International and Global Growth Funds

Q4 2021 COMMENTARY

CHAUTAUQUA CAPITAL MANAGEMENT
A DIVISION OF BAIRD

INTRODUCTION

Global equity markets whipsawed in the fourth quarter but ultimately logged gains. The U.S. market was up significantly, developed markets were up modestly, and emerging markets were down modestly.

The Federal Reserve started and then accelerated the normalization of its monetary policies, while the spread of the Omicron variant threatened to undermine the economic recovery. That back and forth, between conflicting forces, was the fuel for the dramatic gains and losses in stocks. Additionally, the regulatory environment surrounding Chinese companies remained cloudy.

In this past year, which was exceptionally volatile, all of Chautauqua's portfolios appreciated in value. The challenges included vaccine rollouts, economic recovery, resurgent coronavirus waves, supply chain disruptions, elevated inflation, changes in monetary policies, and regulatory uncertainties. We made continuous adjustments to emphasize holdings, including initiating several new positions, that we believe are valued more attractively or are better suited to transmit pricing power. We also actively trimmed the weightings of Chinese holdings in order to contain the specific risks from regulatory uncertainties. Thank you for entrusting us to invest your precious capital and to navigate this challenging environment.

In the fourth quarter of 2021, the Chautauqua International Growth Fund Net Investor Class returned -0.86%, underperforming the MSCI ACWI ex-U.S. Index® ND, which returned 1.82%. The Chautauqua Global Growth Fund Net Investor Class returned 2.62% during the quarter, underperforming the MSCI ACWI Index® ND, which returned 6.68%.*

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, and large capitalization stocks outperformed small capitalization stocks. In emerging markets, growth style underperformed value style.

Sector performance was mostly positive and country performance was mixed for the quarter.

MSCI Sector and Country Performances (QTD as of 12/31/2021)

Sector	Performance	Country	Performance	Country	Performance
Information Technology	12.65%	Switzerland	12.83%	Netherlands	3.54%
Utilities	10.35%	United States	10.08%	Australia	2.14%
Real Estate	9.09%	Taiwan	8.48%	India	-0.15%
Consumer Staples	8.42%	Canada	7.37%	Singapore	-3.37%
Materials	7.21%	Israel	7.22%	Hong Kong	-3.55%
Health Care	6.80%	France	7.14%	Japan	-3.94%
Consumer Discretionary	6.10%	Indonesia	6.48%	China	-6.06%
Industrials	5.56%	Denmark	5.81%		
Financials	3.25%				
Energy	3.10%				
Communication Services	-1.51%				

Based on select MSCI country performance returns.

**Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit bairdfunds.com.*

INVESTMENT TEAM

- Generalists with specialized skills
- Averaging 25 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

In the U.S., economic growth has continued well-above potential, and the labor market has continued to recover much closer to full employment. Additionally, inflation has broadened out, increasing the threat of it becoming entrenched. In order to tame inflation, the Federal Reserve (Fed) will accelerate the taper of its bond purchase program, with plans to remove the pandemic stimulus by March. The Fed also expects to raise interest rates soon thereafter, for a total of three times next year. While these are notable shifts from the forecasts the Fed communicated just one quarter ago, the response is sensible.

In Europe, economic growth and inflation are by far at their highest levels in the eurozone's modern history. However, the European Central Bank (ECB) is more reluctant to wind back its support. It is still scarred by raising rates too early following the Great Financial Crisis, which set off the double-dip recession and years of anemic growth compared to the U.S. The ECB said it will rule out interest rate increases next year but continue bond purchases, though at a lower rate than in 2021, which was supercharged by extra pandemic stimulus.

The risk that economies might be overheating in the post-pandemic recovery may be causing concern in the U.S. and Europe, but Japan is wrestling with the opposite problem. In Japan, the economic recovery has been underwhelming, and the government has recently responded with a fresh fiscal stimulus. Whether this will reach the desired impact is still uncertain, as the government had already tried with massive pandemic stimulus to no lasting avail. Supply chain disruptions have played a part in the comparative performance gap, but those are issues the U.S. and Europe also face. More likely, severe and persisting coronavirus restrictions play a larger role.

PERFORMANCE ATTRIBUTION

Selection effect was a detractor to returns in the Chautauqua International Growth Fund, particularly in health care and consumer discretionary holdings. Within these sectors, the largest detractors were WuXi Biologics, BeiGene, and Alibaba. Meanwhile, holdings in the financials sector helped performance the most. Lack of exposure to communication services was also a contributing factor. The largest contributors to returns in the portfolio were Fairfax Financial, Constellation Software, and Novo Nordisk.

Selection effect was a detractor to performance in the Chautauqua Global Growth Fund, particularly in health care and information technology holdings. Within these sectors, some of the largest detractors were WuXi Biologics, BeiGene, Sinopharm, and Adyen. Holdings in financials as well as holdings and underweight in communication services contributed to relative returns. The largest contributors to returns in the portfolio were NVIDIA, Fairfax Financial, Charles Schwab, and Novo Nordisk.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Chautauqua International Growth Fund, 65% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Chautauqua Global Growth Fund, 71% 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 Fund, we exited a position in AMS and reduced positions in Adyen, Julius Baer, and WuXi Biologics. Proceeds were used to initiate new positions in Aptiv and Kering and increase positions in SolarEdge, Suzuki Motor, and Taiwan Semiconductor.

In the Global Fund, we exited positions in AMS and Bristol-Myers Squibb and reduced positions in Charles Schwab, Constellation Software, SVB Financial, Tata Consultancy, and WuXi Biologics. Proceeds were used to initiate new positions in Aptiv, Kering, and Micron and increase positions in Alphabet, SolarEdge, Suzuki Motor, and Taiwan Semiconductor.

Top 5 Average Weighted International Fund Holdings* for Q4 2021

Security	Avg. Weight	Contribution
Constellation Software	5.60	0.74
Novo Nordisk	4.96	0.70
ASML Holding	4.95	0.32
Tata Consultancy	4.79	-0.03
Waste Connections	4.69	0.36

Bottom 5 Average Weighted International Fund Holdings* for Q4 2021

Security	Avg. Weight	Contribution
Kering	0.27	0.04
AMS AG	0.29	0.06
Aptiv	0.78	-0.03
Hong Kong Exchanges	1.70	-0.09
Brookfield Renewable	1.84	-0.07

Top 5 Average Weighted Global Fund Holdings* for Q4 2021

Security	Avg. Weight	Contribution
Alphabet	4.25	0.33
Constellation Software	3.55	0.48
Novo Nordisk	3.42	0.50
Genmab	3.40	-0.25
Mastercard	3.38	0.13

Bottom 5 Average Weighted Global Fund Holdings* for Q4 2021

Security	Avg. Weight	Contribution
Bristol-Myers Squibb	0.13	-0.01
AMS AG	0.15	0.03
Kering	0.18	0.03
Alteryx, Inc.	0.42	-0.07
Aptiv	0.61	-0.02

*The holdings identified do not represent all of the securities purchase, sold, or recommended for the funds; 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.

Adyen had a 3.46%, Alibaba 2.11%, BeiGene 2.50%, Fairfax Financial 4.63%, Julius Baer 1.93%, SolarEdge 2.22%, Suzuki Motor Corporation 2.42%, Taiwan Semiconductor 4.32%, and WuXi Biologics 1.70% weighting in the International Fund as of 12/31/2021. Adyen had a 2.41%, BeiGene 1.44%, Charles Schwab 3.10%, Fairfax Financial 3.34%, Micron 1.35%, NVIDIA 3.06%, Sinopharm 1.41%, SolarEdge 1.57%, Suzuki Motor 1.70%, SVB Financial 2.71%, Taiwan Semiconductor 3.08%, Tata Consultancy 2.90%, and WuXi Biologics 1.13% weighting in the Global Fund as of 12/31/2021.

FUND PERFORMANCE FOR THE PERIODS ENDING DECEMBER 31, 2021* (%)						
International						
	Q4 2021	**1 Year**	**3 Year**	**5 Year**	**Since Inception** (04/15/2016)	**Cumulative Since Inception** (04/15/2016)
Chautauqua International Growth- Net Investor Class	**-0.86**	**6.62**	**23.39**	**16.14**	**13.10**	**102.00**
Chautauqua International Growth- Net Institutional Class	**-0.80**	**6.90**	**23.73**	**16.45**	**13.38**	**104.93**
MSCI ACWI ex-U.S. Index® - ND	1.82	7.82	13.18	9.61	8.93	62.99
Excess Returns (Institutional Net)	*-2.62*	*-0.92*	*10.55*	*6.84*	*4.45*	*41.94*
Morningstar Percentile Rank in US Fund Foreign Large Growth Category (Rank/Count)		**59%** (260/436)	**13%** (53/407)	**14%** (53/390)	**22%** (81/378)	**22%** (81/378)
Global						
	Q4 2021	**1 Year**	**3 Year**	**5 Year**	**Since Inception** (04/15/2016)	**Cumulative Since Inception** (04/15/2016)
Chautauqua Global Growth- Net Investor Class	**2.62**	**12.64**	**26.32**	**18.70**	**16.35**	**137.50**
Chautauqua Global Growth- Net Institutional Class	**2.69**	**12.93**	**26.57**	**18.96**	**16.60**	**140.42**
MSCI ACWI Index® - ND	6.68	18.54	20.38	14.40	13.66	107.81
Excess Returns (Institutional Net)	*-3.99*	*-5.61*	*6.19*	*4.56*	*2.94*	*32.61*
Morningstar Percentile Rank in US Fund World Large-Stock Growth Category (Rank/Count)		**64%** (233/360)	**33%** (106/324)	**46%** (138/302)	**53%** (151/285)	**53%** (151/285)

*Performance data represents past performance and does not guarantee future results. Returns over one year are annualized unless otherwise specified. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit bairdfunds.com.

The Morningstar Percentile Rank is **based on the fund's total return** relative to all funds in the same category for the period. The highest (or most favorable) percentile rank is 1%, and the lowest (or least favorable) percentile rank is 100%. Morningstar total returns include both income and capital gains/losses and excludes sales charges.

Expense Ratios: Chautauqua International Growth Fund Institutional Shares 0.80% (net)/0.90% (gross); Investor Shares 1.05% (net)/1.15% (gross). Chautauqua Global Growth Fund Institutional Shares 0.80% (net)/1.04% (gross); Investor Shares 1.05% (net)/1.29% (gross). The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the Advisor. The Advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2022 to the extent necessary to ensure that the total operating expenses do not exceed 1.05% of the Investor Class's average daily net assets and 0.80% of the Institutional Class's average daily net assets. Investor class expense ratios include 0.25% 12b-1 fee. The Total Annual Fund Operating Expenses before fee waiver/expense reimbursement for 2020 were 0.96% (Institutional Shares) / 1.21% (Investor Shares) for the Chautauqua International Growth Fund and 1.23% (Institutional Shares) / 1.48% (Investor Shares) for the Chautauqua Global Growth Fund.

OUTLOOK

Some market participants see the Fed's faster taper and new interest rate forecasts as signs that it has been forced into a dramatic shift in its approach. Over the short run, it may appear so. But in the long run, not really. While it is true that the "dot plot" has unmistakably moved up for the next two years, the median forecast for interest rates in 2024 is 2.1%, and the long-run forecast of 2.5% has not changed.

Furthermore, the median forecast for personal consumption expenditure inflation is expected to dip from the most recent pace of above 5% to 2.6% in 2022, 2.3% in 2023, and 2.1% in 2024. In other words, above-target inflation will last about three years, and only one of those years should really be categorized as "especially high", 2021.

Again, on the long-term inflation and interest rate outlook, the Fed's median interest rate forecast is 2.1%, and its median inflation forecast is 2.1%. Thus, the real interest rate then is 0%. While the Fed officially retired the word "transitory" to describe the current inflation paradigm, in actuality, the long-term view has not changed much at all.

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If that is the Fed's view, then also consider the views of the average consumer and the bond markets. They all appear to be similar. The most recent estimate of five-year forward inflation from the University of Michigan consumer sentiment survey remains under control at 3%, despite all the bad press on rising prices. And historically, this metric tends to be higher than the future inflation level that is eventually reached. Additionally, the five-year inflation "breakeven" currently priced by the bond markets are near 2.7%, even trending down in December.

Once inflation subsides, the "new normal" will probably look a lot like the "old normal". Prior to the pandemic, this was the situation that worried many. The Fed's median forecast for economic growth in 2024 and beyond is 2%. That sort of growth is fine but uninspiring, and the long-term headwinds of weak productivity growth and demographics will be a drag.

From a stock market perspective, historically, rate hiking cycles have been associated with positive stock market returns. That includes the Fed's last hiking cycle between 2016 and 2019, which was temporarily challenged by the market selloff in the latter part of 2018. Moreso, for investors that believe low bond yields are a critical support to the stock market in the current environment, then the fact that bond markets have priced long-term bond yields to go nowhere should be very reassuring. This is in spite of elevated inflation and three rate hikes next year. On the other hand, nerves are still on alert because stock market performance has been exceptionally good the past few years.

On a global basis, the Organization for Economic Cooperation and Development forecasts inflation to slow to 4.4% in 2022 and 3.8% in 2023 and for economic growth to slow to 4.5% in 2022 and 3.2% in 2023. The big picture is that above-trend inflation and growth rates on the global scale will slow back to their pre-pandemic trendlines, just as in the U.S. scenario.

We believe our investment philosophy, which emphasizes businesses with competitive advantages and strong market positions, should continue to compound wealth at faster-than-market rates in this normalizing environment. Some of the most exciting growth areas pertain to strong secular trends, many of which are agnostic to the growth potential of any geographic region. These include our many investments in and adjacent to cloud computing, software-as-a-service, digitalization, artificial intelligence, semiconductor advancement, e-commerce, industrial automation, electric vehicles, and novel biologic and biosimilar therapies. Other exciting growth areas pertain to rapidly expanding middle classes, broadly in emerging economies and especially in Asia, which are propelling the uptake of various consumer goods and financial products.

The most significant country among emerging countries is China. The specific threat to portfolio companies in China stems from increased regulation, not just from within China itself, but also externally from the U.S. With respect to the Chinese government, the list of policy considerations is diverse and broadly encompasses socioeconomic disparities, data privacy, national security, and stronger oversight of the internet sector. With respect to the U.S. government, relations with China have weakened considerably in recent years, making way for higher levels of trade protectionism, an arms race mentality with technology, and quasi-big stick diplomacy. The abrupt ways that regulatory policies have been introduced, from both sides, have proved extremely disruptive for financial markets.

In order to contain those specific risks, we actively trimmed China weightings by approximately 6% in the International portfolios and by approximately 4% in the Global portfolios over the past year. The performance drag from holdings in China alone were substantially higher than the drag from any other grouping by sector or geographic region. Valuations for holdings in China have compressed substantially, and yet these businesses still possess considerable competitive advantages and leading market positions. These reasons underlie our continuing investment in these companies.

Lastly, valuation matters. It is a core deliberation in our investment process, alongside growth rates and returns on capital. Over the past year, we made a series of adjustments to reduce weightings in holdings with extended valuations and to increase weightings in holdings with comparatively attractive valuations or that we believe were well-suited to transmit pricing power in the inflationary environment.

BUSINESS UPDATE

Brian Beitner, CFA, announced his planned retirement effective December 31, 2022. To view his personally written retirement announcement letter, please **click here**.

On behalf of the Partners of Chautauqua Capital Management, we would like to express our gratitude and appreciation to Brian for all his immense contributions to our organization. He is not only the Founder and long-time Managing Partner of Chautauqua Capital, but he is also an exceptional investor, a sage teacher, and a dear friend.

During the course of 2022, Brian will remain a portfolio manager on the Baird Chautauqua mutual funds and strategies, continue to contribute his thoughts and perspectives as part of the team-oriented investment process, and transition to an advisory role in support of Jesse, Haicheng, and Nate. As always, Brian and the rest of the team are available to speak with you further should there be any questions.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

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	15	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	20	TCW
David Lubchenco *Partner*	MBA, University of Denver BA, The Colorado College	29	Marsico Capital Management Transamerica Investment Management Janus Capital
Nate Velarde *Partner*	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	20	PIMCO Nuveen Investments TCW

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

This commentary represents portfolio management views and fund holdings as of 12/31/21. Those views and fund holdings are subject to change without notice. The performance of any single fund holding is no indication of the performance of other holdings of the Chautauqua International Growth Fund and Chautauqua Global Growth Fund. Past performance is no guarantee of future results.

The Funds may hold fewer securities than other diversified funds, which increases the risk and volatility because each investment has a greater effect on the overall performance. Foreign investments involve additional risks such as currency rate fluctuations and the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulations.

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 27 emerging markets, including the United States. 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 27 emerging markets countries. Indices are unmanaged and direct investment is not possible.

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