

Baird Small/Mid Cap Growth Equity

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 2500 Growth Index declined over 10%. 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 Small/Mid Cap Growth strategy declined -11.5% in the third quarter, net of fees, compared to the -10.4% return of our primary benchmark, the Russell 2500 Growth Index.* In contrast to last quarter, the factor backdrop was favorable but was offset by stock-specific returns. The shortfall was mostly concentrated in two sectors: industrials and consumer discretionary. Also worth noting, performance patterns differed significantly from month to month. Every major theme during the quarter reversed at least once. Any narrative built on one month's attribution — in either direction — would have been wrong by the following month.

Healthcare was the best-performing sector on a relative basis in the quarter, led by strong performance in several holdings. A combination of more favorable sentiment for life sciences tools companies and enthusiasm about potential tailwinds from AI drove strong returns in Illumina, Twist Biosciences, and Repligen. Given the nearly 90% return in the quarter for Twist, we reduced our position size. We also generated strong relative returns in Dexcom (improved quarterly execution), Tarsus (improving prescription trends for its lead product) and Glaukos (enthusiasm about new product launches). Offsetting these gains, biotech companies Axsome and Alkermes declined during the quarter after strong performance earlier in the year. BridgeBio Pharma, which was added to the portfolio in July, also declined. Alignment Healthcare declined later in the quarter due to concerns about quality ratings for its health plan. We agreed with that risk and sold the stock. We also exited our position in Waystar, as we concluded that the growth prospects for the company are lower than we initially believed.

The financials sector also generated positive relative returns in the third quarter, although the sector represents less than 5% of the portfolio. Returns were led by Equitable Holdings, which we believe traded higher given the potential benefits of higher interest rates. During the quarter, we exited our position in Houlihan Lokey, as we lost conviction in our original investment thesis. The small-weighted real estate sector also modestly outperformed. We sold our one holding, National Storage Affiliates Trust, as the company was acquired by Public Storage.

While technology sector returns were negative on an absolute basis, the portfolio outperformed on a relative basis, mostly due to a 40% gain in Twilio, which continues to benefit from potential AI-related voice applications. Sector returns continued to be quite volatile across both semiconductors and software. While we maintain positions in three semiconductor businesses, our weight in the industry is below the benchmark, which benefited relative returns. Software stocks were in favor early in the quarter and then declined significantly in September as quarterly earnings results were judged quite harshly. We increased our weight in ServiceTitan, Agilysys, and Descartes Systems Group early in the quarter and also initiated two new positions in Guidewire and Tyler Technologies. We believe both companies have large growth opportunities over the next several years and should face limited impact from concerns about AI displacement. We also reduced some of our cyclical manufacturing exposure and exited our position in Jabil.

Industrials was the largest relative detractor to performance in the quarter. Benchmark returns in the sector declined nearly 20%, and unfortunately, our holdings did slightly worse. Companies with AI exposure (Centuri Holdings, AAON, and Generac), as well as aerospace and defense (FTAI Aviation, Curtiss-Wright) all declined in the quarter, representing a reversal of strong returns in the first half of the year. Despite that volatility, we made only modest changes, buying DPC Holdings and selling Knight-Swift Transportation. DPC Holdings is 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. Although we sold Knight-Swift, we maintained our position in XPO, as we believe freight fundamentals should improve following an extended industry downturn, while freight 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 Small/Mid Cap Growth Equity (Q3 2026)

The consumer discretionary sector declined broadly, and our overweight positioning and weakness in several holdings magnified the impact. Restaurants were particularly challenging, as higher oil prices and interest rates increased concerns about consumer spending. Dutch Bros, CAVA Group, Kontoor Brands, Floor & Décor, and Boot Barn were among the detractors, while Victoria's Secret and Ollie's Bargain Outlet performed well but offset only a portion of the weakness. To reduce our exposure slightly, we decided to sell our position in Boot Barn, as it became more challenging for the company to exceed consensus estimates.

Lastly, consumer staples detracted slightly in the quarter, mostly due to Casey's, which declined after reporting that same-store sales trends were decelerating compared to the first half of the year. We initiated a new position in Brown-Forman, a stock where we believe little needs to go right for the stock price to increase over time. Brown-Forman is the leading bourbon manufacturer in the U.S., led by its flagship brand, Jack Daniel's. We like the setup in the stock given its multi-year underperformance amid well-known headwinds, including the post-Covid glut of inventory and the decline in alcohol consumption by younger generations.

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.

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 Small/Mid Cap Growth Strategy.

Baird Small/Mid Cap Growth Equity (Q3 2026)

PERFORMANCE

Periods Ending September 30, 2026 (%)	Total Return (%)		Average Annual Total Returns (%)				
	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 09/30/2015
Baird Small/Mid Cap Growth Composite (Gross)	-11.30	-0.22	1.11	2.57	-2.89	9.92	10.00
Baird Small/Mid Cap Growth Composite (Net)	-11.47	-0.72	0.43	1.85	-3.63	9.06	9.13
Russell 2500 Growth Index	-10.35	7.28	7.63	14.92	3.46	10.59	10.63

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BAIRD SMALL/MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Educational Background
Jonathan Good Senior Portfolio Manager	26	20	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Chaitanya Yaramada, CFA Senior Portfolio Manager	17	10	MBA – (University of Chicago-Booth School of Business) BE – Bachelor of Engineering-Software (Univ. of Auckland, New Zealand)
Ken Hemauer, CFA Senior Research Analyst	32	32	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	16	16	BSBA – Finance and Accounting (Marquette University)
Chuck Severson, CFA Mid Cap Growth PM	39	39	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Christopher Brennan Senior Research Analyst	7	3	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
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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 2500 Growth Index measures the performance of those Russell 2500 companies with above average price-to-book ratios and higher forecasted growth values. Indices are unmanaged and are not available for direct investment.

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