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From Chautauqua Capital Management
A Division of Robert W. Baird

International and Global Growth Equity Strategies

1st Quarter 2017

Introduction

The first quarter saw global markets rally. Economic growth forecasts for most regions, both developed and emerging, were revised higher, while the market internals (style and sector dominance) demonstrated a broad reversal of driving factors that were present in the fourth quarter.

In this environment, the Chautauqua Capital International Growth Equity composite appreciated 10.76%, outperforming the MSCI ACWI ex-U.S. Index®, which appreciated 7.98%, and outperforming the MSCI EAFE Index®, which appreciated 7.39%. The Chautauqua Capital Global Growth Equity composite appreciated 10.94%, outperforming the MSCI ACWI Index®, which appreciated 7.05%.

Review

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 market sub-indices. This was in sharp contrast to the fourth quarter of 2016, when value styles and small capitalization stocks prevailed. For the MSCI EAFE Index®, growth style outperformed value style, and large capitalization stocks outperformed small capitalization stocks. This was in sharp contrast to the fourth quarter of 2016 when value styles and small capitalization stocks prevailed.

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. This was in sharp contrast to the fourth quarter of 2016, when value styles and small capitalization stocks prevailed.

Performance by country, in which the portfolios were invested and as measured by MSCI, is as follows: Brazil 10.43%, Canada 2.68%, China 12.93%, Denmark 6.57%, France 7.35%, Germany 8.52%, Hong Kong 13.41%, India 17.12%, Ireland 3.89%, Italy 6.25%, Japan 4.64%, Korea 16.90%, Netherlands 11.35%, South Africa 4.56%, Spain 14.87%, Switzerland 8.83%, Taiwan 11.78%, U.K. 5.06% and U.S. 6.23%.

Sector performance was similarly dispersed, though mostly positive. After generating negative returns in the fourth quarter of 2016, information technology 13.10%, health care 8.58% and consumer discretionary 7.92% were the best performing sectors. The worst performing sector was energy -3.75%. It is noteworthy that energy was the best performing sector in the fourth quarter of 2016.

What caused such a significant reversal? It is partly explained by a reversion after a significant shift in the normal valuation relationship between value and growth and large and small capitalizations. It is also somewhat attributable to the recognition that economic growth is a little stronger and broad-based than initially understood and that some political uncertainty is getting resolved.

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In the U.S., the Federal Open Market Committee (FOMC) increased the federal funds target range from 0.75% to 1.0% and expects another two rate hikes this year. Furthermore, the FOMC sees interest rates settling at the long-run average of 3% by the end of 2019, which is slightly sooner than its previously published forecast from December. Federal Reserve Chairwoman Janet Yellen was particularly forceful in communicating that the normalization of monetary policy will be much faster now that in the last two years. There were no major changes in the Federal Reserve's forecasts for economic growth, unemployment or inflation. The most recent projections for U.S. GDP growth are 2.1% in 2017 and 2018, 1.9% in 2019 and a long-run average of 1.8%. Forecasts for the inflation rate are 1.9% in 2017 and 2.0% in 2018, which is the Fed's target rate.

In Europe, the European Central Bank (ECB) turned noticeably more positive on the euro-zone's economic fundamentals, but held monetary policy steady. ECB President Mario Draghi cited a long list of positive data points – euro-zone business surveys at multi-year highs, unemployment at a seven-year low and inflation most recently at 2% and above the central bank's target – and announced upward revisions for the euro-zone's growth and inflation forecasts. And while no change was made to the ECB's stimulus program ending this year, President Draghi did mention that new supplements to the plan were now unlikely.

On the political front, Dutch Prime Minister Mark Rutte and his establishment People's Party for Freedom and Democracy won the most seats in the recent election. The Dutch election has been called a bellwether for a string of major elections in Europe this year, all with significant populist and antiestablishment challengers, including in France, Germany and potentially Italy.

The U.K. initiated the formal process to exit the European Union (E.U.), starting a two-year window to negotiate the terms of its withdrawal. Despite fears of an economic slowdown due to the uncertainty created by the Brexit process, U.K. economic data showed steady expansion in the fourth quarter and was among the fastest growing of the major economies worldwide, driven by the services sector and healthy growth in retail trade and manufacturing. The impact on economic growth from the referendum has yet to be felt, and the European Commission upgraded the forecast for U.K. GDP growth from the previous publication in November, which had baked in a sharper deceleration following the referendum.

In Japan, the Bank of Japan (BoJ) also kept its monetary policy steady – the current program includes annual government bond purchases worth 80 trillion yen (over 700 billion dollars), a 0% yield target for 10-year bonds and negative interest rates for short-term deposits held by commercial banks. However, unlike the ECB, the BoJ expressed that it had no predilection for monetary tightening on the margin. Japan's core consumer price index (CPI) turned positive in January, the first time in nearly one year, but barely so at 0.1% and still far from the BoJ's target of 2% inflation.

In China, corporate bond issuances and bank leverage have been increasing, fueling asset inflation and widespread speculative investing. In an effort to stymie these negative effects, the People's Bank of China (PBoC) raised short-term interest rates twice in the first quarter, pushing funding costs to their highest levels in two years. While dependence on short-term money market loans varies greatly within the Chinese banking sector, some smaller banks had failed to make good on the higher priced debt obligations, causing a small liquidity panic. The PBoC then injected approximately 300 billion yuan (over 40 billion dollars) into the financial system via short-term funding facilities in an effort to prevent the defaults from evolving into a full-blown credit crunch. Nevertheless, the Chinese government is working to constrain growth in credit.

In the energy sector, Brent crude oil has been confined to a trading range, and the current price is only slightly above the price before the Organization of Petroleum Exporting Countries (OPEC) struck a deal in November 2016 to cut production. While OPEC is close to meeting its stated production cut of 1.2 million barrels per day, U.S. oil output has risen rapidly, led by shale producers that ramped up production in response to last year's price recovery. Furthermore, compliance amongst individual countries for meeting their share of production cuts varies, but Saudi Arabia has assumed the role of a stopgap to plug individual commitment shortfalls. OPEC members will meet again in May to decide whether a deal to cut 1.2 million barrels per day of output should be extended to the second half of this year.

Portfolio Highlights

In anticipation of significant market shifts in 2017, Chautauqua Capital has been evaluating a larger-than-normal number of investment opportunities. Primary work is complete on several potential new holdings pending an attractive valuation.

For the Chautauqua Capital International Growth Equity Composite, 73% of portfolio companies that reported earnings during the quarter exceeded consensus expectations.

For the Chautauqua Capital Global Growth Equity Composite, 80% of portfolio companies that reported earnings during the quarter exceeded consensus expectations.

Performance Attribution

The International Growth Equity strategy generated positive returns, outperforming the benchmark. From a sector basis, stock selection explained more than 70% of the outperformance, with particular strength coming from investments in information technology, financials and health care. From a regional basis, stock selection explained more than 100% of the outperformance. The strongest gains came from our investments in Europe and Asia & Pacific Basin.

The Global Growth Equity strategy generated positive returns, outperforming the benchmark. From a sector basis, stock selection explained approximately 80% of the outperformance, with particular strength coming from investments in health care and financials. From a regional basis, stock selection explained more than 100% of the outperformance. The strongest gains came from investments in North America, Europe and Asia & Pacific Basin.

Composite performance for the periods ending March 31, 2017*

International

	Q1 2017	1 Year	3 Year	5 Year	Since Inception 1/1/06	Cumulative Since Inception 1/1/06
International Growth Equity - Gross	**10.76%**	**10.52%**	**3.34%**	**5.83%**	**7.27%**	**120.15%**
International Growth Equity - Net	**10.65%**	**10.02%**	**2.93%**	**5.39%**	**7.04%**	**114.90%**
MSCI ACWI ex-U.S. Index® -GD	7.98%	13.70%	1.03%	4.84%	4.16%	58.11%
MSCI EAFE Index® - GD	7.39%	12.25%	0.96%	6.32%	3.90%	53.81%

Global

	Q1 2017	1 Year	3 Year	5 Year	Since Inception 1/1/07	Cumulative Since Inception 1/1/07
Global Growth Equity - Gross	**10.94%**	**16.18%**	**8.11%**	**9.83%**	**8.21%**	**124.41%**
Global Growth Equity - Net	**10.73%**	**15.47%**	**7.50%**	**9.25%**	**7.90%**	**117.89%**
MSCI ACWI Index® -GD	7.05%	15.69%	5.65%	8.97%	4.71%	60.30%
MSCI World Index® - GD	6.53%	15.43%	6.12%	9.99%	4.95%	64.08%

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

Outlook

After suffering a sudden and severe performance shortfall in the fourth quarter of 2016, marked by massive outperformance by small capitalization, lower-quality value stocks in the global markets, our portfolios rebounded in the first quarter. This market environment favored large capitalization, high quality growth stocks, and our portfolios were well-positioned to benefit from the reversal.

Since the start of the year, improved confidence in the economy of the E.U. has been palpable, underscored by a broad-based economic expansion, falling unemployment and the failure of a nationalist candidate in the Netherlands. The E.U., which grew 1.7% in 2016, appears to be the fastest growing among the major developed economies. Furthermore, growth forecasts for 2017 and 2018 currently show all member states expect GDP to increase, the first time in nearly a decade that growth expectations are unilateral within the E.U.

With an improved growth outlook and a recent jump in inflation, the ECB may finally discuss discontinuing its bond-buying program later this year. ECB President Mario Draghi has also adopted a more positive tone, stating that economic risks have diminished over the last quarter, and thus reducing a commitment to an open-ended approach to monetary accommodation past 2017. The signaling for the potential normalization of monetary policy is particularly delicate as market participants are apt to overreact to higher benchmark interest rates. Such a reaction could ironically stymie the euro-zone's economic recovery.

Risks to the E.U.'s economic outlook include uncertainty in the election cycle and trade relations with the U.K. following Brexit. However, fears of a nationalist tidal wave have diminished. Most recently, the Dutch elections showed a sharp increase in support for centrist establishment parties. Similarly, polls in France show pro-E.U. candidate Emmanuel Macron as the new favorite, overtaking populist candidate Marine Le Pen. In Germany, support for the right-wing Alternative for Germany party has fallen to its lowest level since prior to the refugee crisis. The U.K. economy has proved exceedingly resilient post-Brexit and was the fastest growing among the Group of Seven advanced economies in 2016. However, the final outcome of U.K. and E.U. relations and the adjoined economic consequences remain a swing factor. Negotiations must be held along multiple fronts including tariff systems, immigration and foreign visas, and military and intelligence cooperation, to name a few. Fears of refinance risk in Greece later this summer and potential problems with Italian banks will also continue to weigh on markets.

In the U.S., business confidence remains elevated in anticipation of a fiscal stimulus package from President Donald Trump. If it comes to fruition, this package would include a trillion dollar proposal for new infrastructure spending and corporate and personal tax cuts. Altogether, fiscal stimulus in the U.S. is likely to be an even stronger contributor to the global growth outlook than a recovery in the euro-zone. However, President Trump's stimulus plan is not a certainty and will take time to formalize. It is also unlikely to deliver stimulative effects before 2018.

The Federal Reserve is now more focused on the possibility that the U.S. economy could outperform forecasts, and so the Fed has become more assertive on the normalization of benchmark interest rates. This is a shift from recent years, when exogenous shocks continually compelled the Federal Reserve to highlight the downside risks for growth and delay normalization. Rate hiking by the Federal Reserve is likely to further strengthen the dollar against the euro and other currencies, which may have the effect of motivating the ECB to raise rates to prevent currency imbalances.

Fundamentals in Japan remain tenuous. Growth and inflation are still far below the levels promised by Prime Minister Shinzo Abe, and the Bank of Japan remains cautious of curtailing monetary stimulus for fear it would choke off economic growth. This is a sharp contrast to the U.S. and Europe, where growth prospects have strengthened and inflation has picked up ever since the U.S. election.

Sovereign bond yields in the U.S. and Europe have also risen, which puts the BoJ in a difficult position. The yields on 10-year U.S. treasuries and German bunds have risen about 65 basis points and 25 basis points, respectively, since November. If the BoJ continues its current policy of buying Japanese government bonds to fix the 10-year yield to 0%, the yen will fall. Alternatively, it can begin raising the target yield to better match the trajectories of those in the U.S. and Europe. This latter option, however, would run counter to Prime Minister Abe's pro-growth initiatives. Despite a modest increase in inflation, household spending data has shown consistent declines for nearly one year.

Market volatility has been surprisingly low. We see 2017 as a year where policy uncertainty is elevated, and relatively high valuations provide little margin of safety. Shifts in monetary policy can have widespread implications for currency regimes and economic outlooks. Trade and geopolitical machinations may prove disruptive. In this environment, we aim to be especially nimble. We have worked to augment the opportunity set of potential investments so that we can adapt to events as they unfold. What gives us extra comfort is the fact that the companies we invest in tend to be less sensitive to world events as they offer valued product and services that should see sustained demand under most circumstances. The first quarter was a successful period for Chautauqua Capital, but we are not complacent. We anticipate that 2017 will be a challenging year, and it will behoove us to remain focused, diligent and nimble.

Business Update

In the first quarter, there were no changes to the composition of the investment team, and there were no organizational changes at Chautauqua Capital or in our relationship with Robert W. Baird.

Chautauqua Capital lost one account during the quarter, but was informed that this account loss was not attributable to the firm, but rather was the result of the termination of the multi-manager program, which sponsored Chautauqua Capital. However, those lost assets were offset by performance and net contributions, which increased assets under management during the quarter.

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, 2017.

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Chautauqua Capital Management Investment Team

- All investment team members have equity ownership
- Average years of experience: 21 years

Investment Professional	Degrees	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Managing Partner*	MBA, University of Southern California BS, University of Southern California	37	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston *Partner*	MBA, Yale University BS, Brigham Young University	11	Ensign Peak Advisors Artisan Partners Wasatch Advisors
Jesse Flores *Partner*	MBA, Stanford University BS, Cornell University	10	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	15	TCW Group
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	24	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	30	American Century TCW Group Farmers Insurance