Q1 2023 Commentary and Market Outlook

Baird Equity Opportunity Fund

BAIRD

Baird Equity Asset Management

PORTFOLIO COMMENTARY

Fellow shareholders,

Despite ongoing interest rate hikes, slowing economic growth, and fresh fears over the health of the global banking system, equities rose during the first quarter. The Equity Opportunity Fund had a good quarter, posting a net return of 9.6% versus the Russell 2000 Index gain of 2.7%.*

Equity markets were resilient during the first quarter. Early-year corporate earnings reports were generally upbeat and kick-started the rally. While inflation has remained higher than desired, the retreat from 2022's peak levels added some energy to stock gains as market participants began to factor in the end of the Fed's current interest rate hiking cycle. All seemed well until the abrupt failure of several large banks in March. Even so, despite increased volatility, particularly in the small-cap arena, equities finished the quarter solidly higher.

There was a wider-than-normal disparity in performance by market capitalization, style, and sector. Larger caps outperformed by a wide margin, with the S&P 500 gaining 7.5% compared to the Russell 2000's 2.7%, likely owing to a flight to perceived safety and liquidity. Growth stock performance easily beat that of value stocks as interest rates sank, while areas perceived to be more cyclical such as financials and energy struggled. The financials sector was indeed the worst performing while technology shares bounced during the quarter – particularly mega-cap tech stocks which powered the Nasdaq 100 Stock Index to rise over 20% in the first quarter alone.

The Fund's results were bolstered by several key positions, including Neogenomics and Blackbaud. Neogenomics benefited from the strong results delivered by the newly installed management team. While turnarounds require patience, we are encouraged by the pace of improvement thus far. We continue to own a meaningful stake and expect further fundamental progress in the coming periods.

Longtime holding Blackbaud rose late in the quarter when private equity firm Clearlake Capital offered to acquire it at a healthy premium. We have had a variant view that fundamentals are inflecting positively, driven by accelerating top line growth and significantly rising operating margins. With the stock trading at a discount to Clearlake's offer price and our internal estimate of its value, we continue to own a sizable position in the Fund.

One of the Fund's largest detractors during the quarter was Xometry, which operates a two-sided digital marketplace for on-demand manufactured industrial parts. After a relatively smooth first year-plus as a public company, Xometry's fundamentals hit turbulence in the back half of 2022 as order growth slowed from heady levels. With the business still needing to scale and in "show-me" mode, the slowing growth was treated harshly by investors and the stock declined. While we remain fans of the company's model and growth opportunity, we acknowledge that Xometry needs more time to prove its durability and are choosing to watch from the sidelines in the near term. Bill Holdings was also a detractor during the quarter.

We are mostly unmoved to change our overall views of the market. We share the belief that the Fed is likely nearing the end of its monetary tightening cycle. Yet, as inflation has begun to retrench somewhat, so too have corporate fundamentals. We see growing evidence of weakening consumer spending, slowing tech company growth, and peaking order rates among many industrial firms – not to mention well-publicized stressors in the banking sector. As a result, earnings estimates are likely too high for the foreseeable future. With roughly 40% of the Russell 2000 Index still unprofitable, and with earnings estimates likely on the decline, it is hard to make a strong, top-down valuation case for equities. This is especially true if the Fed's long-held policy response of quantitative easing is not resurgent in a world where inflation is not transitory.

***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.**

NEO had an average weight of 3.37%, BLKB 5.33%, XMTR 1.28%, and BILL had an average weighting of 1.73% in the Equity Opportunity Fund as of 3/31/2023.

Deteriorating fundamentals, declining profitability, and stubbornly elevated valuations could conspire to be the next source of market volatility, possibly presenting asymmetric investment opportunities as the year progresses. In the meantime, the portfolio continues to be concentrated and idiosyncratic, featuring the most attractive risk-reward opportunities our team has identified. Most of our positions also feature some element of positive optionality, punctuated by Blackbaud recently becoming a takeover target.

While three months sometimes feels like an eternity in the markets, the year has only just begun. The coming months will reveal much more about the state of corporate fundamentals, monetary policy, the timing and degree of a potential recession, and possible knock-on effects from the first quarter's bank failures. We look forward to providing another update at mid-year.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q1 2023)

PERFORMANCE

Periods Ending March 31, 2023[1] (%)	Total Return (%)	Average Annual Total Returns (%)				
	QTR	1 Year	3 Year	5 Year	Since Inception (05/01/2012)	Expense Ratios (Net/Gross)[2]
Baird Equity Opportunity Fund Institutional Class (BSVIX)	9.56	1.18	17.75	3.98	7.52	1.25 / 1.90
Baird Equity Opportunity Fund Investor Class (BSVSX)	9.53	0.98	17.47	3.74	7.26	1.50 / 2.15
Russell 2000 Index®	2.74	-11.61	17.51	4.71	8.99	

[1]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.* Fund performance is net of fees.

[2]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.

TOP & BOTTOM CONTRIBUTORS

Top 5 Portfolio Contributors	Avg. Weight	Contribution
NeoGenomics, Inc. (NEO)	3.37	1.96
Opera Ltd. (OPRA)	2.09	1.31
Universal Display (OLED)	3.32	1.28
Blackbaud, Inc. (BLKB)	5.33	1.18
Catalent Inc (CTLT)	2.71	0.91

Bottom 5 Portfolio Contributors	Avg. Weight	Contribution
Fluor Corporation (FLR)	3.18	-0.22
NexTier Oilfield Solutions (NEX)	2.74	-0.42
ZoomInfo Technologies Inc (ZI)	2.12	-0.46
BILL Holdings, Inc. (BILL)	1.73	-0.51
Xometry, Inc. (XMTR)	1.28	-0.86

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

This commentary represents portfolio management views and fund holdings as of 03/31/23. 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 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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