



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

Small/Mid Cap Value 2nd Quarter 2014

Portfolio Commentary

"Steady as she goes..." best describes our macro view of the U.S. economy juxtaposed to conditions at the business level which we believe are much improved from years past and consensus forecasts. Recent stock market highs, a low volatility index (VIX), and improved Institutes of Supply Management (ISM) data seem to validate our viewpoint - pay attention to the business trends and ignore the fog of exogenous events.



The Federal Reserve continues its monthly asset purchase tapering process. While actual increases in Federal Funds interest rates are still in the future, it's possible the Governors could be spooked by higher inflationary numbers mostly via an improving employment environment. Over the last several years many workers saw hours cut from full-time to part-time or accepted a job at a dramatically lower pay scale than what they were making previously. As the economy expands and companies hire workers, it is possible these previous trends could reverse course, resulting in temporary spikes to the data – something that may prompt the Fed to react.

A longer term counterweight to potential inflationary wage pressures would likely arrive in the form of energy price relief. While this July 4th holiday weekend marked one of the highest starts to gasoline prices for this year's summer driving season, increased domestic shale oil growth and greater fuel efficient vehicles could result in lower energy prices at the consumer level likely providing an additional boost to the economy as a whole.



For the quarter, the BIM Small/Mid Cap Value composite returned 2.07% while our benchmark Russell 2500 Value Index was up 4.20%. Performance was weaker than anticipated in April and May before rebounding in the month of June. Year-to-date the composite returned 5.64% versus a strong 7.87% return

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from the benchmark. It's interesting to note with the year half complete, the benchmark has exceeded what many prognosticators and strategists thought the market would earn for the entire year.

Performance for the quarter was led by our holdings in three sectors: Information Technology, Energy, and Consumer Discretionary. IT led all other sectors for the second month in a row with strength from hardware and equipment makers. Similarly, Energy reversed a weak April performance to post gains in both May and June. Consumer Discretionary stocks including consumer apparel posted strong gains in April and June. Leaders included Targa Resources Corporation (TRGP), Methode Electronics Incorporated (MEI), Hanesbrands Incorporated (HBI), Skyworks Solutions (SWKS), and Integrated Device Technology Incorporated (IDTI). Conversely, Industrials, Financials, Utilities, and Healthcare sectors detracted from performance in the quarter. Healthcare stocks outperformed in April, but slipped the remainder of the quarter in May and June. Utilities were in line to slightly lower mostly due to our underweighted position in the portfolio. Financials were lower throughout the quarter with some pressure on bank stocks and REITS due to interest rate volatility. Lastly, Industrials suffered mightily during the second quarter finishing dead last each month. Individual positions that lagged during the quarter include Mastec Incorporated (MTZ), Generac Holdings (GNRC), Himax Technologies (HIMX), Hilltop Holdings (HTH), and Bank of the Internet Holding (BOFI).

New additions to the portfolio during the quarter include: Methode Electronics (MEI) a designer and manufacturer of integrated automobile touch screens, Integrated Device Technology Incorporated (IDTI) a leader in radio frequency and wireless power solutions, and Teekay (TK) a midstream energy company with ownership interests in liquid natural gas, liquid propane gas, tankers, and offshore assets. New entrants also included: Atmel Corporation (ATML) a maker of microcontrollers and likely benefactor of the Internet of Things, Lands' End (LE) a newly independent company separate from Sears Holdings, and finally Dorian LPG Limited (LPG) who expects to deliver 19 new very large gas carriers during the next three years.

Further, we added to our existing positions in Bank of the Internet (BOFI), Private Bancorp (PVTB), and Skyworks Solutions (SWKS). To make room for these additions we exited Himax Technologies (HIMX), Ensco (ESV), Air Methods (AIRM), Babcock & Wilcox (BWC), and Fiserv (FISV).

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.

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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)