

MARKET UPDATE

U.S. equity market returns were mixed during the third quarter, with a meaningful divergence between large-cap stocks and those down the capitalization spectrum. The S&P 500 advanced approximately 2%, supported by continued strength in several large technology and AI-related companies, while the Russell Midcap Growth Index declined nearly 6%, with smaller stocks faring worse. Market leadership shifted during the quarter but ultimately narrowed, with strength in a relatively small number of companies masking broader weakness across many sectors and industries. Higher interest rates and oil prices, along with the Federal Reserve's first rate hike in three years, raised concerns late in the quarter about inflation and the durability of economic growth, although economic activity and consumer spending remained resilient.

PORTFOLIO COMMENTARY

The Baird Mid Cap Growth portfolio declined -7.4%, net of fees, during the quarter, trailing the Russell Midcap Growth Index, which decreased -5.8%.* The quarter illustrated how quickly market leadership can shift. July rewarded our traditional emphasis on quality, resulting in the strongest monthly relative performance in five years. During August and September, however, returns became much more concentrated, with many of those companies carrying elevated valuations or falling short of our quality standards. This reversal created significant headwinds for our investment style.

On a sector basis, two areas that contributed significantly to favorable relative returns earlier in the year, consumer discretionary and industrials, became headwinds during the third quarter. Technology also detracted as market leadership narrowed toward select companies where our exposure remained more moderate. Conversely, healthcare performed well and provided a partial offset. Despite significant market and style challenges year to date, we are generally pleased with where we stand entering the final quarter of the year and encouraged by the return opportunity across the portfolio. Additional sector comments and a discussion of portfolio changes follow below.

Consumer discretionary was one of the largest detractors following strong performance during the first half of the year. The sector declined broadly, while our overweight positioning and weakness in several holdings magnified the impact. Restaurants were particularly challenging, along with housing-related and travel and leisure businesses, as higher oil prices and interest rates increased concerns about consumer spending. Dutch Bros, Burlington Stores, Kontoor Brands, Floor & Décor, and Churchill Downs were among the detractors, while Victoria's Secret and Ollie's Bargain Outlet performed well but offset only a portion of the weakness.

Despite the stock performance, operating trends across much of our consumer exposure remain solid, consistent with the resilience we continue to see in broader consumer activity. During the quarter, we initiated a position in Chipotle following a significant reset in valuation and expectations, added to CAVA on weakness, and increased other positions where we believe long-term fundamentals remain attractive. We sold Hilton following significant appreciation and a less favorable risk/reward, exited Rollins amid concerns about its long-term growth outlook, and trimmed Delta as we booked a portion of the gain.

The industrials sector also detracted, reversing the powerful relative performance generated earlier in the year. Weakness was notable across aerospace and defense, transportation, and electrical equipment, as inflation concerns and higher interest rates weighed on expectations for cyclical businesses. Importantly, our stock selection within industrials was modestly positive relative to the benchmark, but our overweight positioning magnified the impact of the sector's sharp decline.

We remain constructive on the long-term opportunity across multiple industrial end markets, including aerospace and defense, and trucking, where underlying demand remains healthy, while continuing to refine our exposure as individual risk/reward profiles evolve. We initiated a position in DPC Holdings, a manufacturer of highly engineered turbine blades and other precision-cast components used in commercial aircraft engines and industrial gas turbines. We see significant margin expansion potential as demand strengthens across the company's end markets. We sold EMCOR as we became increasingly concerned that current earnings could prove difficult to sustain should demand fall short of elevated expectations and reduced Hubbell and Woodward. Within transportation, we moderated our overall trucking exposure and consolidated our positions around XPO and J.B. Hunt, which replaced Knight-Swift. We continue to believe freight fundamentals should improve following an extended industry downturn, while the companies work through higher fuel costs.

*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.

Baird Mid Cap Growth Equity (Q3 2026)

Technology was the largest relative headwind despite producing a modestly positive absolute return. Our more moderate sector exposure detracted as technology was one of the few benchmark sectors to advance during the quarter. Returns were highly concentrated, with the hardware industry and services group, where Cloudflare and Snowflake reside, among the strongest performers, creating significant relative headwinds given our lack of exposure.

We remain selective as we assess both the opportunities and risks created by AI. Our lower than benchmark semiconductor positioning helped during the quarter as the group came under pressure but only offset a portion of the sector's relative shortfall. We initiated positions in Manhattan Associates, Guidewire, and MongoDB, where we believe competitive positioning and long-term earnings potential are attractive, and sold Descartes Systems and Vertiv. In our view, these software businesses represent attractive opportunities as the market increasingly differentiates among software business models.

Healthcare provided the portfolio's strongest relative contribution, with broad-based strength across industries. Our longstanding overweight positioning was particularly beneficial as the portfolio's healthcare holdings advanced significantly against a much more modest benchmark sector return. Illumina, Veeva Systems, and Repligen were among the leading performers as sentiment toward life sciences tools improved and companies reported solid fundamental results. Illumina and Repligen also benefited from increasing investor interest in potential AI applications within life sciences research. Appreciation in Illumina and Veeva provided an opportunity to harvest a portion of the gains and reinvest proceeds into Insulet and West Pharmaceutical, which we believe enhances the sector's return potential. We also sold ResMed over concerns that increasing adoption of GLP-1 therapies could weigh on the company's long-term growth potential and limit valuation upside. Healthcare has historically been a source of portfolio performance strength, and we continue to find attractive opportunities where durable growth, improving fundamentals, and reasonable expectations provide a favorable combination for long-term returns.

Outside these larger sectors, energy was a relative headwind as higher oil prices drove strong benchmark returns while our exposure remained limited. Consumer staples also detracted, while basic materials contributed positively, supported by solid relative performance from longtime holding Fastenal. Overall, the smaller-weighted sectors had a modest negative net impact on results.

OUTLOOK

We enter the fourth quarter with economic activity and consumer fundamentals that remain favorable. Higher interest rates and energy prices present risks to that outlook, while the upcoming election and geopolitical uncertainty may contribute to volatility. Market leadership has narrowed, valuations remain elevated in several areas, and fiscal risks continue to build. These conditions reinforce the importance of portfolio balance and valuation discipline, while potentially creating opportunities as stock prices diverge from underlying business values.

In our view, the Russell Midcap Growth Index has become increasingly concentrated, with weaker profitability and higher leverage adding to its risk profile. By comparison, our portfolio maintains substantially higher operating margins and returns on equity, along with lower leverage. We believe the quality and sustainability of growth, together with the expectations reflected in stock prices, are particularly important considerations in the current market. Across the portfolio, we remain constructive on the opportunities ahead, supported by solid fundamentals. We will continue to evaluate new ideas to strengthen the portfolio as market conditions evolve.

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

Baird Mid Cap Growth Equity (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 (06/30/1993)
Baird Mid Cap Growth Composite (Gross)	-7.25	1.73	-2.39	1.76	-2.46	9.24	10.86
Baird Mid Cap Growth Composite (Net)	-7.43	1.13	-3.20	0.96	-3.21	8.44	10.20
Russell MidCap® Growth Index	-5.84	1.01	-2.74	15.36	4.92	11.86	10.19

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BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Educational Background
Ken Hemauer, CFA Senior Portfolio Manager	32	32	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Corbin Weyer, CFA, CPA Senior Portfolio Manager & Director of Research	16	16	BSBA – Finance and Accounting (Marquette University)
Chuck Severson, CFA Portfolio Manager – Senior Advisor	39	39	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Jonathan Good Senior Research Analyst	26	20	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Chaitanya Yaramada, CFA Senior Research Analyst	17	10	MBA – (University of Chicago-Booth School of Business) BE – Bachelor of Engineering-Software (Univ. of Auckland, New Zealand)
Christopher Brennan Senior Research Analyst	7	3	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 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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