International and Global Growth Funds

Q2 2023 Commentary and Market Outlook

Baird Funds

MARKET RECAP

The global economy remains in a fragile state. Headline inflation is above-target in almost all major economies, and core inflation is sticky and elevated. As inflation pressures persist, economic growth has been weighed down by the lagged and ongoing effects of monetary tightening. From a regional perspective, the brighter spots in the global economy are the fast-growing major Asian economies including China, India, and Southeast Asia. On the other hand, growth in the major developed economies such as the U.S., Europe, and Japan are poised to be much more lukewarm.

Something else to note is that growth style stocks underperformed value style stocks in both international developed and emerging markets. However, this was not the case in the U.S. market, where growth style stocks significantly outperformed value style stocks. The market leadership in the U.S. was concentrated in a small number of mostly mega-cap tech stocks, and it is for this reason that the U.S. market also significantly outperformed international markets in the quarter.

Our investment philosophy emphasizes businesses that benefit from secular trends and possess strong competitive advantages and market positions. Additionally, portfolio companies are purposefully selected that earn attractive profit margins, carry strong balance sheets, and generate cash on a consistent basis. We believe these attributes hold tack even if the macro backdrop is deteriorating. For these reasons, portfolios have the ability to outgrow market growth rates over the long-term.

In this inflationary environment, we have also managed by making ongoing adjustments to emphasize holdings that we believe are well-suited to transmit pricing power or are valued more attractively. These attributes should help protect against two of the most pernicious effects of inflation for equity investors, namely the compression of profit margins and the compression of valuation multiples.

Thank you for entrusting us to invest your precious capital and to navigate this increasingly uncertain market environment.

In the second quarter of 2023, the Baird Chautauqua International Growth Fund Net Investor Class returned 0.18%, underperforming the MSCI ACWI ex-U.S. Index® ND, which returned 2.44%. The Baird Chautauqua Global Growth Fund Net Investor Class returned 2.23% during the quarter, underperforming the MSCI ACWI Index® ND, which returned 6.18%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index, growth style underperformed 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 and country performance were mixed but leaned positive for the quarter.

MSCI Sector and Country Performance (QTD as of 06/30/2023)

Sector	Performance
Information Technology	13.77%
Consumer Discretionary	8.36%
Communication Services	7.14%
Industrials	6.49%
Financials	5.45%
Health Care	2.38%
Energy	1.05%
Consumer Staples	0.56%
Utilities	0.21%
Real Estate	0.10%
Materials	-0.66%

Country	Performance	Country	Performance
India	12.36%	France	3.80%
United States	8.72%	Indonesia	3.18%
Japan	6.45%	Denmark	1.66%
Taiwan	4.82%	Australia	0.31%
Switzerland	4.53%	Israel	-3.78%
Ireland	4.43%	Hong Kong	-5.05%
Netherlands	4.28%	Singapore	-5.55%
Canada	3.91%	China	-9.65%

Source: FactSet. Based on select MSCI country 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.

The U.S. remains a long way from low and stable inflation, despite being over a year into the Fed's aggressive rate hiking campaign. Headline inflation is beginning to abate meaningfully for U.S. consumers. However, there are still reasons for continued vigilance. Core inflation, which strips out more volatile energy and food costs, is exhibiting staying power, as a range of services categories continue to climb quickly in price. The Fed closely monitors monthly changes in core inflation to get a sense of the recent inflation trends, and that figure continued to pick up in May.

Furthermore, the U.S. economy is not experiencing the drastic slowdown that many had anticipated in such a tightening interest rate regime. And despite high-profile layoffs at some large tech companies, hiring has remained robust among U.S. employers and the unemployment rate continues to be low. Taken with the surprising resilience of the U.S. economy, the Fed may need to do more to cool growth even further in order to rein in consumption to prevent elevated price increases from persisting. Decisions on the interest rate path will be guided by upcoming data releases on inflation, employment, and other indicators. The big picture is that the Fed is making progress on inflation, but the progress is happening slower than desired.

The U.S. equity market has been on a tear. It is now more than 20% higher than its low reached last fall and less than 10% away from a new high. One note of caution about the U.S. rally is that it has been largely propelled by a small number of mega-cap tech companies. The average stock in the U.S. index has risen by far less than the index itself.

Bulls are citing signs of a resilient economy, moderating headline inflation, and a near end to the Fed's hiking cycle. If the economy has survived the soaring inflation and higher interest rates so far, the thinking goes, then maybe it will continue. On the other hand, bears are focused on the obstacles ahead. Inflation is still running at more than twice the Fed's target rate of 2% and could remain stubborn and high.

Inflation in Europe nudged back up to 7% in May, and the labor market remains red hot. The European Central Bank (ECB) raised interest rates by 25 basis points to 3.5%, which is the highest interest rate in more than two decades. Taming inflation while avoiding a recession is Europe's biggest challenge in the months to come, as the continent continues to digest the impact of the war in Ukraine on its economy.

In China, post-Covid demand helped to push the economy in the early part of the year, but there is growing concern that its economy has not rebounded as strongly as estimated after lifting its restrictive zero-Covid measures. Both investment and exports have stagnated, and more than 20% of youths are unemployed. In fact, China's economic recovery has seen only a few categories of spending grow robustly, such as travel and restaurant meals. The Chinese government has already taken some steps to revitalize economic growth. Interest rates on bank deposits have been cut to encourage households to spend, interest rates for corporate loans and mortgages have also been cut, and tax breaks are being introduced for small businesses.

PERFORMANCE ATTRIBUTION

The Baird Chautauqua International Growth Fund underperformed its benchmark during the quarter. Across most sectors, stock selection was a drag on returns. Holdings in the consumer discretionary, health care, and utilities sectors were the largest detractors to relative performance. Lack of exposure to the materials, communication services, and consumer staples sectors contributed to relative returns. Regionally, holdings in Asia and the Pacific Basin, Europe, and Africa and the Middle East detracted from performance—particularly in Singapore, Japan, and Hong Kong—while holdings in North America contributed. The largest detractors to returns in the Fund were Sea Limited, Hong Kong Exchanges and Clearing, and BeiGene. The largest contributors were Fairfax Financial, Bank Rakyat, and Constellation Software.

The Baird Chautauqua Global Growth Fund underperformed its benchmark during the quarter. Selection effect was a detractor to returns, particularly in the health care, consumer discretionary, and information technology sectors. Lack of exposure to the consumer staples, materials, and energy sectors and holdings in communication services and financials contributed to relative returns. All regions were a drag on returns, as holdings in Asia and the Pacific Basin, and Europe detracted most from performance—particularly in Singapore, Hong Kong, and Japan. The largest detractors to returns in the Fund were Sea Limited, Regeneron Pharmaceuticals, and Hong Kong Exchanges and Clearing. The largest contributors were Nvidia Corporation, Fairfax Financial, and Bank Rakyat.

FUND PERFORMANCE AS OF JUNE 30, 2023

	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	Since Inception (04/15/2016)	Expense Ratio (net/gross)*
International Growth Fund Institutional Class (net)	0.24	12.05	16.96	9.55	7.52	9.21	0.80/0.86
International Growth Fund Investor Class (net)	0.18	11.91	16.74	9.25	7.23	8.93	1.05/1.11
MSCI ACWI ex-U.S. Index - ND	2.44	9.47	12.72	7.22	3.52	5.77	
Excess Returns (Institutional Net)	-2.20	2.58	4.24	2.33	4.00	3.44	
Morningstar % Rank in US Fund Foreign Large Growth Category (Rank/Count)			44% (188/426)	2% (6/400)	9% (32/379)	7% (24/355)	

	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	Since Inception (04/15/2016)	Expense Ratio (net/gross)*
Global Growth Fund Institutional Class (net)	2.31	11.88	16.74	9.40	8.94	11.20	0.80/0.92
Global Growth Fund Investor Class (net)	2.23	11.73	16.42	9.09	8.72	10.95	1.05/1.17
MSCI ACWI Index - ND	6.18	13.93	16.53	10.99	8.10	9.57	
Excess Returns (Institutional Net)	-3.87	-2.05	0.21	-1.59	0.84	1.63	
Morningstar % Rank in US Fund Global Large-Stock Growth Category (Rank/Count)			72% (259/360)	31% (104/332)	39% (118/299)	33% (91/272)	

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.

*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, 2023 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.

PORTFOLIO HIGHLIGHTS | BUYS AND SELLS

For the Baird Chautauqua International Growth Fund, 84% of companies that reported earnings during the quarter were in-line with or exceeded consensus expectations.

For the Baird Chautauqua Global Growth Fund, 78% 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 reduced positions in Constellation Software, Novo Nordisk, and Sinopharm. Proceeds were used to increase positions in Hong Kong Exchanges, Sea Limited, SolarEdge, and WuXi Biologics.

In the Global Fund, we reduced positions in Alphabet, Constellation Software, Novo Nordisk, Nvidia Corporation, and Sinopharm. Proceeds were used to increase positions in Charles Schwab, Hong Kong Exchanges, Illumina, Micron Technology, Sea Limited, SolarEdge, and WuXi Biologics.

Bank Rakyat had 4.08%, BeiGene 1.92%, Hong Kong Exchanges 2.79%, Sinopharm 2.06%, and SolarEdge 3.05% weighting in the International Fund as of 06/30/2023. Alphabet had a 3.27%, Bank Rakyat 2.88%, Charles Schwab 1.83%, Hong Kong Exchanges 2.04%, Micron Technology 1.48%, Regeneron Pharmaceuticals 2.60%, Sea Limited 1.53%, Sinopharm 2.08%, and SolarEdge 2.12% weighting in the Global Fund as of 06/30/2023.

Baird Chautauqua International Growth Fund Top & Bottom Average Weighted Holdings for Q2 2023

Top 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
Novo Nordisk	4.88	0.01
Constellation Software	4.78	0.37
Fairfax Financial Holdings	4.54	0.43
ASML Holding	4.47	0.15
Adyen	4.09	0.26

Bottom 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
WuXi Biologics	1.00	-0.24
Sea Limited	1.83	-0.75
Alibaba Group Holding	1.83	-0.26
Brookfield Renewable	1.93	-0.23
Aptiv	2.09	-0.28

Baird Chautauqua Global Growth Fund Top & Bottom Average Weighted Holdings for Q2 2023

Top 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
Novo Nordisk	4.34	-0.16
Mastercard Inc.	3.69	0.06
Fairfax Financial Holdings	3.65	0.22
Constellation Software	3.60	0.16
Nvidia Corporation	3.35	0.91

Bottom 5 Average Weighted Holdings

Security	Avg. Weight	Contribution
WuXi Biologics	0.70	-0.20
Alexandria Real Estate Equities	0.83	-0.13
Alibaba Group Holding	1.04	-0.21
llumina, Inc.	1.05	-0.28
Universal Display Corporation	1.16	-0.17

Source: FactSet. 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.

OUTLOOK

The global economy remains in a fragile state. Inflation pressures persist, but the drag on growth due to the tightening of monetary policy is presumed to peak this year in many major economies. Recent banking sector stress has further tightened credit conditions. And the lingering impact of the war in Ukraine will continue to weigh on growth across regions but particularly in Europe. Combined, these factors are likely to cause a growth deceleration in the second half of 2023.

Economic growth in some major economies was actually stronger than envisioned at the beginning of this year, with resilient consumption in the U.S. and a faster-than-anticipated initial reopening in China. Nonetheless, according to forecasts from the World Bank, the global economy is poised to slow in 2023 to 2.1% and edge up modestly to 2.4% in 2024. The world economy is experiencing a synchronized slowdown, and the majority of countries are likely to face slower growth this year than last year. Growth over the rest of 2023 is set to slow substantially as it is weighed down by the lagged and ongoing effects of monetary tightening and more restrictive credit conditions. These factors are very likely to continue to affect economic activity heading into 2024.

However, the outlook differs sharply across regions. The most buoyant economic activity is predicted in Asia. The economies of India, China, and Southeast Asia are forecasted to grow near or above 5% this year, making them the fastest among major economies. At the other end of the spectrum, the forecasts for growth are rather anemic in the U.S., Europe, and Japan.

Over the last two-plus years, we have reduced Greater China weightings on a net basis, inclusive of holdings in Mainland China, Hong Kong, and Taiwan. In International portfolios, roughly 17% of assets are invested in Greater China holdings, which is modestly overweight relative to the benchmark. In Global portfolios, roughly 12% of assets are invested in Greater China holdings, which is overweight relative to the benchmark.

Central banks are entering a new phase in their battle with inflation. Headline inflation rates have fallen sharply across most of the world's economies though are still mostly above target levels. More concerning is that core inflation rates, which exclude more volatile energy and food costs, remain at or close to multi-decade highs. Core inflation rates are being viewed as a gauge for underlying price pressures, and their stickiness has sparked concern that central banks will struggle to hit their inflation targets without wiping out growth.

Calibrating monetary policy is difficult. Changes in interest rates can take months, or even years, to translate their full effects, so the impacts of the Fed's rate increases since early 2022 are still playing out. The Fed's new forecasts have interest rates rising further to 5.6% by the end of this year, which would amount to two more quarter-point rate hikes over the course of the Fed's four remaining meetings this year. The economy's staying power could mean the Fed will be able to wrangle inflation gently, slowing down price increases, without tipping the U.S. into any sort of recession. But if inflation remains hot, the Fed may do even more to restrain growth. The end of rate hikes is easier to envisage in the U.S., but it is not quite yet in view for Europe. The ECB began raising rates from below 0% last July, and so it has not been hiking for as long or as aggressively as the Fed. Further rate hikes are necessary there.

Our investment philosophy emphasizes businesses that should benefit from secular trends and possess strong competitive advantages and market positions. Over longer investment horizons, some of the most exciting growth areas can be relatively agnostic to the global picture or the specific situations impacting certain regions. These include our many investments in and adjacent to cloud computing, software-as-a-service, digitalization, artificial intelligence, semiconductor advancement, e-commerce and payments, industrial automation, electric vehicles, and novel biologic and biosimilar therapies. Other exciting growth areas pertain to rapidly expanding consumer classes, broadly in emerging economies and especially in Asia, which are propelling the uptake of various consumer goods and financial products.

We do not anticipate the current environment of weakening economic growth to dislodge the long-term staying power of these investment themes, nor the business models or market positions of portfolio companies. Furthermore, portfolio companies that earn attractive profit margins, carry strong balance sheets, and generate cash on a consistent basis are purposefully selected. In other words, portfolio companies we believe are on solid footing, even when times are tough. For these reasons, portfolios have the potential to outgrow market growth rates over the long-term.

We have also taken great care to try to insulate against the most pernicious risks that inflation poses to equity investments, namely pressure on company profit margins and compression of valuation multiples. First, we have emphasized companies that we believe have pricing power because of the mission-critical or value-add nature of their products and services. Because of these features, these companies are able to transmit price in inflationary environments, and therefore protect their profit margins. Furthermore, we have made incremental adjustments to portfolios to emphasize companies with more attractive valuations, in light of higher market discount rates. We have implemented these adjustments in a long series throughout 2021 and 2022.

BUSINESS UPDATE

There have been no changes to the investment team at Chautauqua Capital Management nor have there been changes to the ownership structure of our parent company, Baird.

Respectfully submitted,

The Partners of Chautauqua Capital Management – a Division of Baird

INVESTMENT TEAM

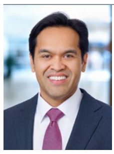
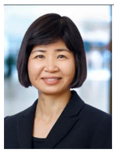
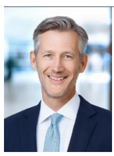
- **Generalists with specialized skills**
- **Average more than 23 years investment experience**

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 of growth**

	Investment Professional	Educational Background	Years of Experience	Prior Affiliation
	**Jesse Flores, CFA** Partner	MBA, Stanford University BS, Cornell University	17	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	22	TCW
	**David Lubchenco** Partner	MBA, University of Denver BA, The Colorado College	31	Marsico Capital Management Transamerica Investment Management Janus Capital
	**Nate Velarde** Partner	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	22	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 06/30/23. 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 Baird Chautauqua International Growth Fund and Baird Chautauqua Global Growth Fund. Past performance is no guarantee of future results.

The Funds invest in foreign securities, which 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. They may also hold fewer securities than other funds, which increases the risk and volatility because each investment has a greater effect on the overall performance.

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 24 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 24 emerging markets countries. Indexes are unmanaged and direct investment is not possible. "ND" represents net of dividends returns for the benchmark.

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