



Important Information about Brokerage and Investment Advisory Services

Understanding the Differences between Brokerage and Investment Advisory Relationships

Baird offers to its clients both brokerage services (“Brokerage Services”) and investment advisory services and programs (“Advisory Services and Programs”) and it is important for clients to understand the differences. Baird generally recommends Advisory Services and Programs as they offer regular and continuous professional investment advice and account monitoring. Clients who select Baird’s Advisory Services and Programs will pay an asset based fee calculated as a percentage of the value of their advisory accounts, which better aligns the interests of Baird and the client’s Financial Advisor with the client’s interests and avoids common conflicts of interest associated with a commission-based Brokerage Account.

A client of Baird should understand that Brokerage Services and Advisory Programs and Services are separate and distinct services. Some of the primary differences between Brokerage Services and Advisory Services and Programs and Baird’s legal duties and contractual obligations to clients are described below.

Brokerage Services and Brokerage Accounts

The Brokerage Services that Baird offers to its clients include providing custody of client assets, the execution of securities transactions and other customary brokerage services. In addition to taking a client’s trade orders and executing the client’s trades, Baird may also provide investment advice “incidental to” the Brokerage Services, settlement, custody and other customary brokerage services. Investment advice “incidental to” the Brokerage Services may include investor education, investment research, financial tools, information about investment products and services and recommendations about whether to buy, sell or hold particular securities.

When providing advice or a recommendation to a client about whether to buy, sell, hold or exchange a security or other investment, the Baird Financial Advisor must have a reasonable basis for believing that the recommendation is suitable for the client. In addition, for clients who have Individual Retirement Accounts (IRAs), retirement or other ERISA plans (or are plan participants), the Baird Financial Advisor must act in the client’s best interest when providing that advice. However, the Baird Financial Advisor is not required to actively monitor the account or to provide any advice or recommendations regarding the investments in the account. The Baird Financial Advisor is simply required to act in the client’s best interest when he or she elects to provide advice or a recommendation. The Baird Financial Advisor need not provide advice to the client on a regular or continuous basis. The advice or recommendation is thus transactional in nature.

With each Brokerage Account, the client pays Baird transaction-based compensation, generally consisting of commissions or sales loads, on each trade. Baird may also receive, on an ongoing basis, applicable distribution (12b-1) fees and trail commissions relating to the client’s mutual fund and annuity



investments. The costs of these fees and commissions are borne by the client in many instances because they are deducted from the client's investment. The amount of commissions, sales loads, distribution fees and trail commissions will vary based on the type of security and the size of the trade. As a result, Baird and the Baird Financial Advisor have potential conflicts of interest associated with a Brokerage Account, including the financial incentive to recommend frequent transactions, to recommend purchases or sales of certain investments that involve higher compensation than other investments, and to recommend a series of smaller trades rather than one larger trade. Although the commissions and other compensation received by Baird on a client's Brokerage Account must not exceed what is reasonable, and Baird has policies and procedures to monitor these conflicts, the policies and procedures do not eliminate those conflicts.

Additionally, when Baird acts as a broker-dealer, Baird is subject to a number of laws, rules and regulations, including the Securities Exchange Act of 1934, the rules of the Financial Industry Regulatory Authority ("FINRA"), and similar state laws. When Baird acts as a broker-dealer, Baird's duties and obligations include, among others, the following:

- Baird is required to observe high standards of commercial honor and just and equitable principles of trade.
- Baird must have a reasonable basis for believing that each securities recommendation made to a client is suitable based upon the information provided by the client.
- When executing a client trade as principal for Baird's own account, the price that Baird provides to the client for the security must be fair under the circumstances.
- When executing a client trade as agent, the commission charged the client for executing the trade must be fair under the circumstances.

Advisory Services and Advisory Accounts

Baird offers a wide array of Advisory Services and Programs to its clients. The investment advisory services offered under the Advisory Services and Programs generally include ongoing recommendations and investment advice about investment products and consulting services, which are provided by Baird's home office investment professionals and/or the client's Baird Financial Advisor. Depending upon the particular Service or Program that a client selects, the Program or Service may also include professional discretionary management of the client's Advisory Account. The Advisory Services and Programs may also include financial planning for which Baird and its Financial Advisors may charge a separate financial planning fee.



The Advisory Programs that Baird offers include the following:

- Non-Discretionary Programs. Through Baird’s non-discretionary program called “Baird Advisory Choice”, a client’s Financial Advisor provides ongoing advice and recommendations about the client’s investments but the client must ultimately authorize all investment decisions for the account. A client may also receive various planning services including financial, portfolio, charitable giving, estate, retirement and tax planning.
- Mutual Fund/ETF Asset Allocation Portfolio (Model and Custom) Programs. Baird’s mutual fund/ETF asset allocation portfolio programs offer clients the ability to invest in mutual funds and ETFs that in turn invest in various asset classes such as U.S. equity securities, foreign securities, fixed income securities, non-traditional assets (such as real estate) and cash. Baird’s centralized research team conducts due diligence and maintains a list of recommended funds and groups of funds within various asset classes. Clients can select a model portfolio of mutual funds/ETFs created and managed by Baird or they can create a custom portfolio (with the assistance of their Financial Advisor) that is managed by the client with automatic rebalancing and fund replacement done by Baird. The client’s Financial Advisor also provides ongoing advice and consultation in connection with these Programs.
- Private Investment Management Program. Certain Financial Advisors have been approved by Baird to manage client accounts with full discretion. Under the Private Investment Management Program, the client’s Financial Advisor manages the client’s account in accordance with an investment model or strategy jointly selected by the client and the client’s Financial Advisor.
- Recommended Managers and Other Separately Managed Account Programs. Under Baird’s Recommended Managers and other separately managed account Programs, clients can hire third party investment managers or asset management departments of Baird to manage the client’s account. Baird’s centralized research team conducts due diligence and maintains a list of recommended managers across various asset classes. In addition, Baird makes available hundreds of other third party managers from which the client can choose. These Programs make available a much larger universe of investments compared to Brokerage Accounts. The client’s Financial Advisor also provides ongoing advice and consultation in connection with these Programs.
- Unified Managed Account (“UMA”) Programs. Baird’s UMA Programs provide clients the ability to combine a variety of investment options into a single unified account including recommended mutual funds and ETFs, recommended groups of funds and ETFs within a single asset class, recommended third party investment managers and proprietary portfolios managed by a Baird research team. Clients can select a model portfolio that is created and managed by Baird, or they can create a custom portfolio (with the assistance of their Financial Advisor). The client’s Financial Advisor also provides ongoing advice and consulting in connection with these



Programs. This Program allows clients to combine a number of types of Advisory Programs into one account.

When Baird acts as an investment adviser, Baird is subject to the Investment Advisers Act of 1940. Baird is deemed to have a fiduciary relationship with a client when providing Advisory Services and Programs to the client and the client's Advisory Accounts. When Baird acts as investment adviser, Baird's duties and obligations under the Investment Advisers Act include, among others, the following:

- Baird is required to act in the best interest of a client when providing investment advisory services.
- Baird must act with utmost care and good faith when dealing with advisory clients.
- Baird has a duty to seek to obtain "best execution" of transactions for clients participating in discretionary advisory programs.
- Baird must avoid or disclose to clients material conflicts of interest.

Clients who select an Advisory Service or Program typically pay Baird a periodic ongoing fee based upon the assets in the applicable Advisory Accounts and, with some exceptions, do not pay commissions on trades executed by Baird. This fee arrangement better aligns the interests of Baird and the Baird Financial Advisor with the interests of the client, and avoids many of the conflicts of interest associated with a commission-based Brokerage Account.

Additional information about the Advisory Services and Programs that Baird makes available to a client, including the terms, conditions, fees, expenses, risks and potential conflicts of interest associated with those Advisory Services and Programs, is included in a client's investment advisory agreement with Baird and in Baird's Form ADV Part 2A Brochure for the applicable Advisory Program or Advisory Service. A client should review those documents carefully upon receipt.

ERISA Plans and IRAs

For purposes of Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 ("ERISA"), Section 4975(e)(3)(B) of the Internal Revenue Code (the "IRC"), and the US Department of Labor's "fiduciary rule" set forth in 29 CFR §2510.3-21, to the extent it is in effect (the "Fiduciary Rule"), a person is a fiduciary under ERISA or the IRC (as the case may be) to the extent such person renders investment advice with respect to moneys or other property of a retirement or other ERISA plan or Individual Retirement Account described in the Fiduciary Rule (a "plan" or "IRA"), subject to the exemptions and exclusions described in the Fiduciary Rule. Baird and its Financial Advisors may be fiduciaries to ERISA plans, plan participants and IRAs within the meaning of the Fiduciary Rule if and to the extent they provide investment advice to them, whether the accounts are Brokerage Accounts or Advisory Accounts.

It is important for you to understand that the requirements imposed upon fiduciaries under ERISA, the IRC or the Fiduciary Rule on the one hand, and the requirements imposed upon fiduciaries under the Advisers Act



on the other hand, are separate and distinct requirements. While there are some similarities between those requirements, there are some important and significant differences. As a result, certain programs, services and investment products offered by Baird may be made available to your taxable accounts but may not be available to your retirement accounts. For more specific information, you should consult with your Baird Financial Advisor and refer to your agreements with Baird and the related disclosure documents.

Other Important Considerations When Selecting Brokerage Services or Advisory Services and Programs

The Brokerage Services and Advisory Services and Programs have different structures, administration, types and levels of service and fees and expenses. Brokerage Services and Advisory Services and Programs are designed to address different investment needs of clients. In comparing Brokerage Services and Advisory Services and Programs, a client should consider a number of factors including, but not limited to:

- Whether the client prefers to have ongoing account monitoring, investment advice or professional management of their accounts and the nature and level of advice, management, oversight and review, if any, provided to an account;
- The types of investment strategies and products available to Brokerage Accounts and Advisory Accounts;
- Whether the limitations on the types of securities and other investments available for purchase in a Brokerage Account are significant to the client;
- The nature and level of transaction services, account performance reporting, or other ancillary services that may be sought by the client;
- Whether the client prefers to pay an asset-based fee for ongoing advice or pay commissions on a transaction-by-transaction basis; and
- The relative costs and expenses of a Brokerage Account and an Advisory Account, which will vary depending upon:
 - the fee or commission rate the client negotiates with their Financial Advisor;
 - the size of the client's account;
 - the level of trading activity and size of trade orders;
 - account fees and charges that apply to Brokerage Accounts and Advisory Accounts;
 - the client's use of third party managers who charge their own fees for managing accounts in addition to Baird's advice fee; and



- the amount of the client's account invested in investment products that have additional internal ongoing operating fees and expenses (e.g., mutual funds and annuities).

Baird believes that an Advisory Account is generally a better investment option for most clients compared to a Brokerage Account because clients receive ongoing investment advice and monitoring of their accounts. In addition, many Advisory Services and Programs also provide clients with professional management of their accounts. However, Baird's Advisory Services and Programs may not be appropriate for clients who:

- Tend to execute transactions without the recommendation or advice of an Advisor, which are commonly referred to as "unsolicited" transactions;
- Do not want ongoing professional investment advice or account monitoring;
- Prefer to employ a buy-and-hold strategy that is not actively monitored; or
- Maintain their accounts invested in high levels of cash and cash equivalents.

Brokerage accounts may be a better investment option for these clients.

Before opening an Account, a client should carefully consider and discuss with their Financial Advisor, in light of the client's particular circumstances, the services, risks, fees and expenses associated with Brokerage Services or an Advisory Service or Program.