Baird Mid Cap Growth Institutional BMDIX

After significant headwinds, there's reason for patience.

Morningstar's Take BMDIX

Overall Morningstar Rating™ ★★

479 US Fund Mid-Cap Growth
(31 May 2025)

	3 Yr 479 funds	5 Yr 446 funds	10 Yr 363 funds
Morningstar Rating™	1★	2★	3★

Morningstar Medalist Rating™	Bronze
Analyst-Driven %	100.00
Data Coverage %	100.00

Morningstar Pillars	
Process (14 May 2025)	Average
People (14 May 2025)	Above Average
Parent (21 Feb 2024)	High
Performance (14 May 2025)	
Price (14 May 2025)	

14 May 2025 | by Stephen Welch

Despite recent poor performance, Baird Mid Cap Growth still has merit thanks to veteran leadership. Morningstar has changed the way we assess alpha opportunity for funds, which is a key component in our Morningstar Medalist Rating calculation. One of this strategy's Medalist Ratings changed with this update, even in the absence of substantial changes to pillar ratings or fund costs.

This strategy has significantly slumped recently, but patience is justified. From the start of 2024 through April 2025, the institutional shares painfully lost 8.0%, while the Russell Midcap Growth Index gained 12.7%. Much of the underperformance is due to the strategy's quality focus, as the managers won't buy unprofitable companies. This has tended to benefit the strategy over the long term, but recently it has hurt. For instance, two of the index's biggest winners, Palantir and AppLovin, significantly contributed to the index's gain (before the former became slightly profitable). A handful of long-term holdings, such as Idexx Laboratories and CDW Corporation, that posted poor results in 2024 also contributed to the strategy's loss.

Yet, there is reason for optimism as this strategy's veteran leaders are still at the helm here. Manager Chuck Severson has led this strategy since its 2000 inception, and a similar separate account dating to 1993. Comanager Kenneth Hemauer has worked on the strategy since 2001 as an analyst, becoming a named manager in mid-2010. Six analysts round out the team, two of whom have more than 15 years of experience on the team.

Severson and the team use a straightforward approach with sensible guardrails. Quality comes first as they focus on profitable firms that have durable competitive advantages and healthy balance sheets that can drive long-term, lasting growth. They stick to companies within the market-cap range of the Russell Midcap Index, and look for companies with a low debt/capital ratio and good return on invested capital, such as longtime holding Fastenal, the largest fastener distributor in North America.

The focus on quality means it typically loses less in market pullbacks, which could prove to be a benefit if this volatile period continues. The managers' solid long-term risk-adjusted record suggests patience will be rewarded.

Process Average | Stephen Welch | 14 May 2025

The strategy's quality-oriented approach is straightforward but doesn't stand out. It earns an Average Process rating.

Focused on stocks within the Russell Midcap Index's market-cap range, manager Charles Severson and his team look for companies with five characteristics: attractive margins, durable revenue growth, capable management, industry tailwinds, and favorable market expectations. The team pays attention to valuations, often using Wall Street research to aid in the process, but isn't afraid to buy expensive but well-run growers. Overall, the strategy typically favors profitable, debt-light firms that can sustain above-average earnings and revenue growth for three to five years.

The strategy starts with a quant screen as a fundamentals check and a technical screen to gauge sentiment, which helps it time buying and selling. Annual portfolio turnover isn't excessive, ranging between 26% and 47% over the past five years. While most holdings take up 1% to 3% of assets, the strategy can build up to a 4% position in firms with quant and technical screen support, and it holds on to them unless their growth slows.

The team tries to limit relative risk by keeping sector weightings between 75% and 125% of the Russell Mid Cap Growth Index's, though they can go outside those guidelines. Severson will sell names whose market caps have become too big for the benchmark, typically getting out within two quarters of the change.

This strategy is relatively compact across 45-55 stocks, its typical range since mid-2008, devoting around a fourth of assets to its top-10 holdings. The strategy tends to avoid certain areas, shunning not-yet-profitable biotech firms and highly leveraged companies, such as most REITs, utilities, and airlines. While the index has held more than 15% of its assets in unprofitable companies, manager Charles Severson does not allow the strategy to own any unprofitable companies, as over the long term, he feels profitable companies outperform.

This strategy sticks to established, profitable, high-quality, growing companies. Overall, the strategy's net margin levels have been higher, and its debt/capital levels lower than the index during Severson's tenure. The team takes time to fully understand a company's business model and keeps a watchlist of roughly 10 stocks; it will wait to buy a name from the list until the company's results improve. Given that pedigree, he often pays a premium for them. Indeed, the strategy's average trailing 12-month price/earnings has averaged roughly 20% higher than that of the Russell Midcap Growth Index over the past five years.

Severson tries to keep this strategy a true mid-cap offering and will sell a holding once a firm is reconstituted out of the index. After an atypical 2023, when the team had to sell five holdings as they graduated out of the index, Severson did slightly increase the flexibility by allowing the sale to happen within two quarters of the change.

People Above Average | Stephen Welch | 14 May 2025
This strategy's veteran managers support an Above Average People rating.

Lead manager Charles Severson has been in charge since the strategy's year-end 2000 inception, but his experience with the strategy goes beyond that. A 38-year veteran of Robert W. Baird, Severson has used the same process on the separate account Baird Mid-Cap Growth Equity since June 1993, which successfully navigated the market drawbacks in 1998 and 2000.

Severson isn't alone. Comanager Kenneth Hemauer initially joined the strategy in 2001 as a financials and consumer analyst and became a named manager in mid-2010. Hemauer still covers the financials sector.

The two managers work as part of a stable but growing eight-person team. The healthcare analyst, who also runs Baird Small/Mid Cap Growth, and the consumer analyst each came to the strategy more than 15 years ago. The team's technology analyst has been with the group for six years. After the retirement of a tenured analyst in 2023, the firm hired a senior analyst, who has six years of prior experience, to replace him. Two junior analysts round out the team, and each has been with the group at least three years.

Severson and Hemauer each have more than $1 million invested in the strategy.

Parent High | Stephen Welch | 21 Feb 2024
Baird merits a High Parent rating.

Although Robert W. Baird and Co.'s origins date to 1919, its Milwaukee-based asset-management business has over the past 25 years grown into an industry stalwart through deft talent acquisition. In early 2000, Mary Ellen Stanek and her team joined to form the fixed-income-focused Baird Advisors. With modest fees and an effective, benchmark-aware approach, its taxable bond team now runs the lion's share of Baird's assets under management. The firm bolstered its municipal bond expertise in mid-2015 and in August 2019, and that part of the business now has considerable promise, too.

Although not as big or extensive in its lineup as its fixed-income counterpart, Baird Equity Asset Management has also opportunistically added key personnel. It purchased the international and global growth equity team of Chautauqua Capital Management in 2016 and in late 2021 strengthened ties with proven investor Joseph Milano, formerly of T. Rowe Price, while removing a small-value team that had struggled over the prior decade.

Succession bears monitoring. Indeed, Stanek and her co-CIO Warren Pierson are part of Baird Advisors' founding generation whose members each have nearly 40 if not more years of experience. That's offset, however, by a collaborative, team-based approach that should leave investors in good hands well after that generation's retirement.

Performance | Stephen Welch | 14 May 2025
The strategy has performed well under its longest-tenured manager, Charles Severson, though a recent rough patch has weighed on long-term results. Since his year-end 2000 start, the Institutional shares' 7.5% annualized gain through April 2025 beat the typical mid-growth Morningstar Category peer's 6.3% but lagged the Russell Midcap Growth Index's 8.2%. The strategy has been less volatile than the index, so its risk-adjusted results are more in line with the index.

The strategy took a big step back in 2024 when it significantly lagged the index and landed at the bottom of the category. The strategy lost 0.9% while the index gained 22.1%. This was due to not owning some top performers in the index, such as Palantir and AppLovin, and poor returns from some long-term holdings, such as Idexx Laboratories and CDW Corporation. Other unprofitable technology companies that the strategy avoided also got a boost as the generative AI craze swept through the market.

The strategy's quality focus means it typically fares well in volatile markets, such as the 2020 first-quarter coronavirus-driven plunge. Indeed, it has delivered in most market corrections, such as the 2007-08 global financial crisis, 2012's second quarter, and late 2018's drawback. That said, in 2022's market pullback, the strategy did slightly lag the index in large part because of its energy underweight and picks within healthcare and industrials. So far in the first four months of 2025, the strategy also lagged the index as technology picks like Globant and Zebra Technologies and not owning Palantir have hurt.

Price | Stephen Welch | 14 May 2025
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 Medalist Rating of Bronze.

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The average annual total returns for the Institutional Class of the Baird Mid Cap Growth Fund as of March 31, 2025, are -14.44% for the one-year, 9.77% for the five-year and 7.86% for the ten-year periods and 7.49% since its December 29, 2000, inception date. The expense ratio of the Institutional Class is 0.82%.

The average annual total returns for the Russell Midcap Growth Index as of March 31, 2025, are 3.57% for the one-year, 14.86% for the five-year and 10.14% for the ten-year periods and 8.03% since the fund's inception.

The Fund focuses on mid-cap growth style stocks and therefore the performance of the Fund will typically be more volatile than the performance of funds that focus on types of stocks that have a broader investment style. The fund may invest up to 15% of its total assets in U.S. dollar denominated foreign securities and ADRs. Foreign investments involve additional risks such as currency rate fluctuations and the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulations.

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The Gross and Net Expense ratios for the Institutional Class are 0.81/0.81. The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the Advisor for the Mid Cap Growth Fund. The Advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2026, to the extent necessary to ensure that the total operating expenses do not exceed 1.10% of the Investor Class's average daily net assets and 0.85% of the Institutional Class's average daily net assets.

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