

Baird Mid Cap Growth Institutional BMDIX

A solid offering in turbulent times.

Morningstar's Take BMDIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process	Average
Performance	—
People	Above Average
Parent	High
Price	—

Role In Portfolio

Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	-30.68	-0.40
2021	22.51	9.46
2020	34.81	-4.45
2019	36.31	3.79
2018	-1.61	5.04

Data through 6-30-22

6-22-22 | by Stephen Welch

Baird MidCap's seasoned managers ply a straightforward and well-executed approach. It earns a Morningstar Analyst Rating of Bronze across all share classes.

Veteran managers Chuck Severson and Kenneth Hemauer are integral to this strategy. Severson has overseen the fund as its lead since its 2000 inception, and a similar separate account dating to 1993. Hemauer has worked on the fund since 2001 as an analyst, becoming a named manager in mid-2010. Five analysts round out the team, three of whom have over a decade of experience with the fund.

Severson's process is time-tested and has clear guidelines. Focused on profitable firms within the market cap range of the Russell Midcap Index, he looks for companies like long-time holding Fastenal FAST. It is the largest fastener distributor in North

America with a low debt/capital ratio and an above-benchmark return on invested capital. Its stock has outpaced the index by 4.4 percentage points annualized since he first purchased it in late 2002. While fundamental analysis is his key to identifying such companies, Severson and his team also use quantitative and technical overlays for position sizing and transaction decisions.

Severson often pays a premium for above-average profitability in building the fund's roughly 55- to 60-stock portfolio. Over the past decade, the fund's trailing 12-month price/earnings ratio was on average more than 20% higher than the Russell Midcap Growth Index's. Even when the kind of profitable, debt-light firms Severson favors can be had at a bargain, Severson is cautious about buying companies on his roughly 10-stock watch list.

The fund's quality tilt has buoyed it in most down markets, such as 2020's coronavirus-driven plunge and 2022's first half. Since the index's Nov. 16, 2021, peak through May 2022, the fund's 28.2% drop was 2.1 percentage points less than the Russell Mid Cap Growth Index's. This has helped the strategy outpace the index during Severson's 20-plus years in charge.

This fund continues to be a promising option.

Process Pillar Average | Stephen Welch 06/22/2022

The strategy's approach is straightforward and well executed, but the fund's reliance on sell-side research and tight sector constraints warrant 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 aren't afraid to buy expensive but well-run growers. Overall, though, the fund typically favors profitable, debt-light firms that can sustain above-average earnings and revenue growth for at least three to five years.

The fund uses a quant screen as a fundamentals-check and a technical screen to gauge sentiment, which helps it time buying and selling. But it isn't beholden to those filters. Annual portfolio turnover isn't excessive, ranging between 38% and 57% the past five years. While most holdings take up 1%-3% of assets, the fund 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 is sector aware and limits relative risk by keeping sector weightings to 75% to 125% of the index's. Severson will sell names whose market caps become too big for the benchmark.

This fund is fairly diversified across 55-60 stocks, its typical range since mid-2008, with around a fourth of assets in its top-10 holdings. Still, the fund favors some sectors more than others, while shunning not-yet-profitable biotech firms and highly leveraged companies, including most REITs, utilities, and airlines. The fund also does not invest in unprofitable businesses, now more than 10% of the Russell Mid Cap Index.

Charles Severson keeps a watchlist of roughly 10 stocks and will wait to buy a name from the list until the company's results improve. That entails paying a premium for stocks. For example, he waited for O'Reilly Automotive ORLY to resolve its sales issues in 2017 before buying the stock in early 2018; by then, its share price had recovered somewhat. Indeed, the fund's average trailing 12-

month price/earnings has averaged 16% higher than the index over the past five years.

Severson tempers price risk by sticking to high-quality fare. Overall, the fund's net margin levels have been higher and its debt-to-capital levels lower than the index during his tenure. During 2022's volatile first half, Severson swapped out picks to more heavily emphasize companies with balance sheet strength, durability, and growth. He also added a few healthcare names during the pullback, such as Doximity DOCS and Steris STE, which Severson believes are poised for growth.

Performance Pillar | Stephen Welch 06/22/2022

The fund has performed well under its longest-tenured manager, Charles Severson. Since his year-end 2000 start, the Institutional shares' 8.3% annualized gain through May 2022 beat the Russell Mid Cap Growth Index's 7.4% and the typical mid-growth Morningstar Category peer's 6.0%. The fund has been less volatile than the index resulting in its superior Sortino ratio (a measure of risk-adjusted results) during that stretch.

The fund got much of its edge from faring well in volatile markets, like 2020's first-quarter coronavirus-driven plunge. From the Russell Mid Cap Index's Feb. 20, 2020 peak to its March 23, 2020 trough, the fund's 34.7% drop was 100 basis points less than the benchmark's. The fund has delivered in most market corrections, like in the financial crisis, 2011's third quarter, 2012's second quarter, and late 2018's drawback. Since the index's Nov. 16, 2021, peak through May 2022, the fund's 28.2% drop was 2.1 percentage points less than the index's, mainly to its avoidance of the technology sector's worst-performing stocks and ownership of other tech names that were relatively resilient.

The fund can lag for extended periods, whether in rallies that favor more aggressive peers or value-oriented markets that reward the kind of income-oriented sectors it typically eschews. Treading lightly in real estate and utilities hurt from mid-2004 to mid-2007, for example. The fund also finished behind the index each calendar year from 2013-16 and 2020.

People Pillar ● Above Average | Stephen

Welch 06/22/2022

This strategy's veteran managers support an Above Average People rating.

Lead manager Charles Severson has been in charge since the fund's year-end 2000 inception, but his experience with the strategy goes beyond that. A 35-year veteran of Robert W. Baird & Co, 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 fund 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, seven-person team. Five have worked together for more than a decade and one has been with the team for three years. The industrials analyst and the healthcare analyst each came to the fund more than 10 years ago, with 20 and seven years of prior experience, respectively. The consumer analyst joined the team in mid-2014, after roughly four years on Baird's sell-side research team. There was a change to the technology analyst position in April 2019, but the new analyst who joined isn't a neophyte. He came with three years of investment experience and spent over a decade in the technology industry before that. Severson added an analyst in 2021 and plans to add a few more members during the next few years for additional support. This will ensure there is adequate help after launching a smid-growth strategy a few years ago.

Severson and Hemauer each have over \$1 million in the fund.

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 | Stephen Welch 06/22/2022

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 second-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 Bronze.

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.

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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 four-star rating for the Institutional Class of the Baird Mid Cap Growth Fund is the overall rating received among 532 Mid Growth Funds. The fund received four stars for the three-year period among 532 funds, four stars for the five-year period among 493 Funds and four stars for the ten-year period among 380 Funds as of June 30, 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 Mid Cap Growth Fund as of June 30, 2022, are -22.30% for the one-year, 10.91% for the five-year and 11.20% for the ten-year periods and 7.90% since its December 29, 2000, inception date. The gross/net expense ratios of the Institutional Class are 0.80%/0.80%.

The average annual total returns for the Russell Midcap Growth Index as of June 30, 2022, are -29.57% for the one-year, 8.88% for the five-year and 11.50% for the ten-year periods and 7.01% since the fund's inception.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. Indices are unmanaged and are not available for direct investment.

The Fund focuses on 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, political and economic instability, and different and sometimes less strict financial reporting standards and regulation. The Fund invests a substantial portion of its assets in the stocks of mid-capitalization companies. Mid-capitalization companies often are more volatile and face greater risks than larger, more established companies.

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.

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