

# Baird Private Wealth Management

## Brochure

October 24, 2023



## Institutional Consulting Services

Robert W. Baird & Co. Incorporated  
777 East Wisconsin Avenue  
Milwaukee, WI 53202  
1-800-792-2473  
rwbaird.com

Member FINRA & SIPC  
SEC File No. 801-7571

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

## Material Changes

Robert W. Baird & Co. Incorporated ("Baird") updated the Form ADV Part 2A brochure for its Private Wealth Management Department's Institutional Consulting Services (the "Brochure") on October 24, 2023. The following summary discusses the material changes that Baird has made to the Brochure since March 24, 2023, the date of the last annual update to the Brochure.

- In August 2023, a parent Company of Baird made an investment in the parent company of LoCorr Fund Management, LLC ("LoCorr"), a SEC registered investment adviser and investment adviser to the LoCorr Funds. As a result of this investment, Baird is related to LoCorr and the LoCorr Funds. Due to their relation to Baird, Baird has a financial incentive to recommend the LoCorr Funds and other products and services offered by LoCorr. See the Section of the Brochure entitled "Other Financial Industry Activities and Affiliations" for more information.
- In September 2023, Baird entered into an Offer of Settlement with the SEC (the "Settlement"), in which it admitted that it violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder for failing to maintain records of certain business-related communications made by Baird associates when they used their personal devices ("off-channel communications") and for failing to supervise its associates' business-related communications. The Settlement was related to an SEC risk-based initiative, whereby the SEC investigated a large number of financial services firms to determine whether those firms were properly retaining business-related text and instant messages and other off-channel communications sent and received on employees' personal devices. Following the commencement of the SEC's initiative, Baird cooperated with the SEC and conducted voluntary interviews of a sampling of Baird supervisors to gather and review messages found on their personal devices. While Baird had policies and procedures in place prohibiting such off-channel communications, it was discovered that certain Baird supervisors communicated off-channel using non-Baird approved methods on their personal devices about Baird's broker-dealer and investment adviser businesses, and the findings were reported to the SEC. Baird took steps prior to and after the SEC's review, including implementing a new communication tool designed for Baird associates' personal devices, conducting training, and periodically requiring requisite associates to provide an attestation relating to their business-related communications. As part of the Settlement, Baird was censured and ordered to cease and desist from future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder and to pay a civil monetary penalty of \$15 million. In addition, Baird agreed to certain undertakings, including retaining an independent compliance consultant to conduct a review of Baird's policies and procedures, training, surveillance program, technology solutions and similar matters related to off-channel communications.

A client should note that the foregoing summary only discusses material changes made to the Brochure since March 24, 2023. The updated Brochure contains changes that are not listed above.

## Table of Contents

<b>Advisory Business .....</b>	<b>1</b>
Robert W. Baird & Co. Incorporated .....	1
The Client-Baird Fiduciary Relationship .....	1
Summary of Institutional Consulting Services .....	2
Description of Services .....	2
Additional Service Information .....	4
<b>Fees and Compensation .....</b>	<b>8</b>
Advisory Fees .....	8
Other Fees and Expenses .....	10
Other Compensation Received by Baird .....	11
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>11</b>
<b>Types of Clients .....</b>	<b>11</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>11</b>
Investment Strategies and Methods of Analysis .....	11
Principal Risks .....	22
<b>Disciplinary Information .....</b>	<b>33</b>
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>35</b>
Broker-Dealer Activities .....	35
Investment Management Activities .....	35
Certain Affiliations .....	35
Other Financial Industry Activities .....	38
<b>Code of Ethics, Participation or Interest in Client Transactions and     Personal Trading .....</b>	<b>39</b>
Code of Ethics .....	39
Participation or Interest in Client Transactions .....	39
<b>Brokerage Practices .....</b>	<b>43</b>
<b>Review of Accounts .....</b>	<b>43</b>
<b>Client Referrals and Other Compensation .....</b>	<b>43</b>
<b>Custody .....</b>	<b>43</b>
<b>Investment Discretion .....</b>	<b>43</b>
<b>Voting Client Securities .....</b>	<b>43</b>
<b>Financial Information .....</b>	<b>43</b>
<b>Special Considerations for Retirement Accounts .....</b>	<b>43</b>

## Advisory Business

This Brochure describes the institutional consulting services ("ICS") that the Private Wealth Management ("PWM") Department of Robert W. Baird & Co. Incorporated ("Baird") offers to its clients. Separate brochures describe those other investment advisory services and discuss the terms and conditions, fees and costs and potential conflicts of interest associated with those services. This Brochure also references other documents that contain additional important information about Baird. Those documents describe the types of services that Baird offers to clients and certain types of investments it makes available to clients, including the terms, conditions, fees and costs applicable to those services and investments and certain risks and conflicts of interest associated with those services and investments. Those documents are available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor). Included on that website is Baird's *Client Relationship Booklet*, which contains Baird's Form CRS *Client Relationship Summary* and Baird's *Client Relationship Details* document. The *Client Relationship Booklet* also contains an important disclosure document for retirement investors that have retirement accounts, which include employee pension benefit plan accounts that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and individual retirement accounts ("IRAs") that are subject to the Internal Revenue Code of 1986, as amended ("IRC") (collectively, "Retirement Accounts"). A client of Baird who is a retail investor should have already received a copy of the *Client Relationship Booklet*. A client or prospective client who wishes to obtain a brochure for another investment advisory service provided by Baird, or a paper copy of any of the other documents referenced in this Brochure, including the *Client Relationship Booklet*, should call Baird toll-free at 1-800-792-2473.

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

## Robert W. Baird & Co. Incorporated

Baird is privately-held, employee-owned global investment and wealth management firm formed in the State of Wisconsin in 1919.

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

Baird offers various investment advisory services to clients, including services not described in this Brochure. The investment advisory services Baird offers include: portfolio management and analysis; analysis and recommendations regarding asset allocation and

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

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

As of December 31, 2022, Baird had approximately \$247.7903 billion in regulatory assets under management, approximately \$177.1042 billion of which was managed on a discretionary basis and approximately \$70.6862 billion of which was managed on a non-discretionary basis.

## The Client-Baird Fiduciary Relationship

Baird is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Baird and its associates are deemed to have a fiduciary relationship with a client when providing the investment advisory services that are described in this Brochure. That means that Baird and its associates are required to act in the best interest of the client when providing investment advisory services. From time to time, Baird or its associates may engage in certain business practices or may receive compensation or other benefits that create a potential for conflict between the interests of clients and the interests of Baird or its associates. Baird generally addresses potential conflicts of interest by disclosing them to clients through documents provided to clients, including, without limitation, this Brochure, Brochure supplements that contain information about individuals providing investment advice to clients and the services they provide, 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; and act with utmost care and good faith in dealings with advisory clients. 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 Institutional Consulting Services

The institutional consulting services generally offered by Baird may include: the provision of investment policy statement reviews, asset allocation reviews, investment recommendations, investment option due diligence, periodic performance reviews, assistance in educational campaigns for employees exploring retirement plan investment options, fee analysis of qualified retirement plan expenses, qualified retirement plan provider reviews, and qualified retirement plan requests for proposal (the "Services"). These Services may be aggregated to oversee an entire investment program or may be utilized separately. Typically, the Services are related to client assets held one or more accounts maintained by the client's custodian (an "Account").

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

ICS clients typically work with or are introduced to a Baird associate who has been approved by Baird to provide the Services (an "ICS Consultant"). Baird PWM's home office investment professionals may also provide advice and assistance to the client. The client, with the assistance of an ICS Consultant, determines the services that are most appropriate given the client's goals and circumstances. However, it is the client that ultimately selects the Services and investment strategy that is most appropriate for the client.

ICS Consultants tailor their advisory services to the individual needs of clients. Clients may negotiate with ICS Consultants to provide other services.

A prospective client that wishes to participate in a Service will enter into an Institutional Consulting Services Agreement (a "Consulting Agreement") with Baird. The Consulting Agreement will contain the specific terms applicable to the services selected by the client, advisory fee ("Advisory Fee") 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 and Baird has delivered to the client all applicable Consulting 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 Consulting 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.

### Description of Services

The description of the Services below is only a general description of the investment consulting services offered by Baird to clients. The specific Services, the level of service to be provided, and the frequency of periodic reviews, if any, will be set forth in the client's Consulting Agreement. A client should refer to the client's Consulting Agreement for more specific information about the Services being provided.

### Investment Advisory Services

#### Investment Policy Statement Creation or Review

A client may elect to have Baird provide assistance in creating an investment policy statement or reviewing an existing investment policy statement. If a client elects this Service, the client's ICS Consultant will typically assist the client in determining the client's investment objectives, investment time horizon, investment constraints, investment diversification requirements, and risk tolerance. The ICS Consultant will also typically assist the client with incorporating that information into an investment policy statement, or updating the information in an existing document, as the case may be. The investment policy statement is intended to provide guidance to the client by establishing performance benchmarks that account for changing market conditions.

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

#### Asset Allocation Review

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

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

Subject to the terms of the client's agreement, the client's ICS Consultant will periodically review and evaluate the client's current asset allocation and recommend revisions to the allocation based upon changes to the client's situation.

## Investment Due Diligence

If a client elects to have Baird provide Investment Due Diligence, the client's ICS Consultant assists the client in analyzing current and/or prospective investment options. The client is solely responsible for selecting an investment option and is solely responsible for hiring, terminating, and/or replacing an investment manager, and for buying, selling, or otherwise replacing any investment option.

## Investment Recommendations

If a client elects to receive Investment Recommendation Services, the client's ICS Consultant will provide the client investment options consistent with the client's investment objectives, investment guidelines and asset allocation needs. Investment options may include, but are not limited to:

- equity securities, including, but not limited to, common 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; preferred stocks, 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;
- cash and cash equivalents;
- open-end mutual funds, closed-end funds, exchange-traded funds ("ETFs"), and unit investment trusts ("UITs");
- insurance company separate accounts and variable annuities; and
- separately managed account ("SMA") services provided by investment managers.

In some cases, ICS Consultants may recommend investments in concentrated and less diversified portfolios of securities. They may also recommend investments in illiquid securities and/or investments in alternative investment strategies ("Alternative Strategies") or other non-traditional or complex investment strategies that involve special risks not apparent in more traditional investments like stocks and bonds (collectively, "Complex Strategies"). Similarly, ICS Consultants may recommend that clients invest in non-traditional or real assets ("Non-Traditional Assets"). Some Services also offer the ability to invest in investment products that pursue Alternative Strategies ("Alternative Investment Products") or other Complex

Strategies (collectively, "Complex Investment Products").

Baird assumes no responsibility for a manager's investment decisions, performance, compliance with applicable laws or regulations, or for any other matters involving or affecting the manager.

## Periodic Performance Reviews

If a client elects to have Baird provide periodic performance reviews, a client's ICS Consultant will provide the client with a written report on the client's Account's performance as often as the client and the ICS Consultant may from time to time mutually agree. The client's ICS Consultant typically performs a review of the client's asset allocation and provides an evaluation of the historical performance of the client's investments by comparing the performance of those investments with benchmark indices, which may be determined by the client's ICS Consultant or may be jointly determined by the client and ICS Consultant.

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.

The 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.

Baird and the client's ICS Consultant rely upon information provided by the client and/or the client's custodians when performing a performance review. Baird and ICS Consultants do not conduct a review of valuation information provided by clients or third party custodians, and they do not verify or guarantee the accuracy of such information.



### **Other Non-Investment Advisory Services**

In addition to the investment advisory services described above, Baird and its ICS Consultants make available the following non-investment advisory services for which they do not act as a fiduciary.

### **Retirement Plan Participant Education**

If a client elects to have Baird provide retirement plan participant education, the client's ICS Consultant, in cooperation with the client's retirement plan provider, will offer general guidance to the client in the development and implementation of educational campaigns for plan participants. The general education services provided by the client's ICS Consultant and the client's plan provider may include, but are not limited to, topics such as plan options, saving for retirement, asset allocation, and the benefits of diversification. The client's ICS Consultant may also work with the plan provider to distribute plan provider educational materials to the client's employees. A client should understand that this service is limited to general education only and that Baird does not provide investment advice to retirement plan participants unless Baird otherwise agrees in writing.

### **Retirement Plan Fee Review**

If a client elects to have Baird provide a retirement plan fee review, the client's ICS Consultant will perform a fee analysis which includes a review of costs incurred by the plan, the benefits derived from payment for such services, and compares them to industry costs and services. The client's ICS Consultant typically also summarizes the results in writing, and provides those results to the client. The client's ICS Consultant's analysis does not generally consider fees and charges assessed to the client pursuant to the client's Consulting Agreement.

### **Retirement Plan Provider Review**

If a client elects to have Baird provide a retirement plan provider review, the client's ICS Consultant will perform an analysis of the client's plan provider. This analysis includes a review of services and benefits provided to the client by the plan provider, as well as the costs incurred to receive such services. The client's ICS Consultant typically also summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided by the client and third party sources to provide this Service. Baird and ICS Consultants do not conduct a review of such information, and they do not verify or guarantee the accuracy of such information.

### **Retirement Plan Provider Request for Proposal**

If a client elects to have Baird provide a retirement plan provider request for proposal ("RFP") Service, the client's ICS Consultant will assist the client in preparing RFP documents, identifying and distributing the RFP documents to multiple retirement plan providers, and

analyzing their responses to the RFP. The client's ICS Consultant typically performs a cost-benefit analysis of the services offered by each provider and the fees, summarizes the results in writing, and provides those results to the client. The client's ICS Consultant relies upon information provided by the client, RFP participants, and third party sources to provide this Service. Baird and ICS Consultants do not conduct a review of such information, and they do not verify or guarantee the accuracy of such information. A client should note that the client's ICS Consultant will solicit providers based solely on the criteria the client has provided to the client's ICS Consultant.

### **Other Services**

The client's ICS Consultant may offer other consulting Services specifically tailored for the client. Any such Services will be set forth in the client's Consulting Agreement.

### **Additional Service Information**

#### **Complex Strategies and Complex Investment Products**

Alternative Strategies or other Complex Strategies involve special risks not apparent in more traditional investments like stocks and bonds. Complex Strategies may be pursued in multiple ways, including by investing in alternative mutual funds, ETFs, hedge funds, managed futures, private equity funds and SMAs managed by third party managers. Some Complex Strategies invest in Non-Traditional Assets, such as real estate, commodities (which may include metals, mining, energy and agricultural products), currencies, movements in securities indices, credit spreads and interest rates, and venture capital and buyout investments in private companies. Some Complex Strategies engage in the use of margin or leverage or selling securities short ("short sales"). Some Complex Strategies invest in derivative instruments such as options, convertible securities, futures, swaps, or forward contracts. Complex Investment Products generally engage in one or more Complex Strategies. Additional information about Alternative Strategies and Complex Strategies is contained under the heading "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Alternative Strategies and Complex Strategies" below. Additional information about Complex Strategies and Complex Investment Products, generally, is provided below.

#### **Non-Traditional Assets**

Non-Traditional Assets, such as investments in commodities, currencies, cryptocurrencies, securities indices, interest rates, credit spreads, and private companies, may be used for diversification purposes. They may also be used to try to reduce market and inflation risk. The performance of Non-Traditional Assets may not correspond to the performance of the stock markets generally, and investments in Non-Traditional

Assets will generally impact an Account's returns differently than more traditional investments like stocks or bonds. Non-traditional assets are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Non-traditional assets are generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

## Margin and Leverage

### *Margin*

Margin involves borrowing money from a firm, such as Baird, to buy securities or other property. 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 may provide the client with a margin loan. Securities held in a client's margin account 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 margin 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 sell securities in the account.

### *Leverage*

Leverage generally attempts to obtain investment exposure in excess of available assets through the use of borrowings, short sales and other derivative instruments. While leverage can potentially enhance returns, it can also exacerbate losses if changes in the markets, or the values of the investments subject to the leverage, are adverse to the strategy being pursued. The use of leverage may also increase an Account's volatility.

## Short Sales

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, a firm 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 the firm to the client, a client must generally use a margin account. A client must also eventually purchase the same shares sold short and return them back to the lender. It is possible that the prices of securities that a client sells short may increase in value, in which case the client may lose money on the short position. Short selling thus runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate.

Clients should note that investment managers managing a client's Account or investment products in the client's Account may also engage in short sales. Thus, a client's

Account will be subject to short sales risks if the investment manager managing the client's Account or an investment product in the client's Account engages in short sales.

## Options and Other Derivative Instruments

### *Derivative Instruments*

Derivatives instruments, such as options, convertible securities, futures, swaps, and forward contracts are financial contracts that derive value based upon the value of an underlying asset, such as a security, commodity, currency, cryptocurrency, or index. Derivative instruments may be used as a substitute for taking a position in the underlying asset. Derivative instruments may also be used to try to hedge or reduce exposure to other risks. They may also be used to make speculative investments on the movement of the value of an underlying asset. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Investing in derivatives also generally involves leverage. Derivatives are also generally less liquid, and subject to greater volatility compared to stocks and bonds.

### *Options*

Options transactions may involve the buying or writing of puts or calls on securities. In some cases, a firm may require clients to open a margin account to engage in options trading.

With a call option, the purchaser has the right to buy, and the seller (writer) the obligation to sell, the underlying security or index at a predetermined price (i.e., the exercise or strike price) prior to expiration of the option. The premium paid to the seller (writer) for the option is in consideration for the underlying obligations imposed on the seller should the option be exercised. With a put option, the purchaser has the right to sell, and the seller has the obligation to buy, the underlying security or index at the exercise price prior to expiration of the option.

In buying a call option, the purchaser expects that the market value of the underlying security or index will appreciate, which would enable the purchaser of a call to buy the underlying security or index at a strike price lower than the prevailing market price. The purchaser of the call option makes a profit if the prevailing market price is greater than the sum of the strike price plus the premium paid for the option. The seller of a call option earns income in the form of the premium received from the purchaser for the option and expects that the market value of the underlying security or index will depreciate such that the option will expire without being exercised. The seller of a call option makes a profit if the prevailing market price of the underlying security or index is less than the sum of the strike price plus the premium received.



In buying a put option, the purchaser expects that the market value of the underlying security or index will depreciate, which would enable the purchaser of a put to sell the underlying security or index at a strike price higher than the prevailing market price. The purchaser of the put option makes a profit if the prevailing market price is less than the sum of the strike price and the premium paid for the option. The seller of a put option earns income in the form of the premium received from the purchaser for the option and expects that the market value of the underlying security or index will appreciate such that the option will expire without being exercised. The seller of a put option makes a profit if the prevailing market price of the underlying security or index is greater than the difference between the strike price and the premium.

In purchasing a put or call option, the purchaser faces the risk of loss of the premium paid for the option if the market price moves in a direction opposite to what the purchaser had expected. In selling or writing an option, the seller faces significantly more risk. A seller of a call option faces the risk of significant loss if the prevailing market price of the underlying security or index increases above the strike price, and a seller of a put option faces the risk of significant loss if the prevailing market price of the underlying security or index decreased below the strike price.

Clients should note that investment managers managing a client's Account or investment products in the client's Account may also engage in options transactions. Thus, a client's Account will be subject to options risks if the investment manager managing the client's Account or an investment product in the client's Account engages in options transactions.

### **Complex Investment Products**

Complex Investment Products typically invest primarily in Non-Traditional Assets or engage in one or more Complex Strategies. Complex Investment Products include Alternative Investment Products, such as hedge funds, funds of hedge funds, private equity funds, funds of private equity funds, private debt funds, and managed futures, but also include other investments pursuing Complex Strategies, including but not limited to exchange or swap funds, leveraged funds, inverse funds, and other special situation funds, structured certificates of deposit and structured notes ("structured products"), ETNs, business development companies ("BDCs"), REITs, and master limited partnerships ("MLPs").

In addition, a client should be aware that more traditional investments, such as mutual funds, ETFs, UITs and variable annuities may also pursue Alternative 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. More detailed information about mutual funds, ETFs, UITs and variable annuities is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### **Additional Important Information**

The use of Complex Strategies or Complex Investment Products is not appropriate for some clients because they involve special risks. A client should not engage in those strategies or invest in those products unless the client is prepared to experience significant losses in the client's Account. This is especially true for short selling, which can result in unlimited losses as there is no limit to the amount borrowed securities can rise in value. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks" below for more information. Before using those types of strategies or products, a client is strongly urged to discuss them with the client's ICS Consultant and any investment manager managing the client's Account. Additional information about Complex Strategies and Complex Investment Products is provided under the heading "Methods of Analysis, Investment Strategies and Risk of Loss—Investment Strategies and Methods of Analysis—Investment Strategies—Alternative Strategies and Complex Strategies" below and on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

A client assumes responsibility for engaging in Complex Strategies and investing in Complex Investment Products. If a client determines that the client no longer wants to engage in those strategies or invest in those products, the client is responsible for notifying the client's ICS Consultant and any investment manager managing the client's Account. Baird is not responsible for any losses resulting from any third party manager's failure or delay in implementing any such instructions.

### **Trust Services Arrangements**

Baird maintains an alliance with certain institutions, both non-affiliated and affiliated, including Baird Trust Company, that provide trust administration services, including trust administration, custody, tax reporting and recordkeeping. ICS Consultants at times refer clients seeking trust services to institutions that are members of the alliance. Subject to its fiduciary duties, the trustee oftentimes retains Baird to provide investment advisory services to the client trust. A client should understand that any such referral for trust services under the Trust Alliance Program made by Baird and its ICS Consultants is an ancillary account service and it is not an, nor is it part of any, Advisory Program or investment advisory service. They do not act as investment adviser or a fiduciary to the client when making such a referral and they will not provide advice on or oversee any such trust services arrangement. Baird has a financial incentive to recommend that clients use Baird Trust, an affiliate, over other non-affiliated trust companies. As a result of this affiliation, Baird Trust also has a financial incentive to retain Baird to provide investment advisory or other

services on behalf of the client. In addition, Baird and ICS Consultants have a financial incentive to recommend arrangements that involve Baird and the ICS Consultant providing investment advisory services to the client and the trust company only providing trust administration services compared to an arrangement whereby a trust company would provide both investment advisory and trust administration services because it is more profitable to Baird and the ICS Consultant.

In addition, outside of the Trust Alliance Program, ICS Consultants may refer a client to Baird Trust to provide investment advisory and trust administration services to the client. If a client enters into such a relationship with Baird Trust, Baird and the client's ICS Consultant typically provide ongoing relationship management services. Baird Trust generally provides compensation to Baird and the client's ICS Consultant for the referral and providing ongoing services, which may be up to 50% of the ongoing fees that a client pays to Baird Trust, and which is credited to the client's ICS Consultant for purposes of determining the ICS Consultant's compensation. The compensation paid to Baird and a client's ICS Consultant does not increase the fees that the client pays to Baird Trust. Due to Baird's affiliation with Baird Trust and the compensation paid to Baird and ICS Consultants, Baird and ICS Consultants have a financial incentive to favor Baird Trust over other trust companies.

### **Securities-Based Lending Program**

Baird offers clients an opportunity to borrow money from a third party lender under Baird's Securities-Based Lending Program. These loans, if made, can be used for any personal or business purpose other than to purchase, carry or trade securities, or to repay margin debt. These loans are secured by the investments and other assets in the client's Accounts with Baird. A client will pay interest on the outstanding balance of the client's loan. The rates of interest charged by the bank depends on many factors, such as the prevailing interest rate environment, the amount of the loan or line of credit, a client's creditworthiness, and the aggregate assets in a client's Baird accounts in the client's household ("relationship size"). The interest rates are based on a benchmark rate, plus an applicable percentage that varies based on the approved loan amount and the relationship size. Rates are generally higher for smaller loans and relationship sizes and lower for larger loans and relationship sizes. The interest rate that will apply to a client's loan will be set forth in the loan agreement the client enters into with the bank. Baird receives an ongoing administrative fee from the bank, at an annual rate of up to 2.50% of the outstanding balance under a client's loan, which is paid by the bank out of the interest the client pays to the bank. A client's ICS Consultant typically receives an ongoing referral fee at an annual rate of up to 0.25% of the outstanding balance of the client's loan, which is paid out of Baird's administrative fee. A client should

note that Baird and ICS Consultants will continue to receive compensation on assets held in the client's Accounts that serve as collateral for the client's loans, including Advisory Fees. Because Baird receives an administrative fee and ICS Consultants receive a referral fee if a client obtains a loan from a third party lender under Baird's Securities-Based Lending Program, Baird and ICS Consultants have an incentive to recommend that a client obtain loans under that program. Baird and ICS Consultants will continue to receive compensation on assets held in a client's Accounts that are collateral for such loans, including Advisory Fees on such assets if those assets are in the client's advisory Account. As a result, Baird and ICS Consultants have a financial incentive to recommend that a client obtain a loan under the program to provide for the client's needs instead of liquidating assets in the client's Accounts with Baird because a decline in the amounts the client has in the client's Accounts will result in lower revenues to Baird and compensation paid to the client's ICS Consultant. Additional important information about securities-based lending is set forth in the "Securities-Based Lending Program" section of Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

A client should understand that any referral made by Baird and ICS Consultants under the Securities-Based Lending Program is an ancillary account service and it is not an, nor is it part of any, Advisory Program or investment advisory service. They do not act as investment adviser or a fiduciary to the client when making such a referral and they will not provide advice on or oversee any such lending arrangement.

### **Client Responsibilities**

A client is responsible for providing information to Baird and the client's ICS Consultant reasonably requested by them in order to provide the services selected by the client. Baird, the client's ICS Consultant and investment managers, if any, will rely on this information when providing services to the client. A client is also responsible for promptly informing the client's ICS Consultant if there is any change to the client's investment objectives, risk tolerance, financial circumstances, investment needs, or other circumstances, and, if the client is an individual, if there are any significant life changes (e.g., change in marital status, significant health issue, or change in employment), that may affect the manner in which the client's assets are invested. None of Baird, the client's ICS Consultant or any investment manager managing a client's Account is responsible for any adverse consequence arising out of the client's failure to promptly inform the client's ICS Consultant of any such changes. Since investment goals and financial circumstances change over time, a client should review the client's participation in a Service with the client's ICS Consultant at least annually.

### **Legal and Tax Considerations**

Baird and its ICS Consultants do not provide legal or tax advice to clients in connection with the Services.

Additional laws, regulations and other conditions apply to Retirement Accounts. Each owner, trustee, named fiduciary, 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 his or her own legal advisor about the laws and regulations that may apply to Retirement Accounts.

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. In addition, when held in a client's Retirement Account under certain circumstances, such investments may produce unrelated business taxable income which may result in a current-year income tax obligation to the client. A client should discuss the potential tax implications of the client's investment strategies, investment products, and transactions with the client's tax advisor.

### **Fees and Compensation**

#### **Advisory Fees**

##### **Fee Options and Fee Payments**

Baird generally offers three (3) fee alternatives for the Services: (i) an asset-based Advisory Fee paid quarterly, in advance, (ii) an annual fixed rate Advisory Fee that is paid by the client over four calendar quarters, or (iii) a one-time fixed rate Advisory Fee paid at the time that the Consulting Agreement is accepted by Baird.

Because the Services selected and the level of service varies by client, Baird has no fee schedule for the Services. The maximum annual rate for an asset-based Advisory Fee charged by Baird for the Services is 1.00% (100 basis points).

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

The initial asset-based Advisory Fee is based upon the value of the assets in the client's Account(s) as displayed on a custodian's quarterly statement on the day the agreement is accepted by Baird or an agreed upon effective date. The initial Advisory Fee may also be based upon an estimated value of assets mutually agreed upon by both parties. Thereafter, the applicable

asset-based quarterly Advisory Fee are calculated in accordance with the client's Account asset value as displayed on a custodian's quarterly statement as of the last business day of the prior calendar quarter, such payment to be made by the client to Baird on the first business day of the then current quarter or upon receipt of a Baird invoice.

Baird does not conduct a review of valuation information provided by client's custodian, and it does not verify or guarantee the accuracy of such information. Baird does not accept responsibility for valuations provided by third parties that are inaccurate unless Baird has a reason to believe that the source of such valuations is unreliable. The prices obtained by Baird from a client's custodian 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 a client's Account, and the 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.

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

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

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

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

The Advisory Fee and minimum Account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the client's particular investment style or objective and

any particular services requested by the client. The fees paid by a client may differ from the fees paid by other clients based on a number of factors, including but not limited to the factors identified above.

Baird may increase a client's Advisory Fee upon 30 days written notice to the client.

### ***Advisory Fee Payments to Baird and ICS Consultants***

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

Baird retains the entire Advisory Fee paid by clients.

An ICS Consultant is primarily compensated on a monthly basis based upon a percentage of the ICS Consultant's total production each month, which primarily consists of the total advisory fees and transaction-based fees paid to Baird by the ICS Consultant's clients and any other fees Baird earns on advisory and brokerage accounts held by those clients, including trail fees paid by third parties. The percentage of the ICS Consultant's total production actually paid to the ICS Consultant will increase as the total amount of the ICS Consultant's production increases, meaning that, as the total amount of the ICS Consultant's production increases, the rate and amount of compensation that Baird pays to the ICS Consultant also increase. ICS Consultants generally also receive deferred compensation or bonuses based on various criteria, including net new assets they gather, performing certain wealth management activities, such as financial planning, and their total production levels. ICS Consultants who achieve certain production thresholds are eligible for professional development conferences, business development coaching, reimbursements, awards and recognition trips to attractive destinations. ICS Consultants are also eligible for bonuses for achievement of professional designations depending on an ICS Consultant's total production level. Thus, ICS Consultants have a general incentive to generate financial and other plans and charge higher fees for advisory Accounts and recommend larger investments in advisory Accounts.

Given the structure of their compensation, they also have an incentive to recommend that a client transfer the client's Accounts to Baird, establish new accounts with Baird (including IRA rollovers) and add more money into the client's Accounts. In addition, most ICS Consultants are shareholders of Baird Financial Group, Inc. ("BFG"), Baird's parent company, and thus benefit financially from Baird's overall success. The number of shares of BFG stock that an ICS Consultant may purchase is based in part on the ICS Consultant's total production level. ICS Consultants generally receive compensation for referrals to certain affiliated managers and products and for referrals to a limited number of

other firms. More specific information is provided under the headings "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" below. They also generally receive non-cash compensation and other benefits from Baird and from sponsors of investment products 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, reimbursement for branch and client events, and receipt of gifts and entertainment. Receipt of such compensation and benefits provides ICS Consultants an incentive to favor investment products and their sponsors that provide the greatest levels of compensation and benefits.

ICS Consultants generally receive recruitment bonuses and/or special compensation from Baird when they join Baird from another firm. The amount of such special compensation is typically based on the ICS Consultant's production at the prior firm for the 1-year period prior to joining Baird or on the level of the ICS Consultant's client assets at the prior firm. All or a substantial portion of the special compensation is paid in the form of an upfront bonus when the ICS Consultant joins Baird, and the remaining portion, if any, is paid in the form of back end bonuses generally in equal installments on an annual basis thereafter for a certain number of years (generally from one to three years). Installment payments are generally contingent upon the ICS Consultant achieving annual production or client asset levels that exceed a significant percentage of the ICS Consultant's annual production for the 1-year period prior to joining Baird or the client assets that the ICS Consultant had prior to joining Baird. The special compensation is intended to compensate ICS Consultants for the significant effort involved in transitioning their business from the prior firm. This compensation provides ICS Consultants who have left another firm additional incentive to recommend that clients of the prior firm become Baird clients and to recommend investment products and services that increase their production, and thus presents a conflict of interest. The special compensation is generally structured in the form of a forgivable loan from Baird to the ICS Consultant. Under the terms of the forgivable loan, Baird makes the upfront or installment payment to the ICS Consultant in the form of a loan, and Baird forgives a portion of the loan made to the ICS Consultant each month for so long as the ICS Consultant remains Baird's employee. Should the ICS Consultant cease to be Baird's employee prior to the maturity date of the loan, the ICS Consultant is required to repay Baird the amount of the loan outstanding and not forgiven by Baird. In other words, upon leaving Baird, the ICS Consultant would be required to repay to Baird a portion of the special compensation that the ICS Consultant had received and that had not been forgiven. The amount of such repayment declines over time in

proportion to the time the ICS Consultant remains Baird's employee. Structuring this special compensation in the form of forgivable loans provides the ICS Consultant added incentive to remain Baird's employee and to recommend that persons become and remain a Baird client. Additional information about referral and non-cash compensation and other financial incentives provided to ICS Consultants is provided under the heading "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading—Participation or Interest in Client Transactions" below.

From time to time, Baird Financial Advisors outside of the ICS Program may refer their clients to ICS Consultants. In those instances, the ICS Consultant generally shares a portion of his or her compensation with the referring Baird Financial Advisor.

Baird addresses the conflicts described above 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

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

A client is responsible for bearing or paying, in addition to the Advisory Fee, the costs of all:

- commissions, sales charges, markups, markdowns, and spreads charged by broker-dealers that buy securities from, or sell securities to, the client's Account (such costs may be inherently reflected in the price the client pays or receives for such securities);
- underwriting discounts, dealer concessions or similar fees related to the public offering of investment products;
- custody fees;
- 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 or from 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, including, without limitation, the calculation and payment of unrelated business income tax ("UBIT");
- 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, foreign stamp duties, 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 agreements with Baird. A schedule of fees and service charges is available on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

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 investment product's portfolio ("ongoing operating expenses"). These ongoing operating expenses are separate from, and in addition to, the Advisory 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 Advisory Fee. A client is also responsible for any redemption fees, surrender charges or similar fees that the investment product, annuity or its sponsor may impose on the client. A client should review the prospectus or other applicable offering documents for each investment product or annuity in which the client invests for further information.

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



### Other Compensation Received by Baird

Baird is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and its Financial Advisors, including ICS Consultants, are registered broker-dealer representatives of Baird. In such capacities, Baird and ICS Consultants provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. At times, Baird and ICS Consultants provide such brokerage and related services to clients in connection with the Services described in this Brochure. Baird and ICS Consultants receive compensation based upon the sale of such securities and other investment products, including asset-based sales charges and service fees on the sale of mutual funds. This practice presents a conflict of interest because it gives Baird and ICS Consultants an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, Baird and ICS Consultants 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 "Advisory Business" and "Fees and Compensation" above, and "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" below.

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

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

Baird advises client accounts not participating in services described in this Brochure that are subject to performance-based fee arrangements. Performance-based fee arrangements involve the payment of fees based upon the capital gains or capital appreciation of a client's account. Any such fee arrangements are made in compliance with applicable provisions of Rule 205-3 under the 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 over time.

### Types of Clients

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

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

#### Investment Strategies and Methods of Analysis

##### Investment Strategies

Under the Service, an ICS Consultant may use various different investment strategies because strategies are customized for each client. If a client has selected the Investment Policy Statement Creation or Review Service, a client's particular investment strategy is typically jointly developed by the client and the client's ICS Consultant through a fact finding and analysis process. ICS Consultants may also utilize the services of Baird PWM's home office investment professionals as a part of that process. If a client does not select the Investment Policy Statement Creation or Review Service, the ICS Consultant will generally follow the investment strategies set forth in the investment policy statement provided to Baird by the client. A client is ultimately responsible for approving any investment policy statement and determining the investment strategies to be used.

The investment styles, philosophies, strategies, techniques and methods of analysis that Baird PWM home office investment professionals, its ICS Consultants and investment managers use in formulating investment advice for clients vary widely. A brief description of commonly used strategies is provided below.



### *Equity Strategies*

Equity strategies generally have an objective to provide growth of capital and primarily invest in equity securities, such as common stocks. However, these strategies may also invest in other types of investments, such as fixed income securities and cash. Equity strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges, such as large cap, mid cap or small cap companies. Equity strategies may be combined with other strategies described below, such as growth, value, income, economic industry or sector focused, international, global, or geographic region or country focused strategies.

### *Fixed Income or Bond Strategies*

Fixed income or bond strategies generally have one or more of the following objectives: (1) provide current income; or (2) preservation of capital. These strategies primarily invest in fixed income securities, such as corporate bonds, municipal securities, mortgage-backed or asset-backed securities, or government or agency debt obligations. However, these strategies may also invest in other types of investments, such as equity securities or cash. Fixed income strategies may invest in debt obligations having any credit rating, maturity or duration, or they may focus on specific credit ratings, maturities or durations, such as investment grade, non-rated, or high yield ("junk") bonds, or bonds having short-term, intermediate-term or long-term maturities. Fixed income strategies may be combined with other strategies described below, such as economic industry or sector focused, international, global, or geographic region or country focused strategies.

### *Balanced Strategies*

Balanced strategies generally have one or more of the following objectives: (1) provide current income; (2) growth of capital/principal or income; or (3) preservation of capital. These strategies primarily invest in a mix of equity, fixed income securities and cash. Balanced strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, credit ratings, maturities or durations as described above. Balanced strategies may be combined with other strategies described below, such as economic industry or sector focused, international, global, or geographic region or market focused strategies.

### *Value Strategies*

A value strategy typically invests primarily in equity securities of value companies, which are those that the investment manager believes are out of favor with investors, appear underpriced by the market relative to their earnings or intrinsic value, or have high dividend yields. This strategy is subject to investment style risks.

### *Growth Strategies*

A growth strategy typically invests primarily in equity securities of growth companies, which are those that the investment manager believes exhibit signs of above-average growth relative to peers or the market, even if the share price is high relative to earnings or intrinsic value. This strategy is subject to investment style risks.

### *Income Strategies*

An income strategy typically invests primarily in income-producing securities, such as dividend-paying equity securities and fixed income securities. This strategy may invest in a combination of investment grade and high yield bonds. This type of strategy may also invest in yield- or income-producing, Non-Traditional Assets.

### *Economic Industry or Sector Focused Strategies*

Economic industry or sector focused strategies primarily invest in companies in one or more economic industries or sectors, such as the telecommunications, technology, industrial, materials, or financial sectors. *These strategies alone generally are not intended to satisfy a client's entire portfolio diversification needs. These strategies are subject to concentration risks because they generally are not diversified or they may invest in a limited number of securities.*

### *International Strategies*

Generally, international strategies primarily invest in securities issued by foreign companies, which may include companies in developed and emerging markets. International strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, industries or sectors, geographic regions, credit ratings, maturities or durations.

### *Global Strategies*

Generally, global strategies invest in a mix of securities issued by U.S. and foreign companies, which may include companies in developed and emerging markets. Global strategies may invest in companies of all market capitalization ranges and in investments having any credit rating, maturity or duration, or they may focus on specific capitalization ranges, industries or sectors, geographic regions, credit ratings, maturities or durations.

### *Geographic Region or Country Focused Strategies*

Geographic region or country focused strategies primarily invest in companies located a particular part of the world, such as Latin America, Europe or Asia, in a group of similarly-situated countries, such as developed or emerging markets, or one or more specific countries. *These strategies alone generally are not intended to satisfy a client's entire portfolio diversification needs. These strategies are subject to concentration risks*

*because they generally are not diversified or they may invest in a limited number of securities.*

#### *Tactical and Rotation Strategies*

Tactical strategies typically tactically and actively adjust Account allocations to different asset classes based upon the manager's perception of how those asset classes will perform in the short-term. Similarly, rotation strategies typically actively adjust Account allocations to different market sectors based upon the manager's perception of how market sectors will perform in the short-term. Tactical and rotation strategies are often driven by technical analysis or methodologies and typically involve underweighting and overweighting Account allocations to certain asset classes or market sectors relative to an applicable long-term strategic asset allocation, benchmark index or the market generally. *These strategies often will be focused or concentrated in one or more asset classes or market sectors from time to time, and it is likely that they will have limited or no exposure to one or more asset classes or market sectors. For that reason, tactical and rotation strategies are often subject to concentration risk. Because the decision-making for tactical and rotation strategies is based upon the manager's short-term market outlook, Accounts pursuing these strategies often experience higher levels of trading and portfolio turnover relative to other strategies.*

#### *Opportunity or Opportunistic Strategies*

Opportunity strategies will generally be invested in a manner that seeks to provide long term growth through capital appreciation and/or income by utilizing an active management style that shifts the amount of investment made in different asset classes and market sectors to take advantage of the manager's perception of market pricing anomalies, those market or industry sectors deemed favorable for investment by the manager, the current interest rate environment and/or other macro-economic trends identified by the manager. Opportunity strategies often involve the use of other strategies, particularly tactical or rotation strategies, and will have the risks associated with those strategies. Opportunity Strategies may also involve investment in a more-limited number of companies compared to other strategies. As a result, a decline in value of one or a few investments will more adversely impact performance than if assets were more evenly invested in a larger number of companies. Opportunity strategies often experience higher fluctuations in annual returns and overall market value than other strategies. The types of investments used to implement opportunity strategies vary widely by manager and could include equity securities, fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash.

#### *Tax Management Strategies*

Tax management strategies involve buying and selling investments in a manner intended to reduce the negative impact of taxes. They often involve buying or

selling investments to limit taxable investment gains or to offset taxable investment gains with investment losses or selling investments to avoid recognition of taxable investment gains. *Tax management strategies are not intended to, and likely will not, eliminate a client's tax obligations.* A tax management strategy may not actually lower a client's tax obligations or otherwise achieve a client's tax goals. A tax management strategy is typically a secondary strategy used to achieve a secondary tax management objective and it is typically implemented together with other primary investment strategies designed to achieve primary investment objectives or goals. The performance of accounts utilizing a tax management strategy will vary from similarly-managed accounts that do not utilize such a strategy, possibly in a materially negative manner, and an account may not be successful in pursuing its primary investment strategies, objectives or goals.

#### *Alternative Strategies and Complex Strategies*

Alternative Strategies and other Complex Strategies may invest in a wide range of investments, which may include equity securities, fixed income securities, Non-Traditional Assets, Alternative Investment Products and cash. Alternative Strategies and other Complex Strategies generally involve the use of margin, leverage, short sales and derivative instruments. Many Alternative Strategies and other Complex Strategies have no substantive restrictions on the types of investments that may be used. Examples of Alternative Strategies and other Complex Strategies include the following.

- Relative Value Strategies. Relative value strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets and the use of short sales and derivative instruments in an attempt to exploit price differences among securities that share similar economic or financial characteristics.
- Long/Short Strategies. Long/short strategies generally involve the purchase of securities believed to be undervalued and selling short securities believed to be overvalued. They may also involve the use of Non-Traditional Assets, leverage and derivative instruments.
- Market Neutral Strategies. Market neutral strategies generally involve the purchase of securities and selling securities short in similar dollar amounts in an attempt to produce returns that are independent of general market performance. They may also involve the use of Non-Traditional Assets, leverage and derivative instruments.
- Statistical Arbitrage Strategies. Statistical Arbitrage is based on the theory that stocks have a tendency to return to a short-term trend line. This type of strategy typically involves the "systematic" or automated

trading of securities based upon where a security is relative to its trend line.

- Convertible Arbitrage Strategies. Convertible arbitrage involves the purchase and short sale of multiple securities of the same company. The strategy is implemented by purchasing securities believed to be undervalued and selling short securities believed to be overvalued. Often, the strategy involves the purchase of a convertible bond issued by a company and selling short that company's common stock. This strategy may involve the use of a wide range of derivative instruments.
- Fixed Income Arbitrage Strategies. Fixed income arbitrage strategies generally seek to profit from interest rate, credit spread and other arbitrage opportunities by investing in fixed income securities, interest rate instruments and derivative instruments.
- Capital Structure Arbitrage Strategies. Capital structure arbitrage generally involves investing in multiple levels of a single company's capital structure, often taking long and short positions in a company's debt or equity in order to capitalize on perceived mispricings resulting from market inefficiencies or different pricing assumptions. This type of strategy typically involves the use of derivatives and structured products.
- Absolute Return, Total Return and Real Return Strategies. Absolute return, total return and real return strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets in an attempt to generate performance that has low correlation to the major equity markets over a complete market cycle. They may also involve the use of derivative instruments.
- Event-Driven Strategies. Event-driven strategies generally involve the use of Non-Traditional Assets, short sales and derivative instruments in an attempt to seek arbitrage opportunities, particularly those triggered by corporate events (such as mergers, restructurings, and liquidations). These strategies typically involve the assessment of if, how and when an announced transaction will be completed.
- Merger Arbitrage/Special Situations Strategies. Merger arbitrage strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. These strategies often involve short selling, options trading, and the use of other derivative instruments.
- Distressed Strategies. Distressed strategies generally involve the purchase of securities in companies that are in financial distress, or companies that are entering into or are already in bankruptcy. They may also involve the use of short sales and derivative instruments.
- Macro Strategies. Macro strategies generally involve the purchase of traditional assets, such as stocks and bonds, and Non-Traditional Assets and the use of short sales and derivative instruments in an attempt to profit from anticipated changes in securities markets, commodities markets, currency values, and/or interest rates.
- Discretionary and Systematic Trading Strategies. Discretionary trading strategies generally attempt to identify and capitalize on patterns or trends in the markets. Systematic trading strategies generally rely on computerized trading systems or models to identify and capitalize on those patterns or trends. These strategies often involve the use of Non-Traditional Assets, short sales, derivative instruments and significant leverage.
- Private Investment Strategies.
  - Private Equity Strategies. Private equity strategies generally involve purchasing stock or securities convertible into stock in private transactions. Private equity strategies may invest in companies of all market capitalization ranges or may focus on any combination of specific capitalization ranges. They may also focus on companies in one or more economic industries or sectors or geographic regions. Some private equity strategies focus on companies that are newly formed, in financial distress or already in bankruptcy. The securities purchased are typically unregistered and illiquid. Private equity strategies may also involve the use of leverage.
  - Private Debt or Private Credit Strategies. Private debt (also known as private credit) strategies invest in loans or debt instruments issued by companies in private transactions. The investments involved are typically unrated or rated below investment grade and are illiquid. Oftentimes, the interest rate paid by the companies is determined by a reference interest rate, such as the federal funds rate, which is periodically reset. These types of investments are sometimes referred to as floating rate corporate debt, floating rate loans or floating rate bank loans. Private debt strategies often involve the use of leverage and may involve investment in smaller capitalization, distressed or bankrupt companies.
- Leveraged Strategies. Leveraged strategies generally involve the use of Non-Traditional Assets, leverage, short sales and derivative instruments in an attempt to amplify returns or produce returns that are a multiple of a benchmark index.

- **Inverse Strategies.** Inverse strategies generally involve the use of Non-Traditional Assets, leverage, short sales and derivative instruments in an attempt to produce returns that are the opposite of a benchmark index.

*Alternative Strategies and other Complex Strategies are not appropriate for some clients because they are subject to special risks. See "Advisory Business—Other Service Information—Complex Strategies and Complex Investment Products" above and "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Non-Traditional Assets and Alternative Strategies Risks" below for more information.*

#### **Asset Allocation Strategies**

Asset allocation strategies involve investing in one or more of the following categories of assets:

- the equity securities asset category, which is comprised of certain asset classes, such as, equity securities issued by: U.S. large cap growth companies; U.S. large cap value companies; U.S. large cap core companies; U.S. mid cap growth companies; U.S. mid cap value companies; U.S. mid cap core companies; U.S. small cap growth companies; U.S. small cap value companies; U.S. small cap core companies; foreign companies located in developed markets; foreign companies located in emerging markets; U.S. REITs; and foreign REITs;
- the fixed income securities asset category, which is comprised of certain asset classes, such as: short-term taxable bonds; intermediate term taxable bonds; long-term taxable bonds; short-term tax-exempt bonds; intermediate term tax-exempt bonds; long-term tax-exempt bonds; high yield fixed income securities; foreign fixed income securities; and broad fixed income securities;
- the Non-Traditional Assets category, which is comprised of certain asset classes, such as: commodities and commodity-linked instruments; and currencies, cryptocurrencies and currency-linked instruments;
- the Alternative Investment Products category which is comprised of certain asset classes, such as: hedge funds, private equity funds and managed futures; and
- cash.

Asset allocation strategies have varying investment objectives, ranging from growth of capital to preservation of capital. Asset allocation strategies also have varying investment strategies. Some asset allocation strategies use strategic investment strategies, which involve investing Accounts in accordance with a predetermined target allocation to different asset classes. Some asset allocation strategies use tactical

investing, which typically involves tactically and actively adjusting Account allocations to different asset classes based upon the manager's perception of how those asset classes will perform in the short-term. Some asset allocation strategies involve the use of both strategic and tactical investment strategies, sometimes referred to as dynamic strategies.

Asset allocation strategies may be implemented using a variety of investment types, such as individual securities, mutual funds and ETPs. The amount allocated to an asset class or investment type varies by strategy, and some strategies may have little or no allocation to one or more asset classes or types of investments described above.

Baird uses its Capital Market Assumptions in developing its proprietary model asset allocation strategies, including those used by some ICS Consultants. In determining its Capital Market Assumptions, Baird conducts an analysis of different asset classes and the different levels of risk associated with those investments. That analysis involves the consideration of past performance and the use of forward-looking projections that are based upon certain assumptions made by Baird about how markets will perform in the future. There is no assurance that asset classes or markets will perform in accordance with Baird's projections or assumptions. For more information about Baird's Capital Market Assumptions, a client should contact the client's ICS Consultant.

#### **Methods of Analysis**

Baird PWM home office investment professionals, and ICS Consultants may use various forms of security analyses, including the following:

- **Fundamental Analysis.** Fundamental analysis involves an approach to investing through a detailed analysis of specific companies, such as their financial statements and financial ratios, management, competitive advantages and markets, in an attempt to determine the value of an investment. Fundamental analysis may include qualitative and quantitative analyses.
- **Qualitative Analysis.** Qualitative analysis involves 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.** Quantitative analysis is a method of evaluating securities by analyzing a large amount of data through the use of algorithms or models in an attempt to understand behavior, predict market events, market prices, etc., and generate an investment decision. 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.

- *Technical Analysis.* Technical analysis is a method of 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.
- *Top-Down Analysis.* Top-down analysis involves a consideration of certain macroeconomic trends, such as general economic conditions, geographic or market sector performance, fiscal and monetary policy, taxes, or interest rates, to make investment decisions.
- *Bottom-Up Analysis.* Bottom-up analysis involves consideration of factors particular to a particular investment, such as business financials (e.g., balance sheet strength and cash flows), financial ratios (e.g., price-to-earnings ratio), and business fundamentals (e.g., management and product or services performance) to make investment decisions.

If a client selects the Investment Due Diligence Services, the ICS Consultant may perform a quantitative analysis of the investment option's performance coupled with a qualitative screening of the investment option. Quantitative analysis of some investments options may be limited because a holdings-based analysis may not be available. "Holdings-based analysis" determines investment style by examining the actual securities held in a portfolio, and is used as an alternative to returns-based style analysis, which is a method for determining the style of an investment portfolio by analyzing its return performance.

Baird PWM home office investment professionals, and ICS Consultants 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 ICS Consultants may also utilize research reports created by Baird. However, it should be noted that ICS Consultants 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, ICS Consultants may also use the model portfolios or recommended or eligible product lists (described below) made available by Baird's Asset Manager Research Department or other Baird departments, or they may use investment products that Baird has generally deemed to be "available" for use in its advisory programs ("Available Investment Products"). The level of initial and ongoing evaluation, monitoring and review that Baird and its ICS Consultants perform on managers and on investment products varies. Available Investment Products generally do not receive the same level of initial or ongoing evaluation, monitoring or review by Baird as those managers or products that are included in a model portfolio or on a recommended or eligible product list. As a result, Available Investment Products are subject to certain risks. See "Methods of Analysis, Investment Strategies and Risk of Loss—Principal Risks—Available Investment Product Risks" below for more information.

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 or eligible product list, are those which, in Baird's professional judgment, may be appropriate to help the client pursue the client's financial goals. Baird and ICS Consultants do not represent or guarantee that such investment managers or products are or will be the best investment managers or products available.

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

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

#### *Certain PWM-Managed Portfolios*

**Baird Recommended Portfolio.** The Baird Recommended Portfolio, which is managed by Baird's PWM Equity Research team, seeks to outperform the S&P 500 Index by investing in a diversified core portfolio of 35–50 stocks. The portfolio invests primarily in stocks with market capitalization greater than or equal to \$10 billion (large cap). The portfolio may also contain stocks with market caps below \$10 billion but these stocks generally will not represent more than 35% of the total portfolio.



The team's top-down investment approach begins with macroeconomic and market outlooks from Baird's Investment Strategy team. This information is used to underweight or overweight particular industry sectors compared to the S&P 500 Index. Individual stocks are selected with an emphasis on higher quality companies that the team believes have strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. Each stock selected is assigned a weighting as a percentage of the portfolio. No single company stock will comprise more than the greater of 5% of the portfolio or 1.5 times the stock's market weight in the S&P 500 index. Stocks can be sold or positions reduced for a variety of reasons such as valuation, a change in company or industry fundamentals, or a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

**Baird Rising Dividend Portfolio.** The Baird Rising Dividend Portfolio, which is managed by Baird's PWM Equity Research team, seeks to provide a core equity strategy with a portfolio yield above that of the S&P 500 Index. The team's top-down investment approach begins with macroeconomic and market outlooks from Baird's Investment Strategy team. The 30–50 stocks in the portfolio are primarily large cap stocks—as defined by a market capitalization of \$10 billion or greater at the time of investment—and all are above \$5 billion at the time of investment. The team looks for quality companies with strong fundamental characteristics and management, attractive dividend yields, and the ability to increase their dividends. Companies are screened for dividend history and consistency, earnings growth expectations, and balance sheet quality. Each stock selected is assigned a weighting as a percentage of the portfolio. No single company stock will comprise more than the greater of 5% of the portfolio or 1.5 times the stock's market weight in the S&P 500 index. A position can be reduced or removed due to changes in valuation, company fundamentals or the perceived ability to continue to raise its dividend in the future—among a variety of other potential reasons for portfolio changes including a change in industry sector weighting. The Portfolio is intended as a long-term investment strategy.

**AQA Portfolios.** Baird makes available to clients certain Automated Quantitative Analysis ("AQA") Portfolios, which are managed by Baird's PWM Equity Research team. AQA is an analytical tool that seeks to identify stocks of companies that are undervalued by calculating the intrinsic values for the stocks and comparing the calculated values to current market prices. Focusing on a company's past financial performance, AQA analyzes fundamental ratios and trends of the most recent eight-year history of a company and each company in its peer group, excluding estimates of future balance sheet and income statement performance. The analysis is quantitative and ignores certain qualitative information such as company-specific material news and events.

Stocks are ranked from the most undervalued to the most overvalued based on the difference between the values calculated by AQA and current market prices. The stocks identified by AQA as being the most undervalued are then selected for investment. Baird offers the following four (4) AQA Portfolio strategies, each of which invest in undervalued stocks identified using AQA, excluding securities issued by banks, REITS and insurance companies: (1) the AQA All Cap Strategy, which primarily invests in stocks across market capitalizations, generally those included in the S&P 500®, S&P MidCap 400® or S&P SmallCap 600® Indices; (2) the AQA Large Cap Strategy, which primarily invests in large cap stocks, generally those included in the S&P 500® Index; (3) the AQA Mid Cap Strategy, which primarily invests in mid cap stocks, generally those included in the S&P MidCap 400® Index; and (4) the AQA Small Cap Strategy, which primarily invests in small cap stocks, generally those included in the S&P SmallCap 600® Index.

#### *Certain Recommended Lists*

**Baird's Recommended Managers List.** When selecting managers and their strategies ("BRM Strategies") for Baird's Recommended Managers List, Baird seeks registered investment advisory firms having portfolio managers with academic credentials such as a master's degree or participation or completion of the Chartered Financial Analyst ("CFA") program. Baird also looks for a portfolio manager with greater than three (3) 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 on Baird's Recommended Managers List. 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.

Certain investment strategies offered by Baird Equity Asset Management, an investment management department of Baird, have been selected by Baird for inclusion on Baird's Recommended Managers List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated managers for Baird's Recommended Managers List are the same as those used for unaffiliated managers.

**Baird's Recommended Mutual Fund List.** Baird's Recommended Mutual Fund List is designed to include mutual funds across numerous asset classes. When selecting funds for inclusion on the List, Baird generally seeks mutual funds that have investment managers with tenure of at least three (3) 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. Baird's Asset Manager Research Department is primarily responsible for assisting with selecting and evaluating mutual funds included on the List. 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 Baird Recommended Fund List is similar to the process Baird uses to select and remove BRM Strategies described under "Baird's Recommended Managers List" above. Baird's Investment Committee is ultimately responsible for selecting funds included on the List. The Baird Ultra Short Bond Fund, Baird Short-Term Bond Fund, Baird Aggregate Bond Fund, Baird Quality Intermediate Municipal Bond Fund, Baird Core Intermediate Municipal Bond Fund, and Baird Mid Cap Growth Fund, mutual funds affiliated with Baird, have been selected by Baird for inclusion in Baird's Recommended Mutual Fund List. This presents a conflict of interest. However, the criteria used by Baird in deciding to select affiliated mutual funds for Baird's Recommended Mutual Fund List are the same as those used for unaffiliated mutual funds.

**Baird's Recommended Funds of Hedge Fund List.** Baird's Recommended Funds of Hedge Fund List contains a variety of funds of hedge funds ("FOHFs") that pursue various Alternative Strategies or other Complex Strategies. Some FOHFs primarily use credit-oriented investment strategies, which Baird classifies as fixed income diversifiers. Some FOHFs primarily use equity-oriented investment strategies, and classified as equity diversifiers. Other FOHFs use a combination of credit- and equity-oriented strategies, which Baird views as balanced diversifiers. In certain circumstances, FOHFs may be an appropriate substitute for part of a client's allocation to traditional high yield fixed income or equity investments.

To be added to Baird's Recommended FOHF List, a FOHF must generally meet the following requirements: Registered as an Investment Adviser under the Investment Advisers Act of 1940, stable to growing assets under management as determined by Baird, principals with an appropriate level of hedge fund management experience and network of contacts in the industry according to Baird, adequate diversification by number of hedge funds and type of hedge fund strategy in Baird's opinion, effective risk management, and reputable service providers (e.g., auditor, administrator, and legal counsel). Baird also seeks FOHFs that it believes possess one or more unique attributes that may lead to favorable performance relative to their peers going forward.

Before adding a prospective FOHF to the List, Baird's Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the FOHF's responses to a due diligence questionnaire and of marketing and legal documents

(e.g., subscription documentation, limited partnership agreement, and offering memorandum, and the adviser's Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the FOHF identifies, hires, monitors, and terminates individual hedge funds. Baird also evaluates how the FOHF constructs its hedge fund portfolio and manages risk. In addition, Baird undertakes a brief review of the FOHF's third party service providers. At the conclusion of the onsite review, an investment thesis is presented to and discussed with a Baird Investment Committee. The Committee votes on whether to add the FOHF to Baird's Recommended Funds of Hedge Fund List. In making that determination, the Committee considers the information presented, taking into account the merits of the individual FOHF, how that FOHF compares to other FOHFs that Baird offers, and the level of expected demand for the particular FOHF.

After a FOHF is added to Baird's Recommended Funds of Hedge Fund List, it is monitored each quarter, and subsequent onsite reviews periodically take place. As part of its quarterly monitoring, Baird evaluates a FOHF's assets under management and flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), recent changes made to the FOHF portfolio (e.g., hedge funds added or removed), and reasons for performance differences between the FOHF and its benchmark. Subsequent onsite reviews are similar in nature and scope to the initial on-site review.

Baird may place a FOHF on "Watch" status if it has experienced a material event that, in Baird's opinion, may negatively affect the FOHF's performance going forward or possibly lead to the departure of an important member(s) of the FOHF. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any firm that is placed on Watch is evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will remove a FOHF from Watch and return it to active status if, in Baird's opinion, the problem has been or is in process of being adequately addressed. However, Baird will terminate a FOHF from the List if it believes the issue is likely to be long-term and adversely affect the FOHF's future performance.

**Baird's Recommended Funds of Private Equity Funds List.** Baird's Recommended Funds of Private Equity Funds List contains funds of private equity funds that pursue certain Alternative Strategies or other Complex Strategies. These strategies can include buyout, growth equity, venture capital, special situations or distressed investments. The investments are typically structured in the form of primary funds, secondary funds or co-investments. Most will be to "middle market" companies, many of which have above average to high

levels of leverage, or debt relative to equity. In certain circumstances, funds of private equity funds may be an appropriate substitute for part of a client's allocation to traditional equity investments.

To be added to Baird's Recommended Funds of Private Equity Funds List, a fund of private equity fund must generally meet the following requirements: investment advisor registration under the Investment Advisers Act of 1940, stable to growing assets under management as determined by Baird, principals with an appropriate level of private equity management (including workout) experience and network of contacts in the industry as determined by Baird, effective risk management programs, and reputable service providers (e.g., auditor, administrator, and legal counsel). Baird also seeks funds of private equity funds that it believes possess one or more unique attributes that may lead to favorable performance relative to their peers going forward.

Before adding a prospective fund of private equity fund to the List, Baird's Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the fund of private equity fund's responses to a due diligence questionnaire (known as a DDQ or RFI) and of marketing and legal documents (e.g., subscription documentation, limited partnership agreement, offering memorandum, etc.). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the fund of private equity fund makes investment decisions. Baird also evaluates how the fund of private equity fund constructs its portfolio and manages risk. In addition, Baird may undertake a brief review of the fund of private equity fund's third-party service providers. At the conclusion of the onsite review, an investment thesis is presented to and discussed with a Baird Investment Committee. The Committee votes on whether to add the fund of private equity fund to Baird's Recommended Funds of Private Equity Funds List. In making that determination, the Committee considers the information presented, taking into account the merits of the individual fund of private equity fund, how that fund of private equity fund compares to other funds of private equity funds that Baird offers, and the level of expected demand for that particular fund.

After a fund of private equity fund is added to Baird's Recommended Funds of Private Equity Funds List, it is monitored each quarter, and subsequent onsite reviews periodically take place. As part of its quarterly monitoring, Baird evaluates a fund of private equity fund's assets under management and fund flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), recent changes made to the portfolio, and reasons for performance differences between the fund and its benchmark. Subsequent onsite reviews are similar in nature and scope to the initial on-site review.

Baird may place a fund of private equity fund on "Watch" status if it has experienced a material event that, in Baird's opinion, may negatively affect the fund's performance going forward or possibly lead to the departure of an important member(s) of the fund's investment team. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any firm that is placed on Watch is evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will remove a fund of private equity fund from Watch and return it to active status if, in Baird's opinion, the problem has been or is in process of being adequately addressed. However, Baird will remove a fund of private equity fund from the List if it believes the issue is likely to be long-term and adversely affect the fund's future performance.

**Baird's Recommended Private Debt Funds List.** Baird's Recommended Private Debt Fund List contains private debt funds (also known as private credit funds) that pursue certain Alternative Strategies or other Complex Strategies. Private debt funds primarily pursue private debt strategies described above. In certain circumstances, private debt funds may be an appropriate substitute for part of a client's allocation to traditional high yield fixed income or equity investments.

To be added to Baird's Recommended Private Debt Fund List, a private debt fund must generally meet the following requirements: Investment advisor registration under the Investment Advisers Act of 1940, stable to growing assets under management as determined by Baird, principals with an appropriate level of private debt management (including workout) experience and network of contacts in the industry according to Baird, effective risk management, and reputable service providers (e.g., auditor, administrator, and legal counsel). Baird also seeks private debt funds that it believes possess one or more unique attributes that may lead to favorable performance relative to their peers going forward.

Before adding a prospective private debt fund to the List, Baird's Asset Manager Research Department conducts an in-depth due diligence process. The process begins with a review of the private debt fund's responses to a due diligence questionnaire and of marketing and legal documents (e.g., subscription documentation, limited partnership agreement, offering memorandum, and the adviser's Form ADV Part 2A Brochures). This is followed by an onsite review, where Baird meets with one or more principals and analysts to assess how the private debt fund makes investment and liquidation decisions. Baird also evaluates how the private debt fund constructs its portfolio and manages risk. In addition, Baird undertakes a brief review of the private debt fund's third-party service providers. At the

conclusion of the onsite review, an investment thesis is presented to and discussed with a Baird Investment Committee. The Committee votes on whether to add the private debt fund to Baird's Recommended Private Debt Fund List. In making that determination, the Committee considers the information presented, taking into account the merits of the individual private debt fund, how that private debt fund compares to other private debt funds that Baird offers, and the level of expected demand for the particular private debt fund.

After a private debt fund is added to Baird's Recommended Private Debt Fund List, it is monitored each quarter, and subsequent onsite reviews periodically take place. As part of its quarterly monitoring, Baird evaluates a private debt fund's assets under management and flows (subscriptions and redemptions), organizational changes (e.g., personnel changes or new offerings), recent changes made to the private debt fund portfolio, and reasons for performance differences between the private debt fund and its benchmark. Subsequent onsite reviews are similar in nature and scope to the initial on-site review.

Baird may place a private debt fund on "Watch" status if it has experienced a material event that, in Baird's opinion, may negatively affect the private debt fund's performance going forward or possibly lead to the departure of an important member(s) of the private debt fund. Examples include a large decline in assets under management, high rate of redemptions, notable change in the investment or compliance teams, weakening performance, or regulatory problems. Any firm that is placed on Watch is evaluated more closely to determine if the problem is likely to be temporary or long-term, and whether it can be remedied. Baird will remove a private debt fund from Watch and return it to active status if, in Baird's opinion, the problem has been or is in process of being adequately addressed. However, Baird will terminate a private debt fund from the List if it believes the issue is likely to be long-term and adversely affect the private debt fund's future performance.

#### *Certain Eligible Product Lists*

**Baird's ETP Short List.** Baird's ETP Short List is designed to encompass numerous asset classes and varied investment objectives. Baird generally seeks to include ETPs with transparent, experienced sponsors that have stable or growing assets under management and have demonstrated consistent strategy performance over time. Baird tends to favor ETPs that have well-known, diversified benchmark indices, lower fees and tracking errors, and higher trading liquidity relative to other ETPs. Inclusion on or exclusion from the Baird ETP Short List is not meant to be a buy or sell recommendation. Rather, the List is a collection of ETPs that may be appropriate to meet particular client investment goals.

**Managed Futures.** Effective March 1, 2018, Baird ceased maintaining an official list of managed futures funds that are structured as limited partnerships. Therefore, Baird does not, and will not in the future, provide any evaluation, monitoring or review of those funds or their sponsors. A client's decision to invest in, or to maintain an investment in, a managed futures fund is based solely upon the client's own review and evaluation of the fund.

**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 or transparent, and offer full or partial principal protection. If a product does not offer full principal protection, Baird also considers how much principal is exposed to loss, whether, in Baird's judgment, there is reasonable risk/reward trade-off for that exposure, as well as the events that could trigger loss of principal and Baird's belief as to the likelihood of the occurrence of such events.

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

**Available Hedge Funds.** Baird makes hedge funds available to clients in certain Programs sponsored by, affiliated with or offered by Capital Integration Systems LLC or CAIS Capital LLC ("CAIS"). An independent third-party research firm provides research and due diligence materials to Baird on the hedge funds available on the CAIS platform ("Available Hedge Funds"). Clients interested in an Available Hedge Fund or invested in an Available Hedge Fund may obtain those research and due diligence materials from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Hedge Fund, Baird does not conduct its own research or due diligence on any Available Hedge Fund, and Baird does not verify the accuracy of the information contained in the research and due diligence materials.

**Available Private Equity Funds and Funds of Private Equity Funds.** In addition to Recommended Funds of Private Equity Funds, Baird makes private equity funds and funds of private equity funds available to clients in certain Programs sponsored by, affiliated with or offered by CAIS. An independent third-party research firm provides research and due diligence materials to Baird on the private equity funds and funds of private equity funds available on the CAIS platform ("Available Private Equity Funds"). Clients interested in an Available Private Equity Fund or invested in an Available Private Equity Fund may obtain those research and due diligence materials from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Private Equity Fund, Baird does not conduct its own research or due diligence on any Available Private Equity Fund, and Baird does not verify the accuracy of the information contained in the research and due diligence materials. .

**Affiliated Private Equity Funds.** In addition to Recommended Funds of Private Equity Funds and Available Private Equity Funds, Baird makes available to clients private equity funds that are affiliated with Baird ("Affiliated Private Equity Funds"). *Baird does not subject Affiliated Private Equity Funds to the criteria imposed upon Recommended Funds of Private Equity Funds or Available Private Equity Funds described above when making them available to clients, and Baird does not perform any evaluation, monitoring or review of Affiliated Private Equity Funds. This presents a potential conflict of interest. See "Other Financial Industry Activities and Affiliations—Certain Affiliations—Affiliated Private Equity Funds" below.*

**Available Private Debt Funds.** In addition to Recommended Private Debt Funds, Baird makes private debt funds available to clients in certain Programs sponsored by, affiliated with or offered by CAIS. An independent third-party research firm provides research and due diligence materials to Baird on the private debt funds available on the CAIS platform ("Available Private Debt Funds"). Clients interested in an Available Private Debt Fund or invested in an Available Private Debt Fund may obtain those research and due diligence materials from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Private Debt Fund, Baird does not conduct its own research or due diligence on any Available Private Debt Fund, and Baird does not verify the accuracy of the information contained in the research and due diligence materials.

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

**Available Private REITs.** Baird makes private REITs available to clients in certain Programs sponsored by, affiliated with or offered by CAIS. An independent third-party research firm provides research and due diligence materials to Baird on the private REITs available on the CAIS platform ("Available Private REITs"). Clients interested in an Available Private REIT or invested in an Available Private REIT may obtain those research and due diligence materials from Baird upon request. Clients should note that Baird solely relies upon the independent third-party research firm to provide an independent analysis of each Available Private REIT, Baird does not conduct its own research or due diligence on any Available Private REIT, and Baird does not verify the accuracy of the information contained in the research and due diligence materials.

**Other Private Funds.** Baird makes other private funds available to clients in certain Programs that have varying investment objectives and strategies ("Available Private Funds").

#### *Baird Trust Strategies*

Baird makes available to clients five (5) portfolio strategies developed and maintained by Baird Trust ("Baird Trust Strategies") described below. The Baird Trust Strategies invest in a mix of equity securities and ETFs.

(1) The Baird Trust Large Cap Equity strategy invests in a fairly concentrated portfolio of large cap equity securities. This strategy is intended for clients seeking investment in large cap companies as one part of their overall asset allocation. This strategy is generally not intended to be a complete investment program.

(2) The Baird Trust Core + Satellite 100 strategy is a diversified portfolio with a 100% target equity allocation. The strategy uses the Baird Trust Large Cap Equity strategy as the core allocation of the portfolio while providing exposure to satellite asset classes (such as mid cap and small cap companies) through the use of ETFs that principally invest in equity securities. This model does not include fixed income.

(3) The Baird Trust Core + Satellite 70/30 strategy utilizes the Baird Trust Large Cap Equity strategy as the core allocation of the portfolio while providing exposure to satellite asset classes (such as mid cap and small cap companies) and fixed income securities through the use of ETFs that principally invest in equity securities and fixed income securities. This strategy has a target allocation of 70% of its assets to equity securities and 30% of its assets to fixed income securities.

(4) The Baird Trust Core + Satellite 50/50 strategy utilizes the Baird Trust Large Cap Equity strategy as the core allocation portion of the portfolio while providing exposure to satellite asset classes (such as mid cap and

small cap companies) and fixed income securities through the use of ETFs that principally invest in equity securities and fixed income securities. This strategy has a target allocation of 50% of its assets to equity securities and 50% of its assets to fixed income securities.

(5) The Baird Trust Equity Income strategy primarily invests in dividend paying companies that Baird Trust believes have the ability to consistently grow their dividend at attractive rates over the long-term.

#### **Principal Risks**

Risk is inherent in any investment product and Baird does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved, and a client could lose all or a portion of the amount invested. Baird's recommendations are based in part upon the use of forward-looking projections, which in turn are based upon certain assumptions about how markets will perform in the future. There can be no guarantee that markets will perform in the manner assumed and the actual performance of markets and a client's Account could differ materially from those assumptions. 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 investing, a client may be subject to certain risks, including, but not limited to the risks described below. The risks discussed below vary by investment style or strategy, and the investments in the client's Account, and each risk 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 ICS Consultant 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 Risk Information**

General risks of investing 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 ICS Consultant of these considerations so the ICS Consultant 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 ICS Consultant 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, credit risk and liquidity 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. Issuers may experience unanticipated financial problems and may be unable to meet its payment obligations. Municipal obligations in particular may be adversely affected by political and economic conditions and developments (for example, legislation reducing state aid to local governments.) Bonds receiving the lowest investment grade rating or a non-investment grade rating may have speculative characteristics and, compared to higher grade debt obligations, may have a weakened capacity to make principal and interest payments due to changes in economic conditions or other adverse circumstances. Ratings agencies such as Moody's, Fitch and S&P provide ratings on bonds based on their analyses of information they deem relevant. Ratings are essentially opinions or judgments of the credit quality of an issuer and may prove to be inaccurate. In addition, there may be a delay between events or circumstances adversely affecting the ability of an issuer to pay interest and/or repay principal and an agency's decision to downgrade a security.



**Capitalization Size 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.

**Growth and Value Investment Style Risks.** Investment styles or strategies that focus on growth stocks may perform better or worse than styles or strategies that focus on value stocks or that are broader or more diversified. Similarly, investment styles or strategies that focus on value stocks may perform better or worse than styles or strategies that focus on growth stocks or that are broader or more diversified. A particular style of investing may go out of favor at times and for extended periods. Growth stocks are often characterized by high price-to-earnings ratios and may be more volatile than stocks with lower price-to-earnings ratios. Value stocks are subject to the risk that the broader market may not agree with the manager's assessment of, or recognize, the investments' intrinsic value.

**Foreign Issuer and Investment Risks.** Securities of foreign issuers, ADRs, Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs"), and investments in foreign markets generally, 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. Investors in foreign markets may face delayed settlements, currency controls and adverse economic developments as well as higher overall transaction costs. In addition, fluctuations in the U.S. dollar's value versus other currencies may enhance, erode, reverse gains or widen losses from investments denominated in foreign currencies. For instance, foreign governments may limit or prevent investors from transferring their capital out of a country. This may affect the value of a client's investment in the country that adopts such currency controls. Exchange rate fluctuations also may impair an issuer's ability to repay U.S. dollar denominated debt, thereby increasing the credit risk of such debt. 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.

**Emerging Markets Risks.** Investments in emerging markets can involve risks in addition to and greater than those generally associated with investing in more developed foreign markets. The extent of economic development, political stability, market depth, infrastructure, capitalization, and regulatory oversight can be less than in more developed markets. Emerging market economies can be subject to greater social, economic, regulatory, and political uncertainties. All of these factors can make emerging market securities more volatile and potentially less liquid than securities issued in more developed markets.

**ESG Considerations Risk.** Consideration of ESG factors in the investment process may cause an advisor or manager to forgo opportunities to recommend or invest in certain companies or to gain exposure to certain industries or regions. Therefore, there is a risk that, under certain market conditions, an Account pursuing strategies that consider ESG factors may underperform accounts that do not consider such factors. There are not universally accepted ESG factors and advisors and managers typically consider them in their discretion.

**Cybersecurity Risks.** With the increased use of technologies such as the Internet to conduct business, issuers of investments are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting issuers or their service providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the ability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions and other parties. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While issuers and other parties may establish business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in

such plans and systems including the possibility that certain risks have not been identified. As a result, client Accounts and investments could be negatively impacted.

**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. 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.** A money market fund is a type of mutual fund that generally invests in short-term debt instruments. Many investors use money market funds to store cash. There are three primary types of money market funds: (1) government money market funds (funds that invest nearly all assets in cash, government securities, and/or repurchase agreements collateralized by cash or government securities); (2) retail money market funds (funds that have policies and procedures reasonably designed to limit beneficial ownership to natural persons); and (3) institutional money market funds (funds that permit beneficial ownership by institutions and natural persons). The rules governing money market funds vary based on the type of money market fund. Government and retail money market funds generally try to keep their net asset value (NAV) at a stable \$1.00 per share using special pricing and valuation conventions. Institutional money market funds are required to calculate their NAV in a manner such that the NAV will vary based upon the market value of assets and liabilities of the fund (also known as a "floating NAV"). An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although some money market funds 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. 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. In addition, retail and institutional money market funds are required to impose redemption fees

(also known as liquidity fees) and suspend redemptions (also known as redemption gates) in certain circumstances. Government money market funds may also impose redemption fees and suspend redemptions in those same circumstances. More specific information about how a money market fund calculates its NAV and the circumstances under which it will impose a redemption fee or suspend redemptions is set forth in the prospectus for that money market fund.

**Illiquid Securities and Liquidity Risks.** Liquidity risk is the risk that certain investments may be difficult or impossible to sell at the time and price that a client would like to sell. Clients may have to lower the price, sell other investments or forego an investment opportunity, any of which may have a negative effect on the management or performance of client Accounts. The liquidity of a particular investment depends on the strength of demand for the investment, which is generally related to the willingness of broker-dealers to make a market for the investment as well as the interest of other investors to buy the investment. During periods of economic uncertainty, significant economic and market downturns and periods in which financial services firms are unable to commit capital to make a market in, or otherwise buy, certain investments, a client may experience challenges in selling such investments at optimal prices. In addition, recent regulatory changes applicable to financial intermediaries that make markets in debt securities have restricted or made it less desirable for those financial intermediaries to hold large inventories of debt securities. Because market makers provide stability to a market through their intermediary services, a reduction in dealer inventories may lead to decreased liquidity and increased volatility in the fixed income markets.

**Quantitative Strategy 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, an investment 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 investment manager's quantitative methodologies and processes. It is also possible that prices of securities may move in directions that were not predicted by the investment 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.

**Technical Strategy Risks.** Some investment managers may employ technical analysis or investment methodologies to make investment decisions or recommendations. The primary risk of using technical analysis is that past price and volume patterns and trends in the trading markets cannot predict future prices, volume patterns or trends. There is no guarantee that technical investment methods used are designed properly, are updated with new data as it becomes available, or can accurately predict future market or investment performance. In order for technical investment methods to work, there must be sufficient data about the markets available so that trends can be identified and predictions can be made. A technical method may fail to identify trends or be able to accurately predict future prices if a market does not have sufficient data or trends or if the market behaves erratically.

**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. Strategies that involve frequent or active trading increase the management and securities selection risks because the persons managing the Accounts are making more trading decisions, which may prove to be incorrect. A portfolio with a high turnover rate will also 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 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 also can be 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 (High Yield or "Junk" Bonds) Risks.** Investing in securities or other investment products that are not rated, split-rated or are below investment grade (also known as high yield or "junk" bonds) involve significant, special risks. As a result, they may not be suitable for some 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.

**Mutual Fund Risks.** Mutual funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Mutual funds have risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain mutual funds pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of mutual fund selected. Also, investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

**Exchange Traded Fund Risks.** An ETF is different from a mutual fund in that an ETF does not sell its shares directly to public investors and does not redeem shares from public investors. Rather, shares of an ETF

are commonly purchased or sold in the secondary market on a securities exchange, like common stocks. An ETF maintains a net asset value but, based on demand and other factors, the market price of shares of an ETF may vary from its net asset value. ETFs invest in and hold securities and other assets, such as stocks, bonds, commodities and currencies, and have stated investment objectives and principal strategies. ETFs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Many ETFs seek to track the performance of an index or other underlying benchmark. Passively managed ETFs will not be able to replicate exactly the performance of the indices the ETFs track because the total return generated by the securities will be reduced by management fees, transaction costs and other expenses incurred by the ETF. ETFs have other risks, which may include market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain ETFs pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of ETF selected.

**Closed-End Fund Risks.** Unlike mutual funds which continuously offer and redeem their shares on a daily basis at net asset value, closed-end funds typically raise money by selling a fixed number of shares of common stock in a single, one-time offering, much the way a company issues stock in an initial public offering. Closed-end funds can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. Closed-end fund shares are not redeemable, meaning that investors cannot require closed-end funds to buy back their shares, although closed-end fund shares are listed and traded on an exchange. For many reasons, closed-end fund shares often trade at a discount to their net asset value and the market prices of closed end fund shares often fall below their public offering prices. Clients are therefore cautioned about buying shares of a closed-end fund in its initial public offering. Closed-end funds often engage in leverage to raise additional capital for purposes of making investments through borrowings and issuances of senior securities (such as preferred stock). Such leverage may present the opportunity to enhance potential returns but also involve the risk of exacerbating losses and depreciation in the value of the underlying securities. Closed-end funds have other risks, which may include market risk, management and securities selection risk, investment objective and asset

allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain closed-end funds pursue Complex Strategies, which are subject to special risks.* Some closed-end funds are organized as interval funds, which differ from traditional closed-end funds in that their shares do not trade on the secondary market, but instead their shares are subject to repurchase offers from the fund. Closed-end funds structured as an interval fund will, therefore be relatively less liquid. Interval funds also often impose a redemption fee when shares are sold back to the fund. The degree of these and other risks will vary depending on the type of closed-end fund selected.

**Unit Investment Trust Risks.** A UIT is a pooled investment vehicle in which a portfolio of securities is selected by the sponsor and deposited into the trust for a specified period of time. The portfolio of a UIT is designed to follow an investment objective over a specified time period, although there is no guarantee that the objective will be met. UITs can have many different investment objectives and strategies, including equity, fixed income, balanced, international, and global strategies, and strategies that focus on a particular market capitalization, investment style, economic industry or sector, or geographic region. UITs are passively managed and follow a "buy and hold" strategy, meaning that UITs buy a fixed portfolio of securities and hold on to that portfolio until their termination date at which time the portfolio is liquidated with the net proceeds paid to investors. UITs, thus, generally have a relatively higher risk of loss than other funds in the event of adverse changes in market or economic conditions. UITs have other risks, which may include management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Certain UITs pursue Complex Strategies, which are subject to special risks.* The degree of these and other risks will vary depending on the type of UIT selected. Also, investment return and principal value will fluctuate, and units, if and when redeemed, may be worth more or less than their original cost.

**Investment Fund Risks; Purchase and Redemption Risks.** Investment Funds are generally subject to the same risks as the securities or other assets in which they invest. In addition, from time to time Baird, an ICS Consultant, 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.

### **Non-Traditional Assets and Complex Strategies Risks**

**Non-Traditional Assets Risks.** Non-Traditional Assets, such as commodities, currencies, cryptocurrencies, securities indices, interest rates, credit spreads, and private companies, are subject to risks that are different from, and in some instances, greater than, other assets like stocks and bonds. Some Non-Traditional Assets are less transparent and more sensitive to domestic and foreign political and economic conditions than more traditional investments. Non-traditional assets are also generally more difficult to value, less liquid, and subject to greater volatility compared to stocks and bonds.

**Commodities Risks.** Investments in commodities markets or a particular sector of the commodities markets, and investments in securities or other instruments denominated in or indexed or linked to commodities, are subject to certain risks. Those investments generally will subject a client Account to greater volatility than investments in traditional securities. The commodities markets are impacted by a variety of factors, including changes in overall market movements, domestic and foreign political and economic conditions, interest rates, inflation rates and investment and trading activities in commodities. Prices of commodities may also be affected by factors such as drought, floods, weather, livestock disease, embargoes, tariffs and other regulatory developments. The prices of commodities can also fluctuate widely due to supply and demand disruptions in major producing or consuming regions. Certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers or groups of producers. As a result, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities. No active trading market may exist for certain commodities investments, which may impair the value of the investments.

**Currency Risks.** Investments in currencies, and investments in securities or other instruments denominated in or indexed or linked to currencies, are subject to certain risks. Those investments are subject to all of the risks associated with foreign investing generally. In addition, currency markets generally are not as regulated as securities markets. Also, changes in

currency exchange rates could adversely impact the investment. Devaluation of a currency by a country will also have a significant negative impact on the value of any investment denominated in that currency. Currency investments may also be positively or negatively affected by a country's strategies intended to make its currency stronger or weaker relative to other currencies.

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

**Short Sales Risks.** Short selling runs the risk of loss if the price of the securities sold short does not decline below the price at which they were originally sold. This risk of loss is theoretically unlimited, as there is no cap on the amount that the price of a security may appreciate. In addition, a lender may request, or market conditions may dictate, that securities sold short be returned to the lender on short notice, which may result having to buy the securities sold short at an unfavorable price. A client should not engage in short sales unless the client is prepared to experience significant losses in the client's Account.

**Derivative Instrument Risks.** The values of options, convertible securities, futures, swaps, forward contracts and other derivative instruments is derived from an underlying asset, such as a security, commodity, currency, cryptocurrency, or index. Derivative instruments often have risks similar to the underlying asset, however, in certain cases, those risks are greater than the risks presented by the underlying asset. Derivative instruments may experience dramatic price changes and imperfect correlations between the price of the derivative and the underlying asset, which may increase volatility. Derivatives generally create leverage, and as a result, a small movement in the underlying asset's value can result in large change in the value of the derivative instrument. Derivatives are also subject to liquidity risk, interest rate risk, market risk, credit risk, management risk and counterparty risk. The use of these instruments is not appropriate for some clients because they involve special risks. A client should not invest in these instruments unless the client is prepared to experience volatility and significant losses in the client's Account.

**Options Risks.** In purchasing a put or call option, the purchaser faces the risk of loss of the premium paid for the option if the market price moves in a direction opposite to what the purchaser had expected. In selling or writing an option, the seller faces significantly more risk. A seller of a call option faces the risk of significant



loss if the prevailing market price of the underlying security or index increases above the strike price, and a seller of a put option faces the risk of significant loss if the prevailing market price of the underlying security or index decreased below the strike price.

**Hedging Risks.** When a derivative instrument is used as a hedge against an opposite position, any loss on the derivative instrument should be substantially offset by gains on the hedged investment, and vice versa. Although hedging can be an effective way to reduce the investment risk, it may not always perfectly offset one position with another. As a result, there is no assurance that hedging transactions will be effective.

### **Complex Investment Product Risks**

#### **Hedge Funds and Funds of Hedge Fund Risks.**

Hedge funds typically engage in one or more Complex Strategies, including the use of Non-Traditional Assets, short sales, leverage and other derivative instruments. Funds of hedge funds typically invest substantially all of their assets in other hedge funds. Hedge funds and funds of hedge funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Some hedge funds and funds of hedge funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of hedge funds and funds of hedge funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus an incentive or performance-based fee. Because of the existence of a performance-based fee, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Hedge funds and funds of hedge funds are also subject to a higher risk of incorrect valuations. Many hedge funds hold investments for which market quotations are not readily available, which necessitates the use of "fair value" pricing. Fair value pricing is an inherently subjective process and may not accurately reflect the prices that can actually be obtained upon sale of the assets for which fair values are used. Investments in hedge funds and funds of hedge funds also have reduced liquidity compared to other investments and are generally subject to a higher risk of volatility. Investing in hedge funds and funds of hedge funds involves other special risks, including, but not limited to, risks associated with Non-Traditional Assets, short sales, leverage, derivative instruments, and Complex Strategies. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Hedge funds and funds of hedge funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in hedge funds or funds of hedge 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 Funds and Funds of Private Equity Funds Risks.**

Private equity funds are pools of actively managed capital that invest primarily in private companies with the intent of creating value in the companies in which they invest by improving operations, reducing costs, selling non-core assets and maximizing cash flow. Private equity funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes of investments. Funds of private equity funds typically invest substantially all of their assets in other private equity funds. Private equity funds and funds of private equity funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private equity funds and funds of private equity funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private equity funds and funds of private equity funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus an incentive fee or carried interest. Private equity funds and funds of private equity fund are also generally subject to administrative service fees and portfolio company transaction fees. Because of the existence of a carried interest, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private equity funds and funds of private equity funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private equity investing is very risky. Many investments made in portfolio companies are not profitable. In addition, investments made by private equity funds and funds of private equity funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes of companies. Investing in private equity funds and funds of private equity funds involves other special risks, including, but not limited to, dependence upon key personnel and conflicts of interest risks. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *Private equity funds and funds of private equity funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients investing in private equity funds and funds of private equity funds should have a high tolerance for risk, including the willingness and ability to accept lack of liquidity and potential loss of their investment.*

#### **Private Debt Funds (or Private Credit Funds) and Funds of Private Debt Funds.**

Private debt funds (also



known as private credit funds) are pools of actively managed capital that invest primarily in loans or debt instruments issued by companies in private transactions. Sometimes, repayment of the loan is secured by assets of the companies obtaining the loans. However, the companies often have low or no credit ratings. Thus, investments held by private debt funds generally are subject the same risks as below investment grade or "junk" bonds. Trading markets for the investments held by those funds are also limited and their investments may be illiquid. Oftentimes, the interest rate paid by the companies is determined by a reference interest rate, such as the federal funds rate, which is periodically reset. These types of investments are sometimes referred to as floating rate corporate debt, floating rate loans or floating rate bank loans. Private debt funds usually have an investment objective or strategy that may focus on companies in certain sectors, industries, geographic regions, size ranges or stages of development or operations, or on certain types and sizes, including focusing investments on smaller capitalization, distressed or bankrupt companies. Private debt funds commonly use borrowings or leverage to make investments. Funds of private debt funds typically invest substantially all of their assets in other private debt funds. Private debt funds and funds of private debt funds have unique tax characteristics. A client should consult with a tax advisor before investing in those funds. Private debt funds and funds of private debt funds are subject to limited regulation and offer limited disclosure and transparency. Also, the costs of private debt funds and funds of private debt funds are typically higher than other types of funds. Investment advisers or managers for those funds often receive a management fee plus a performance fee. Private debt funds and funds of private debt fund are also generally subject to operational expenses and transaction fees. Because of the existence of a performance fee, fund managers may be motivated to make riskier investments that have the potential for significant growth in value. Investments in private debt funds and funds of private debt funds also have reduced liquidity compared to other investments. Investors should not expect to receive distributions from a fund for a number of years. Private debt investing is very risky. Investments made by private debt funds and funds of private debt funds may be concentrated in one or more economic industries or sectors, geographic regions, stages of development or operation, or sizes. Investing in private debt funds and funds of private debt funds involves special risks, including, but not limited to, dependence upon key personnel, conflicts of interest risks, market risk, management and securities selection risk, investment objective and asset allocation risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, emerging market risk, illiquid securities and liquidity risks, concentration risks, investment fund risks, currency risks and leveraging risks. *Private debt funds and funds of private debt funds are complex investments that have significant, special risks. As a result, they may not be suitable for some clients. Clients*

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

**Exchange Traded Notes Risks.** 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, or other non-traditional asset type, a group or basket of companies, securities, commodities, currencies, derivative instruments, non-traditional asset investments or other assets, or an index or other benchmark linked to stocks, market volatility, bonds, interest rates, Treasury yields, yield curves and spreads, derivative instruments, 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, risks associated with Non-Traditional Assets and derivative instruments and the risk that the actual market price for an ETN may vary significantly from the indicative value computed by the issuer. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, capitalization risk, investment style risk, foreign issuer and investment risk, and emerging market risk. *ETNs are complex investments and involve significant, special risks. As a result, ETNs may not be suitable for some clients.*

**Managed Futures Risks.** Managed futures are commodity pools (typically structured as investment partnerships) managed by a futures trading adviser that trade speculatively in various derivative instruments and other investments. There are significantly higher fees and expenses associated with investments in managed futures than other types of funds. Sponsors or managers for these pools often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to make riskier investments that have the potential for significant growth in value.

Managed futures may seek exposure to different asset classes, such as equity securities, fixed income securities, commodities (such as metals, agricultural products, and energy products), currencies, interest rates, and indices. Managed futures often obtain this exposure through derivative instruments, which may be traded on U.S. or foreign exchanges or markets. 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, liquidity risks and risks associated with commodities, currencies, and other Non-Traditional Assets, leverage, derivative instruments and Complex Strategies. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *Managed futures can be speculative investments because of the types of investments they make and they involve significant, special risks. As a result, they may not be suitable for some clients. 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 Fund and Inverse Fund Risks.** Leveraged funds and inverse funds may be structured as ETNs, ETFs or open-end mutual funds. Leveraged funds seek to deliver multiples of the performance of the index or benchmark they track. Inverse funds seek to deliver the opposite of the performance of the index or benchmark they track. Leveraged inverse funds seek to achieve a return that is a multiple of the inverse performance of the underlying index. Most leveraged and inverse funds “reset” daily, meaning that they are designed to achieve their stated objectives 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 can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. To achieve their objectives, leveraged and inverse funds typically employ aggressive investment techniques, such as the use of leverage, short sales, swap contracts, futures, options and other derivative instruments. Investing in leveraged funds and inverse funds involves special risks, including, but not limited to, risks associated with Non-Traditional Assets, short sales, leverage, and derivative instruments. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *Leveraged funds and inverse funds are complex investments that have an increased risk of loss compared to other funds and they involve significant, special risks. As a result, they may not be*

*suitable for some clients. 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 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 a foreign currency or basket of foreign currencies. Investing in structured products involves special risks, including, but not limited to, risks associated with derivative instruments. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, interest rate risk, credit risk, foreign issuer and investment risk, emerging market risk, commodities risk and currency risk. *Structured products are complex investments and involve special risks. As a result, they may not be suitable for some clients.*

**Real Estate Investment Trusts Risks.** 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). There is no public trading market for private REITs and the sole method for disposing of the shares may be limited to a periodic offer to redeem the shares by the issuer, if the issuer offers a redemption program. Private REITs are generally subject to limited regulation and offer limited disclosure and transparency. 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. Prices of REIT securities and trading volumes may be more volatile than other investments. Many REITs focus on a particular sector of the real estate market, such as apartments, student housing, hotels and hospitality, health care, office buildings, shopping malls, warehouses, self-storage facilities and the like. Those REITs are subject to risks associated with sectors in which they are focused. Additionally, many REITs may own properties that are

concentrated in a particular geographic region or regions, which subject them to the risk of deteriorating economic conditions in those areas. Investing in REITs involves other special risks, including, but not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), liquidity risk, leverage risk, distribution risk, capital markets access risk, growth risk, counterparty risk, conflicts of interest risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, interest rate risk, credit risk, foreign issuer and investment risk, and emerging market risk. *REITs involve significant, special risks and may not be suitable for some clients. 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.** 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. As a result, investments made by BDCs tend to be risky and speculative. Investment advisers or managers for BDCs often receive a management fee plus incentive or performance-based fee. Because of the existence of a performance-based fee, managers may be motivated to make riskier investments that have the potential for significant growth in value. BDCs commonly use borrowings or leverage to make investments in portfolio companies. Adverse interest rate movements can negatively impact a BDC's ability to make investments. Investments made by BDCs are typically illiquid, and valuing such investments is challenging. It is possible that valuations on investments used are materially different from the values that BDCs will ultimately receive upon disposition of those investments. Changing market and economic conditions affecting a BDC's investments may cause significant volatility in the BDC's net asset value and stock price. Due to the nature of BDCs' investments, securities issued by BDCs are subject to greater liquidity risk than other investments. 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. Investing in BDCs involves other special risks, including, but not limited to, portfolio company credit and investment risk, leverage risk, capital markets access risk, dependence upon key personnel risk, and regulatory risk. Other risks may include: market risk, management and securities selection risk, investment objective and asset allocation risk, stock market risk, equity securities risk, common stock risk, fixed income securities risk, and interest rate risk. *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 some clients. 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.** An MLP is a form of publicly-traded partnership that is taxed as a partnership. MLPs have unique tax characteristics. A client should consult with a tax advisor before investing in MLPs. 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. Owners 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. Many MLPs focus on a particular sector or industry. Those MLPs are subject to risks associated with sectors or industries in which they are focused. The value of an investment in an MLP and the amount of distributions it makes may depend on the prices of the underlying commodity, such as oil or natural gas. Many MLPs are sensitive to changes in the prevailing level of commodity prices. MLPs have also shown sensitivity to interest rate movements. Investing in MLPs involves other special risks, including, but not limited to, macroeconomic risk, interest rate risk, liquidity risk, operating risk, capital markets access risk, growth risk, distribution risk, conflicts of interest risk, and regulatory risk. *MLPs are complex investments that have significant, special risks. As a result, MLPs may not be suitable for some clients. 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.*

**Additional information about certain Complex Investment Products and other investments pursuing Complex Strategies, including the risks associated with those investments, is available on Baird's website at [bairdwealth.com/retailinvestor](https://bairdwealth.com/retailinvestor). A client is encouraged to read the disclosure documents included on those websites carefully before investing.**

#### **Available Investment Product Risks**

The use of Available Investment Products are subject to additional risks compared to the use of Baird recommended investment products. Available Investment Products are investment products that generally do not meet the qualifications and standards that Baird establishes for its recommended product lists. As a result, there is a higher likelihood that some Available Investment Products will have poor performance and will significantly underperform

compared to an applicable benchmark index or peer group. Available Investment Products are also subject to significantly less rigorous review by Baird compared to recommended investment products. Thus, if an Available Investment Product experiences significant performance problems or if the manager or sponsor of an Available Investment Product experiences significant management, organizational, operational, compliance, legal, regulatory or other problems, there is a higher risk that the Available Investment Product will be made available (and will continue to be made available) to clients by Baird. An investment by a client in an Available Investment Product that experiences the occurrence of any such event could negatively impact the client's Account. Available Investment Products should only be used by a client if the client wishes to take more responsibility for monitoring and managing the assets in the client's Account, the list of recommended products does not contain an investment product that meets the client's particular needs, and the client understands the risks of doing so.

### Recent Events

Russia's ongoing war with Ukraine has heightened global geopolitical tensions, resulting in an elevated risk environment and increased volatility in asset prices. The uncertain course of the war may have a significant negative impact on the global economy. U.S. relations with China have become increasingly strained, and tensions between the U.S. and China may have a significant negative impact on the global economy and asset prices.

The current level of political discord in U.S. politics is high and control of Congress is currently split between the two parties. As a result, the inability of the government to effectively address domestic or international issues may increase risk and raise the level of market volatility.

Measures of inflation reached levels not experienced in several decades, leading the Federal Reserve to raise short term interest rates significantly over the last year, with the potential for further rate increases in 2023. Uncertainty regarding the ability of the Federal Reserve to successfully control inflation, the potential for incremental rate increases, and the full impact of prior rate increases on the economy, such as disruption in the banking sector, may negatively impact asset prices and increase market volatility. The possibility of a U.S. or global recession may also contribute to market volatility.

The coronavirus (COVID-19) pandemic caused significant economic disruption in recent years as countries worked to limit the negative health impacts of the virus. While the virus appears to be entering an endemic stage, significant outbreaks or new variants present a continued risk to the global economy.

It is possible that these or other geopolitical events may cause market disruptions or could have an adverse effect on a client's Account.

### Disciplinary Information

In April 2016, Baird, without admitting or denying the findings, consented to the sanctions and findings of FINRA that it violated NASD Conduct Rule 3010, FINRA Rule 3110, and FINRA Rule 2010, by failing to establish and maintain a supervisory system and procedures reasonably designed to ensure that customers who purchased mutual fund shares received the benefit of applicable sales charge waivers. In May 2015, Baird began a review to determine whether Baird had provided available sales charge waivers to eligible customers. Based on this review, in May 2015, Baird self-reported to FINRA that various eligible customers had not received available sales charge waivers. Baird was found to have disadvantaged certain retirement plan and charitable organization customers that were eligible to purchase Class A shares in certain mutual funds without a front-end sales charge. The findings also stated that these customers were instead sold Class A shares with a front-end sales charge or Class B or C shares with higher ongoing fees and the potential application of a contingent deferred sales charge. Baird was censured and required to pay restitution to affected customers estimated to be approximately \$2.1 million including interest.

In July 2016, Baird, without admitting or denying the findings, consented to the sanctions and to the entry of findings of FINRA that the firm and a firm supervisor within its Private Wealth Management business did not reasonably supervise a former Financial Advisor who misused a customer's funds. The findings stated that the supervisor did not reasonably follow-up on red flags associated with a trade correction request submitted by the Financial Advisor that should have alerted him to the Financial Advisor's misuse of a customer's funds. The supervisor also did not follow certain of Baird's written supervisory procedures ("WSPs") relating to trade corrections. After the supervisor realized that the Financial Advisor misused the customer's funds, Baird reimbursed the customer for the loss. The findings also included that Baird did not establish and maintain a supervisory system, including WSPs, for correcting trade errors that was reasonably designed to ensure compliance with applicable securities laws, regulations and rules. Baird was censured and fined \$200,000.

In September 2016, the SEC announced that Baird, without admitting or denying the findings, consented to the sanctions and findings of the SEC that it violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder by failing to adopt and implement adequate policies and procedures to track and disclose trading away practices by certain of the subadvisors participating in Baird's wrap fee programs offered through its Private Wealth Management Department. Through these programs, Baird's advisory clients pay an



annual fee in exchange for receiving access to select subadvisors and trading strategies, advice from Baird's financial advisors, and trade execution services through Baird at no additional cost. However, if a subadvisor chooses not to direct the execution of particular equity trades through Baird in order to fulfill its best execution obligation and the executing broker charges a commission or fee, Baird's advisory clients often are charged additional commissions or fees for those transactions, which is often embedded in the price paid or received for the security. This practice is referred to as "trading away" and these types of trades are frequently called "trade aways." Baird was found to have failed to adopt or implement policies and procedures designed to provide specific information to Baird's clients and financial advisors about the costs of trading away. Baird agreed to provide additional disclosure to clients and review and, as necessary, update its policies and procedures. Baird also was ordered to cease and desist committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder and pay a civil money penalty in the amount of \$250,000.

In March 2019, Baird, without admitting or denying the findings, consented to an order of the SEC, which found that it violated Sections 206(2) and 207 of the Advisers Act for making inadequate disclosures to advisory clients about mutual fund share classes. The order was part of a voluntary self-reporting program initiated by the SEC called the "Share Class Selection Disclosure (or SCSD) Initiative." Under the program, investment advisory firms were offered the opportunity to voluntarily self-report violations of the federal securities laws relating to mutual fund share class selection and related disclosure issues and agree to settlement terms imposed by the SEC, including returning money to affected investment advisory clients. The central issue identified by the SEC was that, in many cases, investment advisory firms bought for or recommended to their investment advisory clients mutual fund share classes that had distribution or service fees (commonly known as 12b-1 fees) paid out of fund assets to the firms when lower-cost share classes were available to those advisory clients, and the investment advisory firms did not adequately disclose their receipt of 12b-1 fees and/or the conflict of interest associated with those 12b-1 paying share classes. Baird and many other firms self-reported under the program and entered into substantially identical orders. By self-reporting and consenting to the order, Baird agreed to a censure and to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 207 of the Advisers Act. Baird also agreed to establish a distribution fund and to deposit into that fund the improperly disclosed 12b-1 fees received by Baird plus prejudgment interest, which will be paid to affected advisory clients. More information about the order is contained in Baird's Form ADV, which is available on the SEC's Investment Advisory Public Disclosure website at <https://www.adviserinfo.sec.gov/IAPD/Default.aspx> or

in the SEC's press release about the SCSD Initiative at <https://www.sec.gov/news/press-release/2019-28>.

In June 2019, Baird, without admitting or denying the findings, consented to the sanctions and to the entry of findings of FINRA that between late April 2013 and early July 2013 it published research reports about an issuer without disclosing that the research analyst who authored the reports was engaged in employment discussions with the issuer that constituted an actual, material conflict of interest and that the failure to disclose the research analyst's employment discussions with the issuer in the research reports made those reports misleading. Baird was censured and fined \$150,000.

In September 2022, Baird, without admitting or denying the findings, consented to the entry of findings of FINRA, which found that it charged certain brokerage customers an unfair commission when it charged its published minimum commission amount of \$100 on 7,277 retail equity trades and failed to establish and maintain a supervisory system reasonably designed to prevent charging a customer a commission that is unreasonable or unfair in violation of FINRA Rules 3110, 2121, and 2010. Baird also consented to a censure, a fine in the amount of \$150,000, and the payment of restitution of \$266,481 plus interest. The findings related to FINRA's routine examination of Baird in 2020. Following that examination, Baird modified its minimum commission schedule and supervisory procedures. Baird also took steps to make payments to the affected customers, which on average amounted to \$36.62 per trade and \$57.64 per customer. Baird will continue to make efforts to ensure that it charges fair prices and commissions on all securities transactions with its customers.

In September 2023, Baird entered into an Offer of Settlement with the SEC, in which it admitted that it violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder for failing to maintain records of certain business-related communications made by Baird associates when they used their personal devices ("off-channel communications") and for failing to supervise its associates' business-related communications. The settlement was related to an SEC risk-based initiative, whereby the SEC investigated a large number of financial services firms to determine whether those firms were properly retaining business-related text and instant messages and other off-channel communications sent and received on employees' personal devices. Following the commencement of the SEC's initiative, Baird cooperated with the SEC and conducted voluntary interviews of a sampling of Baird supervisors to gather and review messages found on their personal devices. While Baird had policies and procedures in place prohibiting such off-channel communications, it was discovered that certain Baird supervisors communicated



off-channel using non-Baird approved methods on their personal devices about Baird's broker-dealer and investment adviser businesses, and the findings were reported to the SEC. Baird took steps prior to and after the SEC's review, including implementing a new communication tool designed for Baird associates' personal devices, conducting training, and periodically requiring requisite associates to provide an attestation relating to their business-related communications. As part of the settlement, Baird was censured and ordered to cease and desist from future violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and Section 204 of the Advisers Act and Rule 204-2(a)(7) thereunder and to pay a civil monetary penalty of \$15 million. In addition, Baird agreed to certain undertakings, including retaining an independent compliance consultant to conduct a review of Baird's policies and procedures, training, surveillance program, technology solutions and similar matters related to off-channel communications.

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 also affiliated with certain broker-dealers, investment advisors, other financial services firms and investment products that are identified below. Certain Baird associates and certain management persons of Baird may invest in those investment products.

From time to time, Baird and its ICS Consultants may recommend that clients retain the services of financial services firms or invest in investment products that are affiliated with Baird. Such a recommendation of affiliated financial services firms or investment products creates a potential conflict of interest because Baird, its ICS Consultants and its affiliates may receive higher aggregate compensation if clients retain affiliated firms or invest in affiliated investment products instead of retaining unaffiliated firms or investing in unaffiliated investment products. Baird addresses this potential conflict through disclosure in this Brochure. Further, when acting as fiduciaries, Baird and its ICS Consultants are required to 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 generally the same as those used for unaffiliated investment products.

### Broker-Dealer Activities

Baird is engaged in a broad range of broker-dealer 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 associates 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.

### Investment Management Activities

Baird and its ICS Consultants may, from time to time refer clients to Baird Advisors or Baird Equity Asset Management, investment management departments of Baird, or Chautauqua Capital Management ("CCM"), a division of Baird Equity Asset Management. ICS Consultants are eligible for referral compensation to be paid by Baird that is based upon, among other factors, the compensation received by Baird. *ICS Consultants may have a financial incentive to recommend to clients the services of those Baird investment management departments over the services provided by other investment managers.*

Certain investment strategies offered by Baird Equity Asset Management have been selected by Baird for inclusion on Baird's Recommended Managers List. *Baird has a financial incentive to favor Baird Equity Asset Management because Baird receives more compensation if Baird Equity Asset Management manages a client's Account rather than other unaffiliated managers.*

### Certain Affiliations

#### Affiliated Broker-Dealers

Baird is affiliated, and may be deemed to be under common control, with Strategas Securities, LLC ("Strategas Securities"), which is registered with the SEC as a broker-dealer and investment adviser, by virtue of their common indirect ownership by BFG. *Due to its affiliation with Strategas Securities, Baird has a financial incentive to favor Strategas Securities' investment products and services.*

#### Affiliated Investment Advisors

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. Additional information about Riverfront is available in Riverfront's Form ADV Part 2A Brochure. *Due to its affiliation with Riverfront, Baird has a financial incentive to favor Riverfront investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Greenhouse and Greenhouse Fund GP LLC ("Greenhouse GP") by virtue of BFG's indirect minority ownership of Greenhouse and BFG's

representation on the board of managers of Greenhouse GP. From time to time, ICS Consultants may use or recommend Greenhouse or Greenhouse GP investment products and services. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor their investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Strategas Asset Management, LLC ("Strategas"), by virtue of their common indirect ownership by BFG. *Due to its affiliation with Strategas, Baird has a financial incentive to favor Strategas investment products and services.*

Baird is affiliated, and may be deemed to be under common control, with Gamma Investing, LLC ("Gamma") by virtue of BFG's and Riverfront's indirect minority ownership of Gamma and BFG's and Riverfront's representation on the board of directors of Gamma.

Baird is related to LoCorr by virtue of BFG's indirect minority ownership of the holding company of LoCorr and BFG's representation on such holding company's board of managers. From time to time, ICS Consultants may use or recommend LoCorr investment products and services. *Due to its relation to LoCorr, Baird has a financial incentive to favor LoCorr investment products and services.*

#### **Affiliated Mutual Funds, ETFs and Investment Companies**

Baird is the investment adviser and principal underwriter for Baird Funds, Inc. (the "Baird Funds"). Baird Advisors provides investment management, administrative, and other services to certain Baird Funds investing primarily in fixed income securities (the "Baird Bond Funds"). Baird Equity Asset Management provides investment management and other services to certain Baird Funds investing primarily in equity securities (the "Baird Equity Funds"), and Greenhouse is the investment subadvisor to one of those Funds, the Baird Equity Opportunity Fund. CCM provides investment management and other services to certain Baird Funds pursuing global or international investment strategies (the "Chautauqua Funds"). As compensation for its services, Baird receives fees from each Baird Fund, which fees are disclosed in each Fund's prospectus and statement of additional information available on Baird's website at [bairdassetmanagement.com/baird-funds](http://bairdassetmanagement.com/baird-funds). Certain Baird Funds have been selected by Baird for inclusion on Baird's Recommended Mutual Fund List. *Baird has a financial incentive to favor the Baird Funds and Chautauqua Funds because Baird receives more compensation if a client invests in the Baird Funds or Chautauqua Funds rather than other unaffiliated funds.*

ICS Consultants who refer clients to the Baird Funds or Chautauqua Funds are eligible for 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 each Fund's statement of additional information available on Baird's website at [bairdassetmanagement.com/baird-funds](http://bairdassetmanagement.com/baird-funds). *ICS Consultants may have a financial incentive to favor investments in those Funds over investments in other mutual funds and to favor the Baird Equity and Chautauqua Funds over the Baird Bond Funds.*

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

Baird Advisors also serves as investment sub-adviser to two sub-funds of PrivilEdge, a Société d'Investissement à Capital Variable (SICAV) (an investment company with variable capital) organized under the laws of Luxembourg. Baird receives compensation for the services provided to those sub-funds.

Baird Equity Asset Management serves as investment sub-adviser to a mutual fund series of the Principal Funds, Inc. and Baird receives compensation for those services. Additional information about that mutual fund, including information relating to the fees paid by that fund for investment management services, is available in the fund's prospectus and statement of additional information.

CCM serves as investment sub-adviser to a mutual fund series of the Pace® Select Advisors Trust and Baird receives compensation for those services. Additional information about those mutual funds, including information relating to the fees paid by those funds for investment management services, is available in the funds' prospectus and statement of additional information.

Baird acts as a portfolio consultant for certain UITs that are part of the FT Series, including the DIT Global Portfolio Series, the Dividend Income Trust Series, the Automated Quantitative Analysis (AQA®) Portfolio Series and the AQA® Large-Cap Portfolio Series. Baird also acts as administrator for certain closed-end funds sponsored by Duff & Phelps Investment Management Co., including DNP Select Income Fund, Inc., Duff & Phelps Utility and Corporate Bond Trust, Inc., and DTF Tax Free Income Fund Inc. Additional information about those investment products, including information relating to the compensation paid to Baird is available in the applicable prospectus and other fund documents. Those investment products are made available to clients. *Due to its affiliation with those investment products, Baird has a financial incentive to favor those investment products.*

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 and First Trust Exchange-Traded Fund III. 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.*

Strategas acts as investment advisor to the Strategas Global Policy Opportunities ETF and the Strategas Macro Thematic Opportunities ETF and acts as investment sub-adviser for the Destinations Large Cap Equity Fund. Strategas Securities is a sponsor of Strategas Trust, a unit investment trust organized in series, which series currently consists of Strategas Trust, Series 1-1 (Strategas Policy Basket Portfolio). Additional information about those investment products, including information relating to the compensation paid to Strategas and Strategas Securities, is available in the applicable prospectus. Those investment products are made available to ICS clients. *Due to its affiliation with Strategas and Strategas Securities, Baird has a financial incentive to favor those investment products.*

LoCorr acts as investment advisor to the LoCorr Funds. The LoCorr Funds are made available to clients through the Services. *Due to its relationship with the LoCorr Funds, Baird has a financial incentive to favor the LoCorr Funds.*

#### **Affiliated Private Funds**

CCM acts as investment manager for, and Baird is the general partner or manager of, the Chautauqua International Growth Equity QP Fund, LP, the Chautauqua Global Growth Equity QP Fund, LP and the Chautauqua New World Growth Equity Series (a series of Chautauqua Series Fund, LLC) (the "Chautauqua Private Funds"). Those funds are private pooled investment vehicles that are not required to be registered with the SEC as investment companies. *Due to their affiliation with the Chautauqua Private Funds, Baird Equity Asset Management, CCM and Baird have a financial incentive to favor those funds.*

#### **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 ICS Consultants may refer clients to Baird Capital. The private equity funds offered through Baird Capital make venture capital, growth equity and private equity investments primarily in the healthcare, technology and services, and products sectors. The private equity funds offered through Baird Capital and the investment adviser entities that manage them are set forth below.

#### Certain Baird Capital-Related Entities

##### *Investment Advisor Private Equity Fund(s)*

*Baird Venture Partners Management Company I, L.L.C.*

Baird Venture Partners I(B) Limited Partnership

*Baird Venture Partners Management Company III, LLC*

Baird Venture Partners III Limited Partnership

BVP III Affiliates Fund Limited Partnership

BVP III Special Affiliates Limited Partnership

*Baird Venture Partners Management Company IV, LLC*

Baird Venture Partners IV Limited Partnership

BVP IV Affiliates Fund Limited Partnership

BVP IV Special Affiliates Limited Partnership

*Baird Venture Partners Management Company V, LLC*

Baird Venture Partners V Limited Partnership

BVP V Affiliates Fund Limited Partnership

BVP V Special Affiliates Fund Limited Partnership

*Baird Capital Partners Management Company V, LLC*

Baird Capital Partners V Limited Partnership

BCP V Affiliates Fund Limited Partnership

BCP V Special Affiliates Limited Partnership

*Baird Capital Management Company, LLC*

*Baird Venture Partners GP VI, LLC*

Baird Venture Partners VI LP

BVP VI Affiliates Fund LP

BVP VI Special Affiliates Fund LP

*Baird Capital Global Fund Management I LP*

Baird Capital Global Fund I LP

Baird Capital Global Fund I-DE LP

BCGF I Special Affiliates LP

BCGF I Affiliates Fund LP

*Baird Capital Global Fund Management II LLC*

Baird Capital Global Fund II Limited Partnership

BCGF II Affiliates Fund Limited Partnership

BCGF II Special Affiliates Limited Partnership

*Baird Capital Partners Europe Limited\**

Baird Capital Partners Europe Fund L.P.

Baird Capital Partners Europe II LP

Baird Capital Partners Europe II Special Affiliates LP

The Growth Fund

\* Baird Capital Partners Europe Limited, an English limited company, is regulated and authorized by the Financial Conduct Authority.

ICS Consultants who assist in obtaining a client's investment in a private equity fund offered through

Baird Capital are eligible for 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 in the documentation the client receives in connection with the investment. *Due to Baird's affiliation with those private equity funds and the referral compensation paid to ICS Consultants, Baird and its ICS Consultants have a financial incentive to favor those private equity funds.*

The Baird Principal Group is a group within Baird that has private equity funds where investors are limited to Baird employees and Baird affiliated entities. These funds generally co-invest with unaffiliated private equity funds and private equity professionals in transactions in the United States and Europe. The private equity funds offered through Baird Principal Group and the investment adviser entities that manage them are set forth below.

#### Certain Baird Principal Group-Related Entities

##### **Investment Advisor      Private Equity Fund(s)**

*Baird Principal Group Management Company I, LLC*

Baird Principal Group Partners Fund I Limited Partnership

*Baird Principal Group Management Company II, LLC*

Baird Principal Group Partners Fund II Limited Partnership

*Baird also has a financial incentive to the extent it would recommend that a client invest in a portfolio company owned by an affiliated private equity fund. A list of the portfolio investments held by private equity funds affiliated with Baird is located on Baird Capital's website at <https://www.bairdcapital.com/portfolio/baird-capital-portfolio.aspx>.*

#### **Affiliated Hedge Funds**

Greenhouse acts as investment manager for, and Greenhouse GP is the general partner of, the Greenhouse Master Fund LP and the Greenhouse Onshore Fund LP. Greenhouse also acts as investment adviser for the Greenhouse Overseas Fund Ltd. Those funds are hedge funds that are not required to be registered with the SEC as investment companies. The Greenhouse Onshore Fund LP is available to clients. *Due to its affiliation with Greenhouse and Greenhouse GP, Baird has a financial incentive to favor those hedge funds.*

#### **Other Affiliated Financial Services Firms**

Baird is affiliated, and may be deemed to be under common control, with Baird Trust, a Kentucky-chartered trust company, by virtue of their common indirect ownership by BFG. Certain Baird Trust investment products and services, such as the Baird Trust

Strategies, are made available to ICS clients. *Due to its affiliation with Baird Trust, Baird has a financial incentive to favor Baird Trust investment products and services.*

Baird and ICS Consultant receive compensation from Baird Trust for referring clients and providing ongoing relationship management services to clients engaging Baird Trust for trust administration services as described under the heading "Advisory Business—Additional Service Information—Trust Services Arrangements" above. *Baird and ICS Consultants thus have a financial incentive to favor Baird Trust over other trust companies.*

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

Baird has business relationships with many investment managers, including those participating in the Services, separate and apart from the Services. Other investment management firms may select Baird, in its capacity as a broker-dealer, to execute portfolio trades for their clients, including for Investment 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 Investment 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 or its investment products for Baird's advisory programs (including when Baird constructs its Recommended Managers List 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.

Certain Baird associates from time to time may provide clients with tax return preparation, bill pay or related services. In some instances, the fee for those services may be bundled with the Advisory Fee. A client should understand that the provision of such services is separate from, and not related to, the Services offered under this Brochure and will be governed by an agreement separate from the client's advisory



agreement with Baird. *A client should understand that Baird and its associates do not act as investment adviser or fiduciary to the client when providing tax return preparation, bill pay or related services to the client.*

## **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 ICS Consultants, their supervisors, and certain associates who have access to non-public information relating to advisory client accounts ("Access Persons"). The Code prohibits Access Persons from using knowledge about advisory client account transactions to profit personally, directly, or indirectly, by trading in his or her personal accounts. The Code also generally prohibits Access Persons from executing a security transaction for their personal accounts during a blackout period one business day 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 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. 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**

### *Investment Advisory Accounts*

Asset-based Advisory Fee arrangements create an incentive for Baird and ICS Consultants to set the applicable fee rate at a high level and to encourage clients to add more money into their accounts. Baird and ICS Consultants also have an incentive to recommend an investment advisory account to a client rather than a brokerage account if the client has, or is expected to have, lower levels of trading activity in the client's Account. Select clients may pay a fixed dollar fee, which presents a conflict in that such fee does not give the ICS Consultant an incentive to make recommendations that could benefit the client's Account, or a performance or incentive fee, which presents a conflict because it gives the ICS Consultant an incentive to recommend riskier investments in order to achieve the level of performance in the Account that would result in payment of the fee.

### *Accounts and Investments Provide Different Levels of Compensation*

The accounts and investments Baird offers provide Baird different levels of compensation. Baird and ICS Consultants have an incentive to generate revenues from client Accounts and to offer investment products and make recommendations that will provide them the greatest level of compensation.

### *Recommendations of Proprietary or Affiliated Funds and Managers*

Baird and ICS Consultants have an incentive to recommend proprietary or affiliated funds or managers because when client's invest in affiliated funds or select an affiliated manager to manage client Accounts, they will make more money. See "Other Industry Activities and Affiliations—Certain Affiliations" above and "List of Affiliated Companies, Funds and Managers" on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

### *Referral Compensation Paid to ICS Consultants*

ICS Consultants receive additional compensation for referring clients to certain of Baird's proprietary or affiliated funds or managers described above. Such special compensation and referral fees give ICS Consultants an incentive to recommend or refer clients to these proprietary or affiliated funds and managers. See "Other Industry Activities and Affiliations—Certain Affiliations" above. ICS Consultants also receive additional compensation for referring clients to Baird Trust and for referring clients to unaffiliated banks that make loans to clients under Baird's Securities-Based Lending Program. See "Trust Services Arrangements" and "Securities-Based Lending Program" below. In addition to those referral arrangements, ICS Consultants receive special compensation for referring business to certain of Baird's other departments. See "Investment Banking, Public Finance and Institutional Equities Trading Activities" below.



### *Marketing Support and Revenue Sharing from Mutual Fund and UIT Sponsors*

Baird receives marketing support or revenue sharing payments ("marketing support") from the sponsors and investment advisers of certain mutual funds. These payments, which are based on sales of, or client assets invested in, such funds, are intended to compensate Baird for providing marketing, distribution and other services for the mutual funds. Marketing support is not paid by sponsors or investment advisers of mutual funds on mutual fund assets held in investment advisory Retirement Accounts to the extent prohibited by applicable law. Baird received marketing support payments over the past two calendar years from the sponsors or investment advisers of Alliance Bernstein Funds, American Funds, Franklin Templeton Funds, Goldman Sachs Funds, Hartford Funds, Invesco Funds, John Hancock Funds, JPMorgan Funds, Lord Abbett Funds, MFS Funds, PIMCO Funds and Principal Funds. Baird also generally receives marketing support related to the sale of units 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. UIT sponsors that have paid volume concessions to Baird over the past two calendar years include Advisors Asset Management (AAM), SmartTrust, First Trust Portfolios and Guggenheim Investments. Receipt of marketing support payments from sponsors and investment advisers of mutual funds and UITs provides Baird an incentive to offer, market and recommend such mutual funds and UITs and to favor mutual funds and UITs with sponsors or investment advisers that make the greatest levels of such payments. Baird does not share these payments with ICS Consultants. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

### *Baird Conference Sponsorships*

Baird hosts a number of seminars and conferences for ICS Consultants in any given year, including Baird's PWM Symposium, which gives sponsors of investment products, such as mutual funds, the opportunity to make presentations at, and contribute money toward the cost of, such seminars and conferences. This presents a conflict of interest in that it gives Baird an incentive to promote or market the sponsors' investment products in order to persuade them to continue supporting Baird seminars and conferences. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

### *ICS Consultants Receive Benefits from Product Providers*

ICS Consultants generally receive non-cash compensation and other benefits from Baird and from sponsors of investment products 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. For example, ICS Consultants are invited to educational conferences hosted by sponsors of mutual funds, annuities and other investment products, with the costs associated with such conference (including travel and lodging) paid by the sponsors. In addition, ICS Consultants hold client events with some or all of the costs of such events paid by sponsors of investment products. Product sponsors may also provide gifts and entertainment in connection with those or other events. These benefits present a conflict of interest in that they give ICS Consultants an incentive to recommend investment products and their sponsors that provide the greatest levels of such benefits. Please see "Revenue Sharing/Marketing Support and Other Third Party Payments" at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor) for more information.

### *Trust Services Arrangements*

Baird and ICS Consultants have an incentive to recommend that a client retain Baird Trust for the client's trust services needs rather than an unaffiliated firm because it is more profitable for Baird and they receive compensation from Baird Trust if the client retains Baird Trust. Please see "Advisory Business—Additional Service Information—Trust Services Arrangements" above for more detailed information.

### *Securities-Based Lending Program*

Baird and ICS Consultants have an incentive to recommend that a client participate in Baird's Securities-Based Lending Program because Baird and ICS Consultants receive referral compensation and such loans allow a client to keep more assets in the client's Accounts, which result in more advisory fees for us and paid to the client's ICS Consultant. Please see "Advisory Business—Additional Service Information—Securities-Based Lending Program" above for more detailed information.

### *Investment Advisory and Brokerage Account and Service Recommendations*

Baird and ICS Consultants generally have a financial incentive to recommend investment advisory accounts to clients rather than brokerage accounts because Advisory Fee revenue is recurring, more predictable and typically greater than the revenues Baird earns, and the compensation ICS Consultants receive, from brokerage accounts. In addition, because Advisory Fees are paid by a client regardless of the trade activity in the client's advisory account, Baird will receive greater revenue, and the client's ICS Consultant will receive greater compensation, from a low trade-activity advisory

account than from a low trade-activity brokerage account. Baird and ICS Consultants thus have an incentive to recommend an investment advisory account to a client rather than a brokerage account if the client has, or is expected to have, lower levels of trading activity in the client's Account. However, because Baird's revenues and the compensation paid to ICS Consultants from brokerage accounts increase as the level of trading increases, Baird and ICS Consultants have an incentive to recommend a brokerage account to a client rather than an investment advisory account if the client has, or is expected to have, significant trading activity in the client's Account. ICS Consultants also have a financial incentive to recommend certain wealth management services, such as financial planning. Please see "Fees and Compensation—Advisory Fees—Advisory Fee Payments to Baird and ICS Consultants" above for more detailed information.

#### *Account Transfers and New Accounts*

Baird and a client's ICS Consultant have an incentive to recommend that the client transfer the client's Accounts to Baird and establish new accounts with Baird (including IRA rollovers) because doing so will result in increased revenues to Baird and compensation for the ICS Consultant.

#### *Recommendations to Open Different Types of Accounts*

Baird and ICS Consultants have an incentive to recommend that a client open different types of accounts with Baird, such as individual accounts, IRA rollovers, joint accounts, 529 plan accounts and UGMA/UTMA accounts, because if a client has different types of accounts with Baird, the client brings more of the client's investable assets to Baird, on which fees can be generated, thereby increasing Baird's revenues and the client's ICS Consultant's compensation. Also, if a client has more account types with Baird, the client is statistically more likely to maintain the client's relationship with Baird and the client's ICS Consultant for longer periods of time.

#### *Baird Stock Ownership*

Most ICS Consultants own common stock of BFG, Baird's ultimate parent, and when offered the opportunity to buy BFG stock they usually do so. The amount of BFG stock that an ICS Consultant may purchase is based in part on the ICS Consultant's total production level. A client's ICS Consultant thus has an incentive to make recommendations that increase the ICS Consultant's total production on the client's accounts with Baird. Moreover, revenues from Baird's PWM department, in which ICS Consultants operate, contribute substantially to BFG's overall revenues and profitability, and the performance of BFG's stock price is largely due to the profitability of Baird's PWM department. As a result, a client's ICS Consultant's ownership of BFG stock creates a financial incentive to make recommendations to the client that increase the amount of revenues generated from the client's accounts with Baird, even if those

recommendations will not increase the ICS Consultant's production, so as to increase the revenues and profitability of Baird's PWM department and thus of BFG, which will serve to grow the value of the BFG stock. For example, ownership of BFG stock provides a client's ICS Consultant an incentive to recommend affiliated products to a client even though such recommendation does not increase the client's ICS Consultant's production.

#### *Relationships with Issuers of Securities*

From time to time, Baird may have proprietary investments in companies or issuers whose securities are offered and sold to clients, an ICS Consultant or another Baird associate may have significant investments in companies or issuers whose securities are offered and sold to clients, or an ICS Consultant or another other Baird associate (or their spouses, partners or family members) may have a position as an officer or director of a company or issuer whose securities are offered and sold to clients. In such cases, Baird and/or a client's ICS Consultant will have an incentive to recommend that the client invest in those companies.

#### *ICS Consultants Transferring to Baird*

An ICS Consultant joining Baird from another firm has an incentive to recommend that a client to transfer the client's accounts from such firm to Baird because doing so will increase the ICS Consultant's compensation. Please see "Advisory Business—Advisory Fees—Advisory Fee Payments to Baird and ICS Consultants" above for more detailed information.

#### *Baird's Investment Banking, Public Finance and Institutional Equities Services Activities*

Through its Investment Banking, Public Finance and Institutional Equities Services Departments, Baird provides investment banking, municipal advisory, securities underwriting, stock buyback and related services to various corporate, municipal, and other issuers of securities. Baird receives compensation and fees from such entities in connection with the services it provides. Baird may, therefore, have an incentive to favor the securities of issuers for which Baird provides such services over the securities of issuers for which Baird does not provide such services. An ICS Consultant who refers a client to Baird Investment Banking for a possible transaction in which Baird Investment Banking earns a financial advisory or underwriting fee receives a portion of such fee. An ICS Consultant who refers a client to Baird Public Finance for a municipal advisory or underwriting opportunity receives a portion of the compensation earned by Baird Public Finance on that opportunity. Baird and ICS Consultants thus have an incentive to recommend the securities issued in those offerings. An ICS Consultant who refers a corporation to Baird's Institutional Equities business for a stock buyback program receives a portion of the commissions earned by Baird's Institutional Equities business. Baird

and its ICS Consultants may, therefore, have an incentive to buy, and to recommend that clients sell, the securities of issuers that are part of Baird's buyback services. For more information about referral compensation paid to ICS Consultants and related conflicts of interest, please see "Baird Referral Programs" on Baird's website at [bairdwealth.com/retailinvestor](http://bairdwealth.com/retailinvestor).

#### *Baird Underwritten Offerings*

Baird and ICS Consultants have an incentive to recommend that clients purchase securities in offerings underwritten by Baird because the underwriting compensation that Baird and ICS Consultants will earn on those offerings tends to be higher than the compensation they would normally receive if clients were to buy them in the secondary market, and because the profitability of underwritten offerings to Baird depends upon Baird's ability to sell the securities allocated to Baird in the offering.

#### *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.

#### *Other Client Relationships*

Certain client accounts overseen by Baird and ICS Consultants may have similar investment objectives and strategies but may be subject to different fee schedules or commission rates. Thus, Baird and its ICS Consultants have an incentive to favor client accounts that generate a higher level of compensation.

#### *Baird's Other Broker-Dealer and Related Activities*

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

Baird and its affiliates and associates may buy or sell investments that are recommended to or owned by a client for their own accounts, or they may act as broker or agent for other clients buying or selling those investments. Those transactions may include buying or selling investments in a manner that differs from, or is inconsistent with, the advice given to a client, and those transactions may occur at or about the same time that such investments are recommended to or are purchased or sold for a client's Account.

Baird and its associates, by reason of Baird's broker-dealer, 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 prohibited by applicable law or agreements from disclosing such information to clients or acting upon such information with respect to any client Account. Baird's other activities thus present a potential conflict of interest because such activities may limit Baird's ability to advise or manage client Accounts.

#### *Other Conflicts of Interest*

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

Other sections of this Brochure also describe instances when Baird and its ICS Consultants 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 or practices that present a conflict of interest. For more information, please see "Advisory Business—Advisory Fees—Advisory Fee Payments to Baird and ICS Consultants" and "Other Financial Industry Activities and Affiliations" above, and "Client Referrals and Other Compensation" below.

#### *Addressing Conflicts*

The foregoing activities could create a conflict of interest with clients. In addition to the measures described above, Baird addresses conflicts posed by those activities through disclosure in this Brochure, the client's agreements with Baird, the *Client Relationship Booklet* and prospectuses, offering documents or other disclosure documents provided or made available to clients. Baird has also adopted a Code of Ethics and other 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);
- address Baird's and its associates' trading activities and are designed to prevent them from improperly benefiting from the trading activities of Baird's advisory clients; and
- address and limit cash and non-cash benefits provided to ICS Consultants by third parties in an attempt to avoid any question of propriety or any conduct inconsistent with Baird's high standards of ethics.

#### *Duration Compensation Will Be Received*

If a client holds any of the 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 Advisory Fees payable by a client unless such compensation may not be retained under applicable law or regulation.*

### **Brokerage Practices**

The Services provided under this Brochure only include non-discretionary investment advice. Baird does not recommend or select broker-dealers to effect transactions for client Accounts as part of the Services. However, some clients elect to participate in other advisory programs or services provided by Baird to implement the advice provided by ICS Consultants. Under those circumstances, Baird may select broker-dealers. A client should consult with the client's ICS Consultant or review Baird's Form ADV Part 2A Brochure and agreement for the other advisory program or service for more information.

### **Review of Accounts**

The nature and frequency of client Account reviews performed by ICS Consultants and the reports provided to clients varies by the particular needs of each client and will be set forth in the client's Consulting Agreement. However, ICS Consultants generally review client Accounts at least annually. A client receives reports on a periodic basis with such frequency as the client and Baird agree in the client's agreement. ICS clients currently receive those reports on an annual, semi-annual or quarterly basis. Such reports show asset performance compared to benchmarks within the same asset class.

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

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

unaffiliated solicitors that have entered into a written agreement with Baird.

Baird and its affiliates and associates may receive certain economic benefits in connection with providing advisory services to clients, which are described in the sections entitled "Other Financial Industry Activities and Affiliations" and "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" above.

### **Custody**

Baird does not have custody of client assets as part of the Services. However, some clients elect to participate in other advisory programs or services provided by Baird to implement the advice provided by ICS Consultants. Under those circumstances, Baird may serve as custodian. A client should consult with the client's ICS Consultant or review Baird's Form ADV Part 2A Brochure and agreement for the other advisory program or service for more information.

### **Investment Discretion**

Baird and ICS Consultants do not have discretionary authority to buy or sell securities for client Accounts or otherwise act for client Accounts in connection with the Services. A client retains full discretionary authority over client's Accounts.

### **Voting Client Securities**

Baird does not have authority to vote proxies with respect to the securities held in the client's Account or otherwise act for client Accounts in connection with the Services. A client retains the right to vote proxies with respect to the securities held in such Accounts and is solely responsible for voting any such proxies.

### **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 of a client should understand that Baird may 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 should also understand that when the assets of a Retirement Account are invested 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 Advisory 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 Advisory Fee that Baird charges to the client. For the purpose of complying with the terms of DOL PTE 77-4, the client and each Retirement Account Fiduciary of the client acknowledge in the client's 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) all assets of the client's Account may be invested in one or more of the affiliated investment products; (iii) the client and such Retirement Account Fiduciary received prospectuses or other offering or 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 product fees and the Advisory 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 product to Baird or its affiliates with respect to the services Baird or any of its affiliates provides to the affiliated investment product is the difference between the Advisory Fee disclosed in the client's agreement and the applicable investment management, investment advisory and other similar fees detailed in the applicable prospectus or other offering or disclosure documents for the affiliated investment product.

If a client's Account is a Retirement Account and if the client has selected an investment manager or product affiliated with Baird (such as the use of services or products offered by Baird Advisors, Baird Equity Asset Management, CCM, Baird Trust, GAMMA, Greenhouse, Riverfront, Strategas or any Investment Fund affiliated with any of them), each Retirement Account Fiduciary of the client understands and agrees that in making such selection: (a) Baird and 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 ICS Consultant; 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 ICS Consultant. For more information about investment managers and products that are affiliated with Baird, please see "Other Financial Industry Activities and Affiliations" above.