

MARKET COMMENTARY

At the time of this writing, most of the nation is locked down with shelter-at-home orders as we approach in the coming weeks what we hope to be the peak of the COVID-19 outbreak in the United States. The global pandemic has virtually shut down much of the global economy, making financial analysis for many investments near impossible in the short run.

Our opinion is as follows: Until there is a highly effective therapeutic/prophylactic or a vaccine against COVID-19, the world will not return to normalcy. At this time, we expect a slow unwind from quarantine which will lead to a slow recovery. More specifically, consumer spending will remain at depressed levels, resulting in a high level of unemployment and ultimately recessionary business conditions. In this scenario, where timing is unknown, we find it difficult to assess risk for businesses most directly impacted such as travel and leisure, discretionary retail and banking. We pride ourselves on strong capital preservation, as illustrated by our good downside protection historically, and look to mitigate losses. At the same time, we seek to capitalize on the opportunity to upgrade the quality of the portfolio as great businesses become available at valuations within our parameters. As such, we have culled our pool of investible opportunities to those which offer more transparency into profitability in the current environment.

During this time of unprecedented uncertainty, our research focus is three-fold:

- Invest in businesses we believe will continue to prosper during an extended period of social distancing and the commensurate recession
- Invest in businesses that will continue to be industry leaders and perform well as we ultimately transition back to social normalcy
- Invest in business with strong balance sheets (i.e. low debt, high debt coverage ratios, strong free cash flow)

During the quarter, we made portfolio changes consistent with this new focus and exited holdings that did not meet the above criteria. Current and potential new investments include food producers, essential needs retailers, ecommerce-related businesses, work-from-home beneficiaries, telecommunications infrastructure providers, touchless payment processors, government consulting/IT outsourcing, roadway construction, utilities and datacenter facilities.

We will continue to exercise patience, waiting for compelling valuations to make new investments, as well as build out the rest of the portfolio to weather this period. Of course, the economic repercussions of the pandemic are fluid and we will continue to revise our strategy as the situation evolves.

BAIRD SMALL/MID CAP VALUE

The high-quality nature of our holdings combined with defensive positioning that we had in place at the beginning of the quarter led to meaningful outperformance. For the quarter, the Baird Small/Mid Cap Value Portfolio outperformed the benchmark Russell 2500 Value with a gross return of -27.9% versus -34.6% for the benchmark. For the one-year period, the Portfolio returned -22.6% gross of fees versus the benchmark Russell 2500 Value return of -28.6%. Since inception (1/1/00), the Baird Small/Mid Cap Portfolio has provided a gross annual return of 9.2% vs 7.3% for the Russell 2500 Value.

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

MICHELLE STEVENS, CFA

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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

Performance for the quarter was aided by superior returns from our holdings in most economic sectors including Real Estate Investment Trusts, Information Technology, Utilities, Consumer Discretionary, Energy and Healthcare. The Portfolio's real estate investment trusts outperformed the benchmark sector by more than 1,100 basis points thanks to holdings such as CyrusOne, Agree Realty and CareTrust. Government IT outsource providers Leidos and CACI, along with Verisign, helped our technology position outperform by 900 basis points. In addition to being overweight defensive utilities, Portfolio holdings in the sector lost roughly 9% versus an 18% decline for utilities in the Russell 2500 Value. In similar fashion, our healthcare position held up extremely well, shedding less than 5% versus a 17% decline for healthcare in our benchmark. Other stocks which meaningfully outperformed include Boingo Wireless and Dolby Laboratories.

Holding back relative performance for the quarter were Financials, with the largest declines in mortgage-related equities NMI Holdings, Essent Group and Blackstone Mortgage. To a lesser extent, Portfolio Industrials and Consumer Staples lagged benchmark returns with no meaningful individual stock underperformance.

Early in the quarter, we exited a number of positions due to new risks associated with the COVID-19 pandemic. These include OneSpaWorld Holdings, Astronics, ON Semiconductor and CareTrust REIT. New positions were initiated in Tractor Supply, Simply Good Foods, Atlantica Yield and WEX, Inc.

BAIRD SMALL CAP VALUE

The high-quality nature of our holdings combined with defensive positioning that we had in place at the beginning of the quarter led to meaningful outperformance. For the quarter, the Baird Small Cap Value Portfolio outperformed the benchmark Russell 2000 Value with a gross return of -27.7% versus -35.7% for the benchmark. For the one-year period, the Portfolio returned -23.4% gross of fees versus the benchmark Russell 2000 Value return of -29.6%. Since inception (3/1/05), the Baird Small Cap Value Portfolio has provided a gross annual return of 6.2% vs 3.9% for the Russell 2000 Value.

Performance for the quarter was aided by superior returns from our holdings in most economic sectors including Real Estate Investment Trusts, Information Technology, Utilities, Consumer Discretionary, Energy and Healthcare. The Portfolio's real estate investment trusts outperformed the benchmark sector by more than 1,100 basis points thanks to holdings such as CyrusOne, Agree Realty and CareTrust. In addition to being overweight defensive utilities, portfolio holdings in the sector lost roughly 9% versus a 14% decline for utilities in the Russell 2000 Value. In similar fashion, our healthcare position held up extremely well, shedding a little more than 5% versus a 25% decline for healthcare in our benchmark. Other stocks which meaningfully outperformed include Boingo Wireless and Dolby Laboratories.

Holding back relative performance for the quarter were Financials, with the largest declines in mortgage-related equities NMI Holdings, Essent Group and Blackstone Mortgage. To a lesser extent, portfolio Consumer Staples trailed benchmark returns due to laggard Lamb Weston.

Early in the quarter, we exited a number of positions due to new risks associated with the COVID-19 pandemic. These include OneSpaWorld Holdings, Astronics and CareTrust REIT, as well as trimming Lamb Weston. New positions were initiated in Tractor Supply, Simply Good Foods, and Verra Mobility, as well as adding to our position in Dolby Laboratories.

There is certainly a great deal more that could be discussed, so please don't hesitate to contact us directly with additional questions or requests. 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
ICU Medical	2.93	0.38	NMI Holdings	2.66	-2.30
Boingo Wireless	3.23	0.12	Blackstone Mortgage	2.66	-1.88
CyrusOne	2.72	0.06	Meta Financial	3.40	-1.31
Zayo Group	0.30	0.00	Essent Group	2.00	-1.29
DaVita	2.23	-0.01	Fidelity National Financial	2.03	-1.19

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
ICU Medical	3.04	0.38	NMI Holdings	2.83	-2.63
Construction Partners, Inc	1.79	0.20	Blackstone Mortgage	2.78	-1.94
Southwest Gas	3.16	0.18	Essent Group	2.41	-1.79
Leidos Holdings	0.29	0.11	National Retail Properties	2.87	-1.48
Boingo Wireless	3.24	0.08	Meta Financial	3.44	-1.34

	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	-27.86	-27.86	-22.55	-4.28	-1.00	7.21	9.17	-27.68	-27.68	-23.38	-4.87	-0.97	6.39	6.23
NET OF FEES	-28.01	-28.01	-23.19	-5.07	-1.78	6.34	8.21	-27.77	-27.77	-23.72	-5.32	-1.45	5.75	5.45
INDEX*	-34.64	-34.64	-28.60	-8.40	-2.15	5.65	7.30	-35.66	-35.66	-29.64	-9.51	-2.43	4.79	3.94

* 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, 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 03/31/20. 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
Michelle Stevens, CFA Senior Portfolio Manager	27	8	MBA – (University of Cincinnati) BS – Economics (Wittenberg University)
Richard Roesch, CFA Senior Research Analyst	27	8	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP Senior Research Analyst	24	8	MBA – (Indiana University) BS – Accounting & Management (Iowa State University)
Rob Zwiebel Portfolio Specialist & Consultant Relations	29	8	BS – Finance (University of Dayton)
Jesse Parsons Trading & Operations Analyst	15	8	BBA – Finance & Marketing (University of Kentucky)