

## ROBERT W. BAIRD & CO. INCORPORATED

### UNDERSTANDING BROKERAGE AND INVESTMENT ADVISORY RELATIONSHIPS

Robert W. Baird & Co. Incorporated (“Baird,” “we” or “us”) is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and offer to our clients both brokerage services and investment advisory programs and services. Depending upon your particular needs and goals, you may have or wish to open brokerage accounts, advisory accounts or both.

You should understand that brokerage services and investment advisory services are separate and distinct services and that there are important differences between those services and between brokerage accounts and advisory accounts. Our brokerage services and investment advisory services are governed by different laws and regulations and by different terms and conditions in your agreements with us. As a result, our legal duties and contractual obligations to you differ depending upon whether we are acting as broker-dealer or investment adviser for you or your account. If you have one or more brokerage accounts and one or more advisory accounts, we will provide both brokerage services and advisory services to you. However, you should understand that the legal and contractual obligations that we have when providing advisory services are different from those that apply when we provide brokerage services or handle your brokerage accounts and that we do not act as investment adviser when we provide brokerage services or handle your brokerage accounts. The primary differences between brokerage services and advisory services and our legal duties and contractual obligations to you are described further below.

You should note that all of our recommendations regarding your brokerage accounts are made in a broker-dealer capacity, and all of our recommendations regarding your investment advisory accounts are provided in an investment advisory capacity, including account-type recommendations. When we make a recommendation to you, your Baird Financial Advisor will inform you orally which account we are discussing unless it is otherwise evident. You should further note that, while all recommendations to your advisory accounts will be done in an advisory capacity, we do not always act in an advisory capacity with respect to your advisory accounts, such as when we execute trades for those accounts in the capacity of broker-dealer or provide custody services. We use the term “Financial Advisor” to describe our sales associates who are both registered representatives and investment advisory representatives of Baird, but when making recommendations to you for your brokerage account, your Financial Advisor is acting as a registered representative of Baird as a broker-dealer.

You should review this document carefully and discuss it with your Baird Financial Advisor if you are considering opening any account (or account type) with us.

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

#### **Differences Between Brokerage and Advisory Accounts: Client Considerations**

It is important for you to understand the basic differences between a brokerage account and an investment advisory account before deciding what is best for you.

##### ***Brokerage Accounts***

The services that we offer to brokerage accounts are limited to providing custody of account assets, execution of securities transactions and other customary brokerage services. In addition to taking trade orders and executing the trades, we may also provide investment advice incidental to the brokerage services, which may include recommendations about whether to buy, sell or hold particular securities, as well as investor education, investment research, financial planning and tools, and information about investment products and services. We do not provide ongoing investment advice or monitoring of your brokerage account for you, unless we state otherwise in writing. You are charged a transaction-based fee (commonly referred to as a “commission”) for each purchase or sale of an individual security made in a brokerage account that we execute as agent for you. In some instances, you will pay a markup or markdown (which is embedded in the price for the security) rather than a commission on a transaction when we act as principal in selling a security to you out of our own account or buying a security from you for our own account. You will pay a sales charge or “load” on your purchases of mutual funds, UITs and other types of investments, and we receive commissions from insurance companies when you purchase annuities. When making a recommendation of any securities transaction or investment strategy involving securities to a retail customer like you, we are required to act in your best interest at the time the recommendation is made, without placing our financial or other interests ahead of your interest. However, neither we nor your Baird Financial Advisor is obligated to make any recommendation to you, to monitor your

brokerage account (unless we state otherwise in writing), or to determine whether the investments in the account remain right for you.

### ***Investment Advisory Accounts***

We offer a number of advisory programs and services that are designed to meet various objectives and strategies of clients. If you select an advisory account, your Baird Financial Advisor will consult with you to determine your investment goals and the solutions and strategies that could be used to meet those goals. Our advisory programs and services consist of a combination of non-discretionary programs, in which we and your Baird Financial Advisor provide you with investment advice and recommendations about investments but you will make the ultimate decision about whether to buy, sell or hold investments; and discretionary programs, in which you give us full discretionary authority to manage your advisory account without consulting you on a trade-by-trade basis. We also offer separately managed account programs, in which we or third party investment or asset managers (which may include our affiliates) have discretionary authority to manage your advisory account according to the manager's strategy; and unified managed account programs, in which you give us and an overlay manager authority to manage your advisory account according to a strategy selected by you. Under our advisory programs, you receive ongoing investment advice and monitoring of your advisory account. You are charged an ongoing fee for the advisory programs and services you select for your investment advisory accounts. This fee is typically charged quarterly in advance and is a percentage of the value of the investments in your advisory account. These types of fees are called "asset-based fees." When a third party asset manager is selected to manage your advisory account, you are charged an additional asset-based fee for the manager's services. We also offer standalone financial planning services separate from our advisory programs pursuant to a separate agreement. When providing investment advisory services, we and your Baird Financial Advisor are subject to the requirements of the Advisers Act. Under the Advisers Act, we and your Baird Financial Advisor have fiduciary duties to act in your best interest, to act with utmost care and good faith when dealing with you, to seek to obtain "best execution" of transactions for your advisory accounts, and to avoid or disclose to you material conflicts of interest.

### ***Brokerage or Advisory? Factors to Consider***

We generally believe that, in most instances, clients benefit more from an ongoing advisory-centric relationship with us compared to a brokerage-only relationship, although brokerage accounts may be appropriate for you under certain circumstances described below. This is because our advisory programs and services offer you more investment options and solutions for meeting your financial goals than brokerage services, along with regular and continuous professional investment advice and account monitoring. The advisory fee that you pay for advisory programs and services also better aligns our interests and those of your Baird Financial Advisor with your interests and avoids common conflicts of interest associated with a commission-based brokerage account, although there are conflicts of interest associated with both types of accounts.

Brokerage accounts and investment advisory accounts have different structures, administration, types and levels of service, and fees and expenses. Brokerage accounts and investment advisory accounts are designed to address different investment needs of investors. In considering whether to have a brokerage account, an investment advisory account or both, you should consider a number of factors, including, but not limited to:

- whether you prefer to have ongoing monitoring, investment advice or professional management of your investments, which are provided to an investment advisory account, or whether you do not want or need such services;
- whether the types of investment strategies, products and solutions you seek are available;
- whether there are limitations on the types of securities and other investments available for purchase and whether those limitations are significant to you;
- whether the nature and level of transaction services, account performance reporting, or other ancillary services you want are available;
- whether you prefer to pay an ongoing fee for continuous advice or pay commissions on a transaction-by-transaction basis; and
- the relative costs and expenses of an investment advisory account and a brokerage account, which will vary depending upon:
  - the fee or commission rate that you negotiate;
  - the size of your account;
  - the level of trading activity and size of trade orders;
  - applicable account fees and charges;

- your use of third-party managers who charge their own fees for managing accounts in addition to our advisory fee; and
- the amount of your account invested in investment products that have additional internal ongoing operating fees and expenses (e.g., mutual funds).

Although we generally believe that an investment advisory account will best meet the needs of most clients, an investment advisory account may not be appropriate for you if you:

- have or expect to have low or no trading activity;
- desire to pay transaction-based fees as opposed to ongoing asset-based fees;
- maintain your accounts invested in high levels of cash or other concentrated positions;
- do not want ongoing professional investment advice or account monitoring;
- tend to execute transactions without recommendations or advice from us or a Baird Financial Advisor, which are commonly referred to as “unsolicited” transactions; or
- intend to utilize an investment strategy, product or solution that is only available in a brokerage account.

Before opening an account with us, you should carefully consider and discuss with your Baird Financial Advisor, in light of your particular circumstances, the services, risks, fees and expenses associated with a brokerage account or an investment advisory account.