Baird Mid Cap Growth Equity

MARKET UPDATE

Broad measures of the equity market delivered a solid quarter, with major U.S. indexes finishing at or near record highs with September – which is often a tough month – proving resilient. Leadership remained narrow and tilted toward AI beneficiaries. As expected, the Federal Reserve arrived on the scene with its first rate cut in nine months, helping equity and bond prices lift as yields drifted lower and credit conditions remained relatively benign. Corporate profit trends were constructive as companies continued to deliver better-than-feared results amid tariff volatility and a cooling labor market.

PORTFOLIO COMMENTARY

The Baird Mid Cap Growth portfolio produced a -2.6% return in the third quarter, net of fees, trailing the +2.8% increase in the Russell Midcap Growth benchmark.*

Like recent quarters, the company characteristics that delivered the strongest gains within the benchmark were lower profitability and larger market capitalization, presenting a difficult set up for our portfolio. The performance differential between high and low profitability, as well as small and large market capitalizations (measured by quintiles) only widened from already challenging mid-year levels. The benchmark's median stock price return was essentially flat for the quarter and year-to-date periods, belying the stronger headline numbers and reflecting the narrow segments of the market, driving performance.

The team remains confident that our long-standing investment process can drive attractive long-term investment performance. While we expect relative performance to improve if meaningful risk elevates volatility and dampens market sentiment, we are increasingly encouraged by the portfolio's go-forward setup. The portfolio is comprised of quality businesses with the potential to generate growing economic profit at favorable margins, and the opportunity for those fundamentals to translate into attractive stock price returns. The below focuses on the key sectors that influenced third quarter results.

Consumer discretionary performance disappointed. The overhang of slower job creation combined with a bout of choppy fundamentals negatively impacted certain segments of consumer spending, notably in the restaurants industry as CAVA Group, Dutch Bros, and newer holding Wingstop underperformed. While we don't share the market's enthusiasm for Roblox, a large benchmark weight generating losses, the stock's sharp ascent accounted for a third of the sector's underperformance.

We have been active in the consumer discretionary sector all year. We identified a good slate of new ideas, and a few companies we have monitored for years pulled back to attractive buy points. Changes to the sector mix in the quarter included exiting Texas Roadhouse and allocating capital into Wingstop, a fast-growing, chicken-centric restaurant that is actively gaining market share. We believe the combination of AI-related smart kitchen investments and the growing habitual nature of third-party delivery apps will make the company a long-term winner in the restaurant space. We added TKO Group, which is a leading operator of sports and entertainment brands including the UFC and WWE. We believe the company is poised to benefit from increased consumer and media demand for its brands. We also invested in Kontoor Brands, an apparel vendor of the Wrangler and Lee brands, and the recently acquired Helly Hansen brand. We believe Kontoor Brands is turning into the V.F. Corporation of old, its prior parent company before being spun out in 2018. We expect earnings power will increase as management executes on the prior V.F. Corporation playbook and grows the Helly Hansen brand.

Technology performance was impacted by the AI narrative, as EPAM Systems and our software holdings failed to keep pace with stronger performance in the hardware and semiconductor industries. While loading up on all things AI may be the right short-term strategy, we have long operated with an approach of balance – both across and within sectors. As the market continues to vet whether businesses and industries are AI-beneficiaries or AI-victims, we too look for ways to participate where we believe sustainable participation in capital spending meets reasonable expectations. We feel we have this combination in Monolithic Power and Vertiv—both of which performed well, and we increased existing position sizes. We also made an investment in Twilio, a market leader in cloud platform communication services. We believe the company is poised to benefit from an inflection in AI-related customer experience adoption, leading to an accelerating revenue growth profile. Next, we moved on from Gartner as we believe AI may be more foe than friend to the business long term. Lastly, we exited our position in HubSpot, sold Globant and consolidated more of our IT service-related capital into EPAM Systems, where we have higher conviction.

*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 remain firm in the belief that the healthcare sector will be a key component to more favorable relative performance given the mix and strength of businesses, which we find at increasingly attractive valuations. We share investor frustration that the portfolio's overweight position has not generated a sustained period of relative outperformance. In the third quarter, the broader biotechnology stock group rallied sharply, increasing 32% in aggregate. As has been the case during our history, we have limited exposure to the biotech industry given the glut of unprofitable, volatile businesses in the group; thus, in periods of acute strength, our underweight positioning tends to hurt relative performance. We sold Bio-Techne to moderate our exposure but will seek opportunities to redeploy capital back into the area of the sector. We were encouraged to see better performance both in fundamentals and stock prices from Repligen and West Pharmaceutical Services, companies that had been adversely impacted by slower spending in the drug development and production channels.

Important changes throughout other areas of the portfolio include the purchase of XPO, a leading less-than-truckload (LTL) carrier in the industrial sector. We believe management is transforming the business into a best-in-class operator in a disciplined oligopoly. In addition to significant operational improvement, competitor Yellow's bankruptcy provides a further tailwind as the industry is likely to become more rational on pricing and as XPO directly benefits from related capacity acquisitions. A freight-market recovery from a multi-year recession, and benefits from the maturation of acquired Yellow truck terminals, should allow XPO to produce meaningful earnings growth and close its valuation gap with the industry leader, Old Dominion. Also in the sector, we sold AAON on mounting concerns over recent management directives and looming ERP implementation setbacks.

In the energy sector, we sold our position in Diamondback Energy and transferred our exposure to Viper Energy, a new portfolio entrant. Viper Energy owns, acquires, and exploits oil and natural gas properties in the Permian Basin. The company earns a growing royalty on top-tier acreage with zero capital investment. We believe the stock is currently mispriced on macro- and M&A-related arbitrage that will correct over time.

Lastly, in consumer staples, we sold Lamb Weston as we are more skeptical about the pace of sales and profit growth in the business over the next few years.

OUTLOOK

We are disappointed that the performance gap with the benchmark has widened and challenged the patience of our clients and investors. We are committed to strengthening our investment process where appropriate; however, we will not abandon our investment philosophy in the hopes of chasing a market that is rewarding lower-quality, less-profitable businesses, and a narrow set of AI-themed winners. We remain confident that the portfolio is comprised of strong, competitively advantaged businesses capable of delivering attractive results over a full business cycle. Challenging relative performance periods, like the past 24 months when factor winds blow hard against quality, have historically set the stage for subsequent stretches in which fundamentals reassert their impact and performance improves. Our team priorities remain unchanged: stay disciplined, upgrade the portfolio when volatility creates opportunity, and own durable growth that we believe can compound value over time.

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

Baird Mid Cap Growth Equity (Q3 2025)

PERFORMANCE

Periods Ending September 30, 2025 (%)	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)	-2.41	-4.54	-5.55	6.31	4.31	10.21	11.30
Baird Mid Cap Growth Composite (Net)	-2.61	-5.10	-6.28	5.51	3.54	9.41	10.64
Russell Midcap® Growth Index	2.78	12.84	22.02	22.85	11.26	13.37	10.62

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BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA Senior Portfolio Manager	38	38	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Ken Hemauer, CFA Co-Senior Portfolio Manager	31	31	Financials	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Jonathan Good Senior Research Analyst	26	19	Healthcare	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	15	15	Consumer Discretionary & Staples	BSBA – Finance and Accounting (Marquette University)
Karan Saberwal Senior Research Analyst	9	6	Technology	MBA – (Northwestern University-Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)
Christopher Brennan Senior Research Analyst	6	2	Energy, Industrials & Materials	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
Josh Heinen, CFA Research Analyst	4	4	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Margaret Guanci Research Analyst	3	3	Generalist	BBA – 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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