International and Global Growth Funds

Q3 2024 Commentary and Market Outlook

Baird Funds

MARKET RECAP

Global equity markets continued to rally throughout the third quarter, with strong positive stock performance from the U.S., international developed, and emerging markets. The two biggest narratives that have unfolded recently center on the U.S. and China. Global monetary easing is now under way after the Federal Reserve (Fed) delivered a 50 basis points rate cut in mid-September. This creates room for other central banks to follow suit, particularly in emerging markets. Additionally, China enacted measures to shore up market confidence in the face of concerns about its slowing economy and the impact of the country's gloomy property sector.

Our investment strategies focus on the long term, allowing us to navigate short-term economic fluctuations. We prioritize businesses that align with secular trends and have strong competitive advantages and market positions. Our portfolio companies are chosen for their high profit margins, strong balance sheets, and consistent cash generation. We believe these qualities will endure even in challenging macroeconomic conditions. Our concentrated, conviction-weighted portfolios are designed to outperform market growth rates over an investment cycle. Additionally, our portfolios are diversified across a wide range of secular growth themes. For instance, within the top ten holdings of our international strategy, in addition to holdings in AI, themes include obesity, industrial automation, financial services in emerging markets, e-commerce, mobile gaming, and digitalization.

In this inflationary environment, we have consistently made adjustments to focus on assets that we consider are capable of maintaining pricing power or are more attractively valued. These characteristics should safeguard against the negative impacts of inflation on equity investors, specifically, the shrinking of profit margins and valuation multiples.

In the third quarter of 2024, the Baird Chautauqua International Growth Fund Net Investor Class returned +9.46%, outperforming the MSCI ACWI ex-U.S. Index® ND, which returned +8.06%. The Baird Chautauqua Global Growth Fund Net Investor Class returned +5.25% during the quarter, underperforming the MSCI ACWI Index® ND, which returned +6.61%.*

MARKET UPDATE

For the MSCI ACWI ex-U.S. Index, growth style underperformed value style. Within the MSCI ACWI Index, growth style underperformed value style, and large capitalization stocks underperformed small capitalization stocks. In emerging markets, growth style outperformed value style.

Sector performance, with the exception of energy, was positive during the quarter. Country performance was mixed, but mostly positive for the quarter.

MSCI Sector and Country Performance (QTD as of 09/30/2024)

Sector	Performance
Real Estate	17.04%
Utilities	16.78%
Financials	10.81%
Industrials	10.25%
Materials	9.77%
Consumer Staples	9.54%
Consumer Discretionary	9.44%
Health Care	6.31%
Communication Services	4.38%
Information Technology	1.17%
Energy	-1.94%

Country	Performance	Country	Performance
Hong Kong	24.43%	France	7.75%
China	23.64%	India	7.41%
Singapore	17.61%	United States	5.93%
Indonesia	15.36%	Japan	5.88%
Ireland	13.96%	Taiwan	0.79%
Canada	12.21%	Netherlands	-4.46%
Australia	11.54%	Denmark	-10.20%
Switzerland	8.55%		

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.**

Policy rate cuts are now in full swing among most major central banks. The Fed implemented a bumper 50 basis points cut in mid-September to a range of 4.75-5.00%. Before the cut, U.S. rates had been at their highest level since 2001, and this easing cycle is the first since the onset of the pandemic. The case for starting with a large cut centers on averting the economy from slowing down further under the weight of past rate increases, especially at a time when the Fed no longer thinks such a slowdown is necessary.

The Fed is increasingly confident of reaching its 2% inflation target and has shifted its focus toward its full employment mandate. Consumer price inflation is now at 2.5%, after peaking at about 7% in 2022. On the other hand, job growth has cooled in recent months, and other measures of labor market demand, such as vacancies, have also slowed. Despite this, the number of Americans filing for unemployment benefits remains historically low. The Fed has made it clear that it does not want to see further labor market weakening and is seeking to preempt any weakening of the U.S. economy, and it has signaled more reductions would follow.

The last two weeks of the quarter were very eventful in China, as the central bank and the government unveiled a coordinated and unexpected bevy of stimulus measures. For nearly the last four years, the absolute and relative performance of China stocks has been dismal, and the sentiment around China stocks has been similarly dire. China has been criticized for doing too little to stabilize the country's property sector and stock market, which has hampered consumer confidence due to the negative wealth effect that their deterioration created. The stimulus package is China's biggest since the pandemic and could mark a turnaround in the government's commitment to support domestic confidence and shore up domestic consumption so that it can meet its economic growth target. China equities surged on this news through the end of the quarter – China and Hong Kong stocks rallied 19% and 18%, respectively, over the month of September and were the best performing in that month on a global basis – because the markets had been oversold and overly pessimistic. Prior to September, the CAPE ratios (cyclically adjusted price-to-earnings ratio) of China and Hong Kong stocks were near their 20-year lows and, even considering these recent price moves, their valuations remain far closer to their 20-year lows than to their medians.

The People's Bank of China (PBOC) announced a swath of measures, including cuts to the benchmark interest rate and the reserve requirement ratio for banks, which are both aimed at increasing monetary liquidity in the economy. It also cut mortgage rates for existing mortgages and reduced down payment requirements for second mortgages, which should more directly impact households. To support the stock market, the PBOC also unveiled a new lending pool worth RMB¥800 billion (US$114 billion), composed of funds to lend to companies to buy back their own shares and to lend to non-bank financial institutions to buy domestic equities. This is the first time China is using this type of tool and is encouraging leveraged investments in the stock market. Following the PBOC announcements, the government promised fiscal stimulus to support the property market, promote consumption, increase middle-class and low-income salaries, and encourage foreign investment in manufacturing. Though the details on the amount and implementation of these measures were scant, the rhetoric fueled the stock market even more. Some big municipal governments – including Shanghai, Shenzhen, and Guangzhou – followed up with their own property-related measures that would allow more people to buy homes and relax some restrictions.

Elsewhere, the European Central Bank lowered its policy rate by 25 basis points in September, following its initial rate cut this cycle, which happened in June. The Bank of Japan is on a different path than the other major central banks, as it seeks to reflate its economy and gradually raise policy rates. Inflation continues to move gradually toward central bank targets. Headline and core measures remain above target, but sequential comparisons of inflation look more reassuring. Most central banks are now unwinding the tightening of 2022 and 2023 when rates rose at the fastest pace in four decades.

Financial market conditions have generally eased over the past quarter. The market's anticipation of rate cuts has shown in bond yields. Prices of financial assets, such as equities and bond spreads, remain elevated. This reflects strong fundamentals, and general expectations for a soft landing, rising real incomes, and easing inflation.

FUND PERFORMANCE AS OF SEPTEMBER 30, 2024

	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)	9.48	16.55	27.90	2.21	11.62	9.80	0.80/0.87
International Growth Fund Investor Class (net)	9.46	16.31	27.66	1.96	11.33	9.53	1.05/1.12
MSCI ACWI ex-U.S. Index - ND	8.06	14.21	25.35	4.14	7.59	7.25	
Excess Returns (Institutional Net)	1.42	2.34	2.55	-1.93	4.03	2.55	
Morningstar % Rank in US Fund Foreign Large Growth Category (Rank/Count)			39% (139/381)	37% (130/377)	4% (13/354)	16% (35/317)	

	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)	5.32	19.79	32.10	4.56	13.50	12.34	0.80/0.92
Global Growth Fund Investor Class (net)	5.25	19.62	31.75	4.30	13.27	12.09	1.05/1.17
MSCI ACWI Index – ND	6.61	18.66	31.76	8.09	12.19	11.23	
Excess Returns (Institutional Net)	-1.29	1.13	0.34	-3.53	1.31	1.11	
Morningstar % Rank in US Fund Global Large-Stock Growth Category (Rank/Count)			50% (174/344)	47% (155/329)	25% (67/291)	36% (106/259)	

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, 2025 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.

PERFORMANCE ATTRIBUTION

The Baird Chautauqua International Growth Fund outperformed its benchmark during the quarter. Stock selection drove performance during the period, with holdings in consumer discretionary, real estate, and financials contributing most to relative returns. While stock selection in information technology was positive, relative overweighting in the sector detracted most from returns. Lack of exposure to communication services and consumer staples also detracted. Regionally, holdings in Asia & the Pacific Basin—particularly China and Singapore—contributed, while Europe—predominately Denmark—was the largest relative detractor. The largest contributors to returns in the portfolio were BeiGene, KE Holdings, and Adyen. The largest detractors were Novo Nordisk, ASML, and Atlassian.

The Baird Chautauqua Global Growth Fund underperformed its benchmark during the quarter. Stock selection in the information technology, communication services, and industrials sectors detracted most from relative returns. Holdings in real estate, financials, and consumer discretionary, and a lack of exposure to energy contributed to relative returns. Regionally, North America and Europe—particularly the U.S. and Denmark—were the largest detractors, while holdings in Asia & the Pacific Basin—predominately in China and Singapore—contributed. The largest detractors to returns in the portfolio were Novo Nordisk, Micron Technology, and ASML. The largest contributors were BeiGene, KE Holdings, and Adyen.

Largest Contributors

BeiGene
BeiGene is expected to have excellent top- and bottom-line growth over the next several years, driven by Brukinsa, their best-in-class product in several hematology cancers, with a global market size of approximately $9 billion in 2023. Even though the company is truly global in nature, incorporated in Switzerland and headquartered in Basal, Beijing, and Cambridge, MA, its valuation was depressed due to negative sentiment towards China, as it does have a large R&D and sales team in China. The recent rally in China stocks has somewhat reduced the extreme pessimism seen earlier in the year.

KE Holdings
KE Holdings reported better-than-expected results this year, but its valuation was depressed due to pessimism toward the property market in China. Recently announced stimulus measures in China and specific measures for its property market have somewhat reduced the extreme pessimism seen earlier in the year.

Adyen
Adyen reported first-half results that beat consensus estimates for revenues and profits. Importantly, their take rate was flat from the first quarter, and this issue had previously been the main concern following the first quarter trading update, which saw the take rate decline more aggressively than expected. Adyen has also slowed the pace of hiring substantially, which contributed to significant margin expansion and earnings growth.

Largest Detractors

Novo Nordisk
After a 38% price appreciation in 1H24, investors have concerns that Novo could not increase capacity fast enough to exceed projections on its weight loss drug in 3Q24. Disappointment on an early-stage pipeline candidate, which should have very little impact on the value of the company, further contributed to negative sentiment on the stock.

ASML Holding
After a 35% price appreciation in 1H24 and a beat in 2Q24 numbers, investors are apprehensive about Intel capex cuts, potential memory weakness, and a less clear cyclical recovery pace in 3Q24 and potentially 2025. We remain positive on long-term demand for ASML's products due to industry supply/demand factors for computing power.

Atlassian (International)
Atlassian's cloud revenues were the focus again this quarter as its cloud revenue growth was lower than guided. Cloud migration was slower due to the complexity of migrations. We remain positive on the long-term opportunity for the company from continued migration, paid seat expansion, pricing, and new customer acquisition.

Micron Technology (Global)
After Micron's price appreciated 54% in 1H24, investors became anxious about potential memory weakness, less clear cyclical recovery pace, and whether competitor Samsung will act rationally with capacity expansion. We maintain our long-term positive view on the industry's demand/supply situation. We believe Micron is well positioned in technology capability, and that its margins will continue to improve.

Baird Chautauqua International Growth Fund Top & Bottom Contributors for Q3 2024

Top 5 Contributors

Security	Avg. Weight
BeiGene, Ltd.	3.25
KE Holdings, Inc.	2.47
Adyen NV	4.00
Sea Limited	3.51
Alibaba Group Holding Limited	1.98

Bottom 5 Contributors

Security	Avg. Weight
Novo Nordisk A/S	4.51
ASML Holding NV	3.86
Atlassian Corporation	3.06
Suzuki Motor Corp.	3.41
Genmab A/S	2.90

Baird Chautauqua Global Growth Fund Top & Bottom Contributors for Q3 2024

Top 5 Contributors

Security	Avg. Weight
BeiGene, Ltd.	1.92
KE Holdings, Inc.	1.70
Adyen NV	2.81
Sea Limited	2.30
Prosus NV	2.18

Bottom 5 Contributors

Security	Avg. Weight
Novo Nordisk A/S	4.02
Micron Technology, Inc.	2.44
ASML Holding NV	3.11
Charles Schwab Corp.	2.35
Alphabet Inc.	3.56

Source: FactSet. The holdings identified do not represent all the securities held, purchased or sold for the Funds during the period; past performance does not guarantee future results. To obtain information about the calculation methodology and a list showing all holdings and their contribution, please contact Baird.

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 estimates.

For the Baird Chautauqua Global Growth Fund, 89% of companies that reported earnings during the quarter were in-line with or exceeded consensus estimates.

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 sold positions in Aptiv and Kering and reduced positions in ASML, Bank Rakyat, Recruit, Sea Limited, and Taiwan Semiconductor. Proceeds were used to initiate a position in Ryanair and increase the portfolio's positions in Brookfield Renewable and WuXi Biologics.

In the Global Fund, we sold positions in Aptiv and Kering and reduced positions in Alphabet, Amazon.com, ASML, Mastercard, Nvidia, Recruit, Regeneron Pharmaceuticals, and Taiwan Semiconductor. Proceeds were used to initiate a position in Ryanair and increase the portfolio's positions in Brookfield Renewable and WuXi Biologics.

OUTLOOK

Whether or not the Fed can lower rates back to normal levels while stabilizing the economy is likely to be the final post-pandemic test for the central bank. In its latest dot plot of forecasts, the Fed anticipates cutting rates by another 50 basis points by the end of the year, to a range of 4.25%-4.50%. However, futures markets are pricing in nearly 75 basis points of additional cuts. The Fed also forecasts a more benign inflation backdrop, with consumer price inflation falling back to target in 2026, and it forecasts economic growth stabilizing at a 2% rate over the next several years.

Lower interest rates are generally considered positive for stocks because they encourage economic growth, reduce corporate debt burdens, and, importantly, reduce the discount rate for financial assets. The fact that the Fed looks prepared to continue delivering aggressive rate cuts into this economy could be a bullish set-up for equities.

Monetary policy normalization, as long as it is accompanied by an orderly slowing of the U.S. economy, is positive for emerging markets. This is particularly true for those economies with strong economic fundamentals, such as in Southeast Asia. Lower rates can reduce the cost of dollar financing and also make assets from other countries more attractive comparatively.

A long-lasting rally in China may not be sustained by easy monetary policy alone; there needs to be more details on the fiscal stimulus. Though the government has pledged more fiscal spending, it has yet to put numbers on it or offer much in the way of specifics. The concern is not just whether the measures will be enough to stimulate the faltering real economy, which may miss its official growth target of 5% this year, but if they will be enough to drive a lasting recovery and stave off the threat of deflation.

There are numerous concerns remaining around the health of China's economic fundamentals. Official data shows that annual inflation is running well under 1%, households are hoarding savings and reluctant to spend, and trade tariffs are likely to stay or increase regardless of who wins the U.S. presidential election. More recently, manufacturers reported a fifth-straight month of contraction, while the purchasing managers' index showed exports weakening and continued caution on hiring. The services sector has also recently gone into contraction, and there has been slowing growth in retail sales.

China stopped short of announcing a bazooka stimulus, such as when it unleashed a RMB¥4 trillion package during the Great Financial Crisis that sparked a boom and reverberated through the global economy. Given the much larger size of the modern day Chinese economy, it may take even more to reflate the economy. And the money should be aimed more at households, which have deteriorated in confidence, rather than large-scale infrastructure and industrial projects as in the past. Otherwise, household spending is more likely to remain constrained by the negative wealth effect from depressed housing and stock market prices. Perhaps the government is now seeing the stock market as a signal of a healthy economy and an important tool to manage social stability.

Over the last three-plus years, we have reduced Greater China* weightings on a net basis, inclusive of holdings in Mainland China and Hong Kong. In international portfolios, roughly 17% of assets are invested in Greater China holdings, which is overweight relative to the benchmark. In global portfolios, roughly 10% of assets are invested in Greater China holdings, which is overweight relative to the benchmark. We believe our Chinese holdings are at valuation levels, in the context of their long-term growth outlooks and competitive

*Includes China, Hong Kong, and Prosus.

Aptiv had a 0.00%, Bank Rakyat 3.15%, Brookfield Renewable 3.27%, Kering 0.00%, Recruit 3.17%, Ryanair 1.23%, Taiwan Semiconductor 4.35%, and WuXi Biologics 1.17% weighting in the International Fund as of 09/30/2024. Amazon.com had a 2.99%, Aptiv 0.00%, Brookfield Renewable 2.35%, Kering 0.00%, Mastercard 4.14%, Nvidia 3.20%, Recruit 2.22%, Regeneron 3.38%, Ryanair 0.99%, Taiwan Semiconductor 3.50%, and WuXi Biologics 0.88% weighting in the Global Fund as of 09/30/2024.

positioning, that more than compensate us for the risks. Our Chinese holdings are exposed to secular growth areas of the domestic economy (private consumption and health care) that align with government priorities, have strong balance sheets and resilient cash flows, and are not reliant on restricted Western technology inputs for future growth.

Our investment strategies focus on companies that benefit from long-term secular trends and have strong competitive advantages and market positions. Some of the most promising growth opportunities over long investment horizons may not be heavily influenced by current global events or specific regional circumstances. These opportunities include our investments in and around cloud computing, software-as-a-service, digital transformation, artificial intelligence, semiconductor technology, e-commerce, payment systems, industrial automation, electric vehicles, and innovative biologic and biosimilar therapies. Additionally, there are other exciting growth prospects related to the rapid expansion of consumer markets, particularly in emerging economies and notably in Asia, which are driving the demand for various consumer products and financial services.

The ongoing trend of economic slowdown should not undermine the enduring strength of these investment themes, or the business models and market positions of the companies in our portfolios. Additionally, we have deliberately chosen companies with healthy profit margins, robust balance sheets, and consistent cash flow generation. Essentially, we have selected portfolio companies that we consider to be financially stable, even in challenging times. As a result, our portfolios have the capacity to surpass market growth rates in the long run.

We have made significant efforts to protect against the most damaging risks associated with inflation on equity investments—margin pressure and multiple compression. Our focus has been on selecting companies with pricing power due to the critical nature or value-added aspect of their products and services. These companies are capable of adjusting prices in times of inflation, safeguarding their profit margins. Additionally, we have adjusted our portfolios to include companies with more appealing valuations.

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 24 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	18	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	23	TCW
	**David Lubchenco** Partner	MBA, University of Denver BA, The Colorado College	32	Marsico Capital Management Transamerica Investment Management Janus Capital
	**Nate Velarde** Partner	MIDS, UC Berkeley MBA, University of Chicago BA, University of Chicago	23	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 09/30/24. 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.