

The logo for Baird, featuring the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue, trapezoidal background that tapers to the right.

Annual Report – Baird Funds

December 31, 2014

Baird LargeCap Fund
Baird MidCap Fund
Baird SmallCap Value Fund

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Cautionary Note on Analyses, Opinions and Outlooks: In this report we offer analyses and opinions on the performance of individual securities, companies, industries, sectors, markets, interest rates and governmental policies, including predictions, forecasts and outlooks regarding possible future events. These can generally be identified as such because the context of the statements may include such words as “believe,” “should,” “will,” “expects,” “anticipates,” “hopes” and words of similar effect. These statements reflect the portfolio managers’ good faith beliefs and judgments and involve risks and uncertainties, including the risk that the portfolio managers’ analyses, opinions and outlooks are or will prove to be inaccurate. It is inherently difficult to correctly assess and explain the performance of particular securities, sectors, markets, interest rate movements, governmental actions or general economic trends and conditions, and many unforeseen factors contribute to the performance of Baird Funds. Investors are, therefore, cautioned not to place undue reliance on subjective judgments contained in this report.

Baird Funds
1-866-442-2473
www.bairdfunds.com

February 26, 2015

Dear Shareholder,

The Baird Funds has a passion for delivering competitive, risk-adjusted returns and outstanding service. That deeply held commitment led to another year of strong asset growth during 2014 for our fixed income and equity funds. Consistency, continuity and collaboration are hallmarks of our approach to meeting your investing and servicing needs. Our senior portfolio management teams have worked through many market cycles and have developed disciplined, risk-controlled approaches of adding value over benchmark returns through proven, bottom-up strategies focused on identifying, researching and investing in quality investments that exhibit strong fundamentals and offer attractive relative value.

We understand that it is this consistency of approach and unwavering focus on risk control that our shareholders depend on to help them achieve their investment objectives through market cycles. Our commitment to these long-term principles combined with strong alignment with the interests of investors helped drive assets under management in the Baird Funds to \$17 billion at year end.

Our success rests on the trust you have placed in us to be effective stewards of your assets and we want to thank you for your continued investment in the Baird Funds.

On the following pages, we review the equity market in 2014 and the performance and composition of each of the Baird Equity Funds.

We are privileged to provide you with equity investment management services and appreciate the confidence and trust you have placed in our experienced investment team.

Sincerely,

A handwritten signature in black ink that reads "Mary Ellen Stanek". The signature is fluid and cursive, with a long horizontal flourish at the end.

Mary Ellen Stanek, CFA
President
Baird Funds

2014 Economic and Stock Market Commentary

U.S. equity markets adjusted to the diverging growth path of global economies, with further strengthening on the domestic front contrasting the heightened concerns about activity in Europe and China. The broad-based S&P 500 Index rose 13.7% for the year, while Dow Jones Industrial Average advanced 10.0%. Market returns were influenced by size as larger companies tended to fare better. For the year, the Russell 1000® Growth Index advanced 13.0%, the Russell Midcap Growth® Index increased 11.9%, and the Russell 2000® Value Index increased 4.2%.

Sector performance within the broad S&P 500 index reflected an interesting mix, with typically more-defensive sectors such as healthcare, utilities, and staples, combining with technology and financials, to outperform the index. On the weaker side of the ledger were the energy, materials, consumer discretionary and industrial sectors.

As in most years, equity returns were not steady on a quarter-to-quarter basis. Market returns early in the year were muted as harsh winter weather throughout much of the country tempered domestic economic data. As the year progressed, improving domestic growth contrasted an uptick in geopolitical tensions, particularly in the Middle East and between Russia and Ukraine, along with weaker economic data globally. Notably, the global inflation picture remained benign as a sharp drop in commodity prices, led by oil, helped pull interest rates lower. A rather abrupt market pullback in October quickly reversed itself on the back of solid domestic economic data as well as anticipated benefits from declining energy costs. The favorable market push into year-end resulted in solid fourth quarter returns and moved the S&P 500 Index into positive double-digit territory for the fifth time out of the past six years.

Economic Outlook

The U.S. stock market, having delivered a string of positive returns, will continue to be influenced by the pace of domestic growth, which we believe to be improving. Economic data released during the final quarter of 2014 reflected solid economic activity in the U.S. – employment, inflation, and confidence measures to name a few, indicate good momentum as we turn the calendar. The consumer appears to be particularly well positioned given these factors, plus improving personal balance sheets and substantially lower fuel prices. We expect economic momentum to result in continued growth in profits, a key driver of stock prices. Offsetting that backdrop, however, is that multiples paid for earnings could be challenged by the prospects of rising short-term interest rates. The Federal Reserve has indicated a desire to raise short-term rates, possibly as early as the June meeting. History shows that stocks can rise alongside interest rates, but investors should expect volatility as we get closer to the eventual announcement. We are also mindful of the sharp decline in oil prices. Historically, the dislocation of an important asset price can lead to episodes of financial or political strain.

The growth (or lack thereof) in international economies will also remain a concern in 2015. Europe has delivered anemic growth for years, and the European Central Bank has taken a page out of the Fed's playbook and commenced with a Quantitative Easing program. That program follows the very aggressive easing moves in Japan, which to date have shown modest success in reinvigorating growth. Additionally, China recently relaxed lending requirements in a hope to stimulate activity. The key is whether the strength in our economy helps pull the rest of the world along, or will the rest of the world drag U.S. growth down. As of today, we think the former is the correct answer, but the latter cannot be dismissed.

In closing, we are optimistic that the U.S. economy continues to grow at modest, but sustainable rates, a positive backdrop for stocks. Foreign central bank moves may help lift international markets, but the effectiveness of those actions to spur sustainable economic growth is uncertain. We will keep a close eye on changes both here and abroad and are prepared to make necessary adjustments. Thank you for your support of Baird Investment Management and Baird Kailash Group.

The S&P 500 Index is an unmanaged, market capitalization weighted index of 500 common stocks widely regarded to be representative of the U.S. market in general. Returns include reinvestment of dividends.

2014 Economic and Stock Market Commentary

The Dow Jones Industrial Average is a price weighted average of 30 high quality stocks selected for total market value and broad public ownership. A price weighted benchmark results in the stocks with the highest prices contributing the most to the performance of the benchmark. The returns of this index do not include the reinvestment of dividend income.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. This index does not reflect any deduction for fees, expenses or taxes.

The Russell Midcap® Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. This index does not reflect any deduction for fees, expenses or taxes.

The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe and includes Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. This index does not reflect any deduction for fees, expenses or taxes.

A direct investment in an index is not possible.

Baird LargeCap Fund

December 31, 2014

Portfolio Managers' Commentary

Rising over 13% in 2014, the S&P 500 built on the powerful 32% return from 2013. On a sector level Utilities, Health Care and IT all returned over 20% for the year while Materials, Telecoms and Energy stocks lagged with returns ranging from 10% to -8%. The market climbed as investor confidence rose, index products took in record amounts of assets and investor exposure to equities reached levels approximating those seen in 1999 and 2007. We are somewhat concerned about rising investor enthusiasm for equities this late in a bull market. This anxiety is exacerbated by a number of long-run valuation models that indicate equities may be expensive. With that said, we recognize that market timing is futile and that relative to many alternatives, equities may have significant long-term appeal.

We would encourage investors to read a recent cover article in *The Economist* that attempted to answer “Who buys negative-yield bonds?” Observing that “...government bonds...in as many as ten countries are selling at negative yields” the author went on to note that one “...would have to be quite depressed to conclude that no asset on the planet would make any money at all over the next decade.”¹ We could not agree more and believe that a disciplined approach that seeks to source returns from both value and growth among large global franchises with strong balance sheets and durable economic moats helmed by capable managers represents one of the best risk-adjusted methods to compound wealth over long horizons.

While the Baird LargeCap Fund (Institutional Class) outperformed the S&P by 1.40% in 2014, we believe 2014 sends a powerful message about the benefits of using a balanced approach towards large-cap stock selection.

Investment Process

We believe there are meaningful advantages to both growth and value investing. While we understand the near religious affiliations some managers and investors have for one or the other, few would argue with the assertion that the performance pendulum can swing back and forth. There are times when value bests growth and others when growth outperforms value.

The field of behavioral finance does not shine a flattering light on fund managers' or investors' ability to astutely time their entry and exit points from various strategies. Human beings have shown a tendency to switch from disciplines right when they are bottoming and enter strategies when they should probably be departing. Taking a balanced approach that seeks to identify *both* the best value and growth opportunities may afford us a significant competitive advantage over indexing while reducing the odds we experience the large relative drawdowns that can afflict these strategies when run in isolation. **Because we are convinced that trying to time growth vs. value is futile, managing money in a way that improves our ability (and hopefully yours!) to stick with our discipline is at the heart of what we believe will give us a significant competitive advantage over a full-market cycle.**

Some Simple Evidence:

We ran a test to see if even the most naïve approach to balanced investing would have historically offered a meaningful advantage over just buying the index. For this purpose only, we simply built a hypothetical hybrid portfolio that contained *both* the 20% highest growth and the 20% deepest value names in the S&P 500 and compared the results to the broader index.² The results were striking. In our hypothetical example, Fig. 1 below shows that **even a simple combination of value and growth stocks would have doubled the value of the hypothetical investment compared to the index since 1990.** Equally interesting, as shown in Fig. 2, the volatility of the monthly relative returns of this hypothetical hybrid strategy are significantly below those found in either the growth or value return streams.

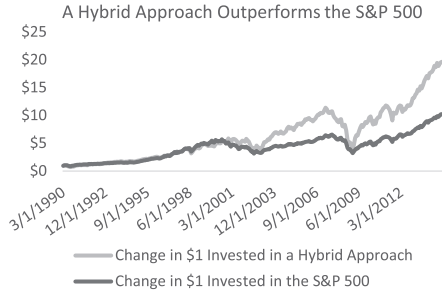
1 *The Economist*, January 24th-30th 2015, “Buttonwood: Accentuate the Negative, Why investors would opt to lose money”, p 62.

2 The hypothetical hybrid portfolio is used for illustrative purposes only and does not represent any accounts managed by Baird Kailash Group.

Baird LargeCap Fund

December 31, 2014

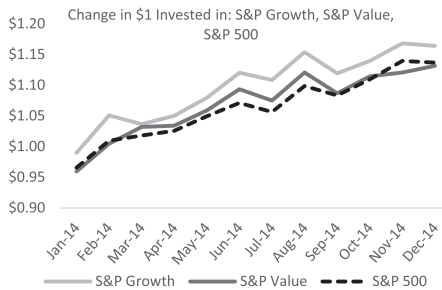
Fig. 1: A hypothetical combination of Growth + Value has outperformed the broader S&P 500 index since 1990...



Sources: Kailash Capital LLC, Compustat
See note 2 above

Figure 3 below compares the performance of the S&P 500 index to the performance of a hypothetical portfolio consisting of 20% of the index's deepest value and highest growth names in 2014.³ You can see that growth (blue line) outperformed the core index (dashed black line) while the value names (solid red line) ended the year just shy of the broader benchmark. Figure 4 shows us historically how often growth outperforms value depending on the market's monthly return. The left-most bar shows that since 1990, when the market experiences its strongest upside, growth outperforms value nearly 70% of the time.⁴ The right-most bar shows that when the market suffers sharp reversals, growth only beats value 30% of the time. With the market up north of 13% last year we find nothing surprising about growth's dominance in 2014.

Fig. 3: In 2014, growth outperformed value



Sources: Kailash Capital LLC, Compustat
See note 2 above

Fig. 2: ...While significantly reducing the volatility of relative returns compared to Growth or Value alone

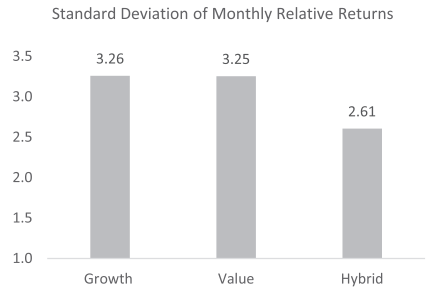
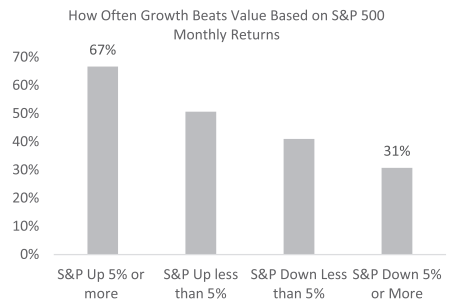


Fig. 4: History tells us growth tends to do better in up markets



³ We define "growth" as the 20% of firms in the S&P 500 with the highest price to earnings ratios and "value" as the 20% of firms in the S&P 500 with the lowest price to earnings ratios.

⁴ Hypothetical data since 1990.

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No Fans of Forecasting:

The data above indicates that historically when the market is going to rise a lot, you are better off in growth strategies and when it falls sharply, value has historically been the better place to be. Unfortunately, like Warren Buffet who in 1961 told his investors “I am certainly not going to predict what general business or the stock market are going to do in the next year or two since I don’t have the faintest idea,” **we don’t believe anyone can predict short-term market direction.**⁵ Instead we use a balanced approach to large cap investing to avoid the pain that can emerge from dedicated growth or value strategies and the associated timing errors that even short term missteps can encourage.

Similarly, since we believe that history rhymes, we like to use large amounts of fundamental data to try and exploit the behavioral errors of other investors caught up in what we view as futile attempts to predict the future. We are in the “Moneyball” business, not the “crystal-ball” business. **We would rather stick to our process of trying to find self-funded firms whose growth may be underestimated by other investors or find inexpensive firms with asymmetrically positive payoff structures.**

Examples from 2014:

The following examples are not stock recommendations. One investment represents one of our largest contributors to the Fund’s performance and the other was one of our largest detractors to performance. These examples are merely intended to better explain our investment approach that seeks to identify companies that we believe are mispriced.

Capitalizing on a Favorable Environment for Growth: Health Care

In 2013 Edwards Lifesciences fell 27% while the S&P 500 rose over 32%. This apparently left its mark on investors who, by the start of 2014, saw the company’s relentlessly rising R&D spend, the movement of its U.S. end-market from a monopoly to a duopoly and emerging competitors in other geographies as credible reasons to avoid the stock. We cannot help but wonder if much of the antipathy towards Edwards at the start of 2014 stemmed from the less than spectacular price movement in the prior year rather than dispassionate analysis.

Devoid of emotions or biases, our models simply saw a firm that by year end 2013 had managed to grow revenues by 22% and profits by 65% over the prior three years trading at a mid-teens price to earnings ratio with a healthy return on equity and a management repurchasing shares after a bout of severe underperformance. Our fundamental review of the company found a firm whose products sought to mitigate the number-one cause of death in the world: cardiovascular disease. As the global leader in heart valve therapy, a world leader in hemodynamic monitoring systems (used to monitor a patient’s heart function in surgery and ICU settings) and with a rapidly growing franchise in transcatheter heart valves which allow the non-surgical replacement of heart valves, we believed the core products were unlikely to go away anytime soon. While other investors were frustrated as the company grew R&D spending from 14.7% of sales in 2011 to nearly 16% by 2013, we believed the money was being put to good use as evidenced by the firm’s 2,500 patents. At the start of 2014 we felt the negative view on the company was priced in, the firm’s economic moat defensible, the balance sheet robust, the management credible and that the firm’s prospects and growth were significantly mispriced. Without forecasting anything we were pleased to see this growth firm rise over 93% and become the largest contributor to the Fund’s 2014 returns.

Suffering at the Hands of an Inhospitable Value Environment: Industrials

Investor views about China are about as diverse and widely distributed as anything we can remember. There are China acolytes who believe the country’s economic ascent to displace America as the global hegemon is all but certain and others who believe the country is a Potemkin village built on a debt bubble. In late 2013, a prominent short-seller who believes in the bearish view targeted Caterpillar (CAT) as a likely casualty of what he felt were the inevitable problems facing China.

⁵ We define “short-term” as any period less than three years.

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Although we also worry a great deal about the “big picture,” investor anxiety is often the source of great opportunities. In early 2014, our models looked at CAT and found an inexpensive firm with robust cash flows and shareholder friendly management and indicated the timing was ripe to invest. Reviewing the fundamentals of the firm we noted that Caterpillar was the world’s leading manufacturer of heavy equipment, diesel and gas engines and provided a wide array of products used for residential and commercial construction, mining, paving, forestry, tunneling, power generation, rail and marine applications. To us it seemed that investors’ worries about China had already transpired as the company’s Resource division had seen revenues collapse from over \$21 billion in 2012 to just over \$10 billion by FYE 2013. In contrast, the firm’s Power and Construction divisions had remained essentially flat at around \$20 billion each by the end of 2013. Despite being cast as a macro-dependent cyclical, it is worth mentioning that in the depths of the 2009 crash, CAT lost only a nominal amount of money *in one quarter* that year.

Caterpillar’s management was aggressive as they embraced cost reductions across the complex taking charges to set the firm up for robust profits despite the painful decrease in revenues. Looking at the situation, we felt this was an outstanding opportunity to buy a world-class global franchise at a very reasonable price. For much of 2014 this decision seemed to be the right one as the stock outperformed both the broad S&P 500 and the S&P 500 industrials index. Unfortunately for us however, as oil’s descent accelerated in the back-half of the year, it eventually took CAT down with it. With a meaningful and lucrative business selling well stimulation pumps, reciprocating engines and turbines to the energy space this would prove to be CAT’s undoing, the shares suffered and became one of the Fund’s largest detractors from returns as investors (rightly) worried that the firm’s profits would decline. While the shares have suffered, we continue to believe the Caterpillar franchise is healthy, intact and a good deal of pessimism is reflected in current valuations.

Discussion of Fund’s Performance in 2014

In 2014, the Baird LargeCap Fund (Institutional Class) generated a total return of 15.09%, compared to a 13.69% return for the S&P 500 index, the Fund’s benchmark. Below we discuss sectors and companies that were key contributors and detractors from the Fund’s performance relative to the S&P 500.

Key Contributors To Relative Returns:

- o **Industrials** as a sector rose less than 10% compared to the broad S&P 500 index which was up nearly 14%. The Fund ran almost exactly at the sector weight but benefitted from very strong stock selection with its Industrial picks rising over 20% for the year. Significant overweights in low cost and legacy carriers Southwest and Delta added the most to the Fund’s relative returns as the industry continues to benefit from a more rational operating environment post significant capacity reductions.
- o Similar to Industrials, **Consumer Discretionary** was another sector that underperformed the benchmark (again up 10% vs. the broad S&P 500 being up nearly 14%), where the Fund carried an identical sector weight but strong stock selection contributed significantly to relative returns. The Fund’s holdings in the sector rose nearly 18% as a large weighting in DISH Networks and Delphi Automotive, among others, drove meaningful outperformance in the group.
- o The Fund was neutral the **Health Care** sector which meaningfully outperformed the broad benchmark, rising almost 25% for the year. With its Health Care holdings up 31% for the year, the Fund benefitted from strong stock selection in the space as we profited from both growth (Edwards Lifesciences) and value names (Abbvie).

Key Detractors From Relative Returns:

- o Despite representing only 3% of the S&P 500, the **Utilities** sector detracted from the Fund’s relative returns more than any other sector. The Fund held just shy of a 2% weighting in the sector and our largest weighting, AES, fell in absolute terms. Being underweight such a strong sector hampered us on allocation and due to the underperformance of our largest weighted stock, selection in the sector was also negative.

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- o Despite being overweight **Financials** which outperformed the broad benchmark, poor stock selection dragged results down as our holdings rose only 12.5% compared to the S&P 500 Financial sector being up 15%. Our positions in credit card companies (American Express and Capital One) combined with a weak showing out of some of our regional banks led to a negative effect from stock selection in the group.
- o Despite carrying less than 2% of the Fund's assets in **cash** on average, our desire to keep even this small amount of "dry powder" on hand cost the Fund 25 bps.

Conclusion

As the first year of managing the LargeCap Fund comes to a close we would like to thank every one of our investors for sticking with us. We understand that a new manager represents an unknown and are deeply grateful for your support. My money is invested along-side yours in the belief that it is not just common sense that a fund manager "eat his own cooking" but that it also provides a healthy dose of professional alignment. Over the course of the year nearly 80% of the Fund's excess returns were sourced from stock selection and we believe that hews to the product's core value proposition. While there are many products that attempt to time markets or sectors, we believe these behaviors are more difficult than finding the under-appreciated growth firms and inexpensive value opportunities we typically work in. By maintaining a balanced approach to stock selection we hope to minimize our own (and hopefully our investors') behavioral errors in an effort to keep us all focused on the long-term, process-driven approach that we believe is the key to compounding wealth at better than market rates. We understand that track records are built over years and that even the best managers will experience unflattering moments. With that said, we would like to make it clear that in our view the investors in the Fund are not customers, rather they are *partners*. While long-term investment results are always the ultimate arbiters of a money manager's success, we understand that aside from the portfolios we build, the shareholders we work with represent the LargeCap Fund's greatest asset.

Portfolio Manager:

Matt Malgari

Baird LargeCap Fund

December 31, 2014 (Unaudited)

A December 31, 2014 summary of the Fund's top 10 holdings and equity sector analysis compared to the S&P 500® Index is shown below.

Top 10 Holdings*

Intel Corporation	2.8%
AbbVie Inc.	2.7%
Oracle Corporation	2.6%
Moody's Corporation	2.3%
SanDisk Corporation	2.3%
Hewlett-Packard Company	2.2%
C.R. Bard, Inc.	2.2%
Expedia, Inc.	2.1%
PepsiCo, Inc.	2.0%
Medtronic, Inc.	2.0%

Net Assets:	\$40,175,502
Portfolio Turnover Rate:	88.2%
Number of Equity Holdings:	115

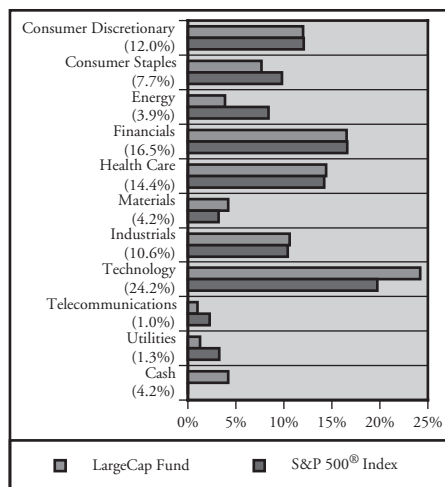
Annualized Portfolio Expense Ratio:***

Gross	
Institutional Class:	1.24%
Investor Class:	1.49%****

Net

Institutional Class:	0.75%
Investor Class:	1.00%****

Equity Sector Analysis**



* The Fund's portfolio composition is subject to change and there is no assurance that the Fund will continue to hold any particular security. Percentages shown relate to the Fund's total net assets as of December 31, 2014.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2014, and may not add up to 100% due to rounding.

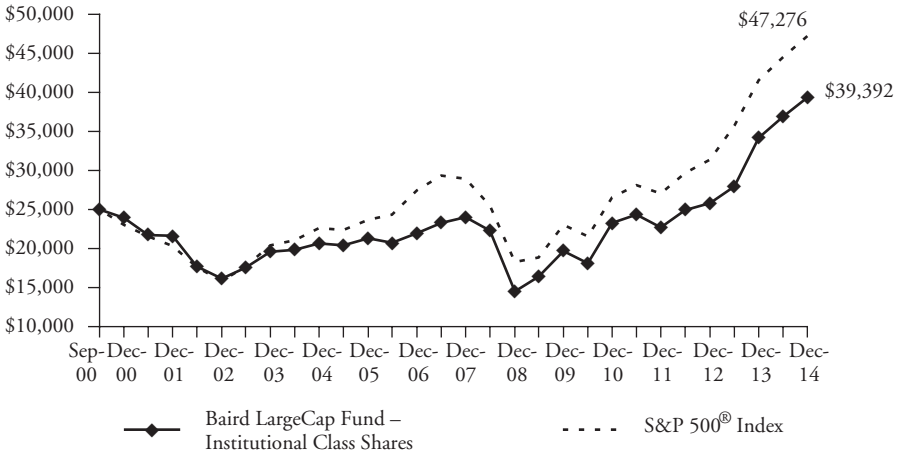
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.75% of average daily net assets for the Institutional Class shares and 1.00% of average daily net assets for the Investor Class shares, at least through April 30, 2016.

**** Includes 0.25% 12b-1 fee.

Baird LargeCap Fund

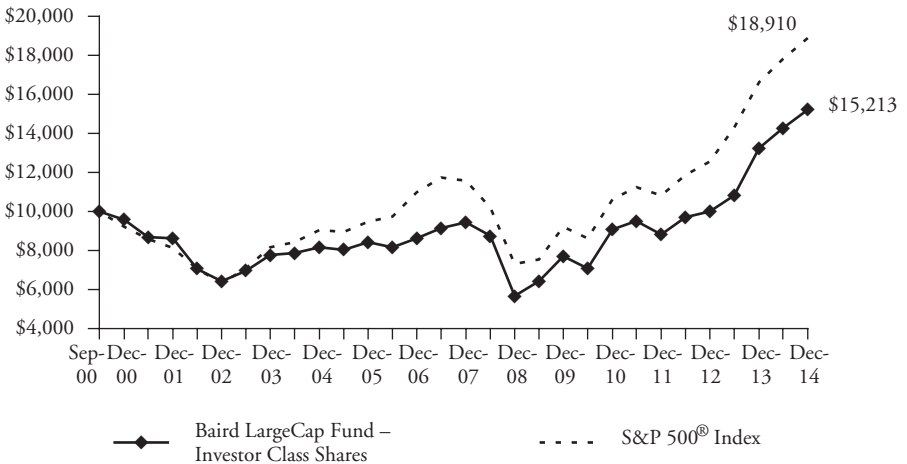
December 31, 2014 (Unaudited)

Institutional Class Value of a \$25,000 Investment



Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (9/29/00), assuming reinvestment of all distributions.

Investor Class Value of a \$10,000 Investment



Growth of a hypothetical investment of \$10,000 made on the Fund's inception date (9/29/00), assuming reinvestment of all distributions.

Baird LargeCap Fund

December 31, 2014 (Unaudited)

Average Annual Total Returns

<i>For the Periods Ended December 31, 2014</i>	One Year	Five Years	Ten Years	Since Inception ⁽¹⁾
Institutional Class Shares	15.09%	14.88%	6.69%	3.24%
Investor Class Shares	14.89%	14.62%	6.44%	2.99%
S&P 500 [®] Index ⁽²⁾	13.69%	15.45%	7.67%	4.57%

(1) For the period from September 29, 2000 (inception date) through December 31, 2014.

(2) The S&P 500[®] Index measures the performance of 500 common stocks chosen for market size, liquidity and industry group representation of U.S. equity performance. This index does not reflect any deduction for fees, expenses or taxes. A direct investment in the index is not possible.

Effective December 23, 2013, Baird Kailash Group, LLC became the Fund's subadviser. The returns shown in the table above and line graphs on the previous page reflect reinvestment of dividends and/or capital gains distributions in additional shares. The returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The returns reflect the actual performance for each period and do not include the impact of trades executed on the last business day of the period that were recorded on the first business day of the next period.

The gross expense ratio for each Class, as reflected in the Fund's current prospectus, is set forth under "Portfolio Characteristics".

The Fund's subadviser makes investment decisions for the Fund primarily using quantitative investment models which rank securities based on fundamental measures of value, past performance and indicators of recent positive changes. The success of the quantitative investment methodologies and processes employed by the subadviser depends on the analyses and assessments that were used in developing such methodologies and processes, as well as on the accuracy and reliability of models and data provided by third parties. Incorrect analyses and assessments or inaccurate or incomplete models and data would adversely affect performance. Certain low-probability events or factors that are assigned little weight may occur or prove to be more likely or may have more relevance than expected, for short or extended periods of time. It is also possible that prices of securities may move in directions that were not predicted by the subadviser's quantitative methodologies. The Fund may invest in stocks (or ADRs representing stocks) of foreign companies that are traded on U.S. exchanges. Foreign investments involve additional risk such as currency rate fluctuations, political and economic instability, and different and sometimes less strict financial reporting standards and regulation.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

For information about the performance of the Fund as of the most recent month-end, please call 1-866-44BAIRD or visit www.bairdfunds.com. Mutual fund performance changes over time and current performance may be lower or higher than that stated.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Common Stocks

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Aerospace & Defense			
The Boeing Company	1,601	\$ 208,098	0.5%
General Dynamics Corporation	1,821	250,606	0.6%
Northrop Grumman Corporation	2,498	368,180	0.9%
Raytheon Company	1,609	174,046	0.5%
		<u>1,000,930</u>	<u>2.5%</u>
Airlines			
Alaska Air Group, Inc.	1,421	84,919	0.2%
Delta Air Lines, Inc.	4,777	234,981	0.6%
Southwest Airlines Co.	13,232	559,978	1.4%
United Continental Holdings, Inc.*	2,901	194,048	0.5%
		<u>1,073,926</u>	<u>2.7%</u>
Auto Components			
Autoliv, Inc.	724	76,831	0.2%
Automobiles			
Ford Motor Company	39,411	610,870	1.5%
General Motors Company	1,850	64,584	0.2%
Harley-Davidson, Inc.	4,686	308,854	0.8%
		<u>984,308</u>	<u>2.5%</u>
Banks			
Bank of America Corp.	13,891	248,510	0.6%
Fifth Third Bancorp	10,434	212,592	0.5%
Huntington Bancshares Incorporated	41,567	437,285	1.1%
U.S. Bancorp	16,663	749,002	1.9%
Wells Fargo & Company	14,133	774,771	1.9%
		<u>2,422,160</u>	<u>6.0%</u>
Beverages			
The Coca-Cola Company	5,772	243,694	0.6%
Dr Pepper Snapple Group, Inc.	2,454	175,903	0.5%
PepsiCo, Inc.	8,668	819,646	2.0%
		<u>1,239,243</u>	<u>3.1%</u>
Biotechnology			
Amgen Inc.	2,149	342,314	0.9%
Biogen Idec Inc.*	514	174,477	0.4%
Celgene Corporation*	3,046	340,726	0.8%
		<u>857,517</u>	<u>2.1%</u>
Building Products			
Masco Corporation	17,382	438,026	1.1%

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Capital Markets			
Ameriprise Financial, Inc.	4,507	\$ 596,051	1.5%
The Blackstone Group L.P.	16,920	572,403	1.4%
		1,168,454	2.9%
Chemicals			
Celanese Corporation	2,734	163,931	0.4%
CF Industries Holdings, Inc.	1,223	333,316	0.8%
The Dow Chemical Company	5,891	268,689	0.7%
International Flavors & Fragrances Inc.	790	80,074	0.2%
LyondellBasell Industries N.V. – Class A f	6,203	492,456	1.2%
		1,338,466	3.3%
Communications Equipment			
Harris Corporation	3,050	219,051	0.5%
QUALCOMM Incorporated	1,950	144,944	0.4%
		363,995	0.9%
Consumer Finance			
American Express Company	3,435	319,592	0.8%
Capital One Financial Corporation	4,805	396,653	1.0%
Discover Financial Services	8,844	579,194	1.4%
		1,295,439	3.2%
Containers & Packaging			
Ball Corporation	5,220	355,847	0.9%
Diversified Financial Services			
Moody's Corporation	9,760	935,106	2.3%
Diversified Telecommunication Services			
AT&T Inc.	8,950	300,630	0.7%
CenturyLink, Inc.	2,058	81,456	0.2%
		382,086	0.9%
Electrical Equipment			
Rockwell Automation, Inc.	1,256	139,667	0.3%
Electronic Equipment, Instruments & Components			
Corning Incorporated	7,963	182,592	0.5%
Energy Equipment & Services			
Halliburton Company	4,620	181,705	0.4%
Schlumberger Limited f	715	61,068	0.2%
Seadrill Ltd f	2,902	34,650	0.1%
		277,423	0.7%

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Food & Staples Retailing			
The Kroger Co.	11,551	\$ 741,690	1.8%
Safeway Inc.	2,216	77,826	0.2%
		819,516	2.0%
Food Products			
Archer-Daniels-Midland Company	5,420	281,840	0.7%
Bunge Limited f	1,840	167,274	0.4%
General Mills, Inc.	1,471	78,449	0.2%
Tyson Foods, Inc.	1,730	69,356	0.2%
		596,919	1.5%
Health Care Equipment & Supplies			
Baxter International Inc.	1,004	73,583	0.2%
Becton, Dickson and Company	4,620	642,919	1.6%
C.R. Bard, Inc.	5,338	889,418	2.2%
Edwards Lifesciences Corporation*	4,717	600,851	1.5%
Medtronic, Inc.	11,303	816,077	2.0%
Varian Medical Systems, Inc.*	894	77,340	0.2%
		3,100,188	7.7%
Health Care Providers & Services			
Anthem, Inc.	1,293	162,491	0.4%
Hotels, Restaurants & Leisure			
Wyndham Worldwide Corporation	9,105	780,845	1.9%
Household Durables			
PulteGroup, Inc.	18,191	390,379	1.0%
Household Products			
Energizer Holdings, Inc.	3,278	421,420	1.1%
Independent Power Producers & Energy Traders			
The AES Corporation	25,670	353,476	0.9%
Insurance			
Aflac, Inc.	3,383	206,667	0.5%
The Progressive Corporation	6,145	165,854	0.4%
The Travelers Companies, Inc.	1,606	169,995	0.4%
		542,516	1.3%
Internet & Catalog Retail			
Expedia, Inc.	9,676	825,943	2.1%
Internet Software & Services			
Google Inc.*	1,256	661,158	1.6%
IT Services			
Alliance Data Systems Corporation*	598	171,058	0.4%

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
IT Services (cont.)			
International Business Machines Corporation	923	\$ 148,086	0.4%
MasterCard Incorporated	2,130	183,521	0.4%
Visa Inc.	1,065	279,243	0.7%
The Western Union Company	4,515	80,863	0.2%
		<u>862,771</u>	<u>2.1%</u>
Leisure Equipment Products			
Hasbro, Inc.	1,351	74,291	0.2%
Life Sciences Tools & Services			
Agilent Technologies, Inc.	1,732	70,908	0.2%
Machinery			
Caterpillar Inc.	7,529	689,129	1.7%
Deere & Company	6,025	533,032	1.4%
Illinois Tool Works, Inc.	921	87,219	0.2%
		<u>1,309,380</u>	<u>3.3%</u>
Media			
DISH Network Corporation – Class A*	10,277	749,090	1.9%
Gannett Co., Inc.	2,577	82,284	0.2%
Omnicom Group Inc.	2,039	157,961	0.4%
		<u>989,335</u>	<u>2.5%</u>
Multiline Retail			
Kohl's Corporation	1,493	91,133	0.2%
Macy's, Inc.	1,268	83,371	0.2%
Nordstrom, Inc.	4,632	367,734	0.9%
		<u>542,238</u>	<u>1.3%</u>
Multi-Utilities			
CMS Energy Corporation	5,021	174,480	0.4%
Oil, Gas & Consumable Fuels			
Marathon Petroleum Corporation	5,010	452,203	1.1%
Phillips 66	5,388	386,320	1.0%
Tesoro Corporation	3,511	261,043	0.6%
Valero Energy Corporation	1,329	65,785	0.2%
Whiting Petroleum Corporation*	3,196	105,468	0.3%
		<u>1,270,819</u>	<u>3.2%</u>
Pharmaceuticals			
AbbVie Inc.	16,562	1,083,817	2.7%
Eli Lilly and Company	3,752	258,851	0.6%
Johnson & Johnson	2,281	238,524	0.6%
Pfizer Inc.	2,415	75,227	0.2%
		<u>1,656,419</u>	<u>4.1%</u>

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Real Estate Investment Trusts (REITs)			
American Capital Agency Corp.	6,930	\$ 151,282	0.4%
Road & Rail			
Hertz Global Holdings, Inc.*	2,721	67,862	0.2%
Union Pacific Corporation	1,937	230,755	0.6%
		298,617	0.8%
Semiconductors & Semiconductor Equipment			
Intel Corporation	31,001	1,125,026	2.8%
Linear Technology Corporation	1,643	74,921	0.2%
Maxim Integrated Products, Inc.	9,417	300,120	0.7%
Microchip Technology Incorporated	1,657	74,747	0.2%
Micron Technology, Inc.*	15,984	559,600	1.4%
NXP Semiconductors N.V.*f	3,563	272,213	0.7%
		2,406,627	6.0%
Software			
Check Point Software Technologies Ltd.*f	2,277	178,904	0.4%
Citrix Systems, Inc.*	3,510	223,938	0.6%
Electronic Arts Inc.*	1,910	89,799	0.2%
Microsoft Corporation	9,572	444,619	1.1%
Oracle Corporation	23,022	1,035,299	2.6%
		1,972,559	4.9%
Specialty Retail			
Foot Locker, Inc.	1,402	78,765	0.2%
The Gap, Inc.	2,138	90,031	0.2%
		168,796	0.4%
Technology Hardware, Storage & Peripherals			
Apple Inc.	4,928	543,953	1.4%
Hewlett-Packard Company	22,244	892,652	2.2%
NetApp, Inc.	3,860	159,997	0.4%
SanDisk Corporation	9,445	925,421	2.3%
Seagate Technology Public Limited Company f	10,205	678,632	1.7%
		3,200,655	8.0%
Thrifts & Mortgage Finance			
New York Community Bancorp, Inc.	9,444	151,104	0.4%
Total Common Stocks (Cost \$34,329,690)		38,487,148	95.8%

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Cash Advantage Fund, 0.06%«	952,402	\$ 952,402	2.4%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.07%«	700,000	700,000	1.7%
Total Short-Term Investments (Cost \$1,652,402)		1,652,402	4.1%
Total Investments (Cost \$35,982,092)		40,139,550	99.9%
Other Assets in Excess of Liabilities		35,952	0.1%
TOTAL NET ASSETS		\$40,175,502	100.0%

Notes to Schedule of Investments

* Non-Income Producing

f Foreign Security

« 7-Day Yield

Industry classifications shown in the Schedule of Investments are based off of the Global Industry Classification Standard (GICS®). GICS was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor Financial Services LLC (“S&P”). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

The accompanying notes are an integral part of these financial statements.

Baird LargeCap Fund

Schedule of Investments, December 31, 2014

Summary of Fair Value Exposure at December 31, 2014

The Fund has adopted authoritative fair valuation accounting standards which establish a definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion on changes in valuation techniques and related inputs during the period. These standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as “inputs”) used in pricing the asset or liability. These standards state that “observable inputs” reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources and “unobservable inputs” reflect an entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability. These inputs are summarized into three broad levels and described below:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets, dealer indications, interest rates, yield curves, prepayment speeds, credit risk, default rates, inputs corroborated by observable market data, etc.).

Level 3 – Significant unobservable inputs (including the Fund’s own assumptions about the factors that market participants would use in valuing the security) based on the best information available.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund’s investments as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$38,487,148	\$ —	\$ —	\$38,487,148
Total Equity	38,487,148	—	—	38,487,148
Short-Term Investments				
Money Market Mutual Funds	1,652,402	—	—	1,652,402
Total Short-Term Investments	1,652,402	—	—	1,652,402
Total Investments*	\$40,139,550	\$ —	\$ —	\$40,139,550

* Additional information regarding the industry classifications of these investments is disclosed in the Schedule of Investments.

Changes in valuation techniques may result in transfers into or out of assigned levels within the fair value hierarchy. There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the reporting period, as compared to their classification from the prior year’s annual report. See the Fund’s valuation policy in Note 2a to the financial statements.

The accompanying notes are an integral part of these financial statements.

Baird MidCap Fund

December 31, 2014

Portfolio Managers' Commentary

For the year ended December 31, 2014, the Baird MidCap Fund Institutional Class posted a total return of 4.85% (4.62% for the Investor Class), as compared with a gain of 11.90% for the Russell MidCap® Growth Index, the MidCap Fund's primary benchmark.

As we move further into the economic recovery, we are increasingly sensitive to the performance dynamics within the market. In recent quarters, we have been struck by the strong relative performance from companies that are unprofitable or carrying higher debt levels. In our long tenure of managing mid cap stocks, we have seen these types of low quality cycles before. We understand why it is happening, how abruptly it can change and the importance of staying true to the Fund's high quality approach. In the interim, the Fund has felt the very real challenge of keeping pace in such an environment. Among several possibilities, Fed tightening may serve as a catalyst to return favor to businesses with strong profitability and conservative balance sheets, the type of companies on which we focus. We believe that focus is one of the primary reasons for the long-term success of the Fund.

The Fund's sector weights remained relatively balanced compared to its benchmark during 2014, a continuation of our approach in recent years. We did maintain a modest pro-cyclical stance within economically-sensitive sectors. This positioning was based on continued U.S. economic growth, supported by the positive trend in U.S. employment, low inflation, and rising consumer and business confidence.

The Fund's technology holdings provided the strongest relative performance. Our stock selection in the semiconductor industry was helped by strong product cycle participation. In addition, the software and services industry benefitted from exposure to security spending and merger activity. These two industry groups helped the Fund outpace broad strength in the technology sector overall.

Stocks in the basic materials sector also made a positive contribution to relative performance. Holding companies with end market exposure tilted toward construction activity proved beneficial as fundamentals improved. We tend to avoid pure commodity-oriented business models in this sector, as those earnings patterns are often more volatile.

Producer durable holdings fought several macro-related headwinds and failed to keep pace with benchmark returns. Thematically, an expectation for continued economic growth in the form of better corporate and consumer spending generally played out on the domestic front, but weakness emerged on a global basis, hurting businesses with a higher foreign revenue mix. A sharp drop in oil prices in the second half negatively impacted performance from industrial companies tied to energy activity. Also, a lack of exposure to the traditionally cyclical airline industry created a meaningful performance headwind.

The Fund's healthcare stocks produced fairly broad strength, but relative performance was hurt by the Fund's relatively light exposure to biotech and pharmaceutical companies, areas with significant price returns. The challenge of matching performance in the healthcare sector is underscored by the strong multi-year run in biotech. Many companies in that industry offer interesting growth prospects, but are not profitable. We will participate in that industry when we find companies that meet our fundamental criteria, but may struggle in periods when we do not.

The Fund's energy stocks detracted from relative performance, reflecting a tale of two halves, with a positive first half more than offset by the impact of a dramatic decrease in the price of oil during the second half. We have often mentioned the potential for volatility in this sector due to performance correlation with oil and natural gas prices. We continue to like the long-term backdrop for many energy companies, recognizing the potential for continued commodity volatility as the global growth picture sorts itself out.

In the consumer staples sector, the performance of the Fund's holdings fell short of corresponding benchmark sector returns. We were somewhat surprised all year that returns from the staples sector significantly outpaced the market advance. Notably, many companies within the sector displayed meaningful price-earnings multiple

Baird MidCap Fund

December 31, 2014

expansion, which was due in part to increased merger activity in the beverage, tobacco, and food industries. The Fund's holdings were underexposed to these industries relative to the benchmark.

The consumer discretionary sector lagged the overall market. While many of the Fund's holdings, including retailers, restaurants, and apparel companies, delivered strong performance, the collective holdings in that sector trailed on a relative performance basis. The outlook for spending remains relatively favorable due to improving employment trends, higher confidence levels, and the potential benefit from low energy prices.

The Fund's financial services holdings provided a drag on relative performance during the year. The Fund's financial services sector holdings were based on our expectation that stronger U.S. economic growth would lead to higher rates during the year, which did not occur. The persistent decline in longer-term interest rates created a headwind as low yields proved very supportive of REIT performance. The REIT industry comprised approximately 20% of the financial services sector weight, but none in the Fund. We find the REIT business model, which requires the distribution of earnings and dependency on the capital markets for growth, difficult for our fundamental approach. We will continue to assess the appropriateness of REITs for the Fund, but don't intend to blindly plug a benchmark hole. Asset managers, a key Fund holding, lagged overall sector performance despite what we viewed as solid fundamental performance.

The investment process underlying the MidCap Fund remains focused on identifying high-quality companies that deliver attractive returns and above average growth relative to peers. Seeking to control risk at the sector and position level is also a priority of our process, with the goal of providing lower volatility of returns for the Fund compared to its benchmark index.

Portfolio Managers:

Charles F. Severson
Kenneth M. Hemaue

Baird MidCap Fund

December 31, 2014 (Unaudited)

A December 31, 2014 summary of the Fund's top 10 holdings and equity sector analysis compared to the Russell MidCap® Growth Index is shown below.

Top 10 Holdings*

O'Reilly Automotive, Inc.	2.5%
Integrated Device Technology, Inc.	2.5%
Affiliated Managers Group, Inc.	2.4%
Stericycle, Inc.	2.4%
Mead Johnson Nutrition Company	2.4%
Acuity Brands, Inc.	2.3%
Fortinet, Inc.	2.3%
Alliance Data Systems Corporation	2.3%
Tractor Supply Company	2.2%
Acadia Healthcare Company, Inc.	2.2%

Net Assets:	\$1,116,264,231
Portfolio Turnover Rate:	37.3%
Number of Equity Holdings:	59

Annualized Portfolio Expense Ratio:***

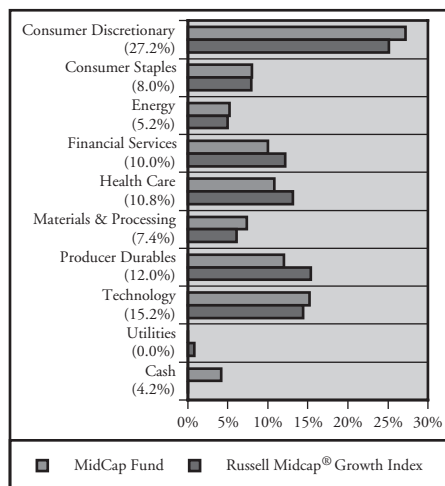
Gross

Institutional Class:	0.88%
Investor Class:	1.13%****

Net

Institutional Class:	0.85%
Investor Class:	1.10%****

Equity Sector Analysis**



* The Fund's portfolio composition is subject to change and there is no assurance that the Fund will continue to hold any particular security. Percentages shown relate to the Fund's total net assets as of December 31, 2014.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2014, and may not add up to 100% due to rounding.

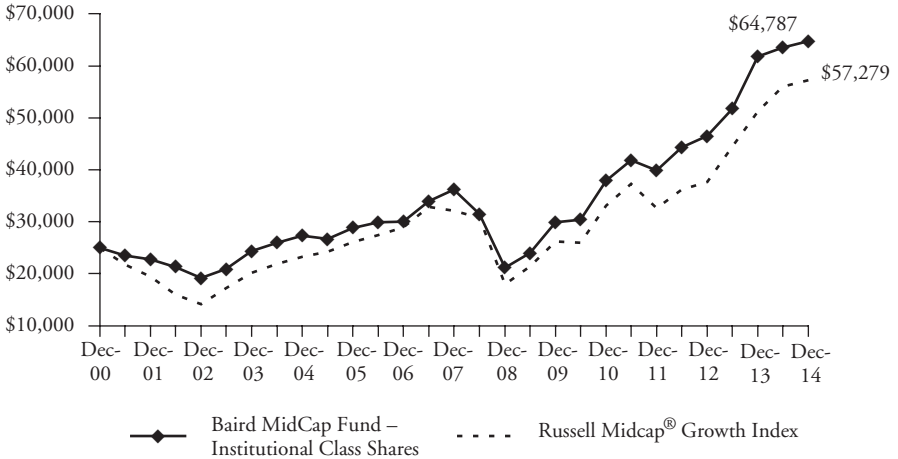
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.85% of average daily net assets for the Institutional Class shares and 1.10% of average daily net assets for the Investor Class shares, at least through April 30, 2016.

**** Includes 0.25% 12b-1 fee.

Baird MidCap Fund

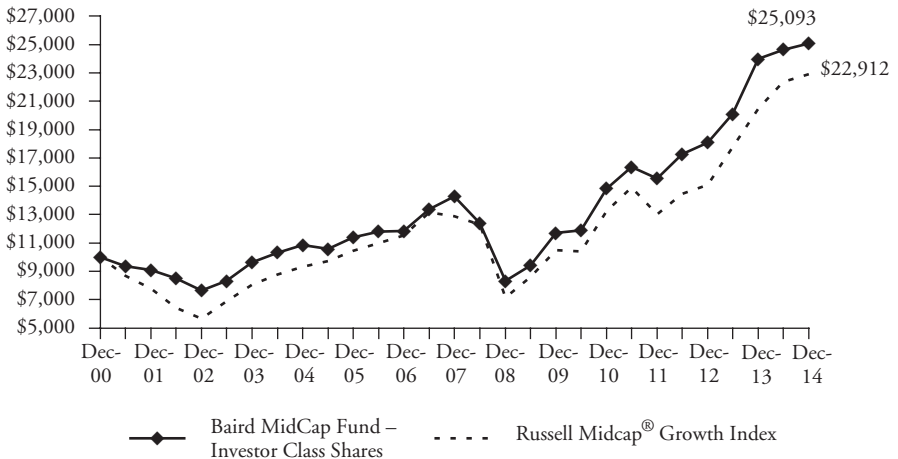
December 31, 2014 (Unaudited)

Institutional Class Value of a \$25,000 Investment



Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (12/29/00), assuming reinvestment of all distributions.

Investor Class Value of a \$10,000 Investment



Growth of a hypothetical investment of \$10,000 made on the Fund's inception date (12/29/00), assuming reinvestment of all distributions.

Baird MidCap Fund

December 31, 2014 (Unaudited)

Average Annual Total Returns

<i>For the Periods Ended December 31, 2014</i>	One Year	Five Years	Ten Years	Since Inception⁽¹⁾
Institutional Class Shares	4.85%	16.76%	9.02%	7.04%
Investor Class Shares	4.62%	16.50%	8.76%	6.79%
Russell Midcap [®] Growth Index ⁽²⁾	11.90%	16.94%	9.43%	6.10%

(1) For the period from December 29, 2000 (inception date) through December 31, 2014.

(2) The Russell Midcap[®] Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap[®] index companies with higher price-to-book ratios and higher forecasted growth values. This index does not reflect any deduction for fees, expenses or taxes. A direct investment in the index is not possible.

The returns shown in the table above and the line graphs on the previous page reflect reinvestment of dividends and/or capital gains distributions in additional shares. The returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The returns reflect the actual performance for each period and do not include the impact of trades executed on the last business day of the period that were recorded on the first business day of the next period.

The gross expense ratio for each Class, as reflected in the Fund's current prospectus, is set forth under "Portfolio Characteristics".

The Fund focuses on growth-style stocks and therefore the performance of the Fund will typically be more volatile than the performance of funds that focus on types of stocks that have a broader investment style. The Fund 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, political and economic instability, and different and sometimes less strict financial reporting standards and regulation. The Fund invests a substantial portion of its assets in the stocks of mid-capitalization companies. Mid-capitalization companies often are more volatile and face greater risks than larger, more established companies.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

For information about the performance of the Fund as of the most recent month-end, please call 1-866-44BAIRD or visit www.bairdfunds.com. Mutual fund performance changes over time and current performance may be lower or higher than that stated.

Baird MidCap Fund

Schedule of Investments, December 31, 2014

Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Banks			
East West Bancorp, Inc.	513,913	\$ 19,893,572	1.8%
Building Products			
Fortune Brands Home & Security, Inc.	506,251	22,917,983	2.1%
Capital Markets			
Affiliated Managers Group, Inc.*	128,312	27,232,939	2.4%
Greenhill & Co., Inc.	432,009	18,835,592	1.7%
Invesco Limited f	242,119	9,568,543	0.9%
		55,637,074	5.0%
Chemicals			
Airgas, Inc.	154,768	17,826,178	1.6%
Commercial Services & Supplies			
Stercycle, Inc.*	205,019	26,873,891	2.4%
Distributors			
LKQ Corporation*	757,097	21,289,568	1.9%
Electrical Equipment			
Acuity Brands, Inc.	186,006	26,053,860	2.3%
Regal-Beloit Corporation	107,329	8,071,141	0.7%
Rockwell Automation, Inc.	100,759	11,204,401	1.1%
		45,329,402	4.1%
Electronic Equipment, Instruments & Components			
Trimble Navigation Limited*	600,570	15,939,128	1.4%
Energy Equipment & Services			
Core Laboratories N.V. f	53,064	6,385,722	0.6%
Oceaneering International, Inc.	291,501	17,143,174	1.5%
		23,528,896	2.1%
Food & Staples Retailing			
The Fresh Market, Inc.*	385,581	15,885,937	1.4%
Food Products			
McCormick & Co, Incorporated	323,313	24,022,156	2.1%
Mead Johnson Nutrition Company	265,053	26,648,429	2.4%
		50,670,585	4.5%
Health Care Equipment & Supplies			
Globus Medical, Inc.*	442,375	10,515,254	1.0%
Health Care Providers & Services			
Acadia Healthcare Company, Inc.*	403,478	24,696,888	2.2%
Envision Healthcare Holdings, Inc.*	451,127	15,649,596	1.4%
		40,346,484	3.6%

The accompanying notes are an integral part of these financial statements.

Baird MidCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Health Care Technology			
Cerner Corporation*	280,440	\$ 18,133,250	1.6%
Hotels, Restaurants & Leisure			
Buffalo Wild Wings Inc.*	121,032	21,831,752	2.0%
Household Products			
Church & Dwight Co., Inc.	287,670	22,671,273	2.0%
Internet & Catalog Retail			
HomeAway, Inc.*	600,532	17,883,843	1.6%
Internet Software & Services			
Envestnet, Inc.*	306,768	15,074,579	1.3%
Pandora Media, Inc.*	423,518	7,551,326	0.7%
		22,625,905	2.0%
IT Services			
Alliance Data Systems Corporation*	88,966	25,448,724	2.3%
Fiserv, Inc.*	156,930	11,137,322	1.0%
Gartner, Inc.*	216,879	18,263,381	1.6%
		54,849,427	4.9%
Leisure Equipment Products			
Polaris Industries Inc.	141,875	21,457,175	1.9%
Life Sciences Tools & Services			
ICON Public Limited Company*f	251,908	12,844,789	1.1%
Illumina, Inc.*	77,103	14,231,672	1.3%
		27,076,461	2.4%
Machinery			
The Middleby Corporation*	230,949	22,887,046	2.1%
Trinity Industries, Inc.	395,509	11,078,207	1.0%
WABCO Holdings Inc.*	213,862	22,408,460	2.0%
		56,373,713	5.1%
Multiline Retail			
Dollar Tree, Inc.*	162,132	11,410,850	1.0%
Oil, Gas & Consumable Fuels			
Concho Resources Inc.*	96,547	9,630,563	0.9%
Southwestern Energy Company*	651,909	17,790,597	1.6%
Whiting Petroleum Corporation*	225,115	7,428,795	0.6%
		34,849,955	3.1%
Pharmaceuticals			
Perrigo Company PLC f	145,700	24,355,212	2.2%

The accompanying notes are an integral part of these financial statements.

Baird MidCap Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Road & Rail			
J.B. Hunt Transport Services, Inc.	275,800	\$ 23,236,150	2.1%
Semiconductors & Semiconductor Equipment			
Integrated Device Technology, Inc.*	1,395,296	27,347,801	2.5%
Skyworks Solutions, Inc.	222,059	16,145,910	1.4%
		43,493,711	3.9%
Software			
ANSYS, Inc.*	155,189	12,725,498	1.1%
Fortinet, Inc.*	837,896	25,689,891	2.3%
ServiceNow, Inc.*	180,664	12,258,053	1.1%
The Ultimate Software Group, Inc.*	127,541	18,724,932	1.7%
		69,398,374	6.2%
Specialty Retail			
Dick's Sporting Goods, Inc.	373,405	18,539,558	1.7%
O'Reilly Automotive, Inc.*	146,847	28,285,669	2.5%
Ross Stores, Inc.	122,441	11,541,289	1.0%
Tiffany & Co.	230,451	24,625,994	2.2%
Tractor Supply Company	318,103	25,072,878	2.2%
Urban Outfitters, Inc.*	558,816	19,631,206	1.8%
		127,696,594	11.4%
Technology Hardware, Storage & Peripherals			
Stratasys Ltd.*f	188,503	15,666,484	1.4%
Textiles, Apparel & Luxury Goods			
PVH Corp.	169,566	21,733,274	2.0%
Under Armour, Inc. – Class A*	230,025	15,618,698	1.4%
		37,351,972	3.4%
Trading Companies & Distributors			
Fastenal Company	392,498	18,667,205	1.7%
United Rentals, Inc.*	147,143	15,010,057	1.3%
Watsco, Inc.	185,285	19,825,495	1.8%
		53,502,757	4.8%
Total Common Stocks (Cost \$941,673,996)		1,070,518,810	95.9%

The accompanying notes are an integral part of these financial statements.

Baird MidCap Fund

Schedule of Investments, December 31, 2014

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Institutional Cash Advantage Fund, 0.06%«	23,324,166	\$ 23,324,166	2.1%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.07%«	20,000,000	20,000,000	1.8%
Total Short-Term Investments (Cost \$43,324,166)		43,324,166	3.9%
Total Investments (Cost \$984,998,162)		1,113,842,976	99.8%
Other Assets in Excess of Liabilities		2,421,255	0.2%
TOTAL NET ASSETS		\$1,116,264,231	100.0%

Notes to Schedule of Investments

* Non-Income Producing

f Foreign Security

« 7-Day Yield

Industry classifications shown in the Schedule of Investments are based off of the Global Industry Classification Standard (GICS®). GICS was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor Financial Services LLC (“S&P”). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

The accompanying notes are an integral part of these financial statements.

Baird MidCap Fund

Schedule of Investments, December 31, 2014

Summary of Fair Value Exposure at December 31, 2014

The Fund has adopted authoritative fair valuation accounting standards which establish a definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion on changes in valuation techniques and related inputs during the period. These standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as “inputs”) used in pricing the asset or liability. These standards state that “observable inputs” reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources and “unobservable inputs” reflect an entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability. These inputs are summarized into three broad levels and described below:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets, dealer indications, interest rates, yield curves, prepayment speeds, credit risk, default rates, inputs corroborated by observable market data, etc.).

Level 3 – Significant unobservable inputs (including the Fund’s own assumptions about the factors that market participants would use in valuing the security) based on the best information available.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund’s investments as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$1,070,518,810	\$ —	\$ —	\$1,070,518,810
Total Equity	1,070,518,810	—	—	1,070,518,810
Short-Term Investments				
Money Market Mutual Funds	43,324,166	—	—	43,324,166
Total Short-Term Investments	43,324,166	—	—	43,324,166
Total Investments*	\$1,113,842,976	\$ —	\$ —	\$1,113,842,976

* Additional information regarding the industry classifications of these investments is disclosed in the Schedule of Investments.

Changes in valuation techniques may result in transfers into or out of assigned levels within the fair value hierarchy. There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the reporting period, as compared to their classification from the prior year’s annual report. See the Fund’s valuation policy in Note 2a to the financial statements.

The accompanying notes are an integral part of these financial statements.

Baird SmallCap Value Fund

December 31, 2014

Portfolio Manager's Commentary

For the year ended December 31, 2014, the Baird SmallCap Value Fund Institutional Class posted a total return of 0.42% (0.13% for the Investor Class), as compared to a gain of 4.22% for the Russell 2000 Value Index, the SmallCap Value Fund's primary benchmark.

As we reflect on what worked last year, we note positive security selection across most economic sectors. We witnessed our investment theses bear out for many of the Fund's individual holdings, which posted better than anticipated profits, leading to upwards earnings revisions and the ultimate reward of market revaluation. In general, defensive sectors in our benchmark fared better than cyclical industries for the year. The strongest absolute performance came from the Fund's healthcare, consumer staples, consumer discretionary, and utilities sector holdings. On a relative contribution basis, the Fund's overweight in the information technology sector added meaningfully to performance. Two information technology positions, Triquint Semiconductor and Integrated Device Technology Inc., moved sharply higher as earnings growth accelerated from both margin improvement and market share gains in mobile devices. Motorcar Parts of America and newly acquired Land's End both performed well.

Throughout the year, the Fund held a meaningful overweight in consumer discretionary, energy, industrials and information technology stocks. Despite reducing our exposure in October, the substantial drop in the price of oil during the last quarter of the year punished our energy overweight despite strong security selection in the sector. It was this overweight to energy and energy-related industrials that was responsible for the Fund's underperformance for the year. Pacific Drilling, Willbros and Mastec were the biggest detractors. While our overweight to energy was a drag on overall performance, our strategy of avoiding the highest risk securities in the sector, including exploration and production, as well as oil and gas servicing companies, in favor of infrastructure-related businesses proved correct. Earlier in the year we sold Mitcham Industries and Sandridge Energy and lightened up again in the Fall, selling our holdings in PDC Energy and Vantage Drilling. A number of our industrial holdings also traded lower on the energy selloff despite having large project backlogs or ancillary businesses without direct ties to the energy infrastructure space. During the year, we sold positions in Willbros Group and MasTec Incorporated.

While the Fed did complete its quantitative easing (QE) tapering process, global slowdowns outside the United States in emerging markets and Europe saw overseas investors flock to U.S. fixed income markets, pressuring interest rates even lower. Last year, we continued to rotate our financial exposure away from more defensive areas in favor of economically sensitive holdings that stand to benefit from a better lending and interest rate environment. Many of our holdings such as Real Estate Investment Trusts continue to benefit from a low interest rate environment but also offer the upside of improving revenues from sources such as rents.

We continue to find value in information technology, increasing the number of positions within the Fund, and ended the year with a substantial overweight versus the benchmark, a reflection of our belief in continued rollouts of smartphones with content and features consumers demand. In May, we initiated a position in Integrated Device Technology Inc. a semiconductor chip maker of random access memory and involved in wireless charging.

We began 2014 with a strategic focus on companies which operate primarily domestically to avoid the earnings disappointment experienced by firms with large foreign exposure, especially to emerging markets. Predicated on our weaker outlook for China and emerging markets, we maintained our aversion to materials stocks, with no exposure, a theme dating back to last year. The Fund benefited from this underweight in 2013 and once again in 2014.

As we look to 2015, we remain wary of economic growth prospects outside the U.S. We expect the strong U.S. dollar and decelerating global growth will be headwinds for large multinational companies but plays to the strength of domestic small companies with less than half the exposure to foreign revenue. We are most bullish on the U.S. consumer, which has made progress repairing personal balance sheets and should benefit

Baird SmallCap Value Fund

December 31, 2014

from continued gains in employment, housing market strength and falling gas prices. While falling energy prices are ultimately good for the majority of industries and capital spending, our concern is that in the short-run, the benefit will not be able to offset a rapid decline in domestic oil-related capital expenditures. Consequently, we start the year with a somewhat defensive bias as the market digests these spending adjustments, and we will look to become more constructive on cyclical exposure as we see signs of stabilization outside the U.S. and within the energy complex. As always, we will seek to mitigate risk by maintaining a well-diversified portfolio of businesses, which we project can exceed growth expectations and which trade at compelling valuations. This strategy, we believe, when applied with discipline, yields attractive long-term returns for investors.

Portfolio Manager:

Michelle Stevens

Baird SmallCap Value Fund

December 31, 2014 (Unaudited)

A December 31, 2014 summary of the Fund's top 10 holdings and equity sector analysis compared to the Russell 2000® Value Index is shown below.

Top 10 Holdings*

Lands' End, Inc	5.0%
Integrated Device Technology, Inc.	4.6%
Motorcar Parts of America, Inc.	4.5%
TriQuint Semiconductor, Inc.	3.9%
PRA Group, Inc.	3.9%
Pinnacle Foods Inc.	3.8%
LTC Properties, Inc.	3.4%
Diamond Hill Investment Group, Inc.	3.0%
Hilltop Holdings, Inc.	3.0%
Universal Truckload Services, Inc.	3.0%

Net Assets: \$ 25,553,431

Portfolio Turnover Rate: 41.9%

Number of Equity Holdings: 40

Annualized Portfolio Expense Ratio:***

Gross

Institutional Class: 2.03%

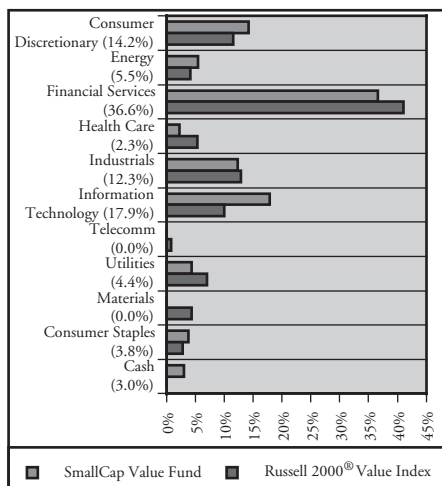
Investor Class: 2.28%****

Net

Institutional Class: 1.00%

Investor Class: 1.25%****

Equity Sector Analysis**



* The Fund's portfolio composition is subject to change and there is no assurance that the Fund will continue to hold any particular security. Percentages shown relate to the Fund's total net assets as of December 31, 2014.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2014, and may not add up to 100% due to rounding.

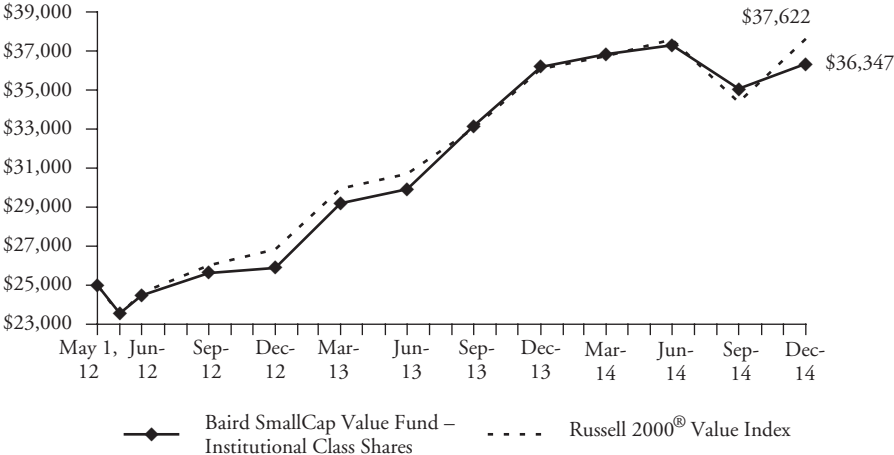
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 1.00% of average daily net assets for the Institutional Class shares and 1.25% of average daily net assets for the Investor Class shares, at least through April 30, 2016.

**** Includes 0.25% 12b-1 fee.

Baird SmallCap Value Fund

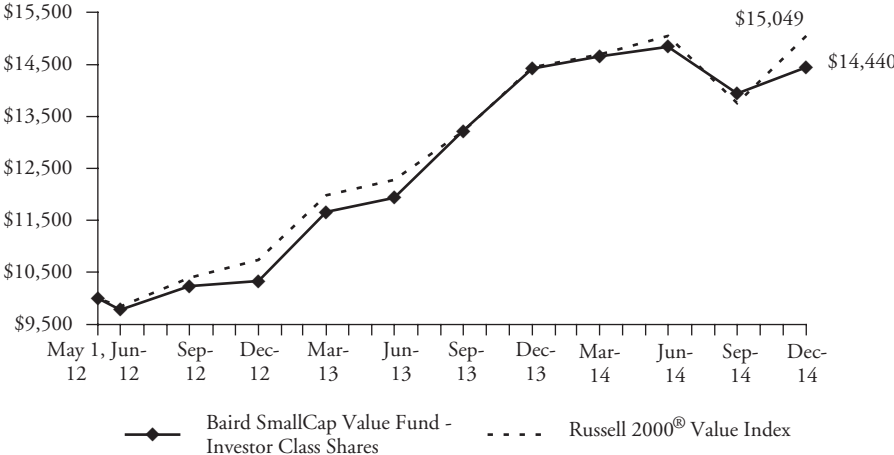
December 31, 2014 (Unaudited)

Institutional Class
Value of a \$25,000 Investment



Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (5/1/12), assuming reinvestment of all distributions.

Investor Class
Value of a \$10,000 Investment



Growth of a hypothetical investment of \$10,000 made on the Fund's inception date (5/1/12), assuming reinvestment of all distributions.

Baird SmallCap Value Fund

December 31, 2014 (Unaudited)

Average Annual Total Returns

<i>For the Periods Ended December 31, 2014</i>	One Year	Since Inception⁽¹⁾
Institutional Class Shares	0.42%	15.04%
Investor Class Shares	0.13%	14.75%
Russell 2000 [®] Value Index ⁽²⁾	4.22%	16.53%

(1) For the period from May 1, 2012 (inception date) through December 31, 2014.

(2) The Russell 2000[®] Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000[®] Index companies with lower price-to-book ratios and lower forecasted growth values. This index does not reflect any deduction for fees, expenses or taxes. A direct investment in the index is not possible.

The returns shown in the table above and the line graphs on the previous page reflect reinvestment of dividends and/or capital gains distributions in additional shares. The returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The returns reflect the actual performance for each period and do not include the impact of trades executed on the last business day of the period that were recorded on the first business day of the next period.

The gross expense ratio for each Class, as reflected in the Fund's current prospectus, is set forth under "Portfolio Characteristics".

The Fund focuses on small cap value style stocks and therefore the performance of the Fund may be more volatile than the performance of funds that focus on types of stocks that have a broader investment style. The Fund 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 regulation.

Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

For information about the performance of the Fund as of the most recent month-end, please call 1-866-44BAIRD or visit www.bairdfunds.com. Mutual fund performance changes over time and current performance may be lower or higher than that stated.

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2014

Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Aerospace & Defense			
Hexcel Corporation*	12,534	\$ 520,036	2.0%
Auto Components			
Drew Industries Incorporated*	5,112	261,070	1.0%
Motorcar Parts of America, Inc.*	36,840	1,145,356	4.5%
		1,406,426	5.5%
Banks			
PrivateBancorp, Inc.	20,276	677,219	2.6%
Texas Capital Bancshares, Inc.*	9,783	531,510	2.1%
		1,208,729	4.7%
Capital Markets			
Diamond Hill Investment Group, Inc.	5,555	766,812	3.0%
Communications Equipment			
Applied Optoelectronics, Inc.*	25,342	284,337	1.1%
Construction & Engineering			
Quanta Services, Inc.*	18,393	522,177	2.0%
Consumer Finance			
Encore Capital Group, Inc.*	15,777	700,499	2.7%
PRA Group, Inc.*	16,968	982,956	3.9%
		1,683,455	6.6%
Diversified Consumer Services			
Steiner Leisure Limited*f	8,533	394,310	1.5%
Electric Utilities			
UIL Holdings Corporation	13,897	605,075	2.4%
Electrical Equipment			
Generac Holdings Inc.*	10,708	500,706	2.0%
Electronic Equipment, Instruments & Components			
Methode Electronics, Inc.	17,170	626,877	2.5%
Energy Equipment & Services			
Pacific Drilling SA*f	55,304	256,611	1.0%
Food Products			
Pinnacle Foods Inc.	27,760	979,928	3.8%
Gas Utilities			
South Jersey Industries, Inc.	8,751	515,696	2.0%
Health Care Equipment & Supplies			
ICU Medical, Inc.*	7,267	595,167	2.3%

The accompanying notes are an integral part of these financial statements.

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2014

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Insurance			
Hilltop Holdings, Inc.*	38,304	\$ 764,165	3.0%
Internet & Catalog Retail			
Lands' End, Inc.*	23,819	1,285,273	5.0%
Internet Software & Services			
j2 Global, Inc.	11,345	703,390	2.8%
IT Services			
WEX Inc.*	3,474	343,648	1.3%
Oil, Gas & Consumable Fuels			
Dorian LPG Limited*f	28,280	392,809	1.5%
Navigator Holdings Limited*f	21,357	449,778	1.8%
Targa Resources Corp.	7,016	744,047	2.9%
		1,586,634	6.2%
Real Estate Investment Trusts (REITs)			
BioMed Realty Trust, Inc.	23,184	499,383	2.0%
Blackstone Mortgage Trust, Inc.	22,882	666,782	2.6%
Capstead Mortgage Corporation	29,690	364,593	1.4%
DiamondRock Hospitality Company	44,075	655,395	2.6%
Hatteras Financial Corp.	20,012	368,821	1.4%
Hersha Hospitality Trust	71,799	504,747	2.0%
LTC Properties, Inc.	20,314	876,956	3.4%
		3,936,677	15.4%
Road & Rail			
Quality Distribution, Inc.*	35,517	377,901	1.5%
Universal Truckload Services, Inc.	26,589	758,052	3.0%
		1,135,953	4.5%
Semiconductors & Semiconductor Equipment			
Integrated Device Technology, Inc.*	59,862	1,173,295	4.6%
Synaptics Incorporated*	6,477	445,877	1.7%
TriQuint Semiconductor, Inc.*	35,942	990,202	3.9%
		2,609,374	10.2%
Specialty Retail			
Lithia Motors, Inc.	6,047	524,215	2.1%
Thrifts & Mortgage Finance			
Bofi Holding, Inc.*	9,368	728,924	2.9%
Capitol Federal Financial, Inc.	20,256	258,872	1.0%
		987,796	3.9%
Total Common Stocks (Cost \$20,837,411)		24,743,467	96.8%

The accompanying notes are an integral part of these financial statements.

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2014

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Cash Advantage Fund, 0.06%«	260,804	\$ 260,804	1.0%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.07%«	450,000	450,000	1.8%
Total Short-Term Investments (Cost \$710,804)		710,804	2.8%
Total Investments (Cost \$21,548,215)		25,454,271	99.6%
Other Assets in Excess of Liabilities		99,160	0.4%
TOTAL NET ASSETS		\$25,553,431	100.0%

Notes to Schedule of Investments

* Non-Income Producing

f Foreign Security

« 7-Day Yield

Industry classifications shown in the Schedule of Investments are based off of the Global Industry Classification Standard (GICS®). GICS was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor Financial Services LLC (“S&P”). GICS is a service mark of MSCI and S&P and has been licensed for use by U.S. Bancorp Fund Services, LLC.

The accompanying notes are an integral part of these financial statements.

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2014

Summary of Fair Value Exposure at December 31, 2014

The Fund has adopted authoritative fair valuation accounting standards which establish a definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion on changes in valuation techniques and related inputs during the period. These standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as “inputs”) used in pricing the asset or liability. These standards state that “observable inputs” reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources and “unobservable inputs” reflect an entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability. These inputs are summarized into three broad levels and described below:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, quoted prices in inactive markets, dealer indications, interest rates, yield curves, prepayment speeds, credit risk, default rates, inputs corroborated by observable market data, etc.).

Level 3 – Significant unobservable inputs (including the Fund’s own assumptions about the factors that market participants would use in valuing the security) based on the best information available.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund’s investments as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$24,743,467	\$ —	\$ —	\$24,743,467
Total Equity	24,743,467	—	—	24,743,467
Short-Term Investments				
Money Market Mutual Funds	710,804	—	—	710,804
Total Short-Term Investments	710,804	—	—	710,804
Total Investments*	\$25,454,271	\$ —	\$ —	\$25,454,271

* Additional information regarding the industry classifications of these investments is disclosed in the Schedule of Investments.

Changes in valuation techniques may result in transfers into or out of assigned levels within the fair value hierarchy. There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the reporting period, as compared to their classification from the prior year’s annual report. See the Fund’s valuation policy in Note 2a to the financial statements.

The accompanying notes are an integral part of these financial statements.

Additional Information on Fund Expenses

December 31, 2014 (Unaudited)

Example

As a shareholder of a mutual fund, you incur two types of costs: (1) transaction costs, which may include sales charges (loads) on purchase payments, reinvested dividends, or other distributions; redemption fees; and exchange fees; and (2) ongoing costs, such as management fees; distribution and/or service (12b-1) fees; and other fund expenses. Although the Funds do not charge any sales loads, redemption fees, or other transaction fees, you will be assessed fees for outgoing wire transfers, returned checks and stop payment orders at prevailing rates charged by U.S. Bancorp Fund Services, LLC, the Fund's transfer agent. If you request that a redemption be made by wire transfer, currently the Fund's transfer agent charges a \$15.00 fee.

This Example is intended to help you understand your ongoing costs (in dollars) of investing in each Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period (7/1/14 – 12/31/14).

Actual Expenses

The third and fourth columns of the following table provide information about account values based on actual returns and actual expenses. You may use the information in these columns, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the fourth column entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The fifth and sixth columns of the following table provide information about hypothetical account values and hypothetical expenses based on the Funds' actual expense ratios and an assumed rate of return of 5% per year before expenses, which is not the Funds' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other mutual funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the sixth column of the table (entitled "Expenses Paid During Period") is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different mutual funds. In addition, if these transactional costs were included, your costs could have been higher.

Additional Information on Fund Expenses

December 31, 2014 (Unaudited)

Actual vs. Hypothetical Returns

For the Six Months Ended December 31, 2014

	Fund's Annualized Expense Ratio ⁽¹⁾	Beginning Account Value 7/1/14	Actual		Hypothetical (5% return before expenses)	
			Ending Account Value 12/31/14	Expenses Paid During Period ⁽¹⁾	Ending Account Value 12/31/14	Expenses Paid During Period ⁽¹⁾
Baird LargeCap Fund						
Institutional Class	0.75%	\$1,000.00	\$1,067.43	\$3.91	\$1,021.42	\$3.82
Investor Class	1.00%	\$1,000.00	\$1,067.50	\$5.21	\$1,020.16	\$5.09
Baird MidCap Fund						
Institutional Class	0.85%	\$1,000.00	\$1,019.30	\$4.33	\$1,020.92	\$4.33
Investor Class	1.10%	\$1,000.00	\$1,018.10	\$5.60	\$1,019.66	\$5.60
Baird SmallCap Value Fund						
Institutional Class	1.00%	\$1,000.00	\$ 974.30	\$4.98	\$1,020.16	\$5.09
Investor Class	1.25%	\$1,000.00	\$ 972.80	\$6.22	\$1,018.90	\$6.36

(1) Expenses are equal to the Fund's annualized net expense ratio multiplied by the average account value over the period, multiplied by 184 days and divided by 365 to reflect the one-half year period.

Statements of Assets and Liabilities

December 31, 2014

	Baird LargeCap Fund	Baird MidCap Fund	Baird SmallCap Value Fund
ASSETS:			
Investments, at value (cost \$35,982,092, \$984,998,162 and \$21,548,215, respectively)	\$40,139,550	\$1,113,842,976	\$25,454,271
Dividends receivable	42,472	333,217	60,098
Interest receivable	89	3,146	71
Receivable for Fund shares sold	27,928	8,515,527	55,598
Uninvested cash	—	109,233	—
Prepaid expenses and other assets	8,536	19,387	8,381
Total assets	<u>40,218,575</u>	<u>1,122,823,486</u>	<u>25,578,419</u>
LIABILITIES:			
Payable for Fund shares repurchased	—	5,410,394	993
Payable to Advisor and Distributor	12,954	813,342	4,244
Accrued expenses and other liabilities	30,119	335,519	19,751
Total liabilities	<u>43,073</u>	<u>6,559,255</u>	<u>24,988</u>
NET ASSETS	<u>\$40,175,502</u>	<u>\$1,116,264,231</u>	<u>\$25,553,431</u>
NET ASSETS CONSIST OF:			
Capital stock	\$35,653,560	\$ 986,778,852	\$21,753,240
Accumulated net realized gain (loss) on investments sold	364,484	640,565	(105,865)
Net unrealized appreciation on investments	4,157,458	128,844,814	3,906,056
NET ASSETS	<u>\$40,175,502</u>	<u>\$1,116,264,231</u>	<u>\$25,553,431</u>
INSTITUTIONAL CLASS SHARES			
Net Assets	\$38,961,436	\$ 910,893,531	\$23,453,239
Shares outstanding (\$0.01 par value, unlimited shares authorized)	4,361,175	58,500,521	1,697,207
Net asset value, offering and redemption price per share	<u>\$ 8.93</u>	<u>\$ 15.57</u>	<u>\$ 13.82</u>
INVESTOR CLASS SHARES			
Net Assets	\$ 1,214,066	\$ 205,370,700	\$ 2,100,192
Shares outstanding (\$0.01 par value, unlimited shares authorized)	136,832	13,729,522	152,417
Net asset value, offering and redemption price per share	<u>\$ 8.87</u>	<u>\$ 14.96</u>	<u>\$ 13.78</u>

The accompanying notes are an integral part of these financial statements.

Statements of Operations

Year Ended December 31, 2014

	Baird LargeCap Fund	Baird MidCap Fund	Baird SmallCap Value Fund
INVESTMENT INCOME:			
Dividends (net of foreign taxes withheld of \$0, \$12,090 and \$0, respectively)	\$ 616,570	\$ 5,895,509	\$ 326,937
Interest	686	24,358	532
Other income	—	2,428	91
Total investment income	617,256	5,922,295	327,560
EXPENSES:			
Investment advisory fees	218,066	6,537,585	204,070
Administration fees	5,894	88,343	5,478
Shareholder servicing fees	16,410	502,272	14,312
Fund accounting fees	16,040	60,929	15,213
Professional fees	38,913	38,891	30,831
Federal and state registration	40,752	167,111	44,065
Directors fees	50,161	50,130	50,161
Custody fees	7,083	38,195	6,264
Reports to shareholders	2,278	70,389	1,846
Distribution expense – Investor Class Shares (Note 8)	1,770	569,959	4,509
Miscellaneous expenses	132	1,947	73
Total expenses	397,499	8,125,751	376,822
Expense reimbursement by Advisor (Note 5)	(141,765)	(143,779)	(132,231)
Net expenses	255,734	7,981,972	244,591
NET INVESTMENT INCOME (LOSS)	361,522	(2,059,677)	82,969
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain on investments	837,245	11,854,713	280,519
Change in unrealized appreciation/depreciation on investments	3,634,313	31,922,782	(211,518)
Net realized and unrealized gain on investments	4,471,558	43,777,495	69,001
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$4,833,080	\$41,717,818	\$ 151,970

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

Baird LargeCap Fund

	Year Ended December 31, 2014	Year Ended December 31, 2013
OPERATIONS:		
Net investment income	\$ 361,522	\$ 76,503
Net realized gain on investments	837,245	13,127,622
Change in unrealized appreciation/depreciation on investments	<u>3,634,313</u>	<u>(5,351,781)</u>
Net increase in net assets resulting from operations	<u>4,833,080</u>	<u>7,852,344</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	13,065,266	4,465,469
Shares issued to holders in reinvestment of distributions	824,279	11,004,303
Cost of shares redeemed	<u>(5,923,052)</u>	<u>(8,523,677)</u>
Net increase in net assets resulting from capital share transactions	<u>7,966,493</u>	<u>6,946,095</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net investment income	(354,933)	(76,300)
From net realized gains	<u>(446,433)</u>	<u>(10,867,055)</u>
Total Distributions	<u>(801,366)</u>	<u>(10,943,355)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net investment income	(9,164)	—
From net realized gains	<u>(13,750)</u>	<u>(60,948)</u>
Total Distributions	<u>(22,914)</u>	<u>(60,948)</u>
TOTAL INCREASE IN NET ASSETS	11,975,293	3,794,136
NET ASSETS:		
Beginning of year	<u>28,200,209</u>	<u>24,406,073</u>
End of year (including distributions in excess of net investment income (loss) of \$0 and \$297, respectively)	<u>\$40,175,502</u>	<u>\$28,200,209</u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

Baird MidCap Fund

	Year Ended December 31, 2014	Year Ended December 31, 2013
OPERATIONS:		
Net investment loss	\$ (2,059,677)	\$ (441,675)
Net realized gain on investments	11,854,713	12,919,158
Change in unrealized appreciation/depreciation on investments	<u>31,922,782</u>	<u>78,465,897</u>
Net increase in net assets resulting from operations	<u>41,717,818</u>	<u>90,943,380</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	963,929,395	184,044,271
Shares issued to holders in reinvestment of distributions	10,127,896	8,466,032
Cost of shares redeemed	(317,272,798)	(66,916,146)
Other capital contribution (Note 3)	<u>—</u>	<u>118</u>
Net increase in net assets resulting from capital share transactions	<u>656,784,493</u>	<u>125,594,275</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net realized gains	<u>(9,261,206)</u>	<u>(5,756,644)</u>
Total Distributions	<u>(9,261,206)</u>	<u>(5,756,644)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net realized gains	<u>(2,129,486)</u>	<u>(2,987,660)</u>
Total Distributions	<u>(2,129,486)</u>	<u>(2,987,660)</u>
TOTAL INCREASE IN NET ASSETS	687,111,619	207,793,351
NET ASSETS:		
Beginning of year	<u>429,152,612</u>	<u>221,359,261</u>
End of year	<u>\$1,116,264,231</u>	<u>\$429,152,612</u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

Baird SmallCap Value Fund

	Year Ended December 31, 2014	Year Ended December 31, 2013
OPERATIONS:		
Net investment income	\$ 82,969	\$ 76,633
Net realized gain on investments	280,519	345,941
Change in unrealized appreciation/depreciation on investments	<u>(211,518)</u>	<u>3,905,459</u>
Net increase in net assets resulting from operations	<u>151,970</u>	<u>4,328,033</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	9,218,037	9,409,735
Shares issued to holders in reinvestment of distributions	399,253	325,192
Cost of shares redeemed	<u>(3,881,622)</u>	<u>(1,934,888)</u>
Net increase in net assets resulting from capital share transactions	<u>5,735,668</u>	<u>7,800,039</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net investment income	(76,463)	(70,596)
From net realized gains	<u>(340,398)</u>	<u>(265,202)</u>
Total Distributions	<u>(416,861)</u>	<u>(335,798)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net investment income	(2,430)	(3,119)
From net realized gains	<u>(30,893)</u>	<u>(15,228)</u>
Total Distributions	<u>(33,323)</u>	<u>(18,347)</u>
TOTAL INCREASE IN NET ASSETS	5,437,454	11,773,927
NET ASSETS:		
Beginning of year	<u>20,115,977</u>	<u>8,342,050</u>
End of year	<u>\$25,553,431</u>	<u>\$20,115,977</u>

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird LargeCap Fund – Institutional Class

	Year Ended December 31,				
	2014	2013 ⁽¹⁾	2012	2011	2010
Per Share Data:					
Net asset value, beginning of year	\$ 7.92	\$ 9.86	\$ 8.71	\$ 8.93	\$ 7.57
Income from investment operations:					
Net investment income	0.09 ⁽²⁾	0.03 ⁽²⁾	0.04 ⁽²⁾	0.01	0.01
Net realized and unrealized gains (losses) on investments	1.10	3.16	1.15	(0.22)	1.36
Total from investment operations	1.19	3.19	1.19	(0.21)	1.37
Less distributions:					
Distributions from net investment income	(0.08)	(0.04)	(0.04)	(0.01)	(0.01)
Distributions from net realized gains	(0.10)	(5.09)	—	—	—
Total distributions	(0.18)	(5.13)	(0.04)	(0.01)	(0.01)
Net asset value, end of year	\$ 8.93	\$ 7.92	\$ 9.86	\$ 8.71	\$ 8.93
Total return	15.09%	32.68%	13.62%	(2.34)%	18.06%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$39.0	\$28.0	\$24.0	\$20.5	\$23.4
Ratio of net expenses to average net assets	0.75%	0.75%	0.75%	0.75%	0.75%
Ratio of expenses to average net assets (before waivers)	1.17%	1.24%	1.34%	1.35%	1.40%
Ratio of net investment income to average net assets	1.08%	0.28%	0.37%	0.12%	0.14%
Ratio of net investment income (loss) to average net assets (before waivers)	0.66%	(0.21)%	(0.22)%	(0.48)%	(0.51)%
Portfolio turnover rate ⁽³⁾	88.2%	127.7%	39.2%	38.2%	52.0%

(1) Effective December 23, 2013, Baird Kailash Group, LLC became the Fund's subadviser.

(2) Calculated using average shares outstanding during the year.

(3) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued. The Baird LargeCap Fund's portfolio turnover rate in 2013 was higher than previous years primarily due to the implementation of a new investment strategy for the Fund by Baird Kailash Group, LLC, the Fund's subadviser.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird LargeCap Fund – Investor Class

	Year Ended December 31,				
	2014	2013 ⁽¹⁾	2012	2011	2010
Per Share Data:					
Net asset value, beginning of year	\$ 7.87	\$ 9.82	\$ 8.68	\$ 8.91	\$ 7.56
Income from investment operations:					
Net investment income (loss)	0.05 ⁽²⁾	0.00 ⁽²⁾⁽³⁾	0.01 ⁽²⁾	(0.01)	(0.02)
Net realized and unrealized gains (losses) on investments	1.12	3.14	1.15	(0.22)	1.37
Total from investment operations	1.17	3.14	1.16	(0.23)	1.35
Less distributions:					
Distributions from net investment income	(0.07)	—	(0.02)	—	—
Distributions from net realized gains	(0.10)	(5.09)	—	—	—
Total distributions	(0.17)	(5.09)	(0.02)	—	—
Net asset value, end of year	\$ 8.87	\$ 7.87	\$ 9.82	\$ 8.68	\$ 8.91
Total return	14.89%	32.34%	13.32%	(2.58)%	17.86%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$1.2	\$0.2	\$0.4	\$0.2	\$0.1
Ratio of net expenses to average net assets	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of expenses to average net assets (before waivers)	1.42%	1.49%	1.59%	1.60%	1.65%
Ratio of net investment income (loss) to average net assets	0.83%	0.03%	0.12%	(0.13)%	(0.11)%
Ratio of net investment income (loss) to average net assets (before waivers)	0.41%	(0.46)%	(0.47)%	(0.73)%	(0.76)%
Portfolio turnover rate ⁽⁴⁾	88.2%	127.7%	39.2%	38.2%	52.0%

(1) Effective December 23, 2013, Baird Kailash Group, LLC became the Fund's subadviser.

(2) Calculated using average shares outstanding during the period.

(3) Amount is less than \$0.005.

(4) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued. The Baird LargeCap Fund's portfolio turnover rate in 2013 was higher than previous years primarily due to the implementation of a new investment strategy for the Fund by Baird Kailash Group, LLC, the Fund's subadviser.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird MidCap Fund – Institutional Class

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Per Share Data:					
Net asset value, beginning of year	<u>\$15.00</u>	<u>\$11.52</u>	<u>\$ 9.98</u>	<u>\$10.04</u>	<u>\$ 7.90</u>
Income from investment operations:					
Net investment income (loss)	(0.03) ⁽¹⁾	(0.01)	0.07 ⁽¹⁾	(0.01) ⁽¹⁾	(0.01) ⁽¹⁾
Net realized and unrealized gain on investments	<u>0.76</u>	<u>3.80</u>	<u>1.57</u>	<u>0.54</u>	<u>2.15</u>
Total from investment operations	<u>0.73</u>	<u>3.79</u>	<u>1.64</u>	<u>0.53</u>	<u>2.14</u>
Less distributions:					
Distributions from net investment income	—	—	(0.04)	—	—
Distributions from net realized gains	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.06)</u>	<u>(0.59)</u>	<u>—</u>
Total distributions	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.10)</u>	<u>(0.59)</u>	<u>—</u>
Net asset value, end of year	<u>\$15.57</u>	<u>\$15.00</u>	<u>\$11.52</u>	<u>\$ 9.98</u>	<u>\$10.04</u>
Total return	4.85%	32.90%	16.49%	5.19%	27.09%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$910.9	\$286.1	\$137.2	\$40.9	\$33.4
Ratio of net expenses to average net assets	0.85%	0.85%	0.85%	0.85%	0.85%
Ratio of expenses to average net assets (before waivers)	0.87%	0.87%	0.97%	1.21%	1.30%
Ratio of net investment income (loss) to average net assets	(0.17)%	(0.04)%	0.65%	(0.10)%	(0.10)%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.19)%	(0.06)%	0.53%	(0.46)%	(0.55)%
Portfolio turnover rate ⁽²⁾	37.3%	36.3%	29.5%	44.8%	62.7%

(1) Calculated using average shares outstanding during the year.

(2) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird MidCap Fund – Investor Class

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Per Share Data:					
Net asset value, beginning of year	<u>\$14.45</u>	<u>\$11.13</u>	<u>\$ 9.66</u>	<u>\$ 9.76</u>	<u>\$ 7.69</u>
Income from investment operations:					
Net investment income (loss)	(0.06) ⁽¹⁾	(0.03)	0.04 ⁽¹⁾	(0.03) ⁽¹⁾	(0.03) ⁽¹⁾
Net realized and unrealized gain on investments	<u>0.73</u>	<u>3.66</u>	<u>1.52</u>	<u>0.52</u>	<u>2.10</u>
Total from investment operations	<u>0.67</u>	<u>3.63</u>	<u>1.56</u>	<u>0.49</u>	<u>2.07</u>
Less distributions:					
Distributions from net investment income	—	—	(0.03)	—	—
Distributions from net realized gains	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.06)</u>	<u>(0.59)</u>	<u>—</u>
Total distributions	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.09)</u>	<u>(0.59)</u>	<u>—</u>
Net asset value, end of year	<u>\$14.96</u>	<u>\$14.45</u>	<u>\$11.13</u>	<u>\$ 9.66</u>	<u>\$ 9.76</u>
Total return	4.62%	32.62%	16.16%	4.93%	26.92%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$205.4	\$143.1	\$84.1	\$2.6	\$1.1
Ratio of net expenses to average net assets	1.10%	1.10%	1.10%	1.10%	1.10%
Ratio of expenses to average net assets (before waivers)	1.12%	1.12%	1.22%	1.46%	1.55%
Ratio of net investment income (loss) to average net assets	(0.42)%	(0.29)%	0.40%	(0.35)%	(0.35)%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.44)%	(0.31)%	0.28%	(0.71)%	(0.80)%
Portfolio turnover rate ⁽²⁾	37.3%	36.3%	29.5%	44.8%	62.7%

(1) Calculated using average shares outstanding during the year.

(2) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird SmallCap Value Fund – Institutional Class

	Year Ended December 31,		May 1, 2012 [^] through December 31, 2012
	2014	2013	
Per Share Data:			
Net asset value, beginning of period	\$14.01	\$10.20	\$10.00
Income from investment operations:			
Net investment income ⁽¹⁾	0.05	0.07	0.15
Net realized and unrealized gain on investments	0.01	3.99	0.20
Total from investment operations	0.06	4.06	0.35
Less distributions:			
Distributions from net investment income	(0.05)	(0.05)	(0.12)
Distributions from net realized gains	(0.20)	(0.20)	(0.03)
Total distributions	(0.25)	(0.25)	(0.15)
Net asset value, end of period	\$13.82	\$14.01	\$10.20
Total return	0.42%	39.85%	3.52%⁽²⁾
Supplemental data and ratios:			
Net assets, end of period (millions)	\$23.5	\$19.0	\$8.1
Ratio of net expenses to average net assets	1.00%	1.00%	1.00% ⁽³⁾
Ratio of expenses to average net assets (before waivers)	1.55%	2.02%	3.06% ⁽³⁾
Ratio of net investment income to average net assets	0.36%	0.71%	2.32% ⁽³⁾
Ratio of net investment income (loss) to average net assets (before waivers)	(0.19)%	(0.31)%	0.26% ⁽³⁾
Portfolio turnover rate ⁽⁴⁾	41.9%	36.9%	24.6% ⁽²⁾

[^] Inception date.

(1) Calculated using average shares outstanding during the period.

(2) Not annualized.

(3) Annualized.

(4) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

Baird SmallCap Value Fund – Investor Class

	Year Ended December 31,		May 1, 2012 [^] through December 31, 2012
	2014	2013	
Per Share Data:			
Net asset value, beginning of period	\$13.98	\$10.19	\$10.00
Income from investment operations:			
Net investment income ⁽¹⁾	0.02	0.04	0.14
Net realized and unrealized gain on investments	0.00 ⁽²⁾	3.99	0.19
Total from investment operations	0.02	4.03	0.33
Less distributions:			
Distributions from net investment income	(0.02)	(0.04)	(0.11)
Distributions from net realized gains	(0.20)	(0.20)	(0.03)
Total distributions	(0.22)	(0.24)	(0.14)
Net asset value, end of period	\$13.78	\$13.98	\$10.19
Total return	0.13%	39.58%	3.32%⁽³⁾
Supplemental data and ratios:			
Net assets, end of period (millions)	\$2.1	\$1.1	\$0.2
Ratio of net expenses to average net assets	1.25%	1.25%	1.25% ⁽⁴⁾
Ratio of expenses to average net assets (before waivers)	1.80%	2.27%	3.31% ⁽⁴⁾
Ratio of net investment income to average net assets	0.11%	0.46%	2.07% ⁽⁴⁾
Ratio of net investment income (loss) to average net assets (before waivers)	(0.44)%	(0.56)%	0.01% ⁽⁴⁾
Portfolio turnover rate ⁽⁵⁾	41.9%	36.9%	24.6% ⁽³⁾

[^] Inception date.

(1) Calculated using average shares outstanding during the period.

(2) Amount is less than \$0.005.

(3) Not annualized.

(4) Annualized.

(5) Portfolio turnover is calculated on the basis of the Fund as a whole without distinguishing between the classes of shares issued.

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2014

1. Organization

Baird Funds, Inc. (the “Corporation”) was incorporated on June 9, 2000 as a Wisconsin corporation and is registered as an open-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”). The accompanying financial statements include the Baird LargeCap Fund, the Baird MidCap Fund and the Baird SmallCap Value Fund (each a “Fund” and collectively the “Funds”), three of the nine series comprising the Corporation. Pursuant to the 1940 Act, the Funds are “diversified” series of the Corporation. The investment advisor to the Funds is Robert W. Baird & Co. Incorporated (“Baird” or the “Advisor”).

The Baird LargeCap Fund commenced with the sale of both Institutional and Investor Class Shares on September 29, 2000. The Baird MidCap Fund commenced with the sale of both Institutional and Investor Class Shares on December 29, 2000. The Baird SmallCap Value Fund commenced with the sale of both Institutional and Investor Class Shares on May 1, 2012. The Institutional Class Shares are not subject to a distribution and service (12b-1) fee, while the Investor Class Shares are subject to a distribution and service (12b-1) fee up to 0.25%. See Note 8.

The Baird LargeCap Fund seeks long-term growth of capital through investments in equity securities of large-capitalization companies.

The Baird MidCap Fund seeks long-term growth of capital through investments in equity securities of mid-capitalization companies.

The Baird SmallCap Value Fund seeks long-term growth of capital through investments in equity securities of small-capitalization companies.

On December 31, 2014, shareholders affiliated with the Advisor held 90% of the Institutional Class shares of the Baird LargeCap Fund and 51% of the Institutional Class shares of the Baird SmallCap Value Fund. These shareholders included the Advisor’s participant-directed retirement and deferred compensation plans and the Baird Foundation.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Funds in the preparation of their financial statements. These policies are in conformity with accounting principles generally accepted in the United States of America.

- a) **Investment Valuation** – Section 2(a)(41) of the 1940 Act, together with the rules and interpretations of the SEC, require the Funds, in computing net asset value, to value their portfolio securities using market quotations when they are “readily available.” When market quotations are not readily available (e.g., because there is no regular market quotation for such securities, the market for such security is limited, the validity of quotations is questionable or, for debt securities, the Funds’ independent pricing service, does not provide a price), the Board of Directors of the Corporation must value the securities at “fair value determined in good faith.” The Board has delegated such responsibility to the Advisor pursuant to pricing policies and procedures that the Board has adopted and regularly reviews. In general, the “fair value” of a security means the price that would be received to sell a security in an orderly transaction between market participants at the measurement date.

The Funds determine the fair value of their investments and compute their net asset value per share as of the close of regular trading of the New York Stock Exchange (4:00 p.m. EST).

Consistent with Section 2(a)(41) of the 1940 Act, the Funds price their securities as follows: common stocks that are listed on a securities exchange (other than NASDAQ) are valued at the last quoted sale price. Securities traded on NASDAQ are valued at the NASDAQ Official Closing Price. Price information on listed stocks is taken from the exchange where the security is primarily traded. Securities that were not traded on the valuation date, as well as stocks that are not listed on an exchange, including

Notes to the Financial Statements

December 31, 2014

2. Significant Accounting Policies (cont.)

NASDAQ, are valued at the average of the current bid and asked price. Debt securities are valued at their evaluated bid prices as provided by an independent pricing service using valuation methods that are designed to represent fair value, such as matrix pricing and other analytical pricing models, market transactions and dealer quotations. Debt securities purchased with maturities of 60 days or less are valued as described above unless an evaluated price is not available, in which case such security is valued at acquisition cost, plus or minus any amortized discount or premium ("amortized cost"), or, if the Advisor does not believe amortized cost is reflective of the value of the security, the security is priced at fair value as described below. Investments in mutual funds are valued at their stated net asset value. Other assets and securities for which market quotations are not readily available are valued at fair value as determined in good faith by the Advisor in accordance with procedures approved by the Corporation's Board of Directors. In accordance with such procedures, the Advisor may use broker quotes or prices obtained from alternative independent pricing services or, if the broker quotes or prices from alternative pricing services are unavailable or deemed to be unreliable, fair value will be determined by a valuation committee of the Advisor. In determining fair value, the valuation committee takes into account all relevant factors and available information. Consequently, the price of the security used by a Fund to calculate its NAV may differ from quoted or published prices for the same security. Fair value pricing involves subjective judgments and there is no single standard for determining a security's fair value. As a result, different mutual funds could reasonably arrive at a different fair value for the same security. It is possible that the fair value determined for a security is materially different from the value that could be realized upon the sale of that security or from the values that other mutual funds may determine. In addition, given the volatility and periodic illiquidity experienced in recent years, the prices determined for any individual security on any given day may vary significantly from the amount that can be obtained in an actual sale of that security, and the Funds' NAV may fluctuate significantly from day to day or from period to period.

- b) **Foreign Securities** – Foreign securities are defined as securities issued by companies that are organized outside the United States. Investing in securities of foreign companies and foreign governments involves special risks and considerations not typically associated with investing in U.S. companies and the U.S. government. These risks include foreign currency fluctuations and adverse political and economic developments. Moreover, securities of many foreign companies and foreign governments and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies and the U.S. government. Occasionally, events that affect these values and exchange rates may occur after the close of the exchange on which such securities are traded. If such events materially affect the value of a Fund's securities, these securities may be valued at their fair value pursuant to procedures adopted by the Board of Directors. All of the foreign securities owned by the Funds as of December 31, 2014 are traded directly on the New York Stock Exchange or NASDAQ or through an American Depository Receipt (ADR).
- c) **Income Tax Status** – The Funds intend to continue to qualify as regulated investment companies as provided in subchapter M of the Internal Revenue Code and to distribute substantially all of their taxable income to their shareholders in a manner which results in no tax expense to the Funds. Therefore, no federal income or excise tax provision is recorded.

There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year ended December 31, 2014, or for any other tax years which are open for exam. As of December 31, 2014, open tax years include the tax years ended December 31, 2011 through 2014. The Funds are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next 12 months. The Funds recognize interest and penalties, if any, related to unrecognized tax benefits as interest expense and other expense, respectively, in the Statement of Operations. During the year, the Funds did not incur any interest or penalties.

Notes to the Financial Statements

December 31, 2014

2. Significant Accounting Policies (cont.)

- d) **Distributions to Shareholders** – Dividends from net investment income, if any, are declared and paid annually. Distributions of net realized capital gains, if any, are declared and paid at least annually. The book basis character of distributions may differ from their ultimate characterization for Federal income tax purposes.
- e) **Allocation of Income and Expenses** – Each Fund is charged for those expenses directly attributable to it. Expenses directly attributable to a class of shares, such as Rule 12b-1 distribution fees, are charged to that class of shares. Income, expenses and realized and unrealized gains and losses are allocated to the classes based on their respective net assets. Expenses that are not directly attributable to a Fund are allocated among the Funds in the series of the Corporation in proportion to their assets.
- f) **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- g) **Securities Transactions and Investment Income** – Investment and shareholder transactions are recorded on trade date. The Funds determine the gain or loss realized from investment transactions by comparing the original cost of the security lot sold with the net sales proceeds. Dividend income is recognized on the ex-dividend date net of withholding taxes, if any, and interest income is recognized on an accrual basis.
- h) **Guarantees and Indemnifications** – In the normal course of business, the Funds enter into contracts with service providers that contain general indemnification clauses. The Funds' maximum exposure under these arrangements is unknown and would involve future claims against the Funds that have not yet occurred. Based on experience, the Funds would expect the risk of loss to be remote.
- i) **Recent Accounting Pronouncement** – In June 2014, the FASB issued ASU No. 2014-11 "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." ASU No. 2014-11 makes limited changes to the accounting for repurchase agreements, clarifies when repurchase agreements and securities lending transactions should be accounted for as secured borrowings, and requires additional disclosures regarding these types of transactions. The effective date of this ASU is for fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. Management is currently evaluating the impact these changes will have on the Fund's financial statement disclosures.

Notes to the Financial Statements

December 31, 2014

3. Capital Share Transactions

The following table summarizes the capital share transactions of each Fund for the past two fiscal periods:

Baird LargeCap Fund

Institutional Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	1,328,086	\$11,158,768
Shares issued to shareholders in reinvestment of dividends	88,451	801,365
Shares redeemed	(597,146)	(4,981,546)
Net increase	819,391	\$ 6,978,587
Shares Outstanding:		
Beginning of year	3,541,784	
End of year	<u>4,361,175</u>	

Investor Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	227,284	\$1,906,498
Shares issued to shareholders in reinvestment of dividends	2,546	22,914
Shares redeemed	(112,615)	(941,506)
Net increase	117,215	\$ 987,906
Shares Outstanding:		
Beginning of year	19,617	
End of year	<u>136,832</u>	

Institutional Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	412,836	\$ 4,388,931
Shares issued to shareholders in reinvestment of dividends	1,390,515	10,943,355
Shares redeemed	(700,194)	(8,160,107)
Net increase	1,103,157	\$ 7,172,179
Shares Outstanding:		
Beginning of year	2,438,627	
End of year	<u>3,541,784</u>	

Investor Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	7,175	\$ 76,538
Shares issued to shareholders in reinvestment of dividends	7,794	60,948
Shares redeemed	(31,739)	(363,570)
Net decrease	(16,770)	\$(226,084)
Shares Outstanding:		
Beginning of year	36,387	
End of year	<u>19,617</u>	

Notes to the Financial Statements

December 31, 2014

3. Capital Share Transactions (cont.)

Baird MidCap Fund

Institutional Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	47,418,737	\$ 720,729,467
Shares issued to shareholders in reinvestment of dividends	515,098	8,107,643
Shares redeemed	(8,506,966)	(130,128,454)
Net increase	39,426,869	\$ 598,708,656
Shares Outstanding:		
Beginning of year	19,073,652	
End of year	58,500,521	

Institutional Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	9,558,656	\$126,368,466
Shares issued to shareholders in reinvestment of dividends	374,122	5,585,636
Shares redeemed	(2,772,115)	(37,423,433)
Other capital contribution ⁽¹⁾	—	75
Net increase	7,160,663	\$ 94,530,744
Shares Outstanding:		
Beginning of year	11,912,989	
End of year	19,073,652	

(1) Reimbursement from Advisor for trade error.

Investor Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	16,548,473	\$ 243,199,928
Shares issued to shareholders in reinvestment of dividends	133,615	2,020,253
Shares redeemed	(12,855,423)	(187,144,344)
Net increase	3,826,665	\$ 58,075,837
Shares Outstanding:		
Beginning of year	9,902,857	
End of year	13,729,522	

Investor Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	4,440,509	\$57,675,805
Shares issued to shareholders in reinvestment of dividends	200,305	2,880,396
Shares redeemed	(2,295,565)	(29,492,713)
Other capital contribution ⁽¹⁾	—	43
Net increase	2,345,249	\$31,063,531
Shares Outstanding:		
Beginning of year	7,557,608	
End of year	9,902,857	

Notes to the Financial Statements

December 31, 2014

3. Capital Share Transactions (cont.)

Baird SmallCap Value Fund

Institutional Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	575,554	\$ 7,984,672
Shares issued to shareholders in reinvestment of dividends	27,353	381,575
Shares redeemed	(264,424)	(3,666,171)
Net increase	338,483	\$ 4,700,076
Shares Outstanding: Beginning of year	1,358,724	
End of year	1,697,207	

Investor Class Shares

	Year Ended December 31, 2014	
	Shares	Amount
Shares sold	89,753	\$ 1,233,365
Shares issued to shareholders in reinvestment of dividends	1,270	17,678
Shares redeemed	(15,479)	(215,451)
Net increase	75,544	\$ 1,035,592
Shares Outstanding: Beginning of year	76,873	
End of year	152,417	

Institutional Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	686,823	\$ 8,629,742
Shares issued to shareholders in reinvestment of dividends	22,607	314,468
Shares redeemed	(149,451)	(1,918,409)
Net increase	559,979	\$ 7,025,801
Shares Outstanding: Beginning of year	798,745	
End of year	1,358,724	

Investor Class Shares

	Year Ended December 31, 2013	
	Shares	Amount
Shares sold	58,124	\$ 779,993
Shares issued to shareholders in reinvestment of dividends	773	10,724
Shares redeemed	(1,298)	(16,479)
Net increase	57,599	\$ 774,238
Shares Outstanding: Beginning of year	19,274	
End of year	76,873	

4. Investment Transactions and Income Tax Information

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments) were as follows:

	Baird LargeCap Fund	Baird MidCap Fund	Baird SmallCap Value Fund
Purchases:	\$35,427,809	\$926,488,862	\$15,076,074
Sales:	\$28,596,613	\$309,742,990	\$ 9,690,701

The Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Value Fund did not purchase or sell U.S. Government securities during the year ended December 31, 2014.

Notes to the Financial Statements

December 31, 2014

4. Investment Transactions and Income Tax Information (cont.)

At December 31, 2014, accumulated earnings/losses on a tax basis were as follows:

	Baird LargeCap Fund	Baird MidCap Fund	Baird SmallCap Value Fund
Cost of Investments	\$36,021,682	\$986,120,823	\$21,558,762
Gross unrealized appreciation	4,847,959	174,862,351	5,066,368
Gross unrealized depreciation	(730,091)	(47,140,198)	(1,170,859)
Net unrealized appreciation	\$ 4,117,868	\$127,722,153	\$ 3,895,509
Undistributed ordinary income	404,074	—	—
Undistributed long-term capital gain	—	1,763,226	—
Total distributable earnings	\$ 404,074	\$ 1,763,226	\$ —
Other accumulated losses	—	—	(95,318)
Total accumulated earnings	\$ 4,521,942	\$129,485,379	\$ 3,800,191

Undistributed income or net realized gains for financial statement purposes may differ from amounts recognized for federal income tax purposes due to differences in the recognition and characterization of income, expense and capital gain items. The difference between book-basis and tax-basis unrealized appreciation is attributable primarily to the tax deferral of losses on wash sales.

Additionally, U.S. generally accepted accounting principles require that certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications are primarily due to differing treatments for losses deferred due to wash sales, equalization accounting for tax purposes, and non-deductible expenses. These reclassifications have no effect on net assets or net asset value per share. For the year ended December 31, 2014, the following table shows the reclassifications made:

	Undistributed Net Investment Income/(Loss)	Accumulated Net Realized Gain/(Loss)	Paid In Capital
Baird LargeCap Fund	\$ 2,278	\$ (2,278)	\$ —
Baird MidCap Fund	2,059,677	(2,400,798)	341,121
Baird SmallCap Value Fund	(4,076)	(68,186)	72,262

Under the current tax law, capital losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. For the year ended, December 31, 2014, Baird SmallCap Fund elected to defer capital losses occurring between November 1, 2014 and December 31, 2014 in the amount of \$95,318.

To the extent the Fund realizes future net capital gains, those gains will be offset by any unused capital loss carryovers. During the year ended December 31, 2014, the Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Fund did not use any capital loss carryovers.

During the year ended December 31, 2014, the Funds paid the following dividends:

	Ordinary Income Dividends	Long-Term Capital Gain
Baird LargeCap Fund	\$780,172	\$ 44,108
Baird MidCap Fund	990,315	10,400,377
Baird SmallCap Value Fund	107,742	342,442

Notes to the Financial Statements

December 31, 2014

4. Investment Transactions and Income Tax Information (cont.)

During the year ended December 31, 2013, the Funds paid the following dividends:

	<u>Ordinary Income Dividends</u>	<u>Long-Term Capital Gain</u>
Baird LargeCap Fund	\$ 76,300	\$10,928,003
Baird MidCap Fund	5,304,795	3,439,509
Baird SmallCap Value Fund	98,898	255,247

The Funds designated as long-term capital gain dividend, pursuant to Internal Revenue Code Section 852(b)(3), the amount necessary to reduce the earnings and profits of the Funds related to net capital gain to zero for the tax year ended December 31, 2014. To the extent necessary to fully distribute such capital gains, the Baird MidCap Fund and Baird SmallCap Value Fund also designated earnings and profits distributed to shareholders on the redemption of shares.

5. Investment Advisory and Other Agreements

The Funds have entered into Investment Advisory Agreements with Baird for the provision of investment advisory services. Pursuant to the Investment Advisory Agreements, the Advisor is entitled to receive a fee, calculated daily and payable monthly, at the annual rate of 0.65% for the Baird LargeCap Fund, 0.75% for the Baird MidCap Fund and 0.85% for the Baird SmallCap Value Fund as applied to the respective Fund's average daily net assets. Certain officers of the Advisor are also officers of the Funds.

Baird has entered into a Sub-Advisory Agreement with Baird Kailash Group, LLC ("BKG"), pursuant to which BKG acts as subadvisor to the Baird LargeCap Fund (the "Sub-Advisory Agreement"). Baird is responsible for paying BKG a subadvisory fee, which is calculated daily and paid monthly at the annual rate of 0.45% of the average daily net assets of the Baird LargeCap Fund, out of the advisory fee that the Baird LargeCap Fund pays to Baird. Certain officers of BKG are also officers of the Funds.

For the year ended December 31, 2014 and through April 30, 2016, the Advisor has contractually agreed to waive its investment advisory fee and/or reimburse the Funds' operating expenses (exclusive of brokerage, taxes, and extraordinary expenses) to the extent necessary to ensure that each Fund's annual operating expenses do not exceed the following percentages of average daily net assets:

	<u>Institutional Class Shares</u>	<u>Investor Class Shares</u>
Baird LargeCap Fund	0.75%	1.00%
Baird MidCap Fund	0.85%	1.10%
Baird SmallCap Value Fund	1.00%	1.25%

To the extent that the Advisor reimburses or absorbs fees and expenses, it may seek payment of such amounts for three years after the year in which expenses were reimbursed or absorbed. A Fund will make no such payment, however, if its total annual operating expenses exceed the expense limits in effect at the time the expenses were reimbursed or at the time these payments are proposed.

	<u>Fiscal Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Reimbursed/Absorbed Expenses Subject to Recovery by Advisor Until:	2017	2016	2015
Baird LargeCap Fund	\$141,765	\$136,777	\$141,680
Baird MidCap Fund	\$143,779	\$ 73,919	\$153,676
Baird SmallCap Value Fund	\$132,231	\$133,527	\$ 91,176 ⁽¹⁾

(1) Amount shown reflects expense reimbursements made by the Advisor from May 1, 2012 (inception date) through December 31, 2012.

Notes to the Financial Statements

December 31, 2014

U.S. Bancorp Fund Services, LLC (“USBFS”) serves as transfer agent, administrator, and accounting services agent for the Funds. U.S. Bank, N.A. (“U.S. Bank”) serves as custodian for the Funds. Effective June 20, 2014, U.S. Bank is considered an “affiliated person” of the Funds for purposes of the 1940 Act, as a result of U.S. Bank’s fiduciary accounts for which it has investment authority and/or voting authority collectively acquiring 5% or more of the shares of the Baird Aggregate Bond Fund, a separate series of the Company. As a result, USBFS is an affiliated person of an affiliated person (or a “second tier” affiliate) of the Funds.

Robert W. Baird & Co. Incorporated (the “Distributor”) is the sole distributor of the Funds pursuant to a distribution agreement.

No commissions were earned by the Distributor for services rendered as a registered broker-dealer in securities transactions for the Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Value Fund for the year ended December 31, 2014.

6. Securities Lending

Each Fund may lend up to one-third of its total assets (including such loans) to borrowers under terms of participation in a securities lending program administered by U.S. Bank N.A., the Funds’ custodian and an affiliated person of the Funds, and an affiliate of USBFS, the Funds’ transfer agent and administrator, and a second-tier affiliate of the Funds. The securities lending agreement requires that loans are collateralized at all times in an amount equal to at least 102% of the market value of any loaned securities at the time of the loan, plus accrued interest.

The Funds receive compensation in the form of fees and earn interest on the cash collateral. The amount of fees depends on a number of factors including the type of security and length of the loan. Each Fund continues to receive interest payments or dividends on the securities loaned during the borrowing period. Each Fund has the right under the terms of the securities lending agreement to recall the securities from the borrower on demand.

As of December 31, 2014, none of the Funds had securities on loan. When a Fund engages in securities lending, loaned securities are collateralized by cash equivalents. The cash collateral is invested by the custodian in accordance with approved investment guidelines. Those guidelines require the cash collateral to be invested in readily marketable, high quality, short-term obligations; however, such investments are subject to risk of payment delays or default on the part of the issuer or counterparty or otherwise may not generate sufficient interest to support the costs associated with securities lending. A Fund could also experience delays in recovering its securities and possible loss of income or value if the borrower fails to return the borrowed securities, although the Funds are indemnified from this risk by contract with the securities lending agent.

The Funds receive cash as collateral in return for securities lent as part of a securities lending program. The collateral is invested in the Mount Vernon Securities Lending Prime Portfolio (a securities lending trust subject to Rule 2a-7 under the 1940 Act).

The interest income earned by the Funds, if any, on investments of cash collateral received from borrowers for the securities loaned to them (“securities lending income”) is reflected in the Funds’ statements of operations. The Funds did not participate in the securities lending program during the year ended December 31, 2014.

7. Line of Credit

The Corporation maintains an uncommitted, senior secured and unsecured line of credit (“LOC”) with U.S. Bank, N.A. (the “Bank”) to provide the Funds a temporary liquidity source to meet unanticipated redemptions. The unsecured line of credit is available to the Funds for any period during which U.S. Bank is an affiliate of the Funds. Under the terms of the LOC, borrowings for each Fund are limited to one-third of the total assets (including the amount borrowed) of the respective Fund, or as otherwise indicated within the Funds’ agreement with the Bank. The Bank charged interest at the Bank’s Prime Rate less 2% (weighted average rate of 1.25% during 2014). For the year ended December 31, 2014, the Funds did not borrow on the LOC.

Notes to the Financial Statements

December 31, 2014

8. Distribution and Shareholder Service Plan

The Funds have adopted a distribution and shareholder service plan (the “Plan”) pursuant to Rule 12b-1 under the 1940 Act. The Plan allows the Funds to compensate the Distributor for the costs incurred in distributing the Funds’ Investor Class Shares, including amounts paid to brokers or dealers, at an annual rate of 0.25% of the average daily net assets of the Funds’ Investor Class Shares. The Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Value Fund incurred \$1,770, \$569,959 and \$4,509, respectively, in fees pursuant to the Plan during the year ended December 31, 2014.

9. Subsequent Event

In preparing these financial statements, the Corporation has evaluated subsequent events after December 31, 2014 through the date the financial statements were issued. There were no subsequent events since December 31, 2014 that would require adjustment to or additional disclosure in these financial statements.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Baird Funds, Inc.

We have audited the accompanying statements of assets and liabilities of Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Value Fund (three of the nine funds constituting Baird Funds, Inc.) (collectively the "Funds"), including the schedules of investments, as of December 31, 2014, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended for the Baird LargeCap Fund and Baird MidCap Fund, the statement of operations for the year then ended, and the statements of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the two years in the period then ended and for the period from May 1, 2012 (inception) to December 31, 2012, for the Baird SmallCap Value Fund. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2014, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the aforementioned Funds of Baird Funds, Inc. as of December 31, 2014, and the results of their operations, the changes in their net assets, and the financial highlights for the periods indicated above, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois

February 26, 2015

Directors & Officers

As of December 31, 2014

Independent Directors

G. Frederick Kasten, Jr.

Independent Director and Chairman

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 75

c/o Robert W. Baird & Co. Incorporated

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Retired; Chairman, the Advisor (January 2000-December 2005); Chairman and CEO, the Advisor (January 1998-January 2000); President, Chairman and CEO, the Advisor (June 1983-January 1998); President, the Advisor (January 1979-January 1983)

Number of Portfolios in Complex Overseen by Director: 9

Other Directorships Held by Director: None

John W. Feldt

Independent Director

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 72

c/o Robert W. Baird & Co. Incorporated

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Retired; Senior Vice President-Finance, University of Wisconsin Foundation (1985-2006); Vice President-Finance, University of Wisconsin Foundation (1980-1985); Associate Director, University of Wisconsin Foundation (1967-1980)

Number of Portfolios in Complex Overseen by Director: 9

Other Directorships Held by Director: Director of Thompson Plumb Funds, Inc., a mutual fund complex (3 portfolios)

Frederick P. Stratton, Jr.

Independent Director

Term of Office: Indefinite

Length of Time Served: Since May 2004

Age: 75

c/o Robert W. Baird & Co. Incorporated

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Retired; Chairman Emeritus, Briggs & Stratton Corporation, a manufacturing company, since 2003; Chairman of the Board, Briggs & Stratton Corporation (2001-2002); Chairman and CEO, Briggs & Stratton Corporation (1986-2001)

Number of Portfolios in Complex Overseen by Director: 9

Other Directorships Held by Director: Director of Weyco Group, Inc., a men's footwear distributor.

Marlyn J. Spear, CFA

Independent Director

Term of Office: Indefinite

Length of Time Served: Since January 2008

Age: 61

c/o Robert W. Baird & Co. Incorporated

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Chief Investment Officer, Building Trades United Pension Trust Fund, since July 1989; Investment Officer, Northwestern Mutual Financial Network (1988-1989); Assistant Vice-President, Firststar Trust Company (1978-1987); Financial Analyst, Harco Holdings, Inc. (1976-1978)

Number of Portfolios in Complex Overseen by Director: 9

Other Directorships Held by Director: Management Trustee of AFL-CIO Housing Investment Trust, a mutual fund complex (1 portfolio)

Directors & Officers

As of December 31, 2014

Interested Directors and Officers

Cory L. Nettles*

Interested Director

Term of Office: Indefinite

Length of Time Served: Since January 2008

Age: 44

c/o Generation Growth Capital, Inc.

411 East Wisconsin Avenue, Suite 1710

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:

Managing Director, Generation Growth Capital, Inc., a private equity fund, since March 2007; Of Counsel, Quarles & Brady LLP, a law firm, since January 2005; Secretary, Wisconsin Department of Commerce (January 2003-January 2005)

Number of Portfolios in Complex Overseen by Director: 9

Other Directorships Held by Director: Director of

Weyco Group, Inc., a men's footwear distributor;

Director of Associated Banc-Corp

Mary Ellen Stanek

President

Term of Office: Re-elected by Board annually

Length of Time Served: Since September 2000

Age: 58

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:

Managing Director, the Advisor, and Chief Investment Officer, Baird Advisors, a department of the Advisor, since March 2000; Director, Baird Kailash Group, LLC since December 2013

Charles B. Groeschell

Vice President

Term of Office: Re-elected by Board annually

Length of Time Served: Since January 2010

Age: 61

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:

Managing Director, the Advisor, and Senior Portfolio Manager, Baird Advisors, a department of the Advisor, since February 2000

Angela M. Palmer

Chief Compliance Officer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2014

Age: 43

777 East Wisconsin Ave

Milwaukee, WI 53202

Chief Compliance Officer, the Advisor, since

March 2014; Director, the Advisor, since July 2014; Senior Vice President, the Advisor (March 2014-June 2014); Chief Compliance Officer, RIAs US, BMO Financial Group (January 2013-March 2014); Chief Compliance Officer, Institutional RIAs, BMO Financial Group (March 2012-January 2013); Vice President, BMO Harris Bank, N.A. (July 2011-March 2014); Chief Compliance Officer, Taplin, Canida & Habacht, LLC (December 2008-March 2014); Chief Compliance Officer and Vice President, M&I Investment Management Corp. (June 2006-May 2012); Assistant Secretary, M&I Investment Management Corp. (April 2010-May 2012); Vice President, Marshall & Ilsley Trust Company N.A. (June 2006-August 2012).

Dominick P. Zarcone

Treasurer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2011

Age: 56

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:

Chief Financial Officer, the Advisor, since March 2011; Chief Financial Officer, Baird Financial Group, since October 2012; Chief Operating Officer-Investment Banking, the Advisor (June 2004-March 2011); Managing Director, the Advisor, since February 1995

Directors & Officers

As of December 31, 2014

Interested Directors and Officers

Charles M. Weber

Secretary

Term of Office: Re-elected by Board annually

Length of Time Served: Since September 2005

Age: 51

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Senior Associate General Counsel, the Advisor, since January 2013; Managing Director, the Advisor since January 2009; Chief Compliance Officer and Secretary, Baird Kailash Group, LLC, since July 2013; Associate General Counsel, the Advisor (July 2005-December 2012)

Peter J. Hammond

Vice President

Term of Office: Re-elected by Board annually

Length of Time Served: Since August 2012

Age: 51

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Senior Vice President, the Advisor, since March 2012; Vice President, Baird Kailash Group, LLC since July 2013; Executive VP and Chief Administrative Officer, UMB Fund Services (September 1996-March 2012)

Dustin J. Hutter

Assistant Treasurer

Term of Office: Re-elected by Board annually

Length of Time Served: Since February 2011

Age: 38

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Director of Reporting and Analysis, Capital Markets Finance since February 2013; Senior Vice President, the Advisor, since January 2011; Treasurer, Baird Kailash Group, LLC since July 2013; First Vice President, the Advisor (January 2008-December 2010); Vice President, the Advisor (January 2006-December 2007); Assistant Controller, the Advisor (January 2006-January 2013)

Andrew D. Ketter

Assistant Secretary

Term of Office: Re-elected by Board annually

Length of Time Served: Since February 2011

Age: 40

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Associate General Counsel, the Advisor, since September 2010; Director, the Advisor, since July 2014; Senior Vice President, the Advisor, (January 2014-June 2014); First Vice President, the Advisor September 2010 to December 2013; Associate, Quarles & Brady LLP, a law firm (September 2002-August 2010)

Edgar L. Sturkey

AML Compliance Officer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2014

Age: 30

777 East Wisconsin Ave

Milwaukee, WI 53202

Principal Occupation(s) During Past 5 Years: Senior Compliance Officer and Vice President, the Advisor, since January 2015; Compliance Officer and Vice President, the Advisor (January 2013-December 2014); Compliance Officer and Assistant Vice President, the Advisor (January 2011-December 2012); Compliance Analyst, the Advisor (November 2009-December 2010).

* Mr. Nettles is considered an "interested person" of the Corporation (as defined in the 1940 Act) because of his association with the law firm, Quarles & Brady LLP, which provides legal services to the Advisor. The legal services that Quarles & Brady LLP has provided to the Advisor include litigation, real estate, trademark and miscellaneous securities related matters that did not relate to the Corporation or the Funds.. The Advisor has invested in and may in the future invest in private equity funds managed by Generation Growth Capital, Inc., a company of which Mr. Nettles is affiliated, through its division, Baird Capital.

Additional information about the Funds' directors is available in the Statement of Additional Information which may be obtained without charge, upon request, by calling 1-866-44BAIRD, or at www.bairdfunds.com.

Baird Funds, Inc.

Disclosure Regarding the Board of Directors' Approval of the Investment Advisory Agreement for Baird Equity Funds

The Board of Directors (the "Board") of Baird Funds, Inc. (the "Corporation"), including the directors who are not "interested persons" of the Corporation within the meaning of the Investment Company Act of 1940 (the "Independent Directors"), met on August 13 and August 21, 2014 to consider the annual renewal of the investment advisory agreement between Robert W. Baird & Co. Incorporated ("Baird" or the "Advisor") and the Corporation on behalf of the Baird MidCap and SmallCap Value Funds (the "Funds"). The Board, including the Independent Directors, approved the investment advisory agreement through a process that concluded at the August 21, 2014 meeting. In connection with its consideration of the investment advisory agreement, the Board reviewed and discussed various information that had been provided prior to the meeting, including the investment advisory agreement, a memorandum provided by legal counsel summarizing the guidelines relevant to the Board's consideration of the renewal of the investment advisory agreement, a memorandum and other information provided in response to requests from the Board, from the Advisor (including the Advisor's Form ADV brochure, annual report and financial statements), a profitability analysis, comparative information about the Funds' performance for periods ended June 30, 2014, management fees and expense ratios, and other pertinent information. The Board also considered relevant case law.

The Independent Directors met separately in executive session with the Funds' legal counsel to consider the investment advisory agreement. The Board discussed the Advisor's 15(c) response at the August 13, 2014 special meeting and discussed various questions and information with the President of the Funds at the August 13, 2014 meeting and during executive session earlier in the meeting. The Board also took into account information reviewed periodically throughout the year that was relevant to its consideration of the investment advisory agreement, including performance, management fee and other expense information and discussions with the Funds' portfolio managers. Based on its evaluation of this information, the Board, including a majority of the Independent Directors, approved the continuation of the investment advisory agreement for an additional one-year period.

In considering the investment advisory agreement and reaching its conclusions, the Board reviewed and analyzed various factors that it determined were relevant, including the factors below. In deciding to approve the investment advisory agreement for each Fund, the Board did not identify any single factor as determinative but considered all factors together.

Nature, Extent and Quality of Services Provided to the Funds

The Board analyzed the nature, extent and quality of the services provided by the Advisor to the Funds. The Board reviewed and considered the Advisor's significant role in establishing the Funds and the construction of their investment objectives, principal strategies, investment limitations and fee structures. The Board noted the Advisor's overall reputation and positive name recognition, the depth of the Advisor's personnel, resources and commitment to the Funds, and the experience, credentials and continuity of the portfolio management teams employed to manage the Funds' investments. The Board further noted that the Funds provide an opportunity for smaller institutional and retail accounts to receive the same professional advice from the Advisor that it offers to its larger institutional clients. However, the Board noted that the provision of investment advisory services to the Funds requires more effort than it does for separately managed accounts due to daily sales and redemption activity and additional regulatory and compliance requirements.

The Board considered the Advisor's disciplined investment decision-making process used for the Funds. The Board also considered other services that the Advisor provides the Funds in its capacity as their investment advisor, such as making some of its key personnel available to serve as officers of the Funds, selecting broker-dealers for execution of portfolio transactions, ensuring adherence to the Funds' investment policies and restrictions, compliance, risk management services, valuation, providing support services to the Board and the committees of the Board and overseeing the Funds' other service providers. The Board further noted that the Advisor, in its capacity as a registered broker-dealer, also serves as distributor and principal underwriter of

Baird Funds, Inc.

Disclosure Regarding the Board of Directors' Approval of the Investment Advisory Agreement for Baird Equity Funds (cont.)

shares of the Funds and spends time and effort marketing the Funds. The Board also considered the strength of the Advisor's compliance department, including the Funds' chief compliance officer, and the fact that the Advisor has not experienced any significant legal, compliance or regulatory difficulties since the Funds were launched. The Board reviewed a summary of the Advisor's risk management tools and process. The Board concluded that the nature, extent and quality of the services provided by the Advisor to the Funds were appropriate and that each Fund was likely to continue to benefit from services provided under the investment advisory agreement.

Investment Performance of the Advisor and the Funds

In considering the investment performance of each of the Funds, the Board reviewed information as of June 30, 2014 regarding the Fund's performance in comparison to its benchmark index and its peer group as determined by Lipper. The Board noted that the performance of the Baird MidCap Fund had exceeded its Lipper peer group average for the five-year, ten-year and since inception periods but lagged the average for the one-year period. The Fund's performance had exceeded the benchmark index for the five-year and since inception periods but lagged the index for the one-year and ten-year periods. With respect to the SmallCap Value Fund, the Board noted that the Fund had exceeded its Lipper peer group average and benchmark index for the one-year period and had slightly trailed the peer group average and benchmark index for the since inception period.

The Board also considered the Advisor's quarterly portfolio commentaries and reviews explaining the Funds' performance, the Advisor's consistent and disciplined investment decision process and the investment strategies it employs for the Funds. After considering all of the information, the Board concluded that, although past performance is not a guarantee of future results, each Fund and its shareholders were likely to benefit from the continued management by the Advisor.

Costs of Services Provided and Profits Realized by the Advisor

The Board examined the fee and expense information for each of the Funds, including a comparison of such information to other similarly situated mutual funds as determined by Morningstar. The Board noted that each Fund's advisory fee was comparable to the average and median for all mutual funds in its Morningstar category. The Board also reviewed and considered management fees charged by the Advisor to other investment advisory clients and found that the investment management fee paid by the MidCap Fund was 10 basis points (or 0.10%) less than what the Advisor charges on the first \$10 million of a separately managed account. With respect to the SmallCap Value Fund, the Fund's investment management fee was 15 basis points (or 0.15%) less than what the Advisor charges on the first \$20 million of a separately managed account. The Board recognized the extent of the significant additional services provided to each Fund that the Advisor did not provide to its other clients, such as certain administrative services, oversight of the Fund's other service providers, director support, risk management, regulatory compliance and various other services. The Board was informed of the subadvisory fee paid to the Advisor under a subadvisory arrangement with an unaffiliated mutual fund. The Board noted that the subadvisory services were limited to asset management and that the Advisor provided numerous other services under the advisory agreement with the Funds.

The Board also examined the total expense ratio of each Fund relative to all other mutual funds in its Morningstar category. The Board noted that each Fund's total expense ratio (both for its Institutional and Investor Class shares), after fee waivers and expense reimbursements by the Advisor, was lower than the average and median expense ratios for all funds in its Morningstar category and also but in the lowest or second lowest quartile.

Baird Funds, Inc.

Disclosure Regarding the Board of Directors' Approval of the Investment Advisory Agreement for Baird Equity Funds (cont.)

The Board considered the fees realized, and the costs incurred, by the Advisor in providing investment management services to the Funds and the profitability to the Advisor of having a relationship with the Funds. The Board noted that the Advisor had waived significant fees and/or reimbursed expenses for the Funds since their respective inception dates, but that the Advisor had begun recouping previously waived management fees with respect to the MidCap Fund.

The Board concluded that the profits realized by the Advisor from its relationship with the Funds were appropriate. The Board noted that the Advisor's profitability information does not reflect certain internal resources provided by the Advisor to the Funds, such as legal and compliance support. The Board reviewed and considered the general financial condition of the Advisor and determined it to be sound. The Board also discussed a report regarding payments to financial intermediaries, noting that all fees other than the Rule 12b-1 fee payable by the Investor Class shares of the Funds were paid by the Advisor and any payments by the Advisor for distribution were made from the Advisor's profits. In light of all of the information that it received and considered, the Board concluded that the management fee and total expense ratio of each Fund were reasonable.

Economies of Scale and Fee Levels Reflecting Those Economies

The Board reviewed the extent to which economies of scale may be realized as the Funds increase in size. The Board noted that the Funds' advisory fee structure does not contain any breakpoint reductions as the Funds grow in size. However, the Board recognized that the Advisor has committed to waive fees and/or reimburse expenses for the Funds pursuant to the expense cap agreement. The Board also recognized that the advisory fee rates paid by the Funds were designed to be lower than the fees otherwise charged by the Advisor to its separately managed account clients and to be comparable to the second or third breakpoint advisory fee levels paid by other comparable mutual funds. The directors concluded that the current fee structure of each Fund was reasonable.

Benefits Derived from the Relationship with the Funds

The Board considered other benefits to the Advisor from serving as advisor to the Funds (in addition to the advisory fee). The Board noted that the Advisor derives ancillary benefits from its association with the Funds in the form of research products and services received from unaffiliated broker dealers who execute portfolio trades for the Funds. However, the Board determined such products and services have been used for legitimate purposes relating to the Funds by providing assistance in the investment decision-making process. The Board also noted that the Advisor's financial advisors receive 12b-1 payments under the selling agreement with the Distributor. The Board noted that the Advisor's asset management business may experience indirect benefits from the Advisor's association with the Funds. The Board concluded that the other benefits realized by the Advisor from its relationship with the Funds were appropriate.

Based on its evaluation of the above factors, as well as other factors relevant to their consideration of the investment advisory agreement, the directors, including all of the Independent Directors, concluded that the continuation of the investment advisory agreement was in the best interest of each Fund and its shareholders.

Additional Information

Proxy Voting

A description of the policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling toll free, 1-866-44BAIRD, or by accessing the Funds' website at www.bairdfunds.com; and by accessing the SEC's website at www.sec.gov.

Each Fund's proxy voting record for the most recent 12-month period ended June 30 is available without charge, upon request, by calling toll free, 1-866-44BAIRD, or by accessing the Funds' website at www.bairdfunds.com; and by accessing the SEC's website at www.sec.gov.

Portfolio Holdings Disclosure

The Funds file a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-732-0330. The Funds' Forms N-Q may also be obtained by calling toll-free 1-866-44BAIRD.

Qualified Dividend Income/Dividends Received Deduction

For the fiscal year ended December 31, 2014, certain dividends paid by the Funds may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income was as follows:

Baird LargeCap Fund	74.19%
Baird MidCap Fund	43.44%
Baird SmallCap Value Fund	100.00%

For corporate shareholders, the percent of ordinary income distributions qualifying for the corporate dividends received deduction for the fiscal year ended December 31, 2014 was as follows:

Baird LargeCap Fund	69.11%
Baird MidCap Fund	30.82%
Baird SmallCap Value Fund	100.00%

Other Tax Information

For the fiscal year ended December 31, 2014, the percentage of taxable ordinary income distributions that are designated as short-term capital gain distributions under Internal Revenue Section 871(k)(2)(C) for each Fund were as follows:

Baird LargeCap Fund	53.63%
Baird MidCap Fund	100.00%
Baird SmallCap Value Fund	31.72%

Baird Funds, Inc. Privacy Policy

Protecting the privacy of Fund shareholders is important to us. The following is a description of the practices and policies through which Baird Funds, Inc. protects the privacy and security of your non-public personal information.

What Information We Collect

We collect and maintain information about you so that we can open and maintain your account in the Funds and provide various services to you. We may collect and maintain the following personal information about you:

- Information we receive from you or your financial advisor on account applications or other forms, correspondence, or conversations, such as your name, address, e-mail address, phone number, social security number, assets, income and date of birth; and
- Information about your transactions with us, our affiliates, or others, such as your account number and balance, positions, activity, history, cost basis information, and other financial information.

What Information We Disclose

We do not sell any non-public personal information about our current or former shareholders to third parties. We do not disclose any non-public personal information about our current or former shareholders to anyone, except as permitted or required by law. We are permitted by law to share any of the information we collect, as described above, with our affiliates. In addition, we may share such information with nonaffiliated third parties to the extent necessary to effect, process, administer or enforce a transaction that the shareholder requests or authorizes, in connection with maintaining or servicing the shareholder's account, as requested by regulatory authorities or as otherwise permitted or required by law. For example, we are permitted by law to disclose all of the information we collect, as described above, to our transfer agent to process your transactions. We may also provide your name and address to third party service providers who send account statements and other Fund-related material to you.

How We Protect Your Information

We restrict access to your non-public personal information to those persons who require such information to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to protect the confidentiality, integrity and security of your non-public personal information.

We will continue to adhere to the privacy policies and practices in this notice even after your account is closed or becomes inactive.

In the event that you hold shares of the Fund(s) through a financial intermediary, including, but not limited to, a broker-dealer, bank, or trust company, the privacy policy of your financial intermediary would govern how your non-public personal information would be shared with nonaffiliated third parties.

Baird Funds, Inc.
c/o U.S. Bancorp Fund Services, LLC
P.O. Box 701
Milwaukee, WI 53201-0701
1-866-44BAIRD

Board of Directors

G. Frederick Kasten, Jr. (Chairman)
John W. Feldt
Cory L. Nettles
Marlyn J. Spear
Frederick P. Stratton, Jr.

Investment Advisor and Distributor

Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, WI 53202

Administrator and Transfer Agent

U.S. Bancorp Fund Services, LLC
P.O. Box 701
615 East Michigan Street
Milwaukee, WI 53202

Custodian

U.S. Bank, N.A.
1555 N. RiverCenter Drive, Suite 302
Milwaukee, WI 53212

Legal Counsel

Godfrey & Kahn, S.C.
780 North Water Street
Milwaukee, WI 53202

Independent Registered Public Accounting Firm

Grant Thornton LLP
175 West Jackson Boulevard, 20th Floor
Chicago, IL 60604