



*From Baird Investment Management's
Value Investment Team:*

Small Value 4th Quarter 2014

Portfolio Commentary

Wall Street roared in 2014 continuing its post-recession run of solid gains across all US equity markets. Looking past both domestic and foreign threats, several major equity indices posted double-digit percentage gains for the third straight year, including an 11.4% return for the S&P 500 and 13.4% return for the NASDAQ. Large caps (Russell 1000 Index) outperformed small caps (Russell 2000 Index) for the third year out of the last four by one of the largest margins in history, with the Russell 2000 trailing all the other major indexes during 2014. Looking ahead, we find the return spread between small and large caps, along with continued US economic expansion to be attractive inputs for small cap investors.

The swift sell off of all things energy related during the quarter erased outperformance experienced by the portfolio the prior nine-months. The portfolio finished the quarter with a solid absolute return of 3.9% but was unable to keep pace with the benchmark Russell 2000 Value. Despite this, we are pleased to report the small value representative account continues to deliver annualized outperformance versus the benchmark including 18.7% versus 18.2% over three-years, and 9.6% versus 6.2% since inception.

Strong gains from several top holdings aided the portfolio during Q4 offsetting an overweight to energy. Relative to the benchmark, positive contributors during Q4 included positions in consumer discretionary and information technology. Top individual contributors included Lands' End (LE) on the heels of its spinoff from Sears, Triquint Semiconductor (TQNT) and Integrated Device Technology (IDTI) propelled by strong earnings, and long-time holding J2 Global (JCOM). Conversely, in addition to energy, detractors included industrials and utilities. During the quarter we reduced our exposure to energy exiting PDC Energy (PDCE), Willbros Group (WG), Vantage Drilling (VTG) along with Mastec (MTZ). Additionally, we exited Chicopee Bancorp (CBNK), Tristate Capital Holdings (TSC) and HCC Insurance Holdings (HCC). New positions for the quarter include Capstead Mortgage (CMO), Hatteras Financial (HTS), Lithia Motors (LAD) and Drew Industries (DW).

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Economic progress continues into 2015 due in part to favorable macro trends – low interest rates / commodity prices and strong dollar policies. The housing market recovery continues to play out overall with some pockets fully recovered while other price sensitive markets still remain in lag mode correlated with the degree of economic strength locally. Those fully recovered or recovering markets benefit from improved mobility and wage growth a necessary precursor to future growth. Consistent robust revenue growth remains dearth, compelling managements to consider strategic mergers and acquisitions (international especially) and stock buybacks to meet investor expectations. Higher valuations may make this strategy less compelling this year than in recent past, but attractive candidates may find offers to convincing to ignore. Wage improvements likely continue; however, risks may emerge in several market leading sectors especially if commodity driven capital expenditures rollover – a significant source of prior wage gains and labor growth. While 2015 stock market returns may be muted in the short run due to a lack of bearish sentiment (a contra indicator) with readings marking the lows since 1987, we remain optimistic given the high-quality characteristics, attractive valuations and earnings potential of companies in the portfolio.

Thank you for your continued support and partnership. As always, we welcome the opportunity to discuss further should you desire.

Best wishes for a happy and prosperous 2015!

Michelle E. Stevens, CFA

Portfolio Manager

The Baird Investment Management Small Value commentary is incomplete if not accompanied with the most recent performance report.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

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Tenured Small Cap Value Investment Team

- 20 Years – Average Experience
- Long-Term Team Continuity

Investment Professional	Years of Experience	Investment Team Since	Coverage Responsibility	Educational Background
Michelle E. Stevens, CFA <i>Managing Director, Senior Portfolio Manager</i>	22	2000	Consumer Staples Energy Producer Durables REITS	MBA – (U. Cincinnati) BA – Economics (Wittenberg University)
Richard B. Roesch, CFA <i>Vice President Investment Analyst</i>	22	2004	Banks Consumer Discretionary Healthcare Technology	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP <i>Vice President Investment Analyst</i>	19	2005	Auto & Transports Insurance Materials & Processes Utilities	MBA –(Indiana University) BA – Accounting/Management (Iowa State University)
Rob Zwiebel <i>Senior Vice President Senior Marketing Specialist</i>	24	2004	n/a	BS – Finance (University of Dayton)
Jesse Parsons <i>Trading & Operations Analyst</i>	10	2012	n/a	BBA – Finance/Marketing (University of Kentucky)