

# Important Information about Investment Managers' Placement of Client Trade Orders and Their "Trade Away" Practices

The logo for Baird, consisting of the word "BAIRD" in white, uppercase letters on a blue, parallelogram-shaped background.

April 10, 2018

This document provides information to clients who are participating, or are considering participating, in a wrap fee program ("Program") sponsored by Robert W. Baird & Co. Incorporated ("Baird") about investment managers' placement of client trade orders and their practices of "trading away" from Baird.

## Best Execution Obligation

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

## Trade Aggregation and Rotation

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



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Alternatively, an investment manager may utilize a trade rotation process where one group of clients may have a transaction effected before or after another group of the manager's clients. A client should be aware that a manager's trade rotation practices may at times result in a transaction being effected for the client's Account that occurs near or at the end of the manager's rotation and, in such event, the client's trade orders will significantly bear the market price impact, if any, of those trades executed earlier in the manager's rotation, and, as a result, the client may receive a less favorable net price for the trade. Additional information regarding an investment manager's trade rotation policies, if any, is available in the manager's Form ADV Part 2A Brochure.

### Trading Away and Step Out Trades

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

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

Some managers have historically placed nearly all client trades with broker-dealer firms other than Baird for execution. Some managers have placed nearly all or all client trades resulting from changes to their model portfolios or strategies with firms other than Baird. Similarly, some managers have frequently placed client trade orders for fixed-income, foreign and small cap securities with firms other than Baird. In some cases, the other executing broker-dealer firm imposes a commission or similar fee (which is embedded in the price of the security) for executing the trade. As a result, these types of managers and their strategies could be more costly to a client than managers that primarily place client trade orders with Baird for execution. A client should review the manager's Form ADV Part 2A Brochure, inquire about the manager's trading practices, and consider that information carefully, before selecting a manager. In



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particular, the client should carefully consider any additional trading costs the client may incur before selecting a manager to manage the client's Account.

A list of managers that informed Baird that they traded away from Baird during 2016 - 2017 and information about the additional cost of those trades (if any) is set forth on the following pages. A client should contact the client's Baird Financial Advisor or investment manager if the client would like to obtain specific information about the manager's trade away practices and the amount of commissions or other costs, if any, the client incurred in connection with step out trades.



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**TRADE AWAY INFORMATION  
CALENDAR YEARS 2016 - 2017**

*The information about each manager provided below is based solely upon the information provided to Baird by such manager. Baird has not independently verified the information, and as a result, none of Baird or any of its affiliates or associates makes any representation as to the accuracy of any such information.*

*The information shown below only contains information about managers that informed Baird that they traded away from Baird during 2016 or 2017. A manager's past trade away practice is not a guarantee that the manager will follow the same practice in the future. It is possible that managers not listed below will trade away from Baird in the future or that managers listed below will trade away more frequently or at a higher cost to clients. Thus, a client's trading costs relating to step out trades could be greater than shown below.*

Manager Name	Dollar-Weighted Percentage of Client Trades Stepped Out <sup>1</sup>		Additional Cost Incurred by Clients Participating in those Trades <sup>2</sup>	
	2016	2017	2016	2017
<b>1492 Capital Management</b>				
Small Cap Core Alpha	90%	N/A	None	N/A
Small Cap Growth	82%	97%	4 cps	None
Small Cap Value	83%	N/A	None	N/A
<b>Allianz Global Investors U.S.</b>				
International	None	None	N/A	None
Small Cap Value	6%	None	None	None
<b>Astor Investment Management</b>				
Long/Short Balanced	90%	94%	0 - 1 cps	0 - 1 cps
S.T.A.R. Featuring AlphaDex	94%	95%	0 - 1 cps	0 - 1 cps
<b>Baird Equity Asset Management</b>				
Large Cap Balanced (Taxable)	Less than 1%	Less than 1%	None	None
Large Cap Balanced (Tax-exempt)	2%	Less than 1%	None	None
Large Cap Core	Less than 1%	Less than 1%	None	None
Mid Cap Growth	85%	86%	None	None
SAM Balanced	Less than 1%	Less than 1%	None	None
SAM Equity	Less than 1%	Less than 1%	None	None
<b>Brandes Investment Partners<sup>3</sup></b>				
Global Equity	72%	76%	1.42 cps and 13.98 bps	1.4 cps and 15.4 bps
International Equity	75%	85%	1.06 cps and 13.45 bps	1.8 cps and 14.1 bps
U.S. Value Equity	16%	34%	1.46 cps	1.6 cps
International Value	75%	82%	1.06 cps and 13.45 bps	1.8 cps and 13.9 bps

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Manager Name	Dollar-Weighted Percentage of Client Trades Stepped Out <sup>1</sup>		Additional Cost Incurred by Clients Participating in those Trades <sup>2</sup>	
	2016	2017	2016	2017
<b>Broadmeadow Capital Management, LLC (formally F-Squared)</b>				
Alpha Sector Premium	5%	None	1 cps	None
<b>Caprin Asset Management, LLC</b>				
Intermediate Muni - State Specific	97%	82%	1 cps	0 - 1 cps
Tactical Opportunity ETF	100%	94%	1 cps	0 - 1 cps
<b>Cedar Hills Associates, LLC</b>				
Large Cap Core	100%	100%	\$7.50 per trade	\$7.50 per trade
<b>ClearBridge Advisors<sup>4</sup></b>				
All Cap Growth	99%	93%	1.5 cps	1.4 cps
All Cap Value	95%	99%	1.4 cps	1.3 cps
Appreciation	41%	77%	1.5 cps	1.2 cps
Balanced Income (Equity Only)	7%	78%	1.6 cps	1.3 cps
Custom (50% Appreciation/50% Multi Cap Growth)	6%	30%	1.6 cps	1.3 cps
Custom (65% Equity/35% Fixed Income)	6%	30%	1.6 cps	1.3 cps
Custom (Large Cap Growth/Large Cap Value/Mid Cap Growth)	74%	N/A	1.1 cps	N/A
Custom Large Cap Growth (Russell 1000 Index)	73%	N/A	1.6 cps	N/A
Custom Taxable Balanced	6%	11%	1.6 cps	1 cps
Dividend & Growth (70% Dividend Strategy/30% Multi Cap Growth)	73%	88%	1.6 cps	1.4 cps
Dividend Strategy	73%	65%	1.6 cps	1.4 cps
Dynamic MDA Global Dividend Balanced	44%	50%	1.1 cps	1.2 cps
Dynamic MDA Global Growth	35%	31%	0.9 cps	1.4 cps
Dynamic MDA Global Growth & Value	23%	43%	1.2 cps	1.2 cps
Dynamic MDA U.S. Dividend Balanced	26%	99%	1.6 cps	1.3 cps
Dynamic MDA U.S. Growth	23%	18%	1.4 cps	1.3 cps
ESG Appreciation	100%	100%	1.6 cps	1.2 cps
International ADR	99%	100%	0.9 cps	1.2 cps
Large Cap Growth	96%	82%	1.5 cps	1.4 cps
Large Cap Value	3%	11%	0.8 cps	1 cps
Large Cap Value ESG	2%	3%	1.4 cps	0.8 cps
Multi Cap Growth	71%	9%	1.5 cps	1.3 cps
Value Core International Equity	99%	100%	0.9 cps	1.2 cps
<b>Confluence Investment Management</b>				
All Cap Value	None	1%	None	None
Balanced All Cap (Taxable)	N/A	4%	N/A	1 cps

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	2016	2017	2016	2017
<b>Confluence Investment Management, cont.</b>				
Balanced Equity Income (Taxable)	1%	16%	1 cps	1 cps
Balanced Equity Income (Tax-Exempt)	4%	None	1 cps	N/A
Balanced IDEA (Taxable)	Less than 1%	11%	1 cps	1 cps
Balanced IDEA (Tax-Exempt)	44%	None	1 cps	N/A
Balanced Large Cap Value (Taxable)	2%	17%	1 cps	1 cps
Balanced Large Cap Value (Tax-Exempt)	Less than 1%	Less than 1%	1 cps	1 cps
Large Cap Value	None	Less than 1%	None	None
Small Cap Value	1%	None	1 cps	N/A
Value Opportunities	Less than 1%	6%	1 cps	1 cps
<b>Delaware Investment Advisors</b>				
International Equity	27%	40%	6 bps	6 bps
Large Cap Value	11%	19%	0 - 3 cps	0 - 3 cps
<b>Good Harbor Financial, LLC</b>				
US Tactical Core	100%	100%	1 cps	0.5-1 cps
<b>Greenwood Capital Associates, LLC</b>				
Balanced Portfolio	15%	10%	None	None
<b>Hays Advisory, LLC<sup>5</sup></b>				
Long Term Growth	100%	N/A	None	N/A
Moderate Growth	100%	N/A	None	N/A
Tactical Multi Asset Class Portfolio featuring AlphaDex	100%	N/A	None	N/A
Tactical Multi Asset Equity Focused	100%	N/A	None	N/A
<b>Hardman Johnston Global Advisors, LLC (formerly Johnston Asset Management)</b>				
International Equity	100%	100%	3.8 cps	4 cps
<b>Kayne Anderson Rudnick Investment Management, LLC</b>				
Mid Cap Core	3%	None	None	None
Small Cap Core	18%	None	None	None
Small Cap Value	10%	18%	2.5 cps	2 cps
Small to Mid-Cap Core	14%	None	None	None
<b>Lateef Investment Management</b>				
Multi Cap Growth	83%	92%	None	None
<b>Lazard Asset Management, LLC</b>				
Emerging Markets	95%	95%	1 - 3 cps	1 - 3 cps
International Equity	100%	100%	1 - 3 cps	1 - 3 cps
<b>Legg Mason Private Portfolio Group<sup>4</sup></b>				
All Cap Blend	95%	94%	1.4 cps	1.3 cps

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	2016	2017	2016	2017
<b>Legg Mason Private Portfolio Group, cont.</b>				
All Cap Blend Balanced (70% All Cap Blend/30% GSM – 7 Year)	96%	81%	1 cps	1.3 cps
All Cap Value Balanced with Taxable Income	87%	45%	1.3 cps	1.3 cps
Appreciation Balanced (60% Appreciation/40% GSM – 7 year)	74%	74%	1.5 cps	1.1 cps
Balanced Income	88%	49%	1.4 cps	1.2 cps
Balanced Income (60% Equity/40% Western Asset-NC)	92%	78%	1.3 cps	1.3 cps
Custom (25% ClearBridge Appreciation/75% Legg Mason Balanced Income)	6%	77%	1.6 cps	1.2 cps
Custom Appreciation & Government-Corporate	11%	30%	1.2 cps	1.3 cps
Custom MDA	14%	30%	0.4 cps	1.3 cps
Custom MDA Balanced	6%	81%	1.6 cps	1.3 cps
Diversified All Cap	98%	100%	1.4 cps	1.3 cps
Dividend & Growth (70% Appreciation/30% Multi Cap Growth)	48%	40%	1.5 cps	1.2 cps
Dividend & Growth (70% Dividend/30% Multi Cap Growth)	84%	88%	1.6 cps	1.4 cps
Global Growth	98%	67%	0.9 cps	1.3 cps
Large Cap Blend	82%	70%	1.2 cps	1.3 cps
Large Cap Growth Balanced Taxable (60% Large Cap Growth/40% GSM – 7 Year)	77%	100%	1.5 cps	1.4 cps
Multi Cap Blend III	89%	75%	1.4 cps	1.2 cps
<b>Leuthold Weeden Capital Management</b>				
Core Investment	96%	99%	None	None
Global Tactical ETF	N/A	31%	N/A	None
Sector Rotation	N/A	40%	N/A	None
Select Industries	99%	86%	None	None
<b>New South Capital Management, Inc.<sup>6</sup></b>				
Small Cap Value	100%	53%	None	None
Value Opportunity/All Cap	82%	87%	None	None
<b>NWQ Investment Management Company, LLC</b>				
Large Cap Value	None	Less than 1%	None	2 cps
<b>Oak Ridge Investments, LLC<sup>6</sup></b>				
All Cap	19%	None	3 – 5 cps	None
Small Cap Growth	24%	1%	3 – 5 cps	3 cps
<b>Parametric Portfolio Associates</b>				
Enhanced Income Core	4%	None	0 – 1 cps	None
Enhanced Income Core Tax-Advantaged	12%	None	0 – 1 cps	None

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	2016	2017	2016	2017
<b>Parametric Portfolio Associates, cont.</b>				
Russell 3000 Tax Managed	Less than 1%	None	0 – 1 cps	None
<b>PENN Capital Management Company</b>				
Convertible Securities	100%	None	None	None
<b>RiverFront Investment Group<sup>7</sup></b>				
Conservative Growth	96%	91%	None	None
Conservative Income Builder	93%	68%	None	None
Conservative Income Builder ETF	83%	73%	None	None
Developed International ETF	N/A	96%	N/A	None
Dynamic Equity Income	93%	78%	None	None
Dynamic Equity Income ETF	88%	74%	None	None
Dynamic Fixed Income	52%	70%	None	None
Dynamic Fixed Income ETF	30%	50%	None	None
Emerging Markets ETF	N/A	100%	N/A	None
Fixed Core Plus	N/A	25%	N/A	None
Global Allocation	94%	82%	None	None
Global Allocation ETF	93%	76%	None	None
Global Growth	96%	82%	None	None
Global Growth ETF	94%	75%	None	None
International Opportunities ETF	80%	48%	None	None
Moderate Growth & Income	91%	85%	None	None
Moderate Growth and Income ETF	88%	78%	None	None
RiverShares Conservative Income Builder	None	2%	None	None
RiverShares Dynamic Equity Income	None	21%	None	None
RiverShares Global Allocation	None	31%	None	None
RiverShares Global Growth	None	18%	None	None
RiverShares International Opportunities	None	16%	None	None
RiverShares Moderate Growth & Income	None	28%	None	None
<b>Sands Capital Management</b>				
Large Cap Growth	None	1%	None	None
<b>Schafer Cullen Capital Management</b>				
High Dividend Value Equity	5%	None	None	None
International High Dividend Value ADR	20%	38%	None	0-2 cps
<b>Tandem Investment Advisors</b>				
Large Cap Core	18%	18%	1.5 cps	1.5 cps
Mid Cap Core	3%	27%	1.5 cps	1.5 cps
<b>Thomas White International, Ltd.</b>				
Global ADR	1%	None	8 bps - 13 bps	None
International Equity	37%	40%	8 bps - 13 bps	8 bps - 13 bps

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	2016	2017	2016	2017
<b>Thornburg Investment Management</b>				
International ADR	81%	83%	2.5 – 3.5 cps	3.1 cps
International Growth ADR	27%	19%	3 - 4 cps	5 cps
<b>Trevor Stewart Burton &amp; Jacobsen</b>				
Top-Down Equity	Less than 1%	None	None	None
<b>WBI Investments, Inc.</b>				
Balanced	100%	100%	None	None
Balanced Plus	100%	100%	None	None
Dividend Growth	100%	100%	None	None
Dividend Income	100%	None	None	None
Tactical Balanced	100%	100%	None	None
Tactical Balanced Plus	100%	100%	None	None
Tactical Dividend Growth	100%	100%	None	None
Tactical Dividend Income	100%	100%	None	None

<sup>1</sup> All percentages are approximate. For purposes of this calculation, the manager was required to divide (a) the total dollar amount of Baird client transactions in equity securities that the manager placed with broker-dealers other than Baird for execution by (b) the total dollar amount of Baird client transactions in equity securities the manager placed with all broker-dealers, including Baird. For example, assume Firm A placed a total of 1,000 equity securities transactions for Baird clients during 2016, having an aggregate dollar value of \$1,000,000. Of that total, Firm A placed 700 of those transactions with broker-dealers other than Baird. The aggregate dollar value of the equity securities transactions placed with the other broker-dealers was \$950,000. The percentage dollar amount of trades in equity securities that Firm A traded away in 2016 was 95.0% (\$950,000 divided by \$1,000,000).

<sup>2</sup> Additional cost is expressed terms of an average or range of cents per share ("cps") unless otherwise indicated. In some instances, the additional cost is expressed in terms of an average or range of basis points ("bps"). In situations where the executing broker executed a trade as principal, such as "risk" trades and working orders, the price the client received may have included a markup or markdown, which is not required to be disclosed by the broker-dealer, and consequently is not included in the Additional Costs.

<sup>3</sup> The dollar-weighted percentage of client trades stepped out includes only model changes and does not include deposit/withdrawal trades, which are executed by the sponsor. For securities executed in the U.S. and Canada markets, the commissions are in cps and commissions for securities executed in other markets are in bps. Information includes all accounts that participate in the manager's strategy which also includes wrap program accounts that are not sponsored at Baird.

<sup>4</sup> Information includes both fixed income and equity securities.

<sup>5</sup> On March 4, 2016, Hays Advisory ceased trading-away for Baird client accounts. The percentages reflected for 2016 are for the period January 1, 2016 to March 4, 2016.



## Important Information about Investment Managers' Placement of Client Trade Orders and Their "Trade Away" Practices, *continued.*

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<sup>6</sup> The dollar-weighted percentage of client trades stepped out includes only model changes and does not include deposit/withdrawal trades, which are executed by Baird.

<sup>7</sup> The Additional Costs referenced above reflects the commission on agency trades. Compensation for non-agency ("principal") transactions have an "unknown" amount, this number represents step-out transactions that included, but were not limited to, trades that were executed as risk trades, working orders, or bond trades where there was no disclosed markup/markdown. In these instances, the undisclosed markup or markdown is netted into the price the client receives. Please see <http://www.riverfrontig.com/advisors/wrap-fee-trading-disclosures/> for more information on RiverFront's wrap fee trading disclosures.