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From Chautauqua Capital Management
A Division of Robert W. Baird

International and Global Growth Equity Strategies

1st Quarter 2016

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Introduction

Investor sentiment at the beginning of the first quarter was decidedly negative, leading to an immediate sell-off in global equity markets. Subsequently, modestly better economic data, a recovery in oil prices and a resumption of monetary accommodation from the major central banks resulted in a rally in the latter half of the quarter.

In this volatile environment, the Chautauqua Capital International Growth Equity Composite gained 0.12%, outperforming the MSCI ACWI ex-U.S. Index®, which declined 0.26%, and the MSCI EAFE Index®, which declined 2.88%. The Chautauqua Capital Global Growth Equity Composite declined 2.37%, underperforming the MSCI ACWI Index®, which gained 0.38%.

Review

For the MSCI ACWI ex-U.S. Index®, value style outperformed growth style. Within emerging markets, value style also outperformed growth style. Small capitalization stocks outperformed large capitalization stocks in all but the emerging market indices. For the MSCI EAFE Index®, the value style outperformed the growth style, and small capitalization stocks outperformed large capitalization stocks. For the MSCI ACWI Index®, in developed markets, value style outperformed the growth style and small capitalization stocks outperformed large capitalization stocks. Within emerging markets, the value style also outperformed the growth style and large capitalization stocks outperformed small capitalization stocks.

Performance by country, in which the portfolios were invested and as measured by MSCI, is as follows: Brazil 28.58%, Canada 11.49%, China -4.80%, Denmark -0.56%, France 0.21%, Germany -2.42%, Hong Kong -0.55%, Japan -6.38%, Korea 5.21%, Netherlands 3.37%, Spain -3.99%, Switzerland -5.12%, Taiwan 7.72%, and U.K. -2.32%.

Sector performance was similarly dispersed, though mostly positive. The best performing sectors were utilities 8.8%, telecommunication 7.0% and energy 6.4%. The worst performing sectors were health care -6.5%, financials -4.9% and consumer discretionary -0.3%.

At the beginning of the year, the global economic backdrop hung ominously over equity markets. In the U.S., positive developments in the labor market set the stage for successive rate increases. Meanwhile, the central banks of Europe and Japan curbed accommodation, oil prices marched ever lower and growth in the developing world was still decelerating.

Investor redemptions sparked the sale of equities. Proceeds flowed to defensive sectors, such as utilities and telecommunications, while performance of the remaining sectors declined in the high single digits. Importantly, securities that performed well in 2015 experienced the brunt of this sell-off. Later in the quarter, as oil prices rallied off their lows by more than 30% and the major central banks announced a

resumption of accommodative measures, equity markets stabilized and then rallied beginning in mid-February.

In the U.S., the Federal Reserve reverted to a dovish stance and moderated their expectations for U.S. economic growth. At the March 16th meeting, the Federal Reserve announced no change to the discount rate and reduced the year-end rate target from 1.375% to 0.875%. Previously, investors had expected steady 25 basis point hikes throughout the year. The Fed additionally reduced their estimate for Gross Domestic Product (GDP) growth in 2016 from 2.4% to 2.2%.

In Europe, the European Central Bank (ECB) announced another expansion of monetary stimulus at their meeting on March 10th. Perhaps most astonishingly, the ECB cut the interest rate for overnight bank deposits by an incremental 10 basis points to -0.40%, which increases the penalty on banks for holding reserves with the ECB and thus incents them, at least in theory, to extend loans to businesses and consumers. And while this is logical, anemic growth in Europe is proving to be a systemic problem, inhibiting banks from making loans to counterparties that do not have a high appetite to borrow. In addition to the reduction in the deposit facility rate, the ECB also cut the rates for marginal lending to 0.25% and main refinancing operations to 0%. Moreover, the ECB will increase the rate of monthly asset purchases to 80 billion euros per month beginning in April, begin a new round of long-term refinancing operations (LTRO) in June and, for the first time, extend quantitative easing to non-Bank euro-denominated bonds. This last step may have been the most encouraging sign for equity investors. Like the so-called “Greenspan Put,” the ECB is signaling they will do whatever is necessary to maintain some level of economic growth.

Widespread concerns about terrorism and the challenge of integrating immigrants have fueled nationalist rhetoric in Europe. Border control is a very hot topic. Electorates are polarized and discontent. Presently, Spain and Ireland are without coalition governments, and the U.K. is engaged in a debate as to whether or not it will stay in the European Union.

In Japan, GDP declined 1.4% in the fourth quarter, causing the Bank of Japan (BoJ) to revert to accommodation and, for the first time, initiate a negative interest rate policy. After operating in low positive rate territory in 2015, the BoJ cut the interest rate for overnight bank deposits to minus 0.1% at their meeting on January 29th. The BoJ continues to buy government bonds, private sector bonds and equities to stimulate the Japanese economy and, in March, BoJ Governor Haruhiko Kuroda stated “there aren’t any such things as a quantitative limit”. While monetary accommodation has caused yen depreciation, which is desirable for the country’s export industries, the weak currency has failed to trigger inflation. Most recently, inflation in Japan was 0%. Monetary policy aside, Japan faces systemic problems: Japan has the highest debt-to-GDP ratio of all developed nations, which currently exceeds two times its GDP, structural reform initiatives have been both limited and challenging and demographic headwinds are worsening.

This year marks the beginning of the 13th Five-Year Plan in China. The government’s actions have followed through on economic policies aimed at facilitating the transition away from industrial exports and towards services and domestic consumption. The People’s Bank of China (PBoC) continued accommodative policies through an incremental cut to reserve requirement ratios and through support of their bond purchase program. Most importantly, the government began implementing forced shutdowns in industrial sectors plagued with overcapacity; in concert, the PBoC injected approximately 100 billion dollars last quarter into the banking system to cushion the effects of ensuing layoffs and bankruptcies. Trade-related activity weakened further in the first quarter, with imports declining 19% in January and 10% in February and exports declining 11% in January and 12% in February. Meanwhile, industrial output only grew 5% in the first 2 months of the year, and producer prices fell 5%. In spite of this weakness, services-related inflation is running at approximately 7%, and retail sales grew 11% in January and February. Downward pressure on the renminbi may have subsided as the liquidation of renminbi by businesses to pay down foreign-denominated may have run its course. If so, the central bank would no longer need to defend the currency by selling foreign reserves and buying renminbi.

In Brazil, President Dilma Rousseff is on the brink of being ousted. As the quarter came to a close, the PMDB party left her ruling coalition, giving the President little chance of maintaining her position. President Rousseff rose to power after working as Chief of Staff for former President Inacio Lula da Silva (Lula), and, subsequently, President Rousseff named Lula her own Chief of Staff. But in a recent twist of irony, the fact that she did this in order to shield him from testimony in the Petrobras corruption scandal has only contributed to the likelihood of her own exit. Despite the recession in Brazil, the hope for better governance has fueled a rally. The BOVESPA increased 16% in local currency terms, and the real appreciated 10% against the dollar.

Finally showing some discipline, the Organization of the Petroleum Exporting Countries (OPEC) agreed to withhold another production increase in an effort to balance weak demand with the current state of oversupply. However, the International Energy Agency (IEA) still believes that the oil imbalance may last well into 2016. On a positive note, the IEA highlighted that Iranian exports are coming on line much slower than feared and that non-OPEC countries will decrease output by 750 million barrels per day this year. So while the price of oil initially troughed in January, these events ultimately caused a price increase of more than 30% off the bottom.

Lastly, as confirmation of the dismal market sentiment, the first quarter marked the lowest volume of initial public offerings (IPO) since 2009. Meanwhile, the price for gold increased 16%. This marks the biggest gain in the commodity's price since 1986, and interestingly comes after a steady 5 year decline.

Portfolio Highlights

The first quarter was challenging given the significant shifts undertaken. As is usual in volatile markets, we try to rationally measure the merits of holdings and prospective holdings based on their growth, profitability and valuation attributes. Accordingly, we removed a few holdings, added a couple of holdings and made several weighting adjustments to existing holdings.

From an operating standpoint, portfolio holdings generally are doing quite well. Revenue growth rates are relatively high in a slow growth global environment. Their profit structures continue to demonstrate business model advantage.

Performance Attribution

Outperformance of the International Growth Equity strategy benefitted significantly from a positive selection effect with respect to both sector and region. Exposure to certain consumer discretionary, telecommunication service and health care companies positively impacted security selection. While the portfolio had an underweight to Asia and the Pacific Basin relative to its benchmark, security selection contributed to outperformance. Security selection in North America also added to performance.

The Global Growth Equity strategy benefitted from security selection in consumer discretionary and telecommunication service. An underweight to financials (one of the quarter's worst performing sectors, according to the MSCI Index®) and a slight overweight to energy (one of the quarter's best performers) aided performance. An overweight to and stock selection in information technology detracted from performance, along with an overweight to health care. While security selection in Asia and the Pacific Basin helped performance, selection in North America detracted from performance. Additionally, a modest underweight to North America, which was the best performing region, hurt results.

Composite performance for the periods ending March 31, 2016*

	Gross					Net				
	Q1 2016	1 Year	5 Year	Since Inception 1/1/06	Cumulative Since Inception 1/1/06	Q1 2016	1 Year	5 Year	Since Inception 1/1/06	Cumulative Since Inception 1/1/06
International Growth Equity	0.12%	1.09%	3.58%	6.96%	99.2%	0.05%	0.69%	3.18%	6.75%	95.33%
MSCI ACWI ex-U.S. Index® - GD	-0.26%	-8.78%	0.76%	3.27%	39.07%	-	-	-	-	-
MSCI EAFE Index® - GD	-2.88%	-7.87%	2.76%	3.12%	37.03%	-	-	-	-	-

	Gross					Net				
	Q1 2016	1 Year	5 Year	Since Inception 1/1/06	Cumulative Since Inception 1/1/06	Q1 2016	1 Year	5 Year	Since Inception 1/1/06	Cumulative Since Inception 1/1/06
Global Growth Equity	-2.37%	3.59%	7.32%	7.38%	93.16%	-2.47%	3.07%	6.82%	7.11%	88.78%
MSCI ACWI Index® -GD	0.38%	-3.81%	5.80%	3.59%	38.56%	-	-	-	-	-
MSCI World Index® - GD	-0.19%	-2.90%	7.12%	3.88%	42.14%	-	-	-	-	-

***These are preliminary figures from our portfolio accounting system that have yet to be verified by Ashland Partners.**

Outlook

In the post-Great Recession era, monetary stimulus has been, and continues to be, the tool of choice for policy makers worldwide. The U.S. was the first country to center its policies on this type of stimulus. Beginning with Quantitative Easing and the massive purchases of newly issued Treasury bonds, the thinking was that the Federal Reserve could drive bond prices up and interest rates down. Soon, the European Central Bank and the Bank of Japan started running the same playbook.

Looking back, global consensus on monetary easing triggered a race to the bottom for interest rates, but it also provoked big swings in capital flow and, therefore, currency exchange rates. Simultaneously, the global economic recovery was sluggish, if not disappointing, and so central bankers resorted to new and untested approaches to address the malaise.

At the end of 2014, The Swiss National Bank imposed a new negative interest rate regime in an effort to stem the inflow of foreign money into the Swiss franc. Other countries followed suit in an effort to control the appreciation of their own currencies too, while some even took the idea a step further and issued negative yield bonds. The thought was that negative deposit rates would curtail reserve deposits at the central bank and instead encourage member banks to lend reserves to businesses and consumers. Despite the fact that negative rate policies failed to generate the growth central bankers originally

theorized, most countries redoubled subsequent efforts with more money and velocity behind their actions.

It is clear now that central bankers established a dependency on monetary easing. So far, the precedent has been to increase stimulus at the first signs of a slowdown, or even worse, at the first signs of nervousness in equity markets. Without policy makers willing to reverse course, we are locked in a vicious cycle that encourages investors to overprice risky assets and possibly creates collateral damage with respect to how businesses invest and recapitalize their balance sheets.

In our view, this will probably not end well. For years, bonds have been held in suspended animation. There is little room for appreciation because rates cannot go much lower, but rates will also not go higher until central bankers impose tightening or until labor and material shortages finally trigger inflation.

Despite all of the "easy money", economic growth has been slow, and output gaps persist. A recession in the energy sector is contributing to what may be four straight quarters of earnings declines among S&P 500 companies. Add to this voter discontent and political uncertainty. Currently, Spain and Ireland are operating without central government leadership. The U.K. is debating whether to exit the European Union, and Europe broadly is struggling to figure out how to handle a refugee crisis in the face of threats to domestic security. Brazil is on the brink of impeaching its President. Leaders in India, Indonesia and Mexico, who took offices on promises of reform, have disappointed voters. In November, U.S. voters will elect a new President, but in both parties, growing support for unconventional candidates has surprised the pundits.

The economic expansion and bull market are in their ninth year. Early recovery opportunities have run their course. Yield-bearing assets are trading at extended valuations, while growth investments are hard to find because global growth is slow.

How should one invest in this environment?

Our investment process remains the same, and we continue to be selective. Businesses that offer a compelling value proposition for their customers while possessing the ability to stave off competition will ultimately win. All the better if these ideas are not fully understood by the market. Concentration can be beneficial in challenging markets because fewer carefully selected holdings can mean fewer problems in the portfolio.

Adherence to our valuation disciplines is also critical. Valuations became more attractive after the significant sell-off early in the quarter, however, the subsequent rally removed some, but not all, of the bargains. Being nimble enough to capitalize on opportunities in an efficient manner is essential, and careful, yet multi-faceted, analysis is critical in this type of environment.

We continue to invest in sweeping secular themes, such as more cost-effective software-as-a-service and outsourced data storage in the information technology sector. With respect to consumer spending, we continue to capitalize on businesses that exploit best-in-class online models as opposed to traditional retail. We also continue to deploy capital to businesses which benefit from demographic changes, in areas such as healthcare, financial services and consumer discretionary. In the energy sector, we are in the process of repositioning our exposures in the value chain in in anticipation of supply and demand coming into balance. Finally, in China, we continue to invest in businesses that are on the right side of government policy. The balance of 2016 may include a higher level of turnover; due to the volatility, we are currently working on a larger-than-average number of new investment ideas.

As with many market environments, this is a challenging one. Given the absence of market-dominating forces (e.g. China's appetite for commodities, the dot com boom, bank capital infusions), success under current conditions will require stock selection skill. Given our structure, process and disciplines, we accept the challenge.

Business Update

The transition of information technology, operations, legal, compliance and all other business functions to Robert W. Baird is complete. There have been no changes to the investment team and given Baird's assumption of business activities, the Chautauqua Capital personnel are able to focus much more of their time on investment work.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Robert W. Baird

The above commentary does not provide a complete analysis of every material fact regarding any market, industry, security or portfolio. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. The manager's assessment of a particular industry, security or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice.

The MSCI ACWI Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of developed and emerging markets. The MSCI ACWI Index® consists of 44 country indices, including the United States, comprising 23 developed and 21 emerging market country indices.

The MSCI ACWI ex-U.S. Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets excluding the United States.

The MSCI EAFE Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index® consists of 21 developed market country indices.

The MSCI World Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index® consists of 23 developed market country indices.

Performance results will vary among client accounts. The actual return and value of an account will fluctuate and at any point in time could be worth more or less than the amount invested. The performance results displayed herein represent the investment performance records for the Chautauqua composites that include fully discretionary fee paying client accounts. The composites' returns are total, time weighted returns expressed in U.S. dollars. Composite returns reflect the reinvestment of dividends and other earnings. The net performance reflects the deduction of investment advisory fees and transactions costs and the gross performance is net of transaction costs, but gross of advisory fees. The cumulative performance information shown is the aggregate amount that the composites have gained since inception through March 31, 2016.

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First Use: 04/2016

Chautauqua Capital Management Investment Team

- All investment team members have equity ownership
- Average years of experience: 20 years

Investment Professional	Degrees	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Senior Portfolio Manager*	MBA, University of Southern California BS, University of Southern California	35	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston *Portfolio Manager*	MBA, Yale University BS, Brigham Young University	9	Ensign Peak Advisors Artisan Partners Wasatch Advisors
Jesse Flores *Portfolio Manager*	MBA, Stanford University BS, Cornell University	7	Roth Capital Partners Blavin & Company Lehman Bros.
Michael Mow *Portfolio Manager*	MBA, University of Southern California MS, University of Iowa BA, California State University, Northridge	29	American Century TCW Group Farmers Insurance