. A client should be aware that an

investment manager's trade rotation practices may result in a transaction being affected for the client's Account that occurs near or at the end of the investment manager's rotation and the client's trade orders may significantly bear the market price impact, if any, of those trades executed earlier in the investment manager's rotation, and, as a result, the client may receive a less favorable net price for the trade. Additional information regarding an investment manager's trade rotation policies, if any, is available in the investment manager's Form ADV Part 2A Brochure.

Because a client does not pay commissions to Baird when Baird, acting as broker-dealer, executes a client's trade orders, and because a client generally would incur trading costs in addition to the Program Fee if trade orders were to be executed by another broker-dealer firm, clients generally receive a cost advantage whenever Baird executes Program client transactions. For this reason, and given Baird's execution capabilities as broker-dealer, investment managers may determine that placing trade orders for the client's Account with Baird is the most favorable option for the client. However, investment managers may place a client's trade orders with a broker-dealer firm other than Baird if the manager determines that it must do so to comply with its best execution obligations. This practice is frequently referred to as "trading away" and these types of trades are frequently called "step out trades". A client's trade order so executed is then cleared and settled through Baird in what is frequently referred to as a "step in".

In some instances, step out trades are executed by the other firm without any additional commission or markup or markdown, but in other instances, the executing firm may impose a commission or a markup or markdown on the trade. If a client's investment manager places trade orders for the client's Account with a firm other than Baird, and the other firm imposes a commission or equivalent fee on the trade (including a commission imbedded in the price of the investment), the client will incur trading costs in addition to the Program Fee.

Some managers have historically placed nearly all client trades with broker-dealer firms other than Baird for execution. Some managers have placed nearly all or all client trades resulting from changes to their model portfolios or strategies

with firms other than Baird. Similarly, some managers have frequently placed client trade orders for fixed-income, foreign and small cap securities with firms other than Baird. In some cases, the other executing broker-dealer firm imposes a commission or markup or markdown (which is embedded in the price of the security) for executing the trade. As a result, these types of managers and their strategies could be more costly to a client than managers that primarily place client trade orders with Baird for execution.

*A client should note that each investment manager is solely responsible for ensuring that it complies with its best execution obligations to the client. A client should review the manager's trading for the client's Account because Baird does not monitor, review or evaluate whether the manager is complying with its best execution obligations to the client. A client should review the manager's Form ADV Part 2A Brochure, inquire about the manager's trading practices, and consider that information carefully, before selecting a manager. In particular, the client should carefully consider any additional trading costs the client may incur before selecting a manager to manage the client's Account.*

A client should note that the client's advisory agreement permits Baird to trade as principal on orders received from third party investment managers. See "Trade Execution Services Performed by Baird—Principal Transactions" below for more information.

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

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

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

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

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

For certain Discretionary, SMA and UMA Programs, a client has the option of receiving trade confirmations directly or having Baird send trade confirmations to the client's investment manager. A client may indicate the client's preference by selecting the preferred option in the client's advisory agreement.

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

#### *Agency Cross Transactions*

In certain circumstances and to the extent permitted by applicable law and regulation, Baird may effect "agency cross" transactions with respect to a client's Account. An "agency cross" transaction is a transaction in which Baird or its affiliates act as broker for the party or parties on both sides of the transaction. As compensation for brokerage services, Baird may receive compensation from parties on both sides of an agency cross transaction, the amount of which may vary. Therefore, Baird may have a conflicting division of loyalties and responsibilities. However, in all cases, Baird will seek to obtain the best execution for each respective advisory client and will effect agency cross transactions only in accordance with the requirements of Rule 206(3)-

2 under the Advisers Act. Furthermore, Baird will comply with additional regulations applicable to retirement accounts.

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

#### *Principal Transactions*

Subject to the requirements of applicable law, Baird and its affiliates may, when it is in the best interest of a client to do so, execute transactions for a client's Account while acting as principal for Baird's own account (that is, Baird or its affiliates may sell a security from Baird's inventory to a client, or Baird or its affiliates may purchase a security from a client for Baird's inventory). Baird commonly engages in principal trades with clients in the Baird Advisory Choice Program.

Baird may realize profits from principal transactions with a client based on the difference between the price Baird paid for the security and the price at which Baird sold the security, which may include a markup, markdown or spread from the prevailing market price, an underwriting fee, selling dealer concession, or other incentive to execute the transaction. Any compensation received by Baird in a principal transaction is in addition to the Program Fee paid by the client. Thus, in trading as principal with a client, Baird and its affiliates will have potentially conflicting division of loyalties and responsibilities regarding their own interests and the interests of the client. This profit potential may give Baird or its affiliates an incentive to recommend a transaction in which Baird acts as principal over other transactions. Nonetheless, Baird and its affiliates have a fiduciary duty to act in the client's best interest and to seek best execution for advisory clients. Furthermore, Baird has adopted internal procedures that require Baird and its Financial Advisors, when acting in a principal capacity, to disclose all material information regarding Baird's and the client's Financial Advisor's interest in the transaction, and obtain the client's written approval of the transaction prior to settlement.



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

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

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

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

Certain Programs make available complex securities and investment products that pursue non-traditional, alternative investment strategies ("Alternative Investment Products"). Alternative Investment Products include, but are not limited to: hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), exchange-traded

notes ("ETNs"), business development companies ("BDCs"), real estate investment trusts ("REITs"), master limited partnerships ("MLPs"), and managed futures.

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, unit investment trusts ("UITs") and variable annuities may also pursue alternative investment strategies, thereby making them Alternative Investment Products. A client should carefully review the prospectus or other offering document for each investment and understand the strategy being pursued before deciding to invest.

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

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

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

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

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



Short selling attempts to benefit from an anticipated decline in the market value of a security. To affect a short sale, a client sells a security the client does not own. When a client sells a security short, Baird borrows the security from a lender and makes delivery to the buyer on the client's behalf. Because short sales involve an extension of credit from Baird to the client, a client must use a margin account. A client must also eventually purchase the same shares sold short and return them back to the lender.

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

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

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

The use of these strategies has a unique impact upon the calculation of a client's asset-based Program Fee. See "Program Fees—Calculation and Payment of Program Fees" below for more information. A client should also understand that Baird and the client's Financial Advisor may have a financial incentive to use, or recommend the use of, these strategies or to increase, or recommend the increase of, margin loans. See "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions" below.

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

### **Eligible Assets**

With respect to the Discretionary, Non-Discretionary and ALIGN Programs, a client's Account may generally only hold investment products that Baird has determined to make available for use in those Programs ("eligible assets"). Eligible assets vary by Program. Although Baird determines the investment products made available under those Programs, the level of initial and ongoing evaluation, monitoring and review that Baird and its Financial Advisors perform on investment products varies. Investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those products that are included on a recommended list. For more information, see the descriptions of each Program under "Services, Fees and

Compensation" above and under "Portfolio Manager Selection and Evaluation—Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis" below.

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

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

**ALIGN Programs.** The ALIGN Programs generally only permit investments in the mutual funds and/or ETPs, and with respect to ALIGN UMA Portfolios, SMA Strategies, that Baird has made available for use in those Programs. For more information, see the descriptions of each ALIGN Program under "Services, Fees and Compensation" above.

**BIM Portfolios Program.** Eligible assets for the BIM Portfolios Program are described in BIM's Form ADV Part 2A Brochure and the Other Managers' Form ADV Part 2A Brochures, which are available upon request.

**Baird Advisory Choice Program.** Eligible assets for the Baird Advisory Choice Program generally include, but are not limited to, the following types of investments:

- equity securities, including, but not limited to, common stocks, preferred stocks, convertible preferred stocks, American Depositary Receipts ("ADRs"), and ordinary shares, including whether exchange-traded, or over-the-counter traded;
- fixed-income securities, including but not limited to, debt securities issued by domestic and foreign corporations and other entities; asset-backed securities (including mortgage-backed securities and collateralized mortgage obligations ("CMOs")); convertible debt securities; obligations issued by U.S., state, or foreign governments or their agencies, instrumentalities, or authorities, such as securities issued by the U.S. Treasury, federal government agencies or federal government-

sponsored enterprises ("Agency securities"), or foreign governments; municipal securities; money market mutual funds; certificates of deposit ("CDs") (primary or secondary); commercial paper; and cash and cash equivalents;

- rights or warrants on equity securities, and written covered call and written cash secured put equity options;
- open-end mutual funds shares that Baird has made available for use in the Program, which generally includes only those funds with which Baird has a selling agreement and only those funds that are no-load, load-waived, or that were purchased through Baird and at least 24 months has elapsed since a front-end sales charge (load) or commission was imposed;
- closed-end funds, ETFs, and UITs that have cost structures designed for use in fee-based investment advisory programs;
- BDCs, publicly-traded REITs and MLPs (which may be organized as limited liability companies ("LLCs"));
- ETNs, leveraged funds, inverse funds, and other special situation mutual funds, and exchange or swap funds;
- certain hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, structured products, and managed futures that Baird has made available for use in the Program; and
- variable annuities that have cost structures designed for use in fee-based investment advisory programs.

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

- Class B or Class C shares offered by mutual funds or any other class of mutual fund shares that impose a contingent deferred or level sales charge (back-end or level load);
- UITs that impose an initial or deferred sales charge (load);

- private REITs and other real estate interests, and MLPs and LLC units that are not publicly-traded;
- all annuities and insurance products, except for variable annuities that have cost structures designed for use in fee-based investment advisory programs;
- commodities, futures or options on commodities, and commodity pools; and
- private investment funds and Alternative Investment Products that have not been made available by Baird for use in the Program.

**PIM Program.** Eligible and ineligible assets for the PIM Program are generally the same as the Baird Advisory Choice Program, except the following types of investments are generally ineligible for PIM Accounts:

- put options;
- hedge funds, funds of hedge funds, private equity funds, funds of private equity funds structured products, and managed futures; and
- variable annuities.

**SMA Programs and Services.** Except for the BIM Strategies under the BIM Portfolios Program, Baird does not determine the eligibility of investment products under the SMA Programs and Services. Investment products under the SMA Programs and Services are selected solely by the investment manager providing services to the client. *The investment products used by an investment manager may include products that Baird deems ineligible for use in connection with the other Programs and Services described above.* A client should review the investment manager's Form ADV Part 2A Brochure for more information.

**Russell Program.** The Russell Program generally only permits investments in Russell Funds selected by Russell.

### ***Unsupervised Assets***

Under certain circumstances, Baird, in its sole discretion, may accept a client request to place an ineligible asset into a client's Account. In most cases, an ineligible asset is an "unsupervised" asset, meaning that Baird and its Financial

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

### ***Special Considerations for ALIGN and Russell Model Strategies Clients***

**Selection of Investment Options.** Baird solely determines the investment options made available to clients under the ALIGN and Russell Programs. While ALIGN and Russell Accounts will generally be invested in mutual funds or ETPs, and, with respect to ALIGN UMA Portfolios, SMA Strategies, Baird may invest client's Account participating in those Programs in any investment product it deems appropriate for the clients participating in those Programs.

**Replacement of Investment Options.** From time to time, Baird may remove mutual funds, ETPs, and, with respect to ALIGN UMA Portfolios, SMA Strategies, and replace them with other mutual funds, ETPs, or SMA Strategies. A client participating in those Programs authorizes Baird to replace any such investments in the client's Account whenever Baird removes the investment option from those Programs. Baird may make such replacement in a client's Account without

providing prior notice to, or obtaining the consent of, a client.

**Tax Management.** Clients participating in the ALIGN Dynamic, Strategic, and Tactical Portfolios Programs, the ALIGN UMA Select Portfolios Program, or the Russell Program, grant Baird the discretion to sell their mutual fund investments from time to time and invest the proceeds temporarily in comparable ETFs, ETNs, or similar securities in order to avoid the recognition of capital gain distributions to be made by those funds and/or to recognize taxable losses. Baird may provide this service to clients participating in the ALIGN Custom Portfolios Program or the ALIGN UMA Custom Portfolios Programs if the client directs Baird to do so on the client's behalf.

#### **Asset Allocation Changes and Rebalancing.**

Under the ALIGN Programs and the Russell Program, Baird may rebalance a client's Account assets to be consistent with the client's chosen asset allocation strategy at any time without prior client notice if Baird determines there has been a drift from the client's chosen model allocation. A client's Account may also be rebalanced if a client's cash deposits or withdrawals take the client's Account significantly out of balance relative to the model allocation or if actions are taken to avoid recognition of capital gain distributions and/or to recognize taxable losses.

Generally, a client's Account in an ALIGN Custom, Dynamic, or Strategic Portfolio, or in an ALIGN UMA Portfolio, is automatically rebalanced when the targeted allocation for a particular asset class drifts by 5 percentage points or more. A client's Financial Advisor has the discretion to rebalance the client's Account invested in an ALIGN Custom, Dynamic, or Strategic Portfolio, or in an ALIGN UMA Portfolio, at such other times as the Financial Advisor may determine in accordance with rebalancing options that Baird makes available to Baird Financial Advisors. Current rebalancing options include rebalancing on the Account's anniversary date or when an asset class allocation drifts by more than 2.5 percentage points. Generally, a client's Account invested in an ALIGN Tactical Portfolio is automatically rebalanced whenever Baird changes the asset allocation of the model ALIGN Tactical Portfolio.

With respect to the ALIGN Dynamic, Strategic, and Tactical Portfolios Programs, the ALIGN UMA

Select Portfolios Program, and the Russell Program, Baird may also change a client's asset allocation for any reason which may include, but shall not be limited to, changes in market conditions, Baird's opinion on the future performance of particular asset classes or the client's financial circumstances.

Any rebalance of a client's Account or other change in asset allocation may result in taxable gains.

Under the ALIGN UMA Programs, the tax management services, asset allocation changes, rebalancing, and other changes described above may be performed or implemented by the Overlay Manager.

#### **Custody Services**

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

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

Baird offers to clients a Cash Sweep Program through which cash balances in client accounts are automatically deposited or "swept" into an interest-bearing deposit account (the "Bank Sweep Option") established by Baird with one or more banks selected by Baird for inclusion in the Cash Sweep Program. Certain clients who meet the eligibility requirements may, as an alternative, invest their cash in one or more taxable or tax-exempt money market mutual funds (the "Money Market Fund Option") that Baird makes available as part of the Cash Sweep Program. Baird and its Financial Advisors generally receive compensation in addition to the

Program Fee when clients participate in the Cash Sweep Program. See “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Other Interests in Client Transactions” below for more information.

If a client elects to participate in Baird’s Cash Sweep Program, Baird will deposit or invest (i.e., “sweep”) a client’s free credit balances in accordance with the client’s instructions and terms of the Cash Sweep Program. Any deposits, including CDs that a client maintains directly with a bank or through an intermediary (such as Baird or another broker), in the same capacity with the bank, will be aggregated with the client’s Bank Sweep Option assets at the bank for purposes of calculating the \$250,000 FDIC insurance limit. Total deposits exceeding \$250,000 may not be fully insured by the FDIC. *A client is solely responsible for monitoring the total amount of other deposits that the client has with a bank in order to determine the extent of deposit insurance coverage available. Baird is not responsible for any insured or uninsured portion of a client’s deposits at a bank.*

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

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

accounting methods (e.g., trade or settlement date accounting) by the custodian and Baird.

### **Updating Client Information**

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

### **Legal and Tax Considerations**

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

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

The investment strategies used for a client’s Account and transactions in a client’s Account, including liquidations, redemptions, and rebalancing transactions, may cause the client to realize gains or losses for income tax purposes. In addition, a client’s Account may be invested in



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

## Program Fees

### Fee Options

A client's advisory agreement will set forth the actual compensation the client will pay to Baird. In most instances, a client pays Baird an ongoing Program Fee based upon the value of assets in the client's Account (an "asset-based fee"), although other options may be available. Depending upon the Program selected, there may be up to three asset-based fee options available: a flat fee, a breakpoint fee, or a tiered fee.

**Flat Fee.** Under the flat fee arrangement, the asset-based fee may be a flat or single percentage that may or may not vary by asset type or category (such as equity securities and fixed-income securities). The maximum flat fee paid by clients is 3.00% of assets in the client's Account.

**Tiered Fee.** Under a tiered fee arrangement, the asset-based fee will vary for different segments of client assets, gradually decreasing as the Account balance increases. For example, a client with an Account value of \$1,000,000 may pay one rate on the first \$250,000 of assets in the Account, a lower rate on the next \$250,000 of assets in the Account and a still lower rate on the remaining \$500,000 of assets. Use of a tiered fee schedule will result in a blended asset-based fee rate.

**Breakpoint Fee.** Under a breakpoint fee arrangement, the asset-based fee is determined by reference to the market value of the client's Account assets, with the fee being equal or lower for accounts with higher levels of assets. The breakpoint fee, once determined, is then applied to all of the assets in the client's Account.

In addition, the fee may be a fixed percentage across all asset categories, or may be a percentage that varies by asset category (e.g., equity and fixed-income securities may have a different applicable fee rate). The tiered and breakpoint fee schedules and minimum account sizes that apply to each Program are shown below.

**Other Fee Options.** Baird makes other compensation options available to eligible clients besides asset-based fees, such as a fixed dollar amount or a commission-based account. Baird may enter into these other fee arrangements, including performance-based fee arrangements with eligible clients. Performance-based fee arrangements are further described in the section entitled "Portfolio Manager Selection and Evaluation—Performance-Based Fees and Side-By-Side Management" below.

### Fee Schedules

The following fee schedule sets forth the maximum tiered fee rates for the Programs.

#### Tiered Fee Schedule

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

The following fee schedule sets forth the maximum breakpoint fee rates for the Programs.

#### Breakpoint Fee Schedule

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
\$0 to \$249,999	3.00%
\$250,000 to \$499,999	2.50%
\$500,000 to \$999,999	2.25%
\$1,000,000 to \$1,999,999	2.00%
\$2,000,000 to \$4,999,999	1.75%
\$5,000,000 and above	1.50%

The minimum asset value to open an Account in a Program is set forth in the table below.

## Account Minimum

<u>Program</u>	<u>Asset Level</u>
ALIGN Strategic Portfolios	\$50,000
ALIGN Tactical Portfolios	\$50,000
ALIGN Dynamic Portfolios	\$150,000
ALIGN Custom Portfolios	\$50,000
ALIGN UMA Select Portfolios	\$400,000
ALIGN UMA Custom Portfolios	\$250,000
Baird Advisory Choice	\$25,000
BIM Portfolios	\$100,000*
Client Selected Managers	\$100,000**
Private Investment Management	\$50,000
Recommended Managers	\$100,000**
Referred Managers	\$100,000**
Riverfront Managed Portfolios	\$200,000
Russell Model Strategies	\$25,000

\* BIM's Specialized Asset Management Portfolio has a minimum account requirement of \$1,000,000. Other Manager Strategies in the BIM Portfolios Program have a minimum of \$150,000. All other BIM Portfolios have a minimum of \$100,000.

\*\* Each investment manager may have different minimum account size requirements, which can range from \$100,000 to more than \$1,000,000. As a result, some investment managers may not be available to clients with smaller accounts.

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

A client is encouraged to periodically review with the client's Financial Advisor the client's Program Fee and the services provided to determine if the services and fees continue to meet the client's needs.

### **Calculation and Payment of Program Fees**

Baird will calculate a client's Program Fee by applying the applicable fee rate to the value of all of the assets in the client's Account, including cash and its equivalent and including all assets held by any third party custodian.

If requested by a client and approved by Baird, a client's Program Fee may be determined by also

including the aggregate value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Baird, and may include at Baird's discretion, assets held away from Baird, non-managed assets, and assets held in a name other than that of the client. A client should note that Retirement Accounts may not be included in to the extent a prohibited transaction under ERISA or the IRC may result. The terms of any such household fee arrangement will be set forth in the client's advisory agreement.

For purposes of calculating a client's asset-based Program Fee, the value of a client's assets is generally determined by Baird. Baird generally relies upon third party sources, such as third party pricing services when valuing Account assets. In some instances, such as when Baird is unable to obtain a price for an asset from a pricing service, Baird may obtain a price from its trading desk or it may elect to not price the asset. Obtaining a price from its trading desk may present a conflict of interest. In some cases, Baird obtains prices from the issuers or sponsors of investment products in the client's Account. This frequently occurs with respect to the valuation of Alternative Investment Products. If the assets in the client's Account are held by a custodian other than Baird, Baird generally relies on valuation information provided by the client's third party custodian in determining the value of the assets in the client's Account.

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

As mentioned above, Baird will include cash balances in a client's Account when calculating a client's asset-based Program Fee. However, Baird has adopted an internal policy that generally excludes large cash balances (currently 40% or more of an Account's total value) from the fee calculation after six (6) months, unless the client's Financial Advisor's supervisor or, in some cases, Baird's Compliance Department, has granted an exception to the policy or the client has been informed in writing that the large cash balance will continue to be included in the fee calculation. This internal policy was designed to benefit clients who hold large cash balances in their accounts and attempt to ensure that such clients pay an advisory fee that is reasonable for the services provided. However, this internal policy, in some cases, could create a financial incentive for Baird or its Financial Advisors to recommend or select riskier investments for a client's Account.

If a client maintains a balance in the client's margin account with Baird, such balance has no bearing on the asset-based Program Fees charged on client's Account. In other words, the margin balance (i.e., the outstanding amounts of the margin loan a client owes to Baird) in client's Account will not be applied to reduce the client's billable Account value in calculating the Program Fee. For purposes of determining the asset-based Program 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 Program Fees on options, the absolute value of the current market price of the option will be used.

The Account value used for the Program Fee calculation may differ from that shown on a client's Account statement or performance report due to a variety of factors, including the client's use of margin, options, short sales, and other considerations. If a client has assets held by a third party custodian, the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by Baird. See "Services, Fees and Compensation—Additional Program Information—Custody Services" above for more information.

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

A client's Program Fees and other charges will be automatically deducted from the client's Account, unless the client elects, and Baird agrees, to send to the client an invoice ("direct billing"). A client should understand that the client's Program Fees and other charges relating to the client's Account may be satisfied from free credit balances and other assets in the client's Account. If free credit balances in a client's Account are insufficient to pay the Program Fees or other charges when due, Baird and any investment manager managing the client's Account may sell investments from the client's Account to the extent they deem necessary and appropriate, in their sole discretion, to pay the client's Program Fees and other charges.

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. Baird may automatically deduct a client's Program Fees and other charges from the client's Account as described above in the event that Baird does not receive payment from the client within thirty (30) days of the date of the invoice. Baird may rescind a direct billing arrangement with a client at any time. Direct billing may not be available for Retirement Accounts.

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

If either Baird or the client terminates the client's advisory agreement or a client's participation in a Program, 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. Baird will not implement a decrease in the client's fee rate during a billing period or otherwise reimburse or adjust Program Fees during any such period for asset value appreciation or depreciation in a client's Account during such period. For example, if a client's Account is subject to a tiered or breakpoint fee schedule and the asset levels of the Account move into a new tier or cross a breakpoint during such period, no rebate or fee adjustment will be made. However, Baird, in its sole discretion, may make fee adjustments in response to asset fluctuations in a client's Account occurring during a billing period that result from contributions to, or withdrawals from, the client's Account.

Each Program may have a minimum asset value in order to open an Account as further described under "Program Fees—Fee Schedule" above. A client's Account may be subject to a minimum Program Fee. The minimum Program Fee will be described in the client's advisory agreement. Baird may waive the minimum Program Fee at its discretion. The minimum Program Fee is subject to change upon notice to the client.

The Program Fee and minimum account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's Account, the client's particular investment style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedules 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.

The fee schedules set forth above are the current fee schedules for the Programs. Each Program 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 may not be affected. Associates and affiliates of Baird may be eligible for reduced fees. Therefore, some clients may pay different fees than those shown above.

### **Obtaining Program Services Separately**

Baird does not offer the Programs to clients on an unbundled basis. In other words, the Programs do not permit clients to pay for services, such as investment advice, trade execution, and custody separately. However, each service provided to a client in connection with a particular Program may be available to a client outside of the Program separately. Thus, a client's participation in a Program could cost the client more or less than if the client purchased each service separately. A number of factors bear upon the relative cost of each Program. In comparing the Programs to other services, a client should consider a number of factors, including, but not limited to:

- whether the client prefers an advisory or brokerage relationship, a discretionary or non-discretionary relationship, or a fee-based or commission-based relationship;
- the anticipated size of the Account and the types of investment strategies and products available for that account;
- the level of anticipated trading activity;
- the anticipated amount of the Account to be allocated to cash or to investment products that have additional internal ongoing operating fees and expenses (e.g., mutual funds); and
- the nature and level of advice, account oversight and review, transaction services, account performance reporting, or other ancillary services sought by the client.

*A client should review other account types and programs with the client's Financial Advisor to determine whether they are more appropriate or should be used in addition to a Program.*

### **Program Fee Payments to Baird, Financial Advisors and Investment Managers**

Baird and its affiliates and associates benefit from the Program Fees and charges clients pay for the services described in this Brochure.

Baird retains the entire Program Fee paid by clients, except as further described below. With respect to the BIM Portfolios, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, and with respect to the Overlay Manager and CSM Eligible Managers under the CSM Service, and the Overlay Manager and investment managers providing SMA

Strategies under the UMA Programs, Baird pays a portion of the Program Fee to the manager as compensation for the manager's services. The amount of the Program Fee paid to a particular manager varies based upon, among other factors, the Program selected by a client, the investment strategy and other services sought by a client, the subadvisory fee Baird negotiated with the manager, the manager's investment style or strategy, the level of services provided by the manager, and the size of a client's Account. The portion of Program Fees paid to investment managers providing equity and balanced investment styles or strategies generally range from 0.45% to 1.00%, but could exceed 1.00%, depending upon the strategy selected. The portion of Program Fees paid to investment managers providing a fixed-income investment style or strategy generally range from 0.25% to 0.50%, but could exceed 0.50%, depending upon the strategy selected. As the portion of the Program Fee paid to an investment manager increases, the portion of the Program Fee that is retained by Baird decreases. Thus, Baird may have an incentive to recommend or favor investment managers that are paid less, because Baird will receive a higher portion of the Program Fee. In addition, Baird may have an incentive to favor Baird Advisors, BIM, BKG, and Riverfront over other investment managers because the entire Program Fee is retained by Baird or affiliated investment managers. Given the nature of the Program Fee, Baird may also have an incentive to recommend or select investment managers that trade less frequently with or that trade away from Baird because Baird will incur lower trading costs with respect to such managers and such relationships will be more profitable to Baird. In the Russell Program, Baird pays no portion of the Program Fee to Russell, except with respect to the Russell Enhanced Model. The portion of the Program Fee paid to Russell with respect to the Russell Enhanced Model is 0.10%. Thus, Baird may have an incentive to recommend other Russell Models over the Russell Enhanced Model because it will retain a higher portion of the Program Fee. With respect to the UMA Portfolios, Baird shares a portion of the Program Fee with investment managers to the extent a UMA Portfolio contains an SMA Strategy, but it retains the entire Program Fee to the extent a UMA Portfolio contains mutual funds or ETPs. Thus, Baird may have an incentive to favor mutual funds and ETPs over SMA Strategies with respect

to the UMA Programs because it will be more profitable for Baird.

Baird Financial Advisors and other associates offering services and providing ongoing assistance to clients receive compensation from Baird. Baird Financial Advisors are compensated based upon their total production level at Baird, which takes into account all of the advisory fees, commissions and similar compensation paid by clients for which they are responsible. Baird may reduce the rate of compensation it pays to Baird Financial Advisors when the Program Fees paid by clients are below certain levels. This creates an incentive for Baird Financial Advisors to charge Program Fees at or above those levels and a disincentive to reduce the Program Fees below a level that will negatively impact their production. Due to the manner in which Baird compensates its Financial Advisors, a Financial Advisor may have a financial incentive to trade less for Baird Advisory Choice Accounts than traditional brokerage accounts and they may have an incentive to reduce trading or increase a client's Program Fees if trading for a client's Advisory Choice Account exceeds certain levels established by Baird. Although Baird Financial Advisors do not receive any portion of the Program Fee, their compensation is directly related to the size of the Program Fee that a client pays to Baird and the amount of the Program Fee, if any, paid to other investment managers managing a client's Account. Thus, Baird Financial Advisors may have an incentive to recommend or favor Programs with higher fees. This also creates an incentive for them to recommend or favor investment managers that are paid less and other Russell Models over the Russell Enhanced Model, because they will receive higher compensation. In addition, the compensation paid to a Baird Financial Advisor acting as a PIM Manager may be higher than the compensation that would be paid to a Baird Financial Advisor who recommends that other investment managers manage a client's Account. As a result, a Baird Financial Advisor acting as a PIM Manager may have a financial incentive to recommend the PIM Program over other Programs. From time to time, Baird Financial Advisors outside of the PIM Program may refer their clients to PIM Managers. In those instances, the PIM Manager shares a portion of his or her compensation with the referring Baird Financial Advisor.



Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients).

### Other Fees and Expenses

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

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

in the price the client receives for the security; and

- taxes imposed upon or resulting from transactions effected for a client's Account, such as income, transfer or transaction taxes, or any other costs or fees mandated by law or regulation.

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

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

In addition to the Program Fee, a client will be responsible for paying the fees charged by each investment manager selected by the client under a dual contract arrangement. If a client directs Baird to pay the client's dual contract manager's fee out of the client's Account, and Baird agrees to do so, Baird will not be responsible for verifying the calculation or accuracy of such fee.

Clients who use a custodian other than, or in addition to, Baird will pay the other custodian's fees and expenses in addition to the Program Fee.

A client may also be assessed other trading costs in addition to the Program Fee if client trades are executed through another firm. Please see "Services, Fee and Compensation—Additional Program Information—Trading for Client Accounts" above for more information.

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

Clients who have Accounts may also have other accounts with Baird under programs or services not described in this Brochure. Those accounts may be subject to fees, commissions or other expenses that are entirely separate from the payment of Program Fees.

### **Compensation Received by Baird and Baird Financial Advisors**

The individual who recommends a Program to a client, including a Baird Financial Advisor, receives compensation from Baird that is based upon the amount of the Program Fee paid by the client. The amount of the compensation may be more than what the individual would receive if the client participated in other Baird investment advisory programs or paid separately for investment advice, brokerage, and other services. Accordingly, the individual may have a financial incentive to recommend a Program over other programs or services offered by Baird. However, when providing investment advisory services to clients, Baird and its Financial Advisors are

fiduciaries and are required to act solely in the best interest of clients. Baird addresses this conflict through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about Baird's compensation and other benefit arrangements and how Baird addresses the potential conflicts of interest, please see the sections "Services, Fees and Compensation—Additional Program Information" and "Services, Fees and Compensation—Program Fees—Program Fee Payments to Baird, Financial Advisors and Investment Managers" above, and "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

## **Account Requirements and Types of Clients**

### **Opening an Account**

A client that wishes to participate in a Program will enter into an advisory agreement with Baird. The client's advisory agreement will contain the specific terms applicable to the services selected by the client, Program Fees payable by the client, and other terms applicable to the client's advisory relationship with Baird.

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

After a client has signed and delivered an advisory agreement to Baird, the agreement is subject to review and acceptance by the client's Financial Advisor, his or her Branch Office Manager, and Baird's Fee Based Account Administration Department. The agreement will become effective when it is accepted by Baird's Fee Based Account Administration Department and Baird has delivered to the client all applicable agreement- and Brochure-related documents. A

client should understand that the agreement will not become effective, and Baird will not provide any advisory services selected by the client, until such time that Baird has accepted the agreement. Baird may delay acceptance of the agreement and the provision of advisory services to the client for various reasons, including deficiencies in the client's paperwork. Once it has become effective, the agreement shall continue until it is terminated in accordance with the terms described in the agreement.

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

## Certain Account Requirements

### **Minimum Account Size**

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

### **Account Contributions and Withdrawals**

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

If an asset transferred to an Account is an ineligible asset under the terms of the applicable Program, Baird, the client's Financial Advisor or the client's investment manager may sell the asset or transfer it into a separate brokerage account. Alternatively, they may designate such asset as an unsupervised asset as further described under "Services, Fees and Compensation—Additional Program Information—Unsupervised Assets" above.

A client is responsible for notifying the client's Financial Advisor and any investment manager managing the client's Account of any contributions made into the Account and to instruct the client's Financial Advisor and any investment manager to liquidate positions in the event the client wishes to withdraw assets from the Account. Baird and its Financial Advisors have no responsibility to invest cash deposits (other than cash sweeps described above) or liquidate positions with respect to an Account managed by a third party investment manager, and they are not responsible for any losses that may result from a client's failure to notify the client's Financial Advisor and any investment manager

managing the client's Account regarding deposits or withdrawals.

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

### ***Changes to Accounts***

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

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

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

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

If a client wishes to obtain loans secured by assets in the client's Account (commonly referred to as "collateralizing") and Baird agrees to the arrangement, the client should understand that the lender may exercise certain rights and powers over the assets in the Account, including the disposition and sale of any and all assets pledged

as collateral for the loan to meet a collateral call, which may occur without prior notice to the client. A collateral call could have adverse tax consequences, disrupt a client's investment strategy, and have an adverse impact on the Account's performance. A client should be aware of these and other potential adverse effects of collateralizing accounts before deciding to do so.

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

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

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

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

### ***Electronic Delivery of Documents***

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

### Termination of Accounts

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

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

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

unable to sell those investments upon request. A client will generally have to wait for specific liquidity windows applicable to investments the client owns.

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

The end of a client's Financial Advisor's employment with Baird will not automatically terminate the client's advisory agreement. In the event that a client's Financial Advisor is no longer able to service the client's Account, Baird may transfer that Account to another Financial Advisor and the client will be notified of any such change. Similarly, if a client's PIM Manager ceases to participate in the PIM Program or be employed by Baird, Baird may assign the client's PIM Account to another PIM Manager or Financial Advisor.

### Types of Clients

Baird offers the Programs to all types of current or prospective clients, including, but not limited to: individuals; trusts; estates; Retirement Accounts; pension and profit sharing plans; charitable organizations; and corporations or other business entities.

### Portfolio Manager Selection and Evaluation

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



## Selection and Evaluation

### **Recommended Managers**

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

Baird's Asset Manager Research Department is primarily responsible for selecting and evaluating investment managers included in Baird's Recommended Managers Program. In selecting investment managers, Baird's Asset Manager Research Department utilizes quantitative and qualitative measures to evaluate managers based on the:

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

Baird's Asset Manager Research Department may also employ the use of computers and third party software to more readily display information and assist with the evaluation and analysis.

Baird's initial screening process begins with a proprietary, multi-factor model that evaluates managers on different factors including risk-adjusted performance, consistency of returns and downside protection. These factors are scored over various time periods and relative to a specific peer group universe, narrowing the pool of managers for further evaluation. Baird's Asset Manager Research Department then performs a more in-depth evaluation of managers that are

identified through the initial screening process, which generally includes a review of the following factors: stability of the firm/team, the robustness and repeatability of the investment process, the portfolio's past returns pattern and tax-efficiency, and how the manager adds value. The final determination of Baird's Recommended Managers List is subject to the approval of Baird's Investment Committee.

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

If a client selects a BRM Strategy that is a Model-Traded Strategy, it is important to note that Baird's selection and ongoing evaluation of a Recommended Manager is based upon an assumption that the Manager's Model Portfolio will be fully and faithfully implemented by the Overlay Manager on a continuous basis. Baird does not monitor the Overlay Manager's implementation of the Model Portfolio nor does it ascertain whether the Overlay Manager is implementing the Model Portfolio as provided by the Recommended Manager. If the Overlay Manager, in the exercise of its discretion, decides to implement the Model Portfolio differently, the performance of a client's Account could be negatively impacted. Baird is not monitoring, evaluating or reviewing the Overlay Manager or the performance of client accounts under those circumstances.

Certain investment strategies offered by BIM have been selected by Baird for inclusion in Baird's Recommended Managers Program.

Using the managers made available for Baird's Recommended Managers Program, Baird Financial Advisors will select or replace, or recommend the selection or replacement of, a particular Recommended Manager based upon the client's particular goals and circumstances.

***Client Selected Managers, Referred Managers and Riverfront Managed Portfolios***

Clients participating in the CSM Service, the Referred Managers Service or the Riverfront Managed Portfolios Program should note that any investment manager selected by the client under those Programs, including a CSM Eligible Manager, is not on Baird's Recommended Managers List, and Baird does not recommend or select the investment managers for the client's Account under those Programs. A client should further note that Baird does not make any representation or recommendation to clients regarding such managers or their abilities or qualifications as an investment adviser or to manage client assets.

A client should understand that Baird conducts only limited due diligence and ongoing reviews of Riverfront and investment managers under the Referred Managers Service. Ongoing limited due diligence and reviews of Riverfront and a Referred Manager may include requesting the manager to answer a quarterly research questionnaire and utilizing third party software to monitor the manager's performance.

Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any investment managers under the CSM Service, including the Overlay Manager, unless Baird otherwise specifically agrees to do so in writing. The Overlay Manager may provide review and ongoing evaluations of CSM Eligible Managers only. Clients should review Overlay Manager's Form ADV Part 2A Brochure for more information, which is available upon request, or contact their Financial Advisor for more information.

A client is solely responsible for the appointment and continued retention of investment managers in connection with those Programs. Once retained by the client, an investment manager will only be removed from managing the client's Account upon the client's direction to do so. Baird assumes no responsibility for the client's selection or termination of an investment manager under this

Service, the manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

***ALIGN, PIM and Russell Programs***

Portfolio management services under the ALIGN, PIM and Russell Programs are provided by Baird, Baird's home office investment professionals, and/or its Financial Advisors. Under the ALIGN UMA Programs, portfolio management services are also provided by the Overlay Manager.

In order to provide portfolio management services under the Programs, Baird requires that Baird associates meet all applicable requirements set forth by applicable law and regulations of self-regulatory organizations, such as the Financial Industry Regulatory Authority ("FINRA"), exchanges, and governmental agencies.

Typically, PIM Managers must also meet the following additional criteria: endorsement by his or her Branch Office Manager; completion of a portfolio management course acceptable to Baird, which may include a CFA designation; and completion of an application to the PIM Program, which typically requires the PIM Manager to complete one or more investment philosophy statements acceptable to Baird. Certain PIM Managers may have been admitted to the PIM Program using different qualifications than those currently in place. In some instances, Baird may waive certain eligibility requirements when it deems it appropriate to do so, such as when a PIM Manager acted as a portfolio manager (or in a similar capacity) at another investment firm prior to joining Baird.

The Investment Advisory Oversight Committee of Baird, which includes members of Baird's Investment Management, Product Management, Asset Manager Research, Compliance, Legal, and Risk Management Departments, oversees the standards and implementation of the Programs. The Investment Advisory Oversight Committee delegates its day-to-day oversight responsibilities to Baird's Product Management and Compliance Departments to monitor the Programs and the performance of persons providing portfolio management services under those programs. Baird's Product Management Department, along with the Compliance Department and other designees, provide ongoing review of the

performance of Baird associates providing portfolio management services. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis.

Potential causes for removal from the PIM Program include operating outside of the policies of the PIM Program, a change in investment philosophy or style, significant drift from stated objectives, significant underperformance over time, or other adverse changes affecting the manager that in Baird's opinion warrants the manager's removal.

Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of the performance of the Overlay Manager.

The process Baird uses for selecting and removing SMA Strategies under the ALIGN UMA Select Portfolios Program is substantially similar to the process Baird uses to select and remove BRM Strategies provided by Recommended Managers described under "Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers" above. An ALIGN UMA Select Portfolio may include SMA Strategies offered by investment managers included on Baird's Recommended Managers List or managers affiliated with Baird.

Baird may, in its discretion, permit a client to select an SMA Strategy under the ALIGN UMA Custom Portfolios Program that has not been approved by Baird for inclusion in the ALIGN UMA Select Portfolios Program. If a client selects such an SMA Strategy, a client should note that the investment selected by the client is not on Baird's Recommended Manager List or any other Baird-recommended product list, and Baird does not recommend or select the investment for the client. Additionally, Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any such investment, unless Baird otherwise specifically agrees to do so in writing.

### **BIM Portfolios**

Portfolio management services under the BIM Portfolios Program may be provided by BIM or BKG. In order to provide portfolio management services, Baird requires that BIM and BKG associates meet all applicable requirements set forth by self-regulatory organizations. BIM also

requires BIM portfolio managers to have an undergraduate degree. Furthermore, BIM strongly encourages all BIM portfolio managers to pursue and work towards the attainment of the CFA designation and/or a relevant graduate level degree. BIM's Director and Baird's Investment Advisory Oversight Committee oversee the BIM and BKG portfolio managers. Performance information is provided to the Investment Advisory Oversight Committee on a quarterly basis. Baird generally does not remove any of the BIM or BKG Strategies from the BIM Portfolios Program, but may remove a portfolio manager from providing services under the Program if Baird deems circumstances warrant removal. Potential causes for removal may include significant drift from stated objectives, sustained underperformance in relation to peers, or other adverse changes affecting the manager.

### **Performance Calculation**

As part of Baird's selection and evaluation of investment managers, Baird calculates the performance of PIM Managers and Recommended Managers providing Manager-Traded Strategies.

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

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

- A total return calculation is used in reporting.
- Current market value including accrued income is used.
- Trade date accounting is used in deriving valuations.

- Monthly returns are calculated using the Modified Dietz calculation.
- Returns for periods greater than a month are calculated by geometrically linking the monthly returns. Returns for periods greater than one year are annualized.
- Reporting is net of fees at the total portfolio, but gross of fees for individual investment categories (e.g., equity or fixed-income).

To the extent Baird selects or reviews other investment managers, Baird does not calculate performance information for such managers. Baird obtains performance information directly from the managers (including the Overlay Manager) and/or from other external sources that Baird believes to be reliable. A client should understand that: Baird does not recalculate the performance provided by such managers or external sources; generally, neither Baird nor any independent third party reviews the performance information provided by such managers to verify its accuracy or compliance with presentation standards; those managers may not calculate performance on a uniform or consistent basis; and Baird does not guarantee the accuracy of information provided by such managers or any external source.

A client should note that Baird does not generally present its performance calculations to clients. The information that Baird provides to clients about investment managers from time to time generally is not calculated by Baird but may be calculated by the managers themselves or derived from external sources. Baird does not audit or verify that performance information presented to clients that is calculated by managers or external sources is accurate. In addition, a client should note that such performance information may not be calculated on a uniform or consistent basis or reviewed by any independent third party. A client should ask the client's Financial Advisor for more information.

### **Portfolio Management by Baird and Related Persons**

Portfolio management services under the ALIGN and Russell Programs are provided by Baird and its home office investment professionals. Portfolio management services under the BIM Portfolios Program may be provided by BIM or BKG and may be provided by BIM under the Recommended Managers Program, depending upon the BRM

Strategy a client selects. Portfolio management services under the PIM Program are provided by PIM Managers. Portfolio management services under the Riverfront Managed Portfolios Program are provided by Riverfront and may be provided by Riverfront under the UMA Programs, depending upon the UMA Portfolio selected by the client. Portfolio management services under the CSM Service could include a manager affiliated with Baird should a client select such a manager. Such arrangements create a potential conflict of interest because Baird and/or its affiliates may receive higher aggregate compensation if clients retain affiliated managers instead of retaining unaffiliated managers. However, when providing investment advisory services to clients, Baird and its Financial Advisors are fiduciaries and are required to act solely in the best interest of clients. Baird addresses these conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients). For more specific information about these potential conflicts and how Baird addresses them, please see the sections "Additional Information—Other Financial Industry Activities and Affiliations" and "Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

When Baird determines manager availability or eligibility for the CSM Service, the Recommended Managers Program, or the ALIGN UMA Select Portfolios Program, affiliated investment managers are subject to the same selection and review process, if any, that Baird applies to unaffiliated investment managers participating in each respective Program.

The ALIGN, BIM Portfolios, PIM, Riverfront Managed Portfolios, and Russell Programs exclusively offer portfolio management by Baird, its associates, or investment managers that are affiliated with Baird, and the portfolio managers under those Programs are not subject to an independent selection or review process. Additional information about Baird and those Programs is provided below.

### **Advisory Business**

Baird is an employee-owned wealth management, capital markets, asset management, and private

equity firm formed in the State of Wisconsin in 1919.

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

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

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

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

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

billion of which was managed on a non-discretionary basis.

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

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

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

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

#### ***Investment Strategies and Methods of Analysis***

The investment styles, philosophies, strategies, techniques and methods of analysis that Baird, its home office investment professionals, and its Financial Advisors use in formulating investment advice for clients vary widely by Program and the person providing the advice. The strategies may involve various investment styles, such as,



aggressive growth, growth, moderate growth, growth and income, income, value, and others. The strategies may focus on certain types of investments (e.g., equity securities), market capitalization ranges (e.g., large cap companies), geographic regions or markets (e.g., emerging markets), industries, sectors, credit quality, maturities and durations. Baird, its home office investment professionals, and its Financial Advisors may use various forms of security analyses, including:

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

Baird, its home office investment professionals, and its Financial Advisors use various third party research information and related tools to provide investment advice to clients. These sources of information and tools may include, among others, issuer-supplied literature (such as annual reports, press releases and other information) and external market, economic, financial and investment data and analyses provided by

organizations not affiliated with Baird. They may also employ the use of computers and third party software to more readily display information, assist with the evaluation and analysis, and create asset allocation recommendations. Although they generally use information and tools that Baird deems reliable, Baird does not independently verify or guarantee the accuracy of the information or tools used.

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

When providing investment advice to clients, Baird Financial Advisors may also use recommended lists made available by Baird's Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. The level of initial and ongoing evaluation, monitoring and review that Baird and its Financial Advisors perform on managers and on investment products varies. Managers and investment products that Baird merely makes available to clients do not generally receive the same level of initial or ongoing evaluation, monitoring or review as those managers or products that are included on a recommended list. For more information about Baird recommended lists and "available" lists, see "Selection and Evaluation—Recommended Managers" above and "Certain Recommended Lists" and "Certain Available Product Lists" below.

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

Under certain circumstances when requested by a client, Baird may allow a client to select a manager or investment product that is not on a Baird recommended list or that is generally not made available to Baird clients. A client should note that Baird does not provide any initial or ongoing evaluation, monitoring or review of any such managers or investment products and that the client's decision to select such a manager or investment product is based solely upon the client's review of the manager or investment product.

More specific information about the particular investment strategies and methods of analysis that Baird uses in connection with each Program is further described below.

### **ALIGN Programs**

#### *ALIGN Custom Portfolios*

ALIGN Custom Portfolios involve the use of various different portfolio investment strategies because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's Financial Advisor. Mutual funds and ETPs may be available to clients to pursue an investment objective or implement a customized asset allocation strategy. The mutual funds and ETPs that are generally available for use in connection with the ALIGN Custom Portfolios Program may include funds included in the ALIGN Dynamic Portfolios, ALIGN Strategic Portfolios and ALIGN Tactical Portfolios Programs, which are discussed below, and those funds included on Baird's Recommended Mutual Fund List. A client should ask the client's Financial Advisor for additional information about the investment styles, philosophies, strategies, analyses and techniques the Financial Advisor will use in order to meet the client's objectives.

#### *ALIGN Dynamic Portfolios*

The ALIGN Dynamic Portfolios Program offers model portfolios that have varying strategic and tactical investment strategies. The ALIGN Dynamic Portfolios generally include: (1) a Dynamic Growth Portfolio, which is designed to provide aggressive growth of capital and outperform the broad measure of the domestic and international equity markets over time; (2) a Dynamic Moderate Growth Portfolio, which is designed to provide growth of capital and outperform a broad measure of the domestic

equity markets over time; (3) a Dynamic Balanced Portfolio, which is designed to provide growth of capital and consistent capital appreciation; (4) a Dynamic Conservative Growth Portfolio, which is designed to provide moderate growth of capital and limited current income and consistent capital appreciation; and (5) a Dynamic Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Dynamic Portfolio generally consists of a combination of ALIGN Strategic and ALIGN Tactical Portfolios, which are discussed below, and the mutual funds and ETPs that are available for use in connection with the ALIGN Dynamic Portfolios Program include funds and ETPs available under those Programs.

#### *ALIGN Strategic Portfolios*

The ALIGN Strategic Portfolios Program offers model portfolios that have varying strategic investment strategies, including: (1) an All Growth Portfolio, which is designed to provide aggressive growth of capital; (2) a Capital Growth Portfolio, which is designed to provide growth of capital; (3) a Growth with Income Portfolio, which is designed to provide moderate growth of capital and limited current income; (4) an Income with Growth Portfolio, which is designed to provide current income and some growth; and (5) a Conservative Income Portfolio, which is designed to provide current income. Baird may also offer other model portfolios under the Program from time to time. The ALIGN Strategic Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Each ALIGN Strategic Portfolio provides for specific levels of investment across different asset classes, including equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, mutual funds with fund of hedge fund strategies, and cash. Each ALIGN Strategic Portfolio has different allocations across each asset class, and some Portfolios may have no allocation to one or more asset classes described above.

Each ALIGN Strategic Portfolio uses mutual funds and/or ETFs in order to achieve the model asset allocation. The ALIGN Strategic Portfolios include active, indexed and hybrid options. Active ALIGN Strategic Portfolios primarily consist of actively managed mutual funds; indexed ALIGN Strategic Portfolios primarily consist of mutual funds and passive ETFs that are designed to replicate the performance of different market indices; and hybrid ALIGN Strategic Portfolios primarily consist of both actively managed mutual funds and passive ETFs. Multiple funds may be used for a particular asset class (referred to as a “sleeve”). Certain ALIGN Strategic Portfolio strategies offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide an absolute return. Certain ALIGN Strategic Portfolio Strategies also offer clients the option to allocate a portion of their account to mutual funds and/or ETFs designed to provide diversified yield to the client’s portfolio.

Baird generally seeks mutual funds and ETFs that have investment managers with tenure of at least five (5) years and have underlying investments that adhere to the fund’s market capitalization policy and are consistent with the manager’s stated investment process and philosophy. Baird generally looks for funds that are among the top-performing funds in a style category in terms of risk-adjusted returns or that are managed by individuals or firms that have demonstrated success in other, related asset classes; that have performance histories showing sufficient ability to achieve returns in excess of their respective style index; and that have investment processes, infrastructure, personnel and other resources satisfactory to Baird.

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

Baird’s Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds and ETFs available in the ALIGN Strategic Portfolios Program. In selecting funds, Baird’s Asset Manager Research Department utilizes a quantitative and qualitative evaluation process of the investment managers of such funds. The process Baird uses for selecting and removing funds for the ALIGN Strategic Portfolios Program is similar to the process Baird

uses to select and remove Recommended Managers described under “Portfolio Manager Selection and Evaluation—Selection and Evaluation—Recommended Managers” above, except that the final determination of the funds made available in the Program is subject to the approval of Baird’s ALIGN Oversight Committee. The ALIGN Strategic Portfolios Program may include funds included on Baird’s Recommended Mutual Fund List and funds affiliated with Baird.

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

#### *ALIGN Tactical Portfolios*

The ALIGN Tactical Portfolios Program offers model portfolios that have varying tactical investment strategies, including: (1) a Tactical Equity Portfolio, which is designed to outperform a broad measure of the domestic and international equity markets over time; (2) a Tactical Allocation Portfolio, which is designed to outperform a broad measure of the domestic equity, international equity, and domestic fixed-income markets over time; (3) a Tactical Opportunity Portfolio, which is designed to provide downside protection and consistent capital appreciation over time; and (4) a Tactical Yield Portfolio, which is designed to provide total return and capital preservation with modest price appreciation. Baird may also offer other model portfolios under the Program from time to time.

Each ALIGN Tactical Portfolio provides for specific levels of investment across different asset classes, including styles, capitalizations, sectors, and market segments. Those asset classes may include equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, Alternative Investment Products, and cash. Some Portfolios may have no allocation to one or more asset classes described above. Each ALIGN Tactical Portfolio primarily uses ETFs and ETNs in order to achieve the model asset allocation.

The construction of the ALIGN Tactical Portfolios, including allocation and tactical decisions and the selection of the ETPs for each Tactical Portfolio,

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

Depending on the ALIGN Tactical Portfolio chosen, the ETFs in the ALIGN Tactical Portfolio may consist of funds having various investment objectives and principal strategies, including but not limited to, the following: domestic equities, specific styles, capitalizations and sectors, domestic fixed-income securities, international equities, real estate, currencies, commodities and short domestic equities (i.e., ETFs that have an investment objective to provide returns that are inversely correlated to an equities index).

The ALIGN Tactical Portfolios are actively managed. The Portfolio allocations and the ETPs included in the Program are evaluated on an ongoing basis. Portfolios may be modified or rebalanced and ETPs may be removed or added as Baird determines is appropriate. Given the nature of the investment strategies pursued by the ALIGN Tactical Portfolios, such Portfolios will likely experience relatively high portfolio turnover.

#### *ALIGN UMA Custom Portfolios*

ALIGN UMA Custom Portfolios involve the use of various different portfolio investment strategies

because they are customized for each client. A client's particular investment strategy is typically determined by the client in consultation with the client's Financial Advisor. Mutual funds, ETPs, and SMA Strategies may be available to clients to pursue an investment objective or implement a customized asset allocation strategy. The mutual funds, ETPs, and SMA Strategies that are generally available for use in connection with the ALIGN UMA Custom Portfolios Program may include investment options made available under the ALIGN UMA Select Portfolios Program, which is described below. A client should ask the client's Financial Advisor for additional information about the investment styles, philosophies, strategies, analyses and techniques the Financial Advisor will use in order to meet the client's objectives.

With respect to the ALIGN UMA Custom Portfolios Program, Baird may, in its discretion, permit a client to select a mutual fund, ETP, or SMA Strategy that has not been approved by Baird for inclusion in the ALIGN UMA Select Portfolios Program. If a client selects such an investment, a client should note that the investment selected by the client is not on Baird's Recommended Mutual Fund List, Baird's Recommended Manager List, or any other Baird-recommended product list, and Baird does not recommend or select the investment for the client. Additionally, Baird does not perform any due diligence or ongoing monitoring, evaluation or reviews of any such investment, unless Baird otherwise specifically agrees to do so in writing.

#### *ALIGN UMA Select Portfolios*

The ALIGN UMA Select Portfolios Program offers model portfolios that have varying of investment strategies, including: (1) Growth, which is designed to provide aggressive growth of capital; (2) Capital Growth, which is designed to provide growth of capital; (3) Growth with Income, which is designed to provide moderate growth of capital and limited current income; (4) Income with Growth, which is designed to provide current income and some growth; and (5) Income, which is designed to provide current income. Baird may also offer other investment strategies under the Program from time to time. The ALIGN UMA Select Portfolios Program generally accommodates both taxable and tax-exempt accounts of clients with differing investment objectives and risk tolerances.

Each ALIGN UMA Select Portfolio provides for specific levels of investment across different asset classes, including equity and fixed-income securities, commodities, emerging markets equity securities, global real estate, high-yield fixed-income securities, mutual funds with fund of hedge fund strategies, and cash. Each ALIGN UMA Select Portfolio may have different allocations across each asset class, and some Portfolios may have no allocation to one or more asset classes described above.

Each ALIGN UMA Select Portfolio may use different combinations of mutual funds, ETPs, and/or SMA Strategies in order to achieve the model asset allocation. Certain ALIGN UMA Select Portfolios may use an ALIGN Dynamic, Strategic, or Tactical Portfolio to achieve some or all of the model asset allocation.

The process Baird uses for selecting and removing funds and ETPs for the ALIGN UMA Select Portfolios Program is substantially similar to the process Baird uses to select and remove mutual funds and ETPs in connection with the ALIGN Strategic Portfolio and ALIGN Tactical Portfolio Programs described under “Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—ALIGN Programs” above. The process Baird uses for selecting and removing investment managers providing SMA Strategies under the ALIGN UMA Select Portfolio Program is described under “Portfolio Manager Selection and Evaluation—Selection and Evaluation—ALIGN, PIM and Russell Programs” above. An ALIGN UMA Select Portfolio may include funds included on Baird’s Recommended Mutual Fund List, BRM Strategies, and funds and SMA Strategies offered by managers affiliated with Baird.

The Portfolio asset allocations and the investment options included in the ALIGN UMA Select Program are evaluated on an ongoing basis, generally at least quarterly.

### **Baird Advisory Choice**

When recommending investment products to clients under the Baird Advisory Choice Program, Baird Financial Advisors may use recommended lists made available by Baird’s Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be

“available” for use in its advisory programs. For more information about Baird recommended lists and “available” lists, see “Certain Recommended Lists” and “Certain Available Product Lists” below.

### *Certain Recommended Lists*

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

**Baird Recommended Portfolio.** The objective of the Baird Recommended Portfolio is to outperform the S&P 500 Index by selecting a diversified core portfolio of primarily large cap equities. Baird’s Stock Selection Committee maintains the Baird Recommended Portfolio. The investment philosophy focuses on high quality companies with an emphasis on large cap stocks, as defined by a market capitalization of \$10 billion or greater. The portfolio may contain stocks with a market capitalization of less than \$10 billion, but these stocks will not represent more than 35% of the total portfolio. The portfolio is organized by industry sectors, with the Stock Selection Committee choosing to under- or overweight particular industry sectors (vs. the S&P 500 Index) based on economic analysis and input from Baird’s Investment Policy Committee. Individual stocks are selected with an emphasis on quality companies that Baird believes have strong growth prospects and attractive price-appreciation potential. The portfolio will over- or



under-weight an industry sector relative to the S&P 500 Index based on Baird's view of the current economic outlook and its fundamental analysis. Within a given industry sector, companies are selected with an emphasis on quality and growth. Each stock is also assigned a weighting as a percentage of the portfolio with no one company comprising more than 5% of the entire portfolio. Stocks are sold or positions reduced primarily for three reasons: valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Baird Recommended Portfolio typically holds between 40-55 stocks. The Baird Recommended Portfolio represents a list of stocks only. It is not possible to invest directly in the Portfolio.

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

Baird's Asset Manager Research Department is primarily responsible for selecting and evaluating funds of hedge funds selected for Baird's Recommended Funds of Hedge Fund List. In selecting funds of hedge funds, Baird's Asset Manager Research Department uses a due diligence process with a goal of determining whether the firm has an "edge" that Baird believes will result in favorable fund of hedge fund performance going forward. The process includes reviewing due diligence questionnaires and legal documents (e.g., subscription document, limited partnership agreement, offering memorandum, Form ADV Part 2A Brochures), and completing an onsite review of the fund.

As part of its onsite review, Baird evaluates the fund's processes for: evaluating, hiring and terminating individual hedge funds; constructing a fund of hedge fund portfolio; and managing risk. Baird generally also meets with the fund's compliance personnel to understand their processes for evaluating prospective and current

hedge fund investments from an operational and compliance standpoint. Following the onsite review, an investment thesis is written and presented to Baird's Investment Committee, which determines whether to include a fund of hedge fund on Baird's Recommended Funds of Hedge Fund List.

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

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

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

#### *Certain Available Product Lists*

**Managed Futures.** When making managed futures products available to its clients, Baird generally seeks to identify managed futures products that exhibit stable or growing assets under management and offer strategies that may be

suitable for Baird clients. Baird also considers the principals' management experience, size of the managed futures pool or fund and its sponsor, and historical performance.

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

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

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

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

Structured Products. When determining whether to make a structured product available to Baird clients, Baird reviews the offering documents for the structured product and considers: the size of the issuer and issuer's credit rating, the maturity of the product, how interest is calculated, the

underlying asset category (e.g., a basket of securities or currencies or a market index), applicable caps, barriers, and participation rate, and whether the structured product has principal protection.

Baird tends to favor larger-sized issuers of structured products over smaller-sized issuers and also tends to favor structured products that have shorter maturities, less complex payout structures, underlying assets that are more liquid and/or transparent, and offer principal protection.

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

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

Funds of Private Equity Funds. When making funds of private equity funds available to its clients, Baird generally seeks to identify fund of private equity fund products that have the following traits: a management firm that is registered with the SEC as an investment adviser; stable or growing assets under management; a well-diversified portfolio of private equity funds; and reputable service providers (e.g., auditor, administrator, legal counsel and custodian). In addition, Baird looks for fund of private equity fund products that offer strategies that Baird believes may be suitable for Baird clients. Baird also considers the fund's principals' experience managing a fund of private equity fund and whether they have a network of contacts in the industry.

Baird's Product Management Department along with the Asset Manager Research Department are primarily responsible for selecting and evaluating the funds of private equity funds made available to clients under the Programs. Baird's initial

evaluation of a fund of private equity product and its sponsor includes a review of a questionnaire and legal documents (e.g., subscription documents and agreements, disclosure documents, and offering materials) and a meeting with key personnel in person or via telephone. Baird's Product Strategy Committee determines whether to make a fund of private equity funds product available to Baird clients.

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

Baird may discontinue making a specific fund of private equity fund available for new investments if it experiences a notable change in investment or key personnel, or regulatory problems.

Using the funds of private equity funds that Baird makes available, Baird Financial Advisors will select or replace, or recommend the selection or replacement of, a particular fund of private equity fund based upon each client's particular goals and circumstances.

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

### **Private Investment Management**

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

PIM Managers, as a group, utilize a wide variety of investment styles, philosophies, strategies and techniques, which may change depending upon market conditions. PIM Managers may follow different investing styles, such as, aggressive

growth, growth, moderate growth, growth and income, income, value, and others. The strategies may focus on certain types of investments (e.g., equity securities), market capitalization ranges (e.g., large cap companies), geographic regions or markets (e.g., emerging markets), industries, sectors, credit quality, maturities and durations. A PIM Manager may elect to use one or more model portfolios created by Baird for purposes of managing a client's PIM Account.

When managing client portfolios, PIM Managers may also utilize may use recommended lists made available by Baird's Asset Manager Research Department or other Baird Departments, or they may use lists of investment products that Baird has generally deemed to be "available" for use in its advisory programs. For more information about Baird recommended lists and "available" lists, see "Certain Recommended Lists" and "Certain Available Product Lists" above. A client should ask the client's PIM Manager for additional information about the investment styles, philosophies, strategies, analyses and techniques the PIM Manager will use in order to meet the client's objectives.

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

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

### **Russell Model Strategies**

The Russell Program offers a number of investment strategies through three primary models: a core model (the "Russell Core Model"); a tax-managed model (the "Russell Tax-Managed

Model"); and an enhanced model (the "Russell Enhanced Model"). The Russell Core and Russell Tax-Managed Models offer five style strategies, and the Russell Enhanced Model offers two style strategies (each a "Russell Strategy").

As determined by Russell, each Russell Strategy consists of an allocation to various Russell Funds, which may include equity mutual funds, fixed-income mutual funds and a real estate mutual fund. The Russell Funds employ a "multi-style, multi-manager" approach whereby the assets of the Russell Funds are allocated to different money managers who employ distinct investment styles. For example, a single Russell Fund may consist of six separate money managers; two managers employing a growth investment style; two managers employing a market-oriented style; and two managers employing a value investment style. Assets of a Russell Fund not allocated to a money manager are managed by Russell Investment Management Company, an affiliate of Russell Investment Group. The investment styles of the equity money managers generally include growth, value and market-oriented (i.e., investments across the broad equity market). The investment styles of the real estate money managers generally include global market-oriented, growth, market-oriented and value. The investment styles of the fixed-income money managers generally include full discretionary (i.e., money managers that apply a variety of strategies, including, but not limited to, sector rotation, interest rate, yield curve and duration) and section rotation (i.e., a money manager may identify sectors of the fixed-income market that they believe are undervalued and focus their investments in those sectors, which may differ over time). Russell has the right to engage or terminate a money manager at any time. These money managers may or may not be affiliated with Russell Investment Management Company or Baird. For additional information regarding the characteristics of a Russell Fund, clients should contact their Baird Financial Advisor or review the applicable Russell Fund prospectus.

Russell performs a quantitative and qualitative assessment in the selection of money managers for the Russell Funds. The quantitative review generally includes a performance and investment profile analysis. Russell generally reviews the performance patterns of the money managers relative to historic market trends, comparing the manager's performance to benchmarks and peer

group performance statistics. Russell also may review the money manager's performance in volatile markets for adherence to the money manager's stated investment philosophy and relative performance in such markets. The qualitative review may include a review of the money manager's organization, ownership, leadership, experience, research and development efforts, information management, investment process, stability of personnel, adherence to philosophy and risk management. Based on Russell's quantitative and qualitative assessment, Russell establishes an overall opinion of the money manager.

Each Russell Strategy allocates a portion of the client's Account to a short term component, typically a money market mutual fund. This allocation is typically for the payment of fees and other charges. Russell determines the percent allocated to this short term component; however, Baird determines which short term investment product is used. This short term investment allocation may include investments in money market mutual funds affiliated with Baird.

#### *Russell Core Model Strategies*

The Core Model includes: (1) a Conservative Model Strategy, which is designed to provide low long-term capital appreciation and high current income; (2) a Moderate Model Strategy, which is designed to provide moderate long-term capital appreciation and high current income; (3) a Balanced Model Strategy, which is designed to provide above average capital appreciation and moderate current income; (4) a Growth Model Strategy, which is designed to provide high long-term capital appreciation and low current income; and (5) an Equity Growth Model Strategy, which is designed to provide high long-term capital appreciation. Each Core Model Strategy will have differing allocations across each available Russell Fund, and some Strategies may have no allocation to one or more Russell Funds. The Russell Funds to be actually used and their allocation will depend on the particular Strategy chosen by the client. The Russell Funds to be used for the Core Model Strategies and their allocation across Strategies may change from time to time.

A client's assets invested in a Strategy are subject to rebalancing by Baird at any time if, in Baird's determination, there has been significant drift

from the client's chosen Strategy. Such rebalancing may occur at any time and as often as Baird, in its sole discretion, deems appropriate. Any reallocation to the client's portfolio may result in taxable gains. The client's Account may be rebalanced because of market fluctuation, a change at the mutual fund, a change to the client's circumstances, if the client's cash deposits or withdrawals take the client's portfolio significantly out of balance relative to the recommended allocation or for any other reason as Baird so determines.

#### *Russell Tax-Managed Model Strategies*

The Tax-Managed Model generally includes a Tax-Managed Conservative Model Strategy; a Tax-Managed Moderate Model Strategy; a Tax-Managed Balanced Model Strategy; a Tax-Managed Growth Model Strategy; and a Tax-Managed Equity Growth Strategy. Each Tax-Managed Model has an investment style similar to its counterpart Core Model Strategy discussed above, except that the Tax-Managed Model Strategies place a higher priority on managing tax liability. Each Tax-Managed Model Strategy will have differing allocations across each available Russell Fund, and some Strategies may have no allocation to one or more Russell Funds. The Russell Funds to be actually used and their allocation will depend on the particular Strategy chosen by the client. The Russell Funds to be used for the Core Model Strategies and their allocation across Strategies may change from time to time.

Not all Russell Tax-Managed Model Strategies will use all of the available Russell Funds, and the Russell Funds to be used for the Russell Tax-Managed Model Strategies may change from time to time.

#### *Russell Enhanced Model Strategies*

The Enhanced Model Strategies platform offers two base strategies: an Enhanced Balanced Model Strategy (the "Balanced Strategy"), which is designed to provide above average capital appreciation and moderate current income; and an Enhanced Growth Model Strategy (the "Growth Strategy"), which is designed to provide high long-term capital appreciation and low current income (each a "Strategic Asset Allocation" or "SAA"). The Russell Enhanced Model Strategies represent target allocations of Russell Funds. Russell uses a multi-asset, multi-style and multi-

manager approach to the construction and management of its investment portfolios. Assets are managed by multiple money management firms that Russell researches, hires, monitors and terminates on an ongoing basis. Each Strategic Asset Allocation has a different risk/return composition. For example, the Balanced Strategy may have a smaller percentage allocated to the Russell equity mutual funds as compared to the Growth Strategy.

The Russell Enhanced Model Strategies platform uses Russell's Enhanced Asset Allocation ("EAA") capability to compare five pairs of asset classes to identify short- or medium-term opportunities. This information is used to temporarily change the composition of, or "tilt", a portfolio's risk exposure from its long term "default" Strategic Asset Allocation in response to changes in expected returns. EAA tilts are applied at a broad asset class level (not sector-level). Currently, the asset class pairs Russell monitors for the United States retail market are: U.S. Bonds vs. U.S. Large Cap Equities; U.S. Large Cap Equities vs. U.S. Small Cap Equities; U.S. Bonds vs. REITs; U.S. Large Cap Equities vs. REITs; and U.S. Large Cap Equities vs. non-U.S. equities. As new modeling capabilities are developed or Strategic Asset Allocations change, additional asset class pair comparisons may be considered and implemented by Russell. EAA strategy is based on an assumption that the relative valuation of asset classes tends to revert to their historical averages. The time period of this reversion is expected to vary and is not predicted by the EAA strategy. The EAA strategy may underperform relative to a Strategic Asset Allocation portfolio.

Relative valuation of asset classes used in the Strategic Asset Allocation models will be assessed periodically by Russell. Allocations reflecting any EAA tilts to a Strategic Asset Allocation generally will not change more frequently than quarterly. Generally, the maximum tilt to a Strategic Asset Allocation will not exceed 20%; however, the tilt may be larger in periods of low market volatility, when multiple models sharing an asset class each contribute to the tilt of the same asset class or other times as determined by Russell or Baird.

Russell Enhanced Model Strategies may not take into account all of the variables that could affect the outcome. Asset class valuation models aim to identify relative mispricing of asset classes. These models are based on the assumption that long-



term historical relationships between asset classes will continue. If those relationships change, the model may identify a mispricing opportunity when in fact there is a structural shift in the long-term relationship. It is possible that some EAA signals result in asset class tilts in opposite direction relative to the tilts in the underlying funds resulting from active management. EAA is not designed to protect portfolios in down markets. The Russell Strategies do not take into account tax consequences of the EAA tilt implementation.

#### *Implementation by Baird*

At Baird's discretion, Baird will implement the changes proposed by Russell. However, Baird may implement a Russell Strategy differently than proposed by Russell or may sell the client's Russell Funds if Baird determines such action to be necessary and in the client's best interest.

Clients should contact their Baird Financial Advisor with any questions regarding the Russell Strategies.

#### **Principal Program Risks**

Risk is inherent in any investment product and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Also, a client's Account value may fluctuate, sometimes dramatically, depending upon the nature of the client's investments, market conditions and other factors. By participating in a Program, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by Program and investment style or strategy, and may or may not apply to a client. Clients should not pursue a strategy or invest in an investment product unless they are prepared to accept the associated risks. Clients are encouraged to discuss with their Financial Advisor the risks that apply to them. A client should also review the prospectus or other disclosure document for any security or other investment product in which the client invests, as it will contain important information about the risks associated with investing in such security or other investment product.

General risks of the Programs include the following:

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

#### **Management and Securities Selection Risks.**

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

#### **Investment Objective and Asset Allocation Risks.**

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

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

discuss with their Financial Advisor the conflicts of interest risks that may apply to them.

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

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

**Common Stock Risks.** Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. These investor perceptions are based on various and unpredictable factors including: expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic and banking crises. Holders of common stocks are generally subject to greater risk than holders of preferred stocks and debt obligations of the same issuer because common stockholders generally have inferior rights to receive payments from issuers in comparison with the rights of preferred stockholders, bondholders and other creditors.

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

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

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

**Investment Fund Purchase and Redemption Risks.** From time to time Baird, a PIM Manager, or an investment manager may decide to add or remove an investment fund to or from an investment strategy or Program. In addition, they may decide to increase or decrease their clients' account allocations to an investment fund. In general, they will place transactions for all affected Accounts at one time, which may cause the fund to experience relatively large purchases or redemptions. Significant purchases and redemptions may adversely affect the fund in question and consequently, a client's investment. An investment fund receiving large purchase orders may have difficulty investing the cash, which may have a negative impact on the fund's performance. An investment fund experiencing large redemption orders may have to sell portfolio securities, which may negatively impact performance and which may have negative tax consequences. Large redemptions could also reduce liquidity as the fund may suspend or delay redemptions. These risks are more pronounced with respect to newer investment funds and those with smaller asset sizes.

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

experience, financial resources and product diversification of larger companies, making them more susceptible to market pressures and business failure.

**Foreign Issuer Risks.** Securities of foreign issuers and ADRs are subject to certain inherent risks, such as political or economic instability of the country of issue, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. Such securities may also be subject to greater fluctuations in price than securities of domestic corporations. In addition, there may be less publicly available information about a foreign company than about a domestic company. Foreign companies generally are not subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to domestic companies. With respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, or diplomatic developments, which could affect investment in those countries.

**Government Obligation Risks.** Client assets may be invested in securities issued, sponsored or guaranteed by the U.S. Government, its agencies and instrumentalities. However, no assurance can be given that the U.S. Government will provide financial support to U.S. Government-sponsored agencies or instrumentalities where it is not obligated to do so by law. For instance, securities issued by the Government National Mortgage Association ("Ginnie Mae") are supported by the full faith and credit of the United States. Securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") have historically been supported only by the discretionary authority of the U.S. Government. Securities issued by the Student Loan Marketing Association ("Sallie Mae") are supported only by the credit of that agency. While the U.S. Government provides financial support to various U.S. Government-sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.

**Money Market Fund Risks.** An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds typically seek to preserve the value of an investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund

value per share fall. In some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund would not be available for purchases or withdrawals.

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

**Quantitative Investment Risks.** Some investment managers may employ quantitative investment methodologies or processes to make investment decisions. The success of the quantitative investment methodologies and processes used by investment managers depends on the analyses and assessments that were used in developing such methodologies and processes, as well as on the accuracy and reliability of models and data provided by third parties. Incorrect analyses and assessments or inaccurate or incomplete models and data would adversely affect performance. Additionally, and Outside Manager's methodologies and processes are predictive in nature, based on historical outcomes and trends. Certain low-probability events or factors that are assigned little weight may occur or prove to be more likely or may have more relevance than expected, for short or extended periods of time, which may adversely affect the portfolios generated by the Outside Manager's quantitative methodologies and processes. It is also possible that prices of securities may move in directions that were not predicted by the Outside

Manager's quantitative methodologies and processes or may fail to move as much as predicted, for reasons that were not expected. There can be no assurance that these methodologies will enable a client to achieve the client's objective.

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

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

**Asset-Backed Securities Risks.** Asset-backed securities are securities secured or backed by mortgage loans, student loans, automobile loans, installment sale contracts, credit card receivables or other assets and are issued by entities such as commercial banks, trusts, financial companies, finance subsidiaries of industrial companies, savings and loan associations, mortgage banks and investment banks. These securities represent interests in pools of assets in which periodic payments of interest and/or principal on the securities are made, thus, in effect passing through periodic payments made by the individual borrowers on the assets that underlie the securities, net of any fees paid to the issuer or guarantor of the securities. Asset-backed securities are issued in multiple classes (or tranches) and their relative payment rights may

be structured in many ways. Asset-backed securities may be subject to greater risk of default during periods of economic downturn than other instruments. Asset-backed securities are also more sensitive to interest rate risk than other types of fixed-income securities. Modest movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain types of these securities. Asset-backed securities are subject to a number of other risks, including, but not limited to, market and valuation risks, liquidity risk, and prepayment risk.

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

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

**Options, Futures, and Short Sales Risks.** The strategy used for a client's Account may involve the use of options, futures, short sales or other derivative instruments. The values of these investments are derived from an underlying asset and may fluctuate more than other investments, which may result in an unexpected decline in the Account's value. The use of these strategies is not appropriate for many clients because they involve special risks. A client should not engage in these strategies unless the client is prepared to

experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value.

#### **Hedge Funds and Funds of Hedge Fund**

**Risks.** Hedge fund and funds of hedge funds are complex investments that have unique tax characteristics and significant, special risks. As a result, they may not be suitable for all clients. A client should consult with a tax advisor before investing in these funds. Investment advisers or managers for these funds often receive a management fee plus incentive or performance-based compensation. Investing in these funds involves special risks, including, but not limited to, portfolio investment risk, leverage risk, market and valuation risk, conflicts of interest risk, price volatility risk, liquidity risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

#### **Private Equity Fund and Funds of Private**

**Equity Fund Risks.** Private equity funds and funds of private equity funds are complex investments that have unique tax characteristics and significant, special risks. As a result, they may not be suitable for all clients. A client should consult with a tax advisor before investing in these funds. Investment advisers or managers for these funds often receive a management fee plus incentive or performance-based compensation. Investing in these funds involves special risks, including, but not limited to, portfolio investment risk, leverage risk, market and valuation risk, conflicts of interest risk, price volatility risk, liquidity risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Exchange Traded Notes Risks.** ETNs are complex investments and involve significant, special risks. As a result, ETNs may not be suitable for all clients. An ETN is a type of debt security that trades on an exchange and provides a return linked to the performance of an

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

**Managed Futures Risks.** Managed futures can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, they may not be suitable for all clients. Managed futures are commodity pools (typically structured as investment partnerships) managed by a futures trading adviser that trade speculatively in various commodities and related futures contracts, spot and forward contracts, options, swaps and other derivative instruments on U.S. and foreign exchanges and markets. Sponsors or managers for these pools often receive a management fee plus incentive or performance-based compensation. The types of commodities in which managed futures invest may include interest rates, currencies, stock, bond and other indices, and physical commodities such as agricultural



commodities, metals and energy products. Managed futures often employ computerized, systematic and often proprietary trading models and systems. Investing in managed futures involves special risks, including, but not limited to, portfolio investment risk, commodity price risk, market risk, conflicts of interest risk, price volatility risk, liquidity risk, interest rate risk, dependence on key personnel, and structural and regulatory risk. Clients investing in these funds should have a high tolerance for risk, including the willingness and ability to accept significant price volatility, potential lack of liquidity and potential loss of their investment.

**Leveraged or Inverse Fund Risks.** Leveraged funds and inverse funds are complex investments and involve significant, special risks. As a result, they may not be suitable for all clients. Leveraged or inverse funds are ETNs, ETFs or open-end mutual funds seeking returns that are the opposite of the performance of an index or other benchmark on a daily basis. Because of the effects of compounding, volatility and the fund expenses, the returns of a leveraged or inverse fund over longer periods of time are not likely to track the opposite of the performance of the fund's underlying index, and may in fact be significantly different. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of short sales, swap contracts, futures, options and other derivatives with economic characteristics that are designed to perform opposite to the securities in the underlying index. Leveraged and inverse funds have an increased risk of loss compared to other funds, and a client should not invest in these securities unless the client is prepared to experience significant losses in the value of the client's Account

**Structured Products Risks.** Structured products are complex investments and involve significant, special risks. As a result, they may not be suitable for all clients. Structured products are a hybrid between two asset classes typically issued in the form of a CD or note but instead of having a pre-determined rate of interest, the return is linked to the performance of an underlying asset class, such as single security or basket or index of securities; a commodity or basket or index of commodities, including futures; and/or a foreign currency or basket of foreign currencies. Investing in structured products involves special risks, including, but not limited to, credit risk,

market risk, liquidity risk, commodity price risk, and conflicts of interest risk.

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

**Business Development Company Risks.** BDCs can be speculative investments because of the types of investments they make and involve significant, special risks. As a result, BDC investments may not be suitable for all clients. A BDC is typically a domestic, closed-end investment company that is operated for the

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

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

**Recent Market Events.** U.S. and international markets have experienced extreme price

volatility, reduced liquidity and valuation difficulties in recent years. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on a client's Account.

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

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

### **Voting Client Securities**

#### ***Baird Advisory Choice Program and Other Non-Discretionary Accounts***

Under the Baird Advisory Choice Program and with respect to any other Accounts over which the client retains discretionary investment authority, a client retains the right to vote proxies with respect to the securities held in such Accounts. Accordingly, the client is responsible for voting proxies and otherwise addressing all matters submitted for consideration by security holders, and Baird is under no obligation to take any action or render any advice regarding such matters. The client's Baird Financial Advisor may, upon the client's request, provide advice on proxy voting or what other action the client could take.

#### ***ALIGN UMA Programs and Separately Managed Accounts***

With respect to the ALIGN UMA Select Portfolios, ALIGN UMA Custom Portfolios, BIM Portfolios, Client Selected Managers, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or the client may delegate such right to the Overlay Manager or investment manager selected to manage the client's Account, as applicable. A client may select

either option by making the appropriate election in the client's advisory agreement (or in the case of a dual contract arrangement under the CSM Service, by providing proper instructions to the third party investment manager directly). For information about a manager's voting policies and procedures, clients should review the manager's Form ADV Part 2A Brochure. Except to the extent client has delegated proxy voting authority to BIM, Baird has no authority, direct or implicit, and accepts no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in a client's SMA.

### ***Discretionary and Other ALIGN Programs***

Under the ALIGN Custom Portfolios, ALIGN Dynamic Portfolios, ALIGN Strategic Portfolios, ALIGN Tactical Portfolios, PIM, and Russell Programs, a client may retain the right to vote proxies with respect to the securities held in the client's Account, or a client may delegate such right to Baird.

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

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

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

In situations in which a client has delegated to Baird voting authority with respect to securities in the client's Account, Baird will monitor corporate events and vote proxies in a manner that Baird

believes is consistent with the client's best interests. Baird utilizes Institutional Shareholder Services ("ISS"), an independent provider of proxy voting and corporate governance services, to analyze proxy materials and votes and make independent voting recommendations. ISS provides proxy voting guidelines regarding its position on various matters presented by companies to their shareholders for consideration. These guidelines provide an indication as to how Baird will actually vote on particular issues. Baird will generally vote proxies for client accounts based on the recommendations of ISS; however, the client's Financial Advisor may suggest voting against ISS's recommendations when the Financial Advisor determines it to be in the clients' best interests to do so. The Financial Advisor also may suggest how to vote on a particular matter not addressed by ISS. When a Financial Advisor suggests voting against ISS's recommendations on a particular matter or suggests how to vote on a matter not addressed by ISS, the Financial Advisor will bring the matter to the attention of Baird's Proxy Voting Committee, which will then be responsible for determining how the vote will be cast.

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

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

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

Generally, neither Baird nor any third party investment adviser or manager responsible for managing all or a portion of the assets in a client's Account will render advice or take action on a client's behalf with respect to securities that are or were held in the client's Account, or the issuers thereof, which go into default or become the subject of legal proceedings, such as class action claims, defaults or bankruptcies. Also, they may or may not vote or advise clients on other corporate actions, like tender offers, that are not solicited by a proxy statement. At a client's request, Baird will forward information that Baird actually receives to the client.

### ***Providing Baird Voting Instructions***

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

### **Client Information Provided to Portfolio Managers**

Under the ALIGN UMA, Recommended Managers, Referred Managers, and Riverfront Managed Portfolios Programs, and the CSM Service, Baird provides certain information about the client to the Overlay Manager or investment manager managing the client's Account, as applicable, when the client establishes the advisory relationship with such manager. Such information includes the client's investment objectives and risk tolerance. Under the Recommended Managers, Referred Managers and Riverfront

Managers Programs, Baird also provides to the investment manager a client's age, investment timeframe, and liquidity requirements.

Unless specifically requested to do so by a client, Baird does not generally provide such information about the client on an ongoing basis to the Overlay Manager, or other investment manager managing the client's Account.

Baird also generally provides the following to the client's manager unless otherwise instructed by a client: trade confirmations, account statements, and access to client's Account on Baird's system.

### **Client Contact with Portfolio Managers**

Baird does not place any restrictions upon clients who wish to contact or consult with third party investment managers managing their accounts. Baird encourages clients to discuss their accounts with their Baird Financial Advisor.

### **Additional Information**

#### **Disciplinary Information**

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

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

#### **Other Financial Industry Activities and Affiliations**

Baird is registered with the SEC as a broker-dealer under the Exchange Act and as an investment adviser under the Advisers Act. Baird

is engaged in a broad range of activities, including: individual and institutional brokerage transactions; origination of, and participation in, underwritings of corporate and municipal securities; market making and trading activities in corporate securities and municipal and governmental bonds; distribution of mutual fund shares; option transactions; and research services.

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

Baird is affiliated with certain investment advisors and investment products that are identified below, including certain mutual funds, ETFs and private equity funds. From time to time, Baird and its Financial Advisors may recommend that clients invest assets with these investment advisors or in investment products that are affiliated with Baird. Such recommendation of affiliated advisors or investment products creates a potential conflict of interest because Baird, its Financial Advisors and/or its affiliates may receive higher aggregate compensation if clients retain affiliated advisors or invest in affiliated investment products instead of retaining unaffiliated advisors or investing in unaffiliated investment products. However, when acting as fiduciary investment advisers, Baird and its Financial Advisors will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products. *However, a client should note that certain Programs and certain categories of investment products made available to clients only offer advisors or investment products that are affiliated with Baird. In those cases, Baird and its Financial Advisors do not impose the same criteria or level of review.*

#### **Other Investment Management Departments**

Baird and its Financial Advisors may, from time to time refer clients to Baird Advisors, BIM, or Baird Public Investment Advisors, 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. Baird Financial Advisors may have an incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.

BIM acts as investment manager to clients pursuing the BIM Strategies under the BIM Portfolios Program. Certain investment strategies offered by BIM have been selected by Baird for inclusion in Baird's Recommended Managers Program and on Baird's Recommended Managers List. Baird has a financial incentive to favor BIM because Baird receives more compensation if BIM manages a client's Account rather than other unaffiliated managers.

#### **Certain Affiliations**

##### **Affiliated Investment Advisors**

Baird is affiliated, and may be deemed to be under common control, with BKG by virtue of their common indirect ownership by BFG. BKG acts as investment manager to clients pursuing certain Other Manager Strategies under the BIM Portfolios Program. *Due to its affiliation with BKG, Baird has a financial incentive to favor BKG investment products and services.*

BKG also provides research to clients. BKG has agreed to provide research to Baird's Institutional Equity Services Department ("IES") Department. Baird's IES Department, in turn, distributes research to certain of its institutional clients. BKG receives a fee from Baird for providing that research. Additional information about BKG is available BKG's Brochure.

Baird is affiliated, and may be deemed to be under common control, with Riverfront Investment Group, LLC ("Riverfront") by virtue of their common indirect ownership by BFG. Riverfront is an investment advisor that is based in Richmond, Virginia. Baird is not involved in the day-to-day management of Riverfront or the investment decisions made by Riverfront for the accounts of Riverfront's clients.

Riverfront provides investment management services under the Riverfront Managed Portfolios Program. Certain Riverfront investment products and services have been selected by Baird for inclusion in the ALIGN UMA Select Portfolios Program and are made available to clients under



other Programs. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor Riverfront investment products and services.*

### **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 certain of the BIM 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).

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

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

Currently, Baird Advisors serves as investment sub-adviser to a mutual fund series of the Bridge Builder Trust. Additional information about that mutual fund, including information relating to the compensation paid to Baird by that fund for investment management services, is available in the fund's prospectus and statement of additional information.

Riverfront acts as investment sub-adviser for certain mutual fund series of the Financial Investors Trust and certain ETFs that are part of the ALPS ETF Trust. Additional information about those mutual funds and ETFs, including information relating to the compensation paid to Riverfront by those funds for investment management services, is available in each fund's prospectus and statement of additional information. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor funds managed by Riverfront.*

### **Affiliated Private Equity Funds**

Baird is also engaged in a private equity business through Baird Capital ("Baird Capital"), Baird's global private equity group. Baird and its Financial Advisors may refer clients to Baird Capital. Baird Capital makes venture capital, growth equity and buyout investments in the business services, manufactured products and healthcare/life sciences sectors. Baird, in combination with certain executive officers, may be deemed to control Baird Venture Partners Management Company I, LLC ("BVP I"); Baird Venture Partners Management Company III, LLC ("BVP III"); Baird Capital Partners Management Company III, LLC ("BCP III"); Baird Capital Partners Management Company IV, LLC ("BCP IV"); Baird Capital Partners Management Company V, LLC ("BCP V"); Baird Asia Partners Management Company I, LLC ("BAP I"); Baird Capital Partners Asia Management I Limited Partnership ("BCPA I"); and Baird Capital Partners Europe Limited. BVP I and BVP III participate in venture capital opportunities by investing in equity securities of early-to-growth stage companies. BVP I is the general partner of the three limited partnerships and is an investment adviser registered with the SEC. BVP III is the general partner of three limited partnerships and is an investment adviser registered with the SEC. BCP III, BCP IV and BCP V invest in equity securities of growing middle market companies issued in management buyouts, recapitalizations, industry consolidations and growth equity transactions. BCP III is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP IV is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BCP V is the general partner of three side-by-side limited partnerships and is an investment adviser registered with the SEC. BAP I has

organized a limited partnership to invest in growth equity and change of control investments in companies that would benefit from accessing manufacturing or distribution capabilities in China. BAP I is the general partner of one limited partnership and is an investment adviser registered with the SEC. BCPA I makes growth equity investments in smaller, high potential companies with substantial operations and growth opportunities in China. BCPA I is the general partner of three limited partnerships and is an investment adviser registered with the SEC. Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Services Authority and is the manager of certain partnerships formed to acquire businesses and make investments across a range of industry sectors.

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

### ***Other Financial Industry Activities***

Baird has business relationships with many investment managers, including those participating in the Programs, separate and apart from the Programs. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for mutual funds or money market funds they advise. Investment management firms may also select Baird to provide custody, research or other services. Baird receives compensation for those services. This may create an incentive for Baird to favor the services of such investment management firms or their products, including the mutual funds or money market funds advised by such investment management firms. However, Baird is a fiduciary that is required to act in the best interest of advisory clients when selecting or recommending investment management firms or their investment products to such clients. Baird addresses this potential conflict through disclosure in this Brochure. Further, Baird does not consider the extent to which an investment management firm directs or is expected to direct trades to Baird for execution when considering

the eligibility of an investment management firm for Baird's advisory programs (including when Baird constructs its ALIGN Programs, Recommended Managers Program or Recommended Mutual Fund List). In addition, investment management firms are, absent client direction to the contrary, obligated at all times to retain the broker or dealer providing the client best execution. In addition, mutual fund companies are prohibited from considering Baird's efforts in marketing and selling their funds when selecting Baird for executing portfolio trades for the funds. To learn more about how a mutual fund company selects brokerage firms for trade execution, a client should consult the fund's statement of additional information, available from each fund.

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

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

#### ***Code of Ethics***

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

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

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

### ***Participation or Interest in Client Transactions***

#### **Broker-Dealer and Related Activities**

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

Baird may buy or sell securities for its own account, or may act as broker or agent for other Baird clients, including other advisory clients. Baird and its affiliates may give advice and take action in the performance of their duties to a client that may differ from advice given, or in the timing and nature of action taken, with respect to its own account or that of another client. Baird may also engage in agency cross transactions and principal transactions with clients as further described under "Services, Fees and Compensation—Additional Program Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

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

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

The foregoing activities could create a conflict of interest with clients. Baird addresses these potential conflicts through disclosure in this Brochure and by adopting internal policies and procedures for Baird and its associates that

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

### **Investment Product Selling and Servicing**

#### *Mutual Funds*

Distribution and Shareholder Servicing Fees. Baird and its Financial Advisors provide certain distribution and other shareholder-related services to mutual funds and their vendors with respect to Baird clients that hold shares of such mutual funds in their accounts. Baird and its Financial Advisors may receive distribution and shareholder servicing fees from those funds out of their 12b-1 plans ("12b-1 fees") on an ongoing basis as compensation for the services provided. The 12b-1 fees paid by a mutual fund are disclosed in the mutual fund's prospectus.

If Baird receives 12b-1 fees from a fund with respect to a client's mutual fund investment in the client's Account and the client is paying an asset-based Program Fee to Baird on such investment, Baird rebates such 12b-1 fees to the client's Account, except for any non-Retirement Account participating in the PIM Program. Accordingly, the receipt of these fees provides Baird and PIM Managers an incentive with respect to non-Retirement Accounts participating in the PIM Program to favor mutual funds over other investment products, or to favor mutual funds that offer 12b-1 fees greater than other funds. If any rebated fees remain in a client's Account at the time of billing, those rebated amounts will be included in the Account assets subject to the Program Fee.

Marketing and Other Financial Support. In addition to 12b-1 fees, Baird receives financial support from the sponsors of certain mutual funds included on Baird's Mutual Fund Leaders List. Baird also receives financial support from

sponsors of certain money market mutual funds that Baird makes available to its clients. Financial support is not paid by sponsors of mutual fund companies on mutual fund assets held in the 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 Baird Financial Advisors and other Baird associates about the funds offered by the fund company, due diligence on the funds and marketing support.

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

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

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

Networking Fees. Baird receives compensation from certain mutual funds in consideration for

recordkeeping, sub-transfer agency and related services that it provides to those funds. While this may provide Baird an incentive to favor funds paying higher fees, these fees are not paid to Baird Financial Advisors, and the compensation that Baird pays to Baird Financial Advisors is not tied to such fees.

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

If Baird receives 12b-1 fees from Schwab with respect to a mutual fund investment in a client's Account and client is paying an asset-based Program Fee to Baird on such investment, Baird rebates such 12b-1 fees to the client's Account, except for any non-Retirement Account participating in the PIM Program. Accordingly, the receipt of these fees may provide Baird and PIM Managers an incentive with respect to non-Retirement Accounts participating in the PIM Program to favor funds that provide higher compensation. If any rebated fees remain in a client's Account at the time of billing, those rebated amounts will be included in the Account assets subject to the Program Fee.

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

### *Unit Investment Trusts*

Baird may receive additional compensation related to the sale of shares of UITs. Sponsors of UITs typically make marketing or concession payments to the firms that sell their UITs, including Baird. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during a particular period. That percentage typically increases as higher sales volume levels are achieved. Descriptions of these additional payments are provided in a UIT's prospectus. The marketing and concession payments that Baird receives from UIT sponsors are not paid to Baird Financial Advisors, and the compensation that Baird pays to its Financial Advisors is not tied to such payments.

### *Alternative Investment Products*

Baird and its Financial Advisors may receive compensation related to the sale of Alternative Investment Products or the servicing of client accounts that hold those products. If an Alternative Investment Product is registered as an investment company (that is, a mutual fund), Baird and its Financial Advisors may receive compensation described in the section entitled "Mutual Funds" above.

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

### *Annuities and Insurance Products*

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

In addition to the compensation described above, Baird may receive additional financial support from the insurance companies of certain products



that it sells for training and educating Financial Advisors. This support, which varies from insurance company to insurance company, is commonly referred to as “marketing support” payments. Receipt of marketing support payments may provide Baird an incentive to favor insurance companies that make such payments over insurance companies that do not. However, Baird does not consider the receipt of marketing support payments in compiling its “Baird Focus List” of insurance companies.

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

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

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

## **Other Interests in Client Transactions**

### *Cash Sweep Program*

In addition to the asset-based Program 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 certain administrative, accounting and other services that Baird provides to the bank or fund. Through the Money Market Fund Option, Baird receives compensation from the money market mutual funds and their sponsors. This compensation is further described in the section entitled “Participation or Interest in Client Transactions—Investment Product Selling and Servicing—Mutual Funds” above. Baird may waive receipt of any or all of this compensation. Baird generally shares a portion of the benefits it receives from the Cash Sweep Program with its Financial Advisors. The PrivateBank and Trust Company may from time to time hold client deposits under the Bank Sweep Option. Baird has an ownership interest in The PrivateBancorp, the parent company of the PrivateBank and Trust Company. The compensation that Baird and its Financial Advisors receive from the Bank Sweep Option and the Money Market Option gives them a financial incentive to recommend that clients invest cash balances in the particular sweep options included in the Cash Sweep Program. More detailed information about the Cash Sweep Program and the compensation Baird and its Financial Advisors receive is available on Baird’s website at [www.rwbaird.com/disclosures](http://www.rwbaird.com/disclosures).

### *Investment Banking and Public Finance Activities*

Through its Investment Banking and Public Finance Departments, Baird provides investment advisory, securities underwriting and related investment banking services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Baird Financial Advisors may also receive a selling concession or other incentive on the sale to clients of securities that Baird underwrites. In addition, Baird Financial Advisors who refer securities underwriting or other business opportunities to the Investment Banking or Public Finance Departments are eligible for referral compensation from Baird that is based upon, among other factors, the compensation and fees Baird receives. Baird and its Financial Advisors may, therefore, have an incentive to favor the securities of issuers for which Baird

provides such services over the securities of issuers for which Baird does not provide such services. However, Baird and its Financial Advisors will only recommend such securities to an advisory client when they believe it is in a client's best interest to do so. Also, in accordance with applicable law and Baird's policies, any securities underwritten by Baird will be sold to a client by Baird in a principal capacity only if the client consents to the transaction in writing and Baird has provided the client with all material information regarding Baird's or the client's Financial Advisor's interest in the transaction. For more information, please see "Services, Fees and Compensation—Additional Program Information—Trading for Client Accounts—Trade Execution Services Performed by Baird" above.

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

#### *Research Activities*

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

#### *Trust Services Arrangements*

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

#### *Margin Loans*

Baird generally receives margin interest, administrative fees and other compensation in addition to the Program Fee when a client obtains margin loans from Baird. If Baird extends a margin loan to a client, the costs incurred by the client, as well as the compensation received by Baird and the client's Financial Advisor, will generally increase as the size of the outstanding margin loan increases. As a result of the foregoing, Baird and the client's Financial Advisor may have a financial incentive to use, or recommend the use of, strategies using margin or to increase, or recommend the increase of, margin loans.

#### *Lending Arrangements*

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

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

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

Baird and its Financial Advisors likely will receive higher overall compensation from advisory clients than from brokerage clients. Baird also periodically incentivizes Baird Financial Advisors and other Baird associates to recommend advisory products and services to a client and to increase the asset levels in a client's Accounts. Baird Financial Advisors and other Baird associates thus may have a financial incentive to provide investment advice based upon the compensation received or to recommend or invest a client's Account in riskier or more speculative

products than would be the case in the absence of such arrangements. Certain client accounts managed by Baird have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, Baird and its Financial Advisors may have an incentive to favor client accounts that generate a higher level of compensation.

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

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

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

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

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

*client unless Baird may not keep such compensation under applicable law or regulation.*

## **Review of Accounts**

### **Client Account Review**

Client accounts are monitored on an ongoing basis by the client's Financial Advisor and are subject to review by the Baird Branch Office Manager (or his or her designee) responsible for supervising the client's Financial Advisor. A client's Baird Financial Advisor generally reviews the performance of the client's Account at least annually. However, the client's Financial Advisor may not review the performance of a client's SMAs managed by third party investment managers under the Client Selected Managers or Referred Managers Services. The Baird Branch Office Manager (or his or her designee) responsible for supervising a client's Financial Advisor is required to review the client's Account's daily trading activity. With respect to the PIM Program, the Baird Branch Office Manager (or his or her designee) is also required to perform a quarterly review of his or her branch's PIM Accounts, focusing on verifying that the PIM Manager's composites of client accounts are generally being managed in accordance with the PIM Manager's investment philosophy statement and attempting to ascertain whether client accounts within each composite are being treated equitably.

### **Account Statements and Performance Reports**

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.

A client's Baird Financial Advisor will provide the client with a written report on the client's Account's performance as often as the client and the Financial Advisor may from time to time mutually agree. However, PIM Managers are generally required to provide a written performance report to their PIM clients at least quarterly. Performance reporting may not be available for Account assets that are not custodied at Baird. Baird may change or discontinue performance reporting to a client at any time for any reason upon notice.

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

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

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

The benchmarks used by Baird with respect to a client's SMA may differ from the benchmarks used by the manager of the client's SMA. As a result, the performance comparisons in Baird's performance reports may differ from reports provided to clients directly by the investment manager for the client's SMA.

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

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

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

If a client has assets held by a third party custodian, the prices shown on a client's Account statements provided by the custodian could be different from the prices shown on statements and reports provided by Baird. See "Services, Fees and Compensation—Additional Program Information—Custody Services" above for more information.

### Client Referrals and Other Compensation

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

Baird and its affiliates and associates may receive certain economic benefits in connection with providing advisory services to clients, which are described in the sections entitled "Services, Fees and Compensation", "Account Requirements and



Types of Clients”, “Additional Information—Other Financial Industry Activities and Affiliations” and “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” above.

### Financial Information

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

### Special Considerations for Retirement Accounts

Each Retirement Account Fiduciary acting on behalf of the client understands that Baird may invest for the client, or recommend that the client invest in, affiliated investment products and that Baird and its affiliates may receive fees or other compensation related to such investments made by the client. Each Retirement Account Fiduciary acting on behalf of the client understands that when Baird invests with discretion the assets of a Retirement Account in an affiliated investment product that pays investment advisory fees to Baird or any of its affiliates, including in connection with any cash sweep services, Baird and its affiliates may receive such investment advisory fees in accordance with the terms of Department of Labor (“DOL”) Prohibited Transaction Exemption (“PTE”) 77-4, and, as required thereby, Baird will waive its asset-based Program Fees on that portion of the assets invested in the affiliated investment product for such period of time so invested or Baird will offset the investment advisory fees received by Baird or any of its affiliates from the affiliated investment product against the asset-based Program Fee that Baird charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, each such client and Retirement Account Fiduciary acting on behalf of the client acknowledge in the client’s advisory agreement that: (i) the investment in affiliated investment products for the client’s Account is appropriate because of, among other things, the investment goals, redeemability/liquidity, and diversification of those products; (ii) subject to terms of a Program, all assets of the client’s Account may be

invested in one or more of the affiliated investment products; (iii) the client received prospectuses or other disclosure documents for the affiliated investment products that may be used in connection with the Account, each of which include a summary of all fees that may be paid by the affiliated investment products to Baird or its affiliates; and (iv) the client received information concerning the nature and extent of any differential between the rate of such affiliated investment products fees and the Program Fees payable by the client. The differential between the fees to be charged by Baird for the investment advisory services it provides to the client and, if applicable, the investment advisory and other similar fees paid by the affiliated investment products to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment products is the difference between the Program Fee disclosed in the client’s advisory agreement and the applicable investment management, investment advisory and other similar fees detailed in the section entitled “Additional Information—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions” above and/or in the relevant prospectus or other offering document for the affiliated investment product.

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

If a client’s Account is a Retirement Account and if the client has selected an investment manager and/or product affiliated with Baird (such as the use of services or products offered by BKG, BIM, Baird Advisors, Riverfront or any mutual fund affiliated with Baird or Riverfront), each



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