

Monthly Market Update:

August 2011

Please refer to Appendix – Important Disclosures.

The Markets at a Glance

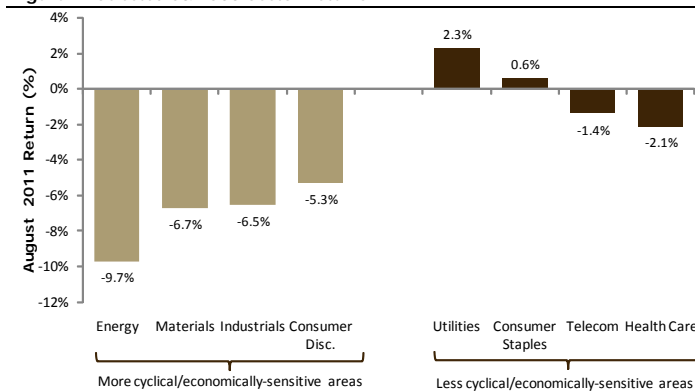
Asset Class	Representative Benchmark	1-Month Return	YTD Return
U.S. Large Cap	S&P 500	(5.4%)	(1.8%)
U.S. Small Cap	Russell 2000®	(8.7%)	(6.5%)
International	MSCI EAFE	(9.0%)	(5.7%)
Emerging Mkts	MSCI Emerging Markets	(8.9%)	(8.3%)
Commodities	DJ UBS Commodity	1.0%	1.3%
Municipal Bonds	BarCap Municipal	1.7%	7.3%
Taxable Bonds	BarCap U.S. Aggregate	1.5%	5.9%
Cash	Citi 3-mo Treasury Bills	0.0%	0.1%

August Recap. August experienced the first stock market correction (a decline of 10% or more) since March 2009, marking the end of an impressive two-plus year rally. From July 22 to August 8 the S&P 500 fell nearly 17%, but regained some of those losses throughout the month. Investors had to cope with an extraordinary amount of volatility in August as the markets sought to make sense of various global concerns. At the forefront of these concerns was the release of economic indicators that confirmed that the U.S. and global economy have indeed encountered a “soft patch.” Further stoking the fire was the historic downgrade of U.S. debt by Standard & Poor’s (note, the other two major rating agencies have confirmed their highest ratings). Last, pressures continued to mount in Europe as Italy became the latest embattled country to enter into the debt crisis.

U.S. Equity. The U.S. GDP figure for Q2 was reported at 1.0%, confirming that the economy is slowing to an anemic pace. The markets were given a fresh breath of life when Fed Chairman Ben Bernanke vowed to keep rates near zero into 2013. Overall, all U.S. styles posted negative returns in August, pulling the year-to-date returns into the red as well.

Company size and defensive characteristics were the primary determinants of how well or poorly a company fared relative to others. Large, more established companies held up better than smaller companies that may not have the balance sheet wherewithal to grow in more turbulent environments. There was also a notable preference for companies whose earnings are less tied to changes in the economy. As seen in Figure 1, more defensive sectors such as Utilities, Consumer Staples, and Telecom outperformed cyclical sectors by a wide margin.

Figure 1: Selected S&P 500 Sector Returns



Source: Vestek; 8/31 weightings (more cyclical, 40%; less cyclical, 29%); Baird analysis.

International Equity. Much of the attention on international markets has been focused on Europe. A confluence of events including sovereign debt solvency, weak economic data, and mixed interest in rescue packages from the ECB and stronger nations, has created a hostile investing environment. More recently, European banks (and some U.S. banks) have come under pressure due to significant exposure to sovereign bonds and questions of liquidity. It is apparent that there will not be a quick fix to the situation in Europe.

The table below lists the month-end performance of various regions. The stock markets in North America (i.e., the U.S. and Canada), while still negative, are comparably better than results in other regions.

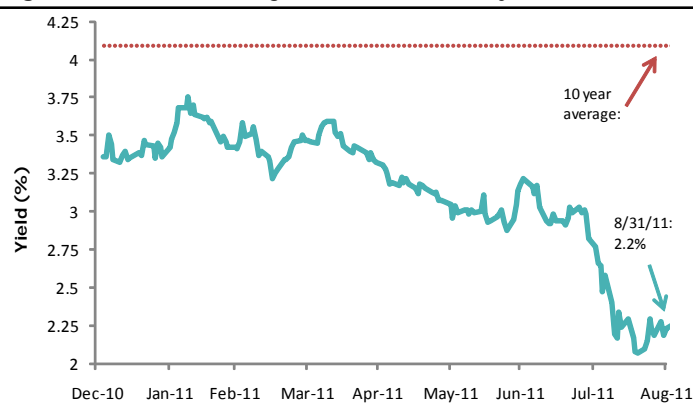
Country Type/Region	1-Month Return	YTD Return
Developed Markets		
North America	(5.6%)	(3.1%)
Europe	(10.3%)	(7.6%)
Asia, Pacific	(7.4%)	(8.8%)
Emerging Markets		
Latin America	(6.0%)	(12.6%)
Europe, Middle East, Africa	(13.3%)	(8.3%)
Asia	(10.6%)	(10.0%)

Source: MSCI benchmarks.

Taxable and Municipal Fixed Income. Demand for most bond types was strong in August, bidding up bond prices and pushing down yields. During intraday trading of Treasuries, the yield on a 10-year bond fell below 2%, the lowest level ever recorded (Figure 2). Conversely, demand for riskier, high yield bonds dried up in the month resulting in negative returns.

Municipal bonds posted solid results in August. Bonds backed by municipalities (GO) or project revenues set the pace, while high yield municipals - consistent with their taxable counterparts - fell behind. Prerefunded bonds, which are backed by the U.S. government, were negatively impacted by the S&P credit downgrade.

Figure 2: YTD 2011 Changes in 10-Year Treasury Yield

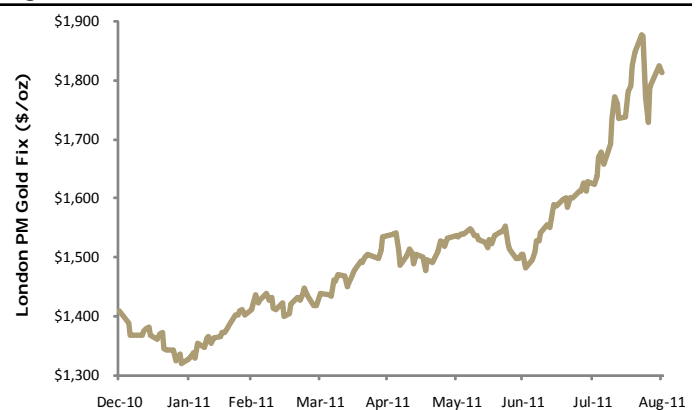


Source: U.S. Treasury.

Flight to Safety. August was characterized by heightened uncertainty and overall negative investor sentiment. In many cases this led to a reevaluation of risky assets and prompted selling in favor of areas perceived to be safer. In this flight to quality period money markets, U.S. Treasuries, gold, and the Swiss Franc were the clear beneficiaries.

Gold prices went parabolic for a time, nearing \$1,900 an ounce before falling over \$100 in one day. Yet, gold prices ended the month at \$1,814 an ounce, which marks an 11% return in August and 29% return year-to-date (Figure 3). Interest in gold has ballooned for a variety of reasons including its use as an alternative currency and as a risk hedge.

Figure 3: YTD 2011 Gold Prices



Source: London PM gold spot prices.

Spotlight | The Dangers and Opportunities of Volatility

Volatility is more than just being able to tolerate swings in the market; it has the ability to evoke emotional responses in even seemingly rational investors. Volatility leading to increased prices can lead to asset bubbles, while volatility leading to decreased prices can lead to panic selling. In August alone the S&P 500 closed up or down over 1% in 60% of trading days, with 6 days of dramatic 4% swings.

Volatility is not always a bad thing. In some cases it can lead to mis-pricings that represent buying opportunities for those with a longer investment horizon that don't mind going against the current momentum. However, volatility in and of itself is a destroyer of wealth creation. Let us use mathematics to express this point. Consider, for example, an investment that earns a positive return followed by a negative return of the same amount (or vice versa). Many would assume that these amounts cancel each other out, which is only true for small price changes. A 1% gain followed by a 1% loss would indeed net a near-zero return, yet a 10% gain/loss nets a 1% total loss, a 25% gain/loss nets a 6% loss, and a 50% gain/loss nets a 25% loss. The proven mathematical point is that volatility exponentially erodes wealth. Luckily, there are some steps that can be taken to attempt to limit portfolio volatility.

- **Asset Allocation and Diversification.** Proper portfolio construction can help to limit volatility through adding investment types that do not perform in very similar manners. Diversification does not guarantee against loss, but can help to tamp down volatility.
- **Focus on Downside Protection.** Loss of wealth hinders long-term investment performance more than gains. Keeping a watchful eye on downside market protection is important.
- **Tactical Strategies.** Flexible investment strategies may be able to capitalize on opportunities or avoid areas of market concern that are created due to heightened uncertainty.

APPENDIX – IMPORTANT DISCLOSURES

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. Past performance is not a guarantee of future results and diversification does not ensure against market loss.

There are risks associated with all investments which should be considered prior to investing. Small-capitalization and mid-capitalization stocks are often more volatile and less liquid than investments in larger companies. Satellite and alternative investments can be volatile and are not appropriate as large percentages of an investor's total asset allocation. Foreign issuers are subject to certain risks, such as the potential for political or economic disruptions or instability of the country of issue, the difficulty of predicting international trade patterns, foreign currency fluctuations, and the possibility of imposition of exchange controls. Investments in lower-rated debt securities (commonly referred to as high-yield or junk bonds) involve additional risks because of their lower credit quality which could equate to a possibly higher level of volatility and increased risk of default. Municipal bonds are not suitable for all investors, especially those in lower tax brackets. While sector investing reduces company specific risk, it will still be more volatile than the overall stock market due to its narrow focus and lack of diversification.

The benchmarks listed herein 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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APPENDIX – IMPORTANT DEFINITIONS

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.

Fixed Income Styles

Credit Quality: Based on taxable and municipal bonds held in the BofA/ML Master Index and BofA/ML Municipal Index, respectively, bonds are categorized by rating. The exception is High Yield Municipal which uses the Barclays High Yield Municipal Index as its benchmark.

Bond Type: The bond types listed in this report are subcomponents of the Barclays Aggregate and Barclays Municipal bond indices.

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 mega-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 the equity market performance of developed markets, excluding the US & Canada. As of May 27, 2010 the MSCI EAFE Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. An international index.

MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 27, 2010 the MSCI Emerging Markets Index consisted of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. 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.

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.

Barclays Capital U.S. High Yield Bond Index: Covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Barclays Intermediate Government/Credit Bond Index: The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality

requirements. This index is the intermediate maturity component of the U.S. Government/Credit index.

Barclays 1-3 Yr Government/Credit Bond Index: The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. This index is the 1-3 Yr component of the U.S. Government/Credit index.

Citigroup Benchmarks

Citigroup 3-month T-bill Index: This index measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three three-month Treasury bill issues.

Dow Jones Benchmarks

Dow Jones-UBS Commodity Index: Composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). Sub-indices include Petroleum, Grains, Industrial Metals, Livestock, Precious Metals, and Softs.

Wilshire Benchmarks

Wilshire Global REIT Index: Measures global publicly traded Real Estate Investment Trusts. The Wilshire Global REIT Index (WGREIT) is a subset of the Wilshire Global Real Estate Securities Index (WGRESI). The global index is an expansion of the original U.S. index, developed in 1991.

GICS

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