Baird Core Intermediate Municpl Bd Instl BMNIX

This growing effort is one to highlight.

Morningstar's Take BMNIX

Overall Morningstar Rating™	★★★★		
272 US Fund Muni National Interm (30 Jun 2023)			
	3 Yr 272 funds	5 Yr 238 funds	10 Yr — funds
Morningstar Rating™	4★	4★	—

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

Morningstar Pillars	
Process (23 Jun 2023)	Above Average
People (23 Jun 2023)	Above Average
Parent (25 Mar 2022)	High
Performance (23 Jun 2023)	
Price (23 Jun 2023)	

23 Jun 2023 | by Elizabeth Templeton

Baird Core Intermediate Municipal Bond's collaborative investing culture pairs well with a straightforward but effective style to the tax-exempt market. It earns a Morningstar Medalist Rating of Silver for its Institutional shares and Neutral for the pricier investor shares.

Other top-tier firms may have larger muni groups and broader mandates, but Baird operates differently and is effective in its own right. Baird's revamped muni effort started with the launch of this strategy in 2015 and has grown assets quickly. Co-leads of the group, Duane McAllister and Lyle Fitterer have decades of muni investing experience and strong track records prior to joining Baird in 2015 and 2019, respectively. They stick to a straightforward process and are supported by three additional portfolio managers. The team fosters a culture of developing talent from within as seen with the two muni investment analysts who round out this muni group.

Modest fees are also critical, allowing the team to focus on their high-quality, bottom-up approach while eschewing duration bets, leverage, and other hedges that could add to volatility. The approach is anchored on matching the Bloomberg 1-15 Year Municipal Index's overall interest-rate sensitivity and then adding value through strong sector allocation and credit selection. Strong adherence to risk mitigation, fluid collaboration among the team and the rest of the firm, and an efficient proprietary credit scoring system helps mitigate the concern around the smaller team here.

Since its inception in August 2015, the strategy has benefitted from the team's experience, strong bond-picking, and relative valuation calls. As of March 2023, 61% of the bonds in the portfolio were rated AA or above, while A and BBB-rated securities stood at 32% compared to the typical muni intermediate Morningstar Category peer that invests 50% in securities rated AA or above and 36% in A and BBB fare. Revenue-backed bonds are typically the focus of this strategy driven by the essentiality and stability of these revenue streams and represent 67% of the portfolio.

Judged against its benchmark and a group of distinct category peers, this strategy has an enviable track record, outperforming across an array of muni market environments. Since 2015, the strategy's Institutional shares produced nearly top decile returns compared with category rivals with better volatility-adjusted returns than the peer median.

Process Above Average | Elizabeth Templeton | 23 Jun 2023

Baird's simple but effective investing style merits an Above Average process rating.

Focused on high-quality municipal bonds without the complications of derivatives or leverage, this bottom-up approach has had success since launching this strategy in 2015. The muni team follows a straightforward process similar to those employed by Baird's taxable teams and begins with matching this portfolio's duration to the Bloomberg 1-15 Year Municipal Index, reflecting their views on the difficulties of predicting interest-rate changes consistently. The team aims to beat its benchmark by 25 to 50 basis points, adding value through yield-curve positioning, sector allocation, security selection, and competitive trade execution.

Fluid collaboration between the muni team and the firm's taxable cohorts, strong adherence to risk mitigation and an efficient proprietary credit scoring system helps combat concerns around the smaller team. All credits are assigned a score based on 20 different factors including underlying rating and outlook, market sector, state and third-party enhancements, and pension funding status. Resulting scores are assigned to one of three categories with less traditional sectors that have moderate to weaker financial strength and a less stable outlook such as senior care occupying much of the team's time.

A heavy emphasis on risk control can be seen through the relatively conservative portfolio and the benchmark-aware approach also applies to credit quality, sector, and subsector weightings. As a result, the fund's credit quality profile tends to look tame relative to more aggressive muni national intermediate bond category peers.

The portfolio's higher quality tilt and focus on selective mid-quality offerings rather than indiscriminately reaching for yield in lower-rated credits have benefited this strategy. As of March 2023, 61% of the bonds in the portfolio were rated AA or above, while A and BBB securities stood at 32% compared to the typical muni intermediate category peer that invests 50% in securities rated AA or above and 36% in A and BBB fare. Up to 10% of the portfolio can be invested in below-investment-grade securities, but in practice, this stake has stayed below 6% since the strategy's 2015 inception.

Revenue-backed bonds (67% of assets) are typically the focus of this strategy driven by the essentiality of the service being financed and the stability of the resulting revenue streams. Within that stake, housing (13%), hospital (11%), and education bonds (10%) make up core overweight positions relative to its benchmark. The housing allocation largely consists of higher quality, shorter-term bonds that can help boost liquidity in the portfolio. Concerns of weakening in the higher education sector led to a decrease in the education stake throughout 2022 and into 2023 but this position is still 5 percentage points higher than its benchmark. Consistent with the team's view on higher education, they are closely watching debt issued by hospitals as they contend with increasing budget challenges and prefer larger, multistate systems in this sector.

People Above Average | Elizabeth Templeton | 23 Jun 2023
Baird's collaborative, investor-friendly culture earns this strategy an Above Average People rating.

Other top-tier firms may have bigger teams, but Baird's uniquely collaborative and team-oriented setup and experienced managers ensure that this muni cohort is effective. Co-leads of the muni group, Duane McAllister and Lyle Fitterer bring decades of muni investing experience and strong track records prior to joining Baird to this effort. McAllister led tax-free fixed-income strategies at BMO Global Asset Management before coming to Baird in 2015. Portfolio managers Erik Schleicher and Joe Czechowicz, who started their careers with McAllister at BMO in 2008, accompanied him to Baird. Former Wells Fargo Asset Management portfolio manager, Lyle Fitterer joined Baird in mid-2019 and brings with him 30-plus years of experience. Manager Gabe Diederich, who joined this group in 2020, has worked with Fitter for roughly two decades, starting his career at Strong Funds and then Wells Fargo. Two muni investment analysts, Lauren Vollrath and George Wong, round out this group. The team also works closely with the firm's corporate analysts to further support security analysis efforts in certain sectors such as housing.

While smaller, stability and experience are strengths here and this team has grown organically when they thought it was necessary. Most members of the team wear multiple hats including trading and credit coverage responsibilities, which could be concerning as this municipal effort grows. Yet the team's experience, strong collaboration with the broad resources of the firm and its focus on a limited number of relatively straightforward muni mandates mitigates these reservations to date.

Parent High | Elizabeth Templeton | 25 Mar 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.

Performance | Elizabeth Templeton | 23 Jun 2023
Judged against its Bloomberg 1-15 Year Municipal Index benchmark and a group of distinct muni national intermediate Morningstar Category peers, this strategy has an enviable track record, outperforming both on an annualized basis across a variety of muni market conditions over the past eight years. Since its August 2015 inception, the strategy's Institutional shares produced a strong volatility-adjusted result and a top decile 2.3% return, which was about 50 basis points higher than the peer median over the same time period. Avoiding duration bets, leverage, and derivatives that may add volatility to the portfolio allows this team to focus on strong security selection to drive returns.

In almost every calendar year since 2015, the strategy has outperformed the peer median and has held up better relative to competitors in challenging muni markets, which has been partially due to the strategy's high-quality posture. A higher credit quality profile than peers often results in this strategy lagging slightly when taking credit risk is rewarded such as during 2019 and 2021, but nevertheless, the team's solid security selection and sector rotations ensure it never falls far behind. Although this strategy stays duration neutral relative to its benchmark, this approach can lead to a shorter duration compared to peers that will actively choose to push further out on the curve, which can help this portfolio when interest rates rise. For example, during 2022's historic interest rate increases, the strategy posted top quartile results compared to category rivals as a shorter duration stance relative to that group and an overweight to hospital and housing revenue bonds for most of the year helped.

Price | Elizabeth Templeton | 23 Jun 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 Medalist Rating of Silver.

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