International and Global Growth Funds

Q2 2018 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

We have previously highlighted that the tightening of monetary policies by the major central banks poses one of the greatest risks to global markets as it pressures valuations for financial assets. We think this remains true in the long-term, but in the short-term it appears that monetary policies are very likely to diverge as Europe and Japan stay on a course of easy money. This spring will stay coiled for a little longer.

However, this did not provide much relief. The continually escalating nature of President Trump's trade war seems to have the most potential to derail the global economy. On a percentage basis of inter-regional trade, stakes are still small, but entire industries are being played as chess pieces. And in Europe, a Euroskeptic government in Italy means the political situation in the European Union (E.U.) is poised to become thornier.

Markets became increasingly volatile in the second quarter, and each month was successively worse with respect to stock returns, as these risks congealed. Over recent quarters, we have prepared for turbulent markets such as this by selectively emphasizing businesses with more defensive characteristics. These changes have served us well, and our portfolios have held up relative to the broad market.

In the second quarter of 2018, the Chautauqua International Growth Fund Institutional Class declined -1.55%, outperforming the MSCI ACWI ex-U.S. Index® ND, which declined -2.61%. In the second quarter of 2018, the Chautauqua Global Growth Fund Institutional Class appreciated 0.15%, approximately in line with the MSCI ACWI Index® ND, which appreciated 0.53%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, growth style outperformed value style. Within emerging markets, growth style also outperformed value style. Large capitalization stocks outperformed small capitalization stocks in both the developed and emerging markets sub-indexes.

For the MSCI ACWI Index®, growth style outperformed value style, but large capitalization stocks underperformed small capitalization stocks. Within emerging markets, growth style also outperformed value style.

Sector performance was dispersed, with economically sensitive sectors outperforming economically defensive sectors. Performance by country was primarily negative.

MSCI Sector and Country Performances (QTD as of 06/30/2018)

Sector	Performance	Country	Performance	Country	Performance
Energy	10.45%	Canada	4.89%	Denmark	-6.93%
Information Technology	3.96%	U.S.	3.55%	Singapore	-7.49%
Consumer Discretionary	3.15%	U.K.	2.96%	Korea	-9.09%
Health Care	2.65%	Ireland	2.07%	Austria	-10.39%
Real Estate	1.63%	India	-0.60%	South Africa	-11.75%
Utilities	1.56%	Netherlands	-1.55%	Indonesia	-12.19%
Materials	0.59%	Switzerland	-2.22%	Brazil	-26.37%
Consumer Staples	-1.05%	Japan	-2.80%		
Industrials	-2.56%	Germany	-3.36%		
Telecomm	-3.95%	China	-3.44%		
Financials	-5.41%	Taiwan	-6.06%		

* Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data to the most recent month end, contact Chautauqua directly at 303-541-1545 or www.bairdfunds.com.

INVESTMENT TEAM

- Generalists with specialized skills
- Averaging 23 Years investment experience

INVESTMENT PHILOSOPHY

- The securities of advantaged, wealth-generating businesses are often mispriced because most investors do not fully comprehend the companies' potential for sustained high-growth and improved profitability. Several trends accentuate this phenomenon.

KEY PILLARS OF OUR INVESTMENT PROCESS

- Security selection drives returns
- Long-term focus
- Concentrated, conviction-weighted portfolios

ORGANIZED FOR INVESTMENT SUCCESS

- Autonomous institutional boutique
- Employee owners
- We invest alongside our clients
- Self-imposed limit on growth

In the U.S., things are humming along, and reverberations have yet to surface from President Trump's disruption of global trade. Unemployment reached 3.8% in May – the lowest rate in 18 years, and inflation reached the Federal Reserve's target of 2% after undershooting it for much of the past 6 years. The Federal Reserve raised interest rates for the second time this year and suggested the pace of rate hikes is on track to keep inflation in check.

The E.U. economy entered 2018 on a high note, having recorded its strongest economic growth in a decade back in 2017. But now growth in the E.U. is slowing, hurt by a combination of mostly transient factors such as unusually cold weather, largescale strikes in Germany and France, and a severe flu season. But, so far, signals of a rebound back to recent growth levels have been muted. Consumer spending seems to have picked up, but exports have fallen and the Germany Manufacturing Purchasing Managers' Index, though still positive, has stayed on a downward trend since the beginning of the year.

The tense political climate in Italy, which is the E.U.'s third largest economy, has been borne out of economic frustration and a migration crisis. No wonder why establishment parties suffered their worst performance in years, while two anti-establishment parties, the Five Star Movement and the Northern League, secured the legislature and were able to form a governing coalition. Both of these parties have openly questioned the orthodoxy of staying in the euro, and they will seek to reboot one of the most troubled economies in Europe with tens of billions of tax cuts and stimulus spending proposed. A political confrontation between Italy and the E.U. will undoubtedly revive concerns about the future of the euro.

Despite the slowdown in growth and political turbulence in Italy, the European Central Bank (ECB) affirmed plans to wind down its bond-buying program. Slower growth is still growth, and inflation and wages have recently ticked up. The ECB will cut bond purchases in half to €15 billion per month by September and stop purchases altogether by December. With respect to interest rates, the ECB said it would likely wait through at least the summer of 2019 before raising the deposit rate, which it kept unchanged at -0.4%.

The Bank of Japan (BOJ) is now the only major central bank still committed to the purchase of bonds and other assets. But like the ECB, it plans to keep the deposit rate, which is currently at -0.1%, unchanged in the near-term. Recent economic trends in Japan have reversed. The country's gross domestic product (GDP) growth declined 0.6% in the first quarter, after growing consistently for the last two years, while inflation stabilized at 0.7% in May. At the last BOJ meeting, the central bank said that it will stop forecasting when their 2% inflation target will be reached.

PERFORMANCE ATTRIBUTION

Selection effect accounted for 75% of the outperformance in the Chautauqua International Growth Fund. This was especially pronounced within the information technology, financials, and energy sectors, where holdings in Temenos, Wirecard, Recruit, HDFC Bank, and Core Labs proved advantageous. Holdings in the health care and industrials sectors detracted the most, with Genmab, Sinopharm, and Fanuc being the biggest drags to performance in those sectors.

Selection effect was a detractor to portfolio returns in the Chautauqua Global Growth Fund. This was especially pronounced within the health care and information technology sectors, where holdings in Genmab, Incyte, Sinopharm, AMS, Universal Display, and Red Hat detracted from performance. Holdings in the financials and consumer discretionary sectors helped the most, with SVB Financial, HDFC Bank, and TJX being the biggest boosts to performance in those sectors.

FUND PERFORMANCE FOR THE PERIODS ENDING JUNE 30, 2018 (%)

International

	Q2 2018	YTD 2018	1 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua International Growth– Net Investor Class	**-1.63**	**0.64**	**17.02**	**12.90**	**30.71**
Chautauqua International Growth– Net Institutional Class	**-1.55**	**0.79**	**17.44**	**13.12**	**31.29**
MSCI ACWI ex-U.S. Index® - ND	-2.61	-3.77	6.68	11.09	26.09
Excess Returns (Institutional Net)	*1.06*	*4.56*	*10.76*	*2.03*	*5.20*
Morningstar Rank in US Fund Foreign Large Growth Category	--	--	11/425	31/426	31/426

Top 5 International Holdings*
(as of 06/30/2018)

Security	Avg. Weight	Contribution
ASML Holding	5.59	0.02
Temenos	5.50	1.26
HDFC Bank	5.12	0.34
DBS Group	4.88	-0.14
Toronto-Dominion Bank	4.71	0.14

Bottom 5 International Holdings*
(as of 06/30/2018)

Security	Avg. Weight	Contribution
LINE Corp.	0.29	-0.07
Bank Rakyat	0.59	-0.17
Fanuc Corp.	1.46	-0.37
BYD Company	1.53	-0.37
Alibaba Group	1.65	0.01

Top 5 Global Holdings*
(as of 06/30/2018)

Security	Avg. Weight	Contribution
Temenos	5.22	1.20
NVIDIA	4.37	0.12
TJX Companies	4.21	0.70
Recruit Holdings	3.94	0.36
Red Hat	3.72	-0.33

Bottom 5 Global Holdings*
(as of 06/30/2018)

Security	Avg. Weight	Contribution
LINE Corp.	0.29	-0.07
Bank Rakyat	0.61	-0.19
BYD Company	0.70	-0.21
Roche Holding	0.74	-0.02
Reckitt Benckiser	0.91	-0.02

*the holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients; and
*past performance does not guarantee future results.
*to obtain information about the calculation methodology, please contact Baird

Global					
	Q2 2018	YTD 2018	1 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua Global Growth–Net Investor Class	**0.07**	**0.60**	**15.82**	**16.16**	**39.22**
Chautauqua Global Growth–Net Institutional Class	**0.15**	**0.74**	**16.11**	**16.47**	**40.03**
MSCI ACWI Index® - ND	0.53	-0.43	10.53	13.00	30.93
Excess Returns (Institutional Net)	*-0.38*	*1.17*	*5.58*	*3.47*	*9.10*
Morningstar Rank in US Fund World Large Stock Category	--	--	11/866	14/902	14/902

*For the Chautauqua International Fund, Gross Expense Ratio as of 12/31/2017 was 1.21% for Institutional shares and 1.46% for Investor shares. For the Chautauqua Global Fund, Gross Expense Ratio as of 12/31/2017 was 2.26% for Institutional shares and 2.51% for Investor shares. The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from The Advisor. The Advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2019 to the extent necessary to ensure that the total operating expenses do not exceed 1.20% of the Investor Class's average daily net assets and 0.95% of the Institutional Class's average daily net assets. Investor class expense ratios include 0.25% 12b-1 fee.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 71% of companies that reported earnings during the quarter exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 74% of companies that reported earnings during the quarter exceeded consensus expectations.

Conviction weighting according to our appraisals of a company's growth, profitability, and valuation is a key tenet of our portfolio management strategy and has been instrumental to our returns. In light of the heightened market volatility this quarter, we continued to make changes to weightings to reflect our concerns regarding market fragility and elevated valuations for equities.

In the International Fund, we exited our positions in LINE and Encana. Energy was the best performing sector last quarter, and we exited Encana after oil prices reacted positively, despite a decision by the Organization of Petroleum Exporting Countries to begin increasing their oil supply. LINE has expanded its ambitions and scope of operations considerably, which has elevated the risk to their financial model. We also reduced our positions in Novo Nordisk, Roche and CI Financial. We used proceeds to establish a new position in Bank Rakyat and added to our positions in Taiwan Semiconductor, Ctrip and Fanuc.

In the Global Fund, we exited our positions in LINE and Pioneer Resources. Energy was the best performing sector last quarter, and we exited Pioneer after oil prices reacted positively, despite a decision by the Organization of Petroleum Exporting Countries to begin increasing their oil supply. LINE has expanded its ambitions and scope of operations considerably, which has elevated the risk to their financial model. We also reduced our positions in SVB Financial, CI Financial, Celgene, Sinopharm, Recruit, AmorePacific and TJX. We used proceeds to establish a new position in Bank Rakyat and added to our positions in Genmab, Incyte, Taiwan Semiconductor, Ctrip, BYD and Fanuc.

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OUTLOOK

With increasing political uncertainty in Europe, and inflation still well below target levels in Europe and Japan, it seems that monetary policies between the major central banks is set to diverge for the next year. Both the ECB and the BOJ lag far behind the Fed in raising interest rates. Meanwhile, the federal funds rate in the U.S. is now in a range of 1.75-2.0%, and the Fed is likely to exceed the neutral level of interest rates sometime next year.

Actions by the U.S. will play an outsized role in the course of global growth. Today we are in the nascent stages of a trade war, with the Trump administration antagonizing important trading partners on three fronts: China, the E.U., and North America. Retaliatory tariffs will have the potential to upset many economies worldwide, and so far, there has been no stop in escalations.

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At the beginning of June, the Trump administration finally imposed tariffs on steel and aluminum imports from the E.U., Canada, and Mexico after months of failing to win trade concessions. The E.U. has countered by filing a complaint with the World Trade Organization and initiating its own package of tariffs to counter the impact from U.S. actions. The eclectic mix of goods, including Kentucky whiskey and Harley-Davidson motorcycles, was specially curated by the E.U. to inflict the most damage towards President Trump's base. Trump responded by proposing a 25% tariff on imported automobiles, again raising the stakes and the prospect for an all-out trade war.

With respect to China, tariffs on $34 billion worth of Chinese products are expected to go into effect later this week, and the U.S. is already planning to announce new investment and trade restrictions aimed at preventing China from overtaking U.S. leadership in industries such as robotics, automotive, and aerospace. China has threatened to retaliate, and President Trump has already threatened to retaliate on that retaliation. If all of Trump's threats are carried out, then nearly 90% of all Chinese exports to the U.S. will be covered by tariffs.

After outgrowing the U.S. for the last two years, the E.U. is currently growing at about half the speed of the U.S. economy. The ECB has also lowered its forecast for economic growth in 2018 from 2.4% to 2.1%. Slowing growth in the E.U. reduces the need to remove the ECB's stimulus measures and start raising interest rates. Signs of weaker growth support ECB President Mario Draghi's view that the central bank needs to move cautiously as it phases out the bond-buying program. In fact, it seems that the ECB has done everything it can to ensure the market that it will not begin a rate hiking cycle, and the expectation is that interest rates will not increase before September 2019. The central banks of Switzerland and Sweden have set interest rates even lower than the ECB has, and they are unlikely to raise them before the ECB does.

Italy has not participated in the European recovery as much as Germany and France, and its economy is still 5% smaller today than it was before the Great Financial Crisis. The governing coalition has outlined an economic plan based on the rough logic that universal basic income, higher welfare spending, and tax cuts can spur economic growth, which would then pay for these same programs. If the logic doesn't hold, however, Italy does not have much of a backstop. The country runs on a deficit and is among the most indebted in the world, with nearly €2 trillion of debt, which exceeds 130% of their gross domestic product. Italy has also benefitted from bond purchases by the ECB. These purchases are expected to end at the end of this year. It has been estimated that over 15% of recent Italian government debt auctions were sopped up by the central bank. Yields on 10-year Italian debt rose sharply this quarter and are presently just under 3%. However, we are reminded that during the height of the euro crisis in 2012, the yield on Italy's 10-year debt exceeded 7%.

Given this environment, rather than try to construct a portfolio to benefit from specific forecast scenarios, we will continue to manage around these challenges through security selection. To our thinking, a portfolio of high-quality, advantaged companies that provide high value-added products in areas of growth in the global economy will be best able to weather the policy storms. Therefore, at Chautauqua Capital, we continue to do what we do well. We deploy a time-tested process that involves focused and thorough multi-perspective analysis to identify these resilient, wealth-generating businesses. Our independence and small but powerful team enables us to adapt as we enter a period of higher volatility. At this juncture, the portfolios are well-positioned. We will work hard to ensure they stay so.

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BUSINESS UPDATE

There have been no changes to the investment staff at Chautauqua Capital Management nor have there been any changes to the ownership structure of our parent company Baird.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Managing Partner*	MBA, University of Southern California BS, University of Southern California	39	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston *Partner*	MBA, Yale University BS, Brigham Young University	13	Ensign Peak Advisors Wasatch Advisors
Jesse Flores *Partner*	MBA, Stanford University BS, Cornell University	12	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	17	TCW Group
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	26	Marsico Capital Management Transamerica Investment Management Janus Capital
Michael Mow, CFA *Partner*	MBA, University of Southern California MS, University of Iowa BA, California State University, Northridge	32	American Century TCW Group Farmers Insurance

Investors should consider the investment objectives, risks, charges and expenses of each fund carefully before investing. This and other information is found in the prospectus and summary prospectus. For a prospectus or summary prospectus, contact Baird Funds directly at 866-444-9012 or contact your Baird Financial Advisor. Please read the prospectus or summary prospectus carefully before investing.

Morningstar rank peer group percentile is determined using cumulative returns for the time period shown in the performance chart. Annualized returns are used in the since inception ranking along with cumulative.

The above commentary does not provide a complete analysis of every material fact regarding any market, industry, security or portfolio. Fund 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. Please contact us to obtain contribution methodology and a list showing the contribution of each holding in the representative account to the overall account's performance during the measurement period. The manager will ensure that each Chart will include all information necessary to make the Chart not misleading, including presenting the best and worst performing Holdings on the same page with equal prominence, and with appropriate disclosure, in close proximity to the performance information. 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 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 funds that include fully discretionary fee paying client accounts. The funds' returns are total, time weighted returns expressed in U.S. dollars. Fund returns reflect the reinvestment of dividends and other earnings. The net performance reflects the deduction of fees and transactions costs and the gross performance is net of transaction costs, but gross of fees. The cumulative performance information shown is the aggregate amount that the funds have gained since inception through June 30, 2018. Performance data quoted represents past performance. Past performance does not guarantee future results.