

## Recommended Portfolio

Please refer to Appendix – Important Disclosures and Analyst Certification.

### Recent Portfolio Changes

Since our last report, we made 10 changes to the Portfolio, adding two new positions, removing one, and adjusting the size of seven positions. We added a new 2% position in **General Mills (GIS)** to consumer staples. General Mills manufactures and markets cereals and other convenience foods (such as baking items, snack foods, vegetables, soups, ice cream, and yogurt) to sell around the world. The firm has garnered leading market share in many of the categories that it participates in by continuously investing in product innovation and marketing for its core brands. Strategically, General Mills is focused on driving sales of its new and established brands through investments in product innovation and higher marketing spend, both domestically and internationally. Further, the firm is concentrating on cost-reduction initiatives, with the objective of protecting and expanding its margins. We believe our purchase of GIS was timely as the Consumer Staples sector in general, and GIS in particular, had underperformed the broader market. This addition lessens our underweight in the sector, although we still have less exposure to Staples than the S&P 500. We also added a 1.5% position in **Union Pacific (UNP)** to industrials. This rail hauls a cargo mix rich in commodities with less cyclical demand like agriculture products, coal, and containers ferrying imported goods from Asia. Compared with trucking, shipping by rail is less expensive for long distances, is three times more fuel-efficient per ton shipped, and does not contribute to highway crowding. Coal that UNP hauls from the Powder River Basin is substantially less expensive (on a delivered price per million BTUs basis) than coal from other regions and costs less than one fifth the price of natural gas. The addition of this transportation company increased our weighting in the Industrials sector to overweight. We also sold our position in **T. Rowe Price (TROW)** from the Portfolio, using the recent price strength to take profits and reduce our exposure to the Financials sector.

We also made several changes to our position sizes, taking advantage of recent price gains to reallocate to other areas. We raised the weighting in **Covance (CVD)** to 2%. In the past year, CVD shares have pulled back significantly due to concerns about pharmaceutical spending levels, and we are using the pullback to increase our position back to a more normal level. In their latest quarter, CVD reported solid revenue with reasonable bookings in Early Development and booming business in Late Stage drug development. While guidance was lower than modeled, we believe it will prove conservative and valuation is attractive. We also raised the weighting in **McDonald's (MCD)** to 2% as we expect strong internal operating fundamentals and an improving cost picture to support solid results in the balance of 2009. We reduced our weighting in **VF Corporation (VFC)** to 2%, following a strong upward move in the stock and ahead of their earnings release. The stock subsequently declined after the company reduced forward guidance more than expected. We reduced our weighting in **PepsiCo (PEP)** to 2% after their recent announcement regarding the planned purchase of two of its bottlers as we were unsure of the investment merits of this strategy. Bottlers do not reap many of the rewards in the beverage and snack businesses and face strong pressure on operational issues from the powerful parent companies. We reduced our weighting in **Adobe Systems (ADBE)** to 2% given the stock's strong move over the past two months. Furthermore, we don't see a catalyst for the stock until late this year when investors begin to look ahead to their next new product cycle, CS5, which should ship mid-2010. Recent results were consistent with their March 4 pre-release, featuring soft demand and aggressive expense cutting, although demand showed signs of stabilizing in February and March. We continue to maintain a position in ADBE because long-term fundamentals remain intact. A key driver of Adobe's business is the explosion of video of the web, which Cisco expects to drive 40-50% annual growth in Internet traffic through 2012. We reduced the weighting in **FPL Group (FPL)** to 2% after the stock rallied strongly and gave us an opportunity to reduce our exposure to utilities. We continue to like FPL for the long-term as positive renewable sector policy changes enhance investment opportunities for wind generation and solar investments. Longer-term EPS growth opportunities also exist tied to replacing utility energy costs with capital investment and CO2 reduction strategies. Lastly, we reduced our weighting in **Xcel Energy (XEL)** to 2%. While XEL shares did not respond as favorably to their earnings report as FPL shares did, the XEL position had become overly large and we wanted to reduce our exposure to utilities. For XEL, we expect stable 5-7% earnings growth over the next decade with a 5%-plus dividend yield reflecting a combination of constructive regulatory policies and significant investment opportunities. Xcel's strong balance sheet and investment-grade credit rating should help it raise capital in tight financial markets.

## Performance Review

After a very powerful March rally, the US equity markets continued to show exceptional strength in April as investors appeared to be looking past the current economic environment and anticipating a future recovery. First quarter earnings were not a bad as feared and some companies actually began to speak of stabilizing business trends. As a result, the S&P 500 was able to produce a total return (including dividends) of 9.6% in April, bringing the index to a modest loss of 2.5% year-to-date. The recovery continued to be the strongest in Financials (as investors started anticipating the government's stress test results), Materials (as the government's efforts to stimulate the economy, if successful, should result in inflation), and Consumer Discretionary (as investors take advantage of beaten down stocks and signs of better consumer spending). The Industrials sector also experienced some strength. The weakest sectors continued to be the defensive categories of Consumer Staples, Utilities, Healthcare and Telecommunications Services.

Baird's Recommended Portfolio returned an impressive 10.6% (including dividends) in April, our largest one-month gain since we started the Portfolio. Our portfolio is now in positive territory for the year (up 0.9%) and is outperforming the S&P 500 by a solid 340 basis points in 2009.

<b>Baird's Recommended Portfolio Relative Performance</b>							
<b>Through 4/30/09</b>							
	<b>1 Month</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Baird's Rec. Portfolio</b>	<b>10.6%</b>	<b>0.9%</b>	<b>-33.8%</b>	<b>11.1%</b>	<b>9.3%</b>	<b>8.6%</b>	<b>11.3%</b>
S&P 500 (total return)	9.6%	-2.5%	-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 1,278 issues recommended since 1975, 733 have advanced, 535 have declined, and 11 were unchanged.

## Market and Economic Commentary

The US economy is showing signs that the rate of decline is beginning to decelerate, which could lead to a period of economic stabilization in the second and third quarters. Improving economic conditions were reflected in the government bond market as the yield on the benchmark 10-year Treasury note jumped to new highs for the year. The Institute of Supply Management Index of Manufacturing Activity rose in April with a sharp gain in new orders, which is particularly encouraging. The decline in home prices is also decelerating according to S&P/Case-Shiller. Although home prices declined by 18.8% in February, the drop was less than January. Measured improvement in the housing market along with sharp gains in stock prices last month helped consumer confidence to rebound sharply. The Consumer Confidence Index soared in April, and March was revised upward. The important economic news this week centers on Friday's April Employment Report. Consensus estimates are the economy lost 630,000 last month and the unemployment rate jumped to 8.9% from 8.5%.

Optimism is re-entering the system, evidenced by increased allocations to stocks, higher levels of bullish sentiment and a relative decline in demand for protective puts. This reflects more positive (actually, less negative) news from the economy and is a sign the investors are moving cash off of the sidelines, where it is yielding essentially zero, and putting it to work in the stock market. The April results of the monthly AAI asset allocation survey show that individuals, perhaps reluctantly, have increased their exposure to stocks, moving their equity allocation from 41% in March to 50% in April. The cash allocation fell from a record 45% in March to 33% in April, which is still well-above the long-term average of 25%. The weekly investor sentiment surveys from the AAI and Investors Intelligence showed a split between bulls and bears over the course of April, while the trend in May appears to be tilting towards the bulls. This is supportive for stocks, as rising levels of bullishness typically indicate a new supply of buyers entering the stock market, and stocks have historically not gotten into significant trouble until bulls outnumber bears by better than two-to-one. This week's AAI data shows bulls at 44% and bears at 33%, while the Investors Intelligence survey shows 40% bulls and 32% bears. We believe that any weakness/consolidation that does develop will be limited in both time and price.

# BAIRD'S RECOMMENDED PORTFOLIO

Please refer to Analyst Certification

Ticker Company Name	Portfolio % 4/30/09	S&P % 4/30/09	Purchase Date	Purchase Price (\$)	4/30/09 Price (\$)	% Change (%)	Market Cap (\$mil)	LTM Revs. (\$mil)	Net Inc. Margin (%)	EPS F09E (\$)	F10E (\$)	F09E P/E (x)	F10E P/E (\$)	LTDebt to Cap (%)	LTM ROE (%)	Div. Yield (%)
<b>Consumer Discretionary</b>																
JCI Johnson Controls, Inc.	1.8%	10.0%	Multiple	15.12	19.01	25.8%	11,292	32,823	2.6	0.31	1.22	61.3	15.6	25.4	10.4	2.7
MCD McDonalds Corp	2.0%		Multiple	53.52	53.29	-0.4%	59,360	22,985	18.3	3.83	4.26	13.9	12.5	43.2	32.2	3.8
NKE Nike Inc	1.9%		7/31/08	58.68	52.47	-10.6%	20,393	19,551	10.1	3.75	3.52	14.0	14.9	5.3	24.1	1.9
VFC VF Corp	1.7%		6/16/08	73.31	59.27	-19.2%	6,548	7,522	8.0	4.80	5.38	12.3	11.0	24.3	17.0	4.0
DIS Walt Disney Company	1.9%		7/31/03	21.92	21.90	-0.1%	40,654	36,990	11.7	1.68	1.89	13.0	11.6	26.0	13.7	1.6
<b>Consumer Staples</b>																
AVP Avon Products Inc	2.1%	13.2%	Multiple	40.08	22.76	-43.2%	9,859	10,690	8.3	1.67	1.85	13.7	12.3	68.3	129.7	3.7
COST CostCo Wholesale Corp	2.0%		Multiple	54.31	48.60	-10.5%	21,094	72,596	1.8	2.53	2.76	19.2	17.6	19.4	14.0	1.5
GIS General Mills Inc	2.0%		4/30/09	50.69	50.69	0.0%	16,676	14,517	9.5	3.88	4.14	13.1	12.2	41.2	20.8	3.4
PEP PepsiCo	2.0%		Multiple	50.59	49.76	-1.6%	77,466	43,181	11.9	3.69	4.01	13.5	12.4	39.4	42.5	3.4
<b>Energy</b>																
CVX Chevron Texaco Corporation	1.8%	12.1%	10/25/08	75.47	66.10	-12.4%	132,509	242,176	9.4	6.57	6.50	10.1	10.2	6.6	27.6	3.9
DVN Devon Energy Corp	1.5%		3/29/07	70.05	51.85	-26.0%	23,015	15,211	-19.0	1.82	4.59	28.5	11.3	24.9	-17.1	1.2
SLB Schlumberger Ltd.	2.0%		Multiple	34.97	48.99	40.1%	58,612	26,873	19.9	2.56	2.44	19.2	20.1	18.0	32.0	1.7
RIG Transocean Inc	2.7%		3/29/07	89.71	67.48	-24.8%	21,571	12,674	33.2	13.14	12.77	5.1	5.3	45.0	25.4	0.0
WFT Weatherford International Inc.	2.2%		Multiple	19.79	16.63	-16.0%	11,609	9,661	14.1	0.86	1.02	19.2	16.3	35.5	16.3	0.0
XTO XTO Energy Inc.	1.9%		Multiple	53.66	34.66	-35.4%	20,092	7,695	24.8	3.12	2.05	11.1	16.9	40.8	11.0	1.4
<b>Financials</b>																
JPM JPMorgan Chase & Co.	2.6%	11.7%	Multiple	36.12	33.00	-8.6%	124,004	75,387	3.6	1.82	2.95	18.1	11.2	68.7	2.2	0.6
NTRS Northern Trust Corp	2.4%		2/12/07	62.01	54.36	-12.3%	12,976	4,087	13.6	3.17	3.89	17.1	14.0	43.8	12.4	2.1
PNC PNC Financial Services Group	2.1%		Multiple	66.35	39.70	-40.2%	17,650	9,240	9.2	3.02	3.53	13.1	11.2	57.0	3.5	1.0
<b>Healthcare</b>																
BDX Becton Dickinson & Co.	2.2%	13.4%	12/17/07	80.86	60.48	-25.2%	14,498	7,178	15.8	4.94	5.46	12.2	11.1	16.2	22.9	2.2
CVD Covance Inc.	2.0%		Multiple	35.95	39.28	9.3%	2,489	1,784	10.8	2.61	3.20	15.0	12.3	0.0	16.5	0.0
ESRX Express Scripts Inc	1.6%		11/10/08	61.25	63.97	4.4%	15,854	21,086	3.5	3.70	4.33	17.3	14.8	55.4	72.0	0.0
GILD Gilead Sciences Inc	2.2%		Multiple	45.20	45.80	1.3%	41,685	5,608	37.7	2.44	2.70	18.8	17.0	23.8	48.4	0.0
TEVA Teva Pharmaceutical Inds.	3.0%		10/30/07	43.94	43.89	-0.1%	39,034	11,085	5.7	3.29	4.25	13.4	10.3	25.4	3.9	1.0
TMO Thermo Fisher Scientific Inc	1.9%		4/16/07	49.47	35.08	-29.1%	14,674	10,199	9.4	2.94	3.24	11.9	10.8	12.0	6.6	0.0
<b>Industrials</b>																
DHR Danaher Corp.	2.6%	12.0%	Multiple	54.97	58.44	6.3%	18,627	12,296	10.4	3.25	3.80	18.0	15.4	20.7	13.4	0.2
EMR Emerson Electric Co.	2.7%	10.3%	Multiple	46.36	34.04	-26.6%	25,701	24,702	9.9	2.40	2.15	14.2	15.8	26.6	26.9	3.9
FAST Fastenal Company	2.7%		Multiple	23.98	38.36	60.0%	5,698	2,264	12.0	1.42	1.73	27.0	22.2	0.0	24.5	1.8
ITT ITT Industries, Inc.	2.5%		Multiple	43.74	41.01	-6.2%	7,464	11,446	6.8	3.50	3.50	11.7	11.7	13.3	26.0	2.1
UNP Union Pacific	1.5%		4/30/09	49.14	49.14	0.0%	24,772	17,115	13.0	3.87	4.47	12.7	11.0	35.8	15.1	2.2
<b>Information Technology</b>																
ADBE Adobe Systems	2.0%	19.7%	Multiple	26.50	27.35	3.2%	14,324	3,476	24.4	1.49	1.62	18.4	16.9	7.4	19.8	0.0
AAPL Apple Inc.	3.4%	18.8%	Multiple	119.76	125.83	5.1%	112,254	33,689	14.9	5.49	6.16	22.9	20.4	0.0	23.0	0.0
CSCO Cisco Systems, Inc.	2.6%		5/15/07	26.13	19.32	-26.1%	112,771	39,575	20.4	1.23	1.05	15.7	18.4	15.7	23.4	0.0
FISV Fiserv, Inc.	2.7%		8/16/07	47.68	37.32	-21.7%	5,800	4,480	12.0	3.68	4.05	10.1	9.2	59.7	21.9	0.0
HPQ Hewlett-Packard Co.	2.8%		Multiple	47.78	35.98	-24.7%	86,230	118,697	7.0	3.80	4.20	9.5	8.6	16.5	21.4	0.9
MA Mastercard Inc.	1.5%		3/31/09	167.48	183.45	9.5%	18,073	4,966	-5.1	10.75	12.75	17.1	14.4	1.0	-13.2	0.3
ORCL Oracle Corp	2.7%		Multiple	20.52	19.34	-5.8%	96,379	23,630	24.6	1.42	1.49	13.6	13.0	30.8	24.0	1.0
QCON Qualcomm	2.0%		9/30/08	42.97	42.32	-1.5%	70,041	11,068	28.4	1.63	2.27	25.9	18.6	0.8	17.6	1.6
<b>Materials</b>																
APD Air Products & Chemicals, Inc.	2.5%	5.6%	8/16/06	66.63	65.90	-1.1%	13,828	9,673	10.5	3.95	4.54	16.7	14.5	41.1	21.7	2.7
ECL Ecolab, Inc.	3.1%	3.2%	Multiple	33.85	38.55	13.9%	9,107	6,028	7.3	1.97	2.32	19.6	16.6	33.7	28.5	1.5
<b>Telecommunication Services</b>																
T AT&T Inc.	1.8%	3.6%	9/13/07	40.77	25.62	-37.2%	150,987	123,855	10.4	1.98	1.93	12.9	13.3	38.7	13.4	6.4
<b>Utilities</b>																
FPL FPL Group, Inc.	2.0%	5.5%	Multiple	57.49	53.79	-6.4%	22,096	16,360	10.0	4.30	4.80	12.5	11.2	54.2	14.0	3.5
MDU MDU Resources Group Inc.	1.5%	3.8%	10/31/05	21.98	17.57	-20.1%	3,229	4,975	5.9	1.25	1.35	14.1	13.0	36.2	10.6	3.5
XEL Xcel Energy	2.0%		Multiple	20.70	18.44	-10.9%	8,395	10,870	5.8	1.52	1.70	12.1	10.8	52.2	9.1	5.2
CASH	5.8%															

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

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