Q1 2025 Commentary and Market Outlook

Baird Equity Opportunity Fund

Baird Funds

PORTFOLIO COMMENTARY

Fellow shareholders,

Equities struggled in the first quarter as the Trump administration proposed significant, broad-based tariffs as the cornerstone of its economic policy. This raised concerns over economic growth and renewed fears of rising inflation. The Russell 2000 Index fell -9.5% as smaller-cap stocks again took the brunt of the pain. The Equity Opportunity Fund modestly underperformed its benchmark, declining -11.0% net of fees.*

While the year got off to a solid start, things turned sour when President Trump began to focus on implementing wide-ranging tariffs. Beyond the direct impact of materially raising the cost of imports, investors focused on indirect impacts such as slowing economic growth, plunging consumer and business confidence, and the likelihood of even stickier inflation. This drove a sell-off in most assets, including equities. As has been the case for some time, large caps beat small caps, with the S&P 500 TR Index outperforming the Russell 2000 TR Index by more than 500 basis points in the quarter. Value stocks performed better than growth stocks, aided by “safer” sectors such as utilities and consumer staples. More economically sensitive areas, such as technology and consumer discretionary, fared the worst.

Sportradar Group and Chefs’ Warehouse were key positive contributors to performance during the period. Sportradar, a data provider to popular online gaming sites such as DraftKings, is benefiting from secular growth trends throughout the world. Along with strong double-digit revenue growth, margins and cash flow are poised to inflect materially in the coming years. As other investors have come to appreciate the durability of the company’s growth, the stock has begun to reflect some of the excitement we have had since initiating a position several years ago. Sportradar Group remained our top holding at quarter end. We have owned Chefs’ Warehouse since the months following the 2020 Covid outbreak. Initially a “recovery thesis”, Chefs’ Warehouse has morphed into a high-quality compounder that has consistently performed well thanks to its strong niche serving higher-end independent restaurants. Better than anticipated year-end results drove the stock’s performance during Q1.

Top detractors to performance included BILL Holdings, NCR Voyix, and NeoGenomics. BILL Holdings provides software and payment tools to enable small businesses to process payments digitally, replacing age-old and cumbersome processes such as exchanging paper invoices and writing checks. But the company’s business model is not immune to the health of small and medium-sized businesses in the U.S. Following a period of post-election optimism, the subsequent nosedive in SMB confidence has taken a toll on BILL’s stock, even though fundamentals have remained solid. We believe the stock embeds a sufficiently negative view of the projected SMB spending downturn and underappreciates long-term tailwinds that should help cushion the cyclical downside. As a result, we have added to the position on weakness.

NCR Voyix is in the very early innings of what we expect to be a rewarding turnaround, buttressed by an upgraded management team, market-leading product innovations, new market entries such as payment processing, and importantly, a vastly improved balance sheet. Investors have taken a pessimistic view, but our work suggests notable progress is more likely as we move through 2025. As we assess the risk-reward, NCR Voyix is near the top of the list within our portfolio, trading at a valuation of just 4x EBITDA and less than 10x free cash flow. We are comfortable taking a variant view here and have continued to build our position on weakness.

We have now round-tripped NeoGenomics since first buying the shares around current levels a few years ago. The culprit driving our evaporated gains was the unexpected retirement of the CEO in January. While this is a particular blow to sentiment, and a modest negative to our longer-term thesis, we do not see the change as existential as NEOGenomics has a strong incumbent management team, solid business momentum, and interesting optionality.

While investor sentiment has become more negative and valuations have improved, corporate fundamentals are deteriorating. Management teams that were optimistic and confident mere months ago are now gripped by paralysis and confusion over the new administration’s economic policies. Fear of stagnation or even economic decline has risen. Businesses and consumers are not the only ones who seem stuck in the mud. The Federal Reserve, which was on a clearly stated path toward monetary easing, is now likely to be more circumspect in the context of rapidly rising inflation expectations.

*Returns less than one year are not annualized. **The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.**

Proposed tariffs are likely to continue to influence stock prices in the near term, while adding complexity to our core fundamental company analysis. However, this is not the first time we have experienced extreme volatility and profound uncertainty. As gloomy as things feel, this administration has proven that things can change very quickly. Balance seems key to us – turn too positive, and risk loss of capital as fundamentals deteriorate. Turn too negative and risk a mea culpa moment from Washington. It is tricky, to say the least.

In addition to balance, the Equity Opportunity Fund benefits from the fact that our team approaches all environments – including this one – with a sense of calm and steadiness, a long-term horizon, and a focus on company-specific investment theses. This does not render the portfolio immune to macro disruptions, but we would expect our idiosyncratic leanings to bear fruit over time and help deliver positive alpha. To that end, the Fund is comprised of higher quality companies that feature strong management teams and relatively low leverage, and which are supported by profitability and sensical valuations. We remain positive on the portfolio's prospects, even if our visibility on timing of outperformance is more clouded than usual.

In closing, what feels like a year has been just three months; much of the year is ahead of us. We are making level-headed decisions to drive future performance, as always, and we like our chances to deliver improved performance as the year progresses. We look forward to sharing another update in July after Q2 is in the books.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q1 2025)

PERFORMANCE

Periods Ending March 31, 2025 (%)	Total Return (%)		Average Annual Total Returns (%)					
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratios (Net/Gross)*
Equity Opportunity Fund Institutional Class (net)	-11.01	-11.01	6.60	5.05	13.34	5.54	7.44	1.25 / 1.73
Equity Opportunity Fund Investor Class (net)	-10.99	-10.99	6.42	4.86	13.10	5.30	7.19	1.50 / 1.98
Russell 2000 Index	-9.48	-9.48	-4.01	0.52	13.27	6.30	8.71	

Inception Date: 5/01/2012. Returns less than one year are not annualized. ***The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.*** *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. Investor class expense ratios include a 0.25% 12b-1 fee.

TOP 10 HOLDINGS AS OF DECEMBER 31, 2024

Holdings	% of Fund
Sportradar Group AG (SRAD)	7.35
Chefs' Warehouse, Inc. (CHEF)	5.34
BILL Holdings, Inc. (BILL)	5.04
NCR Voyix Corporation (VYX)	4.95
Fluor Corporation (FLR)	4.79
Madison Square Garden Sports Corp. (MSGS)	3.82
AvidXchange Holdings, Inc. (AVDX)	3.78
Norwegian Cruise Line Holdings Ltd. (NCLH)	3.67
Mister Car Wash, Inc. (MCW)	3.62
Cadre Holdings, Inc. (CDRE)	3.62

INVESTMENT TEAM

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
Joe Milano, CFA Portfolio Manager	29	2013	Generalist
Chip Morris, CFA Analyst	38	2014	Technology
Scott Barry Analyst	28	2014	Consumer Discretionary & Consumer Staples
Ben Landy Analyst	16	2014	Industrials & Materials
Scott Mafale Analyst	9	2021	Healthcare

Investors should consider the investment objectives, risks, charges and expense of each fund carefully before investing. This and other information is found in the prospectus and summary prospectus. For a prospectus or summary prospectus, visit bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

Prior to December 12, 2021, the Baird Equity Opportunity Fund was managed in accordance with a different investment strategy. Greenhouse Funds LLLP 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 Greenhouse Funds LLLP.

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 investment 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 regulations.

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The Russell 2000® Index is a capitalization-weighted index representing the smallest 2,000 companies in the Russell 3000 Index, ranked by total market capitalization. Indices are unmanaged and are not available for direct investment.

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