Baird Equity Opportunity Fund

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Baird Equity Asset Management

PORTFOLIO COMMENTARY

Fellow shareholders,

Equities declined modestly in the third quarter as investors continued to reckon with high inflation, rapidly tightening monetary policy, and the possibility of recession. Following a sharp 23% first half loss, the Russell 2000 Index fell another 2.2% during the most recent three months, bringing its year-to-date decline to just over 25%. The Equity Opportunity Fund underperformed the Russell 2000 Index fractionally during the quarter but has outperformed by roughly 600 basis points year-to-date.*

In looking at the S&P 500 Index, most sectors fell during the quarter. Energy, consumer discretionary, and financials fared relatively well during the period, while technology, consumer staples, and utilities were comparatively weak. On a year-to-date basis, only energy remains in positive territory from a sector perspective.

Key performance contributors during the third quarter included EVO Payments (EVOP), Xometry (XMTR), and Valmont Industries (VMI). EVOP rose sharply after it received a takeover bid from larger peer Global Payments (GPN) in August. A leader in card payments processing in faster-growth markets outside the US, we have long been a fan of EVO Payments' strong management, consistent execution, and quality operations. This has led to above average growth and margin expansion, along with free cash flow generation and prudent capital deployment. In addition to our fundamental conviction, we also postulated that "positive optionality" existed in the form of ongoing industry consolidation, which has ultimately come to fruition.

Key detractors during the quarter included Chefs' Warehouse (CHEF), Clarus Corp (CLAR), and Blackbaud (BLKB). CHEF's fundamentals remain strong, but recession fears have impacted investor appetite for the shares. We remain constructive and continue to expect a rewarding multi-year path to growth-led stock gains. Clarus Corp has gone from low-drama compounder to extremely controversial - almost overnight. While results have been solid, underpinned by the company's hefty market share in niche outdoor product categories within climbing, hiking and skiing, the stock was negatively impacted by the forced liquidation of shares held by a large foreign shareholder. This did not go unnoticed by short sellers who took advantage of the technical pressure, pushing short interest from almost nothing to an estimated 30% of the float in a matter of months. With the stock having seen its valuation cut in half since August, we have recently added to our position on weakness.

For the first time in recent memory, outside of the Covid shock of early 2020, corporate fundamentals are beginning to deteriorate. Organic revenue growth is challenged as rising interest rates slow the economy, stimulus fades, and the strong dollar saps international growth. Profit margins are coming under pressure from rising input costs and labor and supply chain dynamics. Additionally, while the economy has been plagued by supply constraints for much of the past year, we now expect a relatively meaningful inventory correction across several different sectors. This should spur discounting to clear gluts of goods and components, negatively impacting profits even further.

***Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit bairdfunds.com**

EVOP had an average weight of 5.94%, XMTR 2.76%, VMI 4.86, GPN 3.50%, CHEF 6.36%, CLAR 4.53%, and BLKB had a 4.87% average weighting in the Equity Opportunity Fund as of 9/30/2022.

While investors seem acutely focused on Fed policy, we think the realization that fundamentals are deteriorating is only now coming into focus. Corporate results during the first half of the year were relatively solid, but we expect the back half to paint a more sobering picture. We believe this should usher in a wave of earnings estimate reductions for many companies and, as a result, for the broader indices. Market cycles historically have followed a pattern - during which stock prices fall to levels that appear attractive - only to look less so once estimate reductions become fully appreciated. Then, the indices typically reset again to the new estimate levels and, if held, markets tend to firm.

We closely monitor not only the state of corporate fundamentals, but the overall interplay with Fed policy, investor sentiment, and valuations. During much of the 2019-2021 period, notwithstanding the March 2020 Covid shock, fundamentals were strong, the Fed was easing, sentiment was bullish, and valuations seemingly had no ceiling. This led to a multi-year period of strong, double-digit annual gains for equities, though these accrued with latent risks building beneath the surface. Now, the backdrop features deteriorating fundamentals, an aggressively tightening Fed, souring sentiment, and valuations that likely need to retreat once more to reflect lower profit levels. It is therefore understandable why many investors are approaching the near-term with caution and trepidation.

Still, among darkening clouds, we find reasons for optimism ahead. We have long believed that some measure of losses and pain was a precondition to the restoration of discipline and economic rationality in the equity market. And for the first time in many years, the so-called “bad behaviors” we have frequently cited in prior letters have begun to abate. Rising cost of capital and lower valuations enforce a harder- earned path to investment gains but should also widen the relative value of the hallmarks of our team’s approach. The Fund’s high tracking error and focus on “non-consensus” ideas should continue to yield differentiated performance over time. Moreover, during periods of stress, we find that our opportunity set tends to expand as wholesale liquidation of indices depresses many stocks indiscriminately. In short, while the Fed still has work to do ahead and financial conditions are likely to remain tighter for longer, we see light at the end of the tunnel that is potentially closer at hand than many can envision during this difficult period.

In closing, we are pleased with the Equity Opportunity Fund’s results thus far in a difficult 2022 market environment. We claim no crystal ball, but we are confident in our views of the market and, more importantly, the portfolio’s positions. Even so, we approach the markets with humility and flexibility, our team having operated through an inordinate number of market and sector cycles throughout our careers. We hope that the return of market discipline drives further volatility, which could yield investment opportunities that enable us to plant the seeds of strong future performance. We will have more to say about this when we update you on the full year results in early January.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q3 2022)

PERFORMANCE

Periods Ending September 30, 2022* (%)	Total Return (%)		Average Annual Total Returns (%)			
	QTR	YTD	1 Year	3 Year	5 Year	Since Inception (05/01/2012)
Baird Equity Opportunity Fund Net Institutional Class (BSVIX)	**-2.39**	**-19.16**	**-12.89**	**1.49**	**0.73**	**6.03**
Baird Equity Opportunity Fund Net Investor Class (BSVSX)	**-2.40**	**-19.26**	**-12.99**	**1.26**	**0.49**	**5.78**
Russell 2000 Index®	-2.19	-25.10	-23.50	4.29	3.55	8.52
Russell 2000 Value Index®	-4.61	-21.12	-17.69	4.72	2.87	8.02

TOP & BOTTOM CONTRIBUTORS

Top 5 Portfolio Contributors	Avg. Weight	Contribution
EVO Payments, Inc. (EVOP)	5.94	2.63
Xometry, Inc. (XMTR)	2.76	1.16
Valmont Industries (VMI)	4.86	0.78
Evolent Health Inc (EVH)	5.33	0.72
Cadre Holdings, Inc. (CDRE)	3.76	0.58

Bottom 5 Portfolio Contributors	Avg. Weight	Contribution
NexTier Oilfield Solutions, Inc. (NEX)	2.21	-0.54
SiTime Corporation (SITM)	0.98	-0.82
Clarus Corporation (CLAR)	4.53	-0.93
Blackbaud, Inc. (BLKB)	4.87	-1.10
Chefs' Warehouse, Inc. (CHEF)	6.36	-1.79

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
Joe Milano, CFA Portfolio Manager	25	2013	Generalist
Chip Morris, CFA Analyst	35	2014	Technology
Scott Barry Analyst	25	2014	Consumer Discretionary & Staples
Ben Landy Analyst	13	2014	Industrials & Materials
Scott Mafale Analyst	16	2021	Healthcare

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This commentary represents portfolio management views and fund holdings as of 09/30/22. Those views and fund holdings are subject to change without notice. The performance of any single fund holding is no indication of the performance of other holdings of the Baird Equity Opportunity Fund. Past performance is no guarantee of future results.

Positions identified above do not represent all the securities held, purchased or sold during this time period. The contribution to return of these securities is calculated by multiplying the weight of the security at the beginning of the time period by the security return and represents a model portfolio. To obtain a complete list of positions and contributions for the period, please contact Baird Equity Asset Management at 800-792-4011. Past performance does not guarantee future results.

Prior to December 12, 2021, the fund was managed in accordance with a different investment strategy. The Subadvisor 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 a Subadvisor.

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 investments 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 regulation.

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, 2025, 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.

The Russell 2000 is the most widely quoted measure of the overall performance of small-cap to mid-cap stocks. It represents approximately 10% of the total Russell 3000 market capitalization. It is made up of the bottom two-thirds in company size of the Russell 3000 index. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecast growth values. Indices are unmanaged and are not available for direct investment. Time periods greater than one year are annualized.

Baird Funds are offered through Robert W. Baird & Co., a registered broker/dealer, member NYSE and SIPC. Robert W. Baird & Co. also serves as investment advisor for the Fund and receives compensation for these services as disclosed in the current prospectus.

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