



Baird Investment  
Management

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

## All Cap Value 2<sup>nd</sup> Quarter 2013

### Portfolio Commentary

The Federal Reserve's accommodative monetary stance continued through much of the second quarter, taking with it most asset valuations. On the second day of the Fed's most recent meeting (June 20<sup>th</sup>), Chairman Bernanke laid out the inevitable, yet unknowable, time frame for the "tapering of quantitative easing". The market was clearly spooked by this communique, with the Dow Jones average finishing the day down 300 points and bond yields vaulting higher. Equally surprised we imagine, had to be Ben himself at the market's reaction. As we mentioned in our first quarter 2013 commentary, the Chairman was reassuring the markets that QE was in place and having the desired effects. This was intended to counter balance the jawboning dissensions by the Fed's hawks calling for an end game to trillion dollar asset purchases and manipulation of yields.

How ironic then - in just one quarter's elapsed time, we see Bernanke ever so slightly tip his QE taper policy hand that just four days later Dallas Fed Governor, Richard Fisher – an adamant and brazen hawk for many years, came to the rescue saying the market "overreacted" to the end of QE.

For the quarter, our benchmark Russell 3000 Value Index was up 3.1%. The BIM All Cap Value Portfolio underperformed on a relative basis.

Performance for the quarter was led by our holdings in the financial sector. New purchases in the sector within the past year, which are leveraged to improving consumer credit and rising home prices, boosted returns. Leaders included Portfolio Recovery Associates (PRAA) and Hilltop Holdings (HTH). Other top sector contributors for the quarter included consumer discretionary, healthcare, information technology, and industrials. Top individual contributors for the quarter include Harmon International (HAR), Hanesbrands (HBI), and Pioneer Natural Resources (PXD). Conversely, sector detractors for the quarter included financials, energy, and utilities. Individual positions that lagged during the quarter include American Capital Mortgage (MTGE), American Capital Agency (AGNC), First Cash Financial (FCFS), Willbros Group (WG), and Ezcorp (EZPW).

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New additions to the portfolio during the quarter included: Mednax (MD), MYR Group (MYRG), Harmon International (HAR), Steiner Leisure (STNR), Air Methods (AIRM), Generac Holdings (GNRC), and AmTrust Financial (AFSI). Further, we added to our existing positions in Encore Capital (ECPG), and Hilltop Holdings (HTH). To make room for these new additions we exited Warner Chilcott (WCRX), CR Bard (BCR), John Wiley (JWA), EZ Corp (EZPW), Microsoft (MSFT), Triumph (TGI), Lender Processing Services (LPS), and CYS Investments (CYS).

Given the recent mix of economic data that has generally been improving but has not been robust, we do not anticipate a rapid, significant move higher in interest rates in the second half of this year. Such an environment of a gradually steepening yield curve should be supportive of continued improvements in the housing and credit markets. In addition, it is our opinion that consistent improvement in manufacturing and employment data are necessary ingredients for the Fed to beginning tapering the quantitative easing program.

Looking forward, we believe it is critical for corporate earnings growth to accelerate in order to sustain the market's upward momentum which has thus far been driven this year by multiple expansions. Such a focus should favor higher quality stock portfolios and individual security selection, which play well to our investment philosophy.

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

Michelle E. Stevens, CFA

Portfolio Manager

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

The Russell 3000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 3000 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 All Cap Value Investment Team

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

Investment Professional	Years of Experience	Investment Team Since	Coverage Responsibility	Educational Background
<b>Michelle E. Stevens, CFA</b> <i>Managing Director, Senior Portfolio Manager</i>	20	2000	Consumer Staples Energy Producer Durables REITS	MBA – (U. Cincinnati) BA – Economics (Wittenberg University)
<b>Richard B. Roesch, CFA</b> <i>Vice President Investment Analyst</i>	20	2004	Banks Consumer Discretionary Healthcare Technology	BS – Finance (Butler University)
<b>Jonathan DeMoss, CFA, CPA, CFP</b> <i>Vice President Investment Analyst</i>	17	2005	Auto & Transports Insurance Materials & Processes Utilities	MBA –(Indiana University) BA – Accounting/Management (Iowa State University)
<b>Rob Zwiebel</b> <i>Senior Vice President Senior Marketing Specialist</i>	22	2004	n/a	BS – Finance (University of Dayton)
<b>Jesse Parsons</b> <i>Trading &amp; Operations Analyst</i>	8	2012	n/a	BBA – Finance/Marketing (University of Kentucky)