

Baird Aggregate Bond Inst BAGIX

An excellent team and process to match.

Morningstar's Take BAGIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

Process	High
Performance	—
People	High
Parent	High
Price	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	3.34	0.22
2022	-13.35	-0.03
2021	-1.46	0.02
2020	8.63	1.11
2019	9.48	1.42

Data through 1-31-23

2-07-23 | by Alec Lucas

Appreciation for how Baird Aggregate Bond's capable and collaborative investing culture pairs with the firm's simple but effective style earns an upgrade of the investor shares' Morningstar Analyst Rating to Gold from Silver, while its institutional shares remain Gold.

Other top-tier firms may have bigger staffs and broader remits; Baird operates differently, and is excellent in its own right. Co-CIO Mary Ellen Stanek, winner of Morningstar's 2022 Outstanding Portfolio Manager award, and co-CIO Warren Pierson head this fund's veteran 10-person management team, whose members complement one another's strengths and stick to a straightforward, winning playbook.

Modest fees are critical to that playbook, allowing the team to focus on U.S. dollar-denominated bonds of investment-grade quality without the

complications of derivatives or leverage. The approach begins with matching the Bloomberg U.S. Aggregate Bond Index's overall interest-rate sensitivity and then trying to add value through more repeatable means.

Security selection and sector allocation among corporates, securitized, and government bonds are among those means. As repeated interest-rate hikes weighed on the mortgage market in 2022 for example, the fund leaned in. The managers cut the portfolio's Treasury stake by about 9 percentage points to 22.9% and redeployed most of that money into what they regarded as more attractive securitized exposure, especially U.S. agency residential mortgage-backed securities. They also inched up the fund's financials overweight by year-end even though it had hurt in the first three quarters.

Judged against its benchmark and the distinct intermediate core bond Morningstar Category norm, the fund has an enviable long-term record. Granted, its institutional shares' 13.35% loss in 2022 lagged the index and distinct peer median by 34 and 4 basis points, respectively, but the managers' actions helped the fund outperform in the second half. Moreover, the fund has beaten its index and distinct peer median in eight out of the past 10 calendar years.

The fund is a topnotch choice, especially for investors in search of a conservative option.

Process Pillar High | Alec Lucas 02/07/2023

Focused on U.S. dollar-denominated bonds of investment-grade quality without the complications of derivatives or leverage, or the need to clear lofty fee hurdles, Baird Advisors' simple but effective investing style merits a High Process rating.

Citing the difficulty of predicting interest-rate changes consistently, Baird's approach begins with

matching this fund's overall interest-rate sensitivity, or duration, to the Bloomberg U.S. Aggregate Bond Index. Aiming to beat this bogy by 25 to 50 basis points per year, gross of fees, the team tries to add value through yield-curve positioning, sector allocation, security selection, and competitive trade execution.

Security selection and sector allocation among corporates, securitized, and government bonds receive the most focus. Whether individual bonds, issuers, or sectors, the team looks for strong fundamental features, attractive relative value, and fit within its broader macroeconomic views. The team does not buy junk bonds but can hold onto debt that has lost its investment-grade rating—a stake that has been 1% or less for more than five years. The fund's credit profile as a result tends to look tame relative to more aggressive intermediate core bond Morningstar Category peers.

The hunt for value even extends to yield-curve strategies for Treasuries. The team looks for incrementally more attractive Treasuries when buying and sells those with the richest valuations.

Corporate credit exposure, especially to industrials and financials, has in recent years accounted for about 40% to 45% of the portfolio's market value, versus about 30% for the Bloomberg U.S. Aggregate Bond Index. The fund entered 2022 with an 8.2-percentage-point financials overweight that the team had inched up by year-end even though it hurt. The team continues to like financials, noting banks' generally stout capital positions and alignment of their management incentives with high ratings given that banks consistently need to access debt markets.

The fund's securitized stake ended 2022 at 36.1% of assets, up from 26.7% a year prior. As repeated interest-rate hikes weighed on the mortgage market in 2022, the fund leaned in. The managers

cut the portfolio's Treasury stake by about 9 percentage points to 22.9% and redeployed most of that money into securitized exposure, especially U.S. agency residential mortgage-backed securities, whose weighting increased 6.9 percentage points to 22.3% by year-end. That was then still about 5 percentage points lighter than the benchmark, though.

Throughout 2022, the fund stashed nearly one fourth of its assets in bonds with BBB ratings, roughly 10 to 11 percentage points heavier than the index. It added about 3 percentage points of exposure to AAA bonds, ending the year with a 12% stake, versus 3.2% for the index.

Performance Pillar | Alec Lucas 02/07/2023

The fund has a strong long-term record. Since its late 2000 inception, its institutional shares' 4.39% annualized gain through January 2023 beat the Bloomberg U.S. Aggregate Bond Index by 46 basis points while placing in the top quintile out of roughly 65 distinct intermediate core bond Morningstar Category peers. Adjusted for volatility, results looked even better: the institutional shares' Sharpe ratio (a measure of return relative to standard deviation) was superior to the benchmark's and placed in the peer group's top decile.

Consistent outperformance has been a hallmark here. Over the past decade through 2022, the fund has beaten its index and distinct peer median in eight out of 10 calendar years. Versus the benchmark, the fund's best showing was in 2020, when its 8.63% return outpaced the index by 112 basis points. The fund didn't start that year well, though. Its typical Treasury underweight was a headwind in 2020's first-quarter, coronavirus-driven credit selloff. Increasing exposure to investment-grade credit after spreads widened helped for the year as whole, though, as did active positioning in that space.

The fund has on the whole beat inflation, as measured by the Consumer Price Index. From its 2000 inception through December 2022 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into \$2.53, ahead of the roughly \$1.71 required to maintain

purchasing power. The fund has struggled to edge inflation consistently, however, outpacing CPI's cumulative rise in only 75 out of 233 rolling three-year periods and none since the three years ended in February 2021. The fund, though, has fared better than the category norm, which only beat inflation in 45 of those rolling three-year periods.

People Pillar ● High | Alec Lucas 02/07/2023

Appreciation for how Baird Advisors' capable and collaborative investing culture pairs with the firm's simple but effective style earns the fund a People upgrade to High from Above Average.

Other top-tier firms may have bigger staffs and broader remits; Baird operates differently, and is excellent in its own right. Co-CIO Mary Ellen Stanek, winner of Morningstar's 2022 Outstanding Portfolio Manager award, and co-CIO Warren Pierson head this fund's veteran 10-person management team, whose members complement one another's strengths and stick to a straightforward, winning playbook.

Alongside Stanek and Pierson, Charles Groeschell and research director Jay Schwister set the tone here; each has about 40 to 45 years of industry experience. The other managers have a wider range of experience but collectively represent the next generation. Lead Jeffrey Schrom and comanagers Andrew O'Connell and Abhishek Pulakanti work as part of a seven-person credit team; Meghan Dean and Patrick Brown oversee a seven-person securitized team; and M. Sharon deGuzman guides Baird's seven-person portfolio construction and risk group.

Stability is a strength. Apart from two retirements in 2020 and 2021, respectively, no manager has left since this fund's 2000 inception. There have also been only two analyst departures since 2016, both for personal reasons.

Fund ownership stands out, too. Managers invest in all their strategies, with three owning more than \$5 million each across the lineup.

Parent Pillar ● High | Gabriel Denis 03/25/2022

Baird's best-in-class stewardship attributes and investor alignment deserve a Parent rating upgrade to High from Above Average.

The firm's taxable-bond franchise, which boasts low fees, a well-resourced team, and a risk-aware investment process across its strategies, has garnered considerable investor attention over the past few years. It swelled from \$37 billion in 2016 to \$120 billion at the end of 2021, encompassing 85% of the firm's total \$139 billion in assets. This growth bears monitoring, but longtime CIO and lead fixed-income portfolio manager Mary Ellen Stanek has shown prudence in adding personnel and operational resources to manage this considerable load. She has also been circumspect in succession planning and elevated her veteran deputy Warren Pierson to co-CIO in October 2021. Though the firm's municipal-bond and equity franchises are much smaller, they also sport sensible leadership and many of the same positive attributes as the taxable fixed-income lineup.

Baird has long supported its investors by providing transparent reporting on its own firm and its investment rationale through timely market updates and webinars. Internally, the firm is also keen to encourage employee retention and engagement: Turnover among the firm's analyst staff has historically been low, and around two thirds of employees owned stock in the privately held firm at the end of 2021.

Price Pillar | Alec Lucas 02/07/2023

It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Gold.

Important Disclosure Information

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. The fund's current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please visit bairdfunds.com. Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and summary prospectus, containing this and other information, visit bairdfunds.com. Read it carefully before investing.

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds.

For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx>.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

The Morningstar five-star rating for the Institutional Class Baird Aggregate Bond Fund is the overall rating received among 406 Intermediate Core Bond Funds. The fund received four stars for the three-year period among 406 Intermediate Core Bond Funds, four stars for the five-year period among 373 Intermediate Core Bond Funds and five stars for the ten-year period among 276 Intermediate Core Bond Funds, as of January 31, 2023.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more

months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

The average annual total returns for the Institutional Class of the Baird Aggregate Bond Fund as of January 31, 2023, are -8.40% for the one-year, 1.13% for the five-year and 1.86% for the ten-year periods and 4.39% since its September 29, 2000, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Bloomberg US Aggregate Bond Index as of January 31, 2023, are -8.36% for the one-year, 0.86% for the five-year and 1.43% for the ten-year periods and 3.93% since the fund's inception.

The Barclays U.S. Aggregate Bond Index is a fixed income, market-value index generally representative of investment grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. Indices are unmanaged and are not available for direct investment.

The Fund may invest in mortgage- and asset-backed securities which may be subject to prepayment risk and thus may be more sensitive to interest rate changes than other types of debt securities. The Fund may also invest in U.S. dollar denominated securities issued by foreign issuers which involve additional risks including political and economic instability, differences in financial reporting standards and less regulated securities markets. While the U.S. government has historically provided financial support to various U.S. government-sponsored agencies, no assurance can be given that it will do so in the future if it is not obligated by law. A bond's market value may be affected significantly by changes in interest rates – generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data and Fund holdings current through the most recent month-end, as well as credit quality profile current through the most recent quarter-end, please visit www.bairdfunds.com.

© 2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.