Q3 2022 Commentary and Market Outlook

International and Global Growth Equities

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

MARKET RECAP

An era of low inflation and low interest rates has ended. Inflation is running at its fastest pace in decades in many places, and a range of central banks are pushing rates quickly higher. The war in Ukraine has only intensified the picture. It has been the geopolitical wild card, and it has further disrupted critical energy and food supplies. More likely, interest rates will probably need to stay high enough for some time to meaningfully weigh on the economy. Together, these things increase the likelihood for more market choppiness.

Our investment philosophy emphasizes businesses that benefit from secular trends and possess strong competitive advantages and market positions. Additionally, portfolio companies are purposefully selected that earn attractive profit margins, carry strong balance sheets, and generate cash on a consistent basis. We expect these attributes to hold tack even if the macro backdrop is deteriorating. For these reasons, portfolios should be able to outgrow market growth rates over the long-term.

In this inflationary environment, we have also made ongoing adjustments to emphasize holdings that we believe are well-suited to transmit pricing power or are valued more attractively. These attributes should help protect against two of the most pernicious effects of inflation for equity investors, namely the compression of profit margins and the compression of valuation multiples.

Thank you for entrusting us to invest your precious capital and to navigate this increasingly uncertain market environment.

In the third quarter of 2022, the Chautauqua International Growth Equities composite declined -7.86% (gross of fees)/-8.05% (net of fees), outperforming (gross of fees) the MSCI ACWI ex-U.S. Index® ND, which declined -9.91%. The Chautauqua Global Growth Equities composite declined -6.08% (gross of fees)/-6.27% (net of fees), during the quarter, outperforming (gross of fees) the MSCI ACWI Index® ND, which declined -6.82%.*

MARKET UPDATE

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

Sector performance was negative and country performance was mostly negative for the quarter.

MSCI Sector and Country Performance (QTD as of 09/30/2022)

Sector	Performance
Energy	-1.28%
Consumer Discretionary	-2.71%
Financials	-5.75%
Industrials	-5.97%
Consumer Staples	-6.51%
Health Care	-6.95%
Information Technology	-7.19%
Materials	-7.50%
Utilities	-7.78%
Real Estate	-12.20%
Communication Services	-13.90%

Country	Performance	Country	Performance
Indonesia	7.80%	Japan	-7.52%
India	6.75%	Canada	-7.73%
Singapore	-1.48%	France	-8.82%
Israel	-1.72%	Netherlands	-10.66%
United States	-4.70%	Denmark	-12.20%
Ireland	-5.41%	Taiwan	-14.03%
Australia	-6.72%	Hong Kong	-16.97%
Switzerland	-7.49%	China	-22.44%

Source: FactSet. Based on select MSCI country returns.

The global economic outlook has worsened in recent months. Surging inflation is a global phenomenon, in both developed and emerging economies alike. Covid-induced supply disruptions have collided with strong consumer demand for goods and services in the reopening. The war in Ukraine has only intensified the picture by further disrupting critical energy and food supplies. Central banks have responded by sending interest rates higher and in larger increments. Additionally, central banks have signaled their acceptance of any resulting economic consequences from the vigorous push to bring down inflation.

*Performance data is preliminary, represents past performance and does not guarantee future results. Current performance data may be lower or higher than the data quoted. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the maximum management fee of 0.80%. Actual investment advisory fees may vary across accounts and result in different net returns.

The primary objectives of the Federal Reserve (Fed) are to achieve maximum employment and stable inflation. Currently, unemployment is at historic lows, which satisfies the former. Inflation, on the other hand, is running hot. Now, the Fed is hyper-focused on bringing inflation back under control. Leaving inflation uncontrolled is not an option because of the risk that it may become a more permanent impediment in the economy.

In response, the Fed has been raising interest rates quickly. The Fed raised interest rates by 75 basis points twice during the quarter, ending in a range of 3.0-3.25%. Interest rates have moved from 0 since just March of this year. Not only is this the fastest policy adjustment in four decades, but also more rate hikes are forecasted to come. Currently, the Fed plans to raise interest rates to 4.4% by the end of this year and remain restrictive with its policies through 2025. These levels surpassed market expectations and have contributed to the recent selloff in equities.

There has been a sharp escalation in the stakes of the war in Ukraine. Russia has been pushed to its heels in recent weeks, but it does not seem to be looking for a viable exit plan. Russia formally claimed several occupied territories after Russia-backed separatists held a series of snap referendums, in a sham attempt to confer legitimacy to the annexations, to join Russia. Ukraine has pledged to fully reclaim its territories, and the annexations have been totally derided by Western allies and the United Nations. Furthermore, the North Atlantic Treaty Organization (NATO) could possibly expand if Sweden and Finland become fully approved, and Ukraine itself has also just applied for formal membership.

Since the invasion of Ukraine over seven months ago, Russia and the E.U. have been waging an economic war over energy. Russia has retaliated to economic sanctions by severely restricting the flow of gas into Europe. The E.U. is reliant on this energy source and has vowed to eventually stop buying gas from Russia. Last year, almost 40% of the gas used by E.U. households and businesses came from Russia, but barely any enters into the E.U. now. This has stoked fears of energy shortages and talks of energy rationing. Additionally, the benchmark price of natural gas in the E.U. has been incredibly volatile since the war in Ukraine began, and it is over three times the price from last year. The energy squeeze is acute in Germany, which relies on Russia as its biggest gas supplier. Even countries that do not import gas from Russia are impacted because electricity prices are closely linked to natural gas prices.

Overall, the economy in Europe is already more fragile compared to that in the U.S. The continent has been hit harder by inflationary pressures out of its control, which are greatly exacerbated by supply and energy disruptions and proximity to the war in Ukraine. The European Central Bank (ECB) has acted more slowly to rein in inflation than the U.S. However, it raised interest rates twice during the quarter, moving from negative territory, where it had been for more than a decade, to 75 basis points.

COMPOSITE PERFORMANCE AS OF SEPTEMBER 30, 2022*

	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01/01/2009)
Chautauqua International Growth Equity - Gross	-7.86	-27.88	-28.04	5.25	3.95	6.98	10.01
Chautauqua International Growth Equity - Net	-8.05	-28.33	-28.63	4.41	3.12	6.13	9.14
MSCI ACWI ex-U.S. - ND Index	-9.91	-26.50	-25.17	-1.52	-0.81	3.01	5.22
MSCI ACWI ex-U.S. Growth - ND Index	-9.37	-31.84	-30.22	-1.38	0.18	3.95	5.98
Excess Returns (Gross vs MSCI ACWI ex-U.S. - ND Index)	*2.05*	*-1.38*	*-2.87*	*6.77*	*4.76*	*3.97*	*4.79*

	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (01/01/2009)
Chautauqua Global Growth Equity - Gross	-6.08	-28.38	-23.58	8.52	7.40	10.63	13.82
Chautauqua Global Growth Equity - Net	-6.27	-28.83	-24.21	7.65	6.54	9.75	12.92
MSCI ACWI - ND Index	-6.82	-25.63	-20.66	3.75	4.44	7.28	8.84
MSCI ACWI Growth - ND Index	-5.93	-32.19	-27.48	5.35	6.63	8.87	10.44
Excess Returns (Gross vs MSCI ACWI - ND Index)	*0.74*	*-2.75*	*-2.92*	*4.77*	*2.96*	*3.35*	*4.98*

*These are preliminary figures from our portfolio accounting system. Returns over one year are annualized unless otherwise specified. Performance data represents past performance and does not guarantee future results. Current performance data may be lower or higher than the data quoted. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the maximum management fee of 0.80%. Actual investment advisory fees may vary across accounts and result in different net returns.

PERFORMANCE ATTRIBUTION

Stock selection was a positive contributor to relative outperformance in the Chautauqua International Growth strategy, particularly in financials and industrials holdings. Holdings in consumer discretionary and relative overweight and stock selection in health care were the largest active detractors from relative returns. Lack of exposure to consumer staples and energy also detracted. Regionally, holdings in Asia and the Pacific Basin and North America contributed most to performance—particularly in Singapore and Canada—while holdings in Africa and the Middle East and Europe, namely Switzerland, Netherlands, and Israel, detracted. The largest contributors to the portfolio were Waste Connections, DBS Group Holdings, and Bank Rakyat. The largest detractors were Alibaba, Hong Kong Exchanges & Clearing, and WuXi Biologics.

Stock selection was a positive contributor to relative outperformance in the Chautauqua Global Growth strategy, particularly in financials and industrials holdings. Relative underweight to communication services also contributed. Holdings in information technology and consumer discretionary were the largest detractors from relative returns. Lack of exposure to energy was also a detractor. Regionally, holdings in Asia and the Pacific Basin and North America contributed most to performance—particularly in Singapore, Japan, the United States and Canada—while holdings in Africa and the Middle East and Europe, namely Israel, Netherlands, and Switzerland detracted. The largest contributors to the portfolio were Charles Schwab, DBS Group Holdings, and Regeneron Pharmaceuticals. The largest detractors were Hong Kong Exchanges & Clearing, Alibaba, and Fairfax Financial Holdings.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth strategy, 74% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth strategy, 72% 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 strategy, we reduced positions in Fairfax Financial Holdings, Fanuc, and Waste Connections. Proceeds were used to increase positions in Adyen, Hong Kong Exchanges & Clearing, Kering, and Safran.

In the Global strategy, we reduced positions in Fairfax Financial Holdings, Fanuc, Mastercard, and Waste Connections. Proceeds were used to increase positions in Adyen, Hong Kong Exchanges & Clearing, Kering, Safran, and SVB Financial Group.

Chautauqua International Growth Top & Bottom Average Weighted Holdings for Q3 2022

Top 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
Novo Nordisk	6.29	-0.03
Fairfax Financial Holdings	5.51	-0.26
Waste Connections	5.26	0.95
Constellation Software	4.85	0.20
Genmab	4.68	0.44

Bottom 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
WuXi Biologics	1.56	-0.37
Aptiv	1.57	-0.04
Coloplast	1.82	0.00
Safran	1.93	0.02
BeiGene	2.04	-0.13

Chautauqua Global Growth Top & Bottom Average Weighted Holdings for Q3 2022

Top 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
Alphabet Inc.	3.93	-0.15
Novo Nordisk	3.88	-0.15
Fairfax Financial Holdings	3.79	-0.32
Mastercard	3.76	-0.09
Genmab	3.69	0.25

Bottom 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
Illumina, Inc.	0.90	0.08
Universal Display Corporation	0.96	0.00
WuXi Biologics	1.07	-0.30
Safran	1.15	-0.01
Alexandria Real Estate	1.15	0.04

Source: FactSet. The holdings identified do not represent all of the securities purchase, sold, or recommended for the portfolios; and past performance does not guarantee future results. Contributions are based on a representative account and do not reflect the impact of fees. To obtain information about the calculation methodology and a list showing every holding's contribution, please contact Chautauqua.

OUTLOOK

Monetary policy is a blunt tool. Bringing inflation back into control is critical for long-run sustainability. The fear is that the global economy may slow sharply and that some economies may find themselves plunged in recessions. The path ahead looks to be bumpy as central banks continue to adjust policies aggressively, and the war in Ukraine heightens uncertainty.

The path to weaker inflation involves curbing economic output, which is likely to be painful for the U.S. economy. Slowing the economy that meaningfully in the interim could result in recession and higher unemployment. At that point, the extremely difficult part of policy maneuvering will happen. The Fed will need to judge how to balance two goals that are in conflict, and it must decide how much unemployment it is willing to tolerate.

Policymakers in Europe are also facing a difficult challenge. On the one hand, they are trying to bring down inflation, and on the other hand, they are facing an energy crisis that threatens to cause a recession itself. Some are already predicting forthcoming recessions for Germany, Italy, and even Europe more broadly. The majority opinion inside the ECB is that more interest rate hikes must be implemented to try to tame inflation despite the already fragile economic state. However, others have suggested more measured interest rate increases. With the growing risk of recession in Europe, particularly with energy rationing, the slowdown could reduce inflationary pressures, and the ECB would not need to act as aggressively in that case. Either of those paths are challenging in their own ways.

Zero-Covid policies in China continue to freeze all activity during outbreaks, and this has paralyzed large swaths of the economy at times and added to worldwide supply chain disruptions. Additionally, the policies enacted in recent years, such as curbing the power of tech giants and cracking down on real estate speculation, have also exacerbated the softening. The People's Bank of China actually cut interest rates in hopes of reviving the economy. While growth will slow down in China this year, it is still likely to outrun that in the U.S. and Europe.

The factors roiling the global economy explain why the dollar has become much stronger this year. The U.S. looks comparatively better off than much of the world, though recessionary fears are rising. The Fed has forecasted that economic growth will soften to just 0.2% this year, while long-run growth is forecasted at 1.8%. Europe is facing an energy crisis, China is continuing pandemic lockdown policies that disrupt its economy, and Japan has resisted raising interest rates. Additionally, the Fed is moving more quickly and more aggressively than most central banks. As a result, interest rates are now markedly higher in the U.S. than they are in many other countries, and this has lured investors attracted to the higher returns on relatively conservative investments such as Treasuries.

From an economic growth standpoint, the near-term outlook seems grim. Together, the U.S., Europe, and China account for roughly two-thirds of global output, and if all three regions slow down, it will be hard for any country to remain insulated from the fallout.

As global investors, our investments in foreign ordinary securities naturally exposes portfolios to currency risk, which, in this case, is defined as the difference between portfolio return and local market return. The same is true for both the benchmark and other investors which invest in these same types of foreign securities. Dollar performance this year has created a headwind for these investments due to the negative currency return.

However, we have mitigated the impact of currency movements in two ways. First, less of the assets in portfolios are directly invested in the currencies that have performed poorly, as compared to the benchmark weights. On a relative basis, this is a positive. The worst performing major currencies this year are the yen, pound, and euro, all of which are down by mid-teens percentages or greater. In International portfolios, roughly 11% of assets are invested in yen-denominated securities, and approximately 10% of assets are invested in euro-denominated securities. In Global portfolios, roughly 8% of assets are invested in yen-denominated securities, and approximately 7% of assets are invested in euro-denominated securities. Portfolios are not invested at all in any securities denominated in the pound. And as far as emerging market exposures go, portfolios are exposed to the relatively benign emerging market currencies. Roughly 9% of assets in International portfolios are invested in rupee or rupiah-denominated securities. Roughly 6% of assets in Global portfolios are invested in rupee or rupiah-denominated securities. The economies of India and Indonesia are outperforming as they benefit from reopening tailwinds of their large domestic markets.

Second, from a revenue footprint standpoint, portfolios are more overweight revenue sources from the geographies with stronger currency performance and more underweight revenue sources from the geographies with weaker currency performance, as compared to the benchmark exposures. International portfolios are more overweight in revenue sources from North America, India, and Indonesia, and they are more underweight revenue sources from Japan, Europe, and China. Global portfolios are more overweight in revenue sources from India and Indonesia, and they are more underweight in revenue sources from Japan and China. The exceptions in Global portfolios are an overweight to revenue sources in Europe and an underweight to revenue sources in North America.

Our investment philosophy emphasizes businesses that should benefit from secular trends and that we believe possess strong competitive advantages and market positions. Some of the most exciting growth areas can be relatively agnostic to the global picture or the specific situations impacting certain regions. These include our many investments in and adjacent to cloud computing, software-as-a-service, digitalization, artificial intelligence, semiconductor advancement, e-commerce and payments, industrial automation, electric vehicles, and novel biologic and biosimilar therapies. Other exciting growth areas pertain to rapidly expanding consumer classes, broadly in emerging economies and especially in Asia, which are propelling the uptake of various consumer goods and financial products.

We do not expect the current environment of weakening economic growth to dislodge the long-term staying power of these investment themes, nor the business models or market positions of portfolio companies. Furthermore, portfolio companies that earn attractive profit margins, carry strong balance sheets, and generate cash on a consistent basis are purposefully selected. In other words, portfolio companies we believe are on solid footing, even when times are tough. For these reasons, portfolios can outgrow market growth rates over the long-term.

We have also taken great care to try to insulate against the most pernicious risks that inflation poses to equity investments, namely 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 long series throughout last year and this current year.

BUSINESS UPDATE

There have been no changes to the investment team at Chautauqua Capital Management nor have there been changes to the ownership structure of our parent company, Baird.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

INVESTMENT TEAM

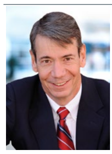
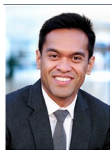
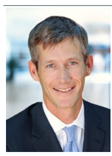
- **Generalists with specialized skills**
- **Average more than 25 years' investment**

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 of growth**

Investment Professional		Educational Background	Years of Experience	Prior Affiliation
	**Brian Beitner, CFA** Partner	MBA, University of Southern California BS, University of Southern California	42	TCW Scudder Stevens & Clark Bear Stearns & Company Security Pacific
	**Jesse Flores, CFA** Partner	MBA, Stanford University BS, Cornell University	16	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	21	TCW
	**David Lubchenco** Partner	MBA, University of Denver BA, The Colorado College	30	Marsico Capital Management Transamerica Investment Management Janus Capital
	**Nate Velarde** Partner	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	21	PIMCO Nuveen Investments TCW

This commentary represents portfolio management views and portfolio holdings as of 09/30/22. 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.

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 24 emerging markets, including the United States. The MSCI ACWI Growth Index® captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 developed and 24 emerging markets. 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 24 emerging markets countries. The MSCI ACWI ex-U.S. Growth Index® captures large- and-mid cap securities exhibiting overall growth style characteristics across 22 of 23 developed markets countries and 24 emerging markets countries. Indexes are unmanaged and direct investment is not possible. "ND" represents net of dividends returns for the benchmark.

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Performance results will vary among client accounts. 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 composites that include fully discretionary fee paying client accounts. The composites' returns are total, time weighted returns expressed in U.S. dollars. Composite returns reflect the reinvestment of dividends and other earnings. The net performance reflects the deduction of investment advisory fees and transactions costs and the gross performance is net of transaction costs, but gross of advisory fees.

The separate accounts are available to institutions and persons with a minimum account asset value of $100,000,000, which is negotiable in certain instances.

For additional important information about the fees, expenses, risks and terms of investment advisory accounts at Baird, please review Baird's Form ADV Brochure, which can be obtained from your financial advisor and should be read carefully before opening an investment advisory account.