

MARKET REVIEW

It's no secret that we have a strong bias toward the smaller end of the market capitalization spectrum. Our preference is grounded in the intuitive proposition that the market is more inefficient when it comes to forecasting profitability for smaller business, thus presenting outsized opportunities. We also adhere to the discipline of buying stocks at a discount to intrinsic value, which we believe offers both superior returns and downside protection. The long term returns of domestic equities over the past 90 years have validated our view.

Asset Class	1928 – 2018 Annualized Return %
Small Value Stocks	13.6%
Large Value Stocks	11.0%
Small Growth Stocks	9.3%
Large Growth Stocks	9.2%

*Fama-French Growth and Value Series, 2019 SBBI Yearbook

More recently, however, value investing has been bested by growth strategies. For the past two years, small cap value has meaningfully underperformed. If you subscribe to the concept of reversion to the mean, then small cap value stocks are poised to outshine.

Asset Class	2-Year Annualized Return %
Small Value Stocks	-1.6%
Large Value Stocks	0.4%
Small Growth Stocks	9.6%
Large Growth Stocks	15.7%

*Fama-French Growth and Value Series, 2019 SBBI Yearbook

BAIRD SMALL VALUE PORTFOLIO

For the quarter, the Baird Small Value Portfolio delivered a total gross return of 11.5% versus 11.9% for the Russell 2000 Value. While the past two years have been challenging for value managers, the Portfolio has posted an annualized return of 5.9% versus a return of 2.6% for the Russell 2000 Value. The Portfolio has also outperformed the Russell 2000 Value since inception (March 2005), posting an average annual return of 8.7% gross of fees versus 6.9% for the benchmark.

The Portfolio enjoyed broad outperformance across most economic sectors with seven sectors posting gains better than the benchmark average. Our positioning in Financials added the most relative alpha with strong performance from non-bank financials including NMI Holdings and Essent Group. Energy was the best absolute performer with our holdings posting gains over 59% vs 21% for the benchmark sector. Yield-related sectors

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

MICHELLE STEVENS, CFA

Senior Portfolio Manager

RICHARD ROESCH, CFA

Senior Research Analyst

JONATHAN DEMOSS, CFA, CPA, CFP

Senior Research Analyst

ROB ZWIEBEL

Portfolio Specialist & Consultant Relations

JESSE PARSONS

Trading & Operations Analyst

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

such as Real Estate Investment Trusts and Utilities also rallied, as Treasury yields fell during the period. CareTrust REIT, CACI International and J2 Global were notable winners.

Weak performance from long-time holding Stamps.com was primarily responsible for holding back returns for the period. The company shocked investors by unexpectedly terminating their lucrative exclusive arrangement with the U.S. Postal Service to pursue new business relationships. We exited the position given a lack of clarity from management regarding this new strategic direction. Lamb Weston and Zagg were other noteworthy underperformers for the quarter.

New purchases during the quarter included Zayo Group Holdings, Haymaker Acquisition, LTC Holdings and Old Republic International. We also added to current holdings of Southwest Gas Holdings and CACI International. We exited positions in Ryman Hospitality Properties and Air Lease, while trimming Solaris Oilfield Infrastructure and Agree Realty.

BAIRD SMALL/MID VALUE PORTFOLIO

For the quarter, the Baird Small/Mid Value Portfolio delivered a total gross return of 11.2% versus 13.1% for the Russell 2500 Value. While the past two years have been challenging for value managers, the Portfolio has posted an annualized return of 6.4% versus a return of 3.8% for the Russell 2500 Value. The Portfolio has outperformed the Russell 2500 Value and delivered an average annual return since inception (January 2000) of 11.1% gross of fees versus 9.6% for the benchmark.

The Portfolio enjoyed broad strength across most economic sectors. Our positioning in Financials added the most relative alpha with strong performance from non-bank financials including NMI Holdings and Essent Group. Yield-related sectors such as Real Estate Investment Trusts and Utilities also rallied, as Treasury yields fell during the period. CareTrust REIT, CACI International and J2 Global were notable winners.

Weak performance from long-time holding Stamps.com was primarily responsible for holding back returns for the period. The company shocked investors by unexpectedly terminating their lucrative exclusive arrangement with the U.S. Postal Service to pursue new business relationships. We exited the position given a lack of clarity from management regarding this new strategic direction. Lamb Weston, ICU Medical and Zagg were other notable underperformers for the quarter.

We were active during the quarter given the opportunities presented by heightened volatility. New positions were initiated in ZAYO Group Holdings, Haymaker Acquisition Corp, Southwest Gas Holdings, and AGNC Investment. We also added to positions in Old Republic International and Dolby Laboratories. To fund new purchases, we sold Solaris Oilfield Infrastructure, Ryman Hospitality Properties and Air Lease.

For more details regarding attribution and our current positioning, please dial in to our quarterly call on April 24, 2019 at 2:00 PM EST. Thank you for your continued support and partnership.

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
NMI HOLDINGS	2.33	0.86	STAMPS.COM	1.72	-0.79
CARETRUST REIT	3.12	0.78	ZAGG INC	2.63	-0.13
BOINGO WIRELESS	5.10	0.73	AGNC INVESTMENT CORP	0.03	-0.01
PHYSICIANS REALTY TRUST	3.79	0.69	CYRUSONE	2.37	0.00
AGREE REALTY	3.35	0.59	AIR TRANSPORT SERVICES	2.43	0.03

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
NMI HOLDINGS	2.38	0.87	STAMPS.COM	2.04	-0.95
CACI INTERNATIONAL	3.25	0.75	ZAGG INC	2.68	-0.13
BOINGO WIRELESS	5.01	0.72	IMMERSION CORP	1.19	-0.05
J2 GLOBAL	3.20	0.71	LTC PROPERTIES	1.08	-0.05
PHYSICIANS REALTY TRUST	3.76	0.68	CYRUSONE	2.35	0.00

	Baird Small/Mid Value Composite Performance						Baird Small Value Composite Performance					
	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception (1/1/00)	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception (3/1/05)
GROSS OF FEES	11.18	-3.01	8.45	6.27	13.93	11.13	11.47	-2.51	9.18	4.64	13.15	8.70
NET OF FEES	10.99	-3.78	7.54	5.43	12.99	10.16	11.27	-2.95	8.63	4.11	12.41	7.88
INDEX*	13.12	1.84	9.85	6.02	15.03	9.60	11.93	0.17	10.86	5.59	14.12	6.86

* Index for the Baird Small/Mid Value Composite is the Russell 2500 Value. Index for the Baird Small/Mid Value Composite is the Russell 2000 Value.

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](#).

Returns are presented gross and net of management fees and include the reinvestment of all income. Composite performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains.

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.

This commentary represents portfolio management views and portfolio holdings as of 12/31/18. 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	26	7	MBA – (University of Cincinnati) BS – Economics (Wittenberg University)
Richard Roesch, CFA Senior Research Analyst	26	7	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP Senior Research Analyst	23	7	MBA – (Indiana University) BS – Accounting & Management (Iowa State University)
Rob Zwiebel Portfolio Specialist & Consultant Relations	28	7	BS – Finance (University of Dayton)
Jesse Parsons Trading & Operations Analyst	14	7	BBA – Finance & Marketing (University of Kentucky)