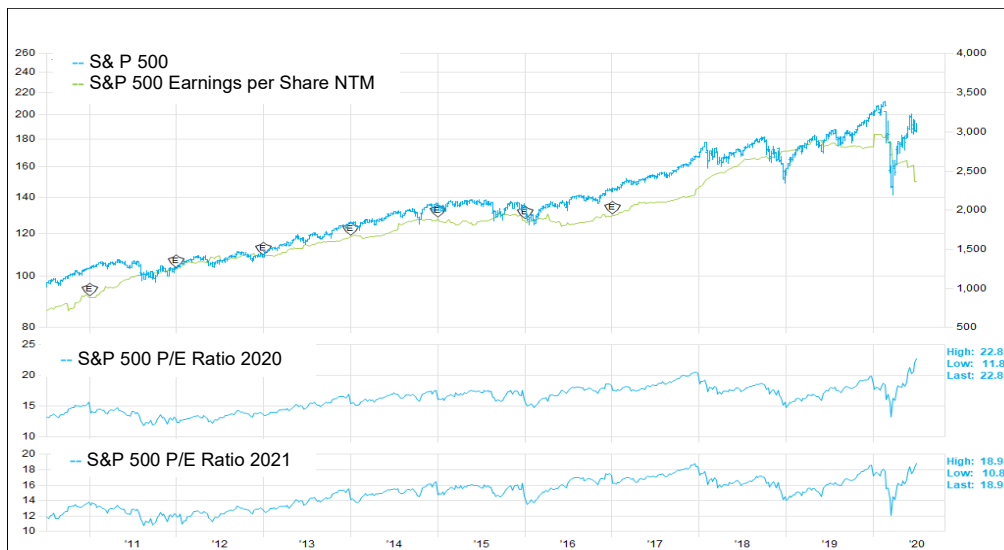


### MARKET COMMENTARY

Much has changed since the major market averages recorded fresh highs in February of this year...much that is, except the level of those averages. The epic plunge and ricochet of the market puts the S&P 500 within 8% of its all-time high and the Nasdaq Composite 2% above where the sell-off began. During that time, however, the economy has entered the steepest recession since the Great Depression. Corporate earnings estimates have been revised lower by 26% for 2020 and 14% for 2021. As a result, valuations as measured by price-to-earnings ratio have risen to levels not seen even during the Financial Crisis of 2008. At current levels, the market appears priced for perfection, despite the country's progress controlling the COVID-19 outbreak deteriorating at an exponential pace.

S&P 500 vs Earnings and Valuation



Source: Factset

Our opinion remains: Until there is a highly effective therapeutic/prophylactic or a vaccine against COVID-19, the world will not return to normalcy. We pride ourselves on strong capital preservation, as illustrated by our good downside protection historically, and look to mitigate losses. We continue to make investments in high quality business that are market leaders and we believe will continue to prosper during this period of economic uncertainty.

Heightened market volatility continues to give us opportunities to upgrade the portfolio and we will exercise patience, waiting for compelling valuations to make new investments, and selling stocks with less attractive risk/reward prospects. As such, we have culled our pool of investible opportunities to those which offer more transparency into profitability in the current environment.

### 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**

The high-quality nature of our holdings combined with defensive positioning that helped us last quarter, held back relative returns during the market's bounce off the lows. For the quarter, the Baird Small/Mid Cap Value Portfolio trailed the benchmark Russell 2500 Value with a gross return of 13.5% versus 20.6% for the benchmark. For the year-to-date, the Portfolio returned -18.1% gross of fees versus the benchmark Russell 2500 Value return of -21.2%. Since inception (1/1/00), the Baird Small/Mid Cap Portfolio has provided a gross annual return of 9.7% vs 8.2% for the Russell 2500 Value.

High beta stocks led during the ricochet, and not surprisingly our overweight position to Technology posted the best absolute sector return for the quarter led by Cerence, WEX Inc., and Skyworks. In terms of relative contribution, however, our Financials led for the period where our unique positioning benefited from exposure to the mortgage market through such names as Essent Group and Blackstone Mortgage. Boingo Wireless was also a standout for the three months. Despite their more defensive nature, our Real Estate Investment Trusts performed in line, as well as our Industrial holdings.

Relative performance was held back during the quarter primarily by our lower overall beta profile and underweight position to Consumer Discretionary. First, in terms of beta, our portfolio is perennially under weighted the highest quintiles versus our benchmark and this quarter was no exception. For the second quarter, the highest quintile beta stocks, those with a beta greater than 2, returned over 50%. Our portfolios were 50% underweight these segments of the market. Superior risk management is a hallmark of our investment strategy and we believe lower risk coupled with above benchmark returns provides a long-term attractive profile, however it can work against us sometimes in the short-term. Second, our underweight to Consumer Discretionary is driven by a lack of current attractive investment opportunities, exasperated by the extreme uncertainty for many businesses due to the COVID-19 pandemic. We believe our prudence will be rewarded as the U.S. has failed to contain the spread of the virus. While high quality value consumer-oriented stocks have been challenging for us to find, one new position, Tractor Supply, was among the best performers for the quarter.

Given extreme market volatility and a rapidly evolving economic environment, we were more active than usual in terms of portfolio activity. We initiated new positions in or added to our holding in technology names Ciena, Skyworks Solutions and Silicon Motion. We also sold Lamb Weston in favor of three new food companies with more attractive valuations and less restaurant exposure: Simply Good Foods, BellRing Brands, and Nomad Foods. In the Real Estate sector we added EastGroup Properties, sold National Retail Properties, and trimmed Gaming and Leisure Properties and VICI Properties. Other additions include Construction Partners which provides road paving services; ACCO Brands a leader in school and office supplies; and PolyOne a specialty chemical company. We exited positions that had appreciated considerably and no longer offered attractive risk/return profiles due to the uncertainty created by the pandemic including Patrick Industries, Meta Financial and Trinet Group.

## **BAIRD SMALL CAP VALUE**

The high-quality nature of our holdings combined with defensive positioning that helped last quarter, held back relative performance this period. For the quarter, the Baird Small Cap Value Portfolio trailed the benchmark Russell 2000 Value with a gross return of 13.3% versus 18.9% for the benchmark. For the year-to-date, the Portfolio returned -18.1% gross of fees versus the benchmark Russell 2000 Value return of -23.5%. Since inception (3/1/05), the Baird Small Cap Value Portfolio has provided a gross annual return of 7.0% vs 5.0% for the Russell 2000 Value.

High beta stocks led during the ricochet, and not surprisingly our overweight position to Technology posted the best absolute sector return for the quarter led by Cerence and

Perspecta. In terms of relative contribution, however, our Financials led for the period where our unique positioning benefited from exposure to the mortgage market through such names as Essent Group and Blackstone Mortgage. Boingo Wireless was also a standout for the three months. Despite their defensive nature, our Utilities contributed positively due to strong security selection, particularly from renewable energy provider Atlantica Sustainable Infrastructure.

Relative performance was held back during the quarter primarily by our lower overall beta profile and underweight position to Consumer Discretionary. First, in terms of beta, our portfolio is perennially under weighted the highest quintiles versus our benchmark and this quarter was no exception. For the second quarter, the highest quintile beta stocks, those with a beta greater than 2, returned over 50%. Our portfolios were 50% underweight these segments of the market. Superior risk management is a hallmark of our investment strategy and we believe lower risk coupled with above benchmark returns provides a long-term attractive profile, but it can work against us sometimes in the short-term. Second, our underweight to Consumer Discretionary is driven by a lack of attractive investment opportunities, exasperated by the extreme uncertainty for many businesses due to the COVID-19 pandemic. We believe our prudence will be rewarded as the U.S. has failed to contain the spread of the virus. While high quality value consumer-oriented stocks have been challenging for us to find, one new position, Tractor Supply, was among the best performers for the quarter.

Given extreme market volatility and a rapidly evolving economic environment, we were more active than usual in terms of portfolio activity. We initiated new positions in or added to our holding in technology names Ciena, F5 Networks, Euronet Worldwide and Science Applications International. We also sold Lamb Weston in favor of three new food companies with more attractive valuations and less restaurant exposure: Simply Good Foods, BellRing Brands, and Nomad Foods. In the Real Estate sector we added Healthcare Realty Trust and QTS Realty and sold Essential Property Trust, National Retail Properties, and Physicians Realty Trust. Other additions include ACCO Brands a leader in school and office supplies; PolyOne a specialty chemical company; and reinsurer, Everest Re. We exited positions that had appreciated considerably and no longer offered attractive risk/return profiles due to the uncertainty created by the pandemic including Patrick Industries, Meta Financial, Trinet Group, NMI Holdings, National Retail Properties, Essential Property Realty Trust, Gaming and Leisure Properties and Select Energy Services.

We recently updated our market cap range to remain in line with changes in each of our respective benchmarks – Russell 2500 Value and Russell 2000 Value. Going forward, the Baird Small/Mid Cap Value market cap range will be \$300 million - \$17 billion and the Baird Small Cap Value market cap range will be \$100 million - \$8 billion. There have been no changes to our investment philosophy and process as a result of this update.

We welcome the opportunity to discuss our outlook and the portfolio in greater detail so please 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
Cerence	2.15	2.07	Meta Financial	0.13	-0.91
Boingo Wireless	4.33	1.11	J2 Global	2.91	-0.45
Tractor Supply Company	2.25	1.06	American Financial Group	2.47	-0.28
Laboratory Corp	3.13	0.97	Gaming & Leisure Properties	0.25	-0.23
WEX	1.65	0.77	ICU Medical	3.60	-0.23

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Cerence	2.86	2.74	Meta Financial	0.17	-0.84
Boingo Wireless	4.31	1.10	J2 Global	3.59	-0.55
Tractor Supply Company	2.26	1.06	Essential Properties Realty Trust	0.09	-0.25
Atlantica Sustainable Infrastructure	3.58	1.06	ICU Medical	3.70	-0.24
Physicians Realty Trust	3.14	0.80	National Retail Properties	0.42	-0.21

	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	13.5	-18.1	-14.2	-1.2	1.1	9.8	9.7	13.3	-18.1	-14.4	-1.8	1.3	8.9	7.0
NET OF FEES	13.3	-18.4	-14.9	-2.0	0.2	8.9	8.8	13.2	-18.3	-14.7	-2.3	0.8	8.3	6.2
INDEX*	20.6	-21.2	-15.5	-2.6	1.9	8.8	8.2	18.9	-23.5	-17.5	-4.4	1.3	7.8	5.1

\* 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 06/30/20. 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)