International and Global Growth Funds

Q3 2021 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Global equity markets were mixed in the third quarter but biased to the downside. The U.S. market was up modestly, developed markets were down modestly, and emerging markets were down significantly. The latter was due in large part to a sell-off in Chinese equities following broad and continuing regulatory pressures. Furthermore, September was a unique month because equity markets sold off wholesale as inflation worries came back into focus.

In this environment, Chautauqua's portfolios appreciated in value and protected against the downside. This year, we have actively trimmed weightings in China to contain the specific risks from regulatory pressures. Additionally, we have made a series of adjustments to reduce holdings with extended valuations and increase holdings we believe are well-suited to transmit pricing power or have more attractive valuations. These adjustments should help insulate against the most deleterious risks of inflation.

In the third quarter of 2021, the Chautauqua International Growth Fund Net Investor Class returned 0.91%, outperforming the MSCI ACWI ex-U.S. Index® ND, which returned -2.99%. The Chautauqua Global Growth Fund Net Investor Class returned 0.18% during the quarter, outperforming the MSCI ACWI Index® ND, which returned -1.05%.*

MARKET UPDATE

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

Sector and country performance were mixed for the quarter.

MSCI Sector and Country Performances (QTD as of 9/30/2021)

Sector	Performance	Country	Performance	Country	Performance
Energy	3.11%	India	12.70%	Singapore	0.00%
Financials	2.04%	Austria	10.46%	Taiwan	-1.68%
Information Technology	0.60%	Indonesia	9.49%	Canada	-2.37%
Health Care	0.31%	Japan	4.70%	Australia	-3.00%
Utilities	-0.02%	Netherlands	3.42%	Switzerland	-3.25%
Real Estate	-1.67%	Israel	2.88%	Hong Kong	-9.41%
Consumer Staples	-2.02%	Denmark	2.70%	China	-18.13%
Industrials	-2.07%	United States	0.41%		
Communication Services	-2.44%				
Materials	-4.85%				
Consumer Discretionary	-5.11%				

Based on select MSCI country performance returns.

Global economic output has already surpassed pre-pandemic levels, helped by strong policy support, progress in vaccinations, and the resumption of many economic activities. However, from a regional perspective, the recovery remains uneven. Large differences in vaccination rates between countries are one of the biggest contributors to the unevenness, and output gaps are most pronounced in emerging markets where vaccination rates are low. The economic impact of the highly transmissible Delta variant has lowered near-term momentum and added pressures on global supply chains, but the fallout in countries where vaccination rates are high has been relatively mild.

**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

In the U.S., the Delta variant caused consumers to slow spending in categories such as travel and dining, but it did not knock the recovery off its course. The drag from the Delta variant has been less severe than in previous surges. As case counts and hospitalizations have already peaked in this wave, economic growth is expected to reaccelerate during the fourth quarter, and growth forecasts for next year have been revised higher too.

Inflationary pressures remain a key macroeconomic theme. Personal consumption expenditures inflation, which is the Federal Reserve's (Fed) preferred gauge, reached 4.3% in August and marked a 30-year high. New case waves have disrupted supply chains for longer and have led to broader supply bottlenecks. Furthermore, consumer spending has significantly outpaced overall economic growth this year, driven by the confluence of vaccine distributions, business reopenings, and trillions in emergency federal aid that has coursed through the U.S. economy. While the Fed has broadcasted its view that these pressures are transitory, it seems that on the margin, it may be more concerned with inflation upside risk, and it has accepted a level of uncertainty of when exactly these pressures will abate.

The labor market continued to improve. With the addition of about 5 million jobs this year, the U.S. unemployment rate has declined from 6.7% at the start to 5.2% in August. Comparatively, the pre-pandemic unemployment rate was 3.5%. Further improvements in the labor market are likely because pandemic extended benefits lapsed in September, and therefore, job seekers are more likely to engage with open positions in the coming months. This should help alleviate some of the supply-demand imbalance in labor markets that has been one of the big contributors to bottlenecks and inflationary pressures. With inflation persisting and labor markets improving, the Fed indicated that it is likely to announce tapering monthly asset purchases by the end of the year.

The eurozone economy has expanded strongly in recent months, driven by higher consumer spending as containment measures have been rolled back. The European Central Bank (ECB) expects the eurozone economy to return to its pre-pandemic level by the end of the year, which is much earlier than expected, but it still lags the recovery enjoyed by the U.S. Inflation in Europe reached 3.4% in September, which marked the highest rate in more than a decade but is viewed as a temporary phenomenon linked to reopening. Additionally, the ECB updated its policy framework to allow temporary overshoots to its 2% inflation target. Overall, this signals a longer period of accommodative policy that can provide additional stimulus to the eurozone economy.

In Japan, inflation was mired in negative territory, unlike in the U.S. and Europe. Also, the economic recovery has been much more lukewarm since emergency curbs to contain the Delta variant restricted the rebound in consumer spending. Supply chain disruptions have added further complications to an export-led rebound. Due to low growth and low inflation, the Bank of Japan (BOJ) will continue an accommodative policy stance.

PERFORMANCE ATTRIBUTION

Selection effect was a positive contributor to outperformance in the Chautauqua International Growth Fund, particularly in information technology, health care and industrials holdings. Within these sectors, the largest contributors were Atlassian, Novo Nordisk, and Recruit Holdings. Overweight allocation in the information technology sector was also a contributing factor. Holdings in consumer discretionary and financials, as well as lack of exposure to the energy sector, detracted from relative returns. Of these, the biggest detractors were Alibaba, Prosus, and Fairfax Financial.

Selection effect was a positive contributor to outperformance in the Chautauqua Global Growth Fund, particularly in information technology and industrials holdings. Within these sectors, the largest contributors were Atlassian, Tata Consultancy, Adyen, and Recruit Holdings. Holdings in consumer discretionary and health care detracted from relative returns. Of these, the biggest detractors were Alibaba, Prosus, Incyte, and WuXi Biologics.

Top 5 Average Weighted International Fund Holdings* for Q3 2021

Security	Avg. Weight	Contribution
Atlassian Corporation	3.14	1.33
Novo Nordisk	4.67	0.70
Recruit Holdings	3.32	0.68
Adyen	4.33	0.57
Keyence Corporation	3.56	0.57

Bottom 5 Average Weighted International Fund Holdings* for Q3 2021

Security	Avg. Weight	Contribution
Alibaba	3.26	-1.40
WuXi Biologics	4.51	-0.66
Temenos AG	4.32	-0.64
Prosus	2.99	-0.63
Sinopharm	2.36	-0.35

Top 5 Average Weighted Global Fund Holdings* for Q3 2021

Security	Avg. Weight	Contribution
Atlassian Corporation	1.99	0.81
Recruit Holdings	2.56	0.52
Novo Nordisk	3.30	0.51
Tata Consultancy	3.22	0.39
SVB Financial Group	2.76	0.39

Bottom 5 Average Weighted Global Fund Holdings* for Q3 2021

Security	Avg. Weight	Contribution
Alibaba	1.88	-0.80
Prosus	2.14	-0.45
Incyte Corporation	2.22	-0.44
WuXi Biologics	2.91	-0.42
Universal Display Corp	1.43	-0.33

*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.

Fairfax Financial had a 3.80%, Genmab 4.64%, Suzuki Motor Corporation 2.18%, and Fanuc 3.52% weighting in the International Fund as of 09/30/2021. Adyen had a 2.71%, Genmab 3.71%, Suzuki Motor Corporation 1.54%, and Fanuc 2.11% weighting in the Global Fund as of 09/30/2021.

FUND PERFORMANCE FOR THE PERIODS ENDING SEPTEMBER 30, 2021* (%)							
International							
	Q3 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	**0.91**	**7.54**	**27.08**	**16.32**	**14.40**	**13.92**	**103.75**
Chautauqua International Growth- Net Institutional Class	**0.96**	**7.76**	**27.46**	**16.65**	**14.67**	**14.21**	**106.58**
MSCI ACWI ex-U.S. Index® - ND	-2.99	5.90	23.92	8.03	8.94	9.00	60.09
Excess Returns (Institutional Net)	*3.95*	*1.86*	*3.54*	*8.62*	*5.73*	*5.21*	*46.49*
Morningstar Percentile Rank in US Fund Foreign Large Growth Category (Rank/Count)			**10%** (43/427)	**13%** (50/403)	**14%** (51/379)	**16%** (59/379)	**16%** (59/379)
Global							
	Q3 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	**0.18**	**9.77**	**28.96**	**16.81**	**16.66**	**16.61**	**131.44**
Chautauqua Global Growth- Net Institutional Class	**0.23**	**9.96**	**29.30**	**17.04**	**16.91**	**16.86**	**134.11**
MSCI ACWI Index® - ND	-1.05	11.12	27.44	12.58	13.20	12.99	94.80
Excess Returns (Institutional Net)	*1.28*	*-1.16*	*1.86*	*4.46*	*3.71*	*3.87*	*39.31*
Morningstar Percentile Rank in US Fund World Large-Stock Growth Category (Rank/Count)			**20%** (70/354)	**47%** (149/319)	**56%** (165/295)	**47%** (131/279)	**47%** (131/279)

*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.

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, 78% 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 Atlassian, Genmab, and Novo Nordisk. Proceeds were used to increase positions in Fanuc and Suzuki Motor.

In the Global Fund, we reduced positions in Genmab and Novo Nordisk. Proceeds were used to increase positions in Fanuc and Suzuki Motor.

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OUTLOOK

Since global economic output has surpassed pre-pandemic levels and inflation has spiked around the world, policymakers must consider whether and how to phase out pandemic stimulus measures. Those decisions, especially the Fed's, are set to impact global financial markets. The longer the period that high inflation lasts, the higher the risk that it will become self-reinforcing if consumers and businesses ratchet their inflation expectations higher.

According to the Fed, the current inflation spike is the consequence of supply bottlenecks during a period of very high demand. Both of these factors are temporary and related to the economic reopening. Although supply bottlenecks are expected to continue into next year, the thought is inflationary pressures will abate, and high inflation rates will moderate. Importantly, the Fed does not view the current spike as a new inflation regime, in which inflation remains high year-after-year.

Regardless, by starting tapering, the Fed will have more flexibility to manage inflation risk, especially with the uncertain timing of when inflationary pressures subside. There is broad agreement within the Fed that tapering should conclude by the middle of next year. If the economy is stronger or if inflationary pressures persist to a greater degree than anticipated, the Fed can potentially raise interest rates too. Currently, Fed members are split on whether to raise interest rates in 2022. However, there is nearly unanimous agreement that rates will increase in 2023, and moreover, half of the Fed members expect rates to increase by at least 1% in 2023. This means that Fed expectations for an eventual liftoff have moved meaningfully higher over the course of this year. Additionally, the Fed increased its forecast for U.S. economic growth in 2022 to 3.8%, up from 3.3%.

In Europe, the jump in inflation, on the one hand, adds to the challenge faced by the ECB to justify continuing supportive policies through next year and beyond. On the other hand, the ECB wants to reassure that it will not repeat the same mistake made in the fragile early part of the recovery from the Great Financial Crisis. In 2011, the ECB raised interest rates too early, which triggered a long double-dip recession and low inflation rates in the remainder of the decade.

In contrast, weak inflation and weak growth in Japan have reinforced expectations that the country will lag others in dialing back accommodation. More so, inflation and growth in Japan have been virtually anemic for the past two decades, despite the government's and the BOJ's attempts at supportive policies. The new Prime Minister Fumio Kishida has outlined a plan centered on stimulating the growth of the middle class, which has created some renewed optimism for the country.

With respect to managing the portfolios in an inflationary environment, we have taken great care to insulate against the most deleterious risks that inflation poses to equity investments: pressure on company profit margins and compression of valuation multiples. First, we have emphasized 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 incremental adjustments to portfolios to emphasize companies with more attractive valuations, in light of higher market discount rates. We have implemented these adjustments in a series throughout this year, including in the last quarter.

Emerging economies are among the most vulnerable to a chain reaction of U.S. economic growth and interest rate hikes. Rising treasury yields could initiate capital flight from emerging economies and pressure their currencies. Furthermore, populations are still largely unvaccinated, and governments cannot afford sustained stimulus measures, making these economies especially vulnerable to weak economic recoveries and high inflation. Near-term, the fact that the wave of Delta variant cases has declined significantly is a big positive, but vaccine access will need to increase in order to drive a sustainable recovery.

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.

"… we have taken great care to insulate against the most deleterious riks that inflation poses to equity investments …"

The specific threat to some portfolio companies in China stems from increased regulation. The government's list of policy considerations is diverse but broadly encompasses socioeconomic considerations, data privacy, national security, and a recognition that regulatory oversight has not kept abreast with the expanding reach and influence of the internet sector. Many of these issues are not China-specific, and other governments have advanced related reforms in recent years too. Nonetheless, the abrupt way that policy changes have been introduced has proved disruptive to financial markets. In order to contain the specific risks, we have actively trimmed China weightings by approximately 4.6% in the International portfolios and by approximately 3.1% in the Global portfolios in a series of adjustments this year. Furthermore, we believe that valuations for holdings in the internet sector have compressed substantially, while these businesses remain market-leading and check the boxes for mission-critical and high value-add. Meanwhile, holdings in the biotech sector are world-class businesses that are congruent with the government's goals of growing this domestically important sector.

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.

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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

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 09/30/21. 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 represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 27 emerging markets, including the United States. The MSCI ACWI ex-U.S. Index® is a free float-adjusted market capitalization weighted index that is designed to capture large- and mid-cap stocks across 22 of 23 developed markets countries, excluding the United States, and 27 emerging markets countries. Indices are unmanaged and direct investment is not possible.