

# Baird Aggregate Bond Inst BAGIX

A compelling candidate for the core bond investor.

## Morningstar's Take BAGIX

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Gold

### Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	High
Price	—

### Role In Portfolio

Core

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	-9.44	-0.42
2021	-1.46	0.02
2020	8.63	1.11
2019	9.48	1.42
2018	-0.30	0.19

Data through 5-31-22

3-25-22 | by Gabriel Denis

The dynamic team behind Baird Aggregate Bond adheres to a disciplined process, and the strategy benefits from attractive fees. It earns a Morningstar Analyst Rating of Gold on its cheaper share class and Silver on its more-expensive class.

Lead manager Mary Ellen Stanek elevated her longtime collaborator Warren Pierson to co-CIO in October 2021, and the two lead a vibrant squad sporting three additional strategic leaders, three midlevel directors, and a solid bench of credit, securitized, and risk analysts. Though two senior managers retired and one analyst left within the past two years, departures among this crew have generally been infrequent. Stanek and Pierson have been very intentional about cultivating a strong culture of collaboration and camaraderie among this team, and it has grown steadily to meet the increasing size and complexity of this and other strategies under its mandate.

Stanek curates a portfolio of mainly investment-grade corporate credit, securitized debt, and U.S. government bonds—the primary sectors of its Bloomberg U.S. Aggregate Bond Index benchmark. The team matches the strategy’s duration to the index’s and avoids derivatives, leverage, and esoteric fare. For most of the strategy’s life, it has maintained persistent overweightings in corporate and securitized bonds and downplayed U.S. Treasuries, which has given it a slight yield advantage over the benchmark. To balance that additional credit risk, the team emphasizes diversification and position sizing as risk controls (no high-conviction name exceeds 75 basis points of its size in the boggy, while sector exposures are maintained within a handful of percentage points) and buys only credits that are investment-grade at time of purchase.

This strategy’s risk-aware approach has kept it afloat over its long life and amid a variety of volatile conditions for fixed-income markets. From its 2000 inception through January 2022, its Institutional share class returned 5% annualized and outpaced its benchmark and nearly 90% of its distinct intermediate core bond Morningstar Category rivals.

**Process Pillar** High | Gabriel Denis 02/08/2022

Mary Ellen Stanek and her crew have maintained the same structured and thoughtful investment process for just shy of two decades. While the team’s resources may not match the scope of larger rivals, it stays well within its guardrails and has proactively added tools and head count to maintain its edge. This straightforward, comprehensive, and selective approach earns a High Process Pillar rating.

Rather than chase yield by digging into riskier parts of the fixed-income market, the managers instead seek value through sector rotation and security selection among investment-grade corporate

bonds, securitized debt, and U.S. Treasuries. They avoid derivatives, foreign currency, and leverage while keeping the portfolio’s duration strictly neutral to that of its Aggregate Index benchmark. In most markets, the fund has outrun its benchmark through a focus on corporate and high-quality securitized credit relative to U.S. Treasuries and agency mortgages. To mitigate the resulting higher potential for credit risk, all securities in the fund must be investment-grade at the time of purchase and are subject to strict diversification and position-sizing guidelines. The team will hold on to positions that lose their investment-grade ratings where valuations are still attractive, but this stake was under 1% of the portfolio as of December 2021.

Historically, this strategy tilts noticeably toward corporate and securitized credit relative to its benchmark, with the overweighting in those credits averaging around 25 percentage points higher than the Aggregate Index over the decade ended December 2021. This overweighting, however, fell to a relatively low level of 20 points as of December 2021 as the managers anticipated increased volatility over 2022. Outside of these sectors, the largest reduction in the portfolio came in the strategy’s agency mortgage passthrough allocation, which at 15% as of December 2021 was its lowest level in over a decade. The managers felt that agency mortgages were at an extreme risk of pressure from a potential Federal Reserve taper and could have volatile extension risk issues during a rising rates environment. They instead favored keeping their dry powder in more straightforward U.S. Treasuries (32%), increasing this allocation to its highest level over the same period.


Within corporate credit (39%), the team sold down some of the fund’s financials exposure (16%) where it felt certain high-quality money center banks were trading at rich valuations. Within securitized credit, the team considered certain moves within private student loans within the

asset-backed securities allocation (1%) and single-family rentals within the commercial mortgages bucket (3%) as having been particularly attractive trades.

**Performance Pillar** | Gabriel Denis 02/08/2022

Over lead manager Mary Ellen Stanek's impressive tenure from October 2000 through January 2021, the strategy's Institutional share class' 5% annualized return outstripped its Aggregate Index benchmark by 51 basis points and nearly 90% of its distinct intermediate core bond category peers. On a risk-adjusted basis, as measured by Sharpe ratio, the strategy dominated 90% of its rivals over this same period thanks to the team's sensible security selection and sector rotation.

The strategy's bias toward corporate and securitized credit relative to U.S. Treasuries and agency mortgages has given it a long-term advantage against both its index and typical peer, but it has also contributed to middling performance in swooning credit markets. It landed near the middle of its cohort in both the commodity-related sell-off of June 2015 through February 2016 and the broad credit market sell-off over the fourth quarter of 2018, and it lagged close to 60% of its cohort during the Feb. 20-March 23, 2020, coronavirus-driven sell-off. Additionally, the managers keep their strategy's duration in lockstep with that of their Aggregate Index benchmark, which can cause them to lag relative to shorter-duration strategies during rate shocks. The strategy lagged 60% of its peers when yields jumped over the first quarter of 2021, though it matched the performance of its bogey.

**People Pillar**  Above Average | Gabriel Denis 02/08/2022

While lacking the goliath analyst benches of some of the larger players in the fixed-income space, the nimble team helming this strategy benefits from seasoned leadership and a tight-knit, collaborative investment culture. It earns an Above Average People Pillar rating.

Baird Advisors CIO Mary Ellen Stanek elevated her longtime collaborator Warren Pierson to co-CIO in October 2021, and the two lead a well-tenured, eight-person portfolio management team that

doesn't want for support. Stanek and Pierson work with three additional strategic leaders and three midlevel directors as managers on this strategy; though two senior members retired over 2020 and 2021 respectively, the remaining management team includes four people who worked together well before the strategy's September 2000 inception date. Their supporting bench, which includes three securitized analysts, seven credit analysts, and six risk analysts, has grown sensibly over the years and lost only one analyst since 2016.

The team's strengths lie in its experienced leadership bench, cohesive culture, and mindfulness about its limitations. This team does not pursue highly credit-sensitive or esoteric investments that would require resources beyond those that currently exist to support the strategies. Stanek and Pierson have also been proactive in expanding both the team's roster and resources. While many of the senior leaders on this bench are far along in their careers, the naming of several midlevel leaders to the strategy in 2019 and 2021 suggests they are well-positioned to take the reins in the future should any top-level changes occur.

**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** | Gabriel Denis 02/08/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, 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](http://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](http://bairdfunds.com). Read it carefully before investing.**

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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 396 Intermediate Core Bond Funds. The fund received four stars for the three-year period among 396 Intermediate Core Bond Funds, four stars for the five-year period among 359 Intermediate Core Bond Funds and five stars for the ten-year period among 264 Intermediate Core Bond Funds, as of May 31, 2022.

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 May 31, 2022, are -8.65% for the one-year, 1.41% for the five-year and 2.34% for the ten-year periods and 4.58% since its September 29, 2000, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays US Aggregate Bond Index as of May 31, 2022, are -8.22% for the one-year, 1.18% for the five-year and 1.71% for the ten-year periods and 4.13% 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](http://www.bairdfunds.com).*

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