International and Global Growth Equity Strategies

Q1 2021 COMMENTARY

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CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

The coronavirus vaccine rollout began worldwide. The U.S. rollout has been particularly successful at the onset, already reaching over 28% of the population, while most other major economies are still far behind. Nonetheless, vaccine programs are a global positive because they have given line of sight to the economic reopening and recovery. The biggest question now pertains to the timing.

Because of this, expectations for a more powerful global recovery have materialized. And through it all, investors had the reassurance from the Federal Reserve (Fed) that it would continue to hold interest rates near zero, and that the U.S. government would deploy trillions of dollars more in aid to boost the economy.

Financial markets responded in force. Long-term bond yields climbed in anticipation of higher economic growth and inflation, which therefore pushed discount rates higher. In one of the most severe equity market rotations in years, shares of technology and other growth stocks were battered, while shares of beaten down sectors and value stocks rose significantly.

In this environment, portfolios still appreciated in value, but we underperformed relative to our benchmarks. We made several adjustments prior to the wholesale growth-to-value rotation, which began in mid-February, to reduce holdings with extended valuations and increase holdings that were more attractively priced or should be cyclical beneficiaries, but the adjustments were not enough. As the rotation continued through the remainder of the quarter, some holdings were disproportionately hit, and we took advantage of these dislocations to selectively add to holdings and also initiate a new position in a company we have long coveted.

In the first quarter of 2021, the Chautauqua International Growth Equities composite increased 1.50% (gross of fees), underperforming the MSCI ACWI ex-U.S. Index® ND, which increased 3.49%. In the first quarter of 2021, the Chautauqua Global Growth Equities composite increased 2.60% (gross of fees), underperforming the MSCI ACWI Index® ND, which increased 4.57%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, growth style significantly underperformed value style. Within the MSCI ACWI Index®, growth style significantly underperformed value style, and large capitalization stocks significantly underperformed small capitalization stocks. In emerging markets, growth style also underperformed value style.

Sector performance was mostly positive for the quarter and country performance was mixed.

MSCI Sector and Country Performances (QTD as of 3/31/2021)

Sector	Performance	Country	Performance	Country	Performance
Energy	18.03%	Netherlands	11.21%	Australia	3.44%
Financials	11.57%	Taiwan	10.96%	Japan	1.70%
Industrials	7.60%	Canada	9.80%	Israel	-0.31%
Communication Services	6.69%	Austria	9.28%	China	-0.43%
Materials	6.48%	Singapore	8.88%	Switzerland	-1.59%
Real Estate	6.18%	Hong Kong	7.26%	Denmark	-2.78%
Consumer Discretionary	2.33%	United States	5.48%	Indonesia	-7.51%
Information Technology	1.86%	India	5.18%		
Utilities	0.79%				
Health Care	0.61%				
Consumer Staples	-0.69%				

Based on select MSCI country performance returns.

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

*Performance data is preliminary, represents past performance and does not guarantee future results. Current performance data may be lower or higher than the data quoted. For performance data to the most recent month end, contact Chautauqua directly at 303-541-1545.

The U.S. was at the center of both economic developments and market developments in the first quarter. Among the highlights were a successful vaccine rollout, a new tranche of pandemic fiscal stimulus, reassurances of continued easy monetary policies, and green shoots of its own economic recovery.

These same factors, however, drove bond investors to push treasury yields higher in anticipation of economic growth and inflation heating up. The benchmark 10-year treasury yield finished the quarter at 1.74%, which is still low by historical standards but is much higher than the record low of 0.52% reached last August or where it started this year at 0.92%.

The rise in treasury yields rippled through to all financial assets. For stocks, rising yields are a mixed bag. It has arrested the rally in technology and other growth stocks as the value of long-term cash flows have eroded due to a higher discount rate. Conversely, it has lifted financials and accelerated the rotation into other beaten down sectors that may enjoy a cyclical rebound from the economic reopening. Changes in growth forecasts and the discount rate can have large effects on stock valuations, and this explains why stock price performance rotated so violently between growth stocks and value stocks.

In the U.S., vaccines rolled out more quickly than expected, and coronavirus cases have fallen from their peak in January. Recent economic data, including retail sales, industrial production, and services sector activity, indicate that economic growth has picked up in the new year. The Fed held interest rates near zero, and Chairman Jerome Powell reaffirmed his commitment to maintaining easy monetary policies until the Fed's goals for higher inflation and a strong labor market are reached. Furthermore, Congress passed a new stimulus package worth $1.9 trillion, which included another round of direct payments to most Americans and enhanced unemployment benefits. Critics of the stimulus have said it will cause a surge of consumer spending that will coincide with an improving economy to stoke price increases.

Across Europe, the rollout of coronavirus vaccines has been sluggish, and a third wave of infections has engulfed countries including Germany, France, and Italy. These countries had to reintroduce containment measures but have also sharpened their focus on immunization programs, which were bungled at the onset. Vaccine protectionism became a new policy after the European Union (EU) announced export controls in order to boost its own vaccine supplies. Economic indicators suggest that the growth picture is not as bad as feared. Eurozone purchasing managers' index (PMI) signaled that economic activity gained momentum, driven by a buoyant manufacturing sector.

Asian countries that succeeded in containing the coronavirus last year have now fallen behind much of the West in vaccinations. Most Asian countries have administered doses to less than 5% of their populations, while the U.S. has reached 28% and the EU has reached 11%. Countries such as China, South Korea, and Japan have been under less pressure to vaccinate because they were so successful at containing the virus through quarantines, contact tracing, and border control. Their economies were also more resilient last year. But now, without vaccinations and herd immunity, they risk losing the economic advantages they created during the pandemic.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth composite, particularly in consumer discretionary, utilities, and information technology holdings. Within these sectors, the biggest detractors were TAL Education, Keyence Corporation, and Brookfield Renewable. Overweight allocation in the health care sector was also a detracting factor. Meanwhile, holdings in the financials sector helped performance the most. Within this sector, the largest contributors were Fairfax Financial and DBS Group Holdings. Individual holdings ASML and BeiGene, and lack of exposure to consumer staples also contributed.

Selection effect was a detractor to returns in the Chautauqua Global Growth composite, specifically in consumer discretionary, health care, and utilities holdings. The portfolio's biggest detractors were TAL Education, Genmab, and Brookfield Renewable. Holdings in the financials and information technology sectors helped performance. Of these, some of the largest contributors were SVB Financial Group, Fairfax Financial, ASML Holding, and Tata Consultancy. Our lack of exposure to consumer staples also contributed.

Top 5 Average Weighted International Holdings* for Q1 2021

Security	Avg. Weight	Contribution
WuXi Biologics	4.97	-0.03
Genmab	4.65	-0.86
Tata Consultancy	4.62	0.49
Constellation Software	4.44	0.36
Novo Nordisk	4.38	-0.11

Bottom 5 Average Weighted International Holdings* for Q1 2021

Security	Avg. Weight	Contribution
Topicus.com	0.01	-0.01
Hong Kong Exchanges	0.20	-0.04
Recruit Holdings	1.23	0.16
AMS AG	1.53	-0.23
BYD Company	1.55	0.02

Top 5 Average Weighted Global Holdings* for Q1 2021

Security	Avg. Weight	Contribution
Genmab	4.32	-0.79
SVB Financial	3.64	1.10
Mastercard	3.54	0.02
WuXi Biologics	3.50	-0.03
Tata Consultancy	3.45	0.37

Bottom 5 Average Weighted Global Holdings* for Q1 2021

Security	Avg. Weight	Contribution
Topicus.com	0.01	-0.01
Hong Kong Exchanges	0.14	-0.03
Coherent, Inc.	0.32	0.28
Bristol-Myers Squibb	0.67	0.02
Alteryx, Inc.	0.70	-0.24

*The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients; 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.

ASML had a 3.79%, Alibaba 3.31% BeiGene 2.81%, Brookfield Renewable 1.93%, DBS Group 3.47%, Fairfax Financial 3.48%, Fanuc 2.77%, HDFC Bank 3.24%, Keyence Corporation 2.42%, Prosus 3.31%, TAL Education 2.58%, Taiwan Semiconductor 3.19%, and Waste Connections 3.25% weighting in the International strategy as of 03/31/2021.

COMPOSITE PERFORMANCE FOR THE PERIODS ENDING MARCH 31, 2021* (%)

Chautauqua International Growth Equity

	Q1 2021	1 Year	3 Year	5 Year	10 Year	Since Inception	Cumulative Since Inception
International Growth Equity - Gross	**1.50**	**71.11**	**13.25**	**15.23**	**9.24**	**9.60**	**304.37**
International Growth Equity - Net	**1.40**	**70.37**	**12.81**	**14.73**	**8.80**	**9.30**	**288.24**
MSCI ACWI ex-U.S. Index® - ND	3.49	49.41	6.51	9.76	4.93	5.04	111.66

Chautauqua International Growth Equity inception: January 1, 2006.

Chautauqua Global Growth Equity

	Q1 2021	1 Year	3 Year	5 Year	10 Year	Since Inception	Cumulative Since Inception
Global Growth Equity - Gross	**2.60**	**65.28**	**16.82**	**18.65**	**12.84**	**11.21**	**354.22**
Global Growth Equity - Net	**2.53**	**64.92**	**16.27**	**17.96**	**12.25**	**10.80**	**330.99**
MSCI ACWI Index® - ND	4.57	54.60	12.07	13.21	9.14	6.50	145.27

Chautauqua Global Growth Equity inception: January 1, 2007.

*These are preliminary figures from our portfolio accounting system that have yet to be verified by ACA. Performance data represents past performance and does not guarantee future results. Current performance data may be lower or higher than the data quoted. For performance data to the most recent month end, contact Chautauqua directly at 303-541-1545.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth composite, 61% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth composite, 71% 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 strategy, we reduced positions in BYD, ASML, WuXi Biologics, BeiGene, Tata Consultancy, and HDFC Bank, and exited a position in Topicus, which was a dividend from Constellation Software. Proceeds were used to increase positions in AMS, Constellation Software, Taiwan Semiconductor, Fanuc, Prosus, Waste Connections, Alibaba, and Fairfax Financial, and initiate a new position in Hong Kong Exchanges.

In the Global strategy, we reduced positions SVB Financial, BYD, WuXi Biologics, TJX, Charles Schwab, HDFC Bank, Tata Consultancy, TAL Education, and Bank Rakyat, and exited positions in Coherent and Topicus, which was a dividend from Constellation Software. Proceeds were used to increase positions in Fairfax Financial, DBS, Constellation Software, Taiwan Semiconductor, Mastercard, Alibaba, Amazon, Alphabet, and Prosus, and initiate a new position in Hong Kong Exchanges.

OUTLOOK

The economy is at an interesting point right now. Due to the current climate of ultra-accommodative policies and the imminent vaccine-driven economic reopening, much attention has been placed on inflation. The output gap caused by the pandemic is likely to close soon. But whether this pushes inflation significantly above 2% is up for debate.

The Fed's inflation target is based on the personal consumption expenditures (PCE) index, rather than the more oft-cited consumer price index (CPI). PCE inflation typically runs below CPI inflation. Currently, PCE inflation is 1.6%, and it has averaged 1.6% since the Fed first introduced its target of 2% inflation in 2012, leaving a large cumulative deficit from the last nine years. Therefore, after years of undershooting 2% inflation, the Fed wants to overshoot it.

Inflation is typically driven by how much room the economy has to grow. Currently, many businesses are idle, and it is estimated that nearly 10% of the workforce is unemployed or has quit the labor pool, suggesting inflation will be subdued. Cost pressures only really start to build below the natural unemployment rate, which is estimated to be closer to 4%. According to the Fed data, expected inflation in the next five years is 2.54%, which would be the highest rate in the post-Great Financial Crisis era. However, this also partially reflects

"The economy is at an interesting point right now. Due to the current climate of ultra-accommodative policies and the imminent vaccine-driven economic reopening, much attention has been placed on inflation."

Alibaba had a 2.62%, Alphabet 3.13%, Amazon 2.81%, ASML 2.55%, Bank Rakyat 2.81%, Brookfield Renewable 2.41%, BYD 0.68%, Charles Schwab 3.19%, Constellation Software 3.58%, DBS 3.21%, Fairfax Financial 3.36%, HDFC Bank 3.02%, Prosus 3.06%, TAL Education 2.28%, Taiwan Semiconductor 2.86%, and TJX 2.98% weighting in the Global strategy as of 03/31/2021.

transitory effects that goose that number, such as rebounding prices in energy, transportation, and rent, which were subdued by the pandemic. Expected inflation in the subsequent five years is 2.2%, which is modestly above the Fed's target. For most of the last 25 years, inflation has actually run close to or below 2%, even in periods when GDP growth was above potential and unemployment was below the natural rate.

Furthermore, it was not long ago when the bigger fear was deflation, not inflation. Long-term, the Fed–along with the other major central banks for that matter–worries that if inflation persistently runs below 2%, inflation expectations will also drift down, making a weak inflationary environment self-reinforcing. Over time, lower inflation leads to lower interest rates and therefore less room to counteract recessions. This is a problem that has embroiled both Japan and Europe.

With respect to managing the portfolios in a potential inflationary environment, we have taken great care to emphasize companies that we believe have pricing power because of the mission-critical or value-add nature of their products and services. Because of these features, these companies are able to transmit price in inflationary environments, and therefore protect their profit margins. Furthermore, we have made some incremental adjustments to portfolios to emphasize companies with more attractive valuations, in light of higher market discount rates. These measures should help protect portfolios from deleterious inflationary pressures.

"With respect to managing the portfolios in a potential inflationary environment, we have taken great care to emphasize companies that we believe have pricing power…"

Both the International Monetary Fund and the Organization for Economic Cooperation and Development expect the global economy will reach pre-pandemic levels of output by the middle of this year. Global economic growth is forecasted at 5.6% this year, after declining 3.4% last year. Forecasts were revised up mainly due to a stronger outlook for the U.S. economy, which is expected to grow near 6.5%, and this would be the fastest growth rate in nearly three decades.

Market ripples from the strong U.S. recovery could hurt regions that are lagging, such as Europe and some emerging economies. Furthermore, rising treasury yields could initiate capital flight from emerging economies, where vaccine campaigns have barely started and whose economic recoveries are expected to take longer, and pressure their currencies. Brazil became the first major economy to raise interest rates this year, a harbinger for other emerging economies that could be forced to raise rates and endanger their recoveries. Higher treasury yields have made the dollar more attractive to income investors, which has boosted the price of the dollar after reaching multi-year lows in January.

The best way to avoid that threat will be to speed up vaccination programs in other parts of the world. The wider the divergence across countries with respect to vaccinations, the wider the differential in the pace of growth. This also paves the way for capital flows.

In Europe, the underwhelming vaccine rollout will delay the region's economic recovery. The EU has administered far fewer vaccine doses than the UK or the U.S. Unless the EU can make up ground on vaccinations, it will be forced to keep lockdowns and other restrictions in place even as other major economies get back to work.

China was the only major economy to grow last year, albeit at a modest pace. Currently, economic growth is already tracking to pre-pandemic levels. Government officials have signaled that they plan to gradually withdraw stimulus measures and focus instead on restraining debt and arresting an asset bubble in the property sector. The government has already taken some preliminary steps, including reducing liquidity available in commercial banks, reducing the fiscal deficit target, and reducing the amount of debt that local governments are permitted to access.

As vaccines are secured and administered in the coming quarters, the stage will be set for a broad economic reopening and recovery. Therefore, sectors and industries that were sidelined during the pandemic stand to benefit the most in this scenario. We cannot predict whether the market rotation away from growth stocks and toward value stocks will persist or to what extent. However, we take a great deal of comfort investing in what we believe are advantaged businesses that benefit from long-lived trends such as digitalization, e-commerce, electronic payments, factory automation, and disease therapies just to name a few. These businesses often have leading market shares and a wide growth path ahead of them. Therefore, their ability to continue growing and compounding returns over the long-term is ultimately what proves them to be so valuable to portfolios, irrespective of the market environment or the economic cycle.

Furthermore, the market rotation has caused many dislocations among the stock prices of great growth businesses, as has been the case in the past, we are most excited in times such as this because we believe periods of dislocations often present the most compelling opportunities for new investments in the portfolios. We are hard at work, and we thank you for entrusting us with your precious capital.

BUSINESS UPDATE

There have been no changes to the investment team at Chautauqua Capital Management nor have there been any changes to the ownership structure of our parent company, Baird.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

"…we take a great deal of comfort investing in what we believe are advantaged businesses that benefit from long-lived trends…"

Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Partner*	MBA, University of Southern California BS, University of Southern California	41	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 *Managing 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

The above commentary does not provide a complete analysis of every material fact regarding any market, industry, security or portfolio. Strategy 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 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.

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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, 2021.

The separate accounts are available to institutions and persons with a minimum account asset value of $100,000,000, which is negotiable in certain instances.

For additional important information about the fees, expenses, risks and terms of investment advisory accounts at Baird, please review Baird's Form ADV Brochure, which can be obtained from your financial advisor and should be read carefully before opening an investment advisory account.