



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

Small/Mid Value 1st Quarter 2015

Portfolio Commentary

U.S. equities see-sawed during the first quarter of 2015 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 US government bonds rose for the fifth consecutive quarter.

The Baird Small/Mid Cap Value Portfolio delivered an absolute return of 4.3% outperforming the benchmark Russell 2500 Value by 130 basis points. The Portfolio continues to deliver solid long-term absolute and relative returns outpacing the benchmark on an annualized basis by 420 bps for the trailing 1-yr, 200 bps for the trailing 3-yr, 200 bps trailing 5-yr and 225 bps trailing 10-yr periods.

For the quarter, performance was driven by our information technology and utility holdings. Top performers in these two sectors include Methode Electronics (MEI), Skyworks Solutions (SWKS), and UIL Holdings (UIL). Additional top performers include Hexcel Corporation (HXL), Bank of the Internet (BOFI), and new addition Norwegian Cruise Line Holdings (NCLH). 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. While S&P energy sector earnings estimates have been revised lower by over 45% during the past three months, our energy stocks have seen their estimates rise by an average of 6% during that period, giving us confidence in the less cyclical nature of our positioning. Individual positions that lagged during the quarter include Universal Truckload Services (UACL), Texas Capital Bancshares (TCBI), Private Bancorp (PVTB), Encore Capital (ECPG), and Targa Resources (TRGP).

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During the quarter we exited Wex Inc (WEX) and Texas Capital Bancshares (TCBI), as well as trimmed our positions in Encore Capital Group (ECPG), Portfolio Recovery Associates (PRAA), and Jarden (JAH). Conversely, we initiated positions in Knowles Corporation (KN), Hersha Hospitality Trust (HT) and Thor Industries (THO).

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/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 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 Small/Mid 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)