

## PORTFOLIO COMMENTARY

Fellow shareholders,

Equities rose during the second quarter, buoyed by solid first half earnings growth, relief over cooling inflation readings, and excitement over all things “AI”. Market performance was narrow, significantly favoring large capitalization technology shares. The Equity Opportunity Fund posted a quarterly net return of +0.3% versus the Russell 2000 Index return of +5.2%. Despite Q2’s underperformance, the Fund remains modestly ahead of the index year-to-date and continues to demonstrate a strong longer-term track record:

The market’s breadth has not been as healthy as headline returns otherwise indicated. Large cap tech shares soared during Q2, led by the Nasdaq 100’s 15% return (+39% YTD), mostly concentrated in the top ten holdings. Similarly, the S&P 500 saw over 70% of its YTD return delivered by the top ten index weights. There was a wider-than-normal disparity in performance depending on market capitalization, style, and sector. Larger caps outperformed by a wide margin in Q2, with the S&P 500 gaining almost 9% compared to the Russell 2000’s 5%, likely owing to a flight to perceived safety and liquidity. Growth stocks outperformed value stocks, with the R2k Growth Index beating the R2k Value Index by almost 400bps in the quarter and over 1,000bps YTD.

The Fund’s Q2 results benefited from strong moves in positions such as Opera and Bill.com. Opera’s gains have been driven by multiple factors, including a series of “self-help” initiatives such as asset sales, share repurchases, and dividends. The browser company also caught the eye of retail investors seeking smaller cap AI plays, helping to create a bit of extra excitement in the name. Bill.com rose on relatively strong Q1 results – welcome news after management’s cautious comments exiting 2022. At quarter end, the Fund continued to own both OPRA and BILL.

While Catalent detracted from performance during the quarter, the Fund’s largest detractor was Infinera which has struggled to gain its footing in recent years. In the 2020-2022 period, COVID and supply chain disruptions kept a lid on the fundamental acceleration we had expected in this optical systems and component provider. Now, recession fears and somewhat muted telco spending budgets represent new walls of worry for investors. As we evaluate the name, we believe Infinera has achieved most of what we had initially expected fundamentally. However, the myriad external headwinds have conspired to consistently depress the degree and pace of equity value creation.

As Infinera highlights, even a mostly accurate fundamental thesis, informed with sound underlying process, can sometimes lead to a less favorable outcome for several reasons. In some cases, it simply takes more time than we expect to see a thesis play out; in others, investors hesitate to appreciate and fully value the company’s opportunity. Infinera highlights both. We readily admit that an inordinate amount of patience has been required, and we acknowledge that our belief in Infinera runs counter to the view of most market participants. Sometimes, as in this instance, it’s a bit lonely on the island.

The most impactful debate among market participants at mid-year seems to be the likelihood of recession in the U.S. Coming into 2023, the prevailing view – including our own – was that a mild recession later in the year was in the offing. However, as we write this, consensus has shifted much more favorably, believing that a soft-landing, with no recession, is the most likely outcome. One need not look further than the current appetite for cyclicals, beta, and speculative ideas in support of this shift. The reasons for this change of heart are intellectually defensible, driven by the persistence of relatively solid earnings growth in the first half, the rate of inflation receding from recent peak levels, and the always-helpful financial easing that was delivered in response to regional bank failures seen just a few months ago.

**Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit [bairdfunds.com](http://bairdfunds.com).**

OPRA had an average weight of 2.80%, BILL 1.93%, CTLT 1.01%, and INFN had an average weighting of 3.92% in the Equity Opportunity Fund as of 6/30/2023.

## Baird Equity Opportunity Fund (Q2 2023)

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Our view, however, remains relatively consistent. Perhaps we have been managing money for too long, but it strikes us as unlikely that the U.S. can throw a decade-long, \$10+ trillion party, but suffer what we would describe as a very mild hangover (2022). Interest rates have climbed from zero to over 5%, inflation has lifted from the very low single digits to the mid-single digits, credit availability is beginning to tighten, and consumer spending is softening at the margin as COVID-related savings get further depleted. While perhaps there will be no pain – picture Goldilocks threading a needle – these facts keep us somewhat cautious, particularly against the backdrop of an equity market that is increasingly making most investors feel like the train has left the proverbial station.

While the Fund's performance in Q2 was not up to our own internal standards, we continue to operate with confidence and conviction. We fully expect that over the remainder of 2023, we will see a series of interesting cards that should be impactful to both the overall market and our portfolio. We look forward to updating you all in three months and hope you enjoy the balance of summer.

Respectfully,

Joe Milano

# Baird Equity Opportunity Fund (Q2 2023)

## PERFORMANCE

Periods Ending June 30, 2023* (%)	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (05/01/2012)
<b>Baird Equity Opportunity Fund Institutional Class</b> (BSVIX)	0.31	9.90	17.37	13.32	3.09	6.34	7.37
<b>Baird Equity Opportunity Fund Investor Class</b> (BSVSX)	0.31	9.87	17.19	13.08	2.85	6.09	7.12
<b>Russell 2000 Index</b> <sup>®</sup>	5.21	8.09	12.31	10.82	4.21	8.26	9.27

## TOP & BOTTOM CONTRIBUTORS

Top 5 Portfolio Contributors	Avg. Weight	Contribution
Opera Limited (OPRA)	2.80	2.00
nVent Electric plc (NVT)	4.15	0.85
BILL Holdings, Inc. (BILL)	1.93	0.79
NexTier Oilfield Solutions (NEX)	3.27	0.42
Sportradar Group (SRAD)	3.70	0.41

Bottom 5 Portfolio Contributors	Avg. Weight	Contribution
Global Payments Inc. (GPN)	5.88	-0.40
Castle Biosciences, Inc. (CSTL)	0.82	-0.41
Chegg, Inc. (CHGG)	0.40	-0.60
Catalent Inc (CTLT)	1.01	-1.36
Infinera Corporation (INFN)	3.92	-2.04

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
<b>Joe Milano, CFA</b> Portfolio Manager	26	2013	Generalist
<b>Chip Morris, CFA</b> Analyst	36	2014	Technology
<b>Scott Barry</b> Analyst	26	2014	Consumer Discretionary & Staples
<b>Ben Landy</b> Analyst	14	2014	Industrials & Materials
<b>Scott Mafale</b> Analyst	7	2021	Healthcare

\*Performance data represents past performance and does not guarantee future results. Returns over one year are annualized unless specified. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Performance figures assume reinvestment of all dividends and capital gains. For performance data as of the most recent month-end, please visit [bairdfunds.com](http://bairdfunds.com). Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting [bairdfunds.com](http://bairdfunds.com). Please read the prospectus or summary prospectus carefully before investing. Fund performance is net of fees.

This commentary represents portfolio management views and fund holdings as of 06/30/23. Those views and fund holdings are subject to change without notice. The performance of any single fund holding is no indication of the performance of other holdings of the Baird Equity Opportunity Fund. Past performance is no guarantee of future results.

Positions identified above do not represent all the securities held, purchased or sold during this time period. The contribution to return of these securities is calculated by multiplying the weight of the security at the beginning of the time period by the security return and represents a model portfolio. To obtain a complete list of positions and contributions for the period, please contact Baird Equity Asset Management at 800-792-4011. Past performance does not guarantee future results.

Prior to December 12, 2021, the fund was managed in accordance with a different investment strategy. The Subadvisor became the Fund's subadvisor effective December 12, 2021. The performance results shown are from periods during which the Fund was managed by the Advisor prior to the retention of a Subadvisor.

As a non-diversified fund, the fund may invest a larger percentage of its assets in a smaller number of companies compared to a diversified fund, which increases risk and volatility because each investment has a greater effect on the overall performance. The fund focuses on small- and mid-cap stocks and therefore the performance of the fund may be more volatile, less liquid and more likely to be adversely affected by poor economic or market conditions than investments in larger companies. The fund may invest up to 15% of its total assets in the equity securities of foreign companies. Foreign investments involve additional risks such as currency rate fluctuations, the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulation.

The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the advisor. The advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2025, to the extent necessary to ensure that the total operating expenses do not exceed 1.50% of the Investor Class's average daily net assets and 1.25% of the Institutional Class's average daily net assets.

The Russell 2000 is the most widely quoted measure of the overall performance of small-cap to mid-cap stocks. It represents approximately 10% of the total Russell 3000 market capitalization. It is made up of the bottom two-thirds in company size of the Russell 3000 index. Indices are unmanaged and are not available for direct investment. Time periods greater than one year are annualized.

Baird Funds are offered through Robert W. Baird & Co., a registered broker/dealer, member NYSE and SIPC. Robert W. Baird & Co. also serves as investment advisor for the Fund and receives compensation for these services as disclosed in the current prospectus.

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Robert W. Baird & Co. 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202  
First use: 08/2023