International and Global Growth Funds

Q2 2020 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Markets rallied vigorously in the second quarter. The increase in risk sentiment was considerable. Positive stock performance was broad-based. All sectors and regions benefitted. In this environment, after providing downside protection in a volatile and declining market in the first quarter, we were able to again outperform in the second quarter as result of significant repositioning.

To be sure, economic fundamentals are still poor, and most countries expect the fallout to continue for the foreseeable future. However, the data marked a bottom in April and improved sequentially in both May and June. This improving picture can be attributed to the phased reopenings of afflicted countries and the pickup of business activity off of a very low base.

Large waves of fiscal and monetary stimulus continued, amounting to many trillions of dollars worldwide. This has served to prop up afflicted consumers and businesses, stabilize financial markets, and guarantee liquidity almost anywhere it is needed.

We are cautious as economic fundamentals are still weak and pandemic uncertainty is still elevated, yet cognizant of the phenomenon that investors in financial assets have been backstopped by the central banks.

In the second quarter of 2020, the Chautauqua International Growth Fund Net Investor Class returned 25.55%, outperforming the MSCI ACWI ex-U.S. Index® ND, which returned 16.12%. The Chautauqua Global Growth Fund Net Investor Class returned 24.39% during the quarter, outperforming the MSCI ACWI Index® ND, which returned 19.22%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, growth style outperformed value style. Within emerging markets, growth style also outperformed value style.

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 and country performance were positive for the quarter.

MSCI Sector and Country Performances (QTD as of 06/30/2020)

Sector	Performance	Country	Performance	Country	Performance
Information Technology	30.13%	Australia	28.96%	Canada	20.44%
Consumer Discretionary	28.71%	Netherlands	24.90%	Israel	20.15%
Materials	25.80%	Indonesia	24.37%	Denmark	18.89%
Communication Services	19.90%	United States	21.76%	China	15.37%
Energy	18.18%	Taiwan	21.53%	Japan	11.64%
Industrials	17.49%	Austria	20.82%	Switzerland	11.51%
Health Care	15.48%	India	20.64%	Singapore	9.55%
Financials	12.21%				
Real Estate	11.22%				
Consumer Staples	9.35%				
Utilities	6.86%				

Based on select MSCI country performance returns.

**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. A redemption fee of 2.00% is assessed on shares held for 90 days or fewer, as a percentage of the amount redeemed. Performance data does not reflect this redemption fee. For performance data as of the most recent month-end, please visit bairdfunds.com.*

INVESTMENT TEAM

- Generalists with specialized skills
- Averaging 24 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

Since cutting interest rates to zero in mid-March, the Federal Reserve has deployed extraordinary measures of quantitative easing to ensure markets function smoothly and remain liquid. Initially, this amounted to purchasing treasuries and government-guaranteed mortgage bonds. Now, the Federal Reserve will also begin programs to purchase corporate bonds and municipal bonds, and make "Main Street" loans to mid-size businesses. These extensions of quantitative easing are unprecedented by the Federal Reserve, but they will keep liquidity flowing to households, businesses, and local governments that are desperate for loans. Prior to the pandemic, the Federal Reserve's balance sheet was under $4 trillion. It has now ballooned to over $7 trillion, and it is expected to continue climbing higher.

There was no shortage of headlines surrounding the fallout in the U.S. economy. Gross domestic product (GDP) declined 4.8% sequentially in the first quarter, and the Federal Reserve expects that GDP will decline over 30% sequentially in the second quarter. As case counts slowed through April, and the government shifted its focus to reopening, various economic indicators had rebounded. Labor markets improved in May, as nonfarm payrolls surprisingly increased and unemployment fell. After enacting the country's largest-ever fiscal stimulus package at the end of March, worth more than $2 trillion, the U.S. withheld from announcing an additional relief package. Congress has debated the merits of more fiscal stimulus given the rebound in economic data. However, many are concerned that a waning fiscal tailwind could derail a nascent recovery. Through June, coronavirus cases and hospitalizations rose sharply, particularly in states that avoided the first wave. This may lead to additional bouts of consumer anxiety and overall cautiousness, similar to those that preceded the initial lockdown.

The European Central Bank (ECB) continued to unleash monetary stimulus. Most notably, the ECB expanded the pandemic emergency purchase program by €600 billion (approximately $674 billion). This program is a special vehicle for quantitative easing and its total capacity now exceeds €1.3 trillion (approximately $1.46 trillion). Furthermore, the ECB has made clear its willingness to increase the size, length, and composition of its asset purchases.

Macroeconomic data has been grim. Eurozone GDP declined 3.8% in the first quarter, and preliminary indications portend a double-digit decline in the second quarter. By the end of April, coronavirus cases slowed significantly in Italy, Spain, and France, and several countries started to relax containment measures ahead of reopening. Various economic data such as the Purchasing Managers' Index (PMI), consumer confidence, and unemployment bottomed in April and improved through May and June. The ECB has forecast GDP will decline 8.7% in 2020 and rebound 5.2% in 2021, but the assumptions underlying these are extremely tentative. The recovery in each country will depend on the evolution of the pandemic and the ability of each country to respond with stabilizing policies.

Member states of the European Union (EU) announced their own packages for fiscal stimulus, but negotiations behind a centralized response were heated. The EU is fraught with division regarding fiscal responsibility, and the pandemic has served to highlight the ideological differences. Italy and Spain believe the financial burden should be shared because of the severity of the crisis. Germany and France are opposed to debt mutualization but willing to extend credit line facilities with minimum conditions. Netherlands and Austria are more conservative still and prefer that loans include economic conditions that restrict the size and terms for weaker borrowers.

Ultimately, the European Commission announced a recovery plan composed of multiple parts worth €2.4 trillion (approximately $2.70 trillion). This includes a preliminary rescue package worth €540 billion (approximately $607 billion) that provides an unemployment reinsurance scheme, guarantees for business loans, and emergency credit line facilities available to member states. Additionally, the plan includes a €750 billion (approximately $843 billion) recovery fund and €1.1 trillion (approximately $1.24 trillion) of reinforcements to the EU budget for the next seven years. The recovery plan is a sweeping fiscal backstop, but it will require a sense of unity and follow-through by the member states to avoid another eurozone debt crisis.

Japan committed over ¥220 trillion (approximately $2.09 trillion) towards fiscal stimulus, which includes a mixture of cash payments to households and small businesses, rent subsidies, zero interest loans, and tax breaks. The size of the package is staggering. It is nearly equivalent to 40% of the country's GDP, and Japan will fund the stimulus by issuing

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government bonds. Prior to the pandemic, Japan's economy was already shaky. Its debt-to-GDP ratio had exceeded 250% last year, and a recent hike in consumption taxes that was meant to help curtail their indebtedness problem had actually caused personal consumption and economic growth to contract. The pandemic has changed the government's priority, and for now, it is to ensure a recovery. Similar to other major central banks, the Bank of Japan (BOJ) has also expanded asset purchases and interventions in the credit markets. However, the total size of monetary easing is much bigger in Japan. The size of the BOJ's balance sheet now exceeds the size of the Japanese economy due to years of aggressive easing, and this path is still set to continue.

PERFORMANCE ATTRIBUTION

Selection effect was a positive contributor to the outperformance in the Chautauqua International Growth Fund, specifically in health care and financials holdings. Allocation effect, with an emphasis on information technology, was also a contributing factor. Investments in Genmab, Adyen, ASML, SolarEdge, and WuXi Biologics were the most positive contributors to performance. Holdings in the consumer discretionary and industrials sectors were positive overall, but they contributed the least to performance. Of these, the biggest decliner was Alibaba. For company specific reasons, information technology holding Wirecard was the largest detractor and was exited during the quarter.

Selection effect was a positive contributor to the outperformance in the Chautauqua Global Growth Fund, specifically in health care holdings. Investments in Genmab, Incyte, Adyen, and WuXi Biologics were the most positive contributors to performance. Meanwhile, holdings in information technology and consumer discretionary detracted from performance the most. Of these, the biggest decliners were Wirecard, TJX, Tata Consultancy, and Alibaba. We exited Wirecard during the quarter.

FUND PERFORMANCE FOR THE PERIODS ENDING JUNE 30, 2020* (%)

International

	Q2 2020	YTD	1 Year	3 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua International Growth- Net Investor Class	**25.55**	**4.52**	**9.94**	**8.35**	**8.71**	**42.09**
Chautauqua International Growth- Net Institutional Class	**25.57**	**4.68**	**10.21**	**8.68**	**8.96**	**43.50**
MSCI ACWI ex-U.S. Index® - ND	16.12	-11.00	-4.80	1.13	4.75	21.59
Excess Returns (Institutional Net)	*9.45*	*15.68*	*15.01*	*7.55*	*4.21*	*21.91*
Morningstar Percentile Rank in US Fund Foreign Large Growth Category			***18%*** *(497 Obs.)*	***17%*** *(473 Obs.)*	***32%*** *(452 Obs.)*	***32%*** *(452 Obs.)*

Global

	Q2 2020	YTD	1 Year	3 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua Global Growth- Net Investor Class	**24.39**	**6.55**	**13.20**	**10.65**	**12.29**	**62.86**
Chautauqua Global Growth- Net Institutional Class	**24.11**	**6.36**	**13.16**	**10.81**	**12.49**	**64.11**
MSCI ACWI Index® - ND	19.22	-6.25	2.11	6.14	8.58	41.37
Excess Returns (Institutional Net)	*4.89*	*12.61*	*11.05*	*4.67*	*3.91*	*22.74*
Morningstar Percentile Rank in US Fund World Large Stock Category			***15%*** *(892 Obs.)*	***20%*** *(821 Obs.)*	***17%*** *(767 Obs.)*	***17%*** *(767 Obs.)*

*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. A redemption fee of 2.00% is assessed on shares held for 90 days or fewer, as a percentage of the amount redeemed. Performance data does not reflect this redemption fee. For performance data as of the most recent month-end, please visit bairdfunds.com. 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 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, 2021, to the extent necessary to ensure that the total operating expenses do not exceed 1.05% of the Investor Class's average daily net assets and 0.80% of the Institutional Class's average daily net assets. Investor class expense ratios include a 0.25% 12b-1 fee.

Top 5 Average Weighted International Fund Holdings* for Q2 2020

Security	Avg. Weight	Contribution
Genmab	6.26	3.54
TAL Education	5.80	1.46
ASML Holding	5.35	2.09
Prosus	4.86	1.56
Novo Nordisk	4.79	0.47

Bottom 5 Average Weighted International Fund Holdings* for Q2 2020

Security	Avg. Weight	Contribution
Pirelli	0.02	-0.11
AMS	0.92	0.41
BYD Company	1.13	0.46
Julius Baer	2.07	0.55
Recruit	2.13	0.62

Top 5 Average Weighted Global Fund Holdings* for Q2 2020

Security	Avg. Weight	Contribution
Genmab	5.36	3.20
TAL Education	4.91	1.14
Incyte Corporation	4.55	1.90
Prosus	4.06	1.27
Novo Nordisk	3.94	0.38

Bottom 5 Average Weighted Global Fund Holdings* for Q2 2020

Security	Avg. Weight	Contribution
Pirelli	0.01	-0.07
AMS AG	0.67	0.29
Coherent, Inc.	0.79	0.20
Julius Baer	0.89	0.22
EPAM Systems	0.98	0.33

*The holdings identified do not represent all of the securities purchase, sold, or recommended for the funds; and past performance does not guarantee future results. To obtain information about the calculation methodology and a list showing every holding's contribution, please contact Baird.

Adyen had a 5.23%, SolarEdge 2.60%, WuXi Biologics 4.45%, Alibaba 4.45%, Wirecard 0.00%, Bank Rakyat 4.74%, and Fanuc 3.03% weighting in the International Fund as of 06/30/2020. Adyen had a 3.02%, WuXi Biologics 3.37%, Wirecard 0.00%, TJX 3.33%, Tata Consultancy 1.91%, Alibaba 1.64%, Regeneron 3.02%, Bank Rakyat 2.92%, Charles Schwab 1.62%, and Silicon Valley Bank 1.68% weighting in the Global Fund as of 06/30/2020.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 70% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 70% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

Our conviction weighting process, which considers our estimates for growth, profitability, and valuation, is key to our portfolio management strategy and has been additive to returns over the long run.

In the International Fund, we exited positions in Wirecard and reduced positions in Genmab and TAL Education. Proceeds were used to increase positions in Alibaba, Bank Rakyat, and Fanuc.

In the Global Fund, we exited positions in Wirecard and reduced positions in Genmab, Regeneron, and TAL Education. Proceeds were used to increase positions in Bank Rakyat, Charles Schwab, and Silicon Valley Bank.

"For both the Chautauqua International Growth and Global Growth composites, 70% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations."

OUTLOOK

Forecasting in the current environment is especially challenging. Countries must balance containment and reopening, but resurgences in infections will necessitate persistent containment measures until a medical solution is available or the virus can be contained via "herd immunity". Containment measures will weigh on supply and demand, and the elevated uncertainty and worsened labor markets should induce businesses and households to reduce spending. On the other hand, the massive liquidity infusion resulting from the monetary and fiscal response may enable a sustained recovery.

Stock prices are still below the levels reached before the pandemic, but they have recovered substantially, while corporate earnings have collapsed. This means that relative to current earnings power, equity markets are very expensive. However, the dramatic rise in stock prices has also been accompanied by extraordinary monetary accommodation, quantitative easing, and repeated signaling by central banks of a do-anything willingness to bolster economies. Not only has this amounted to a lower discount rate, which inflates the value of financial assets, but it has also provided a psychological backstop for investors. This backdrop is important for understanding the current market dynamics.

On a relative basis, valuations are currently the most attractive for international stocks. This assessment holds true for both developed and emerging markets. Moreover, the valuation spread between U.S. stocks and international stocks is even more pronounced when comparing the growth segments of these respective markets. Comparatively, this makes international growth stocks the more attractive choice.

On the other hand, valuation spreads between all growth stocks and all value stocks have reached historically extreme levels. Perhaps this is because growth that can be delivered in a recessionary environment, like we are currently in, is exceptionally rare. These companies enjoy scarcity value, which justifies their higher valuations.

As global investors, we must also consider the role that foreign currencies play in investment returns. Dollar depreciation, or conversely foreign currency appreciation, increases the purchasing power of international businesses and consumers when they buy imported goods. Importantly, it can also provide a tailwind for U.S.-based investors investing in international stocks due to the positive contribution to returns from holding ever more valuable foreign currencies.

The dollar has been overvalued on a purchasing power parity basis for several years without meaningfully correcting, and this has been a headwind for investors in international stocks. From a public health standpoint, the performance of the U.S. has been disappointing. The U.S. makes up only 5% of the global population but accounts for 25% of coronavirus cases. Differing attitudes with respect to reopening and the lack of national standards for social distancing, contact tracing, and testing have been root causes of the disparity. On the other hand, countries that have been able to either enforce or comply with firmer policies have fared better. Therefore, economic effects induced by the pandemic may cause growth differentials with international economies to shrink, which will favor foreign currencies. Furthermore, because the Federal Reserve cut interest rates to zero, interest rate differentials have also shrunk. This should help close the valuation discount of foreign currencies.

The pandemic is also accelerating the trend of de-globalization. Having peaked in 2017, globalization has receded in recent years due to the effects of nationalism and global trade wars. This has only continued as economic activity in entire countries was mothballed at certain times to contain the pandemic. As a result, countries have realized they must ensure economic independence by replicating capabilities, either by sourcing alternative supply chains or building these capabilities themselves, that they once relied on from their trade partners. Therefore, we would expect the fragmentation of global industries and the strengthening of domestic and regional industries. We would also expect more local winners to arise. Finally, de-globalization increases the portfolio diversification benefits of investing in international stocks, as these return streams become increasingly uncorrelated to the U.S. market.

We are in unchartered territory, but our investment philosophy remains firm. We invest in, what we believe are, advantaged companies that benefit from long-term trends and that can generate increasing amounts of wealth over time. The pandemic has delivered a global growth shock, but in doing so, it has accelerated the timeline for several mega trends that we have been actively investing in, such as productivity enhancement (robotics, automation, and software), e-commerce, electronic payments, and health care.

BUSINESS UPDATE

During the period, Jesse Flores, CFA, Haicheng Li, CFA, and Nate Velarde were named as portfolio managers to the Baird Chautauqua mutual funds and strategies. Further, Haicheng Li, CFA was elected as co-lead portfolio manager. Brian Beitner remains the lead portfolio manager, with ultimate accountability for the portfolios.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

“Forecasting in the current environment is especially challenging. The pandemic has delivered a global growth shock, but in doing so, it has accelerated the timeline for several mega trends that we have been actively investing in…”

Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Managing Partner*	MBA, University of Southern California BS, University of Southern California	40	TCW Scudder Stevens & Clark Bear Stearns & Company Security Pacific
Jesse Flores, CFA *Partner*	MBA, Stanford University BS, Cornell University	14	Roth Capital Partners Blavin & Company Lehman Brothers
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	19	TCW
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	28	Marsico Capital Management Transamerica Investment Management Janus Capital
Nate Velarde *Partner*	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	19	PIMCO Nuveen Investments TCW

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

This commentary represents portfolio management views and fund holdings as of 06/30/20. Those views and fund holdings are subject to change without notice. The performance of any single fund holding is no indication of the performance of other holdings of the Chautauqua International Growth Fund and Chautauqua Global Growth Fund. Past performance is no guarantee of future results.

The Funds may hold fewer securities than other diversified funds, which increases the risk and volatility because each investment has a greater effect on the overall performance. Foreign investments involve additional risks such as currency rate fluctuations and the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulations.

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 24 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.