

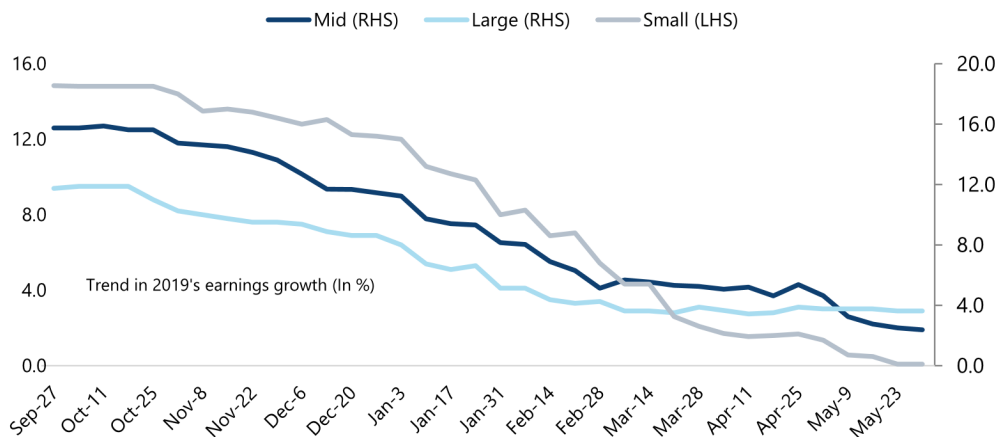
MARKET REVIEW

The second quarter of 2019 was defined by deteriorating economic data and a subsequently soured global growth outlook that ultimately was looked upon as "so bad that it's good" enabling market participants to evoke the Fed put option. Expectations for the Federal Reserve to cut interest rates had soared to 100% by June as manufacturing data disappointed, labor markets softened and the trade war dragged on. Indeed, double digit year-to-date returns and new market highs make it difficult to believe that economic conditions are anything but ideal.

It seems to us that a lot of good news has been priced in to the market and we certainly wouldn't dispute the opportunity for things to get better à la trade deal, monetary easing, etc. In the immediate term, however, we are less confident that the market has fully discounted the probability for negative earnings surprise and downward revisions as a result of the aforementioned weakness. In an environment of falling earnings estimates, valuations must rise just for stocks to tread water.

A hallmark of our investment strategy is to invest in businesses we believe possess a catalyst to beat consensus profit expectations. The corollary to this strategy is, of course, to avoid businesses with an impetus to disappoint. We believe looking at the companies in which we are invested validates our process as their estimated earnings are holding in despite an environment of relentless estimate cuts. As stock prices are a reflection of corporate profits, we expect the coming earnings reporting season to provide an opportunity for persistent profitability to outperform.

2019 Earnings Growth



Source: Jefferies

BAIRD SMALL/MID VALUE PORTFOLIO

The Baird Small/Mid Value Portfolio outperformed the Russell 2500 Value during the quarter returning 2.5% versus 1.9% for the benchmark. The portfolio has returned 13.9% year-to-date compared to 15.3% for the Russell 2500 Value. Despite a challenging 2-year period for value investors, the Portfolio has returned 6.0% annualized versus 4.6% for the Russell 2500 Value benchmark over the trailing period. Over the 19+ year performance track record the Portfolio has compounded an annualized 11.1% versus 9.6% for the benchmark.

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

Outperformance during the quarter was aided by both portfolio positioning and security selection as a number of our top holdings continued to deliver solid results. The Portfolio overweight to Information Technology was the top contributor, as our exposure posted an absolute return of 11.3%. Leidos, Silicon Motion, and long-time holding Verisign were top performers in the sector. Additionally, Zayo Group agreed to be taken private at a 14% premium to its pre-announced per share price. Our security selection within Financials continues to benefit returns, as we have favored insurance holdings with organic growth opportunities to banks which face the headwinds of an inverted yield curve and deteriorating credit. Within banks, we favor high fee income earners, such as Meta Financial, a top contributor for the period. We continue to avoid Energy exposure which aided performance as it was the again the worst performing sector, falling more than 13% for the quarter.

Stocks that held back returns include Boingo Wireless, Zagg and Lamb Weston. Industrial holdings also detracted, mostly due to concerns surrounding US/China trade negotiations.

During the quarter we added to our position in Zayo, prior to the company announcing plans to be taken private, and increased our weighting to Southwest Gas. We initiated positions in nVent Electric and HCP, a real estate investment trust serving the healthcare industry. We also exited Cypress Semiconductor.

BAIRD SMALL VALUE PORTFOLIO

The second quarter once again challenged the conviction of long-term investors as markets vacillated between risk on/risk off with the latest Presidential tweet or Fed rumor culminating in the annual Russell rebalance causing massive ETF repositioning at quarter end. Sticking to our long-term, concentrated approach, the Baird Small Value portfolio returned 1.33% for the quarter in line with the benchmark Russell 2000 Value return of 1.38%. Despite a challenging period for value investors, the portfolio returned -5.9% versus -6.2% for the benchmark over the trailing 12 months, and 5.0% annualized versus 3.0% over the trailing 2-years. Further, since inception the Portfolio has returned 8.6% versus 6.8% for the benchmark Russell 2000 Value.

Performance during the quarter was aided by security selection as a number of our top holdings continued to deliver solid results. Health Care and Information Technology were top contributors as our returns in both sectors were meaningfully better than the benchmark. ICU Medical and Eagle Pharmaceuticals led the way in Health Care along with Silicon Motion and CACI International in Information Technology. Utilities also produced solid absolute and relative returns on the heels of strong performance from Southwest Gas and Algonquin Power. Additionally, Zayo Group agreed to be taken private at a 14% premium to its pre-announced per share price. We continue to be underweight Energy which aided performance as it was the worst performing sector, down 11% for the quarter.

Stocks that held back returns included Boingo Wireless and Lamb Weston following a short-report. Industrial, and in particular Atlas Air, were relative underperformers on concerns related to the US/China trade negotiations. Profit taking in the Real Estate sector during the last week of the quarter also detracted.

We were very active in the quarter taking advantage of increased volatility. During the three months we added to our position in Zayo, prior to the company announcing plans to be taken private, and increased our weighting to Southwest Gas. We initiated positions in nVent Electric, Atlantica Yield, Essential Properties Realty Trust, Hill-Rom Holdings, Dolby, and Churchill Downs. To make room for these new positions we exited Alliant Energy, Select Energy Services, and Solaris Oilfield Services.

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
META FINANCIAL	2.58	0.87	BOINGO WIRELESS	4.67	-1.18
LEIDOS HOLDINGS	3.07	0.69	ZAGG INC	1.75	-0.49
ZAYO GROUP	3.73	0.52	LAMB WESTON	2.71	-0.48
VERISIGN	2.82	0.40	PHYSICIANS REALTY TRUST	3.76	-0.24
HEXCEL CORP	2.40	0.40	AGREE REALTY	3.35	-0.24

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
META FINANCIAL	2.59	0.86	BOINGO WIRELESS	4.59	-1.15
ZAYO GROUP	3.74	0.52	LAMB WESTON	3.39	-0.59
HEXCEL CORP	2.71	0.45	ZAGG INC	1.79	-0.49
CACI INTERNATIONAL	3.74	0.43	MERCHANTS BANCORP	1.79	-0.39
SOUTHWEST GAS	3.29	0.32	ATLAS AIR WORLDWIDE	2.33	-0.30

	Baird Small/Mid Value Composite Performance							Baird Small Value Composite Performance						
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (1/1/00)	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (3/1/05)
GROSS OF FEES	2.5%	13.9%	-3.1%	7.9%	6.4%	13.1%	11.1%	1.3%	13.0%	-5.9%	7.7%	4.6%	12.0%	8.6%
NET OF FEES	2.3%	13.5%	-3.9%	7.0%	5.5%	12.2%	10.2%	1.2%	12.6%	-6.4%	7.2%	4.1%	11.2%	7.8%
INDEX*	1.9%	15.3%	-1.9%	9.0%	5.6%	13.3%	9.6%	1.4%	13.5%	-6.2%	9.8%	5.4%	12.4%	6.8%

* Index for the Baird Small/Mid Value Composite is the Russell 2500 Value. Index for the Baird Small 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 06/30/19. 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)