

International and Global Growth Funds

Q3 2018 COMMENTARY

INTRODUCTION

In the third quarter, issues surrounding trade policy created outsized impacts on the global equity markets. The trade war between the United States (U.S.) and China picked up considerable steam, and weakness in consumption and industrial production in China have been exacerbated. In contrast, economic conditions in the U.S. continued to outperform because of the effects from tax cuts and stimulus measures instituted earlier in the year. Elsewhere, the European Central Bank (ECB) has expressed concerns over a loss of confidence due to the trade war with the U.S., in addition to stalled negotiations with the United Kingdom (U.K.) regarding Brexit.

We have previously highlighted that the tightening of monetary policies by the major central banks poses one of the greatest risks to global markets as it pressures valuations for financial assets. Rate hikes by the Federal Reserve have sent the dollar higher and put downward pressure on currencies and elevated inflation in emerging markets.

Over recent quarters, we have made adjustments for turbulent markets such as this by selectively emphasizing businesses with more defensive characteristics. These changes have served us well, but in this quarter they were not enough to stave off a severe risk-off trade led by emerging markets.

In the third quarter of 2018, the Chautauqua International Growth Fund Net Investor Class declined -0.95%, underperforming the MSCI ACWI ex-U.S. Index® ND, which appreciated 0.71%. In the third quarter of 2018, the Chautauqua Global Growth Fund Net Investor Class appreciated 4.31%, slightly outperforming the MSCI ACWI Index® ND, which appreciated 4.28%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, value style outperformed growth style. Within emerging markets, value style significantly outperformed growth 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, however, value style outperformed growth style by a significant margin.

Sector performance was positive for the quarter and country performance was dispersed with developed markets primarily outperforming emerging.

MSCI Sector and Country Performances (QTD as of 09/30/2018)

Sector	Performance	Country	Performance	Country	Performance
Health Care	10.97%	United States	7.51%	Netherlands	-1.42%
Information Technology	6.13%	Switzerland	7.30%	United Kingdom	-1.65%
Industrials	6.05%	Taiwan	7.15%	India	-2.25%
Telecommunications	5.13%	Japan	3.81%	Ireland	-5.33%
Consumer Discretionary	3.06%	Denmark	2.42%	South Africa	-7.21%
Energy	2.61%	Singapore	2.19%	China	-7.42%
Financials	2.61%	Indonesia	1.98%		
Consumer Staples	2.21%	Canada	0.98%		
Utilities	0.80%	South Korea	0.74%		
Materials	0.36%	Austria	0.38%		
Real Estate	-1.43%	Germany	-0.57%		

* 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. For performance data to the most recent month end, contact Chautauqua directly at 303-541-1545 or www.bairdfunds.com.

INVESTMENT TEAM

- Generalists with specialized skills
- Averaging 23 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

Overall, the U.S. continues to enjoy a robust economy. Following Gross Domestic Product (GDP) growth of 4.2% in the second quarter, one of the fastest paces in its nine year expansion, indications from the third quarter still appear strong. The Federal Reserve expects GDP growth of 3.8%. Meanwhile, the labor market remains at full capacity, and inflation is hovering near the target of 2% after undershooting it for much of the last six years. Such growth encouraged the Federal Reserve to raise interest rates for a third time this year, to a range between 2% and 2.25%.

Reverberations stemming from trade tensions are beginning to show. But so far, the relatively small amounts of tariffs have been overshadowed by the sheer volume of tax cuts that have boosted economic growth. As such, the trade war has yet to materially impact the economic data or shake the Federal Reserve's positive outlook. The most recent trade statistics, however, show that the U.S. trade deficit widened for the third month in a row, as Chinese imports were bought ahead of higher duties. Both consumer spending and business investing in the U.S. remain strong, though the latter softened slightly during the quarter.

In the final week of September, the Trump administration followed through on tariffs on an additional \$200 billion worth of Chinese goods, and the trade war intensified. The first wave of tariffs, covering \$50 billion worth of goods, went into effect in July and concentrated on things such as machinery and industrial and electrical components. This increased input costs for U.S. businesses. Now, the list of tariffed goods is so expansive that the trade war with China has migrated to a turf overlapping with the American consumer. Undoubtedly, this raises the stakes for President Trump, who has already taken pressure from some business and agricultural groups, because of the likely unpopularity of higher consumer prices. At the onset, the imposed duty for the new tariff is 10% but will rise to 25% by the end of the year.

Emerging markets have been under considerable pressure. As a result of the trade war, weaker consumption and production in China have caused the government to reprioritize economic policies towards stabilizing growth rather than controlling debt. The People's Bank of China (PBOC) infused Chinese banks with more than 500 billion yuan (over \$70 billion) to get them to lend, and the Politburo has called for more pro-growth fiscal policies, such as restarting projects for highways, rails, and infrastructure.

Separately, weaker currencies in the emerging markets caused by tightening by the Federal Reserve have stoked higher rates of inflation. Investor sentiment is poor as catastrophic situations in Turkey and Argentina have called into question their liquidity and ability to pay debts. Central bankers in emerging markets will face tough decisions. On the one hand, they can raise interest rates to combat inflation, but this constricts economic growth. On the other hand, they can allow high rates of inflation to continue, but they will need to contend with higher import prices.

In Europe, the deceleration in economic growth that started in the beginning of the year persisted in the third quarter. So far, there are few signs of a rebound. The ECB has expressed concerns over a loss of confidence, due to trade tensions with the U.S., which is holding back needed upgrades of equipment and other business spending. Meanwhile, export growth has lagged, and the most recent industrial production statistics in Germany have showed sequential declines. Other headwinds have also surfaced. Italy's economy slowed in the second quarter and continues to soften amid concerns over the new government's borrowing plans and commitment to staying in the euro. France has experienced the sharpest slowdown among the large European economies this year, and that has weakened support for President Emmanuel Macron's economic reforms.

Prime Minister Shinzo Abe won another term as leader of Japan's ruling party. Since he first took office in 2012, Japan has been supported by extraordinary monetary easing and enjoyed generally steady albeit lackluster growth. Following a short-lived dip in the first quarter, modest economic growth has resumed in Japan. The labor market has been especially tight, helped by growing exports and aging demographics. Japan's jobs-to-applicants ratio has risen throughout Prime Minister Abe's tenure, and most recently hit a record above 1.5. The earnings of Japanese corporations – where we have increased our exposure – have been especially strong, as the weak yen has bolstered demand for exports and augmented profits earned overseas.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth composite. This was especially pronounced in the consumer discretionary and financials sectors. Portfolio exposure in the consumer discretionary sector is concentrated in emerging markets companies such as TAL Education, Ctrip, Alibaba, BYD, and Naspers. As previously discussed, emerging markets

Top 5 International Holdings* (as of 09/30/2018)

Security	Avg. Weight	Contribution
Temenos	6.62	0.44
Toronto-Dominion Bank	4.98	0.29
Wirecard	4.87	1.43
HDFC Bank	4.81	-0.49
Core Laboratories	4.70	-0.34

Bottom 5 International Holdings* (as of 09/30/2018)

Security	Avg. Weight	Contribution
CI Financial	1.24	-0.15
BYD Company	1.43	0.27
Bank Rakyat Indonesia	1.45	0.06
Alibaba Group	1.57	-0.18
Fanuc	1.59	-0.06

Top 5 Global Holdings* (as of 09/30/2018)

Security	Avg. Weight	Contribution
Temenos	6.02	0.49
NVIDIA	4.39	0.76
Core Laboratories	4.03	-0.20
Recruit Holdings	3.96	0.73
Wirecard AG	3.91	1.17

Bottom 5 Global Holdings* (as of 09/30/2018)

Security	Avg. Weight	Contribution
Amorepacific	0.72	-0.17
CI Financial	0.86	-0.11
Roche Holding	0.88	0.08
Alibaba Group	0.90	-0.10
Reckitt Benckiser	0.98	0.12

*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, please contact Baird

performed especially poorly. In the financials sector, HDFC Bank, which is our only Indian holding, was also a significant detractor. Julius Baer and CI Financial are not emerging markets companies but also suffered from weak performance. On the other hand, portfolio exposure in the information technology and healthcare sectors contributed most to returns, especially holdings in Wirecard, Recruit Holdings, Temenos and Allergan.

Selection effect was a detractor to returns in the Chautauqua Global Growth composite. This was especially pronounced in the consumer discretionary and financials sectors. Portfolio exposure in the consumer discretionary sector is concentrated in emerging markets companies such as TAL Education, Ctrip, Alibaba, BYD, and Naspers. As previously discussed, emerging markets performed especially poorly. In the financials sector, HDFC Bank, which is our only Indian holding, was also a significant detractor. Julius Baer, CI Financial, and Charles Schwab are not emerging markets companies but also suffered from weak performance. On the other hand, portfolio exposure in the information technology sector contributed most to returns, especially holdings in Wirecard, Universal Display, Recruit Holdings, Nvidia and MasterCard.

FUND PERFORMANCE FOR THE PERIODS ENDING SEPTEMBER 30, 2018 (%)

International

	Q3 2018	YTD 2018	1 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua International Growth— Net Investor Class	-0.95	-0.32	5.18	11.07	29.47
Chautauqua International Growth— Net Institutional Class	-0.87	-0.08	5.47	11.31	30.16
MSCI ACWI ex-U.S. Index® - ND	0.71	-3.09	1.76	10.20	26.98
<i>Excess Returns (Institutional Net)</i>	<i>-1.58</i>	<i>3.01</i>	<i>3.71</i>	<i>1.11</i>	<i>3.18</i>
Morningstar Percentile Rank in US Fund Foreign Large Growth Category	--	--	33% <i>(427 Observations)</i>	35% <i>(430 Observations)</i>	35% <i>(430 Observations)</i>

Global

	Q3 2018	YTD 2018	1 Year	Since Inception (04/15/2016)	Cumulative Since Inception (04/15/2016)
Chautauqua Global Growth— Net Investor Class	4.31	4.94	11.36	16.37	45.22
Chautauqua Global Growth— Net Institutional Class	4.29	5.06	11.64	16.64	46.03
MSCI ACWI Index® - ND	4.28	3.83	9.77	13.49	36.53
<i>Excess Returns (Institutional Net)</i>	<i>0.01</i>	<i>1.23</i>	<i>1.87</i>	<i>3.15</i>	<i>9.50</i>
Morningstar Rank in US Fund World Large Stock Category	--	--	24% <i>(877 Observations)</i>	11% <i>(921 Observations)</i>	11% <i>(921 Observations)</i>

*For the Chautauqua International Fund, Gross Expense Ratio as of 12/31/2017 was 1.21% for Institutional shares and 1.46% for Investor shares. For the Chautauqua Global Fund, Gross Expense Ratio as of 12/31/2017 was 2.26% for Institutional shares and 2.51% 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, 2019 to the extent necessary to ensure that the total operating expenses do not exceed 1.20% of the Investor Class's average daily net assets and 0.95% of the Institutional Class's average daily net assets. Investor class expense ratios include 0.25% 12b-1 fee.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 70% of companies that reported earnings during the quarter exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 73% of companies that reported earnings during the quarter exceeded consensus expectations.

Our conviction weighting process, which considers our estimates for growth, profitability and valuation, is a key tenet of our portfolio management strategy and has been instrumental to our returns over the long run. In light of the heightened market volatility this quarter, we continued to make changes to weightings to reflect our concerns regarding market fragility and elevated valuations for equities.

In the International Fund, we reduced exposures in several holdings to take advantage of better opportunities elsewhere in the portfolio. Wirecard, Recruit Holdings, and ASML have performed especially well, but their valuation multiples have also increased disproportionately to their earnings growth. We reduced exposures in these companies, as well as HDFC Bank, and redeployed proceeds into AMS, TAL Education, Ctrip, Fanuc, AmorePacific, Novo Nordisk and Bank Rakyat.

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For the Chautauqua Global Growth Fund, 73% of companies that reported earnings during the quarter exceeded consensus expectations.”

In the Global Fund, we reduced exposures in Wirecard, Recruit Holdings, Silicon Valley Bank, and Charles Schwab. These holdings have performed especially well this year, but their valuation multiples have also increased disproportionately to their earnings growth. We redeployed proceeds in MasterCard and Core Labs.

OUTLOOK

In less than half a year, the trade war between the U.S. and China has escalated at a feverish pace, and it is not unthinkable that the \$650 billion worth of trade between the two countries could be fully impacted. President Trump seems to think that China will capitulate, whereas President Xi does not want to cave in to the U.S. and be seen as weak.

China, which matched the first wave of U.S. tariffs dollar-for-dollar, has outlined plans to impose tariffs on an additional \$60 billion worth of U.S. goods imminently. In total, this would cover nearly 80% of U.S. imports into the country. Further, China has countless other retaliatory measures at its disposal – increasing regulatory scrutiny, rejecting licenses or merger approvals, and even restricting exports – that it could aim at U.S. businesses. Not to be outdone, President Trump has threatened to subject all imports from China to tariffs, impacting an additional \$260 billion worth of Chinese goods.

While President Trump often cites the massive trade deficit with China, the real issue in U.S.-China trade relations is not the headline number but the government policies that distort competition, including subsidizing state-owned enterprises, requiring technology transfers, constricting market access in certain industries, and even manipulating the yuan. Negotiations have yielded little progress so far because China has refused to make structural changes to their business practices. Chinese offers to increase purchases of U.S. goods and gradually open the financial services sector have been rejected as inadequate. China has cited political and national security reasons for denying many of the U.S. requests.

Towards the end of September, the Trump administration again tried to restart negotiations with China. However, it remains an open question whether they will be able to advance President Trump's agenda in this new round. For one, the U.S. delegation seems to be divided on strategy, with one side taking a hard line approach and seeking to exploit the recent economic softness in China as a point of leverage and the other side wanting to reduce trade frictions as quickly and painlessly as possible even if that means making concessions.

President Trump has also threatened tariffs on the import of all autos and auto parts, which would cover over \$350 billion worth of additional goods. Because very few cars sold in the U.S. are manufactured in China, this threat is directed more towards the European Union (E.U.), Japan, and South Korea. Additionally, auto manufacturers in the U.S. have estimated that well over a third of their content is imported, and such a tariff would require them to absorb meaningful costs or pass them onto consumers. The U.S. has used the threat of auto tariffs on Canada in the renegotiation of the North American Free Trade Agreement. Points of contention include a minimum percentage of auto content made in North America and employing more high-wage workers to qualify for free cross-border trade. Trade talks with the E.U., Japan, and South Korea are still ongoing, and on a positive note, have seemed less contentious than with other countries over the last few months.

In the U.S., economic projections released by the Federal Reserve envision an unusually favorable set of conditions leading to GDP growth of 2.5% in 2019 and 2% in 2020. Noticeably, the base case assumes a benign trade environment, moderate inflation and unemployment remaining at record lows. Therefore, widespread tariffs and a protracted trade war are clear risks to the projections. With a much broader scope of tariffed goods now in play, U.S. manufacturers and retailers will face tough decisions in the coming months over whether to absorb costs or raise prices. Companies with pricing power – which we have emphasized in the portfolio – will be able to distinguish themselves.

A combination of low unemployment and higher prices for goods could also feed inflationary pressures in the U.S., causing the Federal Reserve to raise interest rates more aggressively. This would likely send the dollar even higher and pressure emerging markets further. Due to the price declines, valuations in emerging markets are becoming more attractive, considering the big disparity in country fundamentals. South Korea and Taiwan are both solid. India, Indonesia, and Philippines have fiscal and current account deficits that are in modest proportion to their GDPs, and their aggregate debt levels are also modest. These countries should not be thrown in the same

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bucket as Turkey and Argentina.

After outgrowing the U.S. for the last two years, the E.U. is now growing at less than half the speed of the U.S. economy. And for the second time this year, the ECB lowered its growth forecasts; the central bank now expects GDP growth of 2% in 2018 and 1.8% in 2019.

Slowing growth in the E.U. reduces the urgency to remove monetary stimulus measures and begin raising interest rates. This seems even more obvious when the headwinds – political turbulence in Italy, trade war with the U.S., and stalled Brexit negotiations – are considered. As the ECB pivots away from years of accommodative monetary policy, this makes an interesting balancing act. On the one hand, slower growth is still growth, and inflation and wages have been ticking up in the euro-zone. On the other hand, the end of bond purchases does not mean that the monetary policy is no longer supportive. After all, the euro deposit rate is still at -0.4%. The ECB has done everything it can to assure the market that it will not begin a rate hiking cycle, and the expectation is that interest rates will not increase before September 2019. The central banks of Switzerland and Sweden have set interest rates even lower than the ECB has, and they are unlikely to raise them before the ECB does.

The Bank of England has been similarly cautious and, despite stronger growth and inflation, also kept the interest rate steady at 0.75%. The key uncertainty for the U.K. economy is the terms of withdrawal from the E.U., which is currently scheduled to begin in March 2019. Important terms of the deal have yet to be agreed, and negotiation deadlines have been extended into November.

The Bank of Japan (BOJ) is now the only major central bank still committed to the purchase of bonds and other assets. The short-term interest rate is still at -0.1%, while the target yield on 10-year Japanese government bonds is 0%. Inflation and wage growth have been elusive, and BOJ Governor Haruhiko Kuroda has openly admitted that the current interest rates will continue for an extended period of time.

In this environment, we continue to favor a selected set of advantaged businesses that benefit from long-terms trends and offer such a compelling value proposition to their customers that they can grow through the uncertainty.

BUSINESS UPDATE

During the quarter, Michael Mow, CFA, who has been a partner at Chautauqua Capital, announced his planned retirement effective August 31, 2019. As he approached normal retire age three years ago, Michael indicated that he would likely retire. Accordingly, we added Haicheng Li, CFA to the team who, like Michael, has extensive experience with our approach and expertise in the health care sector. For the past two years, Haicheng has groomed herself as a portfolio generalist and for the next year she will work closely with Michael in the transfer of his coverage.

No further organizational changes have taken place.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

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Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA <i>Managing Partner</i>	MBA, University of Southern California BS, University of Southern California	39	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston <i>Partner</i>	MBA, Yale University BS, Brigham Young University	13	Ensign Peak Advisors Wasatch Advisors
Jesse Flores, CFA <i>Partner</i>	MBA, Stanford University BS, Cornell University	12	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA <i>Partner</i>	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	17	TCW Group
David Lubchenco <i>Partner</i>	MBA, University of Denver BA, The Colorado College	26	Marsico Capital Management Transamerica Investment Management Janus Capital
Michael Mow, CFA <i>Partner</i>	MBA, University of Southern California MS, University of Iowa BA, California State University, Northridge	32	American Century TCW Group Farmers Insurance

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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.

The above commentary does not provide a complete analysis of every material fact regarding any market, industry, security or portfolio. Fund 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. Please contact us to obtain contribution methodology and a list showing the contribution of each holding in the representative account to the overall account's performance during the measurement period. The manager will ensure that each Chart will include all information necessary to make the Chart not misleading, including presenting the best and worst performing Holdings on the same page with equal prominence, and with appropriate disclosure, in close proximity to the performance information. The manager's assessment of a particular industry, security or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice.

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 21 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 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 funds that include fully discretionary fee paying client accounts. The funds' returns are total, time weighted returns expressed in U.S. dollars. Fund returns reflect the reinvestment of dividends and other earnings. The net performance reflects the deduction of fees and transactions costs and the gross performance is net of transaction costs, but gross of fees. The cumulative performance information shown is the aggregate amount that the funds have gained since inception through September 30, 2018. Performance data quoted represents past performance. Past performance does not guarantee future results.