Q2 2026 Commentary and Market Outlook

Baird Small/Mid Cap Growth Equity

Baird Equity Asset Management

STRATEGY UPDATE

Before discussing quarterly performance, we would like to highlight an important addition that strengthens our investment team and reinforces our long-term commitment to the Small/Mid Cap Growth strategy. Chaitanya Yaramada rejoined the team after several years away and will join current Senior Portfolio Manager Jonathan Good as a Senior Co-Portfolio Manager and 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.

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 Small/Mid Cap Growth strategy was up +17.7% in the second quarter, net of fees, compared to the +24.0% return of our primary benchmark, the Russell 2500 Growth Index.* The underperformance was mostly due to factor exposures, as high volatility, high beta, high momentum stocks significantly outperformed. Despite positive stock picking in the quarter, factor exposure resulted in over 600 basis points of relative underperformance. While we were pleased overall with a quarterly absolute return of nearly 18%, we couldn't keep pace with the AI-led rally in the benchmark. Below we discuss the five most relevant sectors in the second quarter.

Both consumer discretionary and consumer staples were positive relative contributors in the quarter. Discretionary performance was due to several stocks with exposure to apparel and footwear, such as Victoria's Secret, Crocs, and Kontoor Brands. Sector activity reflected our continued focus on improving business quality and long-term return potential. We 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 also 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. We exited Wingstop after concluding our investment thesis had weakened. We also sold BJ's Wholesale Club amid rising competitive concerns from Walmart, Amazon, and emerging agentic commerce initiatives. Our consumer discretionary positioning remains diversified across restaurants, apparel, value retail, and branded consumer products, where company-specific execution rather than macroeconomic outcomes should remain the primary driver of returns. Strong performance in consumer staples was mostly due to strong quarterly results from Vita Coco, which was up nearly 40% in the quarter. Given the strong stock returns year-to-date we reduced our position size. Long-time holding Casy's General Stores also contributed positively in the quarter.

The two largest relative performance detractors in the quarter were technology and industrials, with both sectors reversing their relative gains in the first quarter. However, absolute returns were quite strong, with tech up 41% (R2500G tech +53%) and industrials up 16% (R2500G industrials +25%). Technology performance was led by a historic rally in semiconductors, and our three positions (while all up over 50%) were not enough to keep pace, as 24 benchmark constituents were up over 100% in the quarter, half of them semiconductor or companies with AI-infrastructure exposure. Simply put, owning anything benefiting from AI-infrastructure spending was up, while software continued to trade lower. We benefitted from owning Twilio (+64%) but that was offset from lackluster quarterly returns from ServiceTitan, Fabrinet, and long-time holding Descartes Systems Group. We believe there could be a reversal in returns in both semis and software, but timing of that change remains difficult to predict. In fact, we decided to add to software with a position in Agilysys, a high-quality business with durable recurring revenue, high switching costs, and significant margin expansion potential. It is a cloud software

*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.**

company that provides mission-critical software for hotels, resorts, casinos, cruise lines, and other hospitality operators, including property management, guest reservations, point-of-sale, and guest engagement solutions. The company is differentiated by its integrated, cloud-native platform that spans multiple operational workflows, allowing customers to consolidate vendors, while leveraging AI to automate workflows and improve the guest experience.

Similar to technology, industrials performance was led by companies benefitting from AI-infrastructure-related spending. Two large-weighted benchmark constituents we did not own (Bloom Energy and Sterling Infrastructure) were over half of the sector underperformance. Portfolio performance was led by Affirm, a high growth payments technology company that benefitted from continued strong execution despite market worries of weakening consumer credit conditions. We also saw positive relative contributions from Knight-Swift Transportation and Littelfuse. We were quite active in trading exiting positions for various reasons and replacing that capital with new ideas. We exited a couple of larger market capitalization holdings, positions where our conviction was greater elsewhere, and those in which we felt our original investment thesis was weakened. Positions sold due to large size included Comfort Systems and EMCOR Group. We also exited Kratos, Kadant, Watsco and Hubbell. Given those sales, we added new ideas that would allow us to maintain exposure to AI-related industrials, such as Centuri, AAON, Modine, and Generac. For Centuri, we believe the market is underestimating the company's growth potential, as its record backlog points to earnings growth well above current expectations. Following its recent spin-off from Southwest Gas, the company remains underfollowed and misunderstood, while management is simultaneously improving business quality through initiatives such as equipment sale-leasebacks that should enhance returns, free cash flow, and capital efficiency over time. We invested in AAON and Modine as we believe the market is underestimating the duration and magnitude of demand for highly engineered cooling systems, particularly as hyperscalers build AI data centers that require increasingly sophisticated thermal management. Similarly, Generac should also benefit from the long-term increase in demand for resilient power infrastructure, driven by AI data centers, chip fabs, an increasingly constrained electric grid, and growing electrification. Lastly, we purchased MDA Space, which we believe is positioned to benefit from a structural expansion in the space economy, as dramatically lower launch costs—driven by SpaceX's reusable rockets—unlock new commercial opportunities while governments accelerate spending on golden domes, missile and ship tracking, space object tracking, and secure communication. Given the company's recent U.S. listing, it is in the early stages of investor discovery.

Lastly, healthcare underperformed in the second quarter, with more losers than winners. Strong performers included Twist Bioscience, up over 100%, and Illumina, which continues to execute and maintain its strong market position. Detractors in the quarter included a handful of stock specific issues for Insulet (manufacturing challenges and competitive worries), Waystar (viewed as a software stock), and TransMedics (reduced profitability). We made several trades during the quarter to modestly reposition the sector. We added exposure to therapeutics with the addition of three commercial stage companies with promising growth potential. Importantly, two of these companies are already profitable, with the third potentially profitable early next year. Ascendis Pharma has a proprietary drug platform called TransCon that has led to three drugs for rare endocrine diseases. Axsome Therapeutics has multiple marketed products, although the most exciting growth opportunity is its recently approved therapy Auvelity, which is a novel treatment for agitation due to dementia/Alzheimer’s disease. Finally, Alkermes is one of a few companies with a lead product in the Orexin receptor category, which has promising growth potential in both wakefulness and potentially other indications. Stocks that were sold included Insmed, TransMedics, and Bio-Techne as we believe our original investment theses were no longer valid for all three names.

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 Small/Mid Cap Growth Strategy.

Baird Small/Mid Cap Growth Equity (Q2 2026)

PERFORMANCE

Periods Ending June 30, 2026 (%)	Total Return (%)		Average Annual Total Returns (%)				
	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 09/30/2015
Baird Small/Mid Cap Growth Composite (Gross)	17.91	12.49	10.52	3.57	-0.27	11.86	11.48
Baird Small/Mid Cap Growth Composite (Net)	17.74	12.14	9.79	2.83	-1.03	10.98	10.60
Russell 2500 Growth Index	24.02	19.66	32.94	16.40	4.98	12.56	12.02

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BAIRD SMALL/MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Educational Background
Jonathan Good Senior Portfolio Manager	26	19	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Chaitanya Yaramada, CFA Senior Portfolio Manager	17	10	MBA – (University of Chicago-Booth School of Business) BE – Bachelor of Engineering-Software (Univ. of Auckland, New Zealand)
Ken Hemauer, CFA Senior Research Analyst	32	32	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	16	16	BSBA – Finance and Accounting (Marquette University)
Chuck Severson, CFA Mid Cap Growth PM	39	39	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
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 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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