Baird Ultra Short Bond Institutional BUBIX

Simple and effective.

Morningstar's Take BUBIX

Overall Morningstar Rating™	★★★★		
204 US Fund Ultrashort Bond (29 Feb 2024)			
	3 Yr 204 funds	5 Yr 182 funds	10 Yr 108 funds
Morningstar Rating™	4★	4★	4★

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

Morningstar Pillars	
Process (6 Feb 2024)	High
People (6 Feb 2024)	High
Parent (21 Feb 2024)	High
Performance (6 Feb 2024)	
Price (6 Feb 2024)	

6 Feb 2024 | by Alec Lucas

Baird Ultra Short Bond's conservative playbook means that it rarely wows in any given year, but over time its results have served investors well.

The team executing this playbook has had a lot of practice. Four of the 10 named managers worked together for years before this fund's year-end 2013 inception and even before joining Baird Advisors in early 2000. As colleagues at a prior firm, they honed a team-oriented investment philosophy centered on keeping fees low and adding value without taking undue risk. Standard-bearers Mary Ellen Stanek, Warren Pierson, Charles Groeschell, and Jay Schwister have passed that on that philosophy and its practice to the next generation, including corporate credit analysts Jed Bruss and John Cremer. Although not named managers here, they actively monitor this portfolio's exposures. Bruss and Cremer joined Baird about four and eight years ago, respectively; each has been in the industry for more than 10 years.

The approach is simple but effective. Sticking to U.S.-dollar-denominated bonds without the complications of derivatives or leverage, it begins with matching the Bloomberg Short-Term US Government/Corporate Index's overall interest-rate sensitivity, or duration. Relative to more aggressive ultrashort bond Morningstar Category peers, the team is cautious about credit risk. The managers buy debt rated at least B or what they perceive to be equivalent quality if unrated. The portfolio's junk-bond allocation has been zero since mid-2021 and peaked at about 1% the three years before that. In contrast, some rivals come close to if not exceed a double-digit weighting.

Deft security selection and sector rotation among corporates, securitized, and government bonds are how the team adds the most value. For example, the portfolio's industrials overweighting within the corporate bond sector went from 27.2 percentage points in June 2022 to 17.2 percentage points by the end of 2023 as credit spreads tightened. The team added 5.4 percentage points of exposure to high-quality nonagency commercial mortgage-backed securities over that period as valuations became attractive.

Recent performance has been competitive. Moves within industrials were an area of strength for the portfolio in 2023. Over the calendar year, the institutional shares' 5.71% gain beat the index by 52 basis points and was in line with the distinct peer median. Over longer stretches, this fund has edged most peers, especially its volatility-adjusted results. That's likely to continue.

Process High | Alec Lucas | 6 Feb 2024
Focused on U.S.-dollar-denominated bonds of primarily investment-grade quality without the complications of derivatives or leverage, or the need to clear lofty fee hurdles, Baird Advisors' simple but effective investing style merits a High Process rating.

Citing the difficulty of predicting interest-rate changes consistently, Baird's approach begins with matching this fund's overall interest-rate sensitivity, or duration, to the Bloomberg Short-Term US Government/Corporate Index. Aiming to beat this bogy by 15-25 basis points per year gross of fees, the team tries to add value through yield-curve positioning, sector allocation, security selection, and competitive trade execution.

Security selection and sector allocation among corporates, securitized (both agency mortgages and nonagency, high-quality securitizations), and government bonds receive the most focus. Whether individual bonds, issuers, or sectors, the team looks for strong fundamental features, attractive relative value, and fit within its broader macroeconomic views. Non-investment-grade debt is capped at 10%, but the managers typically stay far from that limit and generally buy debt rated at least B or what they perceive to be equivalent quality if unrated. The fund's credit profile as a result tends to look tame relative to more aggressive ultrashort bond category peers.

The hunt for value even extends to yield-curve strategies for Treasuries. The team looks for incrementally more attractive Treasuries when buying and sells those with the richest valuations.

Relative to its Treasury-heavy Bloomberg Short-Term US Government/Corporate Index, the fund tends to overweight corporate credit. It has typically allocated about 45%-60% of its assets to the sector, versus 15%-25% for the index. Within corporate credit, the fund's financials overweighting increased to 12.6 percentage points in 2023's third quarter from 6.7 percentage points in mid-2022. The team liked banks' generally stout capital positions and alignment of their management incentives with high ratings given that banks consistently need to raise debt. By the end of 2023, financials holdings, especially non-U.S. bank debt, had helped the fund, as did an overweighting and bond picks within midstream issuers.

The fund's out-of-benchmark securitized stake ended 2022 at 25.9% of assets, up from 20.6% a year prior. The fund's allocation to asset-backed securities changed the most, increasing 6.4 percentage points to 17.1% in 2023's third quarter before modestly declining by year-end.

At year-end 2023, about 35% of the fund's assets were in bonds with BBB ratings, followed by allocations of 26%, 1.2%, and 16.6% to AAA, AA, and A, respectively. The portfolio's junk-bond allocation has been zero since mid-2021.

People ● High | Alec Lucas | 6 Feb 2024
Baird Advisors' capable and collaborative investing culture pairs well with the firm's simple but effective style, earning the fund a High People rating.

Other top-tier firms may have bigger staffs and broader remits; Baird operates differently and is excellent in its own right. Co-CIO Mary Ellen Stanek, winner of Morningstar's 2022 Outstanding Portfolio Manager award, and co-CIO Warren Pierson head this fund's veteran 10-person management team, whose members complement one another's strengths and stick to a straightforward, winning playbook.

Alongside Stanek and Pierson, Charles Groeschell and research director Jay Schwister set the tone here; each has about 40-45 years of industry experience. The other managers have a wider range of experience but collectively represent the next generation. Lead Jeffrey Schrom and comanagers Andrew O'Connell and Abhishek Pulakanti work as part of a nine-person credit team; it includes analysts Jed Bruss and John Cremer, who actively monitor portfolio exposures here. Meghan Dean and Patrick Brown oversee a six-person securitized team, and M. Sharon deGuzman guides Baird's eight-person portfolio construction and risk group.

Stability is a strength. Apart from two retirements in 2020 and 2021, respectively, no manager has left since this fund's 2000 inception. There have also been only three analyst departures since 2016, each for personal reasons.

Fund ownership stands out, too. Nine of the 10 managers invest in all their strategies, with three owning more than $5 million each across the lineup and another four more than $1 million each.

Parent ● High | Alec Lucas | 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 | Alec Lucas | 6 Feb 2024
The fund has a strong record since its year-end 2013 inception. Through January 2024, its institutional shares' 1.82% annualized gain beat the Bloomberg Short-Term US Government/Corporate Index by 70 basis points while placing in the top third out of about 60 distinct ultrashort bond category peers. Adjusted for volatility, results looked even better: TThe institutional shares' Sharpe ratio (a measure of return relative to standard deviation) was superior to the benchmark's and placed first in the peer group.

Consistent outperformance has been a hallmark here. Through 2023, the fund has beaten its index in nine of the past 10 years and its distinct peer median in seven of them. Versus the benchmark, the fund's best showing was in 2022, when its 0.96% return outpaced the index by 391 basis points. Bond picking within and overweighting corporate credit, especially short BBB debt (maturities of less than 1.5 years), helped the most that year.

Although prioritizing income consistent with capital preservation, the fund has nonetheless helped mitigate the effect of inflation, as measured by the Consumer Price Index. From January 2014 through December 2023 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into $1.19, versus the roughly $1.32 required to maintain purchasing power. In contrast, the average peer (inclusive of all share classes) grew each initial dollar invested into $1.16 over the same period.

Price | Alec Lucas | 6 Feb 2024
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 Gold.

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The Analyst-Driven % data point displays the weighted percentage of a vehicle's pillar ratings assigned directly or indirectly by analysts. For example, if the People and Parent ratings are assigned directly or indirectly by analysts but the Process rating is assigned algorithmically, the Analyst-Driven % for an actively managed vehicle would disclose that 55% of the pillar weight was assigned by analysts and the Analyst-Driven % for a passively managed vehicle would disclose that 20% of the pillar weight was assigned by analysts.

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Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates. Portfolios that invest in lower-rated debt securities (i.e., "junk bonds") involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Tax- free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

Equities
Equities are typically subject to greater fluctuations in market value than other asset classes due to factors such as a company's business performance, investor perceptions, stock market trends and general economic conditions. Stocks of small or mid-sized companies involve additional risks; such companies may have a higher risk of failure, are not as well established as larger blue-chip companies, and have historically experienced a greater degree of market volatility than the overall market average.

International/Emerging Markets Securities Risk
Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

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Trading may be halted due to market conditions, impacting an investor's ability to sell a security.

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The market prices of securities can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

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Portfolios that invest a significant percentage of assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

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The average annual total returns for the Institutional Class of the Baird Ultra Short Bond Fund as of February 29, 2024, are 5.88% for the one-year, 2.35% for the five-year, 1.81% for the ten-year, and 1.84% since its December 31, 2013, inception date. The gross expense ratio of the Institutional Class is 0.30%, the net expense ratio is 0.15%.

The average annual total returns for the Bloomberg Short-Term U.S. Government/Corporate Bond Index as of February 29, 2024, are 5.31% for the one-year, 2.03% for the five-year, 1.48 for the ten-year and 1.46% since the fund's inception.

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