International and Global Growth Funds

Q2 2019 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Markets were turbulent in the second quarter. Escalations in trade tensions weighed on confidence in the global economic expansion. However, stocks proved resilient in June thanks to commentary by the Federal Reserve that was interpreted to indicate that, in the face of slower global growth, it may reduce bank borrowing rates to sustain the economic expansion. Several major central bankers, who are also contending with economic fallout from trade tension, have followed suit with more accommodative rhetoric.

A negative repercussion of this pivot is that central bankers will be left with little room to maneuver the next time their economies actually recede. The U.S. federal funds rate is just 0.25% when adjusted for inflation. At the end of the last tightening cycle in 2006, it was 2.75%. Since the "Great Recession" ended, both the European Central Bank (ECB) and Bank of Japan (BOJ) never managed to raise rates out of negative territory. It is clear they are inadequately prepared to reverse the next recession. When combined with high levels of indebtedness, this should be worrisome, yet the markets are not pricing in these concerns.

In the second quarter of 2019, the Chautauqua International Growth Fund Net Investor Class increased 5.81%, outperforming the MSCI ACWI ex-U.S. Index® ND, which increased 2.98%. The Chautauqua Global Growth Fund Net Investor Class increased 4.98% during the quarter, outperforming the MSCI ACWI Index® ND, which increased 3.61%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, growth style outperformed value style. Within emerging markets, growth style underperformed value style. Large capitalization stocks outperformed 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 underperformed value style, but large capitalization stocks outperformed small capitalization stocks.

For the MSCI EAFE Index®, growth style outperformed value style, and large capitalization stocks outperformed small capitalization stocks.

Sector and country performance were mostly positive for the quarter.

MSCI Sector and Country Performances (QTD as of 06/30/2019)

Sector	Performance	Country	Performance	Country	Performance
Financials	6.09%	Switzerland	8.97%	Italy	3.62%
Information Technology	5.36%	Germany	7.83%	Denmark	1.66%
Industrials	4.66%	Brazil	7.21%	Taiwan	1.12%
Consumer Discretionary	4.58%	Singapore	6.96%	Japan	1.05%
Materials	3.88%	South Africa	6.79%	Hong Kong	1.02%
Communication Services	3.43%	Netherlands	6.07%	United Kingdom	0.93%
Consumer Staples	3.07%	Canada	5.11%	India	0.50%
Utilities	2.87%	Ireland	4.90%	Korea	-0.87%
Health Care	1.42%	United States	4.28%	China	-3.92%
Real Estate	0.62%	Indonesia	3.65%		
Energy	-0.90%				

**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 25 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

Negotiations between the U.S. and China seesawed in the second quarter. Hope for a trade resolution climbed in April, only to falter in May. Tensions flared subsequently when the U.S. threatened to impose additional tariffs on a final tranche of $300 billion worth of Chinese imports and also ban U.S. companies from selling electronic components and technology to Huawei, China's "national champion" in the telecommunications industry. China announced its own set of retaliatory tariffs, and Chinese state media ramped up nationalistic rhetoric against the U.S. At the end of June, parties were able to agree to a temporary truce between President Trump and President Xi, laying the groundwork for bilateral talks to restart.

Similar events occurred with Mexico. In May, President Trump announced new tariffs on imports from Mexico in an effort to reduce the inflow of Central American asylum-seekers to the U.S., and he subsequently reached a deal to avoid tariffs after Mexico committed to stronger countermeasures. The impacts of such tariffs would have been substantial for the U.S., given the deep economic linkages between the U.S. and Mexico. Moreover, new tariffs would have imperiled the ratification of the recent U.S.-Mexico-Canada trade agreement.

Dovish comments by the U.S. Federal Reserve were the key tailwind for the markets, helping offset worries about trade frictions and providing cover for other central banks to turn more accommodative. The Reserve Bank of India (RBI) and Reserve Bank of Australia (RBA) were among central banks that cut rates in the second quarter. Among G10 currency region countries, only Norway's central bank is firmly in a tightening regime.

Overall, the U.S. economy remained healthy, with unemployment near 50-year lows and inflation expectations remaining stable despite missing the 2% objective. Inflation had picked back up recently, but the increase was less than expected. Nevertheless it's worth noting that second quarter 2018 economic data, that benefited from inventory building ahead of increased tariffs and a massive reduction in corporate tax rates, will make for a very difficult comparison this year. The Fed kept rates unchanged, but signaled an openness to cut rates if downside risks grew more pronounced. Data that will be released in early August may prove pivotal.

The ECB also left policies unchanged, but extended forward guidance for continued negative interest rates until the middle of 2020. Moreover, the ECB raised the possibility of further rate cuts and even restarting their quantitative easing program. Such moves would be a significant policy shift that amplifies a global trend toward continued aggressive monetary stimulus. Recent economic data in Europe has been tepid. The Manufacturing Purchasing Managers' Index (PMI) has contracted for four consecutive months, and the Services PMI was also weaker due to a deceleration in new export activity.

Similarly, the BOJ also left policies unchanged and extended forward guidance for negative rates until the spring of 2020. This does not mean policy normalization would begin immediately after; in fact, there is a reasonable probability that current policy may be maintained beyond this period. The BOJ made no major changes to its economic assessment. The Japanese economy is expanding modestly, but it, too, is affected by the slowdown in global growth, given its economy's emphasis on exports and industrial production.

With respect to oil, tensions in the Middle East have failed to spark a sustained increase in oil prices. This is partly due to excess supply. Increased U.S. production has offset the impact of supply outages. As a result, crude inventories are at their highest levels in the last two years. A softening in demand, as a result of the deteriorating trade outlook is also a factor. In this environment we are emphasizing high value added service providers who can help oil companies be more efficient.

PERFORMANCE ATTRIBUTION

Selection effect accounted for 90% of the outperformance in the Chautauqua International Growth Fund. This was especially pronounced in the information technology and financials sectors. Within these sectors, holdings in Wirecard, AMS, Temenos, Julius Baer, and HDFC Bank helped performance the most. The addition to Wirecard, which was the subject of negative publicity that we deemed over blown, proved to be especially additive to returns. Meanwhile, holdings in the energy and consumer discretionary sectors hurt performance the most. Of these, the biggest detractors were Core Labs, Schlumberger, Pirelli, Ctrip, and Alibaba.

Top 5 Average Weighted International Fund Holdings* for Q2 2019

Security	Avg. Weight	Contribution
Wirecard	6.02	1.70
Temenos	5.86	1.22
Genmab	4.87	0.35
Naspers	4.85	0.32
Keyence Corp.	4.79	-0.05

Bottom 5 Average Weighted International Fund Holdings* for Q2 2019

Security	Avg. Weight	Contribution
Constellation Software	0.05	0.03
CI Financial	0.16	0.03
Toronto-Dominion Bank	0.52	0.15
Tata Consultancy	0.56	0.10
Amorepacific	1.15	-0.16

Top 5 Average Weighted Global Fund Holdings* for Q2 2019

Security	Avg. Weight	Contribution
Wirecard	4.86	1.47
Temenos	4.76	0.98
Genmab	4.28	0.28
Mastercard	4.05	0.48
NVIDIA Corp.	3.99	-0.33

Bottom 5 Average Weighted Global Fund Holdings* for Q2 2019

Security	Avg. Weight	Contribution
Constellation Software	0.06	0.03
Amorepacific	0.31	-0.04
Toronto-Dominion Bank	0.32	0.09
Red Hat, Inc.	0.65	0.02
Allergan	0.72	0.11

*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.

AMS had a 3.87%, Julius Baer a 4.83%, HDFC Bank a 4.69%, Core Labs a 3.34%, Schlumberger a 1.89%, Pirelli a 3.02%, Ctrip a 1.76%, Alibaba a 4.00%, Taiwan Semiconductor a 1.86%, Novo Nordisk a 4.85%, and Sinopharm a 3.43% weighting in the International Fund as of 6/30/2019.

Selection effect accounted for 96% of the outperformance in the Chautauqua Global Growth Fund. This was especially pronounced in the information technology sector. Within this sector, holdings in Wirecard, AMS, Temenos, Atlassian, and Universal Display helped performance the most. The addition to Wirecard, which was the subject of negative publicity that we deemed over blown, proved to be especially additive to returns. Meanwhile, holdings in the health care, energy, and consumer discretionary sectors hurt performance the most. Of these, the biggest detractors were Regeneron, Sinopharm, Novo Nordisk, Core Labs, and Pirelli.

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

International	Q2 2019	YTD	1 Year	3 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua International Growth–Net Investor Class	**5.81**	**20.20**	**-1.12**	**9.55**	**8.33**	**29.25**
Chautauqua International Growth–Net Institutional Class	**5.88**	**20.35**	**-0.83**	**9.79**	**8.58**	**30.21**
MSCI ACWI ex-U.S. Index® - ND	2.98	13.60	1.29	9.39	7.92	27.72
Excess Returns (Institutional Net)	2.90	6.75	-2.11	0.40	0.65	2.49
Morningstar Percentile Rank in US Fund Foreign Large Growth Category			**75%** *(468 Obs.)*	**45%** *(442 Obs.)*	**44%** *(442 Obs.)*	**44%** *(442 Obs.)*
Global	**Q2 2019**	**YTD**	**1 Year**	**3 Year**	**Since Inception (04/15/2016)**	**Cumulative Since Inception (04/15/2016)**
Chautauqua Global Growth–Net Investor Class	**4.98**	**22.10**	**3.34**	**13.81**	**12.00**	**43.86**
Chautauqua Global Growth–Net Institutional Class	**5.02**	**22.32**	**3.57**	**14.07**	**12.29**	**45.03**
MSCI ACWI Index® - ND	3.61	16.23	5.74	11.62	10.67	38.45
Excess Returns (Institutional Net)	1.41	6.09	-2.17	2.45	1.61	6.58
Morningstar Percentile Rank in US Fund World Large Stock Category			**63%** *(852 Obs.)*	**19%** *(764 Obs.)*	**25%** *(755 Obs.)*	**25%** *(755 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, 68% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 77% 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 Fund, we exited positions in Toronto Dominion Bank and reduced positions in AMS, Taiwan Semiconductor, and Temenos. Proceeds were used to initiate positions in Constellation Software and Tata Consultancy and increase positions in Wirecard, Pirelli, Genmab, Novo Nordisk, Sinopharm, and Julius Baer.

"For the Chautauqua International Growth Fund, 68% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations

For the Chautauqua Global Growth Fund, 77% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations."

AMS had a 2.59%, Atlassian a 3.54%, Universal Display a 2.80%, Regeneron a 2.98%, Sinopharm a 2.74%, Novo Nordisk a 4.18%, Core Labs a 2.13%, Pirelli a 2.10%, Charles Schwab a 0.90%, SVB Financial a 0.91%, Illumina a 2.24%, DBS Group a 3.76%, HDFC Bank a 4.63%, and Julius Baer a 2.56% weighting in the Global Fund as of 6/30/2019.

In the Global Fund, we exited positions in Toronto Dominion Bank and reduced positions in AMS, Mastercard, Nvidia, Temenos, Universal Display, Charles Schwab, and SVB Financial. Proceeds were used to initiate positions in Constellation Software and increase positions in Atlassian, Wirecard, Pirelli, Illumina, Novo Nordisk, Regeneron, Sinopharm, DBS Group, HDFC Bank, and Julius Baer.

OUTLOOK

Trade tensions continue to plague confidence about the trajectory of economic growth. Trade tension-induced cost pressures, disrupted supply chains, capital tied up in excess inventories, and the uncertainty which impedes business investment plans continue to be headwinds.

After 10 years of economic growth, the near future is worrisome. Economic slack has been absorbed and growth from here will be reliant on gains in productivity and innovation. We invest in innovation leaders that benefit from secular trends and, as a result, we believe we are structurally well-positioned to grow faster than the global economy. Typically, they sell mission-critical and high value-added products and services, which enable them to succeed even in an economic slowdown. Over longer investment horizons, these businesses become more valuable because they can generate wealth for shareholders even in challenging times. The portfolios that we maintain are concentrated, which enables us to know the holdings and watch list ideas better than most of our competitors.

"After 10 years of economic growth, the near future is worrisome. Economic slack has been absorbed and growth from here will be reliant on gains in productivity and innovation. We invest in innovation leaders that benefit from secular trends and, as a result, we believe we are structurally well-positioned to grow faster than the global economy."

Despite an agreement to put negotiations between the U.S. and China back on track, there remains lots of uncertainty about what happens next. We find it interesting that there has not been any meaningful pressure from the market to get a deal done. The U.S. insists on real structural reforms for key issues such as intellectual property protection, forced technology transfer, and state-sponsored industrial subsidies, while China is determined to protect its economic sovereignty. Scheduling for the next round of negotiations is in flux. We are not structuring investments based on a favorable resolution of the U.S.-China trade war.

Monetary policy is the other big factor. Some Governors of the U.S. Federal Reserve have argued the case for returning to more accommodative monetary policy given a slowdown in business investment and weaker manufacturing data. Chairman Jerome Powell has stated the Fed's primary purpose is to sustain the economic expansion. This goes beyond the Fed's original mission to control inflation and promote economic stability. Six months after the last rate hike, the Fed now appears more accommodating with seven members forecasting two cuts, one member forecasting one cut, eight members forecasting that rates remain unchanged, and one member forecasting one hike through the end of this year.

At the annual ECB conference, President Mario Draghi was similarly dovish. The central scenario of the ECB is a soft patch in the eurozone economy, not a recession, but President Draghi signaled that rate cuts and quantitative easing could be used if the outlook deteriorates further. The most salient economic issues the European Union (EU) must contend with are weaker global growth and fading prospects for a rebound in the second half of the year, strengthening the case for lower rates.

Ultra-loose monetary policy could eventually create risks in Europe, but this may not deter the ECB from action. With depleted monetary ammunition, the onus may be on a potential fiscal response instead. Italy's debt-to-Gross Domestic Product (GDP) ratio may exceed the levels sanctioned by the EU's fiscal rules. Italy needs a credible strategy to reduce its government debt load as it risks constraining its economy. The EU, being a political union and a monetary union without a fully synchronized fiscal union, remains as unstable as a two-legged stool.

Trade issues between the EU and U.K. proved insurmountable for Prime Minister Theresa May. In the second quarter she resigned her post after repeated failures to get Parliamentary approval of a Brexit deal. European Commission President Jean-Claude Juncker has said there will be no change in the EU's position on Brexit. In the event that Ms. May's replacement is unable to renegotiate Brexit, the available options for the U.K would be to call a second referendum (to decide if they may now want to remain in the EU), call a general election (to see if the people want a new Parliament), or exit the EU without any definite trade terms whatsoever. This last "no deal" Brexit option is the legal default position if the U.K. cannot sort it out. The Bank of England (BOE) has kept its policies on hold and cut economic growth forecasts. As expected, the policy path will be very reliant on the outlook for Brexit. The BOE has said that uncertainty over the timing and terms of Brexit has prevented some businesses from investing and that U.K. economic growth may be worse than their own forecast. As a result, we continue to steer clear of U.K.-dependent investments.

The BOJ suggested the slowdown in overseas economies will be prolonged and that the magnitude will be greater than previously expected. BOJ Governor Haruhiko Kuroda reiterated that the central bank is prepared to ease policies if necessary and that it has a number of options to do so, including reducing short-term rates below the current -0.1%, lowering the bond yield target below 0%, expanding asset purchases, and accelerating monetary base expansion. Our Japanese holdings are all product-advantaged exporters who are not dependent on demand from Japanese consumers.

China remains the epicenter for global growth concerns. While exports increased unexpectedly in May, due to front loading after the last tariff threat, imports declined the most in two years. Industrial production growth slowed to a 17-year low, and fixed asset investment growth also decelerated. The Chinese government has lent additional policy support, announcing new measures to support infrastructure investment and various tax cuts to businesses and consumers. As a result, top-line growth continues to be among the highest in the world. In the face of trade concerns, several of the Chinese-domiciled portfolio holdings reflect very attractive valuations.

BUSINESS UPDATE

In May 2019, Nate Velarde joined our investment team. Nate began his investment management career at TCW where he was initially hired by Brian Beitner as an MBA (University of Chicago) intern, then as an analyst. At TCW he worked extensively on investment ideas for Chautauqua's predecessor strategy. In order to invest globally, he worked for Nuveen Investment divisions Tradewinds Global and NWQ Investment Management as a managing director, senior analyst, and director of research. He also served as a member of the global equity team at PIMCO in London. Upon returning to the U.S., he has worked toward a Master's degree in Data Science at the University of California – Berkeley. Most recently, he conducted data science-based investment projects at j2 Cloud Services. Like all members of the investment team, he is a portfolio generalist.

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
Michael Mow, CFA *Partner*	MBA, University of Southern California MS, University of Iowa BA, California State University, Northridge	32	American Century TCW Group Farmers Insurance
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 6/30/19. 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.