Baird Investment Management

The Best Equity Performance May Surprise You

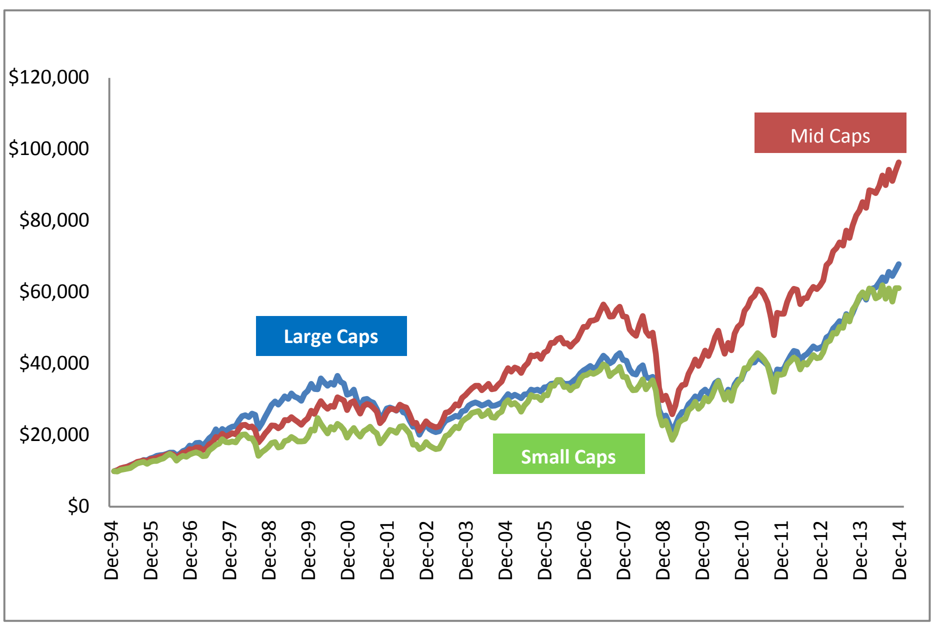
Recent analysis reveals that Mid-Cap stocks provide a differentiated investment opportunity

Over the past fifteen years Mid Cap stocks have offered the strongest and most consistent returns relative to both Large and Small Cap. Advisors highlighting this asset class to their clients can offer incremental value-add and meaningful differentiation.

Stellar Performance

Since 1995 Mid Cap stocks, defined by the Russell Mid Cap index, have outperformed Large Cap stocks (Russell 1000) and Small Cap stocks (Russell 2000) by over 43%. Perhaps more impressive is the consistency that Mid Cap has shown. Looking at monthly rolling five year average returns since December of 1999, Mid Cap has outperformed both Large Cap and Small Cap in a remarkable 144 of 181 periods, or 80% of the time! The data also show that over these same 181 periods, Mid Cap has outpaced Large Cap 88% of the time and Small Cap 92% of the time. This data is through December 31, 2014.

Recent Performance of Mid-Caps vs. Other Equity Asset Classes



Source: Russell Index Calculator and Baird Investment Management

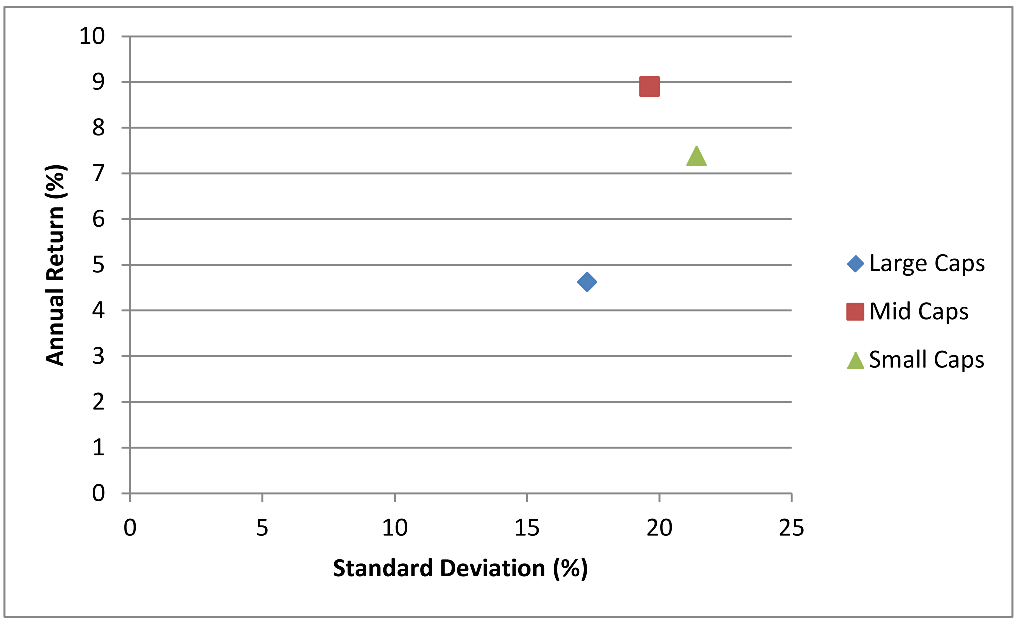
Did You Know?
Since 1995, Mid Cap stocks, defined by the Russell Mid-Cap Index, have outperformed Large-Cap stocks (Russell 1000) and Small Cap stocks (Russell 2000) by over 43%.

Underappreciated Asset Class

Historically, most asset allocation models and investors tend to migrate to Small and Large Cap asset classes believing this adequately covers Mid Cap exposure. In our view, the data suggests these investors are missing available return, and perhaps accepting unnecessary risk exposure. Consider the strong Mid Cap returns and an in-line standard deviation, which results in a Sharpe Ratio* of 0.36 compared to 0.16 for Large Cap and 0.29 for Small Cap over the past fifteen years, according to PSN. This simply reflects that Larger Caps continue to miss out on returns, while Smaller Caps have posted relatively weaker returns and more volatility versus Mid Caps.

Did You Know?
Over the past fifteen years, Mid Cap Returns have provided a better risk / return profile versus Large Cap and Small Cap.

Performance and Risk Metrics of Mid-Cap Stocks
(versus other Equity Asset Classes)



Source: PSN and Baird Investment Management

We believe asset allocators can leverage this data to improve their business by providing a meaningful source of differentiation. As indicated earlier, most advisors recommend Small and Large Cap solutions and, therefore offer the same advice as everyone else. In our view Mid Cap creates a source of differentiation and provides incremental value as a better performing asset class.

**Sharpe ratio measures risk adjusted return and is defined as excel portfolio return over a unit of risk (standard deviation)*

Fundamental Factors Driving the Outperformance

Growth is the largest determinant of long-term returns. Mid Caps have outpaced Large Caps and Small Caps over the past 20 years in revenue growth. The data is through December 31, 2014.

	Average Annual Revenue Growth
Mid Caps – Russell Mid Cap Index	6.6%
Large Caps – Russell 1000 Index	4.4%
Small Caps – Russell 2000 Index	5.2%

Source: Bloomberg and Baird Investment Management

With respect to outpacing Large Caps, one key reason this occurs is mathematics – it is simply easier to grow from a smaller base than a larger one. Also consider that Mid Cap companies tend to have greater exposure to developing opportunities or markets with lower penetration. In most cases, mid market companies are more nimble relative to large companies that may not be able to effectively participate in these areas.

Mid Cap companies have general growth advantages over smaller cap companies as well. Mid Cap companies are typically more mature and, therefore offer better cash flow and more stable balance sheets than smaller caps. They also tend to have more experienced management teams and better established brands, products and relationships. And, they are in a better position to participate globally, which will be important in capturing growth over the next several years.

A Strong Story: Baird Mid-Cap Growth

Value-added performance. Baird is known as a top mid-market firm and we have an especially strong understanding of the mid cap asset class. This experience combined with our philosophy and execution has generated value-added performance as our 5, 7, 10 year and since inception numbers all exceed the Russell Mid Cap Growth index, after fees.

Quality growth approach. We invest in high quality companies and the majority of our returns are based on bottoms-up analysis of stocks generally between $2B-$15B in market cap. We look for companies that have superior profitability and generate growth through a sustainable advantage, a key market trend or pricing power. Strong balance sheets are also important.

Risk management is fundamental to our process. We seek to limit downside while providing value added returns. In addition to our quality philosophy, a key risk differentiator is our proprietary "Tier Board," which allows us to look at fundamental and quantitative factors for the entire portfolio at a single glance. This tool fosters team dialogue and helps properly assess capital allocation weightings to control risk and volatility of returns. We believe the tool better positions our portfolios to capture success, while offering investors a smoother ride.

Experienced team. Our investment team averages twenty years of experience, which provides a wealth of knowledge and consistency to our investment process.

To learn more about our viewpoints on the outlook for Mid-Cap stocks or about Baird Mid-Cap investment opportunities, please call **Todd Haschker** at **414-298-7362**.

As of 12/31/14

	1 Year	3 Years	5 Years	7 Years	10 Years	S.I. (06/30/93)
BIM Mid Cap Growth Equity (gross*)	5.8%	18.6%	17.7%	9.7%	10.0%	12.4%
BIM Mid Cap Growth Equity (net)	5.1%	17.8%	17.0%	9.1%	9.4%	11.8%
Russell Midcap® Growth Index	11.9%	20.7%	16.9%	8.6%	9.4%	10.0%

**Gross of fee returns are supplemental to net of fee returns. The Russell Midcap® Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Mid Cap Index measures the performance of the 800 smallest companies, by market capitalization, in the Russell 1000 Index. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index. The Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index. It is not possible to invest directly in an index. The Russell Indices are a trademark of the Frank Russell Company. Russell is a trademark of the Frank Russell Company.*

Past performance is not indicative of future results. Investments in Mid-capitalization companies often are more volatile and face greater risks than larger, more established companies. The Composite focuses on growth-style stocks and its performance will typically be more volatile than the performance of investments that focus on the types of stocks that have a broader investment style. The Composite may invest up to 15% of its total assets in foreign securities and ADRs. Foreign investments involve risks such as currency rate fluctuations, different and sometimes less strict financial reporting standards and regulation, and the potential for political and economic instability. For more information, please visit bairdinvestmentmanagement.com.