International and Global Growth Equity Strategies

Q4 2017 COMMENTARY

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CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

At the height of this eight year bull market, we are trying to reconcile the notion that the markets and the global economy may be "as good as it gets" with the potential that, as a result of technological change, increased market volatility and the strength of the Chautauqua Capital team, "the best may be yet to come".

For the fourth quarter, and likewise for the first three quarters of 2017, managed portfolios achieved superior returns. The Chautauqua Capital approach is to identify trends and companies that, as a result of their business model advantage, benefit disproportionately from these trends. In some periods the trends evolve more slowly than we had anticipated or the company's ability to translate better business conditions into more rapid profits growth is delayed as they re-invest in their advantage to maximize its potential. In some cases, the fundamentals unfold beautifully but the markets do not seem to care. In the fourth quarter, and for much of 2017, several trends accelerated faster, the companies we invested in realized their expected potential and the markets recognized the enhanced underlying value. We caution that what we experienced in 2017 will not always be possible. We do believe that our approach is the very best way to achieve capital appreciation but optimally, in order to capture the benefit of our skill and approach, investments should be made for a multi-year period.

In the fourth quarter of 2017, the Chautauqua Capital International Growth composite appreciated 6.13%, outperforming the MSCI ACWI ex-U.S. Index®, which appreciated 5.06%. The Chautauqua Capital Global Growth composite appreciated 6.85%, outperforming the MSCI ACWI Index®, which appreciated 5.84%.

MARKET UPDATE

During the quarter, growth style outperformed value style in the MSCI, emerging and U.S. markets. Large capitalization stocks outperformed small capitalization stocks, except in the MSCI EAFE and Emerging Markets Indices®.

Performance by country, in which the funds were invested and as measured by MSCI, is as follows: Brazil -1.87%, Canada 4.46%, China 7.62%, Denmark 2.25%, France 1.60%, Germany 2.78%, Hong Kong 6.58%, India 11.82%, Ireland 3.47%, Italy -2.27%, Japan 8.52%, Korea 11.64%, Netherlands 0.88%, Singapore 10.10%, South Africa 21.46%, Spain -1.45%, Switzerland 1.78%, Taiwan 4.03%, and U.K. 5.74% and U.S. 6.55%. Overall, emerging markets outperformed developed markets for the quarter.

Economically sensitive sectors outperformed defensive sectors in the fourth quarter:

MSCI Sector Performances (as of 12/31/2017)

Sector	QTD Performance
Information Technology	8.18%
Materials	8.01%
Consumer Discretionary	7.83%
Energy	6.99%
Financials	6.15%
Consumer Staples	6.01%
Industrials	5.26%
Real Estate	4.44%
Telecommunications Services	2.17%
Health Care	1.34%
Utilities	-0.10%

INVESTMENT TEAM

- Generalists with Specialized skills
- Averaging 23 Years investment experience

BRIAN BEITNER, CFA
MBA, University of Southern California

DANIEL BOSTON
MBA, Yale University

JESSE FLORES
MBA, Stanford University

HAICHENG LI, CFA
MBA, Stanford University
MMSc, Harvard Medical School
MS, Harvard University

DAVID LUBCHENCO
MBA, University of Denver

MICHAEL T. MOW, CFA
MBA, University of Southern California
MS, University of Iowa

ORGANIZED FOR INVESTMENT SUCCESS

- Autonomous institutional boutique
- Employee owners
- We invest alongside our clients
- Self-imposed limit on growth

It was a quarter filled with notable events. The quarter began with Chancellor Angela Merkel, fresh off her fourth term victory, having to scramble to create a coalition in the Bundestag after the radical right wing “Alternative for Germany” party took a surprise 13% of the vote to finish third. The matter remains unresolved and negotiations will probably continue in January. Xi Jingping, consolidated his power after being re-elected Communist Party Secretary General at the, every five year, Party National Congress. He now has the most influence and unchecked power since Mao Zedong. We expect that China’s growth will slow but the risk of a hard, debt driven, landing will diminish due to the pace of reform. In other words it will be slower but higher quality growth. In October, Japan’s Prime Minister, Shinzo Abe strengthened his “Liberal Democratic Party’s” position with snap elections. Multi-year stimulus seems to finally be fueling inflation.

The European Central Bank (ECB) announced that, beginning in January 2018, it will taper its bond buying program from 60 billion Euros per month to 30 billion Euros per month and likely end the program in September of 2018. As was expected, the U.S. Federal Reserve raised the benchmark rate, for the third time in 2017, on December 13th to 1.5%. Jerome Powell will likely be confirmed as the next Fed Chair in January. The Bank of England was in a difficult position as currency weakness pushed inflation above its target. This necessitated the first rate hike in 10 years. Potential Brexit economic headwinds imply that further increases are not imminent. The South Korea Central Bank raised rates to 1.5%. It was the first rate hike in six years. Despite these reversals in monetary stimulus, with a background of global synchronized growth, improving consumer and business confidence and widespread positive earnings surprise, most markets notched gains around the world. Toward the end of the quarter, the U.S. signed into law a $1.5 trillion tax reduction which included a significant drop in corporate tax rates. Consumer spending has been strong around the globe and with that, consumer debt is on the rise and savings rates have fallen.

During the quarter, India announced a two year plan to recapitalize its 21 loss-laden government-controlled banks. These banks suffer from excessive non-performing loans, many stemming from poorly conceived government-sponsored infrastructure projects. The plan involves having the banks issue $11.7 billion of new stock and then loan the proceeds to the government. The government will issue $20.7 billion bonds and then purchase $32 billion of the troubled banks stock. This plan will reduce, in percentage terms, the portion of bad debt relative to the banks’ equity. However, it will not provide capital to allow the banks to write off bad debt nor give the banks fresh capital with which to issue new loans and thus grow out of their problem. Meanwhile, the independent banks, like HDFC, which is a portfolio holding, are gaining market share.

Geopolitical tensions remained elevated as North Korea continued to demonstrate their ability to carry out a nuclear weaponized missile strike on the U.S. and some of its allies. The U.S. has pressed the United Nations (UN) for more sanctions. The U.S. also placed more sanctions on Russia and specific Russians and will send more military equipment to the Ukraine. With some high profile indictments and convictions the special investigation of Russia’s attempt to disrupt the 2016 Presidential election continues to be a source of news.

In sub-Saharan Africa: 1. Zimbabwe’s Robert Mugabe’s 37 year rule came to an end. 2. Jacob Zuma has been replaced as the leader of the African National Congress (ANC) in South Africa and 3. Kenya ultimately elected Uhuru Kenyatta, whose first attempt was nullified by the Kenyan Supreme Court for irregularities.

The Islamic State was routed in Syria and Iraq but jihadists continued to carry out terror attacks in many places around the world. And finally, crypto currencies captured a lot of attention as the price of Bitcoin (not a portfolio holding) skyrocketed and then sold off.

Despite it all, market volatility remained very low.

PERFORMANCE ATTRIBUTION

For the international composite, selection effect accounted for over 100% of outperformance on both a sector and regional basis. An overweight to and stock selection in information technology, which was the quarter’s best performing sector (according to MSCI), was the biggest contributor to performance. Notable contributions also came from stock picks in developed Europe (Wirecard and Temenos) and North America (lululemon), consumer staples (Amorepacific) and financials (DBS Group Holdings and CI Financial Corporation). Our increased exposure to financials during the quarter was effective as financials outperformed the broader market. An overweight to health care, which was one of the quarter’s worst performing sectors, detracted from performance.

Top 5 International Holdings* (as of 12/31/2017)

Security	Avg. Weight	Contribution
ASML Holding NV ADR	5.93	0.11
Wirecard AG	5.56	1.23
Keyence Corporation	5.22	0.30
Novo Nordisk A/S	4.62	0.52
HDFC Bank Limited	4.33	0.27

Bottom 5 International Holdings* (as of 12/31/2017)

Security	Avg. Weight	Contribution
Dassault Systemes SA	0.67	0.07
TAL Education Group	0.67	0.09
LINE Corp.	0.85	0.20
AIA Group Limited	0.96	0.11
Sinopharm Group Co.	1.26	-0.03

Top 5 Global Holdings* (as of 12/31/2017)

Security	Avg. Weight	Contribution
Wirecard AG	4.14	0.91
Temenos Group AG	3.77	0.87
Recruit Holdings Co., Ltd.	3.64	0.51
Charles Schwab Corporation	3.62	0.59
Mastercard Incorporated Class A	3.53	0.29

Bottom 5 Global Holdings* (as of 12/31/2017)

Security	Avg. Weight	Contribution
Hargreaves Lansdown plc	0.05	-0.01
ams AG	0.21	-0.05
Dassault Systemes SA	0.33	0.03
AIA Group Limited	0.59	0.07
DBS Group Holdings Ltd	0.62	0.04

*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.

For the global composite, selection effect accounted for 64% of the quarter's outperformance on a sector basis. An overweight to and stock picks in information technology, which was the quarter's best performing sector (according to MSCI), was the biggest contributor to performance. Stock picks in financials (SVB Financial Group, Charles Schwab Corporation), and our increased exposure to that sector during the quarter, also contributed to performance. An overweight to health care, which was one of the quarter's worst performing sectors, detracted from performance. On a regional basis, stock selection accounted for 98% of performance with notable contributions coming from developed Europe and North America.

As is often the case, and as evidence of the effectiveness of conviction weighting, the top 5 weighted holdings had a much larger positive contribution to performance than the smallest 5 weighted holdings (in the international composite, the top 5 holdings averaged a 9.24% return for the quarter; in the global composite, the top 5 weighted holdings averaged a 17.51% return for the quarter).

COMPOSITE PERFORMANCE FOR THE PERIODS ENDING DECEMBER 31, 2017* (%)

International

	Q4 2017	2017	3 Year	5 Year	10 Year	Since Inception (01/01/2006)	Cumulative Since Inception (01/01/2006)
International Growth Equity – Gross	**6.13**	**37.04**	**12.61**	**10.50**	**4.92**	**8.71**	**172.23**
International Growth Equity – Net	**6.09**	**36.64**	**12.16**	**10.09**	**4.65**	**8.47**	**165.29**
MSCI ACWI ex-U.S. Index® - GD	5.06	27.77	8.04	7.28	2.31	5.36	87.09
MSCI EAFE Index® - GD	4.27	25.62	7.92	8.39	2.42	5.02	79.91

Global

	Q4 2017	2017	3 Year	5 Year	10 Year	Since Inception (01/01/2007)	Cumulative Since Inception (01/01/2007)
Global Growth Equity – Gross	**6.85**	**38.97**	**15.49**	**15.30**	**8.42**	**9.86**	**181.11**
Global Growth Equity – Net	**6.45**	**37.71**	**14.67**	**14.57**	**8.02**	**9.49**	**170.97**
MSCI ACWI Index® - GD	5.84	24.62	9.47	11.56	5.22	5.84	86.62
MSCI World Index® - GD	5.62	23.07	9.42	12.46	5.64	5.99	89.56

*These are preliminary figures from our portfolio accounting system that have yet to be verified by Ashland Partners.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

In the international strategy, we exited our position in Nielsen Holdings. In the global strategy, we exited our positions in Salesforce, Palo Alto Networks, Priceline and Nielsen Holdings. After it had sold-off, we initiated a new position in a company that we had long monitored: Tal Education Group.

We continued to make changes to weightings to reflect our concerns regarding market fragility and elevated valuations for equities. Nevertheless, we continue to evaluate potential new investment ideas. The candidate pool for potential inclusion into portfolios is currently larger than normal.

For the Chautauqua International Growth composite, 75% of fund companies that reported earnings during the quarter exceeded consensus expectations.

For the Chautauqua Global Growth composite, 72% of fund companies that reported earnings during the quarter exceeded consensus expectations.

OUTLOOK

In reconciling "as good as it gets" with "the best is yet to come", we are struck by how extraordinary this moment in the financial markets really is. After eight years of aggressive monetary accommodation throughout most of the world, central bankers are in various stages of reversing course. This monetary accommodation, though necessary in the early stages of recovery from the great financial recession, became a habit that was hard to break. The result has been low inflation everywhere except in asset prices. The slow but steady economic recovery has taken the U.S. to the point that the non-partisan Congressional Budget Office (CBO) has deemed the U.S. economy to have surpassed its point of maximum output. That is to say, that unemployment has fallen to a point that output gap has closed and from here further growth is likely to be inflationary. As a

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precursor to inflation, Japan is experiencing labor shortages. Europe still has excess labor but inflation has recently ticked up. Business and consumer confidence has risen and we are now witnessing debt-financed spending activity that has been subdued over the past several years. The indicator of economic health, the Purchasing Managers' Index (PMI), has been rising among commodity-importing and exporting countries. This is unusual and generally not sustainable. Conditions for business may be getting to the point where they are "as good as it gets".

Market valuations, stock and bond alike worldwide, are high relative to their own history. That said, some asset classes are less extended than others. The increased involvement of value agnostic investors in such things as algorithmic trading strategies, index funds, Exchange Traded Funds (ETFs) and high-speed trading may make the markets more fragile in the face of an unforeseen catalyst. Market participation, based on historically high margin debt, the high stock markets' total value relative to gross domestic product, investors' low average cash levels and the elevated levels of new brokerage account openings all suggest that this bull market is likely to run out of steam. Conditions for the financial markets may be getting to the point where they are "as good as it gets".

Meanwhile, we believe that we are on the threshold of massive technological disruption and investment opportunity that could mean "the best is yet to come". The confluence of massive mineable data, combined with inexpensive computing power due to cloud computing, breakthroughs in machine learning, exponentially faster data transmission speeds and the internet of things, may lead to momentous gains in productivity and significant opportunities for new entrants to disrupt legacy business models. For a trend based, best-in-breed growth investor such as Chautauqua Capital, this is very promising.

We now have a 12 year track record. Over this time period, we have proven to be very adept at exploiting market volatility. Owing to our concentrated portfolios and long holding period, we have fewer holdings per person to analyze than most of our competitors. This enables us to know our holdings and watch list ideas better and operate with a six person portfolio management team. As a result, we are very nimble. For much of this 12 year period, market volatility has been low. Our performance record has been good but we believe if the market volatility returns to historic levels, the "best may be yet to come" for us as investors. January 15, 2018 will mark the second anniversary of our joining Baird. We feel especially appreciative of, and benefit greatly from, their support.

In this current environment, we are optimistic but ever vigilant. We have taken precautions that do not preclude us from participating in a rising global stock market. However, we are cautious. We anticipate that the markets could get choppy in 2018. We are ready with a little extra cash to deploy and we have plenty of new names that are fully vetted and ready to buy at an attractive valuation. Historically, high valuations themselves do not precipitate a bear market. They do, however, imply that the distance the market will have to decline to get back to attractive levels is that much further.

Stock prices are primarily the product of a company's earnings and the multiple of those earnings investors are willing to pay. Over the past several years the multiple has expanded. Should the multiples contract, all things being equal, the stock prices will contract. If however, the earnings are growing faster than the market average the price contraction can be offset. As growth investors, we do pay modest premium multiples for the shares of the great wealth generating businesses we invest in; yet we are value conscious and take a comprehensive view of each holding including future growth, profitability and valuation. The combination of insisting upon superior growth while being careful about valuation should help us perform in a challenging market environment.

We have the right investment team as we try to reconcile this "best is yet to come" with "as good as it gets" environment. Indeed, this is a very interesting moment in time to be investing.

BUSINESS UPDATE

There have been no changes to the investment staff 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

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"Meanwhile, we believe that we are on the threshold of massive technological disruption and investment opportunity that could mean "the best is yet to come"

"In this current environment, we are optimistic but ever vigilant"

Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Managing Partner*	MBA, University of Southern California BS, University of Southern California	38	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston *Partner*	MBA, Yale University BS, Brigham Young University	13	Ensign Peak Advisors Artisan Partners Wasatch Advisors
Jesse Flores *Partner*	MBA, Stanford University BS, Cornell University	12	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	17	TCW Group
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	25	Marsico Capital Management Transamerica Investment Management Janus Capital
Michael Mow, CFA *Partner*	MBA, University of Southern California MS, University of Iowa BA, California State University, Northridge	31	American Century TCW Group Farmers Insurance

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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 MSCI EAFE Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index® consists of 21 developed market country indices.

The MSCI World Index® is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index® consists of 23 developed market country indices.

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 cumulative performance information shown is the aggregate amount that the composites have gained since inception through December 31, 2017.

The Chautauqua Capital Management Strategies are available to institutions and persons with a minimum account asset value of $50,000,000, 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.