

TRENDS&IDEAS

BAIRD CORE PLUS BOND FUND

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The core of the bond team at Baird Advisors' Baird Core Plus Bond Fund (BCOSX 12 *****) may be the most experienced fixed-income portfolio collaborators in history, according to Warren Pierson, a senior portfolio manager for the fund. He doesn't know if any other bond team has been working together as long as his. After all, founding member Charlie Groeschell is still part of the team for which predictability and risk factors truly matter.

"We're a seasoned team, the core of which has been working together for 33 years," Pierson points out while suggesting long tenure is valued by the fund's investors. The average client relationship the team manages exceeds 14 years, predating the fund's launch in 2000.

"We believe experience and longevity of the team are how our clients win over the long term," he says.

The relatively long tenure of the fund's management team garners a favorable grade by S&P Capital IQ for BCOSX's risk-consideration category. S&P Capital IQ gives a stronger ranking to funds whose managers have established tenures because the same managers tend to keep the same investment strategies. Changes in direction can mean alterations in portfolio composition, which subsequently may raise tax liabilities for investors.

But tenure's only one among many positive fund-ranking inputs BCOSX enjoys. Among performance-analytics details, the fund receives a favorable input for its three-year performance vs. peers, and it also outperformed its S&P style index, the Barclays Capital US Aggregate Total Return Index, during the same time.

BCOSX's positive cost-factor inputs, including expense ratio, sales load and turnover, also help it receive S&P Capital IQ's overall top five-star ranking. Pierson believes an efficient bond portfolio is one that doesn't have a lot of turnover, "but we're very opinionated about each bond that's in the portfolio."

Security selection is key, Pierson says. The team has a bottom-up strategy and spends the vast majority of its time, 80%-90%, conducting "credit research security-by-security and sector-by-sector basis."

The team looks at the bond market across the wide spectrum, says Pierson, who calls it "a holistic approach" to monitoring and selecting debt for the fund. The team focuses on risk control and understanding the benchmark, he says, and that means no derivatives, no emerging-market debt, and no

TAKEAWAY: This fund garners a five-star ranking under S&P Capital IQ's mutual fund ranking methodology.

POSITIVE IMPLICATIONS:

Baird Core Plus Fund  [BCOSX]
Fund: Investor

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foreign currencies as the team sticks to its knitting, purchasing only U.S.-dollar denominated securities.

Pierson thinks rival funds with "plus" in their monikers may choose to go beyond a portfolio's stated plan. But the "plus" in the Baird Core Plus Bond Fund team's strategy represents "a slice of high yield, below investment grade," he says.

While taking on the added risk, Pierson says the team is underweighting some of the riskiest bonds in the market, U.S. Treasuries. Interest rates on U.S. debt will likely stay low through late 2014, says the Fed, but once they start rising, the bonds will lose value.

According to Pierson, the team has well-diversified holdings among those issuers rated speculative or "junk," focusing on select fixed-rate non-agency mortgage structures with tremendous upside potential and corporate "fallen angels" where downside risk is more limited. He adds that team members believe there is also good value among select short-duration BBB-rated corporate debt.

"It all starts with risk control and we ask ourselves what can go wrong with this bond or sector, and how bad it could get. But that's where experience plays a part as we see a range of possibilities that we can draw from our experience," he says.

Being able to draw on historical knowledge is why the team is able to assess pitfalls on a risk-adjusted basis weighing credit risk, interest-rate risk, liquidity and other factors.

Perhaps one surprise for the group was its successful investment in the financials sector, in which the fund is overweight its benchmark.

"We remind ourselves that we are bond holders," Pierson says of the financial-sector obligations, which "have been a big part of added value over the last year or two. They've added tremendous amount of liquidity."

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ISABELLE SENDER, S&P Capital IQ Editorial

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As of August 13 (S&P Capital IQ Mutual Fund Rankings are updated weekly) the Investor Class of the Baird Core Plus Fund received 5 stars out of 592 funds in the S&P Intermediate Investment Grade Debt Funds category. S&P's Mutual Fund Rankings provide S&P's quantitative and holistic assessment of the performance, risk profile, and relative costs of a given fund compared to other mutual funds in its category. The overall Mutual Fund ranking is based on a weighted average computation of three components — performance analytics, risk considerations, and cost factors — that evaluate, relative to its peers, a fund's underlying holdings, its historical performance, and characteristics of the fund. The performance portion of the fund ranking is based on the 1-and 3-year total return. Total return and category rank do not take into account any loads or sales charges. The top 10% of funds in each category receive 5 stars, the next 20% receive 4 stars, the next 40% receive 3 stars, the next 20% receive 2 stars and the bottom 10% receive 1 star. Past performance is no guarantee of future results.

As of June 30, the average annual total returns for the Institutional Class of the Baird Core Plus Bond Fund are 8.08% for the one-year, 7.83% for the five-year and 6.98% for the ten-year periods. The expense ratio is 0.30% and the minimum investment is \$25,000. The average annual total returns for the Investor Class of the Baird Core Plus Bond Fund are 7.85% for the one-year, 7.55% for the five-year and 6.70% for the ten-year periods. The expense ratio is 0.55%. In the Intermediate-Term Bond category, the Morningstar average prospectus net expense ratio for funds is 0.85%. The performance of the Barclays Capital US Aggregate Return Index are 7.47% for the one-year, 6.79% for the five-year and 5.63% for the ten-year periods. The index is not managed and an investment cannot be made in it.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment in the fund will fluctuate so that an Investor's shares, when redeemed, may be worth more or less than their original cost. The fund's current performance may be lower or higher than this performance data.

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information is found in the prospectus and summary prospectus. For a prospectus or summary prospectus or for performance current to the most recent month-end, contact Baird Funds directly at 800-444-9102 or contact your Baird Financial Advisor. Please read the prospectus or summary prospectus carefully before investing. The fund's current performance may be lower or higher than this performance data.

The Fund may invest up to 20% of its net assets in non-investment grade debt securities (commonly referred to as junk bonds). While these types of debt securities typically offer higher yields than investment grade securities, they also include greater risks, such as increased credit risk and higher risk of default or bankruptcy. The Fund maintains securities with longer maturities in order to provide a greater potential for return. Generally, the longer a bond's maturity, the greater the interest rate risk. The Fund may also invest in U.S. dollar-denominated foreign securities which involve risks such as currency rate fluctuations, different and sometimes less strict financial reporting standards and regulation, and the potential for political and economic instability. The Fund may also invest in mortgage-and asset-backed securities which include interest rate, prepayment and default risks more pronounced than those of other fixed income securities. All investments contain some degree of risk.

The fund's top ten holdings as of June 30:

UNITED STATES TREAS BDS	GNMA PASS-THRU M SINGLE FAMILY
UNITED STATES TREAS NTS	FHLMC PC
UNITED STATES TREAS BDS	FNMA PASS-THRU LNG 30 YEAR
FNMA PASS-THRU LNG 30 YEAR	FHLMC PC
FNMA PASS-THRU LNG 30 YEAR	CSFB COML MTG PTC 2005-C5

This reprint must be accompanied with performance data current through the most recent quarter. For S&P ratings data current through the most recent month-end, please contact Baird Funds at www.bairdfunds.com or directly at 800-444-9102.

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S&P Capital IQ's Mutual Fund Rankings provide S&P's quantitative and holistic assessment of the performance, risk profile, and relative costs of a given fund compared to other mutual funds in its category. Rankings range from ***** (highest) to * (lowest) and follow a normalized distribution curve.

Fund Rank in Category S&P Capital IQ Ranking	Top 10% *****
	Next 20% ****
	Middle 40% ***
	Next 20% **
	Bottom 10% *

S&P Capital IQ Mutual Fund Ranking Methodology and Inputs

The overall Mutual Fund ranking is based on a weighted average computation of three components — performance analytics, risk considerations, and cost factors -- that evaluate, relative to its peers, a fund's underlying holdings, its historical performance, and characteristics of the fund.

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