Baird Equity Opportunity Fund

Q1 2022 COMMENTARY

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Baird Equity Asset Management

BAIRD EQUITY OPPORTUNIYY FUND

The new year kicked off actively, dominated by Russia's invasion of Ukraine along with more clarity around the Federal Reserve's emerging inflation-fighting policies. There was generally broad-based selling to start the year, as most assets including equities declined during the quarter. The Baird Equity Opportunity Fund Net Institutional Class posted a 4.2% loss, performing modestly better than the Russell 2000 Index decline of 7.5% during the same period.

As the new portfolio manager as of December 12, 2021, I am pleased to report that the transition has gone very smoothly. Since we manage similar portfolios at Greenhouse, it did not take us long to reposition the Fund. While it will take time – certainly more than a few quarters – to build the necessary trust with all stakeholders, we are optimistic about the portfolio's long-term return potential.

During the first quarter, most sectors declined except for energy, which posted meaningful gains as oil and natural gas rallied. All market cap ranges fell, with small cap stocks posting modestly worse results than larger cap stocks. Value issues continued to outperform growth, though both delivered negative returns in the quarter. Unprofitable – and often very expensive and crowded – durable growth stocks had a particularly tough quarter.

Fortunately, we tend to traffic in less crowded names, which we believe gives our Fund a better chance of skirting the overall market direction with lower correlation to the indices and other funds. This is evidenced by key contributors to the Fund's performance in the first quarter, including Zynga (ZNGA) and Evolent Health (EVH). Zynga received a takeout offer from larger video game concern Take Two Interactive early in the new year. While we admittedly had our sights set on a higher price over a multi-year period, we view the transaction as fair.

Small-cap healthcare services company Evolent Health uses technology and data to help payers and providers reduce costs and improve clinical quality and administration. We began building a position during the nascent stages of its corporate turnaround, at which time new leadership articulated a credible path towards business simplification and profitable growth. Strong recent financial results and business wins have demonstrated progression from a fixer-upper to a compelling growth story. We believe EVH remains an inexpensive stock with substantial growth and margin improvement runway over the next several years.

Key detractors during the quarter included Blackbaud (BLKB) and Clarus Corp (CLAR). Blackbaud continues to report good results, but was caught up in the software sector selloff, despite being valued at a fraction of the average SaaS stock. Clarus, which owns niche consumer brands such as Black Diamond, continues to impress us with their execution, and we like the acquisitions they have recently consummated. While revenue and margins keep expanding, concerns over peaking outdoor-focused consumer trends led to some valuation contraction during the quarter. We continue to like the business trajectory, opportunity for growth, and strong management team.

After two years of COVID dominating the psyche of investors, we seem to be transitioning into new walls of worry. Russia's tragic invasion of Ukraine has immediate effects upon many companies with operations in the region while introducing the lower probability but

GREENHOUSE FUNDS LLLP

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Trader

INVESTMENT STRATEGY

The Baird Equity Opportunity Fund will normally invest at least 80% of its net assets in equity securities. The Fund invests primarily in a select portfolio of equity securities of companies with small- to medium-market capitalizations (those with market capitalizations, at the time of purchase, of less than $20 billion).

The Fund will normally hold a limited number (typically 25 to 50) of companies. However, the Fund may hold fewer or more companies from time to time and invest in companies with larger market capitalizations when the Subadvisor believes doing so will help efforts to achieve the Fund's investment objective. The Fund will hold a mix of both value and growth stocks as part of the Subadvisor's opportunistic approach to investing. Effective December 12, 2021, Greenhouse Funds LLLP is the Fund's sub-advisor.

legitimate fear of an expanding war throughout Europe. We offer no keen insight into the ultimate direction of a madman's war, other than to suggest that Russia will almost certainly be an outcast on the international stage for many years, regardless of outcome. This could have lasting impacts on the energy and agricultural sectors in particular, areas in which we are well-versed.

Beyond the heartbreaking situation in Ukraine, the world's new focus on fighting inflation could also have long-lasting impacts. The Federal Reserve, in particular, seems to suddenly appreciate the risks of enduring, entrenched inflation, and has articulated a path to both raising interest rates and reducing the size of its bloated balance sheet. While equity markets have generally taken this policy pivot in stride, we view this shift as potentially game changing.

The lessons of monetary policy over the past fifty years makes one thing abundantly clear: when the Federal Reserve maintains low interest rates for too long, bad things tend to happen in financial markets. During the 1970's, the Fed kept interest rates too low even in the face of accelerating inflation, from 3% in 1973 to 10% by the end of the decade. This led to a lost decade of equity market returns before Paul Volcker took the bold step to fight inflation by significantly raising interest rates.

More than a decade later, Fed Chair Alan Greenspan planted the seeds of the "Fed put" with his interest rate cuts beginning in 1995. As investor enthusiasm built, he sent various warning shots, including during the summer of 1998. Despite helping to curtail the very investor exuberance that he identified himself, Greenspan responded to a market swoon by again cutting rates in the months that followed. By early 2000, price inflation was beginning to pick up and the Fed no longer had asset inflation without rising consumer prices. The six rate hikes needed in 1999-2000 may not have caused the Tech Wreck of the early 2000's but were likely a contributing factor.

After the terrorist attacks on September 11, 2001, Greenspan again cut rates and held them at low levels through 2004, helping to fuel the housing bubble in the mid-2000's. After Greenspan retired in 2006, Ben Bernanke recognized that inflation was becoming a problem and began to raise rates. We all know how that ended in 2008, with the bursting of the housing bubble and implosion of the subprime credit market causing the Great Financial Crisis.

Whether it was the lost decade of the 1970's, the popping of the tech bubble in the 1990's, or the Great Financial Crisis in the 2000's, all could be traced back to the same common theme of the Federal Reserve keeping monetary policy too loose for too long under the belief that they could achieve asset inflation without driving price inflation. Each time in history that the Fed thought it could have its cake and eat it too, it has proven a flawed assumption. And each time, the Fed has put itself in the uncomfortable position of choosing between the lesser of two evils – fighting price inflation at the cost of deflating pumped-up asset prices or allowing painful price inflation to run rampant and drive asset valuations higher.

Understanding history can be a blessing and a burden alike. For much of the past decade, investors who heeded the rhymes of history have been penalized for not significantly raising their risk appetite while the Fed embarked on the same failed policies of the past. Now, a changing monetary policy regime is upon us. Whether we will look back on the past few years as another bubble – in U.S Treasuries and unprofitable, durable growth stocks – is not ours to call, and only time will tell. Regardless, we would anticipate elevated equity market volatility for as long as the Fed is tightening.

Throughout our history, we believe Greenhouse has navigated well without taking reckless risks, capturing returns in often lonely, idiosyncratic ideas built upon a foundation of attractive risk-reward. Perhaps our results could have been generated with less sweat had we accepted the Fed's invitation to throw caution to the wind, but we might also have lost our investing discipline along the way. Our consistent process leaves us with high hopes for the eclectic group of names that make up the portfolio, and we feel well prepared for a changing investing backdrop.

Zynga had a 6.92%, Evolent Health 4.47%, Blackbaud 3.85%, Zuora 0.00%, and Clarus 2.96% weighting in the Equity Opportunity Fund as of 3/31/2022.

We continue to anticipate equity markets to be more challenging in 2022 than prior years. With the Fed so far having only raised interest rates once this year, and with quantitative tightening having not yet begun, we think valuations and investor sentiment have not yet fully embedded the changing monetary policy regime. Perhaps more importantly, we see fundamentals this year broadly challenged by slowing global growth, rising labor and commodity costs, higher borrowing costs, and uncertainties emanating from still-disrupted supply chains and the war in Ukraine. Simply put, for the first time in many years, we see a more challenging backdrop for corporate fundamentals.

With challenges come opportunities. We will be consistent in our approach, seeking out what we think are the best risk-reward ideas within the smaller cap universe. We look forward to updating our perspectives as the year progresses.

Respectfully,

Joe Milano

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Top 5 Portfolio Contributors			Bottom 5 Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Zynga Inc. (ZNGA)	7.40	2.30	Infinera Corporation (INFN)	5.16	-0.58
Evolent Health Inc. (EVH)	3.70	0.74	Tuesday Morning Corp. (TUEM)	1.19	-0.87
SPDR S&P Oil & Gas Exploration & Production ETF (XOP)	1.56	0.48	Green Dot Corporation (GDOT)	3.19	-0.91
Diamondback Energy, Inc. (FANG)	2.27	0.47	Blackbaud, Inc. (BLKB)	3.64	-0.93
Freeport-McMoRan, Inc. (FCX)	2.60	0.33	Ingersoll Rand Inc. (IR)	4.33	-0.93

Baird Equity Opportunity Fund						
	QTD	YTD	1-Year	3-Year	5-Year	Since Inception (4/30/12)
Baird Equity Opportunity Fund – Net Institutional Class (BSVIX)	-4.24	-4.24	4.71	7.93	6.42	8.18
Baird Equity Opportunity Fund – Net Investor Class (BSVSX)	-4.31	-4.31	4.47	7.66	6.16	7.91
Russell 2000 Index®	-7.53	-7.53	-5.79	11.74	9.74	11.31
Russell 2000 Value Index®	-2.40	-2.40	3.32	12.73	8.57	10.79

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. ***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. Please read the prospectus or summary prospectus carefully before investing.***

This commentary represents portfolio management views and fund holdings as of 03/31/22. 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. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecast growth values. 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.

Investment Professional	Years of Experience	Team Since
Joe Milano, CFA Portfolio Manager	25	2013
Chip Morris, CFA Analyst	35	2014
Scott Barry Analyst	25	2014
Ben Landy Analyst	13	2014
Scott Mafale Analyst	16	2021