



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

Small/Mid Cap Value 3rd Quarter 2014

Portfolio Commentary

Market returns continued to vary throughout Q3 with July reversing June gains, August reversing July losses, and September reversing August gains. This gain and loss oscillation shouldn't surprise investors who seem thoroughly preoccupied during the quarter with the timing of Federal Reserve QE wind down, pace and direction of future interest rates, the Russian invasion of Ukraine, and the rise of ISIS terror assaults against Westerners. While there will always be fear in the market, we took advantage of these market opportunities to both buy and sell positions within the portfolio consistent with our outlook.



For the quarter, the BIM Small/Mid Cap Value composite returned -1.70% while our benchmark Russell 2500 Value Index was -6.40%. Performance was robust, outperforming the benchmark every month (-4.16% vs. -4.81%, 6.06% vs. 4.43%, and -3.29% vs -5.83%) in both up and down markets. Year-to-date the composite returned 3.85% versus .96% for the benchmark.



Core to our strategy, we strive to buy stocks that will surprise or beat quarterly earnings estimates. For Q2 (latest quarter available), earnings surprise was +4.53% for the BIM Small/Mid Cap Value composite versus +2.04% for the benchmark.

Performance for the quarter was led by our holdings across four sectors: Consumer Discretionary, Information Technology, Industrials, and Energy. Consumer Discretionary was the best performer in both July and September with strength from Retailers, Apparel Makers, Household Durables, and Auto Components. Information Technology continued its strength from Q2 into Q3 posting consistent performance across the quarter and the best sector for the month of August. Similarly, Energy reversed a weak July performance to post gains in both August and September – this despite price declines in West Texas

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Intermediate oil. Leaders included Skyworks Solutions (SWKS), Land's End (LE), Hanesbrands (HBI), Motorcar Parts of America (MPAA), and Verisign (VRSN). Conversely, Financials, Healthcare, and Telecom sectors detracted from performance in the quarter. Financial stocks outperformed in July, but slipped the remainder of the quarter in August and September. Weakness was noted in our Consumer Finance and REIT segments. Healthcare was off slightly for the quarter mainly lagging during August. Individual positions that lagged during the quarter include PDC Energy (PDCE), Willbros Group Inc. (WG), Portfolio Recovery Associates (PRAA), Dorian LPG Limited (LPG), and Generac Holdings Inc. (GNRC).

A new addition to the portfolio during the quarter included Synaptics Inc. (SYNA) a developer of computer and mobile phone user interfaces. Further, as noted earlier, we took advantage of market volatility to add to our existing positions in Motorcar Parts of America (MPAA), Integrated Device Technology Inc. (IDTI), Land's End (LE), Dorian LPG Limited (LPG), and Hilltop Holdings Inc. (HTH). To make room for these additions we exited Carefusion Corporation (CFN), Capitol Federal Financial (CFFN), CMS Energy Corporation (CMS), and Omega Healthcare (OHI).

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 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 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/Mid Cap Value Investment Team

- 19 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>	21	2000	Consumer Staples Energy Producer Durables REITS	MBA – (U. Cincinnati) BA – Economics (Wittenberg University)
Richard B. Roesch, CFA <i>Vice President Investment Analyst</i>	21	2004	Banks Consumer Discretionary Healthcare Technology	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP <i>Vice President Investment Analyst</i>	18	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>	23	2004	n/a	BS – Finance (University of Dayton)
Jesse Parsons <i>Trading & Operations Analyst</i>	9	2012	n/a	BBA – Finance/Marketing (University of Kentucky)