

Market Update: Q3 2009 Recap and Outlook

Please refer to Appendix – Important Disclosures.

Q3 2009 RECAP

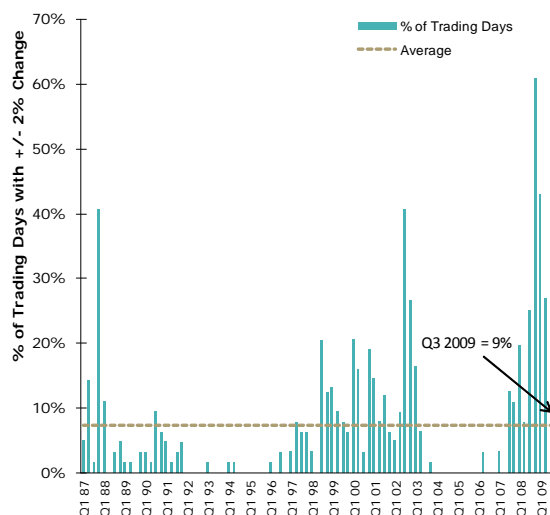
The equity rally carried through Q3, and as of the end of September the S&P 500 was up 58% since the March 9 low. To put the strength of the last two quarters in perspective, the combined Q2-Q3 return of 34% was the tenth strongest consecutive quarter return since the S&P 500's 1926 inception and the best since 1975. This tumultuous year saw the S&P 500 drop 11% in Q1 (even after the March rally) and then surge 16% in Q2 and 16% again in Q3. In Q3, each of the major equity styles was up 14% or more, paced by Mid Value's +24% return. The market rally extended globally, with all developed International markets up 15% or more in U.S. dollar terms save Japan (+7%), Finland (+13%), and Hong Kong (+14%). And the rally carried over to the fixed income markets, as credit risk was again rewarded. There were six key themes, in our view:

- The dominant domestic equity trend was style as Value trumped growth particularly in Small and Mid Cap
- As in Q1, Mid Cap outperformed both Large and Small Cap, although all were up strongly
- Financials led for the second consecutive quarter, as did cyclicals over traditional defensive sectors
- The low-quality rally continued, led by the common stocks of companies in relatively poorer current financial health (lower profit margins, lower return on equity, higher debt-to-equity)
- Within International Developed Markets, the weakening U.S. dollar provided a boost, Value and Small Cap outperformed, and Japan dramatically underperformed (and was actually down in Q3 in local currency terms)
- As has been the case year-to-date in fixed income, higher-risk sectors outperformed lower-risk areas

Below we analyze Q3 and year-to-date (YTD) trends, and beginning on page 7 we offer our near-term outlook.

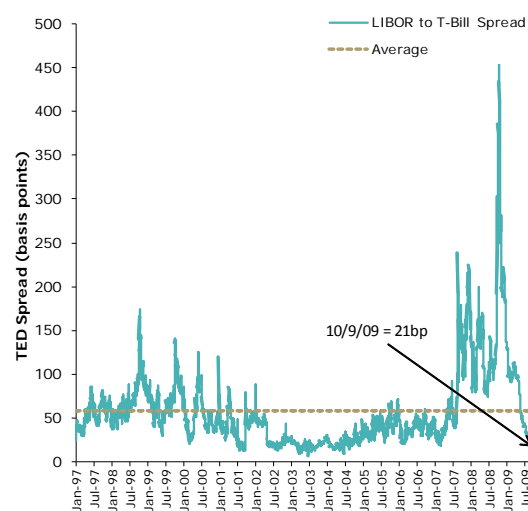
Risk Metrics Have Continued to Drop. In a continuation of a trend we observed in our Q2 note, several market risk metrics have continued to moderate if not fall meaningfully, including the prevalence of equity trading days with strong up or down swings and the lower TED spread in fixed income (see Figures 1 and 2 below, respectively).

Figure 1: S&P500 Index Volatility (1Q 87 - 3Q 09)



Source: S&P benchmark (please see Appendix - Important Definitions); Baird analysis.

Figure 2: 3mo LIBOR to 3mo T-Bill Spread (Jan '97 - Sept '09)



Source: FactSet Research; Baird analysis.

In our view, these metrics may have fallen too far, too fast and have become less reliable indicators of market risk. That said, there are positive fundamental indicators. For example, according to Moody's, during Q3 the downgrade-to-upgrade ratio fell to less than 4:1 from 9:1 in Q2. This ratio had been above 5:1 since early 2008, peaking at over 25:1 late last year. For context, the ratio had only reached the 5:1 level during the credit crunch of 1998 and 2003.

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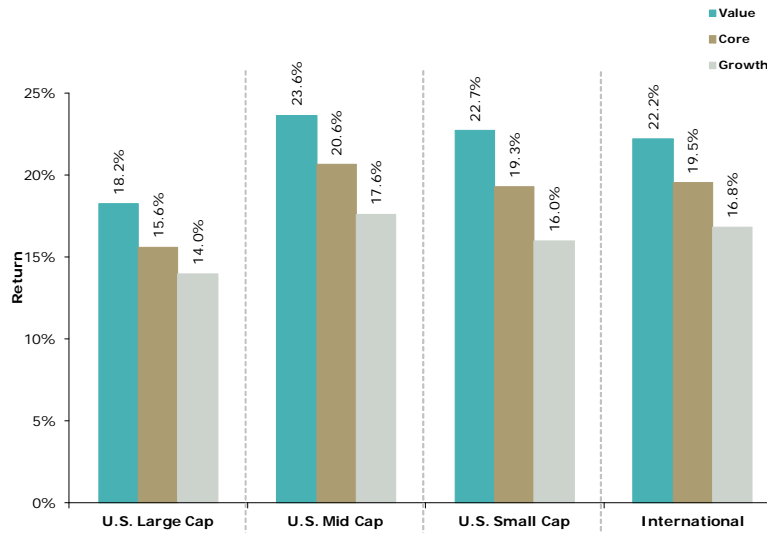
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Although some risk metrics may have dropped, mutual fund flows data indicates a potential shift in investors' attitudes towards risk: disproportionate flows into fixed income relative to historic patterns. According to data compiled by the Investment Company Institute, YTD through August, \$220 billion has gone into fixed income funds and just \$15 billion in equity funds – a ratio of nearly 15:1. Perhaps more notable, April through August trends (after the rally began) showed a 3:1 favoring of fixed income over equity funds (\$167 billion to \$56 billion).

Q3 Domestic Equity Style and Market Capitalization. The dominant trend in Q3 was Value besting Growth by 425-625 basis points (bp). While Financials strength (discussed below) played a role in Value's leadership, its dominance was pervasive: Value bested Growth in seven of the ten sectors within Large Cap, eight in Mid Cap, and all ten in Small Cap. In terms of market cap, Mid Cap performed the best, while Large Cap lagged (see Figure 3 below).

Figure 3: Q3 2009 Returns by Style Benchmark

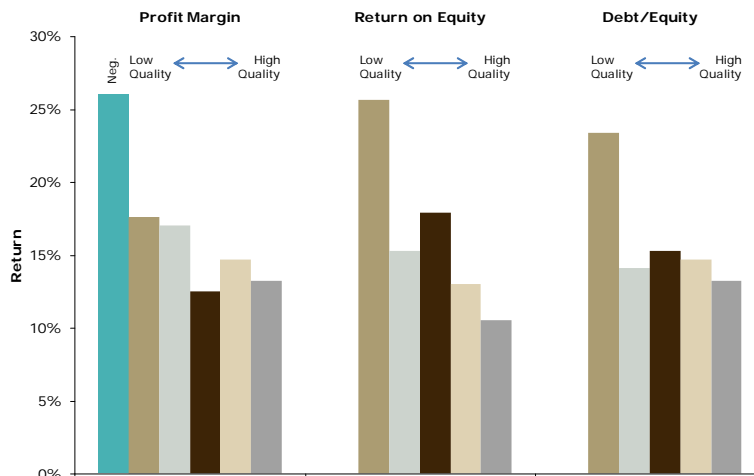


Source: Russell, S&P, & MSCI benchmarks (please see Appendix - Important Definitions); Baird analysis.

Both the style and market-cap trends impacted manager relative performance. Managers with a more value-oriented process, particularly those looking to purchase “cheap” stocks, likely benefited. Anecdotally in Large Value, the dozen or so truly deep value mutual funds outperformed the average Large Value fund in Q3 (19.7% versus 16.7%). Market cap had a potentially large impact on manager performance in Large Cap: the Russell Top 50® Index returned just 12.9% relative to the Russell Mid Cap® Index's 20.6% (the large-cap Russell 1000® Index includes all of the stocks in both indices), a factor that would have benefited portfolios with below-benchmark market cap.

Equity markets continued to be led higher by lower-quality stocks. As in Q2, when the Russell 3000® Index is broken into quintiles, lower-quality stocks outperformed meaningfully (see Figure 4 below).

Figure 4: Q3 2009 Russell 3000® Index Return, by Quintiles



Note: Low/negative profit margin, low return on equity, and high debt to equity ratios indicate a lower quality stock, all else being equal.

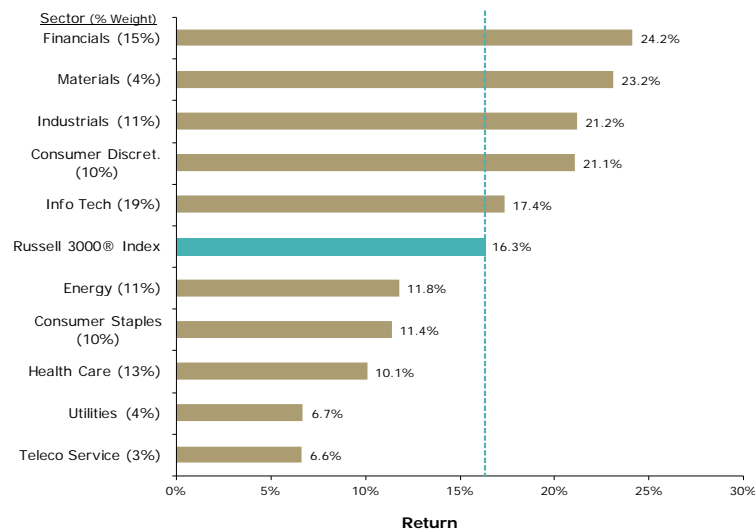
Source: Vestek; Russell benchmark (please see Appendix - Important Definitions); Baird analysis.

The Q3 low-quality rally began in earnest the week of July 13, perhaps ignited by Meredith Whitney’s upgrade of Goldman Sachs and more optimistic comments about Financials in general. That week the lowest-quality quintile of stocks (in terms of return on equity) in the Russell 3000® Index outperformed the highest-quality quintile by over 250bp. Low quality really broke out in the last week of July and the first week of August, when the lowest quality outperformed the highest by nearly 500bp and 800bp, respectively, and had another spurt in mid September, before weakening into quarter-end.

In total, the strength of this low-quality move was equal to Q2’s: the lowest-quality quintile (return on equity) outperformed the highest 25.6% to 10.5% (versus 28.8% to 14.2% in Q2). This would also have impacted manager relative performance, as more managers tend to overweight high-quality and underweight low-quality stocks. Low-quality rallies can be meaningful in magnitude but are often short-lived. Most fundamental managers invest in stocks looking for a return over the next two to three years. Most quantitative managers have models that adjust to the market over time, and thus do not capture abrupt, strong moves such as we have experienced in this rally.

Q3 Domestic Equity Sectors. Financials continued to lead the market higher, albeit less dramatically than in Q1; Materials followed closely, and then Industrials and Consumer Discretionary. In other words, cyclical areas outperformed defensive such as Consumer Staples, Health Care, and Utilities (see Figure 5 below). Within Financials, the areas of strength included Diversified Financial Services (Bank of America, Citigroup, JP Morgan), Consumer Finance (American Express, Capital One, Discover), Life & Health Insurance (AFLAC, Prudential, MetLife), Multi-Line Insurance (AIG, Assurant, Hartford), and REITs (Liberty Property, AMB Property, Boston Properties).

Figure 5: Russell 3000® Index Q3 2009 Return, by GICS Economic Sector



Source: Vestek; Russell benchmarks (please see Appendix - Important Definitions); Baird analysis.

In general, the sectors trends within the broad market held true within the sub-styles with just two notable divergences. Financials in Small Cap did not lead the benchmark as in Large Cap – it was the bigger-cap Financials that rallied hard, per the comments above. Conversely there were other areas in where Small Cap was stronger, including Energy, Consumer Discretionary, and Utilities. Large Cap Energy struggled due to the underperformance of Exxon-Mobil (down 1.3% in Q3) in particular, with an approximate 5% weight, as well as Hess (down 0.4%), and to a lesser extent Chevron (+7.4%) and ConocoPhillips (+8.6%) – managers avoiding these names, especially Exxon-Mobil would have benefitted.

YTD Domestic Equity. Over the first three quarters of 2009 we have seen meaningful shifts in the pattern of returns. In terms of style, Growth bested Value in Q1 by 10-12 percentage points (depending upon the market cap), there was minimal difference by style in Q2, and in Q3 Value outperformed per comments above. Cumulatively, the impact of Q1 has resulted in Growth’s outperformance year to date (see Figure 6 on the next page).

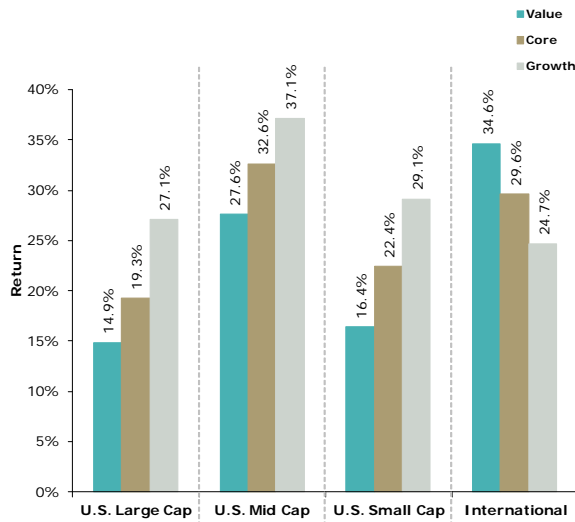
Mid Cap’s consistent strength across all three quarters and in the sell-off pre-March 9 and the subsequent rally has led to that market cap performing meaningfully better than Large or Small Cap (see Figure 6 on the next page).

With respect to economic sectors, IT, Materials, and Consumer Discretionary have realized above-market returns in each of the first three quarters this year, leading to disproportionately high YTD returns. Financials and Industrials have surged in the last two quarters, but are hampered year to date by the two worst drops in Q1, when they were down 27.1% and 20.8%, respectively, versus Utilities’, the next lowest sector, return of 11.4%. And in a continuation of a trend that began in 2008, Energy has lagged, after four consecutive calendar years of being at or near the top performing sector; more broadly, Commodities in general have been relatively weak: up just 9.1% YTD as measured by the Dow Jones AIG Commodity Index (see Figure 7 on the next page).

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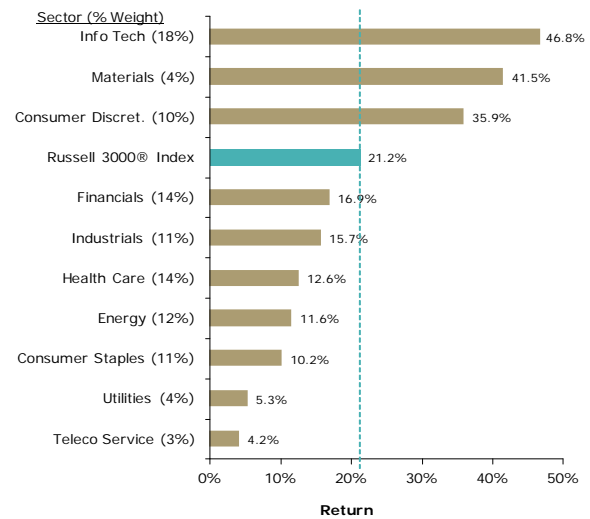
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Figure 6: YTD Q3 2009 Returns by Style Benchmark



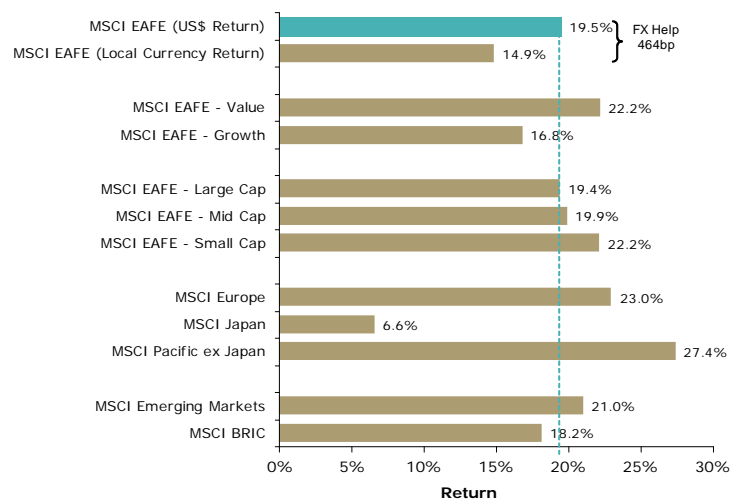
Source: Vestek; Russell, S&P, & MSCI benchmarks (please see Appendix - Important Definitions); Baird analysis.

Figure 7: YTD Q3 2009 Russell 3000® Index Return, by GICS Economic Sector



Q3 and YTD International Equity. International developed market equities outperformed their U.S. counterparts in Q3 in U.S. dollar terms: MSCI EAFE Index +19.5% versus Russell 3000® Index +16.3% (see Figure 8 below). The weakening dollar added 464bp; in local currency terms International Developed Markets were not as strong as the U.S. (+14.9% versus +16.3%). Within Developed Markets, Value again outperformed Growth, and Small Cap outperformed Mid and Large Cap. Japan was the Developed Markets laggard, down 1.1% in local currency – the only Developed Market to decline in local currency terms in Q3. Emerging Markets were up slightly ahead of non-U.S. Developed Markets in U.S. dollars, but in local currency terms were essentially in line with International Developed Markets and U.S. Q3 returns (+16.9% versus +14.9% and +16.5%, respectively).

Figure 8: Q3 2009 Representative International Benchmark Returns

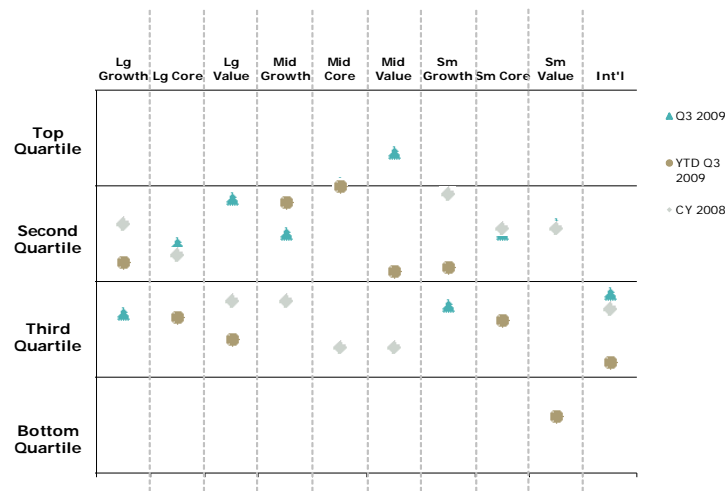


Source: MSCI Barra.com; MSCI benchmarks (please see Appendix - Important Definitions); Baird analysis.

Developed Markets YTD trends are similar, although magnified: U.S. dollar weakness has added 831bp for the year, Value has ruled (+990bp over Growth), Small Cap has bested Mid and Large Cap (+1,430bp and +1,990bp, respectively), and Japan has been very weak (2,000bp behind the benchmark). The notable deviation is in Emerging Markets – by virtue of the relative strength in Q1 (the only major equity style that was not down), Emerging Markets enjoy a commanding YTD return lead over International Developed Markets (+64.9% versus +29.6%).

Q3 and YTD Active Equity Managers' Performance. Benchmarks were somewhat challenging for actively managed equity mutual funds to beat in Q3, not surprising given the continued rally led by low quality, although the relative performance did vary by style (see Figure 9 on the next page, which illustrates this phenomenon for mutual funds; please refer to the Appendix – Important Definitions on page 12 for Mutual Fund Style Universe definitions).

Figure 9: Equity Benchmark Performance versus the Mutual Fund Style Universe



Source: Morningstar; Russell & S&P benchmarks (please see Appendix - Important Definitions); Baird analysis.

Generally, active managers will lag benchmarks in strong low-quality rallies. In Q3, this can be seen in Large, Mid and Small Cap where it was harder for managers to beat the benchmarks in Value versus Growth; not coincidentally, the low-quality market trend was stronger in Value. For example, in Large Value the lowest return on equity quintile of stocks returned 32.2% in Q3 versus 9.2% for the highest-quality quintile for a spread 23 percentage points; in Large Growth that spread was just 6 percentage points (i.e., a much smaller quality effect). The similar spreads in Mid Cap were 17 and 11 percentage points (Value and Growth, respectively) and were 21 and 9 percentage points in Small Cap. In Large Value the average top-quartile returning fund in Q3 had a portfolio return on equity of 8.5%, versus the average bottom-quartile performer's 17.1% return on equity, a trend that true was across styles for Q3 and YTD (i.e., better performing managers had lower return on equity portfolios).

In addition to quality, other factors that explained top-quartile versus bottom-quartile Q3 fund performance included: in Large Cap, top-quartile funds were underweight the largest stocks, with larger Financials weightings, and with smaller weights to Consumer Staples (in particular), as well as Health Care and Utilities; in Small Cap, they had larger micro-cap stock weightings (and underweight Financials in Small Value); and in International, they were overweight low quality, overweight Financials, underweight Consumer Staples, lower weights to Emerging Markets, and underweight Japan.

In Mid Value, the benchmark was particularly challenging to beat in Q3 – while it is challenging to determine precisely why, we believe the relative weight and performance of REITs in Mid Value were an important factor. Mid Value managers are underweight REITs (average fund 3.7% weight versus the benchmark's 9.1%), which had a 35.4% average return in Q3 (versus 22.6% return for the rest of the benchmark). REITs sub-classes represented four of the top five returning sub-industries in the benchmark.

In our view, the more appropriate time frame to use to judge recent manager performance is YTD returns – a time frame that includes the early-year sell-off as well as the subsequent low-quality rally, a mini-cycle of weakness followed by strength. Through September, benchmarks in most asset classes have returned right around the median fund level; in five of the equity asset classes they performed better than half the funds (and in top quartile in Mid Growth) and in five they were outperformed by the majority of funds (and in the bottom quartile in Small Value). Active managers have in general performed solidly over the 2009 YTD mini-cycle.

In Mid Growth, the benchmark has been challenging to beat YTD, the reasons for which are challenging to discern. We can say that those managers who have done well relative to the benchmark were overweight Financials and Consumer Discretionary, underweight Health Care, and overweight low-quality (return on equity, debt to equity) and low-priced stocks (price to earnings). Neither these sector positionings nor these style tilts are characteristic of most growth managers.

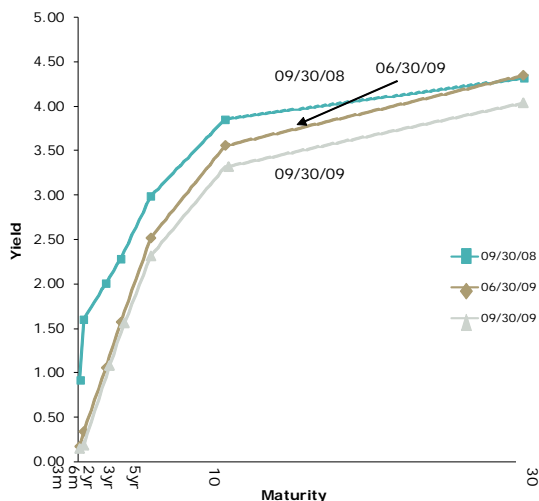
Factors that explained top-quartile versus bottom-quartile fund YTD performance included: in Large Cap, top-quartile funds were overweight low quality (e.g., low return on equity), underweight the largest stocks, overweight IT and Financials, and underweight Consumer Staples; in Small Cap, they were overweight low quality, with larger micro-cap stock weightings, and overweight IT (and underweight Financials in Small Value); and in International, they were overweight low quality, overweights to Consumer Discretionary, Industrials and IT, underweight Consumer Staples, higher weights to Emerging Markets, and underweight Japan.

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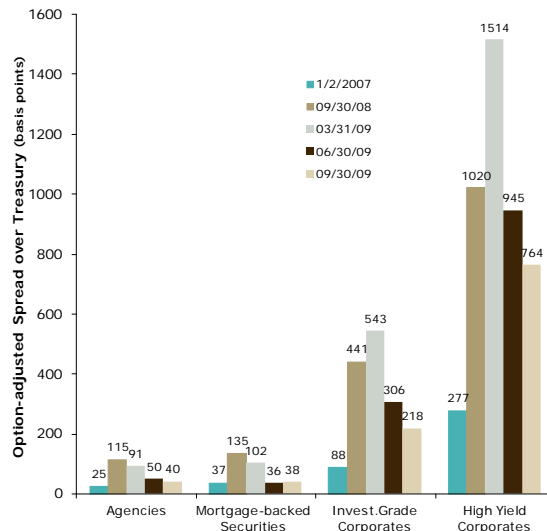
Q3 and YTD Fixed Income. Demand was strong for the U.S. Government's Q3 debt issuance of \$554 billion of notes and bonds (bringing the YTD total to \$1.517 trillion), and Treasury yields moved slightly lower in the quarter. The result was a modest flattening of the yield curve (see Figure 10 below), with the spread between the 2- and 10-yr maturities narrowing 24bp during Q3 to 236bp (and relative to the 90-120bp normal range). Inflation concerns appear to have moderated somewhat. While Credit spreads have stabilized in Agencies and Mortgage-Backed Securities at levels consistent with those in early 2007, Corporate spreads are two- to three-times early 2007 levels despite strong tightening over the last six months (see Figure 11 below), although the spreads have come in much more on Industrial versus Financials issues (176bp versus 288bp as of the end of September).

Figure 10: U.S. Treasury Yield Curve Over Time



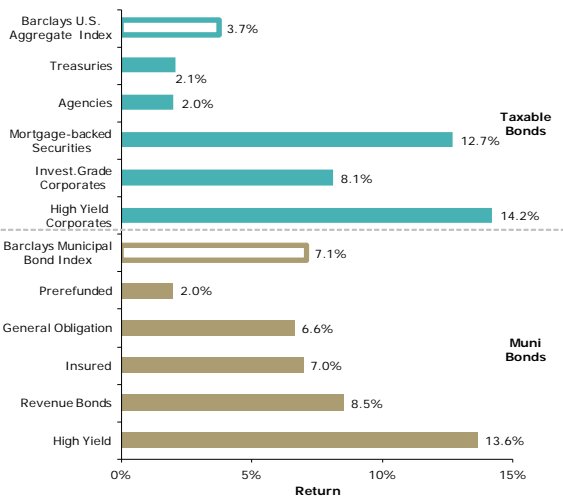
Source: Bloomberg; Barclays Capital; Baird analysis.

Figure 11: Domestic Fixed Income Credit Spreads Over Time



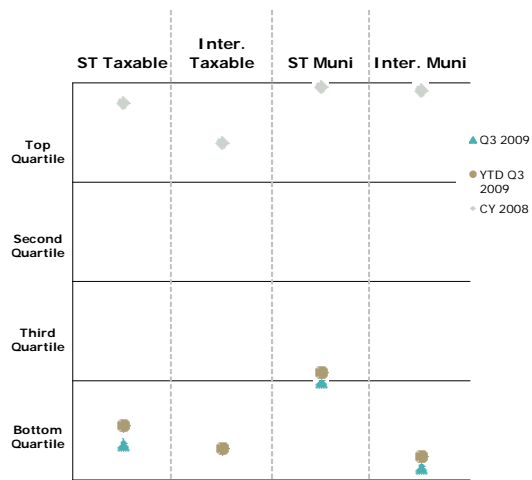
The lower-risk sectors again underperformed higher-risk in both taxable and tax exempt in Q3 (see Figure 12 below). Additionally, given the yield curve, longer maturities outperformed. Consistent with these trends, the majority of actively managed mutual funds continued to outperform their benchmarks – managers tend to overweight the higher-risk and underweight the lower-risk fixed income sectors (see Figure 13 below, which illustrates this phenomenon; please refer to the Appendix – Important Definitions on page 12 for Mutual Fund Style Universe definitions).

Figure 12: Q3 2009 Domestic Fixed Income Returns by Sector



Source: Bloomberg; Morningstar; Barclays benchmarks (please see Appendix - Important Definitions); Baird analysis.

Figure 13: Fixed Income Benchmark Performance versus the Mutual Fund Style Universe



This risk-reversal has been a consistent theme across most of 2009, and has led to equity-like returns in some of the higher-risk fixed income sectors, with High Yield and Investment Grade Corporates up 49.0% and 17.1%, respectively YTD in taxable, and High Yield and Revenue Bonds up 32.8% and 17.9%, respectively YTD in municipals.

(Byrne)

NEAR-TERM OUTLOOK

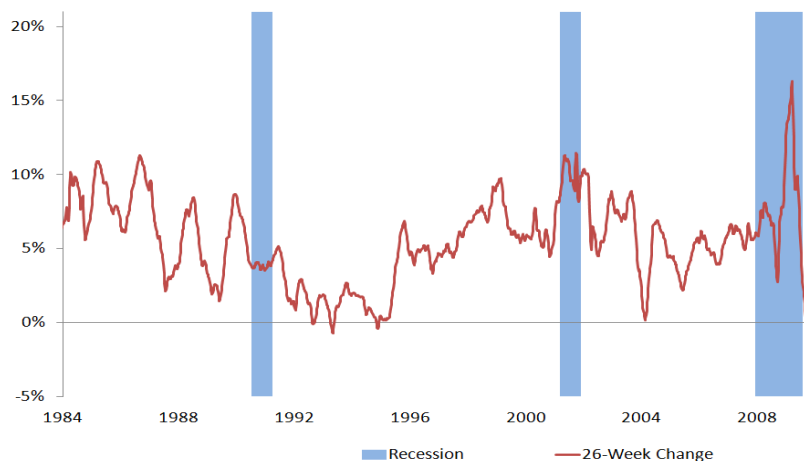
(The comments below are excerpted from Baird's *Investment Strategy Outlook*, published October 7, 2009.)

Economy and The Fed. Despite the worse-than-anticipated September employment report, the recession appears to have ended, and we have upgraded our view of the Economic Fundamentals from Bearish to Neutral. Non-farm payrolls fell more than expected last month. The unemployment rate rose as expected in September to 9.8%, a rise that was restrained by the fact that three-quarters of the workers who lost jobs last month dropped out of the labor force and were therefore not tallied in the unemployment rate. Absent sustained improvement in the labor market, a lasting economic recovery is unlikely to take hold. This does not, however, mean that the recession has not ended. In the past, recovery quickly followed recession. Now, however, while an ebbing in the inventory drawdown, a bottoming in the housing market and an expansion of U.S. export demand are helping provide stability, we caution against viewing government-led spending as an engine of economic growth. The fiscal stimulus in the recent recession, as a percent of GDP, was four-times the post-WWII average.

Government fiscal stimulus does not generate economic growth, so much as it rearranges growth. A prime example is the recently expired "Cash-for-Clunkers" program, which appears to have had little, if any, lasting impact on auto sales. Rather, sales were simply pulled forward into the rebate program period. Really, the entire government response to the economic downturn over the past 18-24 months has been a sort of "Cash for Clunkers" writ large. To the extent that the fiscal stimulus is supporting current economic conditions, it comes at a cost of future growth, in terms of activity being pulled forward and a worsening in the Federal Government's fiscal health. While households appear to be absorbing the lessons of the past year (reducing their debt-loads, improving their balance sheets, and spending more prudently), the government response has been the opposite. The government balance sheet, including state and local government liabilities and the future costs of current entitlement programs, looks perilously bloated. Higher taxes in subsequent periods will likely be necessary to pay for past, current and future government spending, which may reduce economic growth.

Even though domestic rate hikes are unlikely anytime soon, we have downgraded Federal Reserve Policy from Bullish to Neutral. The Fed is easing away from market intervention, winding down its purchases of Treasuries and Agencies, as well as allowing some of the lending facilities to expire. The Fed may also face pressure to provide support to the dollar. While a modest down-trend in the dollar would likely have a positive impact on domestic growth, the rising risk is that the dollar's decline accelerates – prompting action by the Fed. In addition, money supply growth has moved to zero (see Figure 14 below) as the velocity of money, the rate at which money changes hands in the economy, has collapsed – money pumped into banks is not making its way into the financial system. Unlike in China, where banks have been coerced into lending, domestic institutions have been tightening lending standards and sitting on their cash.

Figure 14: M2 Money Supply Growth



The M2 money supply measure includes currency in the hands of the public; travelers checks; demand deposits, and other deposits against which checks can be written; savings accounts; time deposits of under \$100,000; and balances in retail money market mutual funds.

Source: Federal Reserve Bank of New York; Federal Reserve.

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Equity Markets. The stock market rally since March has been accompanied by little improvement in corporate earnings or sales fundamentals. However, this is not uncommon, and even though Valuations have expanded, we continue to rate them Neutral. Stocks are no longer cheap but are not yet so expensive as to become a headwind for the cyclical bull market. Moreover, P/E expansion at economic and market turns is the norm rather than the exception: prices tend to bottom before earnings, which bottom ahead of sales. The caveat is that this cannot go on indefinitely. If the historical pattern is to be matched, earnings and sales growth should begin shortly to improve, and an inability to do so could lead to troubling headwinds for the stock market. These Fundamental Indicators tally to a Neutral outlook.

Despite the seven-month rally, optimism is only now building and Investor Sentiment appears poised to be downgraded from Neutral to Bearish. Investors have shifted out of money market funds, and while some of these dollars has gone into equities, the vast majority has actually moved into bonds. This suggests an ongoing secular shift in investor attitudes in the trade-offs between stocks and bonds. The latest individual investor sentiment data shows rising bullishness, while other surveys, of advisory services and those focused more strictly on stocks, have shown a marked increase in optimism. The passing of September with scarcely a scratch to the equity markets (closed below the highs, but well ahead for the month) could lead investors to grow more complacent. We continue to view the Seasonal Tendencies/Trends as Neutral, as the composite cycle suggests that stocks could yet remain vulnerable to a pullback.

The primary impetus for a continued stock market rally continues to come from the Broad Market Trends, which remain Bullish. Virtually all areas of the market have participated in the rally, a trend noted across size, industry group and international classifications. While the industry group up-trend indicator has slipped recently, strong upside participation remains intact. Contributing to the strength of the broad market trends has been the ability of most areas of the market to make new highs in tandem. While excessive optimism could impact near-term prospects if it remains elevated, degradation in the broad market trends could be evidence of a longer-term shift.

Within domestic equities, we are shifting from Small and Mid Cap leadership towards strictly Mid Caps. While trends still favor Small-caps over Large-caps, the likely ending of the recession ends a period of strong Small-cap leadership, and the moderation on the overall stock market up-trend works against Small-caps. Moreover, continued weakness in the dollar is a boon to Large-caps, as larger companies tend to benefit more from increased foreign demand. Finally, our industry group-based rankings show Mid Caps moving into the lead. From a style perspective, we retain a modest bias towards Growth over Value.

While Value fared better than Growth in Q3, this appears to have been largely a sector phenomenon (i.e., Financials leadership). Our industry group-based rankings tilt slightly toward Growth and the median valuation measures for the growth indexes are near long-term averages, but expensive for the value indexes.

Figure 15: Value-Growth Ratio



The Growth/Value Ratio, showing the relative historical performance of value and growth indexes, is calculated by dividing the weekly closing values of S&P 500 Growth index by the S&P 500 Value index. Gains reflect relative Growth outperformance; declines in the ratio reflect relative Value outperformance. For example, a ratio change from 95 to 105 would mean that the Growth outperformed Value by ten percentage points in the specified time period.

Sector leadership is shifting away from commodity beneficiaries and towards quality cyclicals, particularly those who would benefit from a weak dollar. We expect continued leadership from Energy, Industrials, and Health Care, while we would underweight Consumer Staples, Telecom, and Utilities. The secular up-trend in commodities does not appear to have been exhausted, but the trade appears crowded in the near term.

Investors looking for international exposure should favor Emerging Markets over Developed, while among Developed Markets, investors should tilt away from the United States. Current leadership is coming from those markets that benefit from China exposure, although China itself appears to have weakened.

Fixed Income Markets. With many investors increasing their exposure to bonds, fixed income spreads have tightened considerably and the yield curve is flattening. As such, investors are not now being paid to take risk. Treasury investors should stay near the short-end of the curve, while those investors looking outside of Treasuries should focus on high-quality Corporate and Preferred issues.

(Bittles)

ROLLING STYLE BENCHMARK RETURNS

ANNUAL RETURNS								
2000	2001	2002	2003	2004	2005	2006	2007	2008
Small Cap Value 22.8%	Small Cap Value 14.0%	Fixed Income 10.3%	Small Cap Growth 48.5%	Small Cap Value 22.3%	Int'l 14.0%	Int'l 26.8%	Large Cap Growth 11.8%	Fixed Income 5.2%
Fixed Income 11.6%	Fixed Income 8.4%	Small Cap Value -11.4%	Small Cap Core 47.3%	Int'l 20.7%	Mid Cap 12.7%	Small Cap Value 23.5%	Int'l 11.6%	Small Cap Value -28.9%
Mid Cap 8.3%	Small Cap Core 2.5%	Large Cap Value -15.5%	Small Cap Value 46.0%	Mid Cap 20.2%	Large Cap Value 7.0%	Large Cap Value 22.3%	Small Cap Growth 7.1%	Small Cap Core -33.8%
Large Cap Value 7.0%	Large Cap Value -5.6%	Int'l -15.7%	Mid Cap 40.1%	Small Cap Core 18.3%	Large Cap Growth 5.3%	Small Cap Core 18.4%	Fixed Income 7.0%	Large Cap Value -36.9%
Small Cap Core -3.0%	Mid Cap -5.6%	Mid Cap -16.2%	Int'l 39.2%	Large Cap Value 16.5%	Large Cap Core 4.9%	Large Cap Core 15.8%	Mid Cap 5.6%	Large Cap Core -37.0%
Large Cap Core -9.1%	Small Cap Growth -9.2%	Small Cap Core -20.5%	Large Cap Value 30.0%	Small Cap Growth 14.3%	Small Cap Value 4.7%	Mid Cap 15.3%	Large Cap Core 5.5%	Large Cap Growth -38.4%
Int'l -14.0%	Large Cap Core -11.9%	Large Cap Core -22.1%	Large Cap Growth 29.8%	Large Cap Core 10.9%	Small Cap Core 4.6%	Small Cap Growth 13.4%	Large Cap Value -0.2%	Small Cap Growth -38.5%
Large Cap Growth -22.4%	Large Cap Growth -20.4%	Large Cap Growth -27.9%	Large Cap Core 28.7%	Large Cap Growth 6.3%	Small Cap Growth 4.2%	Large Cap Growth 9.1%	Small Cap Core -1.6%	Mid Cap -41.5%
Small Cap Growth -22.4%	Int'l -21.2%	Small Cap Growth -30.6%	Fixed Income 4.1%	Fixed Income 4.3%	Fixed Income 2.4%	Fixed Income 4.3%	Small Cap Value -9.8%	Int'l -43.1%

QUARTERLY RETURNS			
Q4 2008	Q1 2009	Q2 2009	Q3 2009
Fixed Income 4.6%	Fixed Income .1%	Int'l 25.8%	Small Cap Value 22.7%
Int'l -19.9%	Large Cap Growth -4.1%	Small Cap Growth 23.4%	Mid Cap 20.6%
Large Cap Core -22.0%	Mid Cap -9.0%	Mid Cap 20.8%	Int'l 19.5%
Large Cap Value -22.2%	Small Cap Growth -9.7%	Small Cap Core 20.7%	Small Cap Core 19.3%
Large Cap Growth -22.8%	Large Cap Core -11.0%	Small Cap Value 18.0%	Large Cap Value 18.2%
Small Cap Value -24.9%	Int'l -13.8%	Large Cap Value 16.7%	Large Cap Core 16.1%
Small Cap Core -26.1%	Small Cap Core -15.0%	Large Cap Growth 16.3%	Small Cap Growth 16.0%
Mid Cap -27.3%	Large Cap Value -16.8%	Large Cap Core 15.9%	Large Cap Growth 14.0%
Small Cap Growth -27.5%	Small Cap Value -19.6%	Fixed Income 1.8%	Fixed Income 4.1%

Source: Russell, MSCI, Barclays Capital., Standard & Poors

Large Cap Core represented by S&P 500 Index which includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Large Cap Growth represented by Russell 1000 Growth Index which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Large Cap Value represented by Russell 1000 Value Index which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Mid Cap represented by Russell Mid Cap Index which measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. Small Cap Core represented by Russell 2000 Index which measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. Small Cap Growth represented by Russell 2000 Growth Index which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. Small Cap Value represented by Russell 2000 Value Index which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Fixed Income represented by Barclays Capital Aggregate Bond Index which is comprised of approximately 6,000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years. Int'l is represented by The MSCI EAFE Index which is an international index measuring market performance of 21 countries in Europe, Australasia, and the Far East. Indices are unmanaged and are used to measure and report performance of various sectors of the market. Past performance is no guarantee of future results and diversification does not ensure against loss. Direct investment in indices is not available.

ROLLING ECONOMIC SECTOR RETURNS

ANNUAL RETURNS								QUARTERLY RETURNS			
2001	2002	2003	2004	2005	2006	2007	2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Materials 4.4%	Consumer Staples -4.8%	Information Technology 50.9%	Energy 32.8%	Energy 33.5%	Telecomm Service 37.2%	Energy 32.0%	Consumer Staples -16.6%	Telecomm Service -5.3%	Information Technology 3.5%	Financials 29.0%	Financials 24.2%
Consumer Discretionary 3.0%	Materials -8.4%	Consumer Discretionary 38.2%	Utilities 23.6%	Utilities 15.2%	Utilities 21.7%	Materials 26.3%	Health Care -23.4%	Utilities -10.6%	Materials -3.2%	Information Technology 20.8%	Materials 23.2%
Consumer Staples -4.6%	Energy -8.9%	Materials 37.0%	Industrials 18.4%	Health Care 8.3%	Energy 21.6%	Utilities 17.5%	Utilities -28.5%	Consumer Staples -13.1%	Telecomm Service -6.2%	Industrials 20.4%	Industrials 21.2%
Financials -5.5%	Financials -11.4%	Industrials 32.7%	Telecomm Service 18.1%	Financials 6.4%	Materials 20.7%	Information Technology 15.1%	Telecomm Service -33.3%	Health Care -13.9%	Consumer Discretionary -6.5%	Consumer Discretionary 20.0%	Consumer Discretionary 21.1%
Industrials -5.6%	Industrials -20.1%	Financials 32.6%	Materials 17.1%	Industrials 6.0%	Financials 19.7%	Consumer Staples 14.1%	Energy -37.2%	Energy -23.7%	Health Care -7.3%	Materials 18.7%	Information Technology 17.4%
Energy -8.9%	Health Care -21.4%	Utilities 26.3%	Financials 13.8%	Consumer Staples 4.5%	Consumer Discretionary 16.4%	Industrials 12.3%	Consumer Discretionary -38.7%	Industrials -24.0%	Consumer Staples -10.3%	Energy 12.5%	Energy 11.8%
Health Care -12.4%	Consumer Discretionary -23.9%	Energy 26.0%	Consumer Discretionary 13.7%	Materials 4.2%	Industrials 15.2%	Telecomm Service 10.1%	Industrials -39.8%	Consumer Discretionary -25.8%	Energy -11.2%	Utilities 11.4%	Consumer Staples 11.4%
Telecomm Service -15.4%	Utilities -25.6%	Health Care 20.0%	Consumer Staples 9.5%	Information Technology 2.2%	Consumer Staples 15.1%	Health Care 7.9%	Information Technology -42.9%	Information Technology -25.8%	Utilities -11.4%	Health Care 10.3%	Health Care 10.1%
Utilities -26.4%	Telecomm Service -35.0%	Consumer Staples 14.5%	Health Care 4.2%	Telecomm Service -2.6%	Information Technology 8.9%	Consumer Discretionary -11.7%	Materials -46.8%	Materials -31.4%	Industrials -20.8%	Consumer Staples 10.3%	Utilities 6.7%
Information Technology -27.4%	Information Technology -39.2%	Telecomm Service 8.2%	Information Technology 1.4%	Consumer Discretionary -4.2%	Health Care 6.8%	Financials -17.8%	Financials -49.8%	Financials -33.6%	Financials -27.0%	Telecomm Service 4.2%	Telecomm Service 6.6%

Source: Vestek

Global Industry Classification Standard (GICS) consists of 10 sectors aggregated up from 23 Industry Groups, 59 Industries, and 123 Sub-industries covering almost 6,000 companies globally. GICS sector returns based on the Russell 3000 Index. Energy Sector comprises companies whose businesses are dominated by: construction or provision of oil rigs; drilling equipment & other energy-related service & equipment; or exploration, production, marketing, refining &/or transportation of oil & gas products, coal & other consumable fuels. Materials Sector: manufacture chemicals, constructions materials, glass, paper, forest products & related packaging products, & metals: minerals & mining companies, including producers of steel. Industrials Sector: manufacture & distribution of capital goods, provision of commercial services & supplies & the provision of transportation services. Consumer Discretionary Sector: a manufacturing segment (automotive, household durable goods, textiles & apparel, & leisure equipment) & services segment (hotels, restaurants & other leisure facilities, media production & services & consumer retailing & services). Consumer Staples: manufacture & distribute food, beverages & tobacco & produce non-durable household goods & personal products. Health Care Sector: manufacture health care equipment & supplies or provide health care related services: research, development, production, & marketing of pharmaceuticals & biotechnology products. Financial Sector: banking, mortgage finance, consumer finance, specialized finance, investment banking & brokerage, asset management & custody, corporate lending, insurance & financial investment, & real estate. Information Technology Sector: software development or information technology consulting & services; manufacturers & distributors of communications equipment, computers & peripherals, electronic equipment & related instruments, & semiconductors. Telecomm Services Sector: communications services primarily through a fixed-line, cellular, wireless, high bandwidth &/or fiber optic cable network. Utilities Sector: electric, gas, or water utilities; independent producers &/or distributors of power. Past performance is not indicative of future results and diversification does not ensure against loss.

Private Wealth Management

October 15, 2009

APPENDIX – IMPORTANT DEFINITIONS

Mutual Fund Style Universe

Style-specific universe of mutual funds as categorized by Morningstar. Number of funds in each category as of September 30, 2009: 502 for Large Growth, 597 for Large Core, 357 for Large Value, 260 for Mid Growth, 164 for Mid Core, 124 for Mid Value, 239 for Small Growth, 211 for Small Core, 119 for Small Value, 462 for International, 117 for Short-Term Taxable, 325 Intermediate Term, 42 for Short-Term Tax Exempt, and 78 for Intermediate Tax Exempt.

Equity Styles

Large Core: equity securities of large capitalization (generally \$7 billion plus market cap) companies having growth and value characteristics. Based upon the S&P 500 Index.

Large Growth: equity securities of large capitalization (\$7 billion plus market cap) companies having growth stock characteristics (high price to earnings, high return on equity and low dividend yield). Based upon the Russell 1000[®] Growth Index.

Large Value: equity securities of large capitalization (\$7 billion plus market cap) companies having value stock characteristics (low forecasted price-to-earnings ratio, low price-to-book ratio, high dividend yield). Based upon the Russell 1000[®] Value Index.

Mid Core: equity securities of middle capitalization (\$2-7 billion plus market cap) companies having growth and value characteristics. Based upon the Russell Midcap[®] Index.

Mid Growth: equity securities of middle capitalization (\$2-7 billion plus market cap) companies having growth stock characteristics (high price to earnings, high return on equity and low dividend yield). Based upon the Russell Midcap[®] Growth Index.

Mid Value: equity securities of middle capitalization (\$2-7 billion plus market cap) companies having growth stock characteristics (high price to earnings, high return on equity and low dividend yield). Based upon the Russell Midcap[®] Value Index.

Small Core: equity securities of small capitalization (<\$2 billion plus market cap) companies having growth and value characteristics to minimize the risk of a style being out of favor. Small capitalization stocks may be subject to additional risks including illiquidity. Based upon the Russell 2000[®] Index.

Small Growth: equity securities of small capitalization (<\$2 billion plus market cap) companies having growth stock characteristics (high price to earnings, high return on equity and low dividend yield). Small capitalization stock may be subject to additional risks including illiquidity. Based upon the Russell 2000[®] Growth Index.

Small Value: equity securities of small capitalization (<\$2 billion plus market cap) companies having value stock characteristics (low forecasted price-to-earnings ratio, low price-to-book ratio, high dividend yield). Small capitalization stocks may be subject to additional risks including illiquidity. Based upon the Russell 2000[®] Value Index.

International: a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada, consisting of 21 developed market country indices. Based upon the MSCI EAFE Index.

S&P and Russell Domestic Equity Benchmarks

S&P 500 Index: A representative sample of 500 leading companies in leading industries of the U.S. economy. Considered a large-cap index.

Russell 3000[®] Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. A broad market index.

Russell Top 50[®] Index: Measures the performance of the 50 largest companies in the Russell 3000[®] Index, representing approximately 40% of the total market capitalization of the Russell 3000[®] Index. A large-cap index.

Russell Top 200[®] Index: Measures the performance of the 200 largest companies in the Russell 1000[®] Index, which represents approximately 68% of the total market capitalization of the Russell 1000[®] Index. A large-cap index.

Russell 1000[®] Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000[®] Index. A large-cap index.

Russell 1000[®] Growth Index: Measures the performance of those Russell 1000[®] Index companies with higher price-to-book ratios and higher forecasted growth values. A large-cap index.

Russell 1000[®] Value Index: Measures the performance of those Russell 1000[®] Index companies with lower price-to-book ratios and lower forecasted growth values. A large-cap index.

Russell Midcap[®] Index: Measures the performance of the 800 smallest companies of the Russell 1000[®] Index, which represent approximately 31% of the total market capitalization of the Russell 1000[®] Index. A mid-cap index.

Russell Midcap[®] Growth Index: Measures the performance of those Russell Midcap[®] Index companies with higher price-to-book and higher forecasted growth values. The stocks are also member of the Russell 1000[®] Index. A mid-cap index.

Russell Midcap[®] Value Index: Measures the performance of those Russell Midcap companies with lower price-to-book and lower forecasted growth values. The stocks are also member of the Russell 1000[®] Index. A mid-cap index.

Russell 2000® Index: Measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represent approximately 10% of the total market capitalization of the Russell 3000® Index. A small-cap index.

Russell 2000® Growth Index: Measures the performance of those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth values. A small-cap index.

Russell 2000® Value Index: Measures the performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. A small-cap index.

Russell Microcap® Index: Measures the performance of the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market. It includes 1000 of the smallest securities in the small-cap Russell 2000® Index based on a combination of their market cap and current index membership and it includes the next 1,000 securities. A micro-cap index.

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MSCI International Equity Benchmarks

MSCI EAFE Index: A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. An international index.

MSCI Europe Index: A free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of June 2006, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. An international index.

MSCI Country Indices: To construct an MSCI Country Index, every listed security in the market is identified. Securities are free float adjusted, classified in accordance with the Global Industry Classification Standard (GICS®), and screened by size and liquidity. MSCI then constructs its indices by targeting for index inclusion 85% of the free float adjusted market capitalization in each industry group, within each country. By targeting 85% of each industry group, the MSCI Country Index captures 85% of the total country market capitalization while it accurately reflects the economic diversity of the market. This includes the MSCI Japan Index. International indices.

MSCI Pacific ex Japan Index: A free float-adjusted market capitalization index designed to measure equity market performance in the Pacific region, minus Japan. As of June 2006, the MSCI Pacific ex Japan Index consisted of the following 5 Developed Market countries: Australia, Hong Kong, New Zealand, and Singapore. An international index.

MSCI EAFE Small Cap Index: Target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million. An international index.

MSCI Value and Growth Indices: Cover the full range of developed, emerging and All Country MSCI Equity Indices. As of the close of May 30, 2003, MSCI implemented an enhanced methodology for the MSCI Global Value and Growth Indices, adopting a two dimensional framework for style segmentation in which value and growth securities are categorized using different attributes - three for value and five for growth including forward looking variables. The objective of the index design is to divide constituents of an underlying MSCI Standard Country Index into a value index and a growth index, each targeting 50% of the free float adjusted market capitalization of the underlying country index. Country Value/Growth indices are then aggregated into regional Value/Growth indices. Prior to May 30, 2003, the indices used Price/Book Value (P/BV) ratios to divide the standard MSCI country indices into value and growth indices. Includes the MSCI EAFE Value and Growth Indices. International indices.

Barclays Capital Fixed Income Benchmarks

Barclays Capital Aggregate Bond Index: Comprised of approximately 6,000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an average maturity of approximately 10 years.

Barclays Capital Muni Bond Index: Bonds must have a minimum credit rating of at least Baa, an outstanding par value of at least \$3 million, part of a transaction of at least \$50 million, issued after December 31, 1990 and have a year or longer remaining maturity.

GICS

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APPENDIX – IMPORTANT DISCLOSURES

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ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST.

The Dow Jones Industrial Average, S&P 500, S&P 400, MSCI EAFE, Barclays Capital U.S. Aggregate Benchmark, Barclays Capital Municipal Bond Benchmark, Russell 1000[®] Index, Russell Mid Cap[®] Index, Russell 2000[®] Index, and Russell 3000[®] Index are unmanaged common indices used to measure and report performance of various sectors of the stock and fixed income markets; direct investment in indices is not available.

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