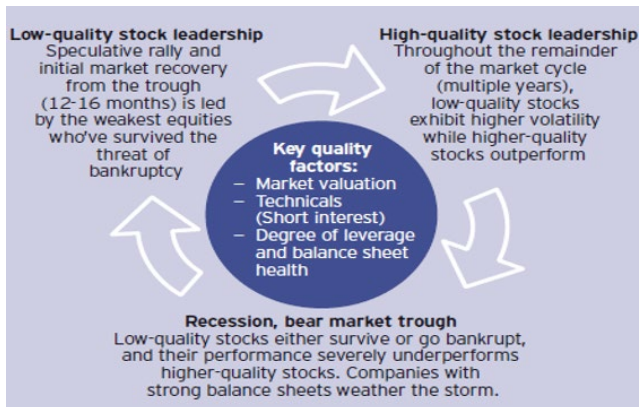


MARKET REVIEW

Perhaps the most interesting financial story from the pandemic period is the exceptionally unusual impact of “meme stocks” on index returns. The Russell 2000 Value consists of more than 1500 stocks with weights typically under 0.05%. However, the eye-popping returns of a handful of heavily shorted stocks turned retail-investor darlings resulted in outsized weightings and effects on benchmark performance. Shares of these stocks had languished due to poor fundamentals but took off like rockets as retail investors targeted illiquid shorted stocks using commission-free trading services to invest government stimulus checks. All non-earners and under-owned by institutions, the stellar gains of these stocks have vexed active managers in our peer group with only a small percentage able to outperform the benchmark. The top 10 stocks in the Russell 2000 Value benchmark contributed over 2% (44%) of the benchmark’s 4.6% return for the second quarter. To illustrate, with the 2,573% appreciation in AMC Entertainment this year and 455% gain in the last three months, the stock of this one company alone contributed 1.12% to the benchmark’s return for the second quarter.

On a positive note, outside of non-earners, high quality stocks held their own for the period supporting our view that the run for deep value is losing steam. We offer three compelling reasons we believe small cap quality value stocks are set to outperform:

1. We are moving from economic recovery to expansion. During this mid-cycle period, low beta/low quality outperformance is historically replaced by outperformance of high-quality stocks. This transition is a process that can take several months, but low quality continues to show signs of topping.



Source: Invesco

2. Historically during periods of inflation, high quality value stocks have beaten the market. When inflation rises between 2 and 4%, the lowest ROE (return on equity) stocks are in the red and the highest ROE stocks have produced low-teen total returns. Additionally, low ROE stocks are at risk during Federal Fund interest rate increases. Using median returns, the average low ROE stock falls 16% during the 6-months following the first Fed rate hike.*

* Jefferies

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

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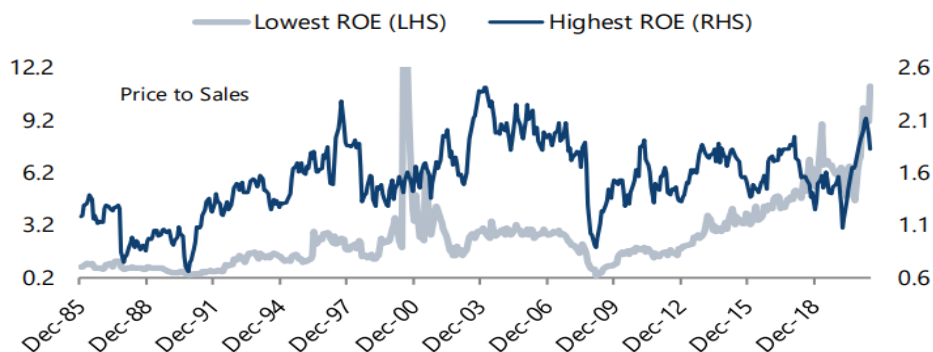
PHILOSOPHY & PROCESS

- The portfolio is grounded in the belief that value and growth investing are not mutually exclusive.
- Emphasis on companies likely to exceed “street” expectations but trade at a discount to our in-house calculation of fair value.

PORTFOLIO CONSTRUCTION

- Concentrated portfolio of 40-50 stocks
- Top holdings generally limited to 5% at cost, 8% at market
- Sectors capped at 30% excluding financials
- Buy and hold approach

3. Low quality stocks as measured by return on equity (ROE) trade at extreme levels last seen in 2000. The lowest ROE stocks trade at 11.2 times sales while the highest ROE stocks trade at 1.8 times sales.



Source: FactSet; FTSE Russell; Jefferies

Both the Baird Small Cap and Small/Mid Cap Value Portfolios are consistently underweight high beta stocks (as well as non-earners, low profitability companies and high valuation companies) and overweight high quality/low beta value, which we believe should provide a strong tailwind for the remainder of the economic cycle.

BAIRD SMALL CAP VALUE

For the quarter, the Baird Small Cap Value Portfolio provided a gross return of 3.1% versus the benchmark Russell 2000 Value gross return of 4.6%. Since inception (3/1/05), the Baird Small Cap Value Portfolio has provided a gross annual return of 8.9% vs 8.3% for the Russell 2000 Value. Subtracting out the performance of the top 10 “meme stocks” mentioned previously, the Portfolio would have bested the benchmark for the quarter.

Sector attribution showed good security selection across most economic sectors with Financials, Materials, Healthcare, Staples and Real Estate holdings all meaningfully outperforming the Russell 2000 Value sector performance. Within Financials, insurance-related holdings such as Old Republic added to gains, as well as strong results from our overall position in banks. Other standout individual winners included J2 Global, QTS Realty Trust, and Simply Good Foods.

Consumer Discretionary and Energy sectors were the only meaningful detractors for the period “Meme stock”, AMC Entertainment’s 455% return negatively impacted Consumer Discretionary relative performance by an unprecedented 1.12%. Despite exceptional earnings reports, Thor Industries and Kirkland’s saw their stocks correct from recent moves higher. Within Energy, our E&P holdings posted strong gains that were offset by oilfield service holdings, Solaris Industries and Select Energy, which pulled back after big runs in the first quarter.

During the quarter we initiated purchases in three new Consumer Discretionary holdings: Kirkland’s, JOANN, and Six Flags Entertainment. Within specialty chemicals we added to Element Solutions and purchased Huntsman. In banking, we added Enterprise Financial Services to the portfolio and took a new position in NCR, a payments solution provider to banks and retailers. Sales were made in Real Estate Investment Trust holdings Cyrus One, QTS Realty Trust and EastGroup Properties to fund the new purchases. We also trimmed Tractor Supply and sold F5 Networks, two stocks that have performed very well since purchase last year.

BAIRD SMALL/MID CAP VALUE

For the quarter, the Baird Small/Mid Cap Value Portfolio provided a gross total return of 2.2% versus a gross total return of 5.0% for the benchmark Russell 2500 Value. Since inception (1/1/00), the Baird Small/Mid Cap Portfolio has provided a gross annual return of 11.0% vs 10.3% for the Russell 2500 Value.

Performance among the majority of sectors was within 25 basis points of the benchmark Russell 2500 Value sector performance, reflecting a moderation from the first quarter's outperformance of high beta/low quality stocks. Early cycle sectors such as Industrials, Discretionary and Energy were detractors in terms of sector performance. Previous strong performers William Sonoma, Air Transport Group and Immersion saw their stocks consolidate gains despite strong earnings performance during the period. Sector attribution showed good security selection across Financials, Materials, Healthcare, Staples and Information Technology holdings all outperforming the Russell 2500 Value sector performance. Within Financials, insurance-related holdings such as American Financial Group and Old Republic Group added to gains, as well as strong results for our overall position in banks.

During the quarter we initiated purchases in three new Consumer Discretionary holdings: JOANN, Haverty Furniture and Six Flags Entertainment and added to our position in Thor Industries. In Financials, we added banks, Meta Financial and Enterprise Financial Services to the Portfolio as well as specialty insurer, Argo Group International. We also took a new position in NCR, a payments solution provider to banks and retailers; Huntsman, a specialty chemical company; and Devon Energy, a developer of oil and gas properties. Sales were made in Real Estate Investment Trust holdings Cyrus One and EastGroup Properties to fund the new purchases. We also trimmed Old Republic International and Leidos and sold F5 Networks, three stocks that have performed very well since purchase.

Please contact us for a more detailed portfolio analysis and update.

Michelle E. Stevens, CFA
Portfolio Manager

Top 5 Small/Mid Value Portfolio Contributors			Bottom 5 Small/Mid Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
American Financial Group	3.20	0.65	Air Transport Services	1.95	-0.45
Old Republic International	2.47	0.47	Thor Industries	1.61	-0.31
JOANN	1.34	0.44	Williams-Sonoma	2.56	-0.29
J2 Global	2.88	0.40	Solaris Oilfield Infrastructure	0.99	-0.23
Element Solutions	1.60	0.37	Immersion Corp	2.22	-0.21

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
J2 Global	4.03	0.56	Air Transport Services	1.91	-0.44
Old Republic International	2.60	0.43	Thor Industries	1.78	-0.29
Cerence	2.18	0.37	Kirkland's	0.58	-0.23
Simply Good Foods	2.02	0.36	Solaris Oilfield Infrastructure	1.00	-0.23
QTS Realty Trust	1.06	0.34	Immersion Corp	2.23	-0.21

	Baird Small/Mid Value Composite Performance							Baird Small Value Composite Performance						
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (1/1/00)	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (3/1/05)
GROSS OF FEES	2.24	12.96	39.91	5.18	8.54	10.29	10.97	3.13	13.05	41.65	4.74	8.83	9.60	8.87
NET OF FEES	2.01	12.47	38.74	4.31	7.64	9.41	10.01	3.04	12.82	41.05	4.25	8.30	9.01	8.09
INDEX*	5.00	22.68	63.23	10.60	12.29	10.93	10.28	4.56	26.69	73.28	10.27	13.62	10.85	8.32

* Index for the Baird Small/Mid Value Composite is the Russell 2500 Value. Index for the Baird Small Value Composite is the Russell 2000 Value.

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.

Performance for the Small & Small/Mid Value Strategies can be found on our website BairdEquityAssetManagement.com, or by clicking on the following links: [Small Cap Value Strategy](#) & [Small/Mid Cap Value Strategy](#).

Returns are presented gross and net of management fees and include the reinvestment of all income. Composite performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains.

The Russell 2500 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. Indices are unmanaged and direct investment is not possible.

This commentary represents portfolio management views and portfolio holdings as of 06/30/21. Those views and portfolio holdings are subject to change without notice. The specific securities identified do not represent all the securities purchased, sold or held for accounts and you should not assume these securities were or will be profitable.

Investment Professional	Years of Experience	Years with Baird	Educational Background
Michelle Stevens, CFA Senior Portfolio Manager	28	9	MBA – (University of Cincinnati) BS – Economics (Wittenberg University)
Richard Roesch, CFA Senior Research Analyst	28	9	BS – Finance (Butler University)
Jonathan DeMoss, CFA, CPA, CFP Senior Research Analyst	25	9	MBA – (Indiana University) BS – Accounting & Management (Iowa State University)
Rob Zwiebel Portfolio Specialist & Consultant Relations	30	9	BS – Finance (University of Dayton)
Jesse Parsons Trading & Operations Analyst	16	9	BBA – Finance & Marketing (University of Kentucky)