

# Baird Small/Mid Cap Growth Equity

## MARKET UPDATE

The Russell 2500 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 Small/Mid Cap Growth strategy increased +4.5% in the second quarter, net of fees, compared to the +11.3% increase in our primary benchmark, the Russell 2500 Growth Index.\*

Despite a strong start to the year on a relative basis, our holdings did not keep pace with the strong market rally that started mid-April and continued through the end of the quarter. While many of our larger positions were relative contributors in the quarter, the benchmark’s beta-driven rally was led by many companies we view as quite speculative and lacking characteristics we seek for long-term investment. Factors were a significant headwind during the quarter, as the highest quintile returns came from companies in our benchmark that were unprofitable, had low margins, were among the smallest by size, and exhibited the lowest return metrics (ROIC and ROA).

Benchmark returns in the quarter were led by utilities, technology, industrials, and basic materials, and the leading stocks in those sectors were mostly businesses with AI-exposure or expected future tailwinds that drove rapid multiple expansion. On a relative basis, our portfolio lagged in nearly all major sectors, technology being the largest detractor.

The relative underperformance of the technology sector was primarily driven by two reasons: (i) defensive software businesses lagging the market rally, and (ii) underexposure to more speculative areas of the sector, including small cap semiconductors, AI-hardware, and select “story” stocks such as quantum computing, drones, and space exploration companies. During the quarter, we exited our positions in Onto Innovation, Pure Storage, SPS Commerce, and Manhattan Associates. We also exited our position in Globant, as our patience was not rewarded as growth rate expectations continued to decline. We added to our semiconductor exposure by purchasing Astera Labs and MACOM Technology Solutions. Flattish monthly performance was certainly not good enough for Descartes Systems and Vertex software, as negative earnings reactions proved a strong headwind in a rallying tape. Not all performance was negative, however, as we saw nice gains from both Monday.com, and MACOM Technology Solutions.

Within the industrials sector, defensive positions with minimal AI-exposure, such as Watsco, Kadant, ExlService Corp, and Lennox were the largest detractors to relative performance. Housing-related and interest-rate sensitive holdings, Simpson Manufacturing and Trex, also lagged benchmark returns. On the positive side, we saw strong quarterly results in some of our largest positions, BWX Technologies, Federal Signal Corp., Badger Meter, Shift4 Payments, and UL Solutions. We exited positions that generated minimal returns over the last several quarters, Wilscot, Trex, and Everus Construction.

Financials detracted from relative performance as well, with no clear theme other than underexposure to higher-beta names in our benchmark. Kinsale Capital and FactSet declined slightly. The largest single stock detractor was Clearwater Analytics, which is facing investor debate about the company’s ability to integrate recent acquisitions. Both Equitable Holdings and Houlihan Lokey were contributors. Early in the quarter, we initiated a new position in MarketAxess Holdings. We believe the defensive positioning in a volatile market will prove beneficial and that it has the potential to improve its market share.

\*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.

## Baird Small/Mid Cap Growth Equity (Q2 2025)

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Healthcare continues to be a challenging sector. Unfortunately, a range of stock-specific events led to a slightly negative return for our healthcare portfolio this quarter, which contributed to overall relative underperformance amid a strong market rally. Larger-weighted positions Insulet and Neurocrine Biosciences were relative contributors in the quarter. By not owning benchmark holding Sarepta, which faces safety concerns for its lead drug, we avoided a 73% decline. However, those gains were not enough to offset a handful of setbacks across other portfolio positions, such as Tarsus Pharmaceuticals (lack of expected M&A), Inspire Medical (concerns about new product launch trajectory), and Bio-Techne (continued worries about research funding from NIH and other sources). During the quarter we added several new ideas, including Insmed, ADMA Biologics, HealthEquity, Waystar, and Alignment Healthcare. Biotech continues to be a significant weight in the R2500G, and we continue to believe commercial stage companies with marketed products have strong growth prospects. Insmed recently reported early clinical data that was much stronger than expected which could lead to a third drug with multi-billion-dollar sales potential. ADMA has unique manufacturing capabilities for plasma-derived therapeutics and should continue to gain market share and drive profitable growth for the next several years. Beyond biotech, HealthEquity is a former holding that continues to gain share in HSAs (health savings accounts), and we view it as a rare RFK Jr.-friendly healthcare business. Waystar has recently seen strong business momentum due to a struggling competitor which we believe will lead to accelerating revenue growth in the future. Alignment Healthcare is a unique small-cap healthcare services business run by an experienced CEO that should allow the company to continue to grow despite industry challenges affecting other HMOs. We sold PROCEPT BioRobotics as we are cautious on near-term growth prospects.

The consumer discretionary sector was modestly negative on a relative basis in the quarter. We saw strong returns from both Boot Barn and DraftKings, and a few setbacks from Churchill Downs (disappointing quarterly results) and BJ's Wholesale Club (early year outperformance did not keep up with the late quarter rally). During the quarter, we exited our positions in XPEL and Floor & Décor and purchased CAVA Group and e.l.f. Beauty. CAVA Group is a fast casual Mediterranean-style restaurant concept that we believe has a long runway for unit growth with a demonstrated high-cash-return and strong-profit model. Next, e.l.f. 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 view the weakness as a buying opportunity.

Lastly, our three consumer staples holdings in aggregate slightly lagged benchmark returns. Both Casey's General Stores and Vita Coco delivered positive returns in the quarter, offset by a quarterly set back from BellRing Brands.

### 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.

On behalf of team at Baird Equity Asset Management, we thank you for your support of our Small/Mid Cap Growth Strategy.

# Baird Small/Mid Cap Growth Equity (Q2 2025)

## PERFORMANCE

Periods Ending June 30, 2025 (%)	Total Return (%)		Average Annual Total Returns (%)			
	QTD	YTD	1 Year	3 Year	5 Year	Since Inception 09/30/2015
<b>Baird Small/Mid Cap Growth Composite</b> (Gross)	4.65	-6.26	5.66	5.24	5.95	11.58
<b>Baird Small/Mid Cap Growth Composite</b> (Net)	4.46	-6.61	4.89	4.43	5.11	10.68
<b>Russell 2500 Growth Index</b>	11.31	-0.71	8.81	12.05	7.50	10.07

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## BAIRD SMALL/MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
<b>Jonathan Good</b> Senior Portfolio Manager	25	19	Healthcare	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
<b>Ken Hemauer, CFA</b> Senior Research Analyst	31	31	Financials	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
<b>Corbin Weyer, CFA, CPA</b> Director of Research & Senior Research Analyst	15	15	Consumer Discretionary & Staples	BSBA – Finance and Accounting (Marquette University)
<b>Karan Saberwal</b> Senior Research Analyst	9	6	Information Technology	MBA – (Northwestern University-Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)
<b>Christopher Brennan</b> 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)
<b>Josh Heinen, CFA</b> Research Analyst	4	4	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
<b>Margaret Guanci</b> Research Analyst	3	3	Generalist	BBA – Finance (UW-Madison)
<b>Chuck Severson, CFA</b> Mid Cap Growth PM	38	38	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and 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 2500 Growth Index measures the performance of those Russell 2500 companies with above average price-to-book ratios and higher forecasted growth values. Indices are unmanaged and are not available for direct investment.

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