

# Chautauqua International Growth Instl CCWIX

Still a worthy foreign large-growth vehicle for the long haul.

## Morningstar's Take CCWIX

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Bronze

### Morningstar Pillars

Process	Average
Performance	—
People	Above Average
Parent	High
Price	—

### Role In Portfolio

Supporting Player

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	-18.98	1.89
2021	6.90	-0.79
2020	39.84	14.36
2019	26.72	-1.12
2018	-16.94	-2.87

Data through 5-31-22

6-16-22 | by William Samuel Rocco

Chautauqua International Growth will remain in able hands after the expected retirement of a comanager in late 2022. The mutual fund's two share classes and its separate account retain their Morningstar Analyst Rating of Bronze.

As was announced, Brian Beitner will give up his comanager positions on this and other strategies and retire in December 2022. Beitner is skilled as well as seasoned, and he will be missed. But comanagers Jesse Flores, Haicheng Li, and Nathaniel Velarde will remain in place after Beitner retires, and they have 15-20 years of investment experience each and strong resumes overall. Beitner and Flores have comanaged the SMA versions of this foreign large-growth strategy and a global large stock growth strategy together for roughly 8.5 years now, while Li and Velarde have served as managers alongside Beitner and Flores on both strategies for roughly six years and three years, respectively. And the team has earned

good long-term returns at its global large stock growth SMA.

The team uses the same quality-driven and focused growth process on this strategy as it does at its global one (and that process will remain the same after Beitner retires). 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 category peers.

The team has earned good with its process at the foreign large-growth SMA (which is roughly 10 years older than the mutual fund). Indeed, from its early 2006 inception through May 2022, the SMA has earned a 7.5% annualized gross-of-fees gain versus 4.4% and 5.9% for the MSCI ACWI ex USA Growth Index and its typical rival, respectively.

This strategy remains appealing. That said, its process comes with real risks, and it is best suited for investors with long time horizons.

**Process Pillar** Average | William Samuel Rocco 06/16/2022

The team initially screens mid- and large-cap non-U.S. stocks based on various growth and profitability metrics. It aims to identify those that are poised to benefit from long-term global trends, such as an emerging middle class and aging population. From there, the team dives into prospective holdings to find those with sustainable competitive advantages, which it believes can stem from sources such as strong cultures and brands. 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 to purchase these firms at reasonable, but not necessarily cheap, valuations, comparing its 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 to buy. The team constructs a focused portfolio of roughly 25 to 35 stocks, and it often allows its stock selection to lead to sizable sector and country overweights versus relevant indexes and its foreign large growth peers. This approach is reasonable. But it's not overly distinctive versus other focused growth disciplines and comes with significant price, issue, sector, and country risks, so the strategy earns an Average Process score.

The team normally runs a concentrated portfolio of roughly 25-35 stocks, and the mutual-fund version of the strategy owned 30 stocks and devoted 49% of its assets to its top 10 names as of March 2021. The team favors higher-quality growers, and the strategy's historical earnings growth, return on equity and return on invested capital are higher those its average peer and of the MSCI ACWI ex USA Growth Index. The strategy's sector positioning also reflects the team's growth tilt. The strategy had a 35.4% stake in tech stocks and a 17.5% position in healthcare names as of March 2021, in fact, versus 18.2% and 14.2% for its typical rival and 18.7% and 12.6% for the index, respectively. Meanwhile, two Canadian names—Constellation Software CSU and Fairfax Financial Holdings FFH—were top-five holdings, and the strategy had a 13.5% weight in Canada overall versus 5.5% for its typical rival and 6.9% for the index. The team also continues to invest meaningfully in emerging markets stocks that meet its growth and other criteria, and the strategy also had relatively sizable positions in India and Indonesia. Conversely, the strategy had no exposure to Australia, Germany or the United

Kingdom, while its average peer has roughly 18% of its assets in those three markets combined and the index has roughly 15%.

**Performance Pillar** | William Samuel Rocco 06/16/2022

The SMA version of this strategy has posted good returns since it launched in early 2006. From Feb. 1, 2006, through May 31, 2022, its 7.5% annualized gross-of-fees gain beat the respective 4.4% and 5.9% returns for the MSCI ACWI ex USA Growth and its typical foreign large-growth rival. The SMA has been significantly more volatile than the bogies, but it has compensated investors for the additional risk. It has posted a since inception Morningstar Risk Adjusted Return of 2.1%, in fact, versus Morningstar Risk Adjusted Returns of 0.2% and 1.4% for the index and its average peer, respectively. Consistent with its growth bias, the strategy has generally fared well in rising markets. For example, the SMA gained 37.6% gross of fees in 2017 versus 32.0% for the index and 32.8% for its typical rival, and it has captured 111% of the index's gains since inception. The strategy has had mixed results in selloffs. An above-average cash stake helped it hold up better than rivals in early 2020's bear market. The SMA also fared relatively well during 2015's correction but placed in the category's bottom quartile when stocks fell in 2008 and 2018. In all, the SMA has captured 98% of the index's losses in down markets. The market has favored this strategy's high-growth approach during much its history, but the team has done well picking stocks over the long term.

**People Pillar** Above Average | William Samuel Rocco 06/16/2022

As Chautauqua Capital Management previously announced, Brian Beitner will give up his comanager positions on this and other strategies and retire in December 2022. Beitner, who launched this strategy in 2006 while at TCW Group and has 42 years of investment experience, is skilled as well as seasoned, and he will be missed.

But comanagers Jesse Flores, Haicheng Li, and Nathaniel Velarde will remain in place after Beitner retires, and they have 15-20 years of investment experience each and strong resumes overall. Beitner and Flores have comanaged the SMA versions of this foreign large growth strategy

and a global large stock growth strategy together for roughly 8.5 years now, while Li and Velarde have served as managers alongside Beitner and Flores on both strategies for roughly six years and three years, respectively. And Beitner hired Li and Velarde as analysts at TCW and worked with them at that firm for roughly seven years.

The already small team will be even smaller after Beitner retires, of course, but it will remain 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. And the team has earned good long-term results at both strategies. For all these reasons, this strategy retains its Above Average People score.

**Parent Pillar** High | Gabriel Denis 03/25/2022  
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.

**Price Pillar** | William Samuel Rocco 06/16/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.

## Important Disclosure Information

**Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. The fund's current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please visit [bairdfunds.com](http://bairdfunds.com). Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and summary prospectus, containing this and other information, visit [bairdfunds.com](http://bairdfunds.com). Read it carefully before investing.**

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The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds.

For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx>.

**The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.**

The Institutional Class of the Chautauqua International Growth Fund received an overall rating of five stars among 397 Foreign Large Growth funds. The fund received five stars for the three-year period among 397 funds and five stars for the five-year period among 347 Funds as of June 30, 2022.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year

period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

The average annual total returns for the Institutional Class of the Chautauqua International Growth Fund as of June 30, 2022, are -21.17% for the one-year, 7.61% for the five-year and 8.01% since its April 15, 2016, inception date. The gross/net expense ratios of the Institutional Class are 0.86%/0.80%.

The average annual total returns for the MSCI ACWI World Index ex. U.S. Index as of June 30, 2022, are -19.42% for the one-year, 2.50% for the five-year and 4.70% since the fund's inception.

The Fund 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 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 Fund focuses on growth-style stocks and therefore the performance of the Fund will typically be more volatile than the performance of funds that focus on types of stocks that have a broader investment style.

*This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data and Fund holdings current through the most recent month-end, as well as credit quality profile current through the most recent quarter-end, please visit [www.bairdfunds.com](http://www.bairdfunds.com).*

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