From Baird Investment Management's
Mid Cap Growth Equity Investment Team:

Mid Cap Growth Equity
3rd Quarter 2013

Market Update

Following a quarter of indigestion caused in part by the prospect of diminished levels of Federal Reserve stimulus, stocks rallied in the third quarter of 2013. Domestic growth remained subdued but positive, international economies showed signs of stabilization and central banks continued their accommodative stance – a good recipe for gains in stock prices.

Clients of the Baird Mid Cap Growth portfolios outpaced our primary benchmark, the Russell Mid Cap Growth® Index, gaining roughly 11% for the period. Our long-held bias to pro cyclical sectors of the economy proved helpful in the past three months, with areas such as technology, consumer discretionary and producer durables providing solid returns, offset somewhat by consumer staples and healthcare. Year-to-date portfolio appreciation approximates 24%, which we view as a good return level for clients.

Portfolio Commentary

Relative performance turned positive early in the quarter as several stocks within the portfolio reacted favorably to second quarter earnings reports. Of particular note was the breadth of strength, as six of the eight benchmark sectors represented in the portfolio made positive contributions. Consumer staples and healthcare were the only sectors to lag, and the impact of each was relatively modest. Our portfolio positioning remains generally balanced with sector weights still relatively close to the benchmark.

The technology sector was the benchmark's strongest absolute performer and also led relative portfolio performance, rebounding nicely from struggles earlier in the year. Patience paid off as lower expectations coming into earnings season allowed for favorable stock reactions to better-than-expected results. SourceFire was the standout during the quarter spurred by the company's announced sale to Cisco. There were also several companies across different end markets posting strong returns including Concur Technologies (software for travel and spending management), F5 Networks (Internet traffic management solutions) and Ansys (engineering simulation software). In an effort to maintain portfolio exposure to the network security industry where we see attractive long-term spending growth, we initiated a position in Fortinet following the sale of SourceFire. We also sold the position in Riverbed as we viewed the choppy fundamental performance as indicative of an investment thesis that was not playing out.

Consumer discretionary stocks added to their solid performance in the first half of the year even though consumer spending waned during the summer season. We believe that the backdrop for spending, particularly for the higher end consumer, remains relatively favorable due to an improving housing market, job growth, as well as stock market strength. In light of sharp price advances in several names and recognizing the potential for increased uncertainty and volatility around government budget politics, we trimmed a few positions, including Buffalo Wild Wings, Intercontinental Hotels, Polaris, and LKQ. We offset a portion of the trims by adding to our initial position in Fortune Brands, which slightly

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increases our exposure to the housing market and the improving spending trend for home repairs and remodeling.

In the consumer staples sector, performance lagged in the quarter as our holdings fell short of benchmark returns. We believe softer results were more a function of the economic backdrop than any flaw in the business models. In fact, we added to both Church & Dwight (consumer products) and McCormick (spices and food flavoring) when the stocks pulled back. While the overall backdrop for consumer spending looks attractive as rising house and stock prices push total consumer net worth to record levels, we want to be cognizant of risk/return trade-offs following a strong market advance and the impact of near-term political risk on consumer confidence as we head into the important holiday shopping season.

The energy sector again provided an assist to relative performance as good stock picking was at work. The portfolio's exposure sits in line with the benchmark weight. We are operating under the premise that even with a solid ramp in domestic oil production, the global supply and demand equation remains tight and supportive of relatively stable prices. Portfolio holdings in the materials sector also contributed nicely to returns. Strong performance from Acuity Brands was most notable. The company, which designs and manufactures lighting products and control systems, reported solid fundamental results despite only modest improvement in its end markets.

The portfolio's healthcare stocks lagged a bit during the quarter. Alexion, which participated in a strong biotech advance, was the sector's strongest performer, and was accompanied by solid performance from newer holding, Acadia Healthcare (psychiatric health facilities) and continued strength in ICON (contract clinical research services). Illumina, which provides gene sequencing equipment & systems, took a breather following gains last quarter and Catamaran (pharmacy benefit services) pulled back on concerns over the competitive landscape in a post healthcare reform world. We made a few minor adjustments, trimming Illumina on strength and adding to Catamaran and Acadia. The political rollercoaster surrounding Obamacare and overall government spending will likely continue to add volatility to a sector that was long viewed as an ideal hunting ground for stable growth companies. Our strategy remains focused on identifying businesses benefitting from new product cycles or that serve a cost saving function within the system.

The portfolio's industrial stocks rebounded from a challenging second quarter to produce solid outperformance. While the environment was less than robust, some signs of stabilization in Europe and stronger equity markets in Japan and China were supportive of cyclical businesses. As an example, Manpower, which derives over half of its revenues from international markets, was the strongest stock in the sector. Rockwell, which sells industrial automation components and systems globally, was not far behind.

Our financial stocks outpaced the benchmark thanks to solid performance from long time holding Alliance Data which continues to benefit from market share gains in its private label credit card business and growth in its marketing services segment. East West Bancorp also performed well as the company reported solid EPS growth despite generally modest industry loan growth. A backdrop of higher long rates during most of the quarter created an overhang in the REIT industry, which adversely impacted Digital Realty.

Outlook

As we enter the home stretch of 2013 little has changed in our outlook and we see a mostly favorable investment backdrop. The domestic economy should continue to produce a low, but positive single digit rate of growth. Employment is expected to improve, and with it, consumer confidence and spending should follow. It is our opinion that the question is when, not if, the Federal Reserve begins reducing their purchases of U.S. Treasury debt. That monetary adjustment should be absorbed by modest single-digit growth in GDP, improving employment trends and low but steady levels of inflation. As we observed last quarter, concerns over changes in Fed policy can cause market volatility and the impact of these adjustments on housing activity will need to be closely watched. Nonetheless, the Fed has signaled that interest rates will remain at very low levels for the foreseeable future, providing ample support for future growth. Additionally, corporate earnings, which we view as a primary driver of stock prices, continue to grow, likely in the mid to high-single-digit range for all of 2013. The potential upside of improved conditions in Europe and Asia has crept into the market, but we believe this to be more of a 2014 impact to most companies with revenue contributions in those geographies. In sum, we find the overall environment supportive of long-term investing.

The near term spending and debt ceiling negotiations in Washington D.C. have caused some disruption and anxiety for the markets. We expect the outcome of this iteration will be no different, with the typical posturing, cajoling and last minute resolutions followed by a similar cycle in the not so distant future. If stocks sell off due to uncertainty caused by these events, we would likely add to positions in the more economically sensitive areas, owing to the belief that the outlook for global growth is better in the coming quarters.

To conclude, it is our belief that these trends will remain in place for the balance of the year and into 2014. We appreciate your support of Baird Investment Management and our Mid Cap Growth strategy.

The Baird Investment Management Mid Cap Growth Equity commentary is incomplete if not accompanied with the most recent performance report.

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Tenured Mid Cap Growth Investment Team

- All team members have equity ownership
- Deep sector expertise
- Average years of experience: 21 years

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA *Senior Portfolio Manager and Analyst*	27	27	Industrials & Materials Consumer Discretionary - Auto IT - Software	MS – Finance - The Applied Security Analysis Program BBA – Accounting and Finance (UW – Madison)
Ken Hemauer, CFA *Senior Portfolio Manager and Analyst*	20	20	Financial Services Consumer Discretionary IT-Business Services	MS – Finance - The Applied Security Analysis Program BBA – Finance (UW – Madison)
Doug Guffy *Senior Research Analyst*	30	9	Energy	MBA – Finance (Ball State University) BA – Economics & Government (Anderson University)
Reik Read *Senior Research Analyst*	16	13	IT-Electronic Manufacturing Business Services	MBA – (UW – Madison) BS – Economics (UW – Madison)
Jonathan Good *Senior Research Analyst*	13	7	Healthcare Information Technology	MBA – (Northwestern University – Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)