

# Baird Ultra Short Bond Institutional BUBIX

An excellent contender at the shortest end of the credit curve.

## Morningstar's Take BUBIX

**Morningstar Rating** ★★★

**Morningstar Analyst Rating** Gold

### Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Above Average
Price	—

### Role In Portfolio

Supporting Player

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	-0.17	0.01
2021	0.20	0.00
2020	1.66	0.31
2019	3.11	0.03
2018	1.95	0.34

Data through 1-31-22

2-09-22 | by Gabriel Denis

Baird Ultra Short Bond, a relatively new addition to Baird's taxable fixed-income franchise, sports the same highly competent team and stellar investment process that have bolstered its longer-dated cousins. It earns a Morningstar Analyst Rating of Gold on its cheaper share class and Silver on its more-expensive class.

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.

Rather than chase for yield by loading up on riskier fare, the team leans on sensible security selection and sector rotation, supported by low fees, in order to outperform its ultrashort bond Morningstar Category competitors. The managers keep the strategy's duration neutral to that of the Bloomberg Short-Term U.S. Government/Corporate Index and avoid leverage, derivatives, and concentrated macro trades. While the managers focus on corporate, securitized, and occasionally municipal credit in order to outperform their U.S. Treasury-heavy index, they balance this risk with judicious credit selection and diversification, emphasizing large, liquid names and keeping position overweightings within 75 basis points of the benchmark's.

In a space where every basis point matters, the team's judicious approach has paid off for investors. Over the strategy's life from January 2014 through January 2022, its Institutional share class' 1.4% annualized return comfortably outpaced its bogy and 65% of its distinct rivals. Low fees preclude the need for outsized risk-taking, helping the team achieve this result with a near best-in-class risk-adjusted return (as measured by Sharpe ratio.)

**Process Pillar** High | Gabriel Denis 02/08/2022

The team applies the same structured and thoughtful investment process it has applied on sibling funds for two decades. The straightforward, comprehensive, and selective approach earns a High Process Pillar rating.

The Bloomberg Short-Term U.S. Government/Corporate Index serves as the guiding star for security and sector positioning across investment-grade corporates, securitized credit (predominantly

nonagency mortgages and high-quality asset-backed securities), and government debt. The managers keep the strategy duration-neutral to their bogy and prohibit the use of derivatives, foreign currencies, and leverage. These restrictions help them zero in on fundamental research in order to generate a yield advantage relative to their index and the strategy's ultrashort category peers.

The team is comfortable taking on a greater level of credit risk here than in its longer-dated strategies when it believes select lower-quality issuers are still likely to pay off their near-term obligations. This has occasionally led to concentrations in BBB and high-yield debt (the strategy has a 10% ceiling on the latter), but the team moderates this risk through diversification. High-conviction positions cannot exceed a 75-basis-point overweighting relative to the index, and no individual name can go above 5% of the total portfolio.

Though management focuses largely on investment-grade bonds, the strategy remains more adventurous than its U.S. Treasury-heavy index. The strategy's corporate bond position has been, on average, more than double the size of its bogy's over the strategy's lifetime from January 2014 through December 2021. This strategy was one of the few in Baird's taxable fixed-income franchise where the managers increased their corporate credit stake over the trailing year to 50% as of December 2021 from 43% a year earlier. Whereas the managers were concerned about how tight credit spreads had gotten on longer parts of the maturity ladder, here they found many more credits trading at attractive valuations. This was in part attributable to other fixed-income investors dumping short-dated credits to purchase newly issued intermediate-dated credits from the same companies. This theme was prevalent in the financials sector (16%), where the managers increased their exposure to money center banks

like Goldman Sachs GS (1%) and Bank of America BAC (1%).

While the strategy's corporate and U.S. Treasury (24%) stakes are familiar to the index, the managers cultivate modest stakes in out-of-benchmark fare. Within the strategy's substantial asset-backed securities stake (18%), they reduced their exposure to high-quality credit card securitizations to 2% from 7% a year earlier as they felt many were trading too richly even at very short maturities. Whereas the team cultivated a modest stake in taxable municipals in December 2020, this stake fell to 4% from 11% a year earlier as the team felt credits in this sector had begun trading at less attractive valuations.

**Performance Pillar** | Gabriel Denis 02/08/2022

This strategy has served as a stalwart for conservative investors over most of its lifetime. From January 2014 through January 2021, its Institutional share class generated a 1.6% annualized return, comfortably ahead of its Bloomberg Barclays Short-Term U.S. Government/Corporate Index and 65% of its distinct ultrashort category peers. Although it generated much of its outperformance against its index because of a focus on credit over the safety of U.S. Treasuries, the team's circumspect management of these risks contributed to the strategy posting a best-in-class risk-adjusted return (measured by Sharpe ratio) over its lifetime.

Given their conviction that they will be repaid for the risk given the short maturities of the bonds in this market, the managers have occasionally dialed up the strategy's overall credit risk to levels that have gotten it into modest trouble in credit market sell-offs. Its elevated high-yield debt exposure, for example, contributed to it lagging around 65% of its peers in both the late-2014 and the June 2015-February 2016 commodity-related sell-offs. The managers have since greatly moderated that risk, leading it to be a much stronger performer in subsequent drawdowns. It posted a middling result during the fourth quarter of 2018 and outperformed 70% of its rivals during the Feb. 20-March 23, 2020, credit squeeze.

**People Pillar** ● Above Average | Gabriel Denis 02/08/2022

Although the strategy dates only to 2014, the seasoned and tight-knit team manning it sports a record of success spanning more than two decades. The strategy earns an Above Average People Pillar rating.

Baird Advisors CIO Mary Ellen Stanek heads a well-tenured, eight-person portfolio management team made up of four members of the strategic leadership team and four midlevel leaders. Five of these eight have been listed on the strategy since its December 2013 inception date, with a further three added over 2019. Her supporting roster of analysts, including five structured, seven credit, and four risk analysts, has continued to grow, with three joining the firm over the course of 2020.

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 has 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 suggests they are well-positioned to take the reins in the future should any top-level changes occur.

**Parent Pillar** ● Above Average | Gabriel Denis 03/31/2020

Baird's strength in its large fixed-income business and investor-friendly stewardship merit an Above Average Parent rating.

Under the leadership of longtime CIO Mary Ellen Stanek, the firm's taxable-bond funds continue to impress. Boasting low fees, a well-resourced team, and risk-aware investment processes, they constitute over 90% of the firm's assets under management, expanding from \$37 billion in 2016 to nearly \$88 billion at the end of 2019. This growth bears monitoring, but the team has shown prudence in adding personnel and operational resources to manage this burgeoning load. In recent years, the group has also focused on

building out its municipal-bond effort, adding several key members to the team and launching two new municipal strategies in mid-2019. Although the firm's equity enterprise is smaller, it too benefits from tenured managers and attractive fees.

The firm's private wealth management arm has also grown precipitously in recent years, most recently through the acquisition of Louisville, Kentucky-based Hilliard Lyons in 2019. When framing the growth of this organization, Baird emphasized that Hilliard Lyons' advisors fit the cultural profile of its organization. This cultural fit is important: Turnover among the firm's analyst staff has historically been low, and around two thirds of employees owned stock in the firm at the end of 2019.

**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](http://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](http://bairdfunds.com). Read it carefully before investing.**

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

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 three-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 219 Ultrashort Bond Funds. The fund received three stars for the three-year period among 219 Ultrashort Bond Funds and three stars for the five-year period among 180 Ultrashort Bond Funds, as of January 31, 2021.

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 Ultra Short Bond Fund as of December 31, 2021, are 0.20% for the one-year, 1.64% for the five-year and 1.41% since its December 31, 2013, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Bloomberg Barclays U.S. Short-Term Government/Credit Bond Index as of December 31, 2021, are 0.10% for the one-year, 1.41% for the five-year and 1.04% since the fund's inception.

The 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](http://www.bairdfunds.com).*

© 2022 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.