Q2 2026 Commentary and Market Outlook

Baird Equity Opportunity Fund

Baird Funds

PORTFOLIO COMMENTARY

Fellow shareholders,

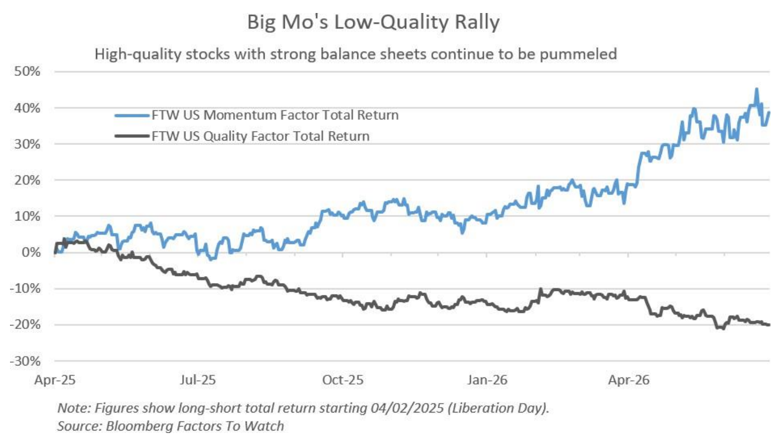
Smaller-cap equities rocketed higher during the second quarter, as enthusiasm for artificial intelligence-related names overcame risks associated with the war in Iran. The Russell 2000 Index rose 21.5% while the Baird Equity Opportunity Fund posted a net gain of 18.7% for the quarter.*

Roughly 40% of the Russell 2000's Q2 return was driven by the performance of AI-related securities, supported by a 62% quarterly return in the Russell 2000 Technology sector. Fueling the frenzy is an unprecedented spike in capital expenditures to build out infrastructure, including data centers filled with computing, networking gear, and semiconductors. Hyperscalers such as Google and Meta, along with several of the largest so-called neoclouds like Coreweave, have jumped in with both feet, growing their collective investments from roughly $250 billion in 2024 to over $750 billion this year. This has powered outsized earnings growth for any company that is in the path of this spending – reaching beyond technology to also include many industrial and energy companies. The combination of fundamental acceleration and a market structure that encourages price momentum and crowding have helped push valuations for AI-related securities to extreme levels.

Growth outperformed value during Q2, led by AI-bolstered sectors like technology and industrials. "Risk-off" areas like energy, consumer staples and utilities were weaker. That said, wider sector impacts paled in importance compared to the dominance of all-things AI-related. Every portfolio manager, us included, is faced with a unique challenge brought on by AI's significant and rapid impacts on equity markets. While we own several AI-levered names such as semiconductor company, Astera Labs, and utility infrastructure play Valmont Industries, the book needed "more cowbell" to keep up with the indices thus far in 2026.

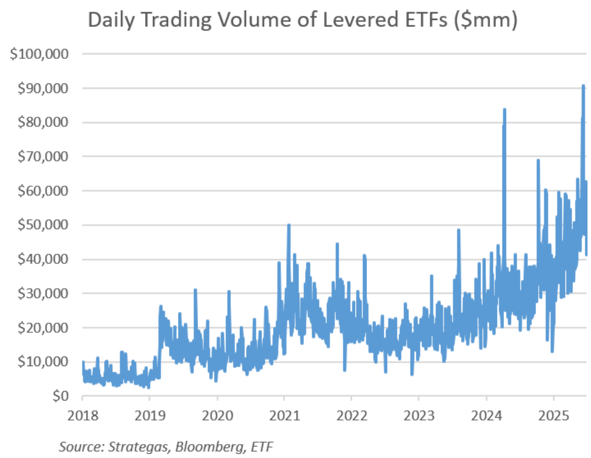
We are no more skeptical of the long-term potential of AI than we were about the development of the internet in the late 1990's or China's acceleration in the mid-2000's, both legitimate investment themes that ultimately yielded to extreme volatility and resulted in painful drawdowns. History informs us to be circumspect of an investment environment marked by heightened risk due to unreasonable expectations and unhinged valuations, colored by the assumption that there will be no speed bumps along the way, a view we do not underwrite. In fact, a recent Gallup poll showed that more people oppose an AI data center being built near their homes than a nuclear power plant, a spreading theme that could potentially slow down certain data center developments. Other watch items include populist concerns over AI-induced job losses and opposition to data centers' drain on electricity and water resources. While we believe much will be sorted out in time and growth will continue, we do not anticipate it to be smooth or uninterrupted.

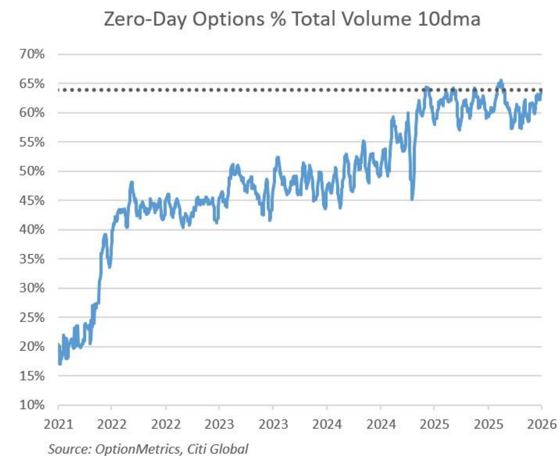
In our view, market structure exacerbates the risk to the AI equity ecosystem. Price momentum is a powerful force, favoring stocks that are "working" over and above the underlying fundamental merits, driving valuations to unsustainable levels. The most significant asset gatherers in the recent past – passive funds, quantitative investors, multi-strategy "pods", and even retail investors – all follow this strategy, to varying degrees. As noted in the chart below, this has indeed been an effective strategy over the past year, to the dismay of traditional investors like us.



*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.**

Furthermore, in some cases, significant financial leverage is applied to multiply returns – we see this increasingly in the world of leveraged single-name ETFs and so-called “zero-day expiry” stock options, products that tend to gain traction when risks are underappreciated. The following charts illustrate some of these points. Perhaps we are alone in our view that “this does not look normal.”





Top contributors during Q2 included Astera Labs (ALAB), NeoGenomics (NEO), and NCR Voyix (VYX). It should not be surprising that an AI name tops our list – like many others, ALAB has strong fundamental momentum and a relatively full valuation. It ranked as our best performer and, at quarter end, featured our least attractive risk-reward profile. Such is the price of admission in the world of investing in AI. Cancer diagnostic provider NeoGenomics rose on continued solid results and an improving outlook. Its nascent offerings in some of the highest growth testing venues could accelerate top line growth over time, and with an otherwise good financial profile, investors appear to be paying more attention. NCR Voyix is progressing according to our expectations, highlighted by strong new product bookings in recent periods. We believe this will continue, driving a multi-year growth and margin inflection. Technically included in the software category, VYX currently faces the unique valuation challenge of being perceived to be existentially threatened by AI, a view that we do not share.

Key detractors during the quarter included Sportradar Group (SRAD) and ZoomInfo Technologies (GTM). We have owned Sportradar, which is the leading provider of betting-related data to online sports book platforms, for several years. Over time, it has been a good performer for us, thanks to consistent double-digit revenue growth, expanding profit margins, and a reasonable valuation. However, over the past year, the stock has had a tougher time as prediction markets – Kalshi and Polymarket – have managed to skirt typical rules and regulations in the United States to offer their own brand of sports betting in competition with SRAD’s customers. This has caused US market growth to decelerate and, more importantly, has impacted SRAD’s valuation. Data and software provider ZoomInfo has been seen as an “AI victim,” and the stock has acted accordingly. While we maintain a positive view of Sportradar during this period of elevated consternation, we decided to move on from ZoomInfo given our higher conviction in other software names like NCR Voyix.

Relative to our views coming into 2026, the two most significant variances have been the sheer strength in AI infrastructure shares – coupled with related weakness in software names – and the prospects for monetary tightening when the opposite seemed more likely just six months ago. The former has been driven by outsized revenue and earnings growth within the AI ecosystem, while the latter has been negatively impacted by surging energy costs brought on by the war in Iran and spiking technology component prices driven by AI-induced shortages of an array of electronic components.

Looking ahead, we are encouraged by improved relative performance for smaller-cap stocks and maintain strong conviction in our portfolio, with the risk-reward profile appearing asymmetrically attractive. While no one – including us – will boast about the funds modest first-half returns, we remain optimistic. We trust our team, process, and, perhaps most importantly, our experience. With half the year still ahead of us, we look forward to seeing how it all plays out.

We will share another update in October.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q2 2026)

PERFORMANCE

Periods Ending March 31, 2026	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)	18.71	5.19	10.90	11.54	7.47	7.70	8.24	1.25 / 1.73
Equity Opportunity Fund Investor Class (net)	18.64	5.05	10.68	11.32	7.27	7.46	7.99	1.50 / 1.98
Russell 2000 Index	21.49	22.57	40.78	18.60	6.98	11.62	11.19	

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, 2027, 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 03/31/2026)

Company	% of Fund
Sportradar Group AG (SRAD)	6.94
Globalstar, Inc. (GSAT)	6.17
NCR Voyix Corporation (VYX)	5.49
RBC Bearings Inc (RBC)	5.43
BILL Holdings, Inc. (BILL)	5.37
HealthEquity Inc. (HQY)	4.56
Mister Car Wash, Inc (MCW)	4.21
Norwegian Cruise Line Holdings Ltd. (NCLH)	4.08
State Street SPDR S&P Biotech ETF (XBI)	3.89
Cadre Holdings, Inc. (CDRE)	3.77
TOTAL	**49.91**

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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