

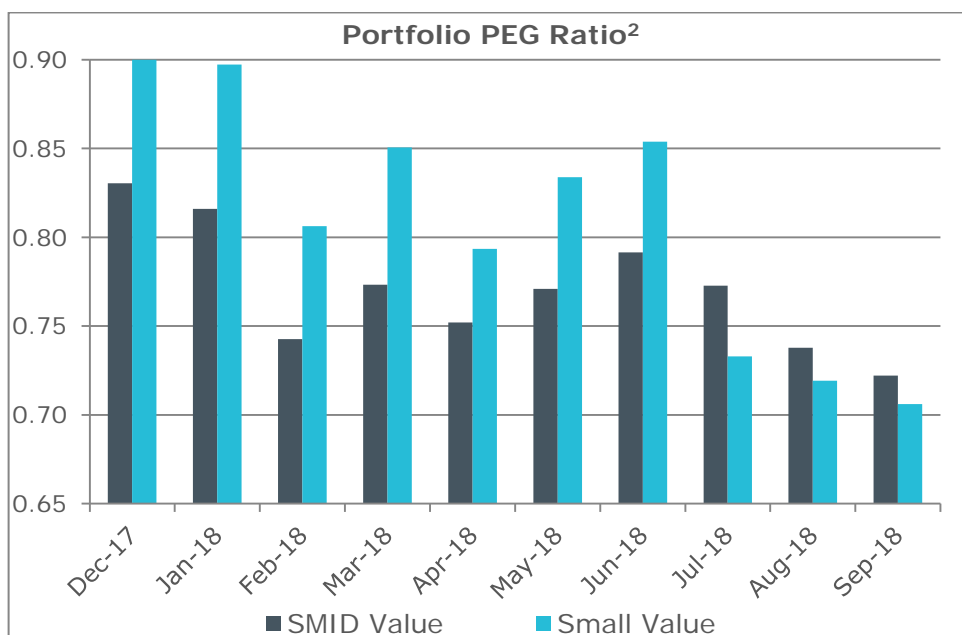
MARKET REVIEW

Despite posting positive returns this year of 3.9% and 4.6% respectively, our Small Cap Value and Small/Mid Value Portfolios have actually witnessed the portfolios' PEG ratios (Price Earnings ratio to growth rate) decline as a result of rising earnings growth estimates and pockets of P/E compression within the portfolio. We view this as an unusual combination and an attractive setup to future returns.

What's behind this trend? It is at least partially a function of the P/E multiple contraction that we have witnessed for many value stocks despite strong earnings growth. In fact, valuations simply have not mattered so far this year. The difference between the cheapest stocks and the most expensive is the widest since 1999 for many benchmarks, including our own¹. For the Russell 2000, for example, the spread between the cheapest quintile of stocks and the most expensive is over 25%! Any investor with a valuation discipline has been left behind. Furthermore, investors who like to see profits are also getting trounced. Lower quality, as defined by non-earners, has been another driver of performance.

The result this year has been widespread underperformance of the benchmark by active managers. A mere 8% of Small/Mid Value managers are besting the Russell 2500 Value, and 20% of Small Value managers are ahead of the Russell 2000 Value year-to-date, with the average trailing by 370 basis points.

We remind readers that it's not what you buy; it's what you pay for it that determines a good investment. With both our Small Value and Small/Mid Value Portfolios trading at less than 16 times next twelve months earnings which are expected to grow more than 20%, we view the risk/reward profile as quite favorable.



¹ Source: Jefferies via Factset

² Source: Factset: NTM P/E and Earnings growth rates

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

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PHILOSOPHY & PROCESS

- The portfolio is grounded in the belief that value and growth investing are not mutually exclusive.
- Emphasis on companies likely to exceed "street" expectations but trade at a discount to our in-house calculation of fair value.

PORTFOLIO CONSTRUCTION

- Concentrated portfolio of 40-50 stocks
- Top holdings generally limited to 5% at cost, 8% at market
- Sectors capped at 30% excluding financials
- Buy and hold approach

BAIRD SMALL/MID VALUE PORTFOLIO

For the quarter, the Baird Small/Mid Value Portfolio delivered a total gross return of 3.9% versus 2.7% for the Russell 2500 Value. For the last twelve months, the Portfolio gained 11.6% gross of fees, outpacing the benchmark return of 10.3%. Further, the Portfolio has outperformed the Russell 2500 Value over nearly every trailing time period and delivered an average annual return since inception of 12.0% (January 2000) gross of fees versus 10.2% for the benchmark.

Boingo Wireless, the portfolio's largest position, was the star for the quarter, advancing on the heels of a stellar earnings report. Interestingly, the company was the largest detractor last quarter as the stock drifted down despite strong company fundamentals. The stock is illustrative of the lumpy nature of small cap performance which lends itself to a disciplined buy and hold strategy of companies with strong fundamentals and attractive valuations. Integrated Device Technologies, the second best performer for the quarter, moved higher on an announced buyout offer by Renesas Electronics. Other stand outs were NMI Holdings and Solaris Oilfield Infrastructure.

In terms of relative performance for the three months, four sectors were primarily responsible for outperforming the benchmark: Telecommunications, Information Technology, Real Estate and Energy. Two sectors were primarily responsible for detracting from returns versus the benchmark: Industrials and Consumer Discretionary. Within Industrials, Deluxe and Atlas Air both lagged despite beating earnings estimates and raising guidance. Within Consumer Discretionary, Stamps.com and Zagg suffered the same fate despite strong fundamentals. In all four of these cases, the stocks drifted lower by 10-15%, victims of the multiple compression we discussed in our opening paragraphs.

During the quarter, we initiated a new position in Spartan Motor, a beneficiary of the growing demand for last-mile delivery. We also added to positions in LKQ Corporation and Cyrus One. To fund new purchases, we sold Orchids Paper due to weakening cash flow trends and trimmed Stamps.com, ICU Medical, NMI Holdings and Silicon Motion Technology on strong price appreciation.

BAIRD SMALL VALUE PORTFOLIO

For the quarter, the Baird Small Value Portfolio delivered a total gross return of 1.6% versus 1.6% for the Russell 2000 Value. For the last twelve months, the Portfolio returned 9.8% gross of fees outpacing the benchmark return of 9.3%. Furthermore, the Portfolio has outperformed the Russell 2000 Value since inception (March 2005), posting an average annual return of 9.8% gross of fees versus 7.9% for the benchmark.

Boingo Wireless, the portfolio's largest position, was the star for the quarter, advancing on the heels of a stellar earnings report. Interestingly, the company was the largest detractor last quarter as the stock drifted down despite strong company fundamentals. The stock is illustrative of the lumpy nature of small cap performance which lends itself to a disciplined buy and hold strategy of companies with strong fundamentals and attractive valuations. Integrated Device Technologies, the second best performer for the quarter, moved higher on an announced buyout offer by Renesas Electronics. Other stand outs were NMI Holdings and Solaris Oilfield Infrastructure.

Highlights in terms of positive absolute returns that bested the benchmark include gains from the Portfolio's holdings in Telecommunications, Real Estate Investment Trusts, Energy, and Utilities. In terms of relative performance for the three months, two sectors were primarily responsible for detracting from returns versus the benchmark: Industrials and Consumer Discretionary. Within Industrials, Deluxe and Atlas Air both lagged despite posting earnings beats and raising guidance. Within Consumer Discretionary, Stamps.com and Zagg suffered the same fate despite strong fundamentals. Within Financials, Meta Financial also lagged despite beating estimates. In all four of these

cases, the stocks drifted lower by 10-15%, victims of the multiple compression we discussed in our opening paragraphs. Perhaps, as in the case of Boingo Wireless this quarter, third quarter earnings reports will bring fresh buyers in to these names, as well.

During the quarter, we initiated positions in two new holdings: Select Energy Services and Spartan Motor, a beneficiary of the growing demand for last-mile delivery. We also added to positions in Cyrus One and Atlas Air. To fund new purchases, we sold Orchids Paper due to weakening cash flow trends and trimmed Stamps.com, ICU Medical, NMI Holdings and Silicon Motion Technology on strong price appreciation.

Thank you for your continued support and partnership. As always, we welcome the opportunity to discuss further should you desire.

Michelle E. Stevens, CFA

Portfolio Manager

Top 5 Small/Mid Value Portfolio Contributors			Bottom 5 Small/Mid Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
BOINGO WIRELESS	6.80	2.96	ZAGG INC	3.43	-0.57
INTEGRATED DEVICE TECHNOLOGY	2.00	0.78	AXOS FINANCIAL	3.33	-0.56
NMI HOLDINGS	2.05	0.71	META FINANCIAL	2.84	-0.47
SOLARIS OILFIELD INFRASTRUCTURE	1.93	0.55	RESONANT	1.02	-0.35
VERISIGN	2.26	0.36	ATLAS AIR WORLDWIDE	2.07	-0.26

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
BOINGO WIRELESS	6.78	2.91	ZAGG INC	3.45	-0.56
NMI HOLDINGS	2.54	1.03	AXOS FINANCIAL	3.25	-0.55
INTEGRATED DEVICE HOLDINGS	2.23	0.86	IMMERSION CORP	1.44	-0.55
SOLARIS OILFIELD INFRASTRUCTURE	2.19	0.62	META FINANCIAL	2.81	-0.46
BELDEN	1.88	0.29	RESONANT	1.02	-0.34

Positions identified above do not represent all the securities held, purchased or sold during this time period. The contribution to return of these securities is calculated by multiplying the weight of the security at the beginning of the time period by the security return and represents a model portfolio. To obtain a complete list of positions and contributions for the period, please contact Baird Equity Asset Management at 800-792-4011. Past performance does not guarantee future results.

The Baird Equity Asset Management Small & Small/Mid Value Equity commentary is incomplete if not accompanied with the most recent performance report. Performance for the Small & Small/Mid Value Strategies can be found on our website BairdEquityAssetManagement.com, or by clicking on the following links: [Small Cap Value Strategy](#) & [Small/Mid Cap Value Strategy](#).

The Russell 2500 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. Indices are unmanaged and direct investment is not possible.

As of 09/30/18, the top ten holdings for the Baird Small/MidCap Value Strategy were: Boingo Wireless 8.5%; ICU Medical 4.0%; American Financial Group 3.3%; Zagg 3.3%; Axos Financial 3.0%; Meta Financial 2.7%; Cypress Semiconductor 2.6%; CyrusOne 2.6%; Lamb Weston 2.6%; and Agree Realty Corp 2.6%.

As of 09/30/18, the top ten holdings for the Baird Small Cap Value Strategy were: Boingo Wireless 8.8%; ICU Medical 4.2%; Zagg 3.4%; Lamb Weston 3.3%; J2 Global 3.2%; Stamps.com 3.2%; Axos Financial 3.1%; Algonquin Power Utilities 3.1%; Agree Realty Corp 3.0%; and Integrated Device Technology 2.9%.

This commentary represents portfolio management views and portfolio holdings as of 9/30/18. Those views and portfolio holdings are subject to change without notice. The specific securities identified do not represent all the securities purchased, sold or held for accounts and you should not assume these securities were or will be profitable.

Investment Professional	Years of Experience	Years with Baird	Educational Background
Michelle Stevens, CFA Senior Portfolio Manager	25	6	MBA – (University of Cincinnati) BS – Economics (Wittenberg University)
Richard Roesch, CFA Senior Research Analyst	25	6	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP Senior Research Analyst	22	6	MBA – (Indiana University) BS – Accounting & Management (Iowa State University)
Rob Zwiebel Portfolio Specialist & Consultant Relations	27	6	BS – Finance (University of Dayton)
Jesse Parsons Trading & Operations Analyst	13	6	BBA – Finance & Marketing (University of Kentucky)