Q4 2025 Commentary and Market Outlook

Baird Equity Opportunity Fund

Baird Funds

PORTFOLIO COMMENTARY

Fellow shareholders,

Equities finished 2025 with solid gains, with the Russell 2000 Index posting a 12.8% total return. The Baird Equity Opportunity Fund underperformed, generating a net return of 2.8% for the year.*

While the market's performance was relatively "normal", 2025 felt anything but normal to us. From a macro perspective, there seemed to be a constant flow of chaotic events, including the surprising unveiling of significant tariffs across most trading partners, attacks on the Federal Reserve's independence, and US military strikes across various geographic theaters. Despite this, equity returns were generally solid across the board. Large-cap stocks again outpaced small-caps, continuing a decade-long trend. Growth and value stocks alike moved higher, and in the smaller-cap arena, only the consumer sector posted negative absolute returns.

The top individual contributors to performance this year were AI-semiconductor company Astera Labs, satellite service provider Globalstar, and sports data purveyor Sportradar. We mentioned the first two names in our Q3 letter, since both were strong during that period. We have owned Sportradar for several years, first building a position in the single digits after the stock declined some 75% post its 2021 IPO. Sportradar, through key relationships with many large global sport leagues, is the leader in providing critical data to online sports books such as DraftKings and Flutter. The business model is characterized by double-digit revenue growth, high visibility from subscription-based contracts, and rapidly rising profit margins via operating leverage. Sportradar remains a prominent holding at year end.

Key detractors during the year were BILL Holdings, Phreesia, and Mister Car Wash. After performing strongly in late 2024, BILL gave back its gains in 2025. A leading B2B payments provider, fundamentals have met our expectations. To be clear, those fundamentals are far from peak levels, held back by both sluggish small-business conditions and margin improvement that have not been strong enough to impress investors. We have been surprised at how harshly the stock has been treated, even in the face of BILL's envious market position, accelerating profit growth, and the circling of at least one significant activist investor who could bring more urgency to shareholder value creation. Nevertheless, BILL has been unable to escape the clutches of underperformance and weighed on our results for much of the year.

As one might expect, we have reflected on the year's disappointing results. A key positive takeaway from this is that our investment team and process remain totally unchanged.

However, we acknowledge that the external environment has changed and market structure has transformed, especially in recent years. Conventional "risk-reward" focused investing by human, fundamental investors like us hold less sway over determining stock prices, at least in the short term, as massive flows into index funds, ETFs, quantitative algorithms, custom-made baskets, trading-oriented pod shops, and a resurgent retail investor have come to dominate markets. We believe the more challenging backdrop brings immense opportunity for fundamental investors like us, but proving this statement likely requires a longer-term time horizon.

While our team and its time-tested investment process work to navigate these dynamics, we are more optimistic that smaller-cap stocks may finally be poised to outperform. Fundamentals are supportive, as small cap earnings growth is projected to exceed large cap growth for the first time in many years. Smaller caps may also disproportionately benefit from additional Federal Reserve interest rate cuts, which could accelerate economic growth and moderate debt service costs. With three interest rate cuts in the second half of 2025 and more cuts likely to come in 2026, along with the potential for resurgent quantitative easing, a rate-cutting cycle seems to be well under way. Meanwhile, following a decade of underperformance, small-cap sentiment is weak and valuations are attractive – an encouraging recipe for future outperformance.

*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.**

More importantly, the portfolio is extremely well positioned, in our view, especially coming off a year when many of our larger positions saw their fundamentals advance yet their valuations retrench. We do not expect another year of such treatment, especially if small cap tailwinds emerge. We have every faith that our history of outstanding long-term performance is more the rule than the exception. Time will tell.

Examples of names that stand out as particularly attractive include growth companies Sportradar and Toast, Inc. Sportradar has seen its valuation compress massively since late 2025 on concerns that so-called prediction markets like Kalshi will disrupt their future growth. We see the world quite differently, with prediction markets offering yet another growth opportunity for Sportradar. Now approaching a single digit EBITDA multiple despite strong double-digit top and bottom-line growth, Sportradar is symptomatic of how market structure and downward momentum can reach extremes. Similarly, Toast, the leading software and services provider to smaller restaurants, has seen its shares pressured by being in the wrong neighborhood, as software stocks have come under significant pressure due to fears of AI displacement. In Toast's case, we see a very low likelihood of this being an issue, and with the stock down nearly a third since we eliminated it last year, we recently re-initiated a position.

It is not just growth that looks attractive. Value-oriented names like Norwegian Cruise Line and ZoomInfo Technologies feature risk-reward profiles that look exceedingly favorable to us. Norwegian Cruise Line and the broader cruise industry are performing very well, as travel trends remain cyclically strong and a strong cruise value proposition is driving secular growth, as well. Yet despite the positive trends and attractive earnings growth, Norwegian Cruise Line continues to trade at a single digit earnings multiple. ZoomInfo trades at a similar valuation despite not only solid fundamentals, but AI-driven use cases that could serve as a tailwind to growth in the coming years.

Sportradar, Toast, Norwegian Cruise, and ZoomInfo are but four examples of names that are advancing their fundamentals without much praise from the markets. The portfolio is filled with other such opportunities. Unfortunately, it is very hard for us to predict when sentiment for these names and our broader portfolio might improve. Our optimism surrounding the small cap arena more broadly should be helpful in this regard, but for now we await further evidence that other investors find these names to be as attractive as we do.

In closing, even for a group of mostly 25-to-40-year veterans of the markets like us, public equity asset management remains a humbling business. In our experience, process and outcomes are inexorably linked over the long-term but can be distorted during the short term. We enter 2026 with the confidence of "owning what we know and knowing what we own" and taking solace in not having traded emotionally during a period in which we did not perform up to your standards or our own. We believe this discipline and commitment to doing the right thing will pay off, and we look forward to sharing an initial 2026 update in April.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q4 2025)

PERFORMANCE

Periods Ending December 31, 2025	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)	1.18	2.79	2.79	13.18	8.89	7.79	8.15	1.25 / 1.73
Equity Opportunity Fund Investor Class (net)	1.13	2.69	2.69	13.00	8.69	7.55	7.91	1.50 / 1.98
Russell 2000 Index	2.19	12.81	12.81	13.73	6.09	9.62	9.96	

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, 2026, 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 09/30/2025)

Holdings	% of Fund
NCR Voyix Corporation (VYX)	8.9
Sportradar Group AG (SRAD)	6.4
BILL Holdings, Inc. (BILL)	6.4
Norwegian Cruise Line Holdings Ltd. (NCLH)	4.8
ZoomInfo Technologies Inc (GTM)	4.4
Cadre Holdings, Inc. (CDRE)	4.1
Universal Display Corporation (OLED)	3.9
HealthEquity Inc (HQY)	3.8
Madison Square Garden Sports Corp. (MSGS)	3.6
RBC Bearings Inc (RBC)	3.6
Total	**49.9**

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.

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. Holdings are subject to risk and can 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. References to individual securities should not be construed as a recommendation to buy, hold, or sell a security, and it should not be assumed that the holdings have been or will be profitable. The holdings identified do not represent all the securities held, purchased or sold during the period; past performance does not guarantee future results. Holdings are subject to risk and can change at any time. To obtain a complete list of holdings for the period, please contact Baird.

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.

Baird Funds are offered through Robert W. Baird & Co. Incorporated, a registered broker/dealer, member NYSE and SIPC. Robert W. Baird & Co. Incorporated also serves as investment advisor to the Fund and receives compensation for these services as disclosed in the current prospectus.