Baird Equity Opportunity Fund

Baird Funds

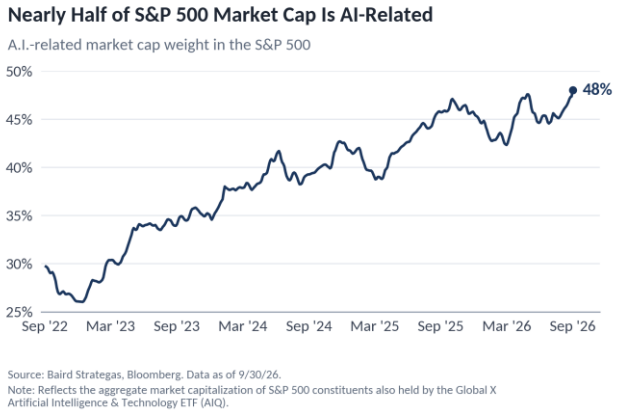
PORTFOLIO COMMENTARY

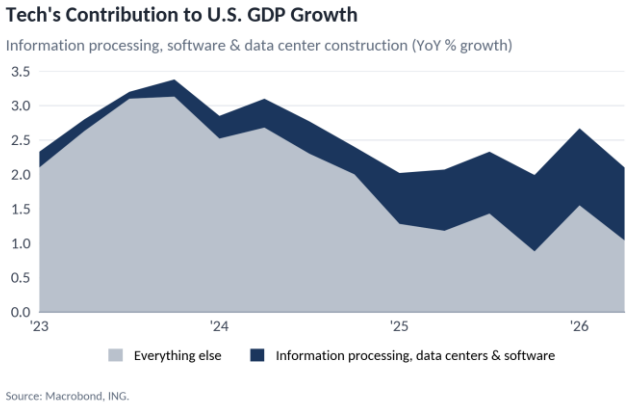
Fellow shareholders,

Equities were mixed during the third quarter, with the S&P 500 rising 2.3% but the small capitalization Russell 2000 Index posting a 7.2% decline. The Baird Equity Opportunity Fund performed in line with its benchmark during the period, declining 6.9% and dragging its year-to-date returns into modest negative territory. While the Fund's long-term track record remains steadfast compared to the Russell 2000 Index, the most recent quarter has continued the frustrating and underwhelming performance which began in early 2025.

In this section of the shareholder letter, we would typically comment on some of the more pertinent factors impacting the broader market as well as the market for smaller capitalization domestic securities. There is no shortage of them: (a) interest rates, which are high and rising, with the 10-year Treasury note sitting at 5.3%, a level not seen since June 2007; (b) debt and deficits, also at record levels given the cumulative profligate spending by both political parties; (c) our war with Iran, which continues to linger despite apparently having won it several times already; (d) equity valuations, which for the S&P 500 remain uncomfortably above average historical levels; and (e) concerning investor behaviors, including record 0-day options trading volumes, robust leveraged single stock ETF flows, and record retail participation. However, few seem to care much about any of these issues, because investors seem singularly focused on one question: can the momentum driving the buildout of the AI ecosystem be sustained?

Consider the two graphics below:





AI now represents nearly half the total market capitalization of the S&P 500 and technology now accounts for roughly half of current real GDP growth. For the continued health of both the financial economy and the real economy, sustaining the momentum of the AI ecosystem is a necessary condition. Nothing else really seems to matter all that much.

We are encouraged by the development of AI and expect this technology to positively impact commercial productivity and empower a growing set of widely adopted consumer services - just as we were in 1995 when Netscape ushered in the Internet era with the launch of its Navigator browser. Like back then with the Internet, the possibilities with AI seem endless. Still, at present, our enthusiasm for AI stocks is tempered by several factors, including (a) the proliferation and increasing scale of circular financing arrangements among the major chip vendors, hyperscalers, and neoclouds; (b) the enormous web of future reciprocal commitments amongst the major players within the AI ecosystem; (c) the recent pressure in the credit markets for neocloud bonds; (d) OpenAI's delayed IPO; (e) the muted stock responses to recent massive fundamental beat-and-raises; and (f) the weakening technicals for many stocks widely perceived to be AI beneficiaries. Collectively, these factors encourage us to at least consider whether the continued positive development of artificial intelligence may diverge quite dramatically from the direction of AI stock prices – similar to what occurred in 2000-2002 when the NASDAQ declined nearly 80%.

*Returns less than one year are not annualized. **The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.**

We readily admit that such concerns seem somewhere between misguided to absurd given the seemingly insatiable demand for AI, the continued fundamental progress for companies within the AI ecosystem, and investors' current exuberance for these stocks. Still, while it is often said that "it is always darkest before the dawn", it is similarly true that "it is often brightest right before all the lights go out." Just ponder the table below which captures the revenue and stock price progression as the Internet Bubble turned to Internet Bust:

Revenue Held Up Far Better Than Stock Prices in the Dot-Com Bust

Revenue and stock price change for select technology companies, 2000–2002

Company	Sector	2000 Rev. ($B)	2002 Rev. ($B)	Revenue Change	Peak Price 1999–00	Trough 2001–02	Decline from Peak
Amazon (AMZN)	Internet Retailer	2.8	3.9	+42%	$113	$6	-95%
eBay (EBAY)	Internet Marketplace	0.4	1.2	+181%	$13	$3	-77%
Priceline (BKNG)	Internet Travel	1.2	1.0	-19%	$974	$7	-99%
Yahoo!	Internet Portal / Ads	1.1	1.0	-14%	$119	$4	-97%
Dell Computer (DELL)	PC Hardware	31.9	35.4	+11%	$60	$16	-73%
Intel Corporation (INTC)	Semiconductors	33.7	26.8	-20%	$76	$13	-83%
Microsoft (MSFT)	Software / Enterprise	23.0	28.4	+23%	$60	$21	-65%
Cisco Systems (CSCO)	Networking Hardware	18.9	18.9	0%	$80	$9	-89%
Juniper Networks (JNPR)	Networking Hardware	0.7	0.5	-19%	$245	$4	-98%
Lucent (LU)	Telecom Infrastructure	28.9	12.3	-57%	$84	$1	-99%
Nortel Networks (NT)	Telecom Infrastructure	30.3	10.6	-65%	$125	$1	-99%
Sycamore (SCMR)	Optical Networking	0.2	0.1	-68%	$271	$4	-98%
Analog Devices (ADI)	Semiconductors	2.6	1.7	-35%	$103	$22	-79%
Altera (ALTR)	Semiconductors / PLD	1.4	1.0	-25%	$68	$9	-86%
Linear Technology (LLTC)	Semiconductors / Analog	0.7	0.5	-27%	$74	$22	-71%
Maxim Integrated (MXIM)	Semiconductors / Analog	1.4	1.0	-29%	$83	$23	-73%
Texas Instruments (TXN)	Semiconductors	11.9	8.4	-29%	$101	$14	-87%
Xilinx (XLNX)	Semiconductors / PLD	1.0	1.0	0%	$97	$16	-84%

Source: AlphaSense; Company 10-Ks; Greenhouse Estimates.

Obviously, at the peak of the euphoria of the Internet Bubble, none of these companies expected their revenues to decline over the next couple of years, but most did. Similarly, I doubt any could imagine the scenario that would drive their stock prices down 60%-90% from recent peaks, but it happened. Why would they? Demand seemed insatiable, backlogs were extraordinary, visibility was extended, pricing was firm, margins were rising, competitive encroachment was limited due to supply constraints, and capital seemed to be limitlessly available. (Sound familiar?) Yet, much like in 2000-2002, no one is really going to know the AI trade is "over" until it is. Not the companies, not their Boards, not the industry consultants, not the investment bankers, not the Wall Street analysts, and definitely not investors (us, included). Thus, we need to consider at least the possibility of this risk, and at present, it challenges our perspective on acceptable risk-reward in most stocks within the AI ecosystem. Accordingly, at present we remain only moderately exposed to AI across a few long positions spanning semiconductors, industrials, and energy. Understand that our mindset here is quite flexible and subject to change as market opportunities present.

Turning back to the Fund's 3Q performance, cancer diagnostics company NeoGenomics (NEO) was the Fund's top contributor during the period. It was only this past spring that the stock, then trading in the mid-single digits, was viewed as a loser, despite consistently producing solid double-digit top-line growth and expanding margins. Apparently, what was lacking was a catalyst for growth acceleration which became more evident with the approval of a new, high-growth product in the MRD (minimal residual disease) space. Embryonic in real time, revenues in this exciting new market are poised to expand meaningfully in the coming years, likely pushing NEO's already solid growth higher. Still reasonably valued, NEO remains a prominent position in the Fund.

Fintech company Chime (CHYM) followed a similar path. Earlier this year, despite a string of beat-and-raise quarterly results, the stock was stuck in the upper teens. For reasons that would be imperceptible to most, the most recent quarter showed a slight uptick in revenue growth and outlook, driving a double in the stock at its recent highs. While we have managed the position size on strength by trimming – out of respect for the fact that CHYM is not an AI stock – we continue to very much like the company and still maintain a smaller position.

The reasons behind BILL Holdings' (BILL) strong performance this quarter are similar. Results were quite comparable to those that drove the stock down materially in prior quarters; this quarter, the market's reflexive response was to applaud results and lift the stock. We continue to be optimistic about BILL's prospects in the SMB B2B payments arena.

On the flip side, NCR Voyix (VYX) was the fund's most significant detractor during Q3. The company, in turnaround mode since we initiated the position in 2025, is progressing much better fundamentally than its stock price would suggest. Revenues have begun to grow following years of decline, exciting new products are in the very early stages of launch, profitability is improving, and the balance sheet is in excellent shape after years of being overleveraged. The market has all but ignored the stock – taking it to historically low valuation levels and high short interest despite what we see as an exciting positive inflection. We built the position with an attractive cost basis and while the stock did not perform well in the three-month period, we expect more gratification in the quarters to come.

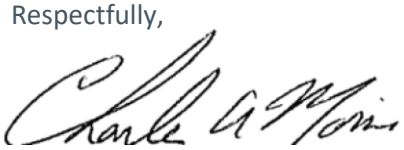
It was also a tougher quarter for Norwegian Cruise Line (NCLH), as the company suffered from weaker results in the Caribbean and high fuel prices. While the direction of oil prices is anyone's guess, we are optimistic that the self-inflicted wounds in the Caribbean are not only fixable but are already on the mend. We see strong recovery potential for the business in the coming years, and, given how strong a value proposition cruising has become compared to land-based vacation alternatives, NCLH could be a beneficiary of agentic AI comparison shopping tools – something we now consider to be upside optionality.

Pool equipment manufacturer Hayward (HAYW) suffered from poor sentiment despite reporting upside 2Q earnings and solid guidance. While new pool construction in the US has remained weak due to high and rising mortgage rates, the vast majority of Hayward's business is steady repair and remodel work that features highly attractive margins and cash flow characteristics. In addition, Hayward continues to gain share during a difficult macro environment. With the stock's valuation significantly derated despite unchanged growth and earnings dynamics, we continue to like Hayward's underappreciated qualities and internal initiatives.

We've spent the past 13 years learning and understanding what we do well, leaning into our comparative advantages, honing our investment process around corporate change and low-cost optionality, avoiding the frenetic chaos in the most crowded spaces, and always managing the portfolio with a respect for potential downside. Over the past couple of years, investors' complete focus on the AI trade, together with the evolution of market structure toward quant shops, pods, flows, baskets, and retail participation, have resulted in a continuing challenge to generate meaningful alpha. Value we identify is tougher to realize due to the general lack of investor interest in names outside the AI ecosystem, and valuations for stocks that might potentially be at risk from AI have been on a one-way downslope despite steadfast fundamentals. Our conundrum – the same one facing nearly every non-price momentum active manager – is that "our game" seems to be very out of favor, yet after considerable introspection, we have concluded that "their game" would be difficult for us to play well enough to generate the type of return profile you (and we) would appreciate. So, we wait, constantly evaluating the risk-reward dynamics of the stocks in the AI ecosystem as well as the idiosyncratic potential of every one of our existing holdings to ensure that when the "game" pivots back in our favor, the portfolio will be in position to perform in a manner more consistent with the first eleven years of our operating history.

We wish you all a happy and safe set of upcoming holidays and will update you with full year results early in the new year.

Respectfully,



Charles A. Morris

Baird Equity Opportunity Fund (Q3 2026)

PERFORMANCE

Periods Ending September 30, 2026	Total Return (%)		Average Annual Total Returns (%)					
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratios (Net/Gross)*
Equity Opportunity Fund Institutional Class (net)	-6.85	-2.02	-0.87	12.38	6.25	6.72	7.56	1.25 / 1.73
Equity Opportunity Fund Investor Class (net)	-6.82	-2.11	-1.01	12.20	6.07	6.49	7.32	1.50 / 1.98
Russell 2000 Index	-7.23	13.71	16.20	17.72	6.34	9.84	10.40	

Inception Date: 5/01/2012. Returns less than one year are not annualized. ***The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.*** *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, 2027, 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. Investor class expense ratios include a 0.25% 12b-1 fee.

TOP 10 HOLDINGS (AS OF 06/30/2026)

Company	% of Fund
NCR Voyix Corporation (VYX)	7.15
NeoGenomics, Inc. (NEO)	5.35
Sportradar Group AG (SRAD)	5.28
RBC Bearings Inc (RBC)	5.16
HealthEquity Inc. (HQY)	4.57
Norwegian Cruise Line Holdings Ltd. (NCLH)	4.46
Hayward Holdings, Inc. (HAYW)	4.15
BILL Holdings, Inc. (BILL)	4.11
State Street SPDR S&P Biotech ETF (XBI)	3.96
Cadre Holdings, Inc. (CDRE)	3.57
TOTAL	**47.76**

INVESTMENT TEAM

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
Joe Milano, CFA Portfolio Manager	29	2013	Generalist
Chip Morris, CFA Analyst	38	2014	Technology
Scott Barry Analyst	28	2014	Consumer Discretionary & Consumer Staples
Ben Landy Analyst	16	2014	Industrials & Materials
Scott Mafale Analyst	9	2021	Healthcare

Investors should consider the investment objectives, risks, charges and expense of each fund carefully before investing. This and other information is found in the prospectus and summary prospectus. For a prospectus or summary prospectus, visit bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

Prior to December 12, 2021, the Baird Equity Opportunity Fund was managed in accordance with a different investment strategy. Greenhouse Funds LLLP 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 Greenhouse Funds LLLP.

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 investment 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 regulations.

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The Russell 2000® Index is a capitalization-weighted index representing the smallest 2,000 companies in the Russell 3000 Index, ranked by total market capitalization. Indices are unmanaged and are not available for direct investment.

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