Q2 2026 Commentary and Market Outlook

Baird Mid Cap Growth Equity

Baird Equity Asset Management

STRATEGY UPDATE

Before discussing quarterly performance, we would like to highlight two important developments that strengthen our investment team and reinforce our long-term commitment to the Mid Cap Growth strategy.

First, Corbin Weyer was elevated to Senior Portfolio Manager for the Mid Cap Growth strategy, joining Ken Hemauer and Chuck Severson in leading the portfolio. During his twelve years with the team, Corbin has assumed increasing responsibilities, serving as Director of Research since 2021 while continuing to lead our consumer sector research, where his work has added significant value. He is an integral contributor to our investment process, and his promotion reinforces the long-term continuity of an investment philosophy that has guided us since 1993. We believe the stability of our team, the depth of our investment talent, and the consistency of our philosophy remain meaningful competitive advantages.

Second, Chaitanya Yaramada rejoined the team after several years away and will serve as a Senior Research Analyst responsible for technology sector coverage. Chaitanya previously spent ten years with Baird, the last five with our team as lead technology analyst, and brings industry expertise, familiarity with our investment philosophy, and the ability to make a positive impact in an important sector.

Taken together, these developments reflect both the depth of our investment team and Baird's continued commitment to equity management. We believe they further strengthen our ability to execute our investment process and reinforce our confidence in creating long-term value for clients.

MARKET UPDATE

The second quarter was marked by a sharp rebound in the broad equity markets, with the S&P 500 and Nasdaq posting their strongest quarterly gains since 2020 as investor confidence improved following a weak first quarter. Corporate earnings remained strong, with companies continuing to report results above expectations and overall earnings growth estimates improving throughout the quarter. Artificial intelligence (AI) remained the dominant investment theme, as hyperscale cloud providers continued to increase capital spending on data centers, networking, and infrastructure. Meanwhile, the Federal Reserve held interest rates steady as inflation continued to moderate and economic growth remained resilient, while geopolitical tensions in the Middle East temporarily lifted oil prices and increased market volatility before easing through quarter end.

PORTFOLIO COMMENTARY

The Baird Mid Cap Growth portfolio advanced 11.7%, net of fees, during the quarter, trailing the Russell Midcap Growth Index, which gained 14.6%.* While we were disappointed with the relative result following a very strong first quarter, the portfolio produced a solid absolute return during a period in which benchmark performance became increasingly concentrated in companies tied to AI infrastructure spending. The impact was most notable in the industrials and technology sectors, which produced outsized returns of 24% and 36%, respectively.

Our relative performance shortfall was driven in large part by the portfolio's more moderate exposure to companies tied to AI-related spending, particularly in the semiconductor and data center ecosystems. Our investment philosophy continues to emphasize durable, competitively advantaged businesses with attractive long-term growth prospects. That discipline has led us to maintain a more balanced portfolio than an increasingly concentrated benchmark. We recognize AI's long-term importance and continue to own businesses positioned to benefit from its adoption. At the same time, we remain selective where expectations, valuations, and uncertainty about the sustainability of growth imply less favorable long-term returns. Below we discuss in more detail the three key sectors that most influenced portfolio performance in the quarter: technology, industrials, and consumer discretionary.

The technology sector's relative underperformance was heavily influenced by our underweight positioning in hardware and semiconductors. Semiconductor and AI infrastructure companies continued to dominate sector performance as investors rewarded businesses benefiting from the significant levels of data center investment. While Monolithic Power Systems performed well, our more selective semiconductor exposure did not keep pace with the significant price appreciation across the group, and our decision to trim Monolithic Power and Vertiv into strength proved premature. Importantly, software holdings such as Datadog and Twilio generated excellent absolute returns, offsetting some of the semiconductor-driven headwind.

*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 continue to invest across software, infrastructure, and semiconductor businesses where we believe competitive advantages and long-term earnings power justify current valuations. During the quarter we added to Twilio and CDW, and purchased a position in Teradyne, which is one of the two leading suppliers of semiconductor test equipment. The business possesses a strong competitive position, high barriers to entry, and an improving long-term growth outlook driven by increasing semiconductor complexity and demand. We remain cautious toward businesses where current profitability or valuation assumptions leave little room for disappointment. We continue to believe a balanced technology portfolio offers the best opportunity to generate attractive long-term returns.

Industrials shifted from a significant contributor in the first quarter to the largest relative headwind in the second as benchmark returns became increasingly concentrated in engineering, electrical equipment, climate control, and other businesses benefiting most directly from AI infrastructure investment. Although our overweight sector position generated strong absolute returns, our more diversified exposure across aerospace, transportation, industrial technology, and business services did not fully participate in the benchmark's very strong return.

We continue to view industrials as one of the portfolio's most attractive areas of opportunity and initiated positions in Knight-Swift, TFI International, Littelfuse, and FTAI Aviation during the quarter. The new positions in Knight-Swift and TFI International are notable as they represent a further push into the improving fundamentals of the trucking market where we continue to own XPO. Each trucking company offers a different revenue mix, and the portfolio stands to benefit from improving volumes in both the truckload and less than truckload markets, on top of strong pricing trends. We funded these purchases through the sales of Graco and Equifax as our conviction declined, and a reduction in Curtiss-Wright following significant price strength. Overall, we believe the sector is well positioned to benefit from improving industrial activity while maintaining balanced exposure across multiple end markets.

Consumer discretionary was the portfolio's strongest relative contributor during the quarter as stock selection significantly outpaced the benchmark. Victoria's Secret, Dutch Bros, Delta Air Lines, Crocs, and Kontoor Brands all generated particularly strong returns. Sector activity reflected our continued focus on improving business quality and long-term return potential. We exited Wingstop after concluding our investment thesis had weakened and redeployed capital into Dutch Bros, where we believe the combination of accelerating fundamentals and valuation presents a more attractive opportunity. We also re-established a position in Ollie's Bargain Outlet, where new merchandising leadership and a more favorable competitive backdrop following recent retail bankruptcies should support stronger operating performance. We exited BJ's Wholesale Club amid rising competitive concerns from Walmart, Amazon, and emerging agentic commerce initiatives, and sold TKO Group after the shares approached our assessment of fair value. We initiated a position in Crocs as we see an attractive opportunity, with improving revenue growth prospects and meaningful share repurchases supporting double-digit earnings growth over the next several years. Our consumer discretionary positioning remains diversified across restaurants, apparel, travel, value retail, and branded consumer products, where company-specific execution rather than macroeconomic outcomes should remain the primary driver of returns.

OUTLOOK

Artificial intelligence continues to drive both near-term capital spending and equity market performance. We believe the technology has the potential to create substantial long-term value across many industries. At the same time, rapidly rising expectations and increasingly concentrated market leadership suggest that risk is building in certain areas of the market. While history reminds us that periods of technological innovation often encourage speculation, we are not attempting to identify a market top. Rather, we believe maintaining discipline and balancing opportunity against risk will continue to produce better long-term investment outcomes.

Encouragingly, performance has begun to broaden beyond the narrow group of semiconductor and data center infrastructure companies that have dominated returns over the past year. We are seeing improving participation across a wider range of industries. A broader market typically creates a healthier environment and allows company fundamentals to play a larger role in determining investment outcomes.

Our philosophy remains unchanged. We continue to seek high-quality businesses with durable competitive advantages, attractive long-term growth opportunities, and management teams capable of creating value through changing market environments. Our daily focus is on making investment decisions that improve portfolio quality, strengthen our risk/return profile, and position the strategy for attractive long-term returns.

On behalf of the entire team at Baird Equity Asset Management, thank you for your continued support of our Mid Cap Growth Strategy.

Baird Mid Cap Growth Equity (Q2 2026)

PERFORMANCE

Periods Ending June 30, 2026 (%)	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)	11.88	9.68	2.69	1.25	-0.08	10.35	11.20
Baird Mid Cap Growth Composite (Net)	11.69	9.27	1.90	0.47	-0.82	9.54	10.54
Russell MidCap® Growth Index	14.55	7.27	6.17	15.61	6.03	13.04	10.47

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BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Educational Background
Ken Hemauer, CFA Senior Portfolio Manager	32	32	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Corbin Weyer, CFA, CPA Senior Portfolio Manager & Director of Research	16	16	BSBA – Finance and Accounting (Marquette University)
Chuck Severson, CFA Portfolio Manager – Senior Advisor	39	39	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Jonathan Good Senior Research Analyst	26	19	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Chaitanya Yaramada, CFA Senior Research Analyst	17	10	MBA – (University of Chicago-Booth School of Business) BE – Bachelor of Engineering-Software (Univ. of Auckland, New Zealand)
Christopher Brennan Senior Research Analyst	7	2	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
Josh Heinen, CFA Senior Research Analyst	5	5	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 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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