



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

## Small/Mid Value 4<sup>th</sup> Quarter 2013

### Portfolio Commentary

Equity markets gave investors plenty to celebrate during Q4 continuing their upward trajectory experienced during the first nine months of 2013. For the quarter, the benchmark Russell 2500 Value returned 8.83% and capped its best year since 2003 with a 33.32% return for calendar year 2013. Other major equity market barometers followed course. The Dow industrials had its biggest annual rally in 18 years and the S&P 500 its best calendar year return since 1997.

We are pleased to report the Baird small/mid value representative account delivered a solid absolute return of 8.35% during Q4. Further, year-to-date the Baird small/mid value portfolio returned 36.60% outpacing the Russell 2500 Value by 328 basis points.

During Q4 top sector contributors included Energy, Healthcare, Information Technology and Utilities. Conversely, detractors included Financials and Consumer Discretionary. On the heels of strong earnings top individual contributors included Himax Technologies (HIMX), Generac Holdings (GNRC), Air Methods (AIMR) and long-time portfolio holding Jarden Corp (JAH). Conversely, detractors included Portfolio Recovery Associates (PRAA), recently sold AmTrust Financial Services (AFSI), and Steiner Leisure (STNR). We continue to find attractive valuations for certain high quality companies prompting several portfolio changes. During the quarter we initiated positions in GameStop (GME), Motorcar Parts of America (MPAA), Universal Truckload Services (UACL) and Pinnacle Foods (PF). To make room for these new positions, we exited Amtrust Financial Services (AFSI), Valmont Industries (VMI), and Triumph Group (TGI).

As mentioned above, 2013 was a strong year for your Baird small/mid value portfolio. Aiding performance year-to-date were holdings in Consumer Discretionary, Information Technology and Financials, while Healthcare, Industrials and Energy were slight detractors. Top individual contributors for the year included Bank of the Internet (BOFI), Harman International (HAR), Himax

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Technologies (HIMX) and two companies that have historically delivered year after year Hanesbrands (HBI) and Jarden (JAH).

As we enter 2014 several market prognosticators are suggesting the rally in small and mid cap companies is over. Of course we respectively disagree and offer a few thoughts investors should consider.

1) Over the long-term small cap and in particular small cap value has outperformed all other asset classes. This asset class should always be part of any long-term asset allocation plan.

2) The US economy appears to be rebounding which is supportive of those companies generating a significant portion of their revenue in the US. Small cap companies on average generate only 16% of revenues outside the US versus 35% for large caps.

3) As we enter the Q4 earnings season S&P 100 preannouncements have only been negative – not one positive revision. Conversely, the ratio of negative to positive revisions for small caps remains at long-term averages suggesting a solid earnings season for small cap companies.

4) Despite strong market appreciation, we continue to find high quality companies trading at attractive valuations as evidenced by several new additions to the portfolio during Q4.

2013 was a successful year on many fronts. We would like to extend a special thank you for your continued confidence and support.

All the best for a safe and prosperous 2014.

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

The Russell 2500 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2500 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 S&P 500 Index is a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 100 Index, a sub-set of the S&P 500®, measures the performance of large cap companies in the United States. The Index comprises 100 major, blue chip companies across multiple industry groups. The Dow Jones Composite Average Index is computed from the stock prices of 30 of the largest and most widely held public companies in the United States.

Indices are unmanaged and direct investment is not possible. Past performance is no guarantee of future results.

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## Tenured Small/Mid 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>	21	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>	21	2004	Banks Consumer Discretionary Healthcare Technology	BS – Finance (Butler University)
<b>Jonathan DeMoss, CFA, CPA, CFP</b> <i>Vice President Investment Analyst</i>	18	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>	23	2004	n/a	BS – Finance (University of Dayton)
<b>Jesse Parsons</b> <i>Trading &amp; Operations Analyst</i>	9	2012	n/a	BBA – Finance/Marketing (University of Kentucky)