International and Global Growth Funds

Q2 2021 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Equity markets performed strongly in the second quarter. Nearly all sectors and regions benefited, though the U.S. continues to lead relative to international developed and emerging markets. Notably, growth stocks outperformed value stocks (aside from emerging markets), which was a reversal of the trend from the first quarter, but not a complete unwind of that massive rotation.

Monetary and fiscal stimulus, economic reopening, and rebounding corporate earnings continue to be tailwinds for stocks. Inflation normally coincides with strong economic expansions, and it has been often cited as the primary risk to the market rally. We have made ongoing adjustments to portfolios by emphasizing holdings that we believe are well-suited to transmit pricing power or are valued more attractively. These attributes should help protect portfolios from deleterious inflationary pressures.

In the second quarter of 2021, the Chautauqua International Growth Fund Net Investor Class returned 5.07%, slightly underperforming the MSCI ACWI ex-U.S. Index® ND, which returned 5.48%. The Chautauqua Global Growth Fund Net Investor Class returned 6.97% during the quarter, slightly underperforming the MSCI ACWI Index® ND, which returned 7.39%.*

MARKET UPDATE

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

Sector and country performance were mostly positive for the quarter.

MSCI Sector and Country Performances (QTD as of 6/30/2021)

Sector	Performance	Country	Performance	Country	Performance
Information Technology	10.61%	Denmark	13.11%	Australia	6.91%
Energy	9.59%	Switzerland	12.02%	Israel	5.12%
Health Care	9.50%	Austria	11.93%	Hong Kong	2.53%
Real Estate	8.53%	Canada	10.23%	China	2.32%
Communication Services	8.11%	United States	8.90%	Singapore	0.49%
Financials	6.43%	Netherlands	7.39%	Japan	-0.25%
Materials	6.13%	Taiwan	7.16%	Indonesia	-4.82%
Consumer Discretionary	5.98%	India	7.01%		
Consumer Staples	5.88%				
Industrials	4.79%				
Utilities	-0.21%				

Based on select MSCI country performance returns.

Last year, the Federal Reserve (Fed) adopted a new approach to setting interest rates by targeting average inflation of 2% over time. It also aimed to let inflation run moderately above that level for a while, after many years of inflation shortfalls. Personal consumption expenditures (PCE) inflation reached 3.6% in April and 3.9% in May. The spike in inflation has been quicker and stronger than expected, but it is chalked up to transitory factors such as low base effects, supply chain bottlenecks, and pent-up demand. As things get back to normal, inflation should moderate. The Fed expects inflation to slow to 3.4% by the end of this year and to hover modestly above 2% in 2022 and 2023.

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

**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.*

Most Fed officials are more comfortable that the U.S. will be able to achieve maximum employment and sustained 2% inflation on a quicker timeframe than originally expected. Labor markets are improving. Industry breadth is at its greatest point since the pandemic started, and there is still further room for recovery in the industries adversely impacted by the pandemic. The latest data shows an unemployment rate of 5.9%, which is roughly 7.6 million jobs lower than pre-pandemic levels. The long duration of enhanced unemployment benefits has been cited as one of the main reasons for the difficulty employers have faced filling jobs, yet unemployment levels have still remained elevated. These enhanced benefits are set to expire in September, which may help these frictions release.

The median forecast from Fed officials projects two interest rate hikes by the end of 2023. When the last set of projections was released back in March, the median forecast projected no hikes through 2023. Additionally, the Fed has signaled that it will take care to avoid a repeat of a taper tantrum. In 2013, the Fed surprised markets by reducing the Great Financial Crisis stimulus programs, which created significant volatility.

With regards to inflationary pressures, parallel developments have occurred in many other parts of the world too. In Europe, inflation reached the European Central Bank’s 2% target in May, which has been much sooner than the expectations of reaching the target late this year. In China, producer prices reached a 13-year high. Some central banks have started to remove some of the extraordinary pandemic stimulus and begin their tapering processes. The Bank of England and the Bank of Canada both cut the pace of bond purchases by approximately one quarter and, likewise, have accelerated the timetable for a potential rate hike.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth Fund, particularly in consumer discretionary, financials, and utilities holdings. Of these, the biggest detractors were TAL Education, Prosus, Bank Rakyat, and Brookfield Renewable. We exited TAL Education during the period due to reports of more restricted regulations than we expected. Meanwhile, holdings and overweights in the health care and information technology sectors helped performance the most. Within these sectors, some of the largest contributors were Wuxi Biologics, Novo Nordisk, ASML, and Temenos.

Selection effect was a slight detractor to returns in the Chautauqua Global Growth Fund, particularly in consumer discretionary, financials, and utilities holdings. Of these, the biggest detractors were TAL Education, Prosus, Bank Rakyat, and Brookfield Renewable. We exited TAL Education during the period due to reports of more restricted regulations than we expected. While allocation to information technology contributed, selection in this sector was a detractor. Holdings in the health care and communication services sectors helped performance. Of these, some of the largest contributors were Wuxi Biologics, Genmab, Novo Nordisk, and Alphabet.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 73% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 84% 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 reduced positions in ASML, Novo Nordisk, and WuXi Biologics, and exited positions in BYD and TAL Education. Proceeds were used to increase positions in Alibaba, Hong Kong Exchanges, Recruit Holdings, and SolarEdge, and initiate a new position in Suzuki Motor Company.

In the Global Fund, we reduced positions Genmab, SVB Financial, and WuXi Biologics, and exited positions in BYD and TAL Education. Proceeds were used to increase positions in Nvidia, and Recruit Holdings, and initiate a new position in Suzuki Motor Company.

Top 5 Average Weighted International Fund Holdings* for Q2 2021

Security	Avg. Weight	Contribution
Constellation Software	4.79	0.36
WuXi Biologics	4.72	1.86
ASML Holding	4.68	0.57
Genmab	4.64	0.99
Novo Nordisk	4.54	1.02

Bottom 5 Average Weighted International Fund Holdings* for Q2 2021

Security	Avg. Weight	Contribution
Suzuki Motor Corporation	0.35	-0.06
BYD Company	0.76	0.22
AMS AG	1.44	0.00
SolarEdge Technologies	1.45	-0.03
Hong Kong Exchanges	1.50	0.02

Top 5 Average Weighted Global Fund Holdings* for Q2 2021

Security	Avg. Weight	Contribution
Genmab	3.91	0.89
Mastercard	3.82	0.11
Constellation Software	3.56	0.27
Fairfax Financial	3.33	0.04
Alphabet Inc.	3.32	0.57

Bottom 5 Average Weighted Global Fund Holdings* for Q2 2021

Security	Avg. Weight	Contribution
Suzuki Motor Company	0.23	-0.04
Alteryx, Inc.	0.49	0.02
BYD Company	0.49	0.15
Bristol-Myers Squibb	0.67	0.04
AMS AG	0.90	-0.01

*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.

Alibaba had a 4.16%, Bank Rakyat 3.33%, Brookfield Renewable 2.04%, Prosus 3.44%, Recruit 2.97%, TAL Education 0.00%, and Temenos 4.55% weighting in the International Fund as of 06/30/2021. Bank Rakyat had a 2.30%, Brookfield Renewable 1.97%, Novo Nordisk 3.17%, Nvidia 2.15%, Prosus 2.45%, Recruit 2.28%, SVB Financial 2.68%, TAL Education 0.00%, and WuXi Biologics 3.45% weighting in the Global Fund as of 06/30/2021.

FUND PERFORMANCE FOR THE PERIODS ENDING JUNE 30, 2021* (%)							
International							
	Q2 2021	**YTD**	**1 Year**	**3 Year**	**5 Year**	**Since Inception** (04/15/2016)	**Cumulative Since Inception** (04/15/2016)
Chautauqua International Growth- Net Investor Class	**5.07**	**6.57**	**42.10**	**15.60**	**15.48**	**14.44**	**101.91**
Chautauqua International Growth- Net Institutional Class	**5.11**	**6.73**	**42.58**	**15.94**	**15.77**	**14.74**	**104.61**
MSCI ACWI ex-U.S. Index® - ND	5.48	9.16	35.72	9.38	11.08	10.09	65.02
Excess Returns (Institutional Net)	*-0.37*	*-2.43*	*6.86*	*6.56*	*4.69*	*4.65*	*39.59*
Morningstar Percentile Rank in US Fund Foreign Large Growth Category (Rank/Count)			**13%** (59/449)	**16%** (66/424)	**20%** (77/396)	**20%** (78/396)	**20%** (78/396)
Global							
	Q2 2021	**YTD**	**1 Year**	**3 Year**	**5 Year**	**Since Inception** (04/15/2016)	**Cumulative Since Inception** (04/15/2016)
Chautauqua Global Growth- Net Investor Class	**6.97**	**9.56**	**41.85**	**18.39**	**18.81**	**17.44**	**131.01**
Chautauqua Global Growth- Net Institutional Class	**7.02**	**9.71**	**42.33**	**18.60**	**19.04**	**17.69**	**133.58**
MSCI ACWI Index® - ND	7.39	12.30	39.27	14.57	14.61	13.89	96.88
Excess Returns (Institutional Net)	*-0.37*	*-2.59*	*3.06*	*4.03*	*4.43*	*3.80*	*36.70*
Morningstar Percentile Rank in US Fund World Large-Stock Growth Category (Rank/Count)			**34%** (122/360)	**47%** (155/328)	**42%** (129/303)	**48%** (141/291)	**48%** (141/291)

*Performance data represents past performance and does not guarantee future results. Returns over one year are annualized unless otherwise specified. 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.

The Morningstar Percentile Rank is based on the fund's total return relative to all funds in the same category for the period. The highest (or most favorable) percentile rank is 1%, and the lowest (or least favorable) percentile rank is 100%. Morningstar total returns include both income and capital gains/losses and excludes sales charges.

Expense Ratios: Chautauqua International Growth Fund Institutional Shares 0.80% (net)/0.90% (gross); Investor Shares 1.05% (net)/1.15% (gross). Chautauqua Global Growth Fund Institutional Shares 0.80% (net)/1.04% (gross); Investor Shares 1.05% (net)/1.29% (gross). 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, 2022 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. The Total Annual Fund Operating Expenses before fee waiver/expense reimbursement for 2020 were 0.96% (Institutional Shares) / 1.21% (Investor Shares) for the Chautauqua International Growth Fund and 1.23% (Institutional Shares) / 1.48% (Investor Shares) for the Chautauqua Global Growth Fund.

OUTLOOK

The global economic outlook continues to improve, driven by vaccinations and reopening. The Organization for Economic Cooperation and Development (OECD) upgraded its forecasts for global economic growth to 5.8% in 2021 and 4.4% in 2022. If that is true, growth this year will be the fastest in nearly five decades.

Among major economies, the U.S. has enjoyed one of the most dramatic economic recoveries, and its growth will have a multiplier effect on the economic recoveries of other nations. Under President Biden, U.S. fiscal policy is expected to remain highly stimulative. According to the OECD, the U.S. fiscal budget alone in 2022 is expected to raise economic output by nearly half a point in China, Japan, and Europe and by nearly a full point in Canada and Mexico.

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On the other hand, a strong U.S. economy portends inflationary pressures and higher interest rates. The U.S. dollar has strengthened in the last few weeks since the Fed released new projections to raise rates by late 2023. The knock-on effect is that this may restrain economic recoveries in other places and lead to generally tighter global financial conditions.

With respect to managing portfolios in an inflationary environment, we have taken great care to emphasize companies that we believe have pricing power due to the mission-critical or value-add nature of their products and services. Because of these features, these companies have a greater ability to transmit price, and therefore protect their profit margins. Furthermore, we have made 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.

Emerging economies are among the most vulnerable to a chain reaction of U.S. economic growth and interest rate hikes. In emerging countries, populations are largely unvaccinated, and governments cannot afford sustained stimulus measures, causing these economies to fall behind. For example, central banks in Brazil, Russia, and Turkey, which are countries where portfolios are not invested, have already raised interest rates several times this year to counter currency depreciation and arrest inflation that is at multi-year highs. These countries are still wrestling with the pandemic, and yet these actions will not help in their recoveries.

For the most part, portfolio companies in emerging markets are more insulated from the broader economic woes impacting emerging economies. China was actually the first major economy to enjoy a rapid recovery, and its economy is still strongly growing. The OECD forecasts that the Chinese economy will grow 8.5% in 2021. The specific threat to some portfolio companies in China stems from increased regulatory pressures. Chinese tech giants had previously been allowed to flourish without a lot of scrutiny, and they grew undeterred during the pandemic. Now, they face regulatory enquiries on a range of topics. The tech entrepreneurs that successfully navigate these enquiries will do so by keeping a low public profile and aligning with the Party's agenda. China also faces a worsening demographic outlook and has mulled policies to rein in the cost of education, which has been seen as a deterrent to couples from having more children. While the framework is still being decided, the risk of encountering a worst-case scenario led to our sale of a holding engaged in private afterschool tutoring.

Portfolio companies in emerging markets benefit from strong secular tailwinds for electronic devices and compute power, digitalization, e-commerce, novel drug therapies, and health care distribution, to name a few. Emerging markets banks benefit from a long runway for banking access and the adoption of financial products, but they are generally more sensitive to a weak economic environment. India has been ravaged by a second coronavirus wave, and the delta variant has been spreading quickly in Indonesia. Portfolio companies in the banking sector entered the pandemic with exceptional asset quality and well-capitalized balance sheets. Though in the last quarter, these investments were modest detractors to performance, in many ways, their competitive positioning has strengthened in the pandemic with accelerated deposit growth and well-protected balance sheets to deploy once fundamentals improve.

We take a great deal of comfort investing in what we believe are advantaged businesses that benefit from long-lived trends. 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 for portfolios, irrespective of the market environment or the economic cycle. We thank you for entrusting us with your capital.

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

BUSINESS UPDATE

Our strategies reached a 15-year track record this year. During the quarter, our mutual funds—the Chautauqua International Growth Fund and Chautauqua Global Growth Fund—reached their five-year track records. Additionally, the Chautauqua International Growth Fund earned a Bronze Rating from Morningstar (rating date as of 6/25/2021).

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

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

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	15	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	20	TCW
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	29	Marsico Capital Management Transamerica Investment Management Janus Capital
Nate Velarde *Partner*	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	20	PIMCO Nuveen Investments TCW

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 06/30/21. 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 Funds 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.

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