Baird Equity Opportunity Fund

Baird Equity Asset Management

PORTFOLIO COMMENTARY

Fellow shareholders,

Equities fell during the third quarter as interest rates rose further and corporate and consumer fundamentals eroded. Few sectors were spared aside from energy, which posted double-digit gains. Market performance remained narrow and again heavily favored larger capitalization stocks. The Baird Equity Opportunity Fund posted a quarterly net decline of -8.9%, while the Russell 2000 Index fell -5.1%. While performance during the three-month and year-to-date periods has been a bit disappointing, the Fund continues to demonstrate strong risk-adjusted performance over the long-term.*

The backdrop for equities has remained difficult for much of 2023. While it is tempting to blame a dysfunctional U.S. political environment and volatile geopolitics, we believe the key culprit is the absence of fiscal and monetary policy tailwinds. Now several years removed from the pandemic and related economic fallout, the extraordinary level of fiscal support has dissipated.

Meanwhile, the Federal Reserve has rapidly ratcheted up interest rates and is reducing the size of its bloated balance sheet by almost $100 billion per month. This so-called quantitative tightening reverses a decade-long policy that infused capital markets with trillions of dollars, removing some air out of the equity market balloon.

The effects of reduced stimulus are finally driving a perceptible slowdown in the fundamental growth momentum of a vast array of industries and companies. While timing and pace varies across sectors, some level of deterioration exists pretty much across the board. We expect this to continue in the near term, reflecting both the cumulative impacts of monetary tightening and the steady weakening of a once- flush consumer that has likely spent most of its pandemic-fueled stimulus funds. Notwithstanding the broader fundamental impact from diminished stimulus, there are also more subtle sector implications. As economic growth slows, investors in search of safety have been quick to pile into perceived winners while dumping losers, accentuating the valuation gaps between them. Nowhere is this more evident than in healthcare, where so-called GLP-1 (weight loss) drugs have had a massive influence this year. For companies viewed as GLP-1 winners, mostly large-cap drugmakers, valuations have improved. More notable, however, is the massively negative impact across wide swaths of other healthcare names viewed as GLP-1 losers, including most companies in the diabetes treatment ecosystem, orthopedics, and cardiology, among others.

Large-cap outperformance has continued unabated this year. There could be several reasons for this, including a flight-to-safety that typically occurs during periods of rising fundamental stress. It is also evident that the two most identifiable growth trends at the moment – weight-loss drugs and artificial intelligence – are benefiting larger cap stocks in their respective sectors over smaller caps, at least for the time being. Rising interest rates may also pinch small caps harder. Excluding financials, over 30% of the debt at Russell 2000 companies is floating rate compared to just 6% among S&P 500 companies. This puts smaller cap earnings power at greater risk during periods of rapidly rising interest rates, like now, and raises the likelihood that higher-leverage small caps could be forced to raise capital at an inopportune time.

While these headwinds are a fact of life right now, Greenhouse remains optimistic about the portfolio's future performance. First, smaller cap stocks have already lagged dramatically, enhancing their relative attractiveness. Indeed, over the past five years, the Russell 2000 Total Return Index is up only 13% while the S&P 500 Total Return Index has risen more than 60%, leaving small-cap valuations at a twenty-year low relative to larger caps. While there is no guarantee this will reverse in the near term, relative performance cycles like this tend to revert over time.

***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.**

More importantly, the portfolio's risk-reward profile has improved, in our estimation. For the most part, the longer-term fundamentals of our positions remain solid, valuations have retrenched, identifiable catalysts exist, and optionality abounds. This creates a more fertile backdrop for the Fund, though admittedly, the timing of gratification is difficult to predict. Finally, the Fund remains relatively concentrated and idiosyncratic, driving lower correlation to the indexes. While this doesn't confer immunity, the Fund continues to be as much a bet on the names we have selected as the overall market direction.

Returning to third quarter performance, the Fund benefited from strength in Global Payments, Oceaneering, and Cadre Holdings. Global Payments is one of the largest providers of credit and debit card payment processing globally. Despite its above average top line growth, envious profitability, and prodigious free cash flow generation, the market's focus on slowing consumer spending growth gave us an opportunity to invest during a period of heightened concern and low valuation. Solid Q2 results proved that GPN has enough secular growth drivers to power through a modest macro slowdown, and we expect more of the same in the coming periods.

Oceaneering is one of several energy-related names that have performed well for the Fund recently. Providing products and services mainly used in offshore oil production, Oceaneering has benefited from strong drilling activity, solid execution, and an inexpensive valuation. We expect good results to continue and believe the energy sector overall can win over more converts after years of underperformance.

Cadre Holdings is an underfollowed small cap that boasts a high market share for niche products that serve law enforcement, including body armor and other protective gear. In recent years, the debate over defunding the police has pressured law enforcement headcount into declines, leading to growth headwinds for Cadre. Despite this, the company has posted excellent results since completing its initial public offering in late 2021. We continue to like the stock and believe crime should be a prominent election issue in 2024, raising awareness for the life-saving products that Cadre sells.

On the downside, Chefs' Warehouse, Zoominfo, and Mister Car Wash were key detractors to Q3 results. Chefs' results remain steady, though are normalizing after a post-pandemic surge last year and early 2023. Restaurant sales are slowing, and food companies like Chefs seem to be getting caught up negatively in the weight-loss drug excitement. We are realistic in our expectations of the fundamentals, which certainly won't be unaffected as dining-out trends slow. We continue to like the longer-term growth potential of this small-cap and are riding out the current turbulence.

Zoominfo Technologies declined following a weaker outlook for the back half of the year. Pressured like many other enterprise software companies by a slowing macro environment, Zoominfo is experiencing slower and uneven growth in its marketing data platform. Yet, we find the results to be decent considering the backdrop, and we like ZI's strong profitability, free cash flow, and long-term opportunity to broaden their suite of front office applications. Mister Car Wash is known in the industry to be among the best, if not the best, car wash operators, boasting over 2 million subscribers who pay monthly to use any MCW location across the US. The stock has been hammered over fears of a sales slowdown, but we retain a favorable view on the thesis that subscribers should be sticky, and a new higher-end product should drive improving mix and profitability over the next few years.

Our framework for assessing the equity market outlook is mixed. The Federal Reserve is still tightening monetary policy but could be in the latter stages of doing so. Corporate fundamentals are currently worsening but may bottom out sometime in 2024. Valuations have declined modestly but are at risk of falling further. Sentiment is no longer ebullient, but it is not yet fearful, either. While inherently unpredictable, we can envision a time over the next several quarters when this market framework portends a much more favorable outlook, though stickier than expected inflation could very well remain the fly in the ointment.

Accordingly, for now, we continue to embrace balance and patience in the current market environment. During much of the past decade, good value was increasingly hard to find but easier to realize, thanks to supportive fundamentals and ever-expanding valuations. Now, we see almost the mirror image – value is increasingly identifiable but harder to realize, as macro headwinds muddy the near-term fundamental performance for many names. As a result, gratification among our positions has grown rarer.

Thanks to our team's consistent and proven research process, experience managing through cycles, and longer-term investment horizon, we feel well prepared for varied investing backdrops and heightened volatility. This does not mean the Fund will go unscathed during shorter-term periods of disruption – our year-to-date results are evidence of that. Nevertheless, we are intensely focused on exercising sound judgment and decision-making to help plant the seeds for strong future period returns.

We look forward to updating you on our final year-end results early in 2024. In the meantime, we will take this opportunity to wish you all a happy and safe holiday season.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q3 2023)

PERFORMANCE

Periods Ending September 30, 2023[1] (%)	Total Return (%)		Average Annual Total Returns (%)					
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (05/01/2012)	Expense Ratios (Net/Gross)[2]
Baird Equity Opportunity Fund Institutional Class (BSVIX)	-8.93	0.09	9.50	10.49	0.91	4.27	6.33	1.25 / 1.73
Baird Equity Opportunity Fund Investor Class (BSVSX)	-8.98	0.00	9.28	10.26	0.69	4.02	6.08	1.50 / 1.98
Russell 2000 Index®	-5.13	2.54	8.93	7.16	2.40	6.65	8.56	

[1]Performance data represents past performance and does not guarantee future results. Returns over one year are annualized unless specified. 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 may be lower or higher than the data quoted. Performance figures assume reinvestment of all dividends and capital gains. For performance data as of the most recent month-end, please visit bairdfunds.com. ***Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.*** **Fund performance is net of fees.**

[2]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.

TOP & BOTTOM CONTRIBUTORS

Top 5 Portfolio Contributors	Avg. Weight	Contribution
Oceaneering International (OII)	2.81	0.82
Cadre Holdings, Inc. (CDRE)	4.27	0.80
Global Payments Inc. (GPN)	7.71	0.63
NexTier Oilfield Solutions (NEX)	3.09	0.60
Fluor Corporation (FLR)	3.46	0.59

Bottom 5 Portfolio Contributors	Avg. Weight	Contribution
Mister Car Wash, Inc. (MCW)	1.94	-0.95
NeoGenomics, Inc. (NEO)	4.04	-0.97
Sportradar Group AG (SRAD)	4.11	-0.99
ZoomInfo Technologies Inc (ZI)	3.37	-1.24
Chefs' Warehouse, Inc. (CHEF)	6.21	-2.81

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
Joe Milano, CFA Portfolio Manager	26	2013	Generalist
Chip Morris, CFA Analyst	36	2014	Technology
Scott Barry Analyst	26	2014	Consumer Discretionary & Consumer Staples
Ben Landy Analyst	14	2014	Industrials & Materials
Scott Mafale Analyst	7	2021	Healthcare

This commentary represents portfolio management views and fund holdings as of 09/30/23. 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 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. 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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First use: 11/2023