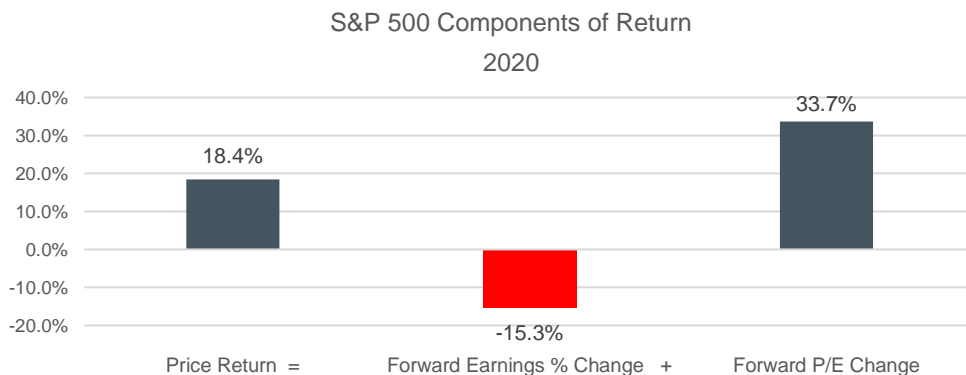


### THE HUMMINGBIRD AND THE CRANE

A Native American fable tells the tale of a Hummingbird and a Crane that were always at odds. One day the Hummingbird challenged the Crane to a race to determine who would own the waters. The Hummingbird was so swift, almost like a flash of lightning, that he felt sure he would win. The time came for the race and off they flew at full speed. Hummingbird quickly lapped Crane, who thought, "I will never win this way". Hummingbird did not realize, however, that Crane had more energy and could fly for days without rest, so when Hummingbird stopped to sleep, Crane easily flew past to victory. And to this day, that is why the Crane drinks from the waters and the Hummingbird only from the flower.

Historically, deep value/low quality stocks have led out of bear markets. Their outsized returns have tended to be strong and swift, but they are quickly exhausted and yield to the broader market as the recovery plays out. As we reflect upon performance for the calendar year, we are frustrated to have trailed the benchmark, yet we must acknowledge that the portfolio performed consistent with our discipline. Our focus on high quality businesses rewarded us as expected during the first quarter of 2020, providing strong downside protection as markets plummeted, and outperforming our respective benchmarks by as much as 800 basis points. We lived off this alpha for much of the ricochet rebound during the next 8 months as deep value/low quality gained the upper hand. Recently we have begun to see signs of a more balanced market and have outperformed on a relative basis from mid-November through the end of the year.



Source: Factset

2020 equity returns were fueled by an expansion in valuations as earnings collapsed under the weight of the global pandemic. As we look to 2021, stocks will likely unwind those elevated price-to-earnings levels as profits recover. Under such a scenario, we see companies with strong profitability and earnings momentum as outperformers. Deep value (the Hummingbird) is unlikely to continue its winning ways as we have already been through a period of expanding price/earnings ratios along with low quality and beta outperformance. The next market phase favors the Crane...the protracted outperformance of high-quality value through the remainder of the economic cycle.

### SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

**MICHELLE STEVENS, CFA**  
Senior Portfolio Manager

**RICHARD ROESCH, CFA**  
Senior Research Analyst

**JONATHAN DEMOSS, CFA, CPA, CFP**  
Senior Research Analyst

**ROB ZWIEBEL**  
Portfolio Specialist & Consultant Relations

**JESSE PARSONS**  
Trading & Operations Analyst

### PHILOSOPHY & PROCESS

- The portfolio is grounded in the belief that value and growth investing are not mutually exclusive.
- Emphasis on companies likely to exceed "street" expectations but trade at a discount to our in-house calculation of fair value.

### PORTFOLIO CONSTRUCTION

- Concentrated portfolio of 40-50 stocks
- Top holdings generally limited to 5% at cost, 8% at market
- Sectors capped at 30% excluding financials
- Buy and hold approach

## **BAIRD SMALL/MID CAP VALUE**

For the quarter, the Baird Small/Mid Cap Value Portfolio provided a gross total return of 24.5% versus a gross total return of 28.5% for the benchmark Russell 2500 Value. For the year, the Portfolio returned 1.4% gross of fees versus the benchmark Russell 2500 Value return of 4.9%. Since inception (1/1/00), the Baird Small/Mid Cap Portfolio has provided a gross annual return of 10.6% vs 9.5% for the Russell 2500 Value.

Real Estate Investment Trusts and Consumer Staple stocks were primarily responsible for holding back relative performance for the quarter. Both sectors advanced during the period and no holdings provided negative news, but their more defensive nature did not compete with the frothy beta-trade for the period. ARKO group, a new holding in the portfolio drifted 10% lower despite completing a business combination and closing on an anticipated highly accretive acquisition. We eagerly await Wall Street coverage of the stock which we expect will provide a catalyst for greater investor interest. Despite in-line performance from the portfolio's Financial holdings, our underweight to the sector was a drag to relative returns, as well as our underweight to Consumer Discretionary.

Information Technology was the standout performer for the period posting a 39% return. Our meaningful overweight to the sector (21% versus 10% for the benchmark) provided a boost to relative performance. Cerence Inc. more than doubled during the period as the provider of artificial intelligence to the auto industry continued to win large contracts. New holding, Immersion Corp, also was a meaningful contributor as its software sales saw a boost from a strong launch of the PS5 gaming system. Industrials were another bright spot, led by ACCO Brands and Shyft Group.

We were more active than usual in terms of portfolio activity given the strong returns and news flow during the period. Within Real Estate Investment Trust holdings, we repositioned post positive COVID vaccine news, adding RLJ Lodging and Host Hotels and Resorts in favor of our health care exposure. Both names gained more than 20% after purchase, aiding relative performance for the sector. Our improved outlook for the consumer on the heels of better-than-expected vaccine efficacy led us into discretionary names William Sonoma, Helen of Troy, Urban Outfitters and OneSpaWorld Holdings. To make room, we trimmed and exited respective winners from the Utility space, Atmos Energy and Southwest Gas Holdings as well as Healthcare equipment maker Hill-Rom. Examples of other trades during the quarter include the purchase of Knight-Swift Transportation, TCF Financial and National Retail Properties as well as the sale of FTI Consulting, BellRing Brands and Construction Partners.

## **BAIRD SMALL CAP VALUE**

For the quarter, the Baird Small Cap Value Portfolio provided a gross return of 27.6% versus the benchmark Russell 2000 Value gross return of 33.4%. For the year, the Portfolio provided a return of 2.8% gross of fees versus the benchmark Russell 2000 Value return of 4.6%. Since inception (3/1/05), the Baird Small Cap Value Portfolio has provided a gross annual return of 8.3% vs 7.0% for the Russell 2000 Value.

Real Estate Investment Trusts and Consumer Staple stocks were primarily responsible for holding back relative performance for the quarter. Both sectors advanced during the period and no holdings provided negative news, but their more defensive nature did not compete with the frothy beta-trade for the period. ARKO group, a new holding in the portfolio drifted 10% lower despite completing a business combination and closing on an anticipated highly accretive acquisition. We eagerly await Wall Street coverage of the stock which we expect will provide a catalyst for greater investor interest. Despite in-line

performance from our Financial holdings, our underweight to the sector was a drag to relative returns, as well as our underweight to Consumer Discretionary.

Information Technology was the standout performer for the period posting a 46% return. Our meaningful overweight to the sector (24% versus 6% for the benchmark) provided a boost to relative performance. Cerence Inc. more than doubled during the period as the provider of artificial intelligence to the auto industry continued to win large contracts. New holding, Immersion Corp, also was a meaningful contributor as its software sales saw a boost from a strong launch of the PS5 gaming system. Industrials were another bright spot, led by ACCO Brands and Shyft Group.

We were more active than usual in terms of portfolio activity given the strong returns and news flow during the period. Within Real Estate Investment Trust holdings, we repositioned post positive COVID vaccine news, adding RLJ Lodging and Ryman Hospitality Properties in favor of our health care exposure. Both names gained more than 20% after purchase, aided relative performance for the sector. Our improved outlook for the consumer on the heels of better-than-expected vaccine efficacy led us into discretionary names Helen of Troy, Urban Outfitters and OneSpaWorld Holdings. To make room, we exited winner from the Utility space, Southwest Gas Holdings as well as Healthcare equipment maker Hill-Rom. Examples of other trades during the quarter include the purchase of Meta Financial, Knight-Swift Transportation and Preferred Bank as well as the sale of FTI Consulting, BellRing Brands and Construction Partners.

If you have interest in discussing our outlook and the portfolio in greater detail, please contact us directly. We wish you good health and thank you for your continued support and partnership.

Michelle E. Stevens, CFA  
Portfolio Manager

Top 5 Small/Mid Value Portfolio Contributors			Bottom 5 Small/Mid Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Cerence	3.56	2.81	ARKO Corp	3.10	-0.29
Axos Financial	3.01	1.60	Williams-Sonoma	0.26	-0.13
J2 Global	2.64	1.05	Tractor Supply Company	2.52	-0.09
Shyft Group	2.21	0.99	BellRing Brands	0.40	-0.08
DaVita	2.73	0.97	FTI Consulting	0.58	-0.06

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Cerence	4.93	3.95	ARKO Corp	2.86	-0.32
Axos Financial	3.01	1.65	BellRing Brands	0.48	-0.12
Atlantica Sustainable Infrastructure	4.04	1.37	Tractor Supply Company	2.57	-0.10
J2 Global	3.37	1.34	FTI Consulting	0.58	-0.06
Avient Corp	2.29	1.17	Perspecta	0.60	-0.06

	Baird Small/Mid Value Composite Performance							Baird Small Value Composite Performance						
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (1/1/00)	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (3/1/05)
GROSS OF FEES	24.47	1.44	1.44	1.15	6.85	10.04	10.61	27.56	2.78	2.78	1.19	7.56	9.24	8.32
NET OF FEES	24.23	0.61	0.61	0.33	5.98	9.16	9.64	27.44	2.30	2.30	0.69	7.02	8.62	7.54
INDEX*	28.51	4.88	4.88	4.34	9.43	9.33	9.47	33.36	4.63	4.63	3.72	9.65	8.66	6.99

\* Index for the Baird Small/Mid Value Composite is the Russell 2500 Value. Index for the Baird Small Value Composite is the Russell 2000 Value.

Positions identified above do not represent all the securities held, purchased or sold during this time period. The contribution to return of these securities is calculated by multiplying the weight of the security at the beginning of the time period by the security return and represents a model portfolio. To obtain a complete list of positions and contributions for the period, please contact Baird Equity Asset Management at 800-792-4011. Past performance does not guarantee future results.

Performance for the Small & Small/Mid Value Strategies can be found on our website [BairdEquityAssetManagement.com](http://BairdEquityAssetManagement.com), or by clicking on the following links: [Small Cap Value Strategy](#) & [Small/Mid Cap Value Strategy](#).

Returns are presented gross and net of management fees and include the reinvestment of all income. Composite performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains.

The Russell 2500 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. Indices are unmanaged and direct investment is not possible.

This commentary represents portfolio management views and portfolio holdings as of 12/31/20. 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.

Investment Professional	Years of Experience	Years with Baird	Educational Background
<b>Michelle Stevens, CFA</b> Senior Portfolio Manager	27	8	MBA – (University of Cincinnati) BS – Economics (Wittenberg University)
<b>Richard Roesch, CFA</b> Senior Research Analyst	27	8	BS – Finance (Butler University)
<b>Jonathan DeMoss, CFA, CPA, CFP</b> Senior Research Analyst	24	8	MBA – (Indiana University) BS – Accounting & Management (Iowa State University)
<b>Rob Zwiebel</b> Portfolio Specialist & Consultant Relations	29	8	BS – Finance (University of Dayton)
<b>Jesse Parsons</b> Trading & Operations Analyst	15	8	BBA – Finance & Marketing (University of Kentucky)