



Baird Investment
Management

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

Small Value 1st Quarter 2015

Portfolio Commentary

U.S. equities see-sawed during the first quarter as volatility returned to nearly every market segment. While most equity indexes finished the quarter in positive territory, uncertainty about the future appeared to be the overriding theme. Equity investors remain on edge as the impact of continued struggles in China and emerging market economies, falling oil prices, potential deflation and bond market volatility have yet to play out. Earnings estimates for S&P 500 companies trended down while U.S. government bonds rose for the fifth consecutive quarter.

The Baird Small Value Portfolio delivered an absolute return of 1.7% for the quarter performing in-line with the benchmark Russell 2000 Value. The Portfolio continues to deliver solid long-term absolute and relative performance returning 15.1% versus 14.7% trailing 3-yrs, 14.3% versus 12.5% trailing 5-yrs, and 10.0% versus 7.2% since inception.

Information technology, utilities and financials were positive sector contributors for the quarter. Top individual performers in these sectors include Methode Electronics (MEI), Synaptics Solutions (SYNA), and UIL Holdings (UIL). Additional top performers include Hexcel Corporation (HXL), Bank of the Internet (BOFI), and recent addition to the portfolio Lithia Motors (LAD). Energy stocks and industrial holdings with energy exposure remained weak as oil prices continued to languish but did begin to rebound during the final weeks of the quarter. Pacific Drilling (PACD), Universal Truckload (UACL), Lands' End (LE), Texas Capital Bancshares (TCBI), and Knowles (KN) were among the holdings which detracted from performance.

During the quarter we exited Wex Inc (WEX) and Quality Distribution (QLTY), as well as trimmed our positions in Encore Capital Group (ECPG) and Portfolio Recovery Associates (PRAA). Conversely, we initiated positions in Knowles Corporation (KN), Alere Inc (ALR), Deluxe Corp (DLX), Patrick Industries (PATK), and increased our weighting in Synaptics Solutions (SYNA).

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Richard B. Roesch, CFA
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Jonathan DeMoss, CFA,
CPA, CFP
Investment Analyst

Rob Zwiebel
Senior Marketing Specialist

Jesse Parsons
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Our concerns about weakness in economic growth outside the United States continue to be validated by recent economic data and the consequent impact on multinational equities has been increasingly reflected in downward revisions to earnings estimates. We expect the strong U.S. dollar and decelerating global growth will be headwinds for large multinational companies but plays to the strength of domestic small companies with less than half the exposure to foreign revenue. We are most bullish on the U.S. consumer, which has made progress repairing personal balance sheets and should benefit from continued gains in employment, housing market strength and falling gas prices. While falling energy prices are ultimately good for the majority of industries and capital spending, our concern is that in the short-run, the benefit will not be able to offset a rapid decline in domestic oil-related capital expenditures. Consequently, we start the year with a somewhat defensive bias as the market digests these spending adjustments, and we will look to become more constructive on cyclical exposure as we see signs of stabilization outside the U.S. and within the energy complex. As always, we will seek to mitigate risk by maintaining a well-diversified portfolio of businesses, which we project can exceed growth expectations and which trade at compelling valuations. This strategy, we believe, when applied with discipline, yields attractive long-term returns for investors.

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 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.

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

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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)