International and Global Growth Equity Strategies

Q4 2018 COMMENTARY

FOR INSTITUTIONAL USE ONLY

CHAUTAUQUA CAPITAL MANAGEMENT

A DIVISION OF BAIRD

INTRODUCTION

Markets de-rated forcefully in the fourth quarter. In recent quarterly letters, we highlighted the major risks, including potential multiple compression, slowing economic growth, and trade policy frictions. Yet, in spite of these headwinds, Chautauqua Capital managed portfolios appreciated and outperformed for the first three quarters of the year. In hindsight, this situation was untenable.

By October, asset prices declined abruptly, and daily trading conditions were so volatile that the timing and execution of portfolio adjustments proved ineffective. These challenges persisted in November and December. We not only lost the outperformance created in the first three quarters, but underperformed the markets in the sell-off; the portfolios were unable to provide the level of downside protection that we had hoped for. We are disappointed by our poor performance.

What makes this especially painful is that we consider the trust that has been placed in us with the utmost seriousness. We understand that our clients depend on us, and it is an honor to serve as a steward of their valuable assets. Since initiating these strategies, we have invested alongside clients. While it has been a good experience, each of us has suffered the decline in the fourth quarter. Further, as evidence of our confidence, we remain invested.

Our commitment to clients and our investment process remain steadfast. Despite the challenges this quarter, we remain confident in our ability and investment disciplines based on time-tested investment process. Our investment approach is thoughtfully constructed and consistently deployed: we invest in businesses that benefit from secular trends, possess sustainable competitive advantages, and are able to grow profitably and rapidly. Over longer investment horizons, these businesses are positioned to become more valuable. Portfolios are concentrated, which allows us the opportunity to have a deep understanding of the holdings and watch list ideas. We are disciplined on valuation and thoughtful in constructing diversified portfolios.

In the fourth quarter of 2018, the Chautauqua Capital International Growth Equity composite declined 17.64%, underperforming the MSCI ACWI ex-U.S. Index® ND, which declined 11.46%, and underperforming the MSCI EAFE Index® ND, which declined 12.54%. The Chautauqua Capital Global Growth Equity composite declined 18.55% during the quarter, underperforming the MSCI ACWI Index® ND, which declined 12.75%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, value style outperformed growth style. Within emerging markets, value style also outperformed growth style. Large capitalization stocks outperformed small capitalization stocks in both the developed and emerging markets sub-indexes.

For the MSCI ACWI Index®, value style outperformed growth style, and large capitalization stocks outperformed small capitalization stocks. Within emerging markets, value style also outperformed growth style.

For the MSCI EAFE Index®, value style outperformed growth style, and large capitalization stocks outperformed small capitalization stocks.

Sector and country performance were primarily negative for the quarter.

* Performance data represents past performance and does not guarantee future results. 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.chautauquacapital.com.

INVESTMENT TEAM

- Generalists with specialized skills
- Averaging 24 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

MSCI Sector and Country Performances (QTD as of 12/31/2018)

Sector	Performance	Country	Performance	Country	Performance
Utilities	0.93%	Brazil	13.56%	Taiwan	-13.67%
Real Estate	-3.82%	Indonesia	9.76%	United States	-13.68%
Consumer Staples	-6.45%	India	2.53%	Japan	-14.20%
Communication Services	-6.55%	South Africa	-3.70%	Canada	-15.11%
Health Care	-9.55%	Singapore	-6.71%	Germany	-15.48%
Financials	-11.79%	Switzerland	-8.94%	Austria	-20.72%
Materials	-13.29%	Denmark	-9.74%		
Consumer Discretionary	-14.36%	China	-10.73%		
Industrials	-15.51%	Netherlands	-10.98%		
Information Technology	-17.03%	United Kingdom	-11.77%		
Energy	-20.01%	South Korea	-12.83%		

Top 5 Average Weighted International Holdings* for Q4 2018

Security	Avg. Weight	Contribution
Temenos AG	6.86	-1.94
Toronto-Dominion Bank	5.69	-1.02
DBS Group Holdings	5.56	-0.48
Novo Nordisk	5.17	-0.02
Keyence	5.16	-0.62

Bottom 5 Average Weighted International Holdings* for Q4 2018

Security	Avg. Weight	Contribution
Roche Holding	0.26	0.02
Reckitt Benckiser	0.62	-0.21
CI Financial	0.81	-0.21
Schlumberger	0.90	-0.48
Atlassian Corp.	1.07	0.32

Top 5 Average Weighted Global Holdings* for Q4 2018

Security	Avg. Weight	Contribution
Temenos	5.46	-1.49
Mastercard	4.33	-0.66
NVIDIA Corp.	4.18	-3.08
Core Laboratories	4.12	-2.55
Genmab	3.95	0.46

Bottom 5 Average Weighted Global Holdings* for Q4 2018

Security	Avg. Weight	Contribution
Roche Holding	0.10	0.01
Reckitt Benckiser	0.17	-0.06
CI Financial	0.48	-0.11
Amorepacific	0.56	-0.11
Schlumberger	0.69	-0.28

*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

Global equity markets sold off sharply in the fourth quarter, capping off a tumultuous year for stocks. For the first three quarters, non-U.S. stocks declined, while U.S. stocks appreciated by double digits. Rising interest rates in the U.S. pressured valuations for financial assets worldwide. Furthermore, interest rate differentials weakened foreign currencies, especially those of emerging markets. From an economic standpoint, the U.S. benefited from front-end loaded tax cuts and stimulative infrastructure spending measures instituted earlier in the year. Consequently, the U.S. grew faster while global peer growth had been slowing.

Therefore, despite continual downward pressure on asset prices due to the Federal Reserve's rate hikes, the U.S. market managed to grind higher for most of the year. In fact, this pattern of strong market performance in the U.S. has been the case every year since former Chairwoman Janet Yellen initiated the Federal Reserve's first rate hike following the Great Financial Crisis in December 2015.

Issues surrounding trade policy further complicated the picture. The trade war between the U.S. and China exacerbated a weakness in consumption and industrial production in China that was already in place due to deleveraging and a softening property market. Meanwhile in Europe, the European Central Bank (ECB) indicated a loss of economic confidence due to the E.U.'s (European Union) own trade war with the U.S. and stalled negotiations with the United Kingdom (U.K.) regarding Brexit.

In the fourth quarter, despite the constancy of these factors, several markets reacted noticeably different. First, the sell-off pulled the U.S. stock market into a deep decline for the first time this year. Second, the emerging markets, which arguably have suffered the most from trade war fallout and a stronger dollar, managed to outperform developed markets. A notable group of emerging markets even appreciated in price. India, Indonesia (where we had exposure) and the Philippines are fast growing economies that import oil; they stand to benefit from oil's price decline and a probable reversal in dollar strength. Brazil has continued a shallow recovery from recession; there is enthusiasm for the newly elected right wing President Jair Bolsonaro's slate of pro-business reforms.

The U.S. economy was still robust. Gross Domestic Product (GDP) grew 3.5% in the third quarter, the labor market remained at full capacity, and inflation hovered near the target of 2%. In spite of greater market turbulence this past quarter, the Federal Reserve raised bank borrowing rates for the fourth time this year, to a range between 2.25% and 2.5%, and upgraded its forecast for GDP growth in the fourth quarter to 3%.

On the contrary, economic data in China and Europe deteriorated further, and trade policy with the U.S. is still an overhang. Chinese industrial production continued to weaken and has been hurt by soft automotive and property markets. Annual growth in retail sales has been more resilient and grew 8%. Remarkably, this is the slowest pace in the last fifteen years. As a result of the trade war, weaker industrial production and consumption in China caused the government to reprioritize economic policies towards stabilizing growth rather than enacting reforms to control the growth of debt. This is a major policy shift. The People's Bank of China (PBOC) infused Chinese banks with capital and cut reserve ratio requirements to encourage lending, and the Politburo restarted pro-growth infrastructure and railways projects.

The trade war between the U.S. and China remains unresolved. Implementation of higher tariffs has been delayed, giving the two countries until March to negotiate a deal. Success, or even the skeleton of an agreement, is hardly certain. Multiple complex issues will need to be negotiated such as purchase guarantees of U.S. goods, forced technology transfer, intellectual property protection, and market access. Prior negotiations made little progress because China refused to make structural changes to its business practices. A full settlement of trade disputes will require big changes from both governments. Should the talks fail, U.S. tariffs on $200 billion of Chinese goods would increase from 10% to 25%. Chinese retaliation is a certainty.

In Europe, the deceleration in economic growth continued. GDP grew only 0.2% in the third quarter, the slowest pace of expansion in the last five years, and ECB President Mario Draghi made a third straight cut to economic forecasts. German and French economies both contracted in the third quarter and the Italian economy showed no growth. In the U.K., Prime Minister Theresa May survived a leadership challenge; however, the fate of Brexit remains uncertain and increasingly looks like it will not be decided until close to the March deadline.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth composite. This was especially pronounced in the information technology and energy sectors. These sectors were also the worst performing in the index. Holdings in AMS, Temenos, Wirecard and Core Labs hurt performance the most. Meanwhile, holdings in the health care, financials and consumer discretionary sectors helped performance. The biggest contributors were Genmab, Novo Nordisk, HDFC Bank, Bank Rakyat and TAL Education.

Selection effect was a detractor to returns in the Chautauqua Global Growth composite. This was especially pronounced in the information technology and energy sectors. These sectors were also the worst performing in the index. Holdings in AMS, Nvidia, Temenos, Wirecard and Core Labs hurt performance the most. Meanwhile, holdings in the health care and consumer discretionary sectors helped performance. The biggest contributors were Genmab, Novo Nordisk and TAL Education.

COMPOSITE PERFORMANCE FOR THE PERIODS ENDING DECEMBER 31, 2018* (%)

International

	Q4 2018	2018	1 Year	3 Year	5 Year	10 Year	Since Inception (01/01/2006)	Cumulative Since Inception (01/01/2006)
International Growth Equity – Gross	**-17.64**	**-17.28**	**-17.28**	**4.37**	**3.63**	**10.38**	**6.48**	**126.08**
International Growth Equity – Net	**-17.77**	**-17.61**	**-17.61**	**3.97**	**3.24**	**10.05**	**6.23**	**119.37**
MSCI ACWI ex-U.S. Index® - ND	-11.46	-14.19	-14.19	4.48	0.68	6.57	3.28	52.12
MSCI EAFE Index® - ND	-12.54	-13.79	-13.79	2.87	0.53	6.32	2.99	46.74

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

Global

	Q4 2018	2018	1 Year	3 Year	5 Year	10 Year	Since Inception (01/01/2007)	Cumulative Since Inception (01/01/2007)
Global Growth Equity – Gross	**-18.55**	**-13.06**	**-13.06**	**7.30**	**7.95**	**14.44**	**7.73**	**144.44**
Global Growth Equity – Net	**-18.73**	**-13.71**	**-13.71**	**6.49**	**7.23**	**13.93**	**7.33**	**133.74**
MSCI ACWI Index® - ND	-12.75	-9.42	-9.42	6.60	4.26	9.46	3.96	59.36
MSCI World Index® - ND	-13.42	-8.71	-8.71	6.30	4.56	9.67	4.14	62.65

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

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth composite, 75% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth composite, 81% 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, has been instrumental to our superior historic returns. In light of the deep market sell-off

"For the Chautauqua International Growth composite, 75% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth composite, 81% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations."

*AMS had a 2.9% weighting, Wirecard had a 3.85% weighting, Core Labs had a 3.34% weighting, Genmab had a 5.8% weighting, HDFC had a 4.38% weighting, Bank Rakyat had a 3.73% weighting and TAL had a 4.53% weighting in the International Fund as of 12/31/2018; *AMS had a 2.09% weighting, Wirecard had a 2.76% weighting, Novo Nordisk had a 3.44% weighting, and TAL had a 1.99% weighting in the Global Strategy as of 12/31/2018 this quarter, our changes to weightings reflected selling lower growth companies that looked overvalued in favor of buying higher growth companies that sustained greater losses and ranked more attractively. In hindsight, our adjustments, although likely to be beneficial over time, appeared pre-mature.

In the International strategy, we exited positions in Roche and Reckitt Benckiser and initiated in Pirelli, Atlassian and Schlumberger. Furthermore, we reduced exposures in Allergan, AmorePacific, Recruit Holdings, CI Financial and HDFC Bank. We increased exposures in AMS, Alibaba, Naspers, Genmab, Julius Baer and Bank Rakyat. Additionally, we raised cash levels in portfolios in order to deploy opportunistically.

In the Global strategy, we exited positions in Roche and Reckitt Benckiser and initiated in Pirelli, Atlassian and Schlumberger. Furthermore, we reduced exposures in AmorePacific, Recruit Holdings, TJX, CI Financial, HDFC Bank, Schwab and Red Hat. We increased exposures in AMS, Alibaba, Alphabet, Amazon, Nvidia, Genmab, Regeneron and DBS Group. Additionally, we raised cash levels in portfolios in order to deploy opportunistically.

OUTLOOK

In an acknowledgement of rising interest rates, global financial markets have de-rated. Non-U.S. markets, in particular, declined as dollar strength weakened foreign exchange rates and forced central bankers to crimp economic growth to maintain currency stability. Furthermore, growth stocks, which are justifiably priced at premium valuation multiples and whose cash flows can be long-dated, were the worst performers as rising interest rates caused multiple compression.

Where do we go from here? Business uncertainty resulting from trade frictions will continue to put downward pressure on economic growth. As a result, investor confidence may remain fragile (recent price declines appear to reflect this). Accordingly, we are more constructive on the equity asset class than we have been for over a year. Concerns are unlikely to dissipate soon, but we contend that international growth stocks represent a good investment opportunity.

First, we are closer to the end of a U.S. tightening cycle than the beginning. Members of the U.S. Federal Open Market Committee (FOMC) broadly maintain that the direction of interest rates in 2019 will be higher, but the consensus forecast within the group now predicts just two more rate hikes instead of three. Chairman Jerome Powell has indicated that the benchmark rate is already near the neutral level, and the Federal Reserve will likely stop when they have achieved a modest cushion to allow for future stimulus. Such a development will relieve pressure from a principal factor depressing asset valuations. International equities specially stand to benefit as the ECB and Bank of Japan (BOJ) have both signaled that they are far from raising their own interest rates. Furthermore, central banks in emerging markets, which have had to raise rates instep with the U.S. to maintain a dollar peg, will get a reprieve.

Second, should U.S. economic growth slow, international markets would look relatively more attractive. The strength of the U.S. economy has been bolstered by high consumer confidence and low unemployment. It was also inflated by fiscal stimulus and stockpiling ahead of new tariffs. These temporary benefits make 2018 a tough future comparison. In 2019, U.S. economic growth may appear to collapse as one-time benefits fade and inventories are worked down. The result could be a technical recession, though the underlying economy may be fine. By comparison, non U.S. economies and currencies would likely appear more attractive.

Resolution of trade tension is also more likely to be a relative tailwind for international markets. The negative impact of the trade war has been greatest for Western Europe, Asia and emerging markets. Therefore, positive developments between the U.S. and its trading partners will offer a bigger boost to foreign economic growth and exchange rates.

Third, the U.S. equity market is more expensive. As compared to international equities, U.S. equities are trading at multi-year highs and near their highest relative premiums to international equities on both forward earnings and book value. Moreover, the U.S. market has outperformed consistently over the extended nine-year bull market, as well as this past year. Therefore, given high valuations and extended outperformance by the U.S., international equities should outperform.

It is entirely possible that things get worse before they get better, or that markets grow disconnected from fundamentals. Uncoordinated monetary policy, demographic headwinds, migration, nationalism, and widespread excessive indebtedness are apt to stress the global economy. But our faith in our investment process remains firm. Therefore, we continue to invest in

"Business uncertainty resulting from trade frictions will continue to put downward pressure on economic growth. As a result, investor confidence may remain fragile… Accordingly, we are more constructive on the equity asset class than we have been for over a year [and] we contend that international growth stocks represent a good investment opportunity."

"It is entirely possible that things get worse before they get better, or that markets grow disconnected from fundamentals… Companies that were held in the fourth quarter performed poorly without a commensurate degradation of their fundamentals. In other words, they have gone on sale.

As a result, we are more confident – not less – in the potential of these portfolios to outperform in 2019."

businesses that benefit from secular trends and are structurally well-positioned to grow over time. Typically, they sell mission-critical and high value-added products and services. Such companies can generate wealth for shareholders even in challenging times. The set of such companies that were held in the fourth quarter performed poorly without a commensurate degradation of their fundamentals. In other words, they have gone on sale. As a result, we are more confident – not less – in the potential of these portfolios to outperform in 2019.

BUSINESS UPDATE

There have been no reportable changes to our business.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

Investment Professional	Educational Background	Years of Experience	Prior Affiliation
Brian Beitner, CFA *Managing Partner*	MBA, University of Southern California BS, University of Southern California	39	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
Daniel Boston *Partner*	MBA, Yale University BS, Brigham Young University	14	Ensign Peak Advisors Wasatch Advisors
Jesse Flores, CFA *Partner*	MBA, Stanford University BS, Cornell University	13	Roth Capital Partners Blavin & Company Lehman Bros.
Haicheng Li, CFA *Partner*	MBA, Stanford University MMSc, Harvard Medical School MS, Harvard University BA, Rutgers University	18	TCW Group
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	26	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	32	American Century TCW Group Farmers Insurance

The above commentary does not provide a complete analysis of every material fact regarding any market, industry, security or portfolio. Strategy 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 characteristics and statistical measures used in this fact sheet are not a forecast of the fund's/strategy's future performance.

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, 2018.

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.