

# Baird Core Plus Bond Inst BCOIX

A compelling choice for the core-plus bond investor.

## Morningstar's Take BCOIX

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Above Average
Price	—

### Role In Portfolio

Core

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	-2.25	-0.30
2021	-1.02	-0.35
2020	8.80	0.74
2019	10.11	1.17
2018	-0.51	0.10

Data through 1-31-22

2-09-22 | by Gabriel Denis

Baird Core Plus Bond's stalwart team, disciplined process, and low fees align to make the fund a dependable choice in the intermediate core-plus bond Morningstar Category. The strategy earns a Morningstar Analyst Rating of Silver across both share classes.

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 and her team use a tried-and-true valuation-driven process to outpace the Bloomberg U.S. Universal Index. A mixture of investment-grade corporates, high-quality securitized credit, and government bonds form the core of the portfolio, with a smattering of high yield (between 2% and 7% over the decade ending December 2021) and dollar-denominated emerging-markets corporates (less than 2% as of December 2021). When the team ventures into below-investment-grade fare, it prefers to hold a diversified set of well-trafficked names rather than concentrate in a few positions. The team matches the fund's duration to that of the index, sets strict limits on position sizing, and avoids derivatives, leverage, and nondollar bonds. These constraints allow management to focus on its strengths: security selection and sector rotation.

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 5.5% annualized and outpaced its benchmark and nearly 90% of its distinct category rivals.

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

Mary Ellen Stanek and crew have maintained the same transparent, risk-aware combination of security selection and sector rotation to outrun their Bloomberg U.S. Universal Index benchmark for over two decades. Their thoughtful and straightforward approach earns a High Process Pillar rating.

The strategy has access to the same sectors as its index, a mix of corporate, securitized, and government bonds. Yet unlike many rivals in the intermediate core-plus bond category, it treads lightly in lower-quality bonds and forgoes leverage, derivatives, and non-U.S.-dollar-denominated debt. Instead, the team hunts for investments that it

believes offer strong fundamental features, have attractive relative value, and fit within its broader macroeconomic views. The team keeps the strategy's duration neutral to that of the index to limit interest rate-driven volatility and facilitate the best expression of its credit opinions.

The team's size and resources look trim compared with some rivals, but this group limits its pickings to sectors and bonds within its wheelhouse. To date, the managers have avoided subordinated mortgage- and asset-backed fare, emerging-markets sovereigns, and non-dollar-denominated bonds across their portfolios. Design features such as diversification guidelines and rules on position-sizing function as additional risk controls.

Historically, this strategy has tilted heavily toward corporate and securitized credit relative to its benchmark, with the overweighting to those credits averaging around 24 percentage points higher than the Universal Index over the decade ended December 2021. This overweighting fell to 21 points as of December 2021 as the managers anticipated increased volatility over 2022 and modestly reduced their exposure to corporate credit to 52% from 54% a year earlier and their securitized credit allocation to 12% from 13%. Yet the largest reduction in the portfolio came in the strategy's agency mortgage passthrough allocation, which at 12% 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 (24%), increasing this allocation to its highest level over the same period.

Though the strategy has a 25% ceiling in below-investment-grade debt, it has never come close to this target and held just 4% in junk-rated credits as of December 2021. Aside from a small allocation

(less than 1%) to legacy nonagency mortgages, this stake chiefly consists of high-yield corporate credit. The managers pointed to Freeport-McMoRan FCX (0.5%) as a name they added to within this bucket given its compelling path toward an investment-grade upgrade from the major ratings agencies.

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

This strategy's record is strong thanks to the team's sensible security selection and sector rotation. Over the core team's tenure from October 2000 through January 2022, the Institutional share class' 5.5% annualized return landed in the best quartile of distinct rivals in the intermediate core-plus bond category and nearly 70 basis points ahead of the Universal Index. Its risk-adjusted return, as measured by Sharpe ratio, landed in the top quintile of its distinct peers.

Relative to its bogy, the strategy's overweighting in corporate bonds has contributed to outperformance during credit rallies and modest underperformance during credit sell-offs. Yet the team's risk-mindedness have helped it surpass less cautious rivals over these same periods. During both the 2018 fourth-quarter credit sell-off and the Feb. 20-March 23, 2020, coronavirus-driven market tumult, the strategy lagged its index but outpaced more than half of its distinct category rivals. The managers' tactic of keeping their strategy's duration neutral to their index reduces interest-rate volatility against that bogy but can lead it to lag relative to rivals that have the flexibility to shorten their duration. The strategy's 3.1% drop when yields spiked over the first quarter of 2021 landed in the bottom quartile of its cohort but roughly matched its index.

**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 mid-level 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** ● Above Average | Gabriel

Denis 03/31/2020

Baird's strength in its large fixed-income business and investor-friendly stewardship merit an Above Average Parent rating.

Under the leadership of longtime CIO Mary Ellen Stanek, the firm's taxable-bond funds continue to impress. Boasting low fees, a well-resourced team, and risk-aware investment processes, they constitute over 90% of the firm's assets under management, expanding from \$37 billion in 2016 to nearly \$88 billion at the end of 2019. This growth bears monitoring, but the team has shown prudence in adding personnel and operational resources to manage this burgeoning load. In recent years, the group has also focused on building out its municipal-bond effort, adding several key members to the team and launching two new municipal strategies in mid-2019. Although the firm's equity enterprise is smaller, it too benefits from tenured managers and attractive fees.

The firm's private wealth management arm has also grown precipitously in recent years, most recently through the acquisition of Louisville, Kentucky-based Hilliard Lyons in 2019. When framing the growth of this organization, Baird emphasized that Hilliard Lyons' advisors fit the cultural profile of its organization. This cultural fit is important: Turnover among the firm's analyst staff has historically been low, and around two thirds of employees owned stock in the firm at the end of 2019.

**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 Silver.

## 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](https://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](https://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>.

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The Morningstar four-star rating for the Institutional Class Baird Core Plus Bond Fund is the overall rating received among 569 Intermediate Core-Plus Bond Funds. The fund received three stars for the three-year period among 569 Intermediate Core-Plus Bond Funds, four stars for the five-year period among 496 Intermediate Core-Plus Bond Funds and four stars for the ten-year period among 352 Intermediate Core-Plus Bond Funds, as of January 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 Core Plus Bond Fund as of December 31, 2021, are -1.02% for the one-year, 4.30% for the five-year and 3.93% for the ten-year periods and 5.61% 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 Universal Bond Index as of December 31, 2021, are -1.10% for the one-year, 3.84% for the five-year and 3.31% for the ten-year periods and 4.93% since the fund's inception.

The Barclays U.S. Universal Bond Index represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or high-yield. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. The index is unmanaged and is 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. Non-investment grade bonds involve greater risk of default and bankruptcy than investment grade securities. 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 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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