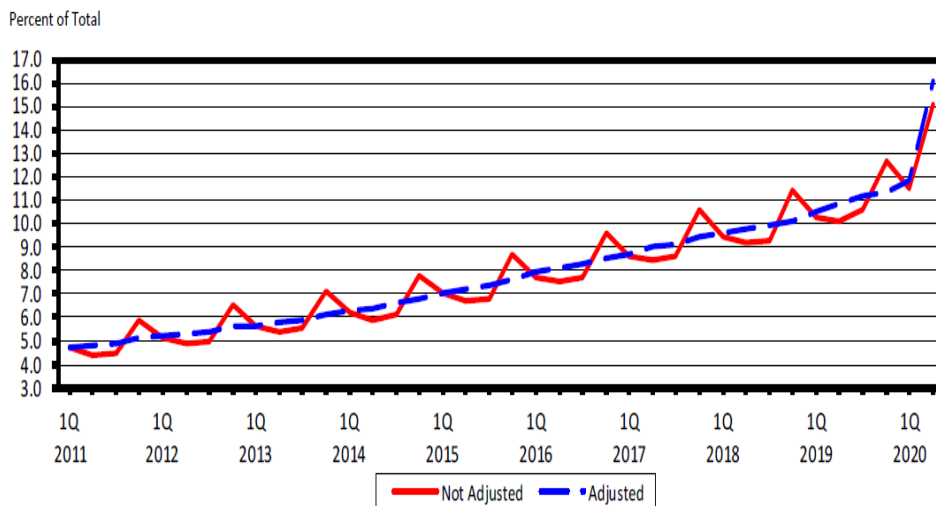


MARKET COMMENTARY

As we pass the six-month mark since the U.S. COVID-19 lockdowns, we reflect upon recent and potential long-term changes in consumer spending trends. The market ricochet off the March lows disproportionately rewarded the stocks of those businesses that have benefited the most from the economy reopening. The S&P 600 Small Cap Hotel Restaurant and Leisure Index, to illustrate, has more than doubled in the past six months to within 10% of its all-time high. At the same time, a recent survey¹ of consumer behavior finds that 55% of Americans never go to bars and restaurants versus less than 25% pre-COVID. Research from the American Hotel and Lodging Association shows 68% of hotels have less than half of their normal staff working full time. In addition, more than two-thirds of hotels said they would not be able to last six more months at the current projected revenue and occupancy levels, and half of the hospitality owners polled said they are in danger of foreclosure. As investment opportunities, many stocks in these industries present more downside risk and uncertainty than we like to take with our investors' capital.

The same survey also reveals that 47% of consumers now conduct at least half of their shopping online post-COVID, up from 38% prior to the pandemic and a full 70% of respondents plan to continue to buy staples online even in a post-COVID world. According to the Q2 2020 report from the U.S. Census Bureau, U.S. retail e-commerce reached \$211.5 billion, up 31.8% from the first quarter, and 44.5% year-over-year. E-commerce also accounted for 16.1% of total retail sales in Q2, up from 11.8% in the first quarter of 2020.

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2011 – 2nd Quarter 2020



Source: U.S. Census Bureau, blue line represents seasonal adjustments

Readers know that the secular trend toward online spending has been thematic in our portfolios for the past several years. We have invested in companies ranging from wireless

¹ Jefferies Proprietary Survey 9/10/2020

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

infrastructure provider to logistics networks, as value investment ways to leverage this broad trend. The pandemic, we believe, has resulted in a permanent upward shift in online consumption in addition to an already solid long-term growth trajectory. The portfolio has exposure across several industries to the proliferation of e-commerce which is thriving in the current volatile economic environment. Consistent with our discipline, we continue to make investments in high quality business that are market leaders and we believe will continue to prosper during periods of economic uncertainty as well as economic prosperity.

BAIRD SMALL/MID CAP VALUE

In terms of relative performance for the quarter, it was more a story of what we did not own than what we did. For the quarter, the Baird Small/Mid Cap Value Portfolio trailed the benchmark Russell 2500 Value with a gross return of -0.5% versus 3.5% for the benchmark. For the year-to-date, the Portfolio remained in line with its benchmark with a total return of -18.5% gross of fees versus the benchmark Russell 2500 Value return of -18.4%. Since inception (1/1/00), the Baird Small/Mid Cap Portfolio has provided a gross annual return of 9.6% vs 8.4% for the Russell 2500 Value.

Relative and absolute performance was held back by the Portfolio's Information Technology positioning, which had been the best performing sector last quarter. Despite solid earnings reports, several IT service providers including CACI International, Leidos Holdings and Verisign took a breather during the period. Ciena and Silicon Motion, on the other hand, trimmed guidance sending the shares lower during the period. Longer term, we have confidence in the growth profile for both companies. The Portfolio's underweight to Consumer Discretionary, the best performer in the benchmark for third quarter, was the second largest detractor to relative performance. Boingo Wireless was another notable underperformer despite in-line earnings and guidance.

Financials added to the Portfolio's performance on strength in title and mortgage insurers including NMI Holdings and Fidelity National Financial. Our underweight to the banking sector continued to reap benefits as the industry declined 8% in our benchmark during the quarter. Despite their more defensive nature, Staples, Real Estate and Utilities all contributed on a relative basis due to superior security selection. Simply Good Foods, Nomad Foods, VICI Properties and Algonquin Power were notable outperformers. The Portfolio continued to benefit from a lack of exposure to Energy which has chronically been the worst performing sector in the benchmark.

We continued to be more active than usual in terms of portfolio activity. In Technology, we initiated a new position in F5 Networks, added to Ciena and sold Skyworks Solutions and Dolby Laboratories. In the Industrial sector we added to ACCO Brands and made new investments in Shyft Group and FTI Consulting. We also initiated a position in a C-store operator through Haymaker Acquisition Corp. To make room for new investments we exited Solaris Oilfield Infrastructure, ZAGG Holdings, Physician Realty Trust and trimmed Southwest Gas.

BAIRD SMALL CAP VALUE

For the quarter, the Baird Small Cap Value Portfolio trailed the benchmark Russell 2000 Value with a gross return of -1.8% versus 2.6% for the benchmark. For the year-to-date, the Portfolio remains ahead of its benchmark with a return of -19.4% gross of fees versus the benchmark Russell 2000 Value return of -21.5%. Since inception (3/1/05), the Baird Small Cap Value Portfolio has provided a gross annual return of 6.8% vs 5.1% for the Russell 2000 Value.

In terms of relative performance for the quarter, it was more a story of what we did not own than what we did. The Portfolio's underweight to Consumer Discretionary, the best performer in the benchmark for third quarter, was the largest detractor to relative performance. Returns were also held back by the Portfolio's Information Technology positioning, which had been the best performing sector last quarter. Despite solid earnings reports, several IT service providers including CACI International, Leidos Holdings and Verisign took a breather during the period. Ciena and Silicon Motion, on the other hand, trimmed guidance sending the shares lower during the period. Cerence, a provider of speech recognition software for the auto market was a bright spot, rising another 20% during the quarter.

Financials added to the Portfolio's performance on strength in title and mortgage insurers including First American Financial. Our underweight to the banking sector continued to reap benefits as the industry declined 8% in our benchmark during the quarter. Despite their more defensive nature, Staples, Real Estate and Utilities all contributed on a relative basis due to superior security selection. Simply Good Foods, Nomad Foods, EastGroup Properties and Algonquin Power were notable outperformers. The Portfolio continued to benefit from a lack of exposure to Energy which has chronically been the worst performing sector in the benchmark.

We continued to be more active than usual in terms of portfolio activity. We initiated a new position in Immersion Corp., a leader in haptics for the mobile and gaming industries. In the Industrial sector we added to ACCO Brands and made new investments in Shyft Group and FTI Consulting. We also initiated a position in a C-store operator through Haymaker Acquisition Corp. To make room for new investments we exited Eagle Pharmaceuticals, Physician Realty Corp, Dolby Laboratories, and ZAGG Holdings.

If you have interest in discussing our outlook and the portfolio in greater detail, 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
Laboratory Corporation of America	3.36	0.45	Boingo Wireless, Inc.	4.04	-0.95
Algonquin Power & Utilities Corp.	3.35	0.44	Ciena Corporation	1.74	-0.46
Cerence Inc	2.71	0.39	Hill-Rom Holdings, Inc.	1.75	-0.44
Simply Good Foods Co	2.42	0.38	Silicon Motion Technology Corporation Sponsored ADR	1.69	-0.44
Air Transport Services Group, Inc.	2.86	0.33	ACCO Brands Corporation	1.43	-0.22

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Cerence Inc	3.78	0.53	Boingo Wireless, Inc.	4.06	-0.96
Simply Good Foods Co	2.21	0.42	Hill-Rom Holdings, Inc.	2.18	-0.55
Algonquin Power & Utilities Corp.	2.93	0.38	Ciena Corporation	1.89	-0.48
Air Transport Services Group, Inc.	2.88	0.33	Silicon Motion Technology Corporation Sponsored ADR	1.70	-0.43
Tractor Supply Company	2.87	0.25	Perspecta, Inc.	1.88	-0.33

	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	-0.5	-18.5	-14.4	-4.0	2.3	8.8	9.6	-1.8	-19.4	-15.4	-4.9	2.4	7.8	6.8
NET OF FEES	-0.7	-19.0	-15.1	-4.8	1.4	7.9	8.6	-1.9	-19.7	-15.8	-5.3	1.9	7.2	6.0
INDEX*	3.5	-18.4	-12.6	-2.7	4.7	8.0	8.3	2.6	-21.5	-14.9	-5.1	4.1	7.1	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, 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 09/30/20. 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
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)