

Baird Small/Mid Cap Growth Equity

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 in December 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 Small/Mid Cap Growth strategy increased +1.2% in the fourth quarter, net of fees, compared to the +0.3% increase in our primary benchmark, the Russell 2500 Growth Index.*

Although the modest outperformance in the quarter was a welcome improvement relative to the prior two quarters, the strategy still lagged benchmark returns significantly for calendar 2025. In contrast to much of 2025, factors were a positive tailwind to performance in the fourth quarter. Key profitability metrics such as ROE and ROIC contributed positively during the quarter, while factors that had driven returns earlier in the year were negative, including volatility, beta, and momentum. While we do not construct the portfolio based on factor exposures, we remain cognizant of their outsized role in driving benchmark returns. The discussion below focuses on the market dynamics and portfolio decisions, with an emphasis on the sectors and holdings that drove relative performance.

Healthcare was the strongest relative contributor in the quarter, as our holdings increased nearly +16% compared to benchmark returns of roughly +12%. The largest single contributor was Exact Sciences, which was acquired for a significant premium by Abbot Laboratories in November, resulting in an +86% return in the quarter for one of our higher-conviction positions. Other strong performers in the quarter, primarily driven by strong earnings results, included Tarsus Pharmaceuticals, Glaukos following approval of a new product, Penumbra, and Repligen. Offsetting these gains were negative returns from Masimo, Insulet, and Waystar.

Technology also contributed in the quarter with portfolio returns exceeding the benchmark. The strongest performer was software company Twilio, which reported better-than-expected sales and improved gross margins, an area of concern in the prior quarter. The company proved to be an outlier in software, as the sector continues to digest investor concerns related to AI. Semiconductor holding MACOM Technology Solutions rose nearly +40%, as the company experienced broad-based demand, similar to many semiconductor companies in 2025. Dynatrace, Vertex, and Monday.com detracted from relative quarterly performance. During the quarter, we exited our position in Astera Labs and initiated a position in Credo Technology. Credo is a high-growth semiconductor company that we view as a more diversified way to gain exposure to strong trends in AI-connectivity. We sold Astera Labs following industry conference presentations that suggested emerging competitive risks, in addition to our concerns over single customer concentration.

Although a smaller sector by weight, consumer staples contributed to relative returns, driven by two of our three holdings. Coconut beverage producer Vita Coco returned nearly +25% for the quarter on better-than-expected earnings and reduced concerns around potential tariff risks. We trimmed Casey's on strength, and the stock's roughly flat performance compared favorably with benchmark's sector returns, which declined nearly -11%. Our smallest position remains BellRing Brands, which is experiencing slower-than-expected growth due to increased competition. We added to the position, as we believe valuation has become more attractive and growth could improve in 2026.

*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 (Q4 2025)

Consumer discretionary was slightly positive on a relative basis in the fourth quarter. Longer-term holdings such as Dutch Bros, Churchill Downs, Burlington Stores, and Boot Barn increased, outperforming benchmark returns, which declined -4%. Three newer holdings detracted from performance, including e.l.f. Beauty, Kontoor Brands, and DraftKings. e.l.f. Beauty's earnings report included a decline in core domestic sales growth and fiscal year guidance below expectations. We continue to hold the stock, as the company offers a strong product set addressing a favorable spending category, though additional progress is needed to restore positive fundamental and share-price performance. We exited DraftKings due to concerns related to the Railbird acquisition and an increasingly complex competitive environment, including the proliferation of prediction markets.

Industrials detracted from relative performance with nearly half of underperformance attributable to a single company we do not own, Rocket Lab, which returned +46% during the quarter. Relative weakness was also driven by Lennox and Watsco amid softer HVAC trends, as well as Shift4 Payments. Positive returns from UL Solutions, BWX Technologies, Affirm, and Curtiss-Wright were not enough to offset the detractors. During the quarter, we initiated two new positions, Curtiss-Wright and EMCOR Group, consistent with our high-quality growth orientation. We believe Curtiss-Wright is entering a period in which 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 Group 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.

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, higher beta, and higher volatility, 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, we thank you for your continued support of our Small/Mid Cap Growth Strategy.

Baird Small/Mid Cap Growth Equity (Q4 2025)

PERFORMANCE

Periods Ending December 31, 2025 (%)	Total Return (%)		Average Annual Total Returns (%)				
	QTD	1 Year	3 Year	5 Year	10 Year	Since Inception 09/30/2015	
Baird Small/Mid Cap Growth Composite (Gross)	1.34	-7.90	3.83	-0.36	10.68	10.80	
Baird Small/Mid Cap Growth Composite (Net)	1.18	-8.54	3.06	-1.13	9.80	9.91	
Russell 2500 Growth Index	0.33	10.31	14.33	2.98	10.55	10.68	

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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	19	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
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	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)
Chuck Severson, CFA Mid Cap Growth PM	39	39	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 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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