International and Global Growth Funds

Q3 2019 COMMENTARY

CHAUTAUQUA
CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Markets were turbulent in the third quarter, but the key thematic elements have not changed. Weak or decelerating growth in virtually every major economy, coupled with overhangs from international trade frictions, have compelled the major central banks to retain stimulative policies for the foreseeable future.

The year-to-date rally in stocks has largely been driven by multiple expansion, which in turn, has been driven by central banks' pivot towards lower interest rates. The big question now seems to be whether this dynamic can continue. Despite new rounds of monetary accommodation, stock prices failed to increase further, suggesting that valuations are full. We are increasingly cautious as economic fundamentals are still weak, and yet market performance has been overly reliant on monetary accommodation.

In the third quarter of 2019, the Chautauqua International Growth Fund Net Investor Class returned -2.30%, underperforming the MSCI ACWI ex-U.S. Index® ND, which returned -1.80%. The Chautauqua Global Growth Fund Net Investor Class returned -2.12% during the quarter, underperforming the MSCI ACWI Index® ND, which returned -0.03%.*

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 underperformed small capitalization stocks in both the developed and emerging markets sub-indexes.

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

Sector and country performance were mixed for the quarter.

MSCI Sector and Country Performances (QTD as of 09/30/2019)

Sector	Performance	Country	Performance	Country	Performance
Utilities	5.65%	Taiwan	5.87%	France	-1.64%
Consumer Staples	3.69%	Japan	3.29%	Austria	-2.98%
Real Estate	2.99%	Netherlands	2.51%	Germany	-4.03%
Information Technology	2.73%	United States	1.55%	South Korea	-4.45%
Communication Services	0.42%	Canada	0.65%	China	-4.67%
Consumer Discretionary	-0.12%	Switzerland	0.29%	India	-5.15%
Industrials	-0.84%	Italy	0.14%	Indonesia	-5.17%
Financials	-1.06%	Ireland	-0.46%	Singapore	-5.77%
Health Care	-1.29%	Denmark	-0.90%	South Africa	-12.44%
Materials	-4.51%	Australia	-1.36%		
Energy	-5.24%				

**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 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

Following the temporary truce struck between President Trump and President Xi at the G20 summit in June, the U.S. and China restarted trade negotiations. But afterward, President Trump surprised with an announcement of new tariffs on the last $300 billion worth of Chinese goods that had not already been impacted. Tariffs on a portion of these already took effect in the beginning of September, while tariffs on the remainder, which consists mostly of consumer goods such as personal electronics and apparel, will be delayed until the middle of December. China retaliated by announcing new tariffs on $75 billion worth of U.S. goods implemented under the same timelines. Currency, too, has emerged as a battleground between the U.S. and China. The yuan fell to a 10-year low against the dollar, and the U.S. Treasury designated China as a currency manipulator. A weaker currency makes Chinese goods cheaper and defrays the impact that U.S. tariffs have on Chinese export demand.

U.S. economic growth is still the fastest of the large developed economies, but it is moderating. Recently, consumer spending has been especially strong, and it has offset the drag from declining exports, inventory purchases, and fixed investments. This latter set is likely reflecting the impact of global trade tensions and the lapping of prior benefits gained from the reduction in corporate tax rates and stockpiling ahead of tariffs. Gross Domestic Product (GDP) increased 2.0% in the second quarter, compared to an increase of 3.1% in the first quarter and 2.9% in 2018.

Uncertainties around trade tensions and slowing global growth continue to weigh on the U.S. economic outlook. In response to heightened downside risks, and most likely taken as a preemptive measure to sustain economic growth, the Federal Reserve (the Fed) cut interest rates twice during the quarter, ending in a range of 1.75% to 2%. Prior to this, the last time the Fed cut rates was in 2008.

Economic data in China has continued to soften. Growth in industrial production dipped to the lowest level since 2002, and the deceleration has been broad-based. Fixed investments have also softened, especially in the key segments of infrastructure and real estate. The government has enacted both fiscal and monetary stimulative measures, but so far, the level of support has proved insufficient to reverse the negative economic trends.

Earlier this year, China announced a plan to cut taxes for businesses and consumers by a total of 2 trillion yuan (approximately $280 billion). The manufacturing sector has been the biggest beneficiary of this plan and has received more than 30% of the tax cuts. With respect to monetary policy, the People's Bank of China (PBOC) has moved relatively cautiously with accommodation. Recently, it cut the reserve requirement ratio and prime loan rate, and it encouraged more lending to the manufacturing sector and small businesses. Cutting the cost of financing for these two groups is one of the key pillars of the government's plan to support the economy. But the government also seeks to contain high debt levels in the economy, and so the PBOC has refrained from excessive stimulus. The government has also made clear that it wants to keep housing prices under control, and so it has withheld from easing restrictions in the real estate market. These balancing acts have made it difficult for the PBOC to respond with a forceful policy.

Eurozone composite Purchasing Managers' Index (PMI) fell to the lowest level since 2013. The main driver was ongoing weakness in manufacturing, with the rate of contraction deteriorating to a seven-year low. Moreover, the loss of output in the manufacturing sector has begun to undermine activity in the services sector. Most notably, the German economy has continued to struggle, raising the possibility of a technical recession in the third quarter. Both industrial production and factory orders declined in July, and the Ministry for Economic Affairs has stated that there is no fundamental improvement in sight in the coming months. The European Central Bank (ECB) responded by cutting the deposit rate by 10 basis points to -0.5% and restarting the quantitative easing policy, with asset purchases of €20 billion (approximately $22 billion) per month beginning in November.

The Bank of Japan left the short-term interest rate target unchanged at -0.1%. There is a considerable probability that current policy settings will continue beyond the spring of 2020, even though the baseline scenario is that the Japanese economy will continue to expand moderately. The central banks of various emerging economies, including Brazil, India, Indonesia, Philippines, South Africa, and South Korea, followed suit with monetary accommodation and cut interest rates in the third quarter.

Top 5 Average Weighted International Fund Holdings* for Q3 2019

Security	Avg. Weight	Contribution
Wirecard	6.29	-0.32
Genmab	5.37	0.56
Novo Nordisk	4.88	0.13
Temenos	4.88	-0.32
DBS Group	4.66	-0.24

Bottom 5 Average Weighted International Fund Holdings* for Q3 2019

Security	Avg. Weight	Contribution
CI Financial	0.16	-0.02
Prosus	0.33	-0.17
Amorepacific	0.82	-0.16
Ctrip.com	1.23	-0.22
Waste Connections	1.33	0.10

Top 5 Average Weighted Global Fund Holdings* for Q3 2019

Security	Avg. Weight	Contribution
Wirecard	5.15	-0.28
Genmab	4.72	0.47
Novo Nordisk	4.14	0.10
HDFC Bank	4.07	-0.55
Temenos	4.02	-0.28

Bottom 5 Average Weighted Global Fund Holdings* for Q3 2019

Security	Avg. Weight	Contribution
Red Hat, Inc.	0.05	0.00
Amorepacific	0.21	-0.04
Prosus	0.23	-0.12
Ctrip.com	0.78	-0.17
Allergan	0.82	0.01

*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.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth Fund, particularly in the consumer discretionary and financials sectors. Within these sectors, the largest detractors were TAL Education and HDFC Bank. Meanwhile, holdings in the health care and information technology sectors helped performance. Of these, the largest contributors were ASML and Genmab.

Selection effect was a detractor to returns in the Chautauqua Global Growth Fund, particularly in the consumer discretionary, financials, and health care sectors. Within these sectors, the largest detractors were HDFC Bank, Incyte, and TAL Education. Meanwhile, holdings in the communication services and information technology sectors helped performance. Of these, the largest contributors were AMS, Nvidia, Taiwan Semiconductor, ASML, and Alphabet Inc.

FUND PERFORMANCE FOR THE PERIODS ENDING SEPTEMBER 30, 2019* (%)

International

	Q3 2019	YTD	1 Year	3 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua International Growth- Net Investor Class	**-2.30**	**17.44**	**-2.47**	**6.68**	**6.98**	**26.28**
Chautauqua International Growth- Net Institutional Class	**-2.21**	**17.70**	**-2.17**	**6.91**	**7.23**	**27.34**
MSCI ACWI ex-U.S. Index® - ND	-1.80	11.56	-1.23	6.33	6.77	25.42
Excess Returns (Institutional Net)	-0.41	6.14	-0.94	0.58	0.46	1.92
Morningstar Percentile Rank in US Fund Foreign Large Growth Category			***73%*** *(466 Obs.)*	***50%*** *(439 Obs.)*	***50%*** *(439 Obs.)*	***50%*** *(439 Obs.)*

Global

	Q3 2019	YTD	1 Year	3 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua Global Growth- Net Investor Class	**-2.12**	**19.52**	**-3.03**	**9.55**	**10.40**	**40.82**
Chautauqua Global Growth- Net Institutional Class	**-2.03**	**19.84**	**-2.70**	**9.85**	**10.68**	**42.09**
MSCI ACWI Index® - ND	-0.03	16.20	1.38	9.71	9.85	38.41
Excess Returns (Institutional Net)	-2.00	3.64	-4.08	0.14	0.83	3.68
Morningstar Percentile Rank in US Fund World Large Stock Category			***83%*** *(853 Obs.)*	***38%*** *(768 Obs.)*	***29%*** *(751 Obs.)*	***29%*** *(751 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. Effective December 1, 2018, the investment advisory fee that the Fund pays to the Advisor was reduced from an annual rate of 0.80% of average daily net assets to an annual rate of 0.75% of the average daily net assets. For the Chautauqua International Growth and Global Growth Funds, the Gross Expense Ratios as of 12/31/2018 were 0.80% for Institutional shares and 1.05% 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, 2020 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 0.25% 12b-1 fee.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 78% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 85% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

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TAL Education had a 4.85%, HDFC Bank 4.97%, ASML 4.64%, AMS 2.93%, Atlassian 1.59%, BYD 0.97%, Core Labs 1.01%, Julius Baer 2.34%, Keyence 2.03%, Naspers 3.83%, Tata Consultancy 3.43% and Constellation Software 2.66% weighting in the International Fund as of 9/30/2019.

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 reduced positions in AMS, Atlassian, BYD, Core Labs, Ctrip, Julius Baer, Keyence, Naspers, and Temenos. Proceeds were used to initiate a new position in Waste Connections and increase positions in Constellation Software and Tata Consultancy. Additionally, we acquired the spin-off of Prosus from our holding in Naspers. Cash levels exiting the quarter were higher than normal.

In the Global Fund, we reduced positions in AMS, Alibaba, Atlassian, BYD, Core Labs, Julius Baer, Keyence, Mastercard, Nvidia, and Universal Display. Proceeds were used to initiate a new position in Waste Connections and increase positions in Constellation Software, TAL Education, Tata Consultancy, and TJX. Additionally, we acquired the spin-off of Prosus from our holding in Naspers

OUTLOOK

Our overall outlook is cautious. We are in the late innings of a bull market. The pace of revenue growth and earnings growth has slowed in the markets. Valuation multiples have been stretched to the point that stocks have failed to go meaningfully higher even as interest rates have come down. This means that there will need to be a recovery in leading fundamental indicators, and not just rate cuts, before equity markets can rebound sustainably.

We have realigned portfolios towards defensive holdings, which have business models that are more economically resilient, and towards holdings with lower valuation multiples. Further, we retain a cash position, which we can deploy opportunistically if certain holdings or watch list companies become more attractive.

Notwithstanding this period of slowing global growth, we remain confident in the tenets of our investment philosophy. We invest in advantaged businesses that benefit from long-term secular growth drivers, and as such, can outgrow their competitors and enjoy higher levels of profitability and returns on capital over our investment horizon. Our investments are not structured to be reliant on specific macroeconomic or political outcomes. These businesses become more valuable over time because they can grow and generate wealth for shareholders even in challenging periods.

Despite all the cautionary mentions of risks to the U.S. outlook, the Fed still delivered an upbeat economic assessment. There is some truth to that because labor data continues to top expectations, both in job gains and the broad-based participation, and inflation continues to firm. But changes to the Federal Open Market Committee (FOMC) statement and to economic projections were minimal. The median projection points to no further rate cuts in 2019 or 2020, and no individual member of the FOMC forecasts more than one cut going forward. If this is true, then there will be a lack of valuation support in the event of a protracted trade war or sluggish economic growth.

Face-to-face negotiations between the U.S. and China are scheduled to resume in October, but expectations for a breakthrough are low. Simply put, the two sides remain far apart on structural issues. The U.S. wants Chinese reform on intellectual property protection, forced technology transfer, and state-sponsored industrial subsidies, while China is determined to protect its economic sovereignty. We are not structuring investments based on a favorable resolution of the U.S.-China trade war.

Overall, the ECB has stated that risks to the eurozone growth outlook are skewed to the downside because of concerns stemming from trade wars. Despite insisting that it could do more if needed, such as cutting rates even deeper or expanding quantitative easing, the ECB is now close to its limits on monetary policy. The Governing Council of the ECB was unanimous in their view that fiscal policy would be the main tool going forward. But this begs the question of appetite for meaningful and coordinated fiscal stimulus. After all, the EU is a political union and monetary union, but most fiscal decisions remain at the national level.

Leaders from the central banks of Germany, France, and the Netherlands all expressed resistance to resuming quantitative easing. And the push deeper into negative interest rates has raised more concerns about the damaging effects on the European banking sector, which pays billions of euros per year to the ECB to hold deposits there.

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Incyte had a 3.30%, TAL Education 4.74%, ASML 1.65%, Alphabet 2.07%, AMS 2.46%, Nvidia 0.97%, Taiwan Semiconductor 1.67%, Alibaba 1.03%, Atlassian 1.34%, BYD 0.95%, Core Labs 1.02%, Julius Baer 2.05%, Keyence 1.69%, Mastercard 3.19%, Universal Display 0.80%, Waste Connections 3.51%, Constellation Software 2.23%, Tata Consultancy 2.37%, TJX 3.26% and Naspers 2.38% weighting in the Global Fund as of 9/30/2019.

Progress with Brexit negotiations remains at a standstill. However, recent legislation enacted by opposition members in Parliament will force UK Prime Minister Johnson to seek an extension with the EU if no deal has been reached by October 19. The formal Brexit date of October 31 can only be observed if Prime Minister Johnson agrees to a new deal with the EU. This latest development has significantly reduced the possibility of a "no deal" Brexit scenario. Unsurprisingly, and given the uncertainty, the Bank of England maintained its key policy settings and was able to scale back its worst-case estimates for a "no deal" scenario.

BUSINESS UPDATE

During the quarter, Michael Mow, CFA completed his planned retirement, which was originally announced in August 2018. Michael has been a great partner and steward of our team since the inception of Chautauqua Capital, and we are sincerely grateful for his contributions and service. Haicheng Li, CFA joined the team in 2016, and like Michael, she has extensive experience with our concentrated and conviction-weighted approach to investing in advantaged growth businesses and expertise in the healthcare sector. For the past three years, Haicheng has worked closely with Michael in the transfer of his coverage.

No further organizational changes have taken place.

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
Jesse Flores, CFA *Partner*	MBA, Stanford University BS, Cornell University	13	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	18	TCW Group
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	27	Marsico Capital Management Transamerica Investment Management Janus Capital
Nate Velarde *Partner*	MBA, University of Chicago BA, University of Chicago	18	TCW Group Nuveen Investments PIMCO

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 9/30/19. 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 Fund 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. The MSCI EAFE Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets, excluding the United States and Canada. The MSCI EAFE Index consists of 21 developed market country indices. Indices are unmanaged and direct investment is not possible.

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