International and Global Growth Equity Strategies

Q4 2019 COMMENTARY

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CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Equity markets enjoyed a strong finish to the year. Positive stock performance was broad-based. All sectors and regions benefited.

Valuation multiple expansion was responsible for most of the market appreciation in the last year. Equity markets also benefited from central banks' pivot towards lower interest rates. Weak or decelerating growth in virtually every major economy, coupled with overhangs from international trade frictions, have compelled the major central banks to retain stimulative policies for the foreseeable future.

Lately, the biggest tailwind has been a de-escalation of trade tensions between the U.S. and China. While they have agreed to a phase one trade agreement, future stages of negotiation between the two countries should be significantly more challenging as structural reforms to China's policies need to be addressed.

We remain cautious as economic fundamentals are still weak and market performance has been overly reliant on monetary accommodation.

In the fourth quarter of 2019, the Chautauqua International Growth Equities composite increased 7.21% (gross of fees), underperforming the MSCI ACWI ex-U.S. Index® ND, which returned 8.92%, and the MSCI EAFE Index® ND, which returned 8.17%. In the fourth quarter of 2019, the Chautauqua Global Growth Equities composite increased 9.86% (gross of fees), outperforming the MSCI ACWI Index® ND, which returned 8.95%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index®, growth style outperformed value style. Within emerging markets, growth style also outperformed value style.

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

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

Sector and country performance were positive for the quarter.

MSCI Sector and Country Performances (QTD as of 12/31/2019)

Sector	Performance	Country	Performance	Country	Performance
Information Technology	14.61%	Ireland	18.51%	Japan	7.67%
Health Care	13.82%	Taiwan	18.01%	Switzerland	7.63%
Materials	9.43%	China	14.72%	Singapore	7.45%
Financials	9.08%	South Africa	13.23%	Netherlands	7.43%
Consumer Discretionary	8.32%	Denmark	13.09%	Indonesia	7.02%
Communication Services	8.29%	Germany	9.89%	India	5.32%
Industrials	7.51%	United States	9.13%	Canada	5.08%
Energy	5.98%	Italy	8.12%	Australia	4.36%
Real Estate	3.00%	Austria	8.04%		
Consumer Staples	2.72%				
Utilities	2.41%				

**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 23 years investment experience

INVESTMENT PHILOSOPHY

- The securities of advantaged, wealth-generating businesses are often mispriced because most investors do not fully comprehend the companies' potential for sustained high-growth and improved profitability. Several trends accentuate this phenomenon.

KEY PILLARS OF OUR INVESTMENT PROCESS

- Security selection drives returns
- Long-term focus
- Concentrated, conviction-weighted portfolios

ORGANIZED FOR INVESTMENT SUCCESS

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

Among the most important developments in the fourth quarter, the U.S. and China agreed to a phase one trade agreement. Such a deal had been anticipated for months, and once it is signed, expected to be in early January, it should significantly de-escalate the U.S.-China trade war. The development led both sides to cancel new tariffs set to be implemented in mid-December; and, in addition, the U.S. reduced the tariff on a prior batch of Chinese imports worth $120 billion from 15% to 7.5%. Still, the U.S. has kept a 25% tariff on an original batch of Chinese imports worth $250 billion. It is thought that, as part of the agreement, China will commit to substantial purchases of U.S. goods, especially agriculture products, in the coming years. China will also strengthen intellectual property protections and increase access to the financial services markets. Purportedly, the trade agreement will also establish a strong dispute resolution system to aid with compliance. Exact details are scant because the text of the agreement still needed to be translated, proofread, and legally scrubbed prior to signing.

U.S. economic growth remained the fastest among large developed economies, albeit at a moderating pace. The combination of a strong labor market and healthy consumer spending have been key drivers to the economic outperformance. However, business investment is weak, and manufacturing remains in contraction. These symptoms likely reflect the impact of global trade tensions and the lapping of prior benefits gained from the reduction in corporate tax rates and stockpiling ahead of tariffs. Gross Domestic Product (GDP) increased 2.1% in the third quarter, compared to 2.0% in the second quarter, 3.1% in the first quarter, versus 2.9% in 2018. In October, the Federal Reserve (Fed) cut interest rates for the third and final time this year, ending in a range of 1.5% to 1.75%. The Fed portrayed this series of cuts as "insurance" meant to stimulate the economy and add a measure of protection against economic uncertainties.

Eurozone composite Purchasing Managers' Index (PMI) indicated modest expansion but has barely improved in recent months. The manufacturing sector has struggled to overcome contraction. This weakness was most pointed in Germany, but France unexpectedly experienced a slowdown too. Germany's economy has languished and narrowly avoided a technical recession because of stronger consumption, government spending and a modest pickup in exports. Economic growth was 0.1% in the third quarter, as compared to -0.2% in the second quarter and 0.5% in the first quarter. The European Central Bank (ECB) left the deposit rate unchanged at -0.5%, but it signaled that it will maintain a highly accommodative policy stance for an extended period given a subdued inflation outlook and weak growth dynamics.

In the UK, the Conservative Party won a landslide majority in the general election. This cleared the parliamentary deadlock over Brexit and allowed Prime Minister Boris Johnson to ratify the Withdrawal Agreement from the European Union (EU) in time before the January deadline. At that point, some Brexit-related uncertainty will remain. The UK and the EU are locked in a transition period until the end of 2020, and the two sides must still negotiate a long-term trading agreement with each other. In the Withdrawal Agreement, Prime Minister Johnson ruled out extensions beyond 2020, as well as parliamentary approval of the negotiated trade relationship, meaning that the risk of a "hard Brexit" still exists.

Japan has grappled with perpetual fiscal deficits, and the current debt-to-GDP ratio exceeds 250%. But the country must also fund a social security system to support its aging population. To help fill this funding gap, Japan implemented a national sales tax increase from 8% to 10% in October. The last time Japan implemented a similar sales tax increase from 5% to 8%, in 2014, retail sales plummeted. Moreover, it took more than five years for consumption to recover back to the level prior to that tax increase. This time, the tax increase is smaller, and the government has accompanied with it benefits such as free preschool and discounts on certain purchases to mitigate the impact on consumers.

In the third quarter, economic growth was just 0.2% in Japan. This was disappointing in light of an expected pick up in spending ahead of the sales tax increase. The main causes were a trade tension related decline in exports and a significant drop in tourism from Korea. Notwithstanding, the Bank of Japan (BOJ) maintained its assessment that the Japanese economy has been on a moderate expansion trend, though exports, production, and business sentiment have all shown some weakness. The BOJ left the short-term interest rate target unchanged at -0.1% and the 10-year Japanese government bond yield target unchanged at 0%. The forward guidance, however, was changed so that rates could be lowered in the future, demonstrating a clear bias for easy monetary policy.

Top 5 Average Weighted International Holdings* for Q4 2019

Security	Avg. Weight	Contribution
Genmab	6.88	0.65
Novo Nordisk	5.65	0.67
DBS Group Holdings	5.51	0.42
TAL Education	5.50	1.90
Wirecard	5.40	-1.75

Bottom 5 Average Weighted International Holdings* for Q4 2019

Security	Avg. Weight	Contribution
CI Financial	0.25	0.04
Amorepacific	0.35	0.38
Trip.com	0.88	0.13
BYD Company	0.91	-0.01
Atlassian	1.30	-0.06

Top 5 Average Weighted Global Holdings* for Q4 2019

Security	Avg. Weight	Contribution
TAL Education	5.67	1.99
Genmab	5.43	0.52
Novo Nordisk	4.47	0.53
Wirecard	4.31	-1.41
HDFC Bank	4.28	0.48

Bottom 5 Average Weighted Global Holdings* for Q4 2019

Security	Avg. Weight	Contribution
Amorepacific	0.14	0.16
CI Financial	0.24	0.03
Bristol-Myers Squibb	0.58	0.11
Trip.com	0.73	0.10
Celgene	0.77	0.13

*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 and a list showing every holding's contribution, please contact Baird.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth composite, particularly in the information technology sector. Within this sector, the largest detractors were Wirecard, AMS, and Temenos. Meanwhile, holdings in the consumer discretionary and consumer staples sectors helped performance the most. Of these, the largest contributors were TAL Education, Amorepacific, and Alibaba.

Selection effect was a detractor to returns in the Chautauqua Global Growth composite, mostly due to our holdings in the information technology sector. Within this sector, the largest detractors were Wirecard, Temenos, and AMS. Meanwhile, holdings in the consumer discretionary and health care sectors helped performance the most. Of these, the largest contributors were TAL Education, Regeneron Pharmaceuticals, and Incyte Corporation.

COMPOSITE PERFORMANCE FOR THE PERIODS ENDING DECEMBER 31, 2019* (%)

Chautauqua International Growth Equity

	Q4 2019	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Cumulative Since Inception
International Growth Equity - Gross	**7.21**	**27.11**	**27.11**	**13.09**	**8.70**	**7.64**	**7.83**	**187.18**
International Growth Equity - Net	**7.11**	**26.67**	**26.67**	**12.63**	**8.23**	**7.25**	**7.55**	**177.10**
MSCI ACWI ex-U.S. Index® - ND	8.92	21.51	21.51	9.87	5.51	4.97	4.49	84.83
MSCI EAFE Index® - ND	8.17	22.01	22.01	9.56	5.67	5.50	4.25	79.05

Chautauqua International Growth Equity inception: January 1, 2006.

Chautauqua Global Growth Equity

	Q4 2019	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Cumulative Since Inception
Global Growth Equity - Gross	**9.86**	**32.07**	**32.07**	**16.85**	**12.33**	**11.57**	**9.43**	**222.79**
Global Growth Equity - Net	**9.78**	**31.40**	**31.40**	**16.01**	**11.60**	**11.02**	**9.02**	**207.30**
MSCI ACWI Index® - ND	8.95	26.60	26.60	12.44	8.41	8.79	5.55	101.75
MSCI World Index® - ND	8.56	27.67	27.67	12.57	8.74	9.47	5.78	107.66

Chautauqua Global Growth Equity inception: January 1, 2007.

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

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

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

For the Chautauqua Global Growth composite, 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 strategy, we exited positions in Amorepacific and Schlumberger. Proceeds were used to increase positions in Constellation Software and Tata Consultancy. Cash levels exiting the quarter were higher than normal.

In the Global strategy, we exited positions in Amorepacific and Schlumberger. Bristol-Myers Squibb was acquired through its merger with Celgene and we increased a position in Constellation Software.

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Wirecard had a 5.04%, AMS 2.47%, Temenos 4.34%, TAL Education 6.80%, Amorepacific 0.00%, Alibaba 4.17%, Schlumberger 0.00%, Constellation Software 2.45% and Tata Consultancy 2.97% weighting in the International strategy as of 12/31/2019. Wirecard had a 3.98%, Temenos 3.51%, AMS 2.06%, TAL Education 6.13%, Regeneron Pharmaceuticals 3.37%, Incyte Corporation 3.57%, Amorepacific 0.00%, Schlumberger 0.00%, Bristol-Myers Squibb 2.01%, Celgene 0.00% and Constellation Software 3.14% weighting in the Global Strategy as of 12/31/2019.

OUTLOOK

Previously, we stated that a recovery in fundamental indicators, and not just rate cuts, would be needed for markets to rebound sustainably. Stock prices strengthened each month in the fourth quarter, despite "just" a single rate cut by the Federal Reserve in October, because of anticipation of the phase one trade agreement between the U.S. and China. Such a catalyst was just the thing that could eventually lead to better economic fundamentals. It could thaw the trade war, and thereby inspire economic confidence, induce businesses to resume investing, and rejuvenate global trade flows that had been disrupted.

Markets were bid up disproportionately to their earnings in the fourth quarter. Most indices closed near record levels. Optimism about a resolution of trade tension appears to us to be fully priced in. Our overall outlook remains cautious. We believe that we are in the late innings of a bull market, and the pace of revenue growth and earnings growth have slowed. Most estimates of economic growth continue to be reduced. Europe and Japan are barely growing, while the U.S. and China are slowing.

We realigned portfolios towards holdings which have business models that are more economically resilient and towards holdings with lower valuation multiples. Further, we retain a cash position, which we can deploy opportunistically if certain holdings or watchlist companies become more attractive.

Notwithstanding this period of slowing global growth, we remain confident in the tenets of our investment philosophy. We invest in advantaged businesses that benefit from long-term secular growth drivers, and as such, can outgrow their competitors and enjoy higher levels of profitability and returns on capital over our investment horizon. Our investments are not structured to be reliant on specific macroeconomic or political outcomes. These businesses become more valuable over time because they can grow and generate wealth for shareholders even in challenging periods.

The reported trade agreement is noteworthy both for how little was accomplished and for how long it took to achieve. These provisions represent some of the lowest hanging fruits in the negotiation. Future stages of negotiation between the U.S. and China are expected to be significantly more challenging. The U.S. wants Chinese reform on intellectual property protection, forced technology transfer, and state-sponsored industrial subsidies, while China is determined to protect its economic sovereignty. Simply put, the two sides remain far apart on the key structural issues. Accordingly, we are not positioning investments on the hope of a quick and favorable resolution of the U.S.-China trade war.

The major central banks continue to grapple with low inflation and debate the efficacy of the tools at their disposal. At the same time, they fret about the lack of interest rate cutting potential should another recession arise. At this point, further rate cuts by the Fed are unlikely. But there will need to be a number of rate increases to offset all of the post "Great Recession" accommodation. The median forecast by members of the Federal Open Market Committee (FOMC) is that the policy rate stays the same in 2020. Both the ECB and the BOJ have displayed a clear accommodative stance and expressed a willingness to deploy further measures if needed.

Growth in the eurozone has suffered amid uncertainties including the U.S.-China trade war and Brexit. Germany avoided a technical recession, but its industrial sector will continue to face pressure until there is more clarity on global trade. Data from the country's important manufacturing sector has yet to demonstrate a pickup after months of deterioration., The slump in industrial production and factory orders only deepened in October. This will likely further pressure the German government to reconsider its approach to fiscal policy. The ECB forecasts eurozone GDP growth of 1.1% in 2020, while the Bundesbank, the central bank of Germany, forecasts German GDP growth of only 0.6%.

A slowdown in global economic growth will continue to pressure Japan's export-driven economy. The country must also contend with domestic issues, such as the decline in retail sales following the implementation of the sales tax increase and fallout from a devastating typhoon in October. Prime Minister Shinzo Abe announced a ¥13 trillion (approximately $120 billion) stimulus program to counteract the global economic slowdown and rebuild areas destroyed by the typhoon. This would be the largest stimulus program by Japan in the last three years, and the BOJ forecasts Japanese economic growth of 1.4% in the year ending March 2021, aided by the extra spending.

"Our overall outlook remains cautious. We believe that we are in the late innings of a bull market, and the pace of revenue growth and earnings growth have slowed.

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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 *Managing Partner*	MBA, University of Southern California BS, University of Southern California	40	TCW Group Scudder Stevens & Clark Bear Stearns Security Pacific
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	27	Marsico Capital Management Transamerica Investment Management Janus Capital
Nate Velarde *Partner*	MBA, University of Chicago BA, University of Chicago	18	TCW Group Nuveen Investments PIMCO

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.

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 24 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.

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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 cumulative performance information shown is the aggregate amount that the composites have gained since inception through December 31, 2019.

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.

Robert W. Baird & Co. 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202
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