Baird Chautauqua International Gr Instl CCWIX

Still a worthy source of focused foreign-large-growth exposure.

Morningstar's Take CCWIX

Overall Morningstar Rating™ ★★★★

407 US Fund Foreign Large Growth
(30 Jun 2023)

	3 Yr 407 funds	5 Yr 351 funds	10 Yr — funds
Morningstar Rating™	5★	4★	—

Morningstar Medalist Rating™	Bronze
Analyst-Driven %	100.00
Data Coverage %	100.00

Morningstar Pillars	
Process (12 Jun 2023)	Average
People (12 Jun 2023)	Above Average
Parent (25 Mar 2022)	High
Performance (12 Jun 2023)	
Price (12 Jun 2023)	

12 Jun 2023 | by William Samuel Rocco

Chautauqua International Growth remains attractive after the expected retirement of one of its comanagers. The mutual fund's two share classes and its separately managed account retain their Morningstar Analyst Rating of Bronze.

Chautauqua Capital Management announced in late 2021 that comanager Brian Beitner would retire at the end of 2022. Beitner gradually reduced his responsibilities during 2022 and smoothly transitioned off this strategy and the firm's global large-stock growth strategy at the end of 2022. Comanagers Jesse Flores, Haicheng Li, and Nathaniel Velarde remain in place and have good resumes for the task at hand. Flores has comanaged the SMA versions of this strategy and the global strategy since late 2013, while Li and Velarde have served as comanagers on both strategies since mid-2016 and mid-2019, respectively. Flores, Li, and Velarde have 16 to 21 years of investment experience each, and they have played significant roles in the global strategy's long-term success.

The current three-person team uses the same quality-driven and focused growth process this strategy as has always been in place here (and at the global strategy). The team seeks to find quality growers that are poised to benefit from long-term global trends, enjoy sustainable competitive advantages, and have conservative accounting, healthy balance sheets, and shareholder alignment. It seeks to buy these firms at reasonable, but not necessarily cheap, valuations. And it constructs a portfolio of roughly 25 to 35 stocks and often allows its stock selection to lead to sizable sector and country overweights versus relevant indexes and its foreign large-growth Morningstar Category peers.

The team has earned good results with its process over time. Indeed, the mutual fund and SMA versions of the strategy have posted strong returns since their respective inceptions in April 2016 and January 2009—as well as over shorter periods—albeit with ample volatility along the way.

This strategy remains appealing. But its focused process comes with a variety of risks, and it is best suited for investors with long time horizons.

Process Average | William Samuel Rocco | 12 Jun 2023

The current three-person team uses the same quality-driven and focused growth process as always has been in place here. The team initially screens non-U.S. stocks based on various growth and profitability metrics to identify those that are poised to benefit from long-term trends.

The team then dives into prospective holdings to find those with sustainable competitive advantages. It also prefers firms with conservative accounting, healthy balance sheets, and shareholder alignment, and it considers how each firm's regional and currency exposure may affect its business. The team seeks these firms at reasonable, but not necessarily cheap, valuations, comparing future cash flow estimates with the current cost of the business. If it determines that an appealing stock is too expensive, that stock sits on a watchlist until its price reaches an attractive level. The team constructs a focused portfolio of 25 to 35 stocks, and it often allows its stock selection to lead to sizable sector and country overweights versus relevant indexes and peers.

This approach, which the team also uses for its global strategy, is reasonable. But it comes with significant issue, sector, and country risks, and the current three-person team has only been executing it without its architect—former comanager Brian Beitner—for roughly six months. Thus, the strategy earns an Average Process rating.

The team runs a focused portfolio of roughly 25-35 stocks, and the mutual fund owned 31 stocks and devoted 43% of its assets to its top 10 names as of March 2023. The team favors higher-quality growers, and it readily loads up on sectors and countries that are packed with such names. The mutual fund had a 33.2% stake in tech stocks and an 18.3% position in healthcare names as of March, in fact, versus 15.9% and 14.5% for its typical rival and 18.2% and 13.6% for the index, respectively. Meanwhile, two Canadian names—Constellation Software and Fairfax Financial Holdings—were top-five holdings, and the mutual fund had a 13.8% weight in Canada overall versus 5.3% for its typical rival and 7.5% for the index. The mutual fund also had far more exposure to Denmark and the Netherlands than its average peer and the index. The team continues to invest meaningfully in emerging-markets stocks that meet its criteria. The mutual fund had relatively sizable positions in China, India, and Indonesia. Conversely, the mutual fund had no exposure to basic-materials or energy names as well as no exposure to German or United Kingdom stocks, while its average peer and the index have 9.9% and 7.6% stakes in those two sectors combined and 18.6% and 10.7% positions in those two markets combined, respectively. (The SMA owned the same 31 names as the mutual fund as of March.)

People Above Average | William Samuel Rocco | 12 Jun 2023
This strategy remains in good hands. Brian Beitner gave up his comanager positions on this strategy as well as a global large-stock growth strategy and retired in December 2022, as expected. Beitner, who launched this strategy in 2006 while at TCW Group and spent more than 40 years in the investment field, will be missed. But his transition off the strategy was smooth—he relinquished his responsibilities gradually during 2022—and comanagers Jesses Flores, Haicheng Li, and Nathaniel Velarde remain in place and are well-credentialed. Flores comanaged the SMA versions of this strategy and the global strategy with Beitner for nine years, while Li and Velarde served as managers alongside Beitner and Flores on the strategies for roughly 6.5 and 3.5 years, respectively. Thus, Flores, Li, and Velarde, who have 16 to 21 years of investment experience each, are well versed in the focused quality-growth process that is used at both strategies and have played major roles in their long-term success.

The already small team is even smaller now that Beitner has retired, of course, but it remains reasonably sized given that it uses only one process and runs only two strategies. The two strategies are concentrated, have lots of portfolio overlap, and own a limited number of names in aggregate. For all these reasons, this strategy retains its Above Average People rating.

Parent High | William Samuel Rocco | 25 Mar 2022
Baird's best-in-class stewardship attributes and investor alignment deserve a Parent rating upgrade to High from Above Average.

The firm's taxable-bond franchise, which boasts low fees, a well-resourced team, and a risk-aware investment process across its strategies, has garnered considerable investor attention over the past few years. It swelled from $37 billion in 2016 to $120 billion at the end of 2021, encompassing 85% of the firm's total $139 billion in assets. This growth bears monitoring, but longtime CIO and lead fixed-income portfolio manager Mary Ellen Stanek has shown prudence in adding personnel and operational resources to manage this considerable load. She has also been circumspect in succession planning and elevated her veteran deputy Warren Pierson to co-CIO in October 2021. Though the firm's municipal-bond and equity franchises are much smaller, they also sport sensible leadership and many of the same positive attributes as the taxable fixed-income lineup.

Baird has long supported its investors by providing transparent reporting on its own firm and its investment rationale through timely market updates and webinars. Internally, the firm is also keen to encourage employee retention and engagement: Turnover among the firm's analyst staff has historically been low, and around two thirds of employees owned stock in the privately held firm at the end of 2021.

Performance | William Samuel Rocco | 12 Jun 2023
This strategy has thrived over the short and longer terms. Top holding Novo Nordisk and several of its other healthcare stocks posted strong gains during the past year, as have a number of its financial-services names. Thus, the institutional share class of the mutual fund returned 12.0% during the 12 months through May 2023, whereas its typical foreign large-growth category peer gained 1.8% and the MSCI ACWI ex USA Growth Index—the category benchmark—returned 0.2%.

The strategy has often outperformed in the past, and the institutional share class of the mutual fund has comfortably outpaced its average peer and the index over three years, over five years, and since its April 2016 inception. From May 1, 2016, through May 31, 2023, in fact, that share class earned an annualized return of 9.4%, while its typical rival and the benchmark posted 6.1% and 5.9% annualized returns, respectively. And though the strategy has been pretty volatile—largely because of its stock-specific concentration—the institutional share class of the mutual fund has posted better Morningstar Risk-Adjusted Returns than its average peer and the index over three years, over five years, and since its April 2016 inception.

The SMA version of the strategy has also posted strong returns over three, five, and 10 years as well as since its inception at the start of 2009, albeit with ample volatility.

Price | William Samuel Rocco | 12 Jun 2023
It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent Pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Medalist Rating of Bronze.

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The market prices of securities can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

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