

Baird Short-Term Bond Inst BSBIX

No-nonsense and sensible exposure to short-term bonds.

Morningstar's Take BSBIX

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	-2.74	0.99
2021	-0.42	-0.47
2020	4.23	0.42
2019	4.68	-0.04
2018	1.49	0.57

Data through 5-31-22

3-25-22 | by Gabriel Denis

A dedicated core of talented managers behind Baird Short-Term Bond, supported by a growing group of collaborators, has helmed this strategy capably for more than 15 years. A disciplined investment process, supported by low fees, earns a Morningstar Analyst Rating of Gold for this strategy's cheaper share class and Silver for its pricier option.

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.

The team's no-nonsense approach focuses on investment-grade corporates, high-quality securitized credit, and government bonds and keeps the strategy's duration in line with that of the Bloomberg U.S. Government/Credit 1-3 Year Index. The process forgoes leverage, derivatives, and macro trades, while its duration-neutral style allows management to focus on security selection and sector rotation. The strategy maintains a persistent bias toward investment-grade corporate and securitized credit (62% of the portfolio as of December 2021), making it more sensitive to credit risk than the benchmark. But the team balances that risk with judicious credit selection and diversification, emphasizing large, liquid names and keeping position overweightings within 75 basis points of their benchmark size.

Though the team's long-term record is middling relative to aggressive peers in the short-term bond Morningstar Category, its circumspect approach has generally worked in the strategy's favor in stressful markets. Its Institutional share class' 2.6% annualized return from September 2004 through January 2022 landed in the middle of a distinct group of its category rivals, but its risk-adjusted return (measured by Sharpe ratio) over this same time period landed in its cohort's top quartile.

Process Pillar High | Gabriel Denis 02/08/2022

The managers 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.

The team uses the Bloomberg U.S. Government/Credit 1-3 Year Index as a guide for sector rotation and security selection across investment-grade corporates, securitized fare (both agency mortgages and non-agency, high-quality securitizations), and government bonds. It keeps the strategy's duration identical to that of the benchmark's, and derivatives, foreign currency, and leverage are off limits. These restrictions allow the team to focus and refine its research in the core areas of the portfolio.

This team takes risk through credit rather than interest rates, which has led to bold stakes in BBB fare (31% of the portfolio as of December 2021). But diversification mitigates that risk; the highest-conviction positions are capped at a maximum 75-basis-point overweighting relative to the index, and no individual name can go above 5% of the portfolio. When the team wants to add credit risk, it prefers well-trafficked corporate bonds or high-quality securitized credit.

Though management focuses on investment-grade bonds here, the strategy remains far more opportunistic than its U.S. Treasury-heavy index. The strategy's corporate bond position has been, on average, more than double its boggy's over the decade ending December 2021 and sat at 50% at the end of that period. Though worried about the potential for heightened credit volatility over 2022, the managers kept this overall stake steady from a year earlier as they felt shorter-dated credits were trading at more attractive valuations than their longer-dated equivalents. That said, they did reduce the strategy's position in high-yield debt to 1% from 2% a year earlier, and this included moderating their stake in several fallen angels purchased during the aftermath of the market collapse of early 2020. Within this bucket, the team held a modest (less than 1%) stake in Ford Motor Company F, believing this name was likely to receive upgrades from the major ratings agencies over 2022. The team also increased the

strategy's allocation to U.S. Treasuries to 36% (its highest in more than a decade) from 33% a year earlier as a hedge against credit market turmoil.

While corporates and U.S. Treasuries make up the lion's share of assets, the managers have long held a positive view of several flavors of high-quality securitized credit. Though they reduced the fund's exposure to asset-backed securities to 5% from 6% a year earlier, they cultivated a new stake in student loan trusts (1%) that had shortened in maturity enough to be eligible for this strategy and were trading at attractive valuations.

Performance Pillar | Gabriel Denis 02/08/2022

An overweighting in investment-grade credit has helped the strategy outperform its Bloomberg U.S. Government/Credit 1-3 Year Index since its August 2004 inception with modest volatility (measured by standard deviation). From September 2004 through January 2022, its risk-adjusted return, as measured by Sharpe ratio, was higher than 80% of distinct short-term bond category peers. Yet the strategy's trailing total returns over the same period are somewhat less impressive, with its Institutional share class' 2.9% annualized return comfortably outpacing its index but landing in the middle of its peer group.

The strategy's large corporate bond stake has helped it beat its Treasury-heavy benchmark over the trailing 10 years, but its conservative bent has held back performance relative to riskier peers. When credit markets have buckled, as during the 2008 financial crisis, its credit-heavy tilt can cause it to lag its index, but its higher-quality bias has typically buoyed it above the average competitor. For instance, the fund held up better than more than 70% of its rivals when credit markets took a tumble over the fourth quarter of 2018. When the coronavirus pandemic compelled a credit market collapse between Feb. 20 and March 23, 2020, the strategy held up better than two thirds of its cohort.

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 August 2004 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. 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 Baird Short-Term Bond Fund is the overall rating received among 550 Short-Term Bond Funds. The fund received four stars for the three-year period among 550 Short-Term Bond Funds, four stars for the five-year period among 489 Short-Term Bond Funds and four stars for the ten-year period among 331 Short-Term 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 Short-Term Bond Fund as of May 31, 2022, are -3.33% for the one-year, 1.48% for the five-year and 1.67% for the ten-year periods and 2.47% since its August 31, 2004, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays 1-3 U.S. Government/Credit Bond Index as of May 31, 2022, are -3.03% for the one-year, 1.20% for the five-year and 1.08% for the ten-year periods and 2.10% since the fund's inception.

The Bloomberg Barclays 1-3 U.S. Government/Credit Bond Index is an index consisting of Treasury or government agency securities and investment grade corporate debt securities with maturities of one to three years. 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.

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