Baird Mid Cap Growth Equity

MARKET UPDATE

The Russell Midcap Growth Index, along with most equity indices, pulled back sharply early in the quarter on the heels of "Liberation Day," as President Trump announced sweeping tariffs against all trading partners and introducing meaningful uncertainty regarding the economic and geopolitical fallout. A week later, an about-face lowered tariff rates temporarily and triggered a robust rally that persisted through the end of the quarter. Many of the momentum-induced equities that drove the market's increase in 2024, and the early part of this year, led the second quarter market advance as well. As broad equity measures journeyed back to all-time highs, they did so absorbing the risks presented by a 12-day war between Iran and Israel and a targeted U.S. use of force against Iran. A domestic backdrop of relatively stable interest rates and economic data were a solid enough foundation for the market's rise despite historically elevated valuation levels.

PORTFOLIO COMMENTARY

The Baird Mid Cap Growth portfolio produced a +7.8% return in the second quarter, net of fees, generally a strong number for a three-month period – but not so in the current risk-on environment and particularly against the +18.2% increase in the Russell Midcap Growth benchmark.*

The company characteristics that delivered the strongest returns within the benchmark were larger market capitalization and lower profitability, a direct contrast to the historical structure of our portfolio, which is built on higher profitability companies and on average, a lower market capitalization. The return difference between high and low profitability, and small and large market capitalizations (measured by quintiles) created a significant relative performance headwind, which widened as the quarter progressed and ended the period as the largest differential since 2020. Notably, the average return for a stock in the benchmark was 8.6%, highlighting the skewed impact of larger companies.

The annual reconstitution of the benchmark took place at the end of June. Several important shifts took place, including the removal of a few sizable companies from the benchmark. The technology sector decreased approximately -1000 basis points in weight with much of that shift into the consumer discretionary sector. The financials sector also dropped in size with healthcare and industrials picking up the additional weight. We are encouraged by the more balanced benchmark structure which carries a lower average market capitalization. We also view the reconfigured benchmark as having decreased in quality, with lower overall profitability and higher debt levels – a mix we like to compete against over longer periods. The team remains confident that our long-standing investment process can drive stronger relative performance, particularly when meaningful risk impacts the market environment. The discussion below focuses on the three sectors that most influenced the second quarter results.

The technology sector generated the portfolio's largest relative performance shortfall, accounting for nearly half of the total underperformance compared to the benchmark. The portfolio's mix of software companies posted muted returns compared to the benchmark industry, which was boosted by significant strength in largely weighted stocks, Palantir (+62% return, 7.8% average benchmark weight)[1] and AppLovin (+32% return, 2.8% average benchmark weight)[1]. We chose not to change our software mix as we believe we have a good blend of long-term compounding businesses like Tyler Technologies and Descartes Systems, along with newer holdings with a faster growth profile like HubSpot and DataDog. Compounding the software drag was a collective decline in the computer services industry holdings, where Globant pulled back sharply following softer quarterly earnings and a reduced full-year outlook as clients have hesitated on engaging in new projects. Our patience in holding Globant and EPAM through a slower growth cycle has not paid off and we continue to assess the timing of an anticipated growth recovery against other opportunities in the portfolio. We sold two positions in the sector including Manhattan Associates, due to a slowdown in bookings along with an anticipated slowdown in related service revenue, which we believe limits the stock's potential. We also sold our position in Microchip Technology following a sizable upward move off the April low.

After a strong start to the year, consumer discretionary experienced a difficult relative performance quarter. A portion of the shortfall was due to several long-term holdings pulling back amid a strong market, notably BJ's Warehouse, Burlington Stores, and Copart. However, we believe that the growth potential of both BJ's Warehouse and Burlington Stores remains quite favorable. Churchill Downs also lagged in the quarter over concerns about the implication of management's decision to pause some development projects. We have stayed with our investment as we believe management's solid history of capital allocation and their ability to monetize the valuable Kentucky Derby asset will lead to better stock performance.

[1]Source: FactSet. Total Return is as of 6/30/2025, and Average Weight is between 03/31/2025 and 6/30/2025.

*Returns less than one year are not annualized. **The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance data may be lower or higher than the data quoted. Returns are presented net of management fees and include the reinvestment of all income. Actual investment advisory fees may vary across accounts and result in different net returns. For performance data to the most recent month end, contact Baird directly at 800-792-4011.**

We were active in the consumer discretionary sector as we felt that favorable opportunities presented themselves. Among these were CAVA Group, a restaurant we have watched closely for several years, e.l.f Beauty, and Hilton Worldwide. CAVA Group is a fast casual Mediterranean-style restaurant concept and has a long runway for unit growth, in our view, with a demonstrated high-cash-return and strong-profit model. Next, e.l.f. Beauty is a cosmetics and skin care products company that operates as a quick innovator, providing consumers with lower-priced, prestige-like products within the mass beauty channel. The brand continues to take share, outpacing the already fast-growing category. A recent slowdown in category sales attributable to a temporary gap in innovation, and China tariff exposure caused the stock to underperform – we viewed the weakness as a buying opportunity. Lastly, Hilton Worldwide is a global market share leading hotel franchisor. Under the leadership of a tenured management team with a strong capital allocation history, the company has a visible unit pipeline to support market share-taking growth over the next 3-5 years. Exits during the quarter included Floor & Décor on the belief that earnings growth will remain challenged by a stalled-out housing market, combined with indications that management may steer away from its core strategy in efforts to find growth. We also sold our long-held position in Copart, as the most recent quarter of slow growth in its core insurance segment and challenges in its newer-acquired construction and ag-equipment business gave us concern that generating outsized growth may be more challenged going forward.

Our financial services' holdings include a mix of companies with fundamentals influenced by equity market activity, such as Raymond James and Equitable Holdings, which we anticipate will participate in a favorable equity market. We also own businesses that tend to provide stability in more volatile periods, namely Broadridge and MarketAxess. While we envision solid long-term growth from the two companies, we also like the ballast they provide in a tougher environment. They effectively did their job and performed well amid the tariff uncertainty, but they lagged during the sharp market upswing in the quarter. The other meaningful relative headwind was the 103% advance of Coinbase, which at 10% of the financial sector weight heavily influenced performance. The company continues to be tied to the fortunes of Bitcoin, an instrument we find interesting but extremely speculative.

OUTLOOK

Six months into the year, the market has experienced three distinct phases—two periods of rising stock prices, separated by a significant downturn from mid-February to early April. It seems likely that political developments and economic data will provide additional opportunities for market volatility, and we will work to take advantage by managing a portfolio with increasing long-term return potential.

We would like to reiterate from our prior communications that we remain solely focused on recapturing the performance shortfall in the last several quarters compared to the benchmark. On behalf of the entire team at Baird Equity Asset Management, thank you for your patience and support of our Mid Cap Growth Strategy.

Baird Mid Cap Growth Equity (Q2 2025)

PERFORMANCE

Periods Ending June 30, 2025 (%)	Total Return (%)		Average Annual Total Returns (%)				
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (06/30/1993)
Baird Mid Cap Growth Composite (Gross)	7.96	-2.18	2.00	7.43	6.63	9.59	11.48
Baird Mid Cap Growth Composite (Net)	7.76	-2.56	1.22	6.62	5.85	8.80	10.82
Russell MidCap® Growth Index	18.20	9.79	26.49	21.46	12.65	12.13	10.61

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BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA Senior Portfolio Manager	38	38	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Ken Hemauer, CFA Co-Senior Portfolio Manager	31	31	Financials	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Jonathan Good Senior Research Analyst	25	19	Healthcare	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	15	15	Consumer Discretionary & Staples	BSBA – Finance and Accounting (Marquette University)
Karan Saberwal Senior Research Analyst	9	6	Technology	MBA – (Northwestern University-Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)
Christopher Brennan Senior Research Analyst	6	2	Energy, Industrials & Materials	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
Josh Heinen, CFA Research Analyst	4	4	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Margaret Guanci Research Analyst	3	3	Generalist	BBA – Finance (UW-Madison)

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The strategy focuses on small- and mid-cap growth style stocks and therefore performance will typically be more volatile than the performance of strategies that focus on types of stocks that have a broader investment style. The strategy may invest up to 15% of its total assets in U.S. dollar denominated foreign securities and ADRs. Foreign investments involve additional risks such as currency rate fluctuations and the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulations.

Portfolio holdings and sector exposures reflect a representative account as of the date listed above and are subject to change without notice. A representative account is selected based on accounts with substantially similar investment policies, objectives, and strategies that closely resemble, or are most representative of, the strategy it represents. Individual accounts may differ from a representative account due to asset size, market conditions, and client guidelines.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. Indices are unmanaged and are not available for direct investment.

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The Mid Cap Growth Equity Composite consists of all fully discretionary mid cap growth equity accounts. We invest in medium sized, high quality growth companies holding leadership positions within their industries that we believe are capable of producing above average growth in a variety of market environments. For comparison purposes, the composite is measured against the Russell Midcap Growth Index. Robert W. Baird & Co. Incorporated is an independent registered investment advisor. Registration does not imply a certain level of skill or training. Baird Equity Asset Management claims compliance with Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of content contained herein. To receive a complete list and description of composites and/or a GIPS Composite Report, please contact Baird Equity Asset Management at 800-792-4011. The U.S. Dollar is the currency used to express performance.

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