

Recommended Portfolio

Please refer to Appendix – Important Disclosures

Since our last report, we made two changes to the Recommended Portfolio, slightly reducing exposure to the technology sector and adding a utility stock as a defensive move. The Portfolio continued to modestly outperform the benchmark in June.

Recent Portfolio Changes

Since our last report, we have slightly reduced our exposure to the Technology sector by trimming our relatively large position in **Qualcomm (QCOM)** to 2.0%.

We used the proceeds and some of our cash to add a large-cap utility with a 4.7% dividend yield to the portfolio. We had not held a utility in the portfolio for quite some time, but given the risks that our Investment Strategy Group sees in the market, we believed the earnings stability and dividend income from a utility company would be an attractive addition to the portfolio at the current time. We purchased a 2.0% position in **Southern Company (SO)**, which generates and distributes electricity to more than 4.4 million customers in the Southeast. It owns four electric utilities in Alabama, Georgia, Florida, and Mississippi and has more than 42,000 megawatts of generating capacity, the majority of which comes from coal-fired plants. Southern also operates a merchant generation segment, Southern Power.

With these changes, we have modestly reduced our Technology exposure, increased the income generated by the portfolio, and slightly reduced our cash position. We still maintain an overweight position in Technology vs. our benchmark, the S&P 500, however. The portfolio is also overweighted in the Materials, Consumer Discretionary, and Industrial sectors. Our primary underweights are in the Financials and Consumer Staples. The portfolio is approximately equal-weight in Healthcare and Energy.

Performance Review

June experienced significant weakness in the first half of the month, followed by a sharp rally in the last week, which enabled the S&P 500 to end the month with only a modest decline of 1.7% (including dividends). The early weakness was particularly concerning because it came with very strong downside momentum (downside volume overwhelmed upside volume by a ratio of more than 10-to-1). Fed chairman Ben Bernanke took the blame for the weakness, but the fact is that his remarks concerning the weakness in the US economy were already widely known and, therefore, far from a shock. Nonetheless, a backdrop of slowing economic growth both at home and abroad weighed on investor sentiment. The advance late in the month was likely a result of a deeply oversold market.

Sector leadership has not changed with all sectors declining in June. For the year, Healthcare is the strongest sector, followed closely by Energy. Both are still up double digits for the year. Financials continue to be the laggard, still down about 3.7% for the year.

Baird's Recommended Portfolio declined 1.4% in June, once again modestly better than the benchmark's return. Our performance was helped by particular strength in our Consumer Discretionary holdings (JCI, MCD, NKE, and VFC) as well as late month strength in both ACN and MA. For the first six months of 2011, the Portfolio has gained 5.8%, just 20bp behind our benchmark, which has gained a total return of 6.0%.

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**Baird's Recommended Portfolio Relative Performance
Through 6/30/2011**

	1 Month	YTD	2010	2009	2008	2007	2006	2005	2004
Recommended Portfolio	-1.4%	5.8%	11.3%	28.7%	-33.8%	11.1%	9.3%	8.6%	11.3%
S&P 500 (total return)	-1.7%	6.0%	15.1%	26.5%	-37.0%	5.5%	15.8%	4.9%	10.9%

The S&P 500 is an unmanaged common stock index; direct investment in indices is not available. Performance results for the Recommended Portfolio would have been obtained only if each issue had been purchased when recommended and sold when removed from the Portfolio. We do not imply that future performance will be equally attractive or that losses are not possible using these stocks. A complete list of all recommendations since January 1975 is available upon request. Of the 1,311 issues recommended since 1975, 768 have advanced, 535 have declined, and 8 were unchanged.

Market and Economic Commentary

During the last week of June, the US equity markets enjoyed the strongest five-day period in more than two years. The powerful advance was likely the result of the deeply oversold condition and excessive investor pessimism as opposed to any significant fundamental change in the global economic environment. Europe's stock markets stabilized following another rescue plan for Greece. The long-term outcome for the highly indebted European countries, however, remains very much in doubt. Asian markets bounced on hopes that inflation pressures were easing despite the fact that China's inflation number for May was the highest for the cycle. The U.S. economy found some cause for optimism as the Midwest manufacturing sector appears to have found traction. Nevertheless, the U.S. economy is expected to face an uphill battle in the second half of the year due in part to the movement by the government away from stimulus toward austerity. As a result, the equity markets will depend heavily on the improving technical condition to add on to recent gains. The largest positive from the recent action is that the downside momentum, that had been plaguing stocks for nearly two months, was broken.

The stock market rally for the past two years has been supported by unprecedented Federal Reserve policy and a strong technical backdrop that started with extreme investor pessimism found at the March 2009 bottom. The economic fundamentals, however, have been a headwind for stocks. The economy is struggling with a balance sheet recession that typically lasts longer, is often deeper, and typically offers a greater number of negative surprises than the run-of-the-mill inventory adjustment cycle. Today's June employment data underscores the difficulty the economy faces when state and local governments and the average household are deleveraging as fast as possible. The Federal government has tried to fill the vacuum with unprecedented stimulus that has resulted in massive increases in debt and little growth. The result has been an economy slow to respond with no improvement in the prospects for sustainable growth above trend. In a normal cycle the stock market would embrace a slow growth economy as inflation and interest rates typically remain stable. In the present example, a slow growth economy is dangerous because it is vulnerable to outside shocks that could easily trigger a recession. Because stocks are dependent on a favorable technical backdrop to succeed, valuation models are less useful in predicting direction or the level of risk in the market. As a result, investors should focus on investor sentiment, momentum and trend analysis as opposed to price earnings ratio for direction.

The June Employment Report was disappointing to those expecting a surge in economic activity in the second half of the year. The economy barely added jobs in June as the number was weaker than the May figure that was revised downward. If workers who lost jobs last month had stayed in the labor force, rather than giving up looking for employment, the official unemployment rate would be 9.3% rather than 9.2%. Worse, nominal average hourly earnings fell for only the second time in the last 41 months and the average work week fell from 34.4 to 34.3, and for the manufacturing sector it fell from 40.6 to 40.3. Many economists are blaming the weak report on severe weather and supply chain disruptions. The causes go further and include the fiscal drag as governments transfer to austerity programs and weaker overseas economies discourage U.S. exports, while housing activity remains in the cellar. We disagree with most economists that the Fed will not embark on a new round of quantitative easing. Although the resistance is stiff, we feel that QE3 is likely in the mail but awaiting either a break below 1200 on the S&P 500 or one down quarter of GDP growth to be delivered.

BAIRD'S RECOMMENDED PORTFOLIO

Ticker	Company Name	Portfolio % 6/30/11	S&P % 6/30/11	Purchase Date	Purchase Price (\$)	6/30/11 Price (\$)	% Change	Market Cap (\$mil)	LTM Revs. (\$mil)	Net Inc. Margin (%)	EPS F11E (\$)	EPS F12E (\$)	F11E P/E (x)	F12E P/E (\$)	LTDebt to Cap (%)	LTM ROE (%)	Div. Yield (%)	
Consumer Discretionary		12.5%	10.9%															
IHG	InterContinental Hotels Group	2.3%		Multiple	16.75	20.67	23.4%	-120.8%	6,232	1,661	18.3	1.16	1.37	17.8	15.1	66.6	102.3	2.1
JCI	Johnson Controls	3.0%		11/16/10	35.50	41.66	17.4%	637.8%	28,977	37,261	4.3	2.45	3.12	17.0	13.4	18.1	15.8	1.5
MCD	McDonalds Corp	2.8%		Multiple	54.86	84.32	53.7%	485.7%	89,294	24,576	20.6	5.14	5.64	16.4	15.0	44.1	34.6	2.8
NKE	Nike Inc	2.2%		7/31/08	58.68	89.98	53.3%	1021.2%	35,979	20,862	10.2	4.39	4.70	20.5	19.1	2.6	21.7	1.3
VFC	VF Corp	2.2%		6/16/08	73.31	108.56	48.1%	1340.5%	12,425	7,873	7.7	7.25	8.10	15.0	13.4	19.3	15.8	2.2
Consumer Staples		8.8%	11.2%															
COST	CostCo Wholesale Corp	3.0%		Multiple	54.31	81.24	49.6%	-158.8%	35,927	84,020	1.7	3.34	3.87	24.3	21.0	16.5	13.1	1.2
GIS	General Mills Inc	1.9%		4/30/09	25.35	37.22	46.8%	-635.0%	23,627	14,880	12.1	2.30	2.48	16.2	15.0	41.8	28.3	3.3
PEP	PepsiCo	1.8%		Multiple	50.59	70.43	39.2%	-100.9%	111,468	60,407	10.0	4.13	4.50	17.1	15.7	41.4	28.6	2.9
PG	Procter & Gamble	2.1%		2/16/10	62.83	63.57	1.2%	-346.3%	181,295	80,625	14.2	4.11	3.93	15.5	16.2	23.1	18.8	3.2
Energy		12.4%	12.1%															
CVX	Chevron Corp.	2.6%		Multiple	76.23	102.84	34.9%	49.6%	214,272	215,926	10.3	6.57	6.50	15.7	15.8	9.7	19.7	2.9
APA	Apache Corp	2.0%		12/15/09	99.10	123.39	24.5%	-36.5%	48,460	13,344	26.0	8.92	12.14	13.8	10.2	24.9	14.2	0.5
EPD	Enterprise Products Partners	2.4%		12/30/10	41.69	43.21	3.6%	392.3%	36,690	35,378	3.3	1.19	1.92	36.3	22.5	52.2	10.4	5.5
SLB	Schlumberger Ltd.	2.0%		Multiple	33.43	86.40	158.5%	431.6%	122,667	30,565	14.9	2.86	3.74	30.2	23.1	13.8	14.5	1.1
SE	Spectra Energy Corp.	2.1%		8/17/10	21.62	27.41	26.8%	0.0%	18,155	5,077	20.7	1.57	1.75	17.5	15.6	52.7	13.0	3.7
WLL	Whiting Petroleum	1.3%		2/28/11	65.34	56.91	-12.9%	-1377.0%	7,032	1,597	17.3	4.43	5.77	12.8	9.9	22.8	10.6	0.0
Financials		10.0%	15.6%															
BLK	Blackrock	1.9%		1/27/11	201.73	191.81	-4.9%	-417.9%	26,264	8,899	24.2	10.94	12.93	17.5	14.8	10.6	8.5	2.8
JPM	JPMorgan Chase & Co.	2.2%		Multiple	36.12	40.94	13.3%	-533.2%	164,193	100,244	17.0	5.10	5.85	8.0	7.0	24.8	11.0	2.4
PNC	PNC Financial Services Group	2.1%		Multiple	66.35	59.61	-10.2%	-472.6%	31,890	15,044	18.9	5.85	6.05	10.2	9.9	54.2	10.7	2.3
TROW	T. Rowe Price Group Inc.	2.0%		12/1/09	48.61	60.34	24.1%	-425.0%	16,071	2,493	28.4	2.53	3.15	23.8	19.2	0.0	21.6	2.0
USB	US Bancorp	1.8%		1/27/11	26.96	25.51	-5.4%	-107.9%	49,361	18,186	18.3	2.15	2.60	11.9	9.8	32.1	12.9	na
Healthcare		11.1%	11.4%															
ESRX	Express Scripts Inc	2.5%		Multiple	30.64	53.98	76.2%	-883.1%	29,012	44,929	2.8	2.50	3.19	21.6	16.9	40.9	35.2	0.0
GILD	Gilead Sciences Inc	2.6%		Multiple	45.44	41.41	-8.9%	139.0%	33,599	7,790	34.6	3.83	4.32	10.8	9.6	27.4	46.0	0.0
LIFE	Life Technologies Corp	2.1%		5/19/09	41.86	52.07	24.4%	-180.9%	9,260	3,599	10.7	3.85	4.38	13.5	11.9	36.3	8.6	0.0
MCK	McKesson	2.1%		4/14/11	78.77	83.65	6.2%	-141.3%	20,884	112,084	1.0	5.31	6.11	15.8	13.7	32.0	15.7	0.9
TEVA	Teva Pharmaceutical Inds.	1.8%		10/30/07	43.94	48.22	9.7%	-290.8%	46,383	16,557	20.4	4.54	5.09	10.6	9.5	14.3	15.5	1.5
Industrials		11.8%	10.8%															
CAT	Caterpillar	2.6%		10/28/10	77.74	106.46	36.9%	358.8%	71,967	47,299	7.8	7.00	9.25	15.2	11.5	50.6	34.1	1.6
DHR	Danaher Corp.	2.2%		Multiple	27.18	52.99	95.0%	-45.7%	37,597	13,456	14.2	2.78	3.23	19.1	16.4	16.9	14.0	0.1
EMR	Emerson Electric Co.	3.0%		Multiple	46.36	56.25	21.3%	464.6%	43,710	22,871	9.3	3.30	3.95	17.0	14.2	30.7	21.7	2.4
ITW	Illinois Tool Works	2.0%		Multiple	46.04	56.49	22.7%	233.9%	29,513	16,652	11.1	3.91	4.70	14.4	12.0	19.8	19.8	2.3
UNP	Union Pacific	2.0%		Multiple	50.26	104.40	107.7%	-72.4%	52,132	17,490	16.6	6.72	8.10	15.5	12.9	33.4	16.3	1.8
Information Technology		21.2%	18.3%															
ACN	Accenture	2.6%		10/29/09	37.61	60.42	60.6%	958.4%	40,882	24,724	8.1	3.38	3.80	17.9	15.9	0.1	74.5	1.4
APH	Amphenol Corp.	2.2%		10/29/09	40.99	53.99	31.7%	4.8%	9,785	3,724	14.1	2.70	3.10	20.0	17.4	24.4	22.7	0.1
ADI	Analog Devices	2.8%		9/14/10	29.15	39.14	34.3%	-420.2%	12,042	3,010	29.3	2.94	2.85	13.3	13.7	9.8	27.6	2.5
AAPL	Apple Inc.	2.9%		Multiple	111.93	335.67	199.9%	318.8%	330,323	87,451	22.4	24.61	26.97	13.6	12.4	0.0	40.9	0.0
CTXS	Citrix Systems	2.1%		11/16/10	62.26	80.00	28.5%	-660.8%	15,545	1,951	15.5	2.41	2.74	33.2	29.2	0.0	11.9	0.0
MA	Mastercard Inc.	2.4%		Multiple	178.28	301.34	69.0%	993.9%	38,495	5,732	34.1	17.15	19.50	17.6	15.5	0.0	37.5	0.2
ORCL	Oracle Corp.	2.1%		10/15/10	28.33	32.91	16.2%	-163.6%	172,683	35,850	24.0	1.67	2.22	19.7	14.8	26.5	21.5	0.7
PAYX	Paychex Inc.	2.0%		10/15/10	27.60	30.72	11.3%	-365.3%	11,453	2,084	25.2	1.42	1.49	21.6	20.6	0.0	34.4	3.9
QCOM	Qualcomm	2.1%		Multiple	41.30	56.79	37.5%	-15.4%	98,936	12,881	29.5	2.46	3.13	23.1	18.2	0.0	18.2	1.5
Materials		4.2%	3.5%															
APD	Air Products & Chemicals, Inc.	2.4%		8/16/06	66.63	95.58	43.4%	224.6%	20,721	9,497	11.6	5.72	6.46	16.7	14.8	36.8	19.8	2.4
NEM	Newmont Mining Corp	1.8%		3/17/10	51.34	53.97	5.1%	-254.6%	27,115	9,766	23.3	3.85	4.27	14.0	12.7	23.5	17.0	1.5
Telecommunication		2.0%	3.0%															
VZ	Verizon Communications	2.0%		5/31/11	36.93	37.23	0.8%	223.1%	105,864	106,642	4.5	2.19	2.57	17.0	14.5	45.4	12.3	5.2
Utilities		1.9%	3.3%															
SO	Southern Company	1.9%		6/29/11	40.24	40.38	0.3%	37.4%	34,373	17,308	11.4	2.37	2.52	17.0	16.0	47.7	11.4	4.7
Cash		4.1%																

Earnings estimates are from Robert W. Baird, our national research services, or First Call consensus estimates. na = not available; nmf = not meaningful

Appendix – Important Disclosures

Investment Recommendations: The goal of Baird's Recommended Portfolio is to focus on high-quality companies with strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. The Portfolio is derived using a top-down approach starting with the macroeconomic and market outlooks, and industry sector weightings are taken into account. The Recommended Portfolio is intended as a long-term investment vehicle.

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.

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