From Baird Investment Management's
Mid Cap Growth Equity Investment Team:

Mid Cap Growth Equity
3rd Quarter 2015

Market Update

As we began the third quarter, all eyes centered on the Federal Reserve with rising expectations that the process of normalizing interest rates would begin. However, worry over the rate of economic growth and volatility introduced by an unexpected devaluation of the Chinese currency led to Fed inaction and provided a recipe for the worst quarterly stock performance in four years. The conditions driving the third quarter pullback in stocks will take time to be resolved. Domestic employment data and economic developments in China will likely hold much influence over near-term market movements and, as long as heightened interest rate uncertainty persists, we expect markets to remain relatively volatile.

Portfolio Commentary

Clients of the Baird Mid Cap Growth portfolios faired a bit better than our primary benchmark, the Russell® Mid Cap Growth index but were not immune to the selling pressure as the market's sharp dislocation left few areas unaffected. Client portfolios also exited the period ahead of the benchmark on a year-to-date basis. While a modest slowdown in overall economic activity is apparent, we do not believe a domestic recession is likely as the Fed and global central banks remain accommodative and key economic areas, such as employment, housing, and energy costs are favorable. Our portfolios are balanced across sectors and, while somewhat more defensive than in prior years, remain positioned to benefit from continued economic growth. Our sector thoughts and a description of portfolio changes follow.

The technology sector led relative performance in the third quarter due to broad strength from the computer software and services industry. The collective portfolio holdings in this industry produced a positive return, comparing very favorably to a sharp decline for the sector overall. Holdings in the semiconductor industry also held up better than other chip companies. During the quarter, we trimmed Integrated Device Technology and sold the positions in Envestnet and ServiceNow. With proceeds from these sales, we added to Synopsys and ANSYS, and purchased new positions in Akamai Technologies, CDW Corp, and Tyler Technologies. Akamai is a leader in rapid content delivery over the internet. We believe the company is well positioned to benefit from increasing over-the-top video content by key players such as Apple TV, HBO and CBS. North-America focused technology reseller, CDW, provides diversified exposure to domestic IT spending, where the company has consistently outgrown peers. Tyler possesses a very strong competitive position providing software solutions primarily to local governments. The net effect of the changes lifted the sector to a modest overweight position. We believe the changes increased revenue stability without compromising growth and allow us to maintain good end market diversification.

The consumer discretionary sector again provided solid relative performance in the quarter. Standouts were sports apparel maker Under Armour, auto parts retailer O'Reilly, and restaurant Buffalo Wild Wings; all posted strong absolute advances in a down market. We made several changes as we worked to strike the best balance of risk/reward in the sector. We sold the position in Dick's Sporting Goods and HomeAway, and trimmed Under Armour. We added to Polaris and Fortune Brands as well as several of the portfolio's retail holdings. The sector weight finished the quarter in line with the

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benchmark and represents the largest portion of the portfolio. The outlook for the consumer remains favorable on the back of declining unemployment and low energy costs, but we are also increasingly mindful of the meaningful duration of sector outperformance.

The materials sector benefitted from a lack of exposure to direct commodity-related businesses, which like producer durables generally retreated during the quarter. The exposure to favorable residential and non-residential construction activity in both Acuity Brands and Watsco led sector performance. We've enjoyed a very strong run in Acuity and while we expect to see a continuation of strong fundamentals, we chose to moderate the position.

The energy sector produced fairly nondescript relative performance, not all bad given continued price weakness in most of the companies. As mentioned last quarter, the sector weight in the benchmark dropped significantly upon the annual rebalance at the end of June. We adjusted by selling the Southwestern Energy and Oceaneering positions. Oil has recently stabilized, perhaps marking a floor, but until production is reduced or demand lifts, we expect volatility to remain in place.

Healthcare lagged modestly during the quarter. Given the pullback in biotech stocks, particularly in the latter part of the quarter, we would have liked to see better relative performance. However, we endured fairly sharp declines in several names including Globus Medical, Acadia Healthcare, and Perrigo. The companies were far removed from negative drug pricing news that created selling pressure in affected areas. Despite solid growth trends in these portfolio holdings, they appeared to be swept up in the negative healthcare trade. We expect fundamental trends to prevail over time, but are cognizant of the risk that after several strong years, a more general rotation away from healthcare could be at work. One other note - Perrigo continues to be the target of an unfriendly takeover offer by Mylan, which we view to be a bad buyer offering an inadequate price. Losing this excellent business will potentially leave us with the task of finding a new home for the capital. Changes in the sector included additions to Cerner, Globus Medical and Perrigo, and the purchase of IDEXX Laboratories, a leading veterinary diagnostics company. The company possesses proprietary products and strong vet loyalty, along with a promising pipeline of new products scheduled to launch in 2016.

Holdings in the consumer staples sector trailed benchmark performance. Relative performance was primarily impacted by a miss on stock selection within the food industry. A newer position in United Natural Foods, which is a leading distributor of natural and organic foods, struggled on the unexpected news of a meaningful customer loss. In addition, Mead Johnson continued to lag on a relative basis as the company is being affected by the overhang of slower China growth.

The producer durables sector gave back a portion of the favorable relative performance experienced in the first half of the year. The softer global growth picture and the impact on industrial spending, particularly if tied to the energy complex or commodities, left many stocks well below where they started the quarter. Within the portfolio, United Rentals (equipment rental), Trimble (agriculture/construction instruments), and Rockwell (manufacturing automation) all struggled. Service and non-energy related businesses like Stericycle (medical waste disposal), Genpact (outsourcing services), and Middleby (commercial and residential cooking equipment) fared much better. A lack of airline ownership returned as a performance headwind as companies in this industry benefitted from lower fuel costs and their heavy domestic revenue exposure. It remains a difficult area for us to commit capital given its deeply cyclical nature. We sold the United Rentals position and in its place purchased Wabtec Corporation, a key North American rail equipment manufacturer. We like the company's exposure to secular growth in the rail industry, and a recent acquisition that we expect to enhance its international exposure.

The financial services sector completed an about face from the second quarter as relative performance went from leader to laggard in the most recent quarter. The performance headwind created by persistently low rates returned impacting East West Bancorp and Northern Trust, two businesses we are happy to own long-term, but that will likely trade in tandem with the movement in interest rates. The rate impact was compounded due to a lack of REIT ownership. The final sector headwind was performance from the portfolio's asset manager holdings, which felt the full force of the market decline. Changes made to the sector include adding to Northern Trust and Fiserv, while reducing the Greenhill position. As has been the case for some time, the portfolio is underweight the sector. Should the global growth outlook turn more positive and rate increases become more certain, we would look to add to existing positions.

Outlook

Amid all the uncertainty regarding Federal Reserve action, and global growth prospects, we expect domestic economic data to improve modestly in the fourth quarter, supporting the eventual "liftoff" of rates. To that point, the unemployment rate remains stable, strong automobile sales have finally reached pre-recession levels and low energy prices support consumer spending. Other segments of the economy, including industrials and those related to energy or those benefitting from higher rates like many financials, may well report more subdued results during the quarterly earnings reporting cycle.

While it is perhaps easier to focus on what is troubling or problematic given the tough market in the third quarter, we cannot ignore what might turn sentiment more positive. Global central banks continue to be very accommodative, with quantitative easing in Europe and Japan, China cutting down payment requirements for housing, and the dampening effect on inflation from low energy prices. It is not out of the realm of possibility that China adds additional stimulus in the coming months, which could help stabilize that important economy and lift market sentiment.

Today, our portfolios reflect a more defensive posture than in quarters past, but we are closely monitoring the data for change. Our high quality, well diversified approach to investing has served clients well in prior difficult environments, and we remain focused on executing our long-standing strategy. Thank you for your support of Baird Investment Management.

The Baird Investment Management Mid Cap Growth Equity commentary is incomplete if not accompanied with the most recent performance report.

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Tenured Mid Cap Growth Investment Team

- All senior team members have equity ownership
- Deep sector expertise
- Average years of experience: 18 years

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA *Senior Portfolio Manager and Analyst*	29	28	Industrials & Materials Consumer Discretionary - Auto	MS – Finance - The Applied Security Analysis Program BBA – Accounting and Finance (UW – Madison)
Ken Hemauer, CFA *Senior Portfolio Manager and Analyst*	22	21	Financial Services Consumer Discretionary IT-Business Services	MS – Finance - The Applied Security Analysis Program BBA – Finance (UW – Madison)
Doug Guffy *Senior Research Analyst*	32	11	Energy & Industrials	MBA – Finance (Ball State University) BA – Economics & Government (Anderson University)
Jonathan Good *Senior Research Analyst*	15	9	Healthcare Information Technology	MBA – (Northwestern University – Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Chaitanya Yaramada, CFA *Senior Research Analyst*	6	6	Information Technology-Software	MBA (University of Chicago-Booth School of Business) BE – Bachelor of Engineering-Software (Univ. of Auckland, New Zealand)
Corbin Weyer, CFA, CPA *Research Analyst*	5	5	Consumer	BSBA – Finance & Accounting (Marquette University)