Q4 2025 Commentary and Market Outlook

Baird Mid Cap Growth Equity

BAIRD
Baird Equity Asset Management

MARKET UPDATE

For the quarter, U.S. equities advanced at the broad index level, though results were uneven across sectors, and the return dispersion among individual companies was high. The Federal Reserve shifted to an easing posture late in the year, cutting rates in September and again at its December meeting as it focused on moderating inflation and a cooling labor backdrop. The extended federal government shutdown that began October 1 and ended in November curtailed government services and delayed key economic data releases used to assess growth and inflation, adding a bout of volatility during what was otherwise a risk-on environment during the second half of the year. The volatility spike accompanied a mid-quarter shift in market behavior for AI-related equities, as the exuberant narrative evolved to one more balanced in assessing the technology's enormous potential against staggering capital spending plans and high expectations. As a result, price momentum slowed into year-end.

PORTFOLIO COMMENTARY

The Baird Mid Cap Growth portfolio produced a -4.3%, net of fees, return in the fourth quarter compared to the -3.7% decline of the Russell Midcap Growth benchmark.* The discussion below focuses on the market dynamics and portfolio decisions, with an emphasis on the sectors and holdings that drove relative performance.

Results remained below our expectations for the quarter, though the path of relative returns turned more favorable as the investment setup became increasingly constructive. October was dominated by severe style headwinds that have been a defining feature of the past two years: large cap stocks outperformed small cap stocks, lower-return businesses outperformed higher-return businesses, and unprofitable companies outperformed profitable ones. As we've discussed in prior commentaries, this is an especially challenging dynamic given our traditional portfolio profile. In November, however, the market environment shifted meaningfully. Many of the year-to-date winners retreated, factor returns moved in a direction more consistent with our discipline – profitable, higher-return, less-levered, and smaller market capitalization stocks outperformed – and importantly the portfolio responded. Notably, November was only the second month this year, the other being March, in which profitable stocks outperformed unprofitable stocks within the benchmark. We were active in adjusting the portfolio throughout the quarter, reallocating capital toward higher-conviction opportunities and away from situations where we believed the timing or path to value creation had extended.

The industrials sector delivered the largest performance shortfall and remains an area of emphasis, as our stock selection within the broad sector mix has fallen short in recent periods. To improve positioning, we moved capital away from housing-related spending and payments and into defense and transportation, where we anticipate stronger revenue growth. We added to our newer position in trucking company XPO, as we are seeing meaningful industry capacity reduction that should support pricing as volume returns. We also initiated two new positions, Curtiss-Wright and EMCOR Group, consistent with our high-quality growth orientation. We believe Curtiss-Wright is entering a period where multiple near-term growth drivers are converging, including rising defense budgets, commercial aerospace production ramps, nuclear power plant life extensions and new builds, and submarine production. EMCOR is a critical contractor enabling multi-year investment cycles across data centers, semiconductor fabrication, electrification, and broader infrastructure modernization. Its decentralized, cash-generative model, recurring service base, and exposure to structural growth drivers create a profile we view as more durable than a typical cyclical contractor framework.

The technology sector delivered a distinct and encouraging improvement, providing both positive absolute and relative performance. Our efforts to rebalance exposure across hardware, software, and services contributed positively, and our sizing and timing decisions were improved. Patience with EPAM and the stability of our software holdings proved beneficial as AI-related stocks lost momentum mid-quarter and investors became more discerning about spend intensity, competitive dynamics, and the path to monetization. The shift reinforced our preference for balanced, durable growth rather than narrow, single-theme exposure, and the portfolio generated positive relative performance across all important industry groups within the sector. We initiated a new position in DoorDash, which we view as a leading food delivery player where scale and customer engagement underpin what we believe is a durable competitive moat, with additional long-term optionality from new verticals, international markets, and advertising.

*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.**

Healthcare was another positive contributor, and the favorable performance has been a long time coming, as we were premature in moving the sector to an overweight posture. The funding environment improved for research and development, and related fundamentals strengthened across key industry groups. Strong stock performance came from West Pharmaceuticals on continued acceleration in its high-value products segment, Illumina on earnings that underscored momentum among clinical customers, and Repligen on participation in the broader life sciences tools recovery as demand trends normalized following the COVID-era supply/demand imbalance. Medical device maker Penumbra also advanced sharply following a favorable earnings report and strong product pipeline.

Consumer discretionary was a difficult area during the quarter, as the choppy consumer spending backdrop negatively impacted several companies. Sector performance was pressured by e.l.f. Beauty, which sold off meaningfully following its quarterly earnings report and accounted for the entirety of the sector's underperformance. The earnings report included a decline in core domestic sales growth and fiscal year guidance that came in below expectations. We continue to hold the stock as the company has a strong product set addressing a positive spending category, but there is work to do to regain positive fundamental and stock price performance. Regarding sector changes, we sold Burlington Stores and reallocated capital into positions where we see more attractive risk-reward opportunities, including CAVA, Wingstop, and Churchill Downs. We also exited DraftKings due to concerns related to the Railbird acquisition and an increasingly complex competitive environment, including the proliferation of prediction markets. We purchased Floor & Décor during the quarter, re-introducing a prior long-term holding. The stock's decline earlier in the year improved its return potential, and we see indications that sales trends can positively inflect in 2026, which could support positive earnings revisions. While sector performance was disappointing in 2025, we retain a high level of conviction that it will return to its history as a strong long-term contributor, supported by the sector's leadership experience and quality of work underway.

OUTLOOK

Results over the past two years have fallen short of our benchmark and our standards, and we recognize the elevated level of scrutiny that comes with that reality. We have refined our team structure and are laser-focused on execution around our long-standing investment philosophy. We are seeing evidence of improvement in how the portfolio responds when market leadership broadens and fundamentals are rewarded. While the recent environment has often favored unprofitable, lower-return, larger-cap, and more expensive stocks, we have also observed pockets of decoupling, notably a moderation in AI-related momentum, that are consistent with a healthier setup for our strategy.

Our focus is unchanged. We remain disciplined in underwriting durable growth, emphasizing high-return businesses with strong balance sheets, and holding ourselves accountable on sizing, timing, and fundamental risk control. We are not relying on a regime shift to fix performance. Instead, we are taking deliberate action to improve outcomes while remaining committed to our high-quality growth philosophy. 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 (Q4 2025)

PERFORMANCE

Periods Ending December 31, 2025 (%)	Total Return (%)	Average Annual Total Returns (%)				
	QTR	1 Year	3 Year	5 Year	10 Year	Since Inception (06/30/1993)
Baird Mid Cap Growth Composite (Gross)	-4.07	-8.43	3.47	-0.08	9.66	11.07
Baird Mid Cap Growth Composite (Net)	-4.26	-9.14	2.69	-0.82	8.87	10.41
Russell Midcap® Growth Index	-3.70	8.66	18.64	6.65	12.49	10.40

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BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Educational Background
Chuck Severson, CFA Senior Portfolio Manager	39	39	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Ken Hemauer, CFA Co-Senior Portfolio Manager	32	32	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Jonathan Good Senior Research Analyst	26	19	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	15	15	BSBA – Finance and Accounting (Marquette University)
Christopher Brennan Senior Research Analyst	7	2	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
Josh Heinen, CFA Research Analyst	5	5	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Margaret Guanci Research Analyst	4	4	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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