

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.

BAIRD

Annual Report – Baird Funds

December 31, 2015

Baird LargeCap Fund

Baird MidCap Fund

Baird Small/Mid Cap Value Fund

Baird SmallCap Value Fund

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This report has been prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.

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 25, 2016

Dear Shareholder,

We have built the Baird Funds to be a value priced, no-load fund family that delivers institutional investment management capabilities to our fund shareholders including competitive, risk-adjusted returns over complete market cycles and outstanding service. Our portfolio management team brings extensive investment experience and has managed portfolios through multiple market cycles. This seasoned team emphasizes in-depth research and a disciplined, risk-controlled approach to meet our clients' investment needs.

We continue to invest in the business to achieve these goals through enhancing our technology platform and hiring strong investment and business talent. In 2015 we hired the nationally recognized municipal bond team of Duane McAllister CFA, Eric Schleicher and Joe Czechowicz to expand our expertise in the municipal bond sector. After their arrival, we introduced the Baird Core Intermediate Municipal Bond Fund and Baird Short-Term Municipal Bond Fund to complement our existing Baird Quality Intermediate Municipal Bond Fund. This strong addition to our team has added immediate value and we are excited to offer our investors these additional municipal bond fund options. We will continue to build our team over time to effectively meet our investors' needs.

Our long term success rests on being capable stewards of our investors' assets through the implementation of our shareholder-focused strategy. 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.

On the following pages, we review the equity market in 2015 and the performance and composition of each of the Baird Equity Funds.

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

Baird LargeCap Fund

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Portfolio Managers' Commentary

Market Commentary

The S&P 500 ended the year up 1.37% but not before subjecting investors to a roller coaster ride that saw it peak at about +4% and trough at -8%. The relatively lackluster performance of the S&P 500 hid unusual underlying dynamics with 4 stocks, popularly called the FANG stocks consisting of Facebook, Amazon, Netflix and Google, contributing over 2% to the index's return (i.e., the index would be about -0.60% without these stocks). On a sector level, Energy was by far the worst performer in the S&P 500 index with returns around -20%. The relatively low weight of the sector in the index, however, somewhat mitigated the contribution to return and energy detracted 170 bps from the index's performance. Materials lost about 8%, with Industrials, Utilities and Financials being the other laggards. Health Care, Telecom and Staples all generated single digit positive returns, with Discretionary generating about 10%. During 2015, we were 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. In many ways the sharp correction of over 10% we have seen in the starting weeks of 2016 could be a healthy mechanism to better align fundamentals with equity prices. Unfortunately, we have been surprised to see that while some of the exorbitantly priced firms are finally experiencing a reckoning with fundamental reality, the market has been equally willing to assume the worst for even the market's least expensive firms. We believe there is a bit of a "baby with the bathwater" syndrome underway and feel the opportunity set for a patient investor has rarely been as ripe as it is now.

Another feature that deserves some commentary is the steady re-rating (multiple expansion) of firms in the Staples sector. These firms form the bulwark of what is popularly known as low volatility strategies. In the last few years, these strategies have been sold in large quantities by almost every investment manager, including through ETFs, resulting in these firms trading at historically high multiples. While these firms have historically provided protection during cyclical downturns, their efficacy in the next downturn remains to be seen given their high current valuations.

The Baird LargeCap Fund underperformed the benchmark by 5.32% in 2015. Much of this underperformance occurred in the last four months of the year. However, we believe 2015 sends a message about focusing on the long-term and the importance of process in large-cap stock selection.

Investment Process

We are fundamental investors who look for firms whose growth is either mispriced or misunderstood, or firms of reasonable quality which suffer from unduly pessimistic market sentiment. These proclivities brought nothing but more relative pain in the latter half of the year as high growth firms experienced a stunning re-rating while more reasonably valued firms experienced a more modest but nonetheless significant simultaneous de-rating (multiple contraction). During periods when fear grips the markets, the horizon over which markets evaluate firms seems to shrink. Markets seem to focus more on short-term earnings and fail to fully recognize the long-term prospects for these firms, resulting in investors overreacting to any negative news. This can be partly explained by the myopia that pervades through all levels of the market structure. From the manager of a firm and the fund manager who invests in that firm, to the asset allocator who allocates resources to the fund, the pressure on short-term performance is intense. Real time access to performance data at all levels of the chain further exacerbates this pressure. This results in actions that are optimal from a survival standpoint but suboptimal from a long-term returns perspective. There is pressure to "hug" the bench during periods of underperformance, resulting in investors fleeing the very stocks they should be buying in periods of pain. The only way to break this chain is to focus on the long-term and to have a process. It is this overreaction during periods of fear that creates opportunities for long-term investors like us.

During the year, the emergence and rationale for our strategy's notable value tilt, the bifurcation of high growth firms from the rest of the market, and our underweight position in growth stocks have hampered overall relative performance. The strategy's disappointing results can be told in one simple concept:

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inexpensive firms (i.e. the companies comprising the Russell 1000 Value Index) de-rated and now are trading at over a 1 standard-deviation of cheapness below the S&P 500 (based on the free cash flow to enterprise value spread) while growth stocks (represented by the Russell 1000 Growth Index) experienced a stunning re-rating and now trade at nearly a 3-standard deviation premium to the S&P 500 (based on the free cash flow to enterprise value spread) for a -4 sigma spread. We note that only at the depths of the 2008/2009 market crash has the value/growth divergence been wider.

We can see that recent events were as sudden as they were dramatic. This obviously had a meaningful negative impact on the strategy's relative returns. While this has made recent months (and the start of 2016) fairly unpleasant, we believe that there are limits to all trends and that this one may be rapidly coming to a head if not already ripe for a reversal.

Capitalizing on an Unfavorable Environment for Commodities: Energy

The price of oil epitomizes a concept that we discussed in our last year-end commentary: the impossibility of accurately forecasting market direction. The price of oil witnessed a sustained decline from its peak in mid-2014 of over \$100 down to prices in the \$25-\$30 range by the end of 2015. This resulted in a significant decline in the value of firms in the Energy space. That said, one group of firms in this sector remained unaffected by the strong negative fundamentals buffeting this space. While price of oil was declining, refiners continued to enjoy strong profits and margins. Unlike previous cycles, these firms have become excellent stewards of capital. Instead of recklessly wasting capital and resources during profitable times, these firms have focused on capital expenditures aimed at enhancing efficiency and thoughtful capacity expansion. Valero is an excellent example of an oil refiner who has taken full advantage of high margins.

Suffering from the Perception that Old is not Gold: Technology

The Fund was particularly hard hit in the Technology sector. The general theme that gained popularity in 2015 was that Old Tech companies (which were the high flyers in the previous bubble of 1999) were boring and headed for the graveyard. Two themes in particular stood out: the imminent demise of the PC and the rise of the Cloud. Seagate and Oracle were examples of firms that were the victims of these themes.

Seagate, a maker of hard disk drives (HDDs), had a very difficult year with the firm losing more than half its market capitalization in 2015. Detractors believe that HDDs are a thing of the past and will be replaced by solid state drives (SSDs). While it is true that SSDs are faster and more energy efficient than HDDs, the HDDs have intrinsic advantages and are evolving to compete effectively. The introduction of helium filled drives, higher HDD capacities, unlimited offline storage time and cost differences make HDDs effective in cloud usage. Given these facts, we believe that the pessimism has been overdone.

Oracle, the high-flyer of yesteryear, found itself to be an underdog in 2015 at the hands of Salesforce.com and Workday. The Cloud became the buzzword and firms that had anything to do with the Cloud were rewarded irrespective of profitability or potential profitability. All that mattered was revenue growth. Salesforce had total returns of over 30% in 2015 compared with Oracle's -18%, even though Oracle is growing its Cloud business and doing so profitably while Salesforce and Workday are yet to be profitable and trading at market capitalizations of about \$50 billion and \$15 billion, respectively.

In a nutshell, Old Tech can do nothing right and New Tech can do nothing wrong. This pattern, reminiscent of 1999, usually ends in trouble for the owners of the unprofitable story firms. As in the past, the euphoria will pass. Cash is king and will always ultimately garner the respect it deserves. However, until that reckoning happens, the owners of boring cash generating Old Tech firms will have to suffer the pain that comes with being part of something that is currently out of favor.

Price of Omission: Consumer Discretionary

Amazon is another firm that has benefited greatly from the focus on the Cloud. Over the years, Amazon has been the beneficiary of extreme and extraordinary patience on the part of investors. Its profligacy has not only not been punished but has actually been rewarded, all in the hope that one day, investors patience will pay off.

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Amazon saw an amazing 117% increase in stock price in 2015, which translates to approximately a \$170 billion increase in market capitalization in one year (from \$140 billion to \$310 billion). This was primarily driven by the fact that investors were excited that Amazon finally eked out meager profits (\$73 million in Q3 of 2015) and that Amazon Web Services which has revenues \$2 billion in Q3 will grow rapidly and generate profits. At the same time Walmart, which has nearly five times Amazon's revenues and generates over \$15 billion in profit, saw its stock price cut by about -25% to about \$190 billion. However, Amazon's lack of focus on being profitable does not seem to end. Its potential foray into brick and mortar book stores and logistics raises the question of whether and when it will turn a profit. Will investors stop buying the story and start selling on the facts? We think they will.

Discussion of Fund's Performance in 2015

In 2015, the Baird LargeCap Fund generated a total return of -3.94% compared to a 1.38% 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 **Energy** as a sector dropped approximately 20%. The Fund benefited from being underweight the sector and also from strong stock selection within the sector. Significant overweights in refiners Valero Energy and Marathon Petroleum added the most to the Fund's relative returns as the group continues to benefit from excellent capital allocation and management decisions.
- o **Materials** also helped the Fund's returns with stock selection being the primary contributor. While LyondellBasell put in a strong showing the Fund was hurt by its overweight in this sector which trailed the benchmark.

Key Detractors From Relative Returns:

- o **Information Technology** was the biggest detractor to Fund performance. The Fund was slightly overweight this sector, which underperformed the benchmark. This underperformance plagued the Fund throughout the year and was primarily attributable both to the positions we owned and those we did not own. Among positions we owned, Sandisk and Seagate were two of the biggest detractors, while among the stocks we did not own, Facebook and Google, which were up over 30% in the year, were the biggest detractors.
- o Despite being neutral the **Consumer Discretionary** sector, this group detracted from the Fund's performance. The biggest detractor in this sector was Amazon, in which the Fund did not have a position. Amazon had returns of over 100% during the year. Being underweight such a large position in the index with such strong performance had a significant effect on Fund performance. Among stocks we owned, Harley Davidson was the biggest detractor while Expedia contributed the most to the sector.
- o Despite being neutral the sector, **Financials** dragged results down as our holdings were down 4.93% compared to the S&P 500 Financial sector, which was down 1.98%. Our positions in credit card companies (American Express and Discover) combined with a weak showing from our asset managers led to negative returns in the group.

Conclusion

As the second year of managing the LargeCap Fund comes to a close, we would like to thank every one of our investors for your faith in us. We understand that a new manager represents an unknown and are deeply grateful for your support. My money is invested alongside yours in the belief that it is not just common sense that a fund manager "eat his/her own cooking" but that it also provides a healthy dose of professional alignment. While there are many products that attempt to time markets or sectors, we believe these behaviors are more destructive in the long term than finding the under-appreciated growth firms and inexpensive value opportunities that are a part of our strategy. By maintaining a balanced approach and systematic process to stock selection, we hope to minimize our own (and hopefully our investors'!) behavioral errors. We believe this

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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 challenging moments. That said, we would like to make it clear that in our view, the investors in the Fund are not just our customers, rather they are our *partners*.

Thank you for your support.

Sincerely,

Matt Malgari

Baird LargeCap Fund

December 31, 2015 (Unaudited)

Portfolio Characteristics

A December 31, 2015 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*

Amgen, Inc.	3.0%
American Express Co.	2.6%
Waters Corp.	2.6%
Apple, Inc.	2.5%
Oracle Corp.	2.2%
PepsiCo, Inc.	2.2%
Caterpillar, Inc.	2.2%
Ameriprise Financial, Inc.	2.1%
Microsoft Corp.	2.1%
Intel Corp.	2.1%

Net Assets:	\$36,250,971
Portfolio Turnover Rate:	86.5%
Number of Equity Holdings:	107

Annualized Portfolio Expense Ratio:***

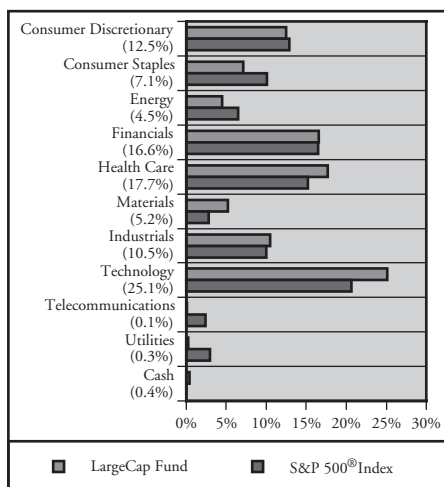
Gross

Institutional Class:	1.18%
Investor Class:	1.43%****

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, 2015.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2015, and may not add up to 100% due to rounding.

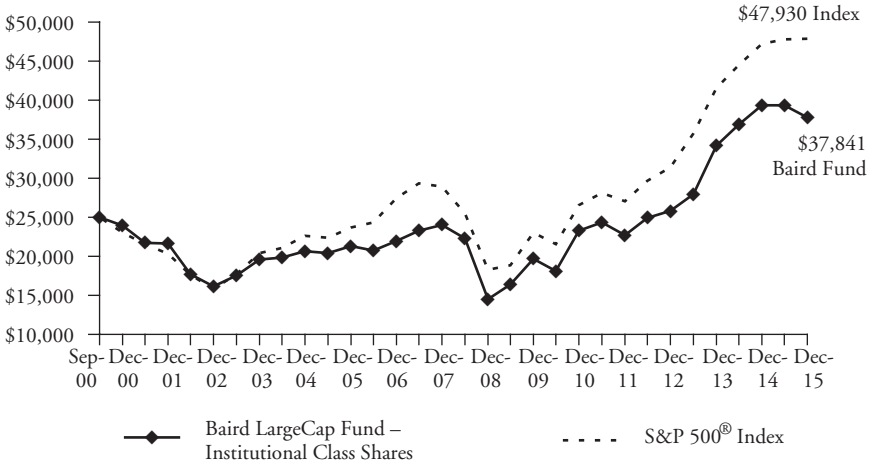
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.75% of average daily net assets for the Institutional Class shares and 1.00% of average daily net assets for the Investor Class shares, at least through April 30, 2017.

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

Baird LargeCap Fund

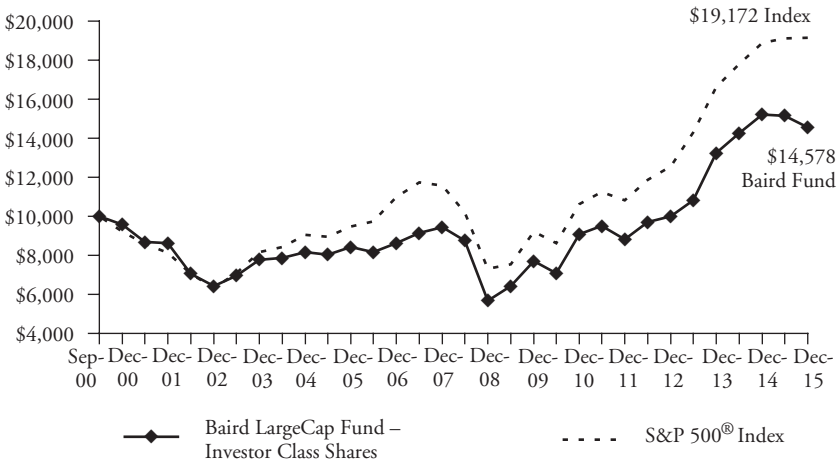
December 31, 2015 (Unaudited)

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, 2015 (Unaudited)

Total Returns

<i>For the Periods Ended December 31, 2015</i>	Average Annual			
	One Year	Five Years	Ten Years	Since Inception ⁽¹⁾
Institutional Class Shares	-3.94%	10.24%	5.91%	2.75%
Investor Class Shares	-4.18%	9.97%	5.66%	2.50%
S&P 500 [®] Index ⁽²⁾	1.38%	12.57%	7.31%	4.36%

(1) For the period from September 29, 2000 (inception date) through December 31, 2015.

(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, 2015

Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Aerospace & Defense			
The Boeing Co.	3,354	\$ 484,955	1.4%
General Dynamics Corp.	1,812	248,896	0.7%
Spirit AeroSystems Holdings, Inc. – Class A*	3,153	157,871	0.4%
		891,722	2.5%
Airlines			
Alaska Air Group, Inc.	8,289	667,347	1.8%
American Airlines Group, Inc.	1,674	70,894	0.2%
United Continental Holdings, Inc.*	1,299	74,433	0.2%
		812,674	2.2%
Auto Components			
Delphi Automotive PLC f	4,067	348,664	1.0%
Lear Corp.	2,085	256,100	0.7%
		604,764	1.7%
Automobiles			
Ford Motor Co.	28,249	398,028	1.1%
Harley-Davidson, Inc.	10,895	494,524	1.4%
		892,552	2.5%
Banks			
Wells Fargo & Co.	7,309	397,317	1.1%
Beverages			
The Coca-Cola Co.	9,676	415,681	1.1%
Coca-Cola Enterprises, Inc.	3,535	174,064	0.5%
Dr Pepper Snapple Group, Inc.	1,156	107,739	0.3%
PepsiCo, Inc.	7,936	792,965	2.2%
		1,490,449	4.1%
Biotechnology			
AbbVie, Inc.	12,058	714,316	2.0%
Amgen, Inc.	6,750	1,095,727	3.0%
Biogen, Inc.*	491	150,418	0.4%
Celgene Corp.*	4,592	549,938	1.5%
United Therapeutics Corp.*	982	153,791	0.4%
		2,664,190	7.3%
Building Products			
Masco Corp.	10,475	296,443	0.8%
Capital Markets			
Ameriprise Financial, Inc.	7,251	771,651	2.1%
The Blackstone Group LP	18,295	534,946	1.5%
SEI Investments Co.	13,143	688,693	1.9%
		1,995,290	5.5%

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Chemicals			
Celanese Corp. – Series A	2,865	\$ 192,901	0.5%
CF Industries Holdings, Inc.	13,025	531,550	1.5%
LyondellBasell Industries NV – Class A f	6,962	604,998	1.7%
Monsanto Company	864	85,121	0.2%
The Mosaic Co.	2,488	68,644	0.2%
Westlake Chemical Corp.	1,485	80,665	0.2%
		<u>1,563,879</u>	<u>4.3%</u>
Communications Equipment			
F5 Networks, Inc.*	2,000	193,920	0.5%
Consumer Finance			
American Express Co.	13,421	933,431	2.6%
Discover Financial Services	8,396	450,194	1.2%
Synchrony Financial*	25,050	761,770	2.1%
		<u>2,145,395</u>	<u>5.9%</u>
Containers & Packaging			
Ball Corp.	1,333	96,949	0.3%
Crown Holdings, Inc.*	3,073	155,801	0.4%
Sealed Air Corp.	1,757	78,362	0.2%
		<u>331,112</u>	<u>0.9%</u>
Diversified Financial Services			
Moody's Corp.	2,596	260,483	0.7%
Diversified Telecommunication Services			
CenturyLink, Inc.	1,078	27,123	0.1%
Electric Utilities			
Entergy Corp.	1,042	71,231	0.2%
Electrical Equipment			
Rockwell Automation, Inc.	3,681	377,707	1.0%
Electronic Equipment, Instruments & Components			
Corning, Inc.	18,808	343,810	0.9%
Energy Equipment & Services			
FMC Technologies, Inc.*	4,693	136,144	0.4%
Food & Staples Retailing			
The Kroger Co.	4,424	185,056	0.5%
Rite Aid Corp.*	8,115	63,622	0.2%
		<u>248,678</u>	<u>0.7%</u>

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Food Products			
Archer-Daniels-Midland Co.	5,159	\$ 189,232	0.5%
Bunge Ltd. f	805	54,966	0.2%
Campbell Soup Company	1,586	83,344	0.2%
Ingredion, Inc.	2,517	241,229	0.7%
		568,771	1.6%
Health Care Equipment & Supplies			
Becton, Dickson & Co.	2,251	346,857	1.0%
C.R. Bard, Inc.	958	181,483	0.5%
Medtronic PLC f	4,449	342,217	0.9%
St. Jude Medical, Inc.	3,645	225,152	0.6%
		1,095,709	3.0%
Health Care Providers & Services			
Anthem, Inc.	1,840	256,570	0.7%
Centene Corp.*	3,525	231,980	0.6%
		488,550	1.3%
Hotels, Restaurants & Leisure			
Wyndham Worldwide Corp.	8,952	650,363	1.8%
Household Products			
The Clorox Co.	762	96,644	0.3%
Independent Power and Renewable Electricity Producers			
Calpine Corp.*	1,946	28,159	0.1%
Insurance			
Aflac, Inc.	5,277	316,092	0.9%
The Hartford Financial Services Group, Inc.	2,123	92,266	0.2%
The Progressive Corp.	22,454	714,037	2.0%
The Travelers Companies, Inc.	820	92,545	0.3%
		1,214,940	3.4%
Internet & Catalog Retail			
Expedia, Inc.	4,920	611,556	1.7%
Internet Software & Services			
Alphabet, Inc. – Class C*	553	419,661	1.2%
IT Services			
Amdocs Ltd. f	1,594	86,985	0.2%
Global Payments, Inc.	3,727	240,429	0.7%
MasterCard, Inc. – Class A	2,114	205,819	0.6%
Visa, Inc. – Class A	4,141	321,134	0.9%
The Western Union Co.	40,941	733,253	2.0%
		1,587,620	4.4%

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Leisure Products			
Hasbro, Inc.	7,866	\$ 529,854	1.5%
Life Sciences Tools & Services			
Waters Corp.*	6,904	929,140	2.6%
Machinery			
Caterpillar, Inc.	11,547	784,734	2.2%
Deere & Co.	8,329	635,253	1.7%
		1,419,987	3.9%
Media			
DISH Network Corp. – Class A*	2,143	122,537	0.3%
Omnicom Group, Inc.	6,546	495,270	1.4%
Scripps Networks Interactive, Inc. – Class A	4,374	241,489	0.7%
		859,296	2.4%
Multiline Retail			
Kohl's Corp.	1,378	65,634	0.2%
Macy's, Inc.	1,955	68,386	0.2%
		134,020	0.4%
Oil, Gas & Consumable Fuels			
Chevron Corp.	893	80,334	0.2%
Exxon Mobil Corp.	3,274	255,209	0.7%
Marathon Petroleum Corp.	8,820	457,229	1.3%
Tesoro Corp.	2,269	239,085	0.7%
Valero Energy Corp.	6,875	486,131	1.3%
		1,517,988	4.2%
Personal Products			
Coty, Inc.	5,983	153,344	0.4%
Pharmaceuticals			
Johnson & Johnson	1,529	157,059	0.4%
Merck & Co., Inc.	8,528	450,449	1.2%
Pfizer, Inc.	19,555	631,235	1.8%
		1,238,743	3.4%
Semiconductors & Semiconductor Equipment			
Intel Corp.	22,176	763,963	2.1%
Microchip Technology, Inc.	5,725	266,441	0.7%
NVIDIA Corporation	2,431	80,126	0.2%
NXP Semiconductors NV* f	6,958	586,212	1.6%
Xilinx, Inc.	12,899	605,866	1.7%
		2,302,608	6.3%

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Software			
Cadence Design System, Inc.*	7,111	\$ 147,980	0.4%
Citrix Systems, Inc.*	1,024	77,466	0.2%
Electronic Arts, Inc.*	5,860	402,699	1.1%
Microsoft Corp.	13,901	771,227	2.1%
Oracle Corp.	21,776	795,477	2.2%
		<u>2,194,849</u>	<u>6.0%</u>
Specialty Retail			
L Brands, Inc.	1,759	168,548	0.4%
Lowe's Companies, Inc.	1,230	93,529	0.3%
		<u>262,077</u>	<u>0.7%</u>
Technology Hardware, Storage & Peripherals			
Apple, Inc.	8,477	892,289	2.5%
Hewlett Packard Enterprise Co.	11,324	172,125	0.5%
HP, Inc.	11,388	134,834	0.4%
NetApp, Inc.	6,082	161,355	0.4%
Seagate Technology PLC f	17,428	638,910	1.8%
Western Digital Corp.	851	51,103	0.1%
		<u>2,050,616</u>	<u>5.7%</u>
Total Common Stocks (Cost \$35,228,573)		<u>36,099,378</u>	<u>99.6%</u>
Contingent Value Rights			
Contingent Value Rights			
Safeway CASA LEY CVR*^+	2,216	2,249	0.0%
Safeway PDC LLC CVR*^+	2,216	108	0.0%
Total Contingent Value Rights (Cost \$0)		<u>2,357</u>	<u>0.0%</u>

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Short-Term Investment

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Fund			
Short-Term Investments Trust – Liquid Assets Portfolio, 0.29%«	155,944	\$ 155,944	0.4%
Total Short-Term Investment (Cost \$155,944)		155,944	0.4%
Total Investments (Cost \$35,384,517)		36,257,679	100.0%
Liabilities in Excess of Other Assets		(6,708)	0.0%
TOTAL NET ASSETS		\$36,250,971	100.0%

Notes to Schedule of Investments

* Non-Income Producing

f Foreign Security

« 7-Day Yield

^ Illiquid Security

+ Priced at Fair Value by the Valuation Committee as delegated by the Baird Funds' Board of Directors.

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, 2015

Summary of Fair Value Exposure at December 31, 2015

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. Management has determined that these standards have no material impact on the Fund's financial statements. 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$36,099,378	\$ —	\$ —	\$36,099,378
Total Equity	<u>36,099,378</u>	<u>—</u>	<u>—</u>	<u>36,099,378</u>
Contingent Value Rights				
Contingent Value Rights	—	—	2,357	2,357
Total Contingent Value Rights	<u>—</u>	<u>—</u>	<u>2,357</u>	<u>2,357</u>
Short-Term Investment				
Money Market Mutual Fund	155,944	—	—	155,944
Total Short-Term Investment	<u>155,944</u>	<u>—</u>	<u>—</u>	<u>155,944</u>
Total Investments*	<u>\$36,255,322</u>	<u>\$ —</u>	<u>\$2,357</u>	<u>\$36,257,679</u>

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

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

Baird LargeCap Fund

Schedule of Investments, December 31, 2015

Summary of Fair Value Exposure at December 31, 2015 (cont.)

Changes in valuation techniques may result in transfers into or out of current assigned levels within the hierarchy. Two securities with a fair value of \$2,357 were acquired during the period as a result of a corporate action. Both securities that are priced at fair value by the Fund's Valuation Committee instead of the Fund's pricing vendor in accordance with the Fund's policies and procedures and are valued using level 3 inputs. There were no other 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. For purposes of the reconciliation below, these securities are being presented as transfers into Level 3.

Level 3 Reconciliation Disclosure

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value.

<u>Description</u>	<u>Investments in Securities</u>
Balance as of December 31, 2014	\$ —
Accrued discounts/premiums	—
Realized gain (loss)	—
Change in unrealized appreciation (depreciation)	—
Purchases	—
Sales	—
Transfers in and/or out of Level 3*	2,357
Balance as of December 31, 2015	<u>\$2,357</u>

* Transfers between levels are recognized at the end of the reporting period.

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

Baird MidCap Fund

December 31, 2015

2015 Economic and Stock Market Commentary

U.S. equity markets absorbed two meaningful bouts of downward volatility, first in the late summer and then again in fall, managing to finish the year modestly higher. Certainly, a notable event during 2015 was the 25 basis point increase in the Fed funds rate by the Federal Reserve which came in December, several months later than originally expected, and nearly a decade since the last interest rate hike by the Fed. The broad-based S&P 500 index advanced 1.38% for the year, while the Dow Jones Industrial Average inched higher by 0.21%. Market returns were influenced by size as larger companies tended to fare better. For the year, the Russell 1000® Growth Index rose 5.67%, the Russell Midcap Growth® Index moderated by -0.20%, and the Russell 2000® Value Index fell 7.47%.

Sector performance within the broad S&P 500 index reflected the health of broad end markets as Consumer Discretionary along with Staples were relatively strong, and Healthcare and Technology also outperformed. The Energy sector, taking its cue from the price of oil, declined the most, and the Materials, Industrials, Utilities, and Financials sectors also underperformed.

As the year progressed, questions about the sustainability of domestic growth increased as weakness in China and a malaise in industrial activity were at work. The global inflation picture remained benign and oil prices captured much attention as a sustained rebound in prices never materialized and the per barrel price dropped meaningfully by year end.

Economic Outlook

We begin 2016 much as we did a year ago – concerned about the pace of U.S. economic growth, a possible Chinese recession, energy prices, corporate profits, etc. When we layer in questions regarding the future path for interest rates, the November presidential election and uncertain earnings growth in 2016, it is quite easy to paint a challenging backdrop for the market. Recognizing higher uncertainty and potential risks, we have positioned the Fund to be more defensive than in prior years.

There are, however, both bright spots and potential changes that require a balanced view towards the equity markets. Employment trends and, importantly, wages continue to rise, while energy costs fall, establishing a solid starting point for the consumer-driven part of the economy. Record levels of merger and acquisition activity reflect business confidence, and both residential and non-residential construction markets are progressing. There is anecdotal evidence that Europe is finding its economic footing. Additionally, the Chinese central bank and government have become more aggressive in fighting the slowdown in their economy which, if successful, should reduce a significant market overhang. We will adjust the Fund's positioning as our fundamental work on companies dictates.

Portfolio Managers' Commentary

For the year ended December 31, 2015, the Baird MidCap Fund Institutional Class posted a total return of -3.59% (-3.80% for the Investor Class), as compared to -0.20% for the Russell MidCap® Growth Index, the MidCap Fund's benchmark index.

Shareholders of the Baird MidCap Fund experienced performance that tracked a bit ahead of the primary benchmark through the first three quarters of the year, but sharp negative price action in a handful of long-held stocks hurt performance in the fourth quarter and put a damper on relative performance for the year.

The Fund's sector weights remained relatively balanced compared to its benchmark during 2015. However, as the year progressed, it became increasingly apparent that global economies were being pressured by low commodity prices, weak end markets and slowing earnings growth. As a result, adjustments were made within the Fund to reduce cyclicality, namely lowering weight in manufacturing-related companies, energy and, in some cases, businesses with outsized foreign exposure. Additionally, the Fund's exposure to the Consumer Discretionary sector was moderated, following several years of meaningful gains and higher valuations. This harvesting of gains continues to be an important part of our long-term investment strategy of balancing risk

Baird MidCap Fund

December 31, 2015

and reward. Those gains were invested into less cyclical, mostly domestic businesses that possess the return profile and balance sheet standards we admire.

Stocks in the basic Materials sector provided the strongest positive contribution to relative performance during the year. Holding companies with exposure to construction activity proved beneficial as fundamentals remained strong. In addition, consolidation within the industrial gas supply industry aided the Fund. The general avoidance of pure commodity-oriented business models in this sector also helped relative performance.

The Fund's technology holdings made a solid contribution to relative performance. Stock selection across the software and services industry helped Fund holdings significantly outpace the industry. In addition, holdings in the semiconductor area delivered positive absolute returns in contrast to a modest decline for the industry as a whole. The combined strength from key areas described above was able to offset weakness exhibited by the Fund's holding in the three dimensional printing industry, exposure that was eliminated when we determined end market growth was likely impaired. The Fund remains in a modest overweight position with good end market diversification. Despite the sluggish economic environment, we believe the sector offers plenty of good secular growth opportunities.

Producer durable holdings fought off several macro-related headwinds and performed in-line with the benchmark returns. Reflecting the challenging macro growth environment, the services-related companies in this sector fared better than businesses exposed to transportation, manufacturing, or other more cyclical industries.

Fund holdings in the Healthcare sector underperformed meaningfully. Performance from the pharmaceutical industry suffered as Fund holdings experienced price declines amid an industry advance. In addition, the Fund's exposure in the healthcare services industry did not distinguish itself during a general pullback in the sector occurring in the second half of the year. Our overall strategy of investing to obtain exposure to multiple end markets and working to identify companies down the market cap spectrum that provide long growth opportunities did not work. Certainly, mistakes were made, but our focus on company profitability has limited the opportunity set in this sector as the strongest performance was often found in many higher risk, less profitable biotech and pharmaceutical companies. We do not plan to compromise key tenets of our investment philosophy and will continue to seek attractive growth businesses.

The Fund's Energy stocks detracted from relative performance. Fund performance was hurt on a relative basis by a modest overweight amid significant stock price declines. During the course of the year, we lowered the Fund's exposure to the sector based on fundamental growth challenges and a reduction in benchmark weight. The Fund's exposure to the sector at year end was modest, represented by a single company focused on oil and gas production.

In the Consumer Staples sector, performance of the Fund's holdings fell short of corresponding benchmark sector returns. Like last year, overall returns from the staples sector significantly outpaced the market. Fund performance was negatively impacted by exposure to weakness in the grocery industry and a related distribution company. While we introduced exposure to the beverage industry in the second half, the Fund's relatively lower exposure to this well-performing industry compared to its benchmark created a performance drag.

The Consumer Discretionary sector provided a favorable contribution to relative performance. Key strength came from holdings touching several industries including housing, automotive parts retail, apparel, and toys and entertainment. We believe the outlook for consumer spending remains favorable due to continued job growth, signs of wage inflation, and low energy costs. However, mindful of the meaningful duration of outperformance among key industries in the sector, we took a fair amount of weight out of the sector during the course of the year, trimming several holdings, particularly in specialty retail, and finished the year underweight.

The Fund's financial services holdings were a drag on relative performance during the year. The volatile market environment kept long interest rates low, despite action by the Fed, which enabled REITs to continue

Baird MidCap Fund

December 31, 2015

their advance; REITs comprised approximately 20% of the financial services sector weight, but none in the Fund. In addition, performance from the Fund's asset manager holdings detracted from performance due to choppy markets and a tougher fund flow environment. Changes made to the Fund's exposure to the Financials sector included lifting the Fund weight in the financial and data processing industry.

The investment process underlying the Baird 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. Hemauer

Baird MidCap Fund

December 31, 2015 (Unaudited)

Portfolio Characteristics

A December 31, 2015 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*

Fiserv, Inc.	3.3%
Stericycle, Inc.	2.9%
LKQ Corp.	2.7%
Genpact Ltd.	2.6%
Alliance Data Systems Corp.	2.6%
Perrigo Co. PLC	2.5%
Fortune Brands Home & Security, Inc.	2.5%
Hasbro, Inc.	2.5%
Gartner, Inc.	2.4%
Church & Dwight Co., Inc.	2.3%

Net Assets:	\$1,219,125,331
Portfolio Turnover Rate:	52.8%
Number of Equity Holdings:	58

Annualized Portfolio Expense Ratio:***

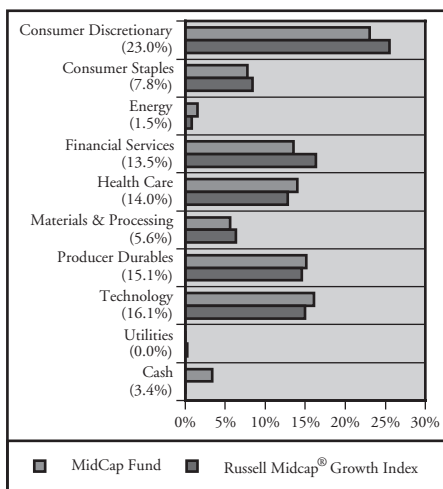
Gross

Institutional Class:	0.87%
Investor Class:	1.12%****

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, 2015.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2015, and may not add up to 100% due to rounding.

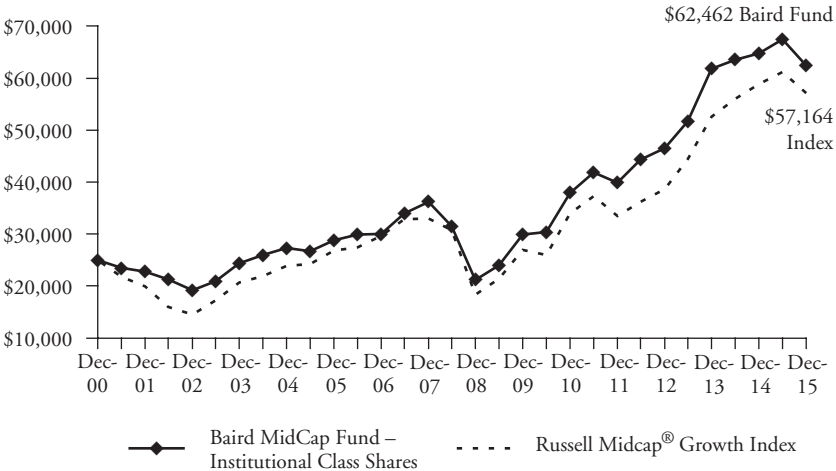
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.85% of average daily net assets for the Institutional Class shares and 1.10% of average daily net assets for the Investor Class shares, at least through April 30, 2017.

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

Baird MidCap Fund

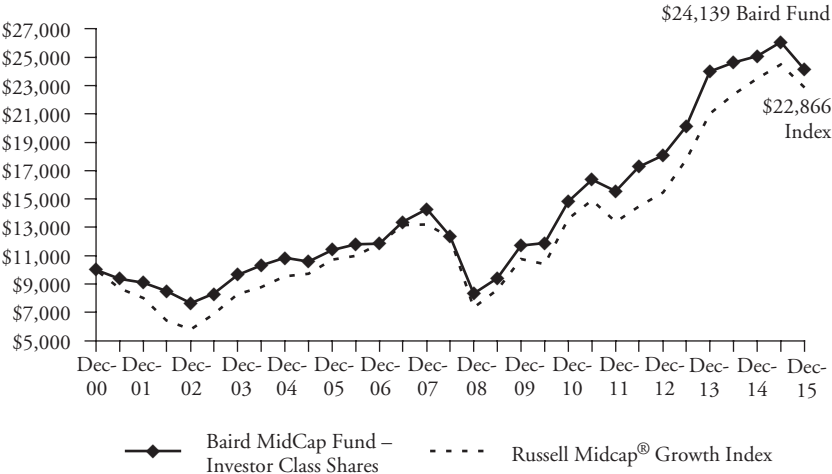
December 31, 2015 (Unaudited)

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, 2015 (Unaudited)

Total Returns

<i>For the Periods Ended December 31, 2015</i>	Average Annual			
	One Year	Five Years	Ten Years	Since Inception ⁽¹⁾
Institutional Class Shares	-3.59%	10.48%	8.03%	6.29%
Investor Class Shares	-3.80%	10.22%	7.78%	6.05%
Russell MidCap® Growth Index ⁽²⁾	-0.20%	11.54%	8.16%	5.66%

(1) For the period from December 29, 2000 (inception date) through December 31, 2015.

(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, 2015

Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Banks			
East West Bancorp, Inc.	594,696	\$ 24,715,566	2.0%
Beverages			
Constellation Brands, Inc.	131,265	18,697,387	1.5%
Building Products			
AO Smith Corp.	363,790	27,869,952	2.3%
Fortune Brands Home & Security, Inc.	547,459	30,383,974	2.5%
		58,253,926	4.8%
Capital Markets			
Affiliated Managers Group, Inc.*	148,482	23,721,484	1.9%
Invesco Ltd. f	280,020	9,375,070	0.8%
Northern Trust Corp.	269,025	19,394,012	1.6%
		52,490,566	4.3%
Commercial Services & Supplies			
Stericycle, Inc.*	294,704	35,541,302	2.9%
Distributors			
LKQ Corp.*	1,118,019	33,126,903	2.7%
Electrical Equipment			
Acuity Brands, Inc.	88,311	20,647,112	1.7%
Rockwell Automation, Inc.	116,565	11,960,734	1.0%
		32,607,846	2.7%
Electronic Equipment, Instruments & Components			
CDW Corp.	577,234	24,266,917	2.0%
Trimble Navigation Ltd.*	694,619	14,899,578	1.2%
		39,166,495	3.2%
Food & Staples Retailing			
United Natural Foods, Inc.*	308,602	12,146,575	1.0%
Food Products			
Mccormick & Co, Inc.	291,573	24,946,986	2.0%
Mead Johnson Nutrition Co.	147,883	11,675,363	1.0%
		36,622,349	3.0%
Health Care Equipment & Supplies			
The Cooper Cos, Inc.	75,995	10,198,529	0.9%
Globus Medical, Inc.*	776,043	21,589,516	1.8%
IDEXX Laboratories, Inc.*	288,980	21,072,422	1.7%
		52,860,467	4.4%

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

Baird MidCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Health Care Providers & Services			
Acadia Healthcare Co., Inc.*	207,350	\$ 12,951,081	1.1%
Envision Healthcare Holdings, Inc.*	521,867	13,552,886	1.1%
Laboratory Corp. of America Holdings*	196,804	24,332,847	2.0%
		50,836,814	4.2%
Health Care Technology			
Cerner Corp.*	382,286	23,002,149	1.9%
Hotels Restaurants & Leisure			
Buffalo Wild Wings, Inc.*	78,021	12,456,053	1.0%
Household Durables			
Harman International Industries, Inc.	266,435	25,100,841	2.1%
Household Products			
Church & Dwight Co., Inc.	332,992	28,264,361	2.3%
IT Services			
Alliance Data Systems Corp.*	114,354	31,626,886	2.6%
Euronet Worldwide, Inc.*	212,340	15,379,786	1.3%
Fiserv, Inc.*	443,638	40,575,131	3.3%
Gartner, Inc.*	325,289	29,503,712	2.4%
Genpact Ltd.* f	1,271,121	31,752,603	2.6%
		148,838,118	12.2%
Leisure Products			
Hasbro, Inc.	442,881	29,832,464	2.5%
Polaris Industries, Inc.	117,989	10,141,155	0.8%
		39,973,619	3.3%
Machinery			
The Middleby Corp.*	222,765	24,029,661	1.9%
Snap On, Inc.	77,249	13,242,796	1.1%
WABCO Holdings, Inc.*	190,673	19,498,221	1.6%
Wabtec Corp.	133,504	9,494,804	0.8%
		66,265,482	5.4%
Media			
Lions Gate Entertainment Corp. f	333,340	10,796,883	0.9%
Multiline Retail			
Burlington Stores, Inc.*	424,454	18,209,076	1.5%
Dollar General Corporation	344,240	24,740,529	2.0%
		42,949,605	3.5%
Oil, Gas & Consumable Fuels			
Concho Resources, Inc.*	195,524	18,156,359	1.5%

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

Baird MidCap Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Pharmaceuticals			
Akorn, Inc.*	351,507	\$ 13,114,726	1.1%
Perrigo Co. PLC f	215,254	31,147,254	2.5%
		<u>44,261,980</u>	<u>3.6%</u>
Road & Rail			
J.B. Hunt Transport Services, Inc.	214,365	15,725,816	1.3%
Semiconductors & Semiconductor Equipment			
Integrated Device Technology, Inc.*	681,563	17,959,185	1.5%
Skyworks Solutions, Inc.	138,383	10,631,966	0.9%
		<u>28,591,151</u>	<u>2.4%</u>
Software			
Akamai Technologies, Inc.*	182,375	9,598,396	0.8%
ANSYS, Inc.*	289,948	26,820,190	2.2%
Fortinet, Inc.*	664,170	20,702,179	1.7%
Synopsys, Inc.*	413,611	18,864,798	1.6%
Tyler Technologies, Inc.*	98,161	17,111,425	1.4%
The Ultimate Software Group, Inc.*	113,384	22,167,706	1.8%
		<u>115,264,694</u>	<u>9.5%</u>
Specialty Retail			
O'Reilly Automotive, Inc.*	97,302	24,658,273	2.0%
Tiffany & Co.	165,978	12,662,462	1.1%
Tractor Supply Co.	260,877	22,304,983	1.8%
		<u>59,625,718</u>	<u>4.9%</u>
Textiles, Apparel & Luxury Goods			
Under Armour, Inc. – Class A*	107,973	8,703,703	0.7%
Trading Companies & Distributors			
Fastenal Co.	567,529	23,166,534	1.9%
Watsco, Inc.	211,163	24,733,522	2.0%
		<u>47,900,056</u>	<u>3.9%</u>
Total Common Stocks (Cost \$1,076,613,781)		1,182,942,784	97.1%

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

Baird MidCap Fund

Schedule of Investments, December 31, 2015

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Institutional Cash Advantage Fund, 0.26%«	16,668,259	\$ 16,668,259	1.3%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.29%«	24,000,000	24,000,000	2.0%
Total Short-Term Investments (Cost \$40,668,259)		40,668,259	3.3%
Total Investments (Cost \$1,117,282,040)		1,223,611,043	100.4%
Liabilities in Excess of Other Assets		(4,485,712)	(0.4)%
TOTAL NET ASSETS		\$1,219,125,331	100.0%

Notes to Schedule of Investments

* Non-Income Producing

f Foreign Security

« 7-Day Yield

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

Baird MidCap Fund

Schedule of Investments, December 31, 2015

Summary of Fair Value Exposure at December 31, 2015

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. Management has determined that these standards have no material impact on the Fund's financial statements. 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$1,182,942,784	\$ —	\$ —	\$1,182,942,784
Total Equity	<u>1,182,942,784</u>	<u>—</u>	<u>—</u>	<u>1,182,942,784</u>
Short-Term Investments				
Money Market Mutual Funds	40,668,259	—	—	40,668,259
Total Short-Term Investments	<u>40,668,259</u>	<u>—</u>	<u>—</u>	<u>40,668,259</u>
Total Investments*	<u>\$1,223,611,043</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,223,611,043</u>

* 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 Small/Mid Cap Value Fund

December 31, 2015

Portfolio Manager Commentary

The Baird Small/Mid Cap Value Fund's date of inception was November 30, 2015. For the time period beginning November 30, 2015 through year-end, the Baird Small/Mid Cap Value Fund Institutional Class generated a total return of -4.7% compared to a -4.6% return for the Russell 2500 Value Index, the Fund's benchmark. Following is a discussion of key contributors and detractors for the Fund's performance relative to its benchmark during 2015.

Key Contributors to Relative Returns:

- The Fund's meaningful underweight to Energy, the worst performing sector for the period, was the most significant contributor to relative returns.
- The Fund's underweight to Materials and strong performance from the one position the Fund holds, Orchids Paper Products, added value on both an absolute and relative basis.
- Outside of sector-related performance, strong absolute gains were posted by REITs including LTC Properties, Mid-America Apartment Communities and Omega Healthcare Investors. J2 Global and Dollar Tree were also nice winners for the period.

Key Detractors from Relative Returns:

- Industrials struggled in 2015 given a slowing manufacturing environment both domestically and overseas. Despite the Fund's underweighted exposure to the sector, it was still the largest detractor from overall returns for the period. Teekay and Ryder Systems were among the disappointing performers.
- The Fund's underweight to Utilities was a slight detractor during a period of strong performance for defensive stocks
- Within Consumer Discretionary, Lithia Motors and Motorcar Parts of America were laggards on concerns of a potential slowdown in auto sales.

Looking Forward

Our strongest macroeconomic conviction lies in the belief that China's economic growth rate will not only continue to slow, but disappoint expectations and remain a headwind for global commodity prices and trading partners, particularly in Europe and Southeast Asia. Continued moves to devalue the yuan will only serve to export deflation and put pressure on corporate profits for countries that compete with China's exports. As a result of this outlook, our bias remains toward companies with predominately domestic revenue bases and those whose profits we have the conviction can best weather a potential economic slowdown.

Consistent with our investment philosophy and process, we continue to expect the Small/Mid Cap Value Fund to be comprised of high quality businesses with better than benchmark growth rates purchased at below market valuations. We believe that this discipline, consistently applied in all market environments, will yield superior returns for investors.

Portfolio Manager:

Michelle Stevens

Baird Small/Mid Cap Value Fund

December 31, 2015 (Unaudited)

Portfolio Characteristics

A December 31, 2015 summary of the Fund's top 10 holdings and equity sector analysis compared to the Russell 2500® Value Index is shown below.

Top 10 Holdings*

Dreyfus Institutional Cash Advantage Fund	5.3%
Mid-America Apartment Communities, Inc.	3.5%
j2 Global, Inc.	3.4%
Aceto Corp.	3.3%
LTC Properties, Inc.	3.3%
Omega Healthcare Investors, Inc.	3.2%
Dollar Tree, Inc.	3.1%
Hilltop Holdings, Inc.	3.1%
Motorcar Parts of America, Inc.	3.0%
Integrated Device Technology, Inc.	3.0%

Net Assets: \$4,733,417

Portfolio Turnover Rate: 14.7%†

Number of Equity Holdings: 40

Annualized Portfolio Expense Ratio:***

Gross

Institutional Class: 2.15%

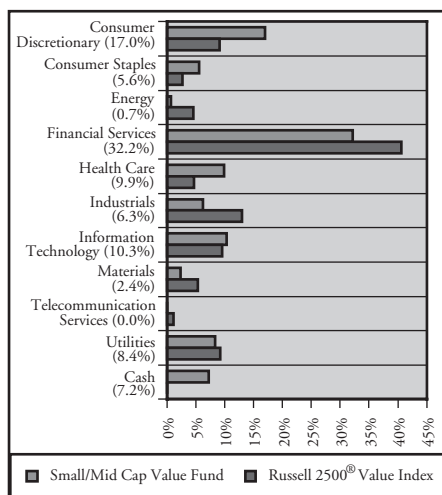
Investor Class: 2.40%****

Net

Institutional Class: 0.95%

Investor Class: 1.20%****

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, 2015.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2015, 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 0.95% of average daily net assets for the Institutional Class shares and 1.20% of average daily net assets for the Investor Class shares, at least through April 30, 2017.

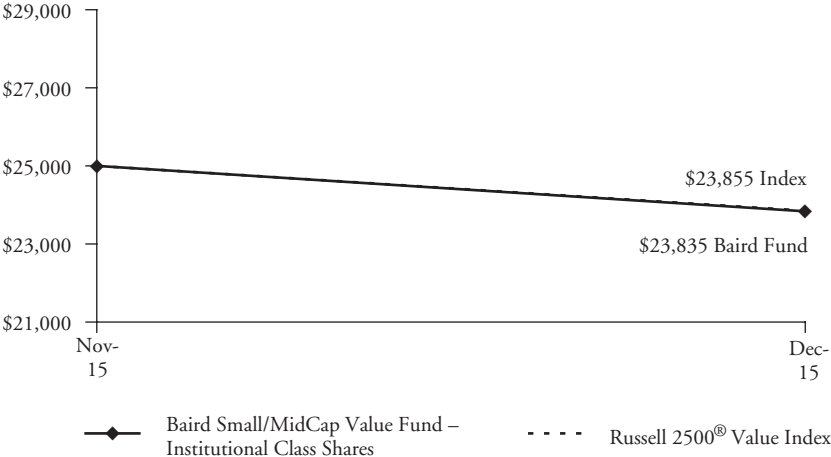
**** Includes 0.25% 12b-1 fee.

† Not annualized.

Baird Small/Mid Cap Value Fund

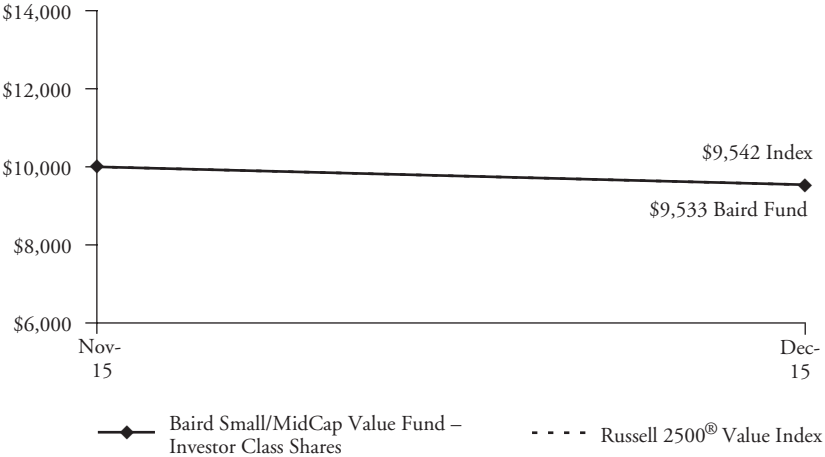
December 31, 2015

Institutional Class Value of a \$25,000 Investment



Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (11/30/15), 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 (11/30/15), assuming reinvestment of all distributions.

Baird Small/Mid Cap Value Fund

December 31, 2015 (Unaudited)

Total Returns

<i>For the Period Ended December 31, 2015</i>	Since Inception ⁽¹⁾
Institutional Class Shares	-4.66%
Investor Class Shares	-4.67%
Russell 2500 [®] Value Index ⁽²⁾	-4.58%

- (1) For the period from November 30, 2015 (inception date) through December 31, 2015.
- (2) The Russell 2500[®] Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2500[®] 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 to mid 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 Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2015

Common Stocks

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Aerospace & Defense			
Hexcel Corp.	2,535	\$ 117,751	2.5%
Auto Components			
Motorcar Parts of America, Inc.*	4,225	142,847	3.0%
Banks			
Hilltop Holdings, Inc.*	7,705	148,090	3.1%
PrivateBancorp, Inc.	2,985	122,445	2.6%
Renasant Corp.	4,017	138,225	2.9%
		408,760	8.6%
Commercial Services & Supplies			
Deluxe Corp.	1,530	83,446	1.8%
Consumer Finance			
PRA Group, Inc.*	1,740	60,361	1.3%
Distributors			
LKQ Corp.*	3,405	100,890	2.1%
Diversified Consumer Services			
H&R Block, Inc.	3,300	109,923	2.3%
Electric Utilities			
Avangrid, Inc.*	3,140	120,576	2.6%
Pinnacle West Capital Corp.	1,125	72,540	1.5%
		193,116	4.1%
Food Products			
B&G Foods Inc.	3,995	139,905	2.9%
Pinnacle Foods, Inc.	2,985	126,743	2.7%
		266,648	5.6%
Health Care Equipment & Supplies			
Alere, Inc.*	2,005	78,375	1.7%
ICU Medical, Inc.*	1,005	113,344	2.4%
		191,719	4.1%
Health Care Providers & Services			
Aceto Corp.	5,805	156,619	3.3%
MEDNAX, Inc.*	1,650	118,239	2.5%
		274,858	5.8%
Hotels, Restaurants & Leisure			
Norwegian Cruise Line Holdings Ltd.* f	2,060	120,716	2.6%
Household Durables			
Harman International Industries, Inc.	950	89,500	1.9%
Household Products			
Orchids Paper Products Co.	3,695	114,249	2.4%

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

Baird Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Insurance			
American Financial Group, Inc.	1,900	\$ 136,952	2.9%
Atlas Financial Holdings, Inc.* f	5,280	105,072	2.2%
		242,024	5.1%
Internet Software & Services			
j2 Global, Inc.	1,925	158,467	3.4%
VeriSign, Inc.*	1,240	108,326	2.3%
		266,793	5.7%
Multiline Retail			
Dollar Tree, Inc.*	1,925	148,648	3.1%
Multi-Utilities			
Alliant Energy Corp.	1,165	72,754	1.5%
CMS Energy Corp.	3,565	128,625	2.7%
		201,379	4.2%
Oil, Gas & Consumable Fuels			
Navigator Holdings Ltd.* f	3,485	47,570	1.0%
Targa Resources Corp.	1,265	34,231	0.7%
		81,801	1.7%
Real Estate Investment Trusts (REITs)			
BioMed Realty Trust, Inc.	4,010	94,997	2.0%
Blackstone Mortgage Trust, Inc.	4,700	125,772	2.7%
Hersha Hospitality Trust	2,410	52,442	1.1%
LTC Properties, Inc.	3,615	155,951	3.3%
Mid-America Apartment Communities, Inc.	1,820	165,274	3.5%
Omega Healthcare Investors, Inc.	4,355	152,338	3.2%
		746,774	15.8%
Road & Rail			
Ryder System, Inc.	845	48,021	1.0%
Semiconductors & Semiconductor Equipment			
Integrated Device Technology, Inc.*	5,330	140,445	3.0%
Skyworks Solutions, Inc.	1,030	79,135	1.6%
		219,580	4.6%
Specialty Retail			
Lithia Motors, Inc.	871	92,910	2.0%
Thrifts & Mortgage Finance			
Bofi Holding, Inc.*	3,167	66,665	1.4%
Total Common Stocks (Cost \$4,584,081)		4,389,379	92.7%

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

Baird Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2015

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Institutional Cash Advantage Fund, 0.26%«	251,354	\$ 251,354	5.3%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.29%«	90,000	90,000	1.9%
Total Short-Term Investments (Cost \$341,354)		341,354	7.2%
Total Investments (Cost \$4,925,435)		4,730,733	99.9%
Other Assets in Excess of Liabilities		2,684	0.1%
TOTAL NET ASSETS		\$4,733,417	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 Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2015

Summary of Fair Value Exposure at December 31, 2015

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. Management has determined that these standards have no material impact on the Fund's financial statements. 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$4,389,379	\$ —	\$ —	\$4,389,379
Total Equity	4,389,379	—	—	4,389,379
Short-Term Investments				
Money Market Mutual Funds	341,354	—	—	341,354
Total Short-Term Investments	341,354	—	—	341,354
Total Investments*	<u>\$4,730,733</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$4,730,733</u>

* 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. 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, 2015

Portfolio Manager's Commentary

Despite a wary eye on the slowing global economy for much of 2014, particularly China and emerging markets, we began 2015 bullish on the U.S. economy. Domestically, a solid labor market, stable manufacturing conditions, and an improving consumer profile appeared immune to sluggish trends overseas. As such, the Fund enjoyed strong performance relative to its benchmark in the first half of the year fueled primarily by the Fund's overweight to Information Technology, positioning in Financials, and superior security selection.

However, global growth concerns came home to roost in the third quarter beginning with Greece's near exit from the Euro and ending with the Federal Reserve's decision not to raise the Federal Fund's rate at its September meeting. We believe what really mattered, however, happened between these events. July's breathtaking decline in the Chinese stock market following its meteoric rise earlier in the year shone the spotlight where attention was due. As readers of past commentary will recall, it's not the equity market in China that has concerned us; it is the rapid weakening of economic conditions and corporate profits. While nearly every indicator of Chinese economic activity moved significantly lower during the summer, it was the move on August 11 by the People's Bank of China to devalue the yuan by nearly 2% against the US dollar that, in our mind, waved the red flag that the deteriorating conditions in that country are likely worse than the publicly-released data would indicate.

As a result, we felt it prudent to reassess our holdings in light of the potential for a meaningful slowdown beyond our current expectations for Chinese and global growth. This scenario could lead to another leg down in energy markets and ultimately have a negative impact on domestic growth, as well. Additionally, such an event would likely lead to a continuation of low interest rates for longer than the market anticipated. With that in mind, we made a number of portfolio changes in 2015 to harvest some profits and increase our downside protection.

The most significant change to the Fund's portfolio during the third quarter was the reduction in exposure to Information Technology by more than 1000 bps. The majority of the positions we sold or trimmed were semiconductor producers levered to the burgeoning demand for 4G smartphones. We began significantly trimming in the first week of July on concerns of slowing demand growth in China and inventory builds. These same stocks were many of our top performers over the past 18 months contributing meaningfully to returns.

With a watchful eye, we continued to monitor the trend in U.S. economic indicators for signs that deteriorating global growth along with stressed conditions in emerging market currencies and credit markets had begun to impact domestic activity. Weak industrial production data and regional economic surveys, deteriorating transportation trends, and disappointing retail sales during the fourth quarter raised enough uncertainty in our estimation to prompt additional changes to the Fund's portfolio in order to provide downside protection. Furthermore, now that oil has made a second leg down in price, we believe that this will further pinch capital spending in that sector along with secondary and tertiary related industries domestically. These changes in trend for many economic and monetary conditions appear to have not been fully reflected in consensus GDP and earnings estimates and present risk to equities exposed to a slowdown.

On a positive note, our research has uncovered new investment opportunities with catalysts for better than expected profits and with less cyclical end markets. For example, we made an investment during the year in B&G Foods, which was trading at a historical low valuation due to slowing growth. It was our thesis that, although the timing was unknown, the company had the balance sheet and plans to make additional accretive acquisitions. They have, in fact, since purchased the Green Giant brand from General Mills which catapulted the stock 20% higher. We also initiated a new position in Aceto Corporation, a company transitioning from a specialty chemical producer to a generic pharmaceutical distributor. The company's new business model now represents more than two-thirds of profits with double the margins, and should ultimately lead the business to be revalued higher.

In 2015, the Baird SmallCap Value Fund Institutional Class generated a total return of -5.11% compared to a -7.5% return for the Russell 2000 Value Index, the Fund's benchmark. Security selection was superior across 9

Baird SmallCap Value Fund

December 31, 2015

out of 11 economic sectors and our repositioning of the Fund's portfolio mid-year had a favorable impact upon performance. During a year of great dispersion of returns among economic sectors, allocation played an important role for portfolio managers in 2015. Following is a discussion of key contributors and detractors for the Fund's performance relative to its benchmark during 2015.

Key Contributors to Relative Returns:

- Very strong stock selection and an overweighted position in Consumer Staples, including B&G Foods and Pinnacle Foods, contributed the greatest to positive returns.
- Our conscious choice to underweight the Materials sector given flagging global economic growth provided downside protection as Materials in the Fund's benchmark was the worst performing sector (-30%), second only to Energy.
- The Fund's overweight exposure to Information Technology companies, which meaningfully outperformed the benchmark, boosted relative returns. J2 Global and Integrated Device Technology were among the best performers.
- The Fund's Consumer Discretionary, Healthcare and Utility holdings all helped the Fund beat its benchmark for the year. Some of the best performing names include ICU Medical, Lithia Motors, Steiner Leisure and Avangrid.

Key Detractors from Relative Returns:

- Industrials struggled in 2015 given a slowing manufacturing environment both domestically and overseas. Despite reducing the Fund's exposure to the sector throughout the year, it was still the largest detractor from overall returns. Universal Truckload Services, Generac Holdings and Navigator Holdings were among the disappointing performers.
- Despite superior stock selection for the sector, our underweight to Financials created a small detraction from relative returns for the year. Bank positions including Bofi HOLDINGS and Private Bancorp along with asset manager Diamond Hill Investment Group posted robust returns. On the other hand, debt collectors Portfolio Recovery and Encore Capital Group underperformed.
- Outside of sector-related performance, individual stocks that were significant detractors include Lands' End and Targa Resources.

Looking Forward

Our strongest macroeconomic conviction lies in the belief that China's economic growth rate will not only continue to slow, but disappoint expectations and remain a headwind for global commodity prices and trading partners, particularly in Europe and Southeast Asia. Continued moves to devalue the yuan will only serve to export deflation and put pressure on corporate profits for countries that compete with China's exports. As a result of this outlook, our bias remains toward companies with predominately domestic revenue bases and those whose profits we have the conviction can best weather a potential economic slowdown.

Consistent with our investment philosophy and process, we continue to expect the SmallCap Value Fund to be comprised of high quality businesses with better than benchmark growth rates purchased at below market valuations. We believe that this discipline, consistently applied in all market environments, will yield superior returns for investors.

Portfolio Manager:

Michelle Stevens

Baird SmallCap Value Fund

December 31, 2015 (Unaudited)

Portfolio Characteristics

A December 31, 2015 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*

Dreyfus Institutional Cash	
Advantage Fund	5.8%
Pinnacle Foods, Inc.	4.8%
Diamond Hill Investment Group, Inc.	4.2%
Motorcar Parts of America, Inc.	3.9%
j2 Global, Inc.	3.8%
LTC Properties, Inc.	3.6%
PrivateBancorp, Inc.	3.4%
Aceto Corp.	3.4%
ICU Medical, Inc.	3.3%
Integrated Device Technology, Inc.	3.1%

Net Assets:	\$25,126,568
Portfolio Turnover Rate:	42.1%
Number of Equity Holdings:	38

Annualized Portfolio Expense Ratio:***

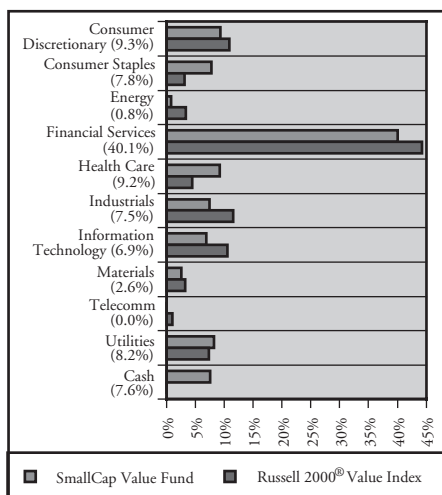
Gross

Institutional Class:	1.55%
Investor Class:	1.80%****

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, 2015.

** Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2015, and may not add up to 100% due to rounding.

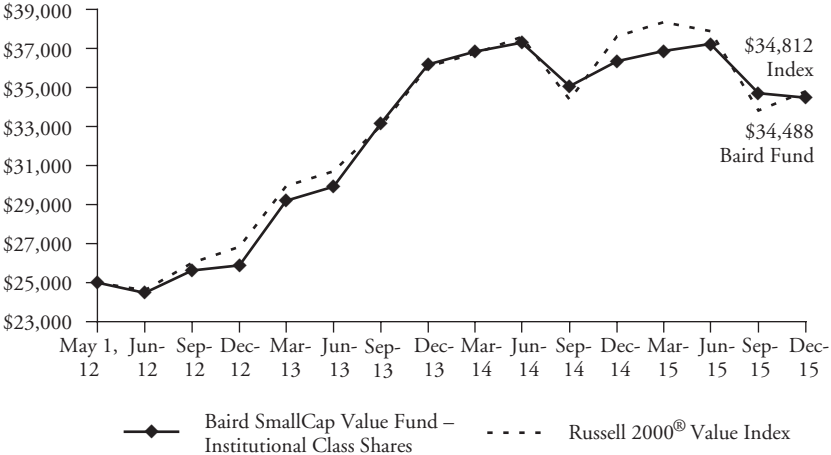
*** Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 1.00% of average daily net assets for the Institutional Class shares and 1.25% of average daily net assets for the Investor Class shares, at least through April 30, 2017.

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

Baird SmallCap Value Fund

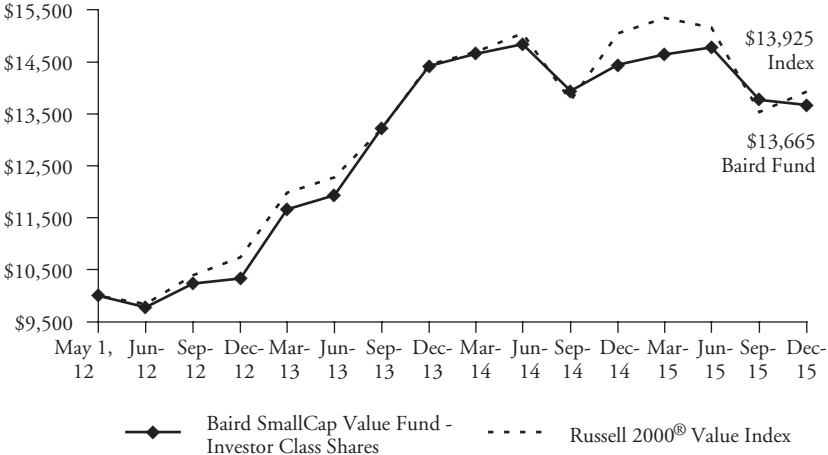
December 31, 2015 (Unaudited)

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, 2015 (Unaudited)

Total Returns

<i>For the Periods Ended December 31, 2015</i>	One Year	Average Annual	
		Three Year	Since Inception ⁽¹⁾
Institutional Class Shares	-5.11%	10.04%	9.16%
Investor Class Shares	-5.37%	9.77%	8.88%
Russell 2000® Value Index ⁽²⁾	-7.47%	9.06%	9.44%

(1) For the period from May 1, 2012 (inception date) through December 31, 2015.

(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, 2015

Common Stocks

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Aerospace & Defense			
Hexcel Corp.	12,646	\$ 587,407	2.3%
Auto Components			
Drew Industries, Inc.	6,712	408,694	1.6%
Motorcar Parts of America, Inc.*	28,725	971,192	3.9%
		1,379,886	5.5%
Banks			
Hilltop Holdings, Inc.*	38,405	738,144	2.9%
PrivateBancorp, Inc.	20,762	851,657	3.4%
Renasant Corp.	22,011	757,399	3.0%
		2,347,200	9.3%
Building Products			
Patrick Industries, Inc.*	10,538	458,403	1.8%
Capital Markets			
Diamond Hill Investment Group, Inc.	5,620	1,062,180	4.2%
Commercial Services & Supplies			
Deluxe Corp.	9,992	544,964	2.2%
Consumer Finance			
Encore Capital Group, Inc.*	12,488	363,151	1.5%
PRA Group, Inc.*	9,679	335,764	1.3%
		698,915	2.8%
Electric Utilities			
Avangrid, Inc.*	16,101	618,278	2.5%
Food Products			
B&G Foods Inc.	21,855	765,362	3.0%
Pinnacle Foods, Inc.	28,099	1,193,084	4.8%
		1,958,446	7.8%
Gas Utilities			
South Jersey Industries, Inc.	32,628	767,411	3.1%
Health Care Equipment & Supplies			
Alere, Inc.*	16,392	640,763	2.5%
ICU Medical, Inc.*	7,338	827,580	3.3%
		1,468,343	5.8%
Health Care Providers & Services			
Aceto Corp.	31,220	842,316	3.4%
Hotels, Restaurants & Leisure			
Diamond Resorts International, Inc.*	17,227	439,461	1.7%

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

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2015

Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
Household Products			
Orchids Paper Products Co.	21,075	\$ 651,639	2.6%
Insurance			
Atlas Financial Holdings, Inc.* f	29,660	590,234	2.3%
Internet Software & Services			
j2 Global, Inc.	11,551	950,878	3.8%
Multi-Utilities			
Alliant Energy Corp.	10,930	682,578	2.7%
Oil, Gas & Consumable Fuels			
Navigator Holdings Ltd.* f	21,231	289,803	1.1%
Targa Resources Corp.	7,092	191,910	0.8%
		481,713	1.9%
Real Estate Investment Trusts (REITs)			
BioMed Realty Trust, Inc.	23,884	565,812	2.2%
Blackstone Mortgage Trust, Inc.	23,416	626,612	2.5%
Capstead Mortgage Corp.	30,440	266,046	1.1%
DiamondRock Hospitality Co.	45,116	435,369	1.7%
Hatteras Financial Corp.	20,450	268,917	1.1%
Hersha Hospitality Trust	18,342	399,122	1.6%
LTC Properties, Inc.	20,765	895,802	3.6%
Omega Healthcare Investors, Inc.	21,855	764,488	3.0%
		4,222,168	16.8%
Semiconductors & Semiconductor Equipment			
Integrated Device Technology, Inc.*	29,348	773,320	3.1%
Specialty Retail			
Lithia Motors, Inc.	4,839	516,176	2.1%
Thrifts & Mortgage Finance			
Bofi Holding, Inc.*	17,484	368,038	1.5%
Capitol Federal Financial, Inc.	20,917	262,717	1.1%
Meta Financial Group, Inc.	11,220	515,335	2.0%
		1,146,090	4.6%
Total Common Stocks (Cost \$20,108,433)		23,188,006	92.3%

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

Baird SmallCap Value Fund

Schedule of Investments, December 31, 2015

Short-Term Investments

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
Money Market Mutual Funds			
Dreyfus Institutional Cash Advantage Fund, 0.26%«	1,465,794	\$ 1,465,794	5.8%
Short-Term Investments Trust – Liquid Assets Portfolio, 0.29%«	450,000	450,000	1.8%
Total Short-Term Investments (Cost \$1,915,794)		1,915,794	7.6%
Total Investments (Cost \$22,024,227)		25,103,800	99.9%
Other Assets in Excess of Liabilities		22,768	0.1%
TOTAL NET ASSETS		\$25,126,568	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, 2015

Summary of Fair Value Exposure at December 31, 2015

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. Management has determined that these standards have no material impact on the Fund's financial statements. 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Common Stocks	\$23,188,006	\$ —	\$ —	\$23,188,006
Total Equity	23,188,006	—	—	23,188,006
Short-Term Investments				
Money Market Mutual Funds	1,915,794	—	—	\$1,915,794
Total Short-Term Investments	1,915,794	—	—	1,915,794
Total Investments*	<u>\$25,103,800</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$25,103,800</u>

* 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, 2015 (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 (7/1/15 – 12/31/15).

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, 2015 (Unaudited)

Actual vs. Hypothetical Returns

For the Six Months Ended December 31, 2015

	Fund's Annualized Expense Ratio ⁽¹⁾⁽²⁾	Beginning Account Value 7/1/15	Actual		Hypothetical (5% return before expenses)	
			Ending Account Value 12/31/15	Expenses Paid During Period ⁽¹⁾⁽²⁾	Ending Account Value 12/31/15	Expenses Paid During Period ⁽¹⁾⁽²⁾
Baird LargeCap Fund						
Institutional Class	0.75%	\$1,000.00	\$961.70	\$3.71	\$1,021.42	\$3.82
Investor Class	1.00%	\$1,000.00	\$961.50	\$4.94	\$1,020.16	\$5.09
Baird MidCap Fund						
Institutional Class	0.75%	\$1,000.00	\$926.60	\$3.64	\$1,021.42	\$3.82
Investor Class	1.00%	\$1,000.00	\$925.50	\$4.85	\$1,020.16	\$5.09
Baird Small/Mid Cap Value Fund						
Institutional Class	0.95%	\$1,000.00	\$953.40	\$0.81	\$1,003.55	\$0.83
Investor Class	1.20%	\$1,000.00	\$953.30	\$1.03	\$1,003.33	\$1.05
Baird SmallCap Value Fund						
Institutional Class	1.00%	\$1,000.00	\$926.10	\$4.85	\$1,020.16	\$5.09
Investor Class	1.25%	\$1,000.00	\$924.80	\$6.06	\$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.

(2) Expenses are equal to the Baird Small/Mid Cap Value Fund's annualized net expense ratio multiplied by the average account value over the period, multiplied by 31/365 to reflect the period since the Fund's inception on November 30, 2015.

Statements of Assets and Liabilities

December 31, 2015

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund	Baird SmallCap Value Fund
ASSETS:				
Investments, at value (cost \$35,384,517, \$1,117,282,040, \$4,925,435 and \$22,024,227, respectively)	\$36,257,679	\$1,223,611,043	\$4,730,733	\$25,103,800
Dividends receivable	29,502	450,852	7,751	62,843
Interest receivable	75	9,221	86	390
Receivable for Fund shares sold	—	3,517,377	—	660
Receivable from Advisor and Distributor	—	—	20,458	—
Prepaid expenses and other assets	11,503	2,543	—	3,941
Total assets	<u>36,298,759</u>	<u>1,227,591,036</u>	<u>4,759,028</u>	<u>25,171,634</u>
LIABILITIES:				
Payable for Fund shares repurchased	6,687	7,292,703	—	1,234
Payable to Advisor and Distributor	6,676	1,012,349	—	7,667
Accrued expenses and other liabilities	34,425	160,653	25,611	36,165
Total liabilities	<u>47,788</u>	<u>8,465,705</u>	<u>25,611</u>	<u>45,066</u>
NET ASSETS	<u>\$36,250,971</u>	<u>\$1,219,125,331</u>	<u>\$4,733,417</u>	<u>\$25,126,568</u>
NET ASSETS CONSIST OF:				
Capital stock	\$36,015,946	\$1,141,663,324	\$4,967,184	\$22,799,623
Accumulated undistributed net investment income	—	—	289	7,487
Accumulated net realized loss on investments sold	(638,137)	(28,866,996)	(39,354)	(760,115)
Net unrealized appreciation (depreciation) on investments	873,162	106,329,003	(194,702)	3,079,573
NET ASSETS	<u>\$36,250,971</u>	<u>\$1,219,125,331</u>	<u>\$4,733,417</u>	<u>\$25,126,568</u>
INSTITUTIONAL CLASS SHARES				
Net Assets	\$35,649,412	\$1,035,004,553	\$4,714,356	\$23,139,732
Shares outstanding (\$0.01 par value, unlimited shares authorized)	4,449,336	69,041,053	495,306	1,775,679
Net asset value, offering and redemption price per share	<u>\$ 8.01</u>	<u>\$ 14.99</u>	<u>\$ 9.52</u>	<u>\$ 13.03</u>
INVESTOR CLASS SHARES				
Net Assets	\$ 601,559	\$ 184,120,778	\$ 19,061	\$ 1,986,836
Shares outstanding (\$0.01 par value, unlimited shares authorized)	75,481	12,817,360	2,003	152,902
Net asset value, offering and redemption price per share	<u>\$ 7.97</u>	<u>\$ 14.36</u>	<u>\$ 9.52</u>	<u>\$ 12.99</u>

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

Statements of Operations

Period Ended December 31, 2015

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund [^]	Baird SmallCap Value Fund
INVESTMENT INCOME:				
Dividends (net of foreign taxes withheld of \$0, \$8,878, \$0 and \$0, respectively)	\$ 766,751	\$ 7,833,809	\$ 11,413	\$ 447,337
Interest	750	51,676	86	1,580
Other income	3,443	11,980	—	1
Total investment income	<u>770,944</u>	<u>7,897,465</u>	<u>11,499</u>	<u>448,918</u>
EXPENSES:				
Investment advisory fees	259,924	9,525,399	3,196	218,718
Administration fees	5,396	99,916	48	3,689
Shareholder servicing fees	15,442	125,018	3,300	15,251
Fund accounting fees	16,147	68,474	246	15,259
Professional fees	39,580	40,376	11,800	40,630
Federal and state registration	49,197	90,679	3,474	40,509
Directors fees	47,575	47,748	4,000	47,627
Custody fees	7,378	29,350	82	4,257
Reports to shareholders	1,949	83,723	1,300	1,750
Miscellaneous expenses	1,018	4,532	5	995
Distribution expense – Investor Class Shares (Note 8)	3,185	508,632	4	5,494
Total expenses	<u>446,791</u>	<u>10,623,847</u>	<u>27,455</u>	<u>394,179</u>
Fee waiver/recoupment by Advisor (Note 5)	(143,538)	41,882	(23,659)	(131,370)
Net expenses	<u>303,253</u>	<u>10,665,729</u>	<u>3,796</u>	<u>262,809</u>
NET INVESTMENT INCOME (LOSS)	<u>467,691</u>	<u>(2,768,264)</u>	<u>7,703</u>	<u>186,109</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss) on investments	1,215,765	(27,744,335)	(39,584)	(676,064)
Change in unrealized depreciation on investments	(3,284,296)	(22,515,811)	(194,702)	(826,483)
Net realized and unrealized loss on investments	<u>(2,068,531)</u>	<u>(50,260,146)</u>	<u>(234,286)</u>	<u>(1,502,547)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$(1,600,840)</u>	<u>\$(53,028,410)</u>	<u>\$(226,583)</u>	<u>\$(1,316,438)</u>

[^] Inception of the Baird Small/Mid Cap Value Fund was the close of business on November 30, 2015.

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

Statement of Changes in Net Assets

Baird LargeCap Fund

	Year Ended December 31, 2015	Year Ended December 31, 2014
OPERATIONS:		
Net investment income	\$ 467,691	\$ 361,522
Net realized gain on investments	1,215,765	837,245
Change in unrealized appreciation/depreciation on investments	<u>(3,284,296)</u>	<u>3,634,313</u>
Net increase (decrease) in net assets resulting from operations	<u>(1,600,840)</u>	<u>4,833,080</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	7,717,424	13,065,266
Shares issued to holders in reinvestment of distributions	2,431,224	824,279
Cost of shares redeemed	<u>(10,040,992)</u>	<u>(5,923,052)</u>
Net increase in net assets resulting from capital share transactions	<u>107,656</u>	<u>7,966,493</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net investment income	(469,154)	(354,933)
From net realized gains	<u>(1,918,299)</u>	<u>(446,433)</u>
Total Distributions	<u>(2,387,453)</u>	<u>(801,366)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net investment income	(6,047)	(9,164)
From net realized gains	<u>(37,847)</u>	<u>(13,750)</u>
Total Distributions	<u>(43,894)</u>	<u>(22,914)</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS	(3,924,531)	11,975,293
NET ASSETS:		
Beginning of year	<u>40,175,502</u>	<u>28,200,209</u>
End of year	<u>\$ 36,250,971</u>	<u>\$40,175,502</u>

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

Statement of Changes in Net Assets

Baird MidCap Fund

	Year Ended December 31, 2015	Year Ended December 31, 2014
OPERATIONS:		
Net investment loss	\$ (2,768,264)	\$ (2,059,677)
Net realized gain (loss) on investments	(27,744,335)	11,854,713
Change in unrealized appreciation/depreciation on investments	(22,515,811)	31,922,782
Net increase (decrease) in net assets resulting from operations	<u>(53,028,410)</u>	<u>41,717,818</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	449,697,294	963,929,395
Shares issued to holders in reinvestment of distributions	1,614,082	10,127,896
Cost of shares redeemed	(293,658,295)	(317,272,798)
Net increase in net assets resulting from capital share transactions	<u>157,653,081</u>	<u>656,784,493</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net realized gains	(1,484,630)	(9,261,206)
Total Distributions	<u>(1,484,630)</u>	<u>(9,261,206)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net realized gains	(278,941)	(2,129,486)
Total Distributions	<u>(278,941)</u>	<u>(2,129,486)</u>
TOTAL INCREASE IN NET ASSETS	102,861,100	687,111,619
NET ASSETS:		
Beginning of year	1,116,264,231	429,152,612
End of year	<u>\$1,219,125,331</u>	<u>\$1,116,264,231</u>

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

Statement of Changes in Net Assets

Baird Small/Mid Cap Value Fund

	November 30, 2015 [^] through December 31, 2015
OPERATIONS:	
Net investment income	\$ 7,703
Net realized loss on investments	(39,584)
Change in unrealized depreciation on investments	(194,702)
Net decrease in net assets resulting from operations	<u>(226,583)</u>
CAPITAL SHARE TRANSACTIONS:	
Proceeds from shares sold	4,960,000
Shares issued to holders in reinvestment of distributions	7,184
Net increase in net assets resulting from capital share transactions	<u>4,967,184</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:	
From net investment income	(7,158)
Total Distributions	<u>(7,158)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:	
From net investment income	(26)
Total Distributions	<u>(26)</u>
TOTAL INCREASE IN NET ASSETS	4,733,417
NET ASSETS:	
Beginning of period	<u>—</u>
End of period (including undistributed net investment income of \$289)	<u>\$4,733,417</u>

[^] Inception was the close of business on November 30, 2015.

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

Statement of Changes in Net Assets

Baird SmallCap Value Fund

	Year Ended December 31, 2015	Year Ended December 31, 2014
OPERATIONS:		
Net investment income	\$ 186,109	\$ 82,969
Net realized gain (loss) on investments	(676,064)	280,519
Change in unrealized depreciation on investments	(826,483)	(211,518)
Net increase (decrease) in net assets resulting from operations	<u>(1,316,438)</u>	<u>151,970</u>
CAPITAL SHARE TRANSACTIONS:		
Proceeds from shares sold	5,084,558	9,218,037
Shares issued to holders in reinvestment of distributions	133,162	399,253
Cost of shares redeemed	<u>(4,171,336)</u>	<u>(3,881,622)</u>
Net increase in net assets resulting from capital share transactions	<u>1,046,384</u>	<u>5,735,668</u>
DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:		
From net investment income	(148,738)	(76,463)
From net realized gains	<u>—</u>	<u>(340,398)</u>
Total Distributions	<u>(148,738)</u>	<u>(416,861)</u>
DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:		
From net investment income	(8,071)	(2,430)
From net realized gains	<u>—</u>	<u>(30,893)</u>
Total Distributions	<u>(8,071)</u>	<u>(33,323)</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS	(426,863)	5,437,454
NET ASSETS:		
Beginning of year	<u>25,553,431</u>	<u>20,115,977</u>
End of year (including undistributed net investment income of \$7,487 and \$0, respectively)	<u>\$25,126,568</u>	<u>\$25,553,431</u>

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

Financial Highlights

Baird LargeCap Fund – Institutional Class

	Year Ended December 31,				
	2015	2014	2013 ⁽¹⁾	2012	2011
Per Share Data:					
Net asset value, beginning of year	\$ 8.93	\$ 7.92	\$ 9.86	\$ 8.71	\$ 8.93
Income from investment operations:					
Net investment income	0.10 ⁽²⁾	0.09 ⁽²⁾	0.03 ⁽²⁾	0.04 ⁽²⁾	0.01
Net realized and unrealized gains (losses) on investments	(0.45)	1.10	3.16	1.15	(0.22)
Total from investment operations	(0.35)	1.19	3.19	1.19	(0.21)
Less distributions:					
Distributions from net investment income	(0.11)	(0.08)	(0.04)	(0.04)	(0.01)
Distributions from net realized gains	(0.46)	(0.10)	(5.09)	—	—
Total distributions	(0.57)	(0.18)	(5.13)	(0.04)	(0.01)
Net asset value, end of year	\$ 8.01	\$ 8.93	\$ 7.92	\$ 9.86	\$ 8.71
Total return	(3.94)%	15.09%	32.68%	13.62%	(2.34)%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$35.6	\$39.0	\$28.0	\$24.0	\$20.5
Ratio of expenses to average net assets	0.75%	0.75%	0.75%	0.75%	0.75%
Ratio of expenses to average net assets (before waivers)	1.11%	1.17%	1.24%	1.34%	1.35%
Ratio of net investment income to average net assets	1.18%	1.08%	0.28%	0.37%	0.12%
Ratio of net investment income (loss) to average net assets (before waivers)	0.82%	0.66%	(0.21)%	(0.22)%	(0.48)%
Portfolio turnover rate ⁽³⁾	86.5%	88.2%	127.7%	39.2%	38.2%

(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,				
	2015	2014	2013 ⁽¹⁾	2012	2011
Per Share Data:					
Net asset value, beginning of year	\$ 8.87	\$ 7.87	\$ 9.82	\$ 8.68	\$ 8.91
Income from investment operations:					
Net investment income (loss)	0.08 ⁽²⁾	0.05 ⁽²⁾	0.00 ⁽²⁾⁽³⁾	0.01 ⁽²⁾	(0.01)
Net realized and unrealized gains (losses) on investments	(0.45)	1.12	3.14	1.15	(0.22)
Total from investment operations	(0.37)	1.17	3.14	1.16	(0.23)
Less distributions:					
Distributions from net investment income	(0.07)	(0.07)	—	(0.02)	—
Distributions from net realized gains	(0.46)	(0.10)	(5.09)	—	—
Total distributions	(0.53)	(0.17)	(5.09)	(0.02)	—
Net asset value, end of year	\$ 7.97	\$ 8.87	\$ 7.87	\$ 9.82	\$ 8.68
Total return	(4.18)%	14.89%	32.34%	13.32%	(2.58)%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$0.6	\$1.2	\$0.2	\$0.4	\$0.2
Ratio of expenses to average net assets	1.00%	1.00%	1.00%	1.00%	1.00%
Ratio of expenses to average net assets (before waivers)	1.36%	1.42%	1.49%	1.59%	1.60%
Ratio of net investment income (loss) to average net assets	0.93%	0.83%	0.03%	0.12%	(0.13)%
Ratio of net investment income (loss) to average net assets (before waivers)	0.57%	0.41%	(0.46)%	(0.47)%	(0.73)%
Portfolio turnover rate ⁽⁴⁾	86.5%	88.2%	127.7%	39.2%	38.2%

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

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

(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,				
	2015	2014	2013	2012	2011
Per Share Data:					
Net asset value, beginning of year	<u>\$15.57</u>	<u>\$15.00</u>	<u>\$11.52</u>	<u>\$ 9.98</u>	<u>\$10.04</u>
Income from investment operations:					
Net investment income (loss)	(0.03) ⁽¹⁾	(0.03) ⁽¹⁾	(0.01)	0.07 ⁽¹⁾	(0.01) ⁽¹⁾
Net realized and unrealized gains (losses) on investments	<u>(0.53)</u>	<u>0.76</u>	<u>3.80</u>	<u>1.57</u>	<u>0.54</u>
Total from investment operations	<u>(0.56)</u>	<u>0.73</u>	<u>3.79</u>	<u>1.64</u>	<u>0.53</u>
Less distributions:					
Distributions from net investment income	—	—	—	(0.04)	—
Distributions from net realized gains	<u>(0.02)</u>	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.06)</u>	<u>(0.59)</u>
Total distributions	<u>(0.02)</u>	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.10)</u>	<u>(0.59)</u>
Net asset value, end of year	<u>\$14.99</u>	<u>\$15.57</u>	<u>\$15.00</u>	<u>\$11.52</u>	<u>\$ 9.98</u>
Total return	(3.59)%	4.85%	32.90%	16.49%	5.19%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$1,035.0	\$910.9	\$286.1	\$137.2	\$40.9
Ratio of expenses to average net assets	0.80%	0.85%	0.85%	0.85%	0.85%
Ratio of expenses to average net assets (before waivers/recoupments)	0.80%	0.87%	0.87%	0.97%	1.21%
Ratio of net investment income (loss) to average net assets	(0.18)%	(0.17)%	(0.04)%	0.65%	(0.10)%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.18)%	(0.19)%	(0.06)%	0.53%	(0.46)%
Portfolio turnover rate ⁽²⁾	52.8%	37.3%	36.3%	29.5%	44.8%

(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,				
	2015	2014	2013	2012	2011
Per Share Data:					
Net asset value, beginning of year	<u>\$14.96</u>	<u>\$14.45</u>	<u>\$11.13</u>	<u>\$ 9.66</u>	<u>\$ 9.76</u>
Income from investment operations:					
Net investment income (loss)	(0.06) ⁽¹⁾	(0.06) ⁽¹⁾	(0.03)	0.04 ⁽¹⁾	(0.03) ⁽¹⁾
Net realized and unrealized gains (losses) on investments	<u>(0.52)</u>	<u>0.73</u>	<u>3.66</u>	<u>1.52</u>	<u>0.52</u>
Total from investment operations	<u>(0.58)</u>	<u>0.67</u>	<u>3.63</u>	<u>1.56</u>	<u>0.49</u>
Less distributions:					
Distributions from net investment income	—	—	—	(0.03)	—
Distributions from net realized gains	<u>(0.02)</u>	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.06)</u>	<u>(0.59)</u>
Total distributions	<u>(0.02)</u>	<u>(0.16)</u>	<u>(0.31)</u>	<u>(0.09)</u>	<u>(0.59)</u>
Net asset value, end of year	<u>\$14.36</u>	<u>\$14.96</u>	<u>\$14.45</u>	<u>\$11.13</u>	<u>\$ 9.66</u>
Total return	(3.80)%	4.62%	32.62%	16.16%	4.93%
Supplemental data and ratios:					
Net assets, end of year (millions)	\$184.1	\$205.4	\$143.1	\$84.1	\$2.6
Ratio of expenses to average net assets	1.05%	1.10%	1.10%	1.10%	1.10%
Ratio of expenses to average net assets (before waivers/recoupments)	1.05%	1.12%	1.12%	1.22%	1.46%
Ratio of net investment income (loss) to average net assets	(0.43)%	(0.42)%	(0.29)%	0.40%	(0.35)%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.43)%	(0.44)%	(0.31)%	0.28%	(0.71)%
Portfolio turnover rate ⁽²⁾	52.8%	37.3%	36.3%	29.5%	44.8%

(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 Small/Mid Cap Value Fund – Institutional Class

	November 30, 2015 [^] through December 31, 2015
Per Share Data:	
Net asset value, beginning of period	\$10.00
Income from investment operations:	
Net investment income	0.02 ⁽¹⁾
Net realized and unrealized loss on investments	(0.49)
Total from investment operations	(0.47)
Less distributions:	
Distributions from net investment income	(0.01)
Total distributions	(0.01)
Net asset value, end of period	<u>\$ 9.52</u>
Total return	(4.66)%⁽²⁾
Supplemental data and ratios:	
Net assets, end of period (millions)	\$4.7
Ratio of expenses to average net assets	0.95% ⁽³⁾
Ratio of expenses to average net assets (before waivers)	6.88% ⁽³⁾
Ratio of net investment income to average net assets	1.96% ⁽³⁾
Ratio of net investment loss to average net assets (before waivers)	(3.97)% ⁽³⁾
Portfolio turnover rate ⁽⁴⁾	14.7% ⁽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 Small/Mid Cap Value Fund – Investor Class

	November 30, 2015 [^] through December 31, 2015
Per Share Data:	
Net asset value, beginning of period	\$10.00
Income from investment operations:	
Net investment income	0.01 ⁽¹⁾
Net realized and unrealized gain on investments	(0.48)
Total from investment operations	(0.47)
Less distributions:	
Distributions from net investment income	(0.01)
Total distributions	(0.01)
Net asset value, end of period	<u>\$ 9.52</u>
Total return	(4.67)%⁽²⁾
Supplemental data and ratios:	
Net assets, end of period (thousands)	\$19.0
Ratio of expenses to average net assets	1.20% ⁽³⁾
Ratio of expenses to average net assets (before waivers)	7.13% ⁽³⁾
Ratio of net investment income to average net assets	1.71% ⁽³⁾
Ratio of net investment loss to average net assets (before waivers)	(4.22)% ⁽³⁾
Portfolio turnover rate ⁽⁴⁾	14.7% ⁽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 – Institutional Class

	Year Ended December 31,			May 1, 2012 [^] through December 31, 2012
	2015	2014	2013	
Per Share Data:				
Net asset value, beginning of period	\$13.82	\$14.01	\$10.20	\$10.00
Income from investment operations:				
Net investment income ⁽¹⁾	0.11	0.05	0.07	0.15
Net realized and unrealized gains (losses) on investments	(0.82)	0.01	3.99	0.20
Total from investment operations	(0.71)	0.06	4.06	0.35
Less distributions:				
Distributions from net investment income	(0.08)	(0.05)	(0.05)	(0.12)
Distributions from net realized gains	—	(0.20)	(0.20)	(0.03)
Total distributions	(0.08)	(0.25)	(0.25)	(0.15)
Net asset value, end of period	\$13.03	\$13.82	\$14.01	\$10.20
Total return	(5.11)%	0.42%	39.85%	3.52%⁽²⁾
Supplemental data and ratios:				
Net assets, end of period (millions)	\$23.1	\$23.5	\$19.0	\$8.1
Ratio of expenses to average net assets	1.00%	1.00%	1.00%	1.00% ⁽³⁾
Ratio of expenses to average net assets (before waivers)	1.51%	1.55%	2.02%	3.06% ⁽³⁾
Ratio of net investment income to average net assets	0.79%	0.36%	0.71%	2.32% ⁽³⁾
Ratio of net investment income (loss) to average net assets (before waivers)	0.28%	(0.19)%	(0.31)%	0.26% ⁽³⁾
Portfolio turnover rate ⁽⁴⁾	42.1%	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
	2015	2014	2013	
Per Share Data:				
Net asset value, beginning of period	\$13.78	\$13.98	\$10.19	\$10.00
Income from investment operations:				
Net investment income ⁽¹⁾	0.07	0.02	0.04	0.14
Net realized and unrealized gains (losses) on investments	(0.81)	0.00 ⁽²⁾	3.99	0.19
Total from investment operations	(0.74)	0.02	4.03	0.33
Less distributions:				
Distributions from net investment income	(0.05)	(0.02)	(0.04)	(0.11)
Distributions from net realized gains	—	(0.20)	(0.20)	(0.03)
Total distributions	(0.05)	(0.22)	(0.24)	(0.14)
Net asset value, end of period	\$12.99	\$13.78	\$13.98	\$10.19
Total return	(5.37)%	0.13%	39.58%	3.32%⁽³⁾
Supplemental data and ratios:				
Net assets, end of period (millions)	\$2.0	\$2.1	\$1.1	\$0.2
Ratio of expenses to average net assets	1.25%	1.25%	1.25%	1.25% ⁽⁴⁾
Ratio of expenses to average net assets (before waivers)	1.76%	1.80%	2.27%	3.31% ⁽⁴⁾
Ratio of net investment income to average net assets	0.54%	0.11%	0.46%	2.07% ⁽⁴⁾
Ratio of net investment income (loss) to average net assets (before waivers)	0.03%	(0.44)%	(0.56)%	0.01% ⁽⁴⁾
Portfolio turnover rate ⁽⁵⁾	42.1%	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, 2015

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, the Baird Small/Mid Cap Value Fund and the Baird SmallCap Value Fund (each a “Fund” and collectively the “Funds”), four of the thirteen 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 Small/Mid Cap Value Fund commenced with the sale of both Institutional and Investor Class Shares on November 30, 2015. The Baird SmallCap Value Fund commenced with the sale of both Institutional and Investor Class Shares on May 1, 2012. Institutional Class shares are not subject to a distribution and service (12b-1) fee, while 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 Small/Mid Cap Value Fund seeks long-term growth of capital through investments in equity securities of small- to 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, 2015, shareholders affiliated with the Advisor held 90% of the Institutional Class shares of the Baird LargeCap Fund, 96% of the Institutional Class shares of the Baird Small/Mid Cap Value Fund and 52% 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).

Notes to the Financial Statements

December 31, 2015

2. Significant Accounting Policies (cont.)

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 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 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, 2015 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, 2015, or for any other tax years which are open for exam. As of December 31, 2015, open tax years include the

Notes to the Financial Statements

December 31, 2015

2. Significant Accounting Policies (cont.)

tax years ended December 31, 2012 through 2015. 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.

- 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 in proportion to their assets or are divided equally amongst the Funds.
- 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 Pronouncements** – 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. See Note 6 for additional information.

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07 "Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)". The amendments in ASU No. 2015-07 remove the requirement to categorize within the fair value hierarchy investments measured using the NAV practical expedient. The ASU also removes certain disclosure requirements for investments that qualify, but do not utilize, the NAV practical expedient. The amendments in the ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Management is currently evaluating the impact these changes will have on the Funds' financial statements and related disclosures.

Notes to the Financial Statements

December 31, 2015

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, 2015	
	Shares	Amount
Shares sold	741,344	\$ 6,555,160
Shares issued to shareholders in reinvestment of dividends	295,843	2,387,452
Shares redeemed	(949,026)	(8,371,963)
Net increase	88,161	\$ 570,649
Shares Outstanding:		
Beginning of year	4,361,175	
End of year	4,449,336	

Investor Class Shares

	Year Ended December 31, 2015	
	Shares	Amount
Shares sold	129,900	\$ 1,162,264
Shares issued to shareholders in reinvestment of dividends	5,451	43,772
Shares redeemed	(196,702)	(1,669,029)
Net decrease	(61,351)	\$ (462,993)
Shares Outstanding:		
Beginning of year	136,832	
End of year	75,481	

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	4,361,175	

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	136,832	

Notes to the Financial Statements

December 31, 2015

3. Capital Share Transactions (cont.)

Baird MidCap Fund

Institutional Class Shares

	Year Ended	
	December 31, 2015	
	Shares	Amount
Shares sold	24,895,673	\$ 397,319,033
Shares issued to shareholders in reinvestment of dividends	88,675	1,340,418
Shares redeemed	(14,443,816)	(227,556,679)
Net increase	10,540,532	\$ 171,102,772
Shares Outstanding:		
Beginning of year	58,500,521	
End of year	69,041,053	

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	

Baird Small/Mid Cap Value Fund[^]

Institutional Class Shares

	Period Ended	
	December 31, 2015	
	Shares	Amount
Shares sold	494,559	\$4,940,000
Shares issued to shareholders in reinvestment of dividends	747	7,158
Net increase	495,306	\$4,947,158
Shares Outstanding:		
Beginning of period	—	
End of period	495,306	

Investor Class Shares

	Year Ended	
	December 31, 2015	
	Shares	Amount
Shares sold	3,431,190	\$ 52,378,261
Shares issued to shareholders in reinvestment of dividends	18,891	273,664
Shares redeemed	(4,362,243)	(66,101,616)
Net decrease	(912,162)	\$ (13,449,691)
Shares Outstanding:		
Beginning of year	13,729,522	
End of year	12,817,360	

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

	Period Ended	
	December 31, 2015	
	Shares	Amount
Shares sold	2,000	\$20,000
Shares issued to shareholders in reinvestment of dividends	3	26
Net increase	2,003	\$20,026
Shares Outstanding:		
Beginning of period	—	
End of period	2,003	

[^] Inception was the close of business on November 30, 2015.

Notes to the Financial Statements

December 31, 2015

3. Capital Share Transactions (cont.)

Baird SmallCap Value Fund

Institutional Class Shares

	Year Ended December 31, 2015	
	Shares	Amount
Shares sold	340,633	\$ 4,606,208
Shares issued to shareholders in reinvestment of dividends	9,857	129,529
Shares redeemed	(272,018)	(3,706,223)
Net increase	78,472	\$ 1,029,514
Shares Outstanding: Beginning of year	1,697,207	
End of year	<u>1,775,679</u>	

Investor Class Shares

	Year Ended December 31, 2015	
	Shares	Amount
Shares sold	35,000	\$ 478,350
Shares issued to shareholders in reinvestment of dividends	277	3,633
Shares redeemed	(34,792)	(465,113)
Net increase	485	\$ 16,870
Shares Outstanding: Beginning of year	152,417	
End of year	<u>152,902</u>	

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	<u>1,697,207</u>	

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	<u>152,417</u>	

4. Investment Transactions and Income Tax Information

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) were as follows:

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund [^]	Baird SmallCap Value Fund
Purchases:	\$33,527,697	\$802,502,678	\$4,979,311	\$10,282,472
Sales:	\$33,784,268	\$639,818,558	\$ 322,563	\$10,154,441

[^] Inception was the close of business on November 30, 2015.

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, 2015. The Baird Small/Mid Cap Value Fund did not purchase or sell U.S. Government securities during the period November 30, 2015 through December 31, 2015.

Notes to the Financial Statements

December 31, 2015

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

At December 31, 2015, accumulated earnings/losses on a tax basis were as follows:

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund	Baird SmallCap Value Fund
Cost of Investments	\$35,712,019	\$1,117,935,880	\$ 4,925,435	\$22,030,410
Gross unrealized appreciation	2,943,658	181,880,311	29,694	4,551,108
Gross unrealized depreciation	(2,397,998)	(76,205,148)	(224,396)	(1,477,718)
Net unrealized appreciation (depreciation)	\$ 545,660	\$ 105,675,163	\$ (194,702)	\$ 3,073,390
Undistributed ordinary income	—	—	289	7,487
Total distributable earnings	\$ —	\$ —	\$ 289	\$ 7,487
Other accumulated losses	(310,635)	(28,213,156)	(39,354)	(753,932)
Total accumulated earnings (losses)	\$ 235,025	\$ 77,462,007	\$ (233,767)	\$ 2,326,945

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, 2015, the following table shows the reclassifications made:

	Undistributed Net Investment Income/(Loss)	Accumulated Net Realized Gain/(Loss)	Paid In Capital
Baird LargeCap Fund	\$ 7,510	\$(262,240)	\$ 254,730
Baird MidCap Fund	2,768,264	345	(2,768,609)
Baird Small/Mid Cap Value Fund	(230)	230	—
Baird SmallCap Value Fund	(21,814)	21,814	—

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, 2015, Baird LargeCap Fund elected to defer capital losses occurring between November 1, 2015 and December 31, 2015 in the amount of \$181,372.

To the extent the Funds realize future net capital gains, those gains will be offset by any unused capital loss carryovers. At December 31, 2015, accumulated net realized capital loss carryovers, if any, and the year(s) in which the capital loss carryovers expire were:

	Capital Loss Carryover	Character	Year of Expiration
Baird MidCap Fund	\$28,213,156	Short-Term	Indefinitely
Baird Small/Mid Cap Value Fund	39,354	Short-Term	Indefinitely
Baird SmallCap Value Fund	528,085	Short-Term	Indefinitely
	225,847	Long-Term	Indefinitely

Notes to the Financial Statements

December 31, 2015

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

During the year ended December 31, 2015, the Funds paid the following dividends:

	<u>Ordinary Income Dividends</u>	<u>Long-Term Capital Gain</u>
Baird LargeCap Fund	\$1,286,082	\$1,145,265
Baird MidCap Fund	1,763,571	—
Baird Small/Mid Cap Value Fund	7,184	—
Baird SmallCap Value Fund	156,809	—

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, 2015. To the extent necessary to fully distribute such capital gains, the Baird LargeCap Fund designated earnings and profits distributed to shareholders on the redemption of shares.

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

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

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, 0.80% for the Baird Small/Mid Cap Value 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, 2015 and through April 30, 2017, 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 Small/Mid Cap Value Fund	0.95%	1.20%
Baird SmallCap Value Fund	1.00%	1.25%

Notes to the Financial Statements

December 31, 2015

5. Investment Advisory and Other Agreements (cont.)

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.

	Fiscal Year Ended December 31,		
	2015	2014	2013
Reimbursed/Absorbed Expenses Subject to Recovered by Advisor Until:	2018	2017	2016
Baird LargeCap Fund	\$143,538	\$140,955	\$136,768
Baird Small/MidCap Value Fund	\$ 23,659	N/A	N/A
Baird SmallCap Value Fund	\$131,370	\$131,933	\$133,188

The Advisor recouped \$41,882 of previously waived management fees from the Baird MidCap Fund in 2015.

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. 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, 2015 and the Baird Small/Mid Cap Value Fund from November 30, 2015 through December 31, 2015.

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, 2015, 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.

Notes to the Financial Statements

December 31, 2015

6. Securities Lending (cont.)

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, 2015.

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 charges interest at the Bank's Prime Rate less 2% (weighted average rate of 1.25% during 2015). For the year ended December 31, 2015, the Funds did not borrow on the LOC.

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, Baird Small/Mid Cap Value Fund and Baird SmallCap Value Fund incurred \$3,185, \$508,632, \$4 and \$5,494, respectively, in fees pursuant to the Plan during the year ended December 31, 2015.

9. Subsequent Event

On February 23, 2016, the Board of Directors (the "Board") of the Corporation approved the replacement of Baird Kailash Group, LLC ("BKG") with L2 Asset Management, LLC ("L2") as the subadvisor to the Baird LargeCap Fund (the "LargeCap Fund"), subject to approval by shareholders of the LargeCap Fund at a special meeting to be held in April 2016. The Advisor will remain the investment advisor to the LargeCap Fund, and Matthew Malgari will remain the LargeCap Fund's lead portfolio manager.

L2 is an SEC-registered adviser principally owned by Mr. Malgari and Sanjeev Bhojraj, Ph.D., who is proposed to be added as a co-portfolio manager for the Fund. If the new subadvisory agreement is approved by shareholders, L2 will provide the day-to-day portfolio management services to the LargeCap Fund in accordance with the LargeCap Fund's investment objective and policies. L2 will employ the same quantitative methodology that BKG currently uses to manage the LargeCap Fund. There will be no change to the LargeCap Fund's investment objective, strategy, fees or expenses. The LargeCap Fund will continue to pursue an investment objective of long-term growth of capital.

Additional details regarding the special meeting will be contained in a proxy statement to be mailed to the LargeCap Fund's shareholders in advance of the meeting. L2 will begin managing the LargeCap Fund on or about May 1, 2016, subject to shareholder approval of the new subadvisory agreement.

There were no additional subsequent events since December 31, 2015 through the date the financial statements were issued 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, Baird Small/Mid Cap Value Fund and Baird SmallCap Value Fund (four of the funds constituting Baird Funds, Inc.) (collectively, "the Funds"), including the schedules of investments, as of December 31, 2015, 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 the Baird MidCap Fund; the related statement of operations, the statement of changes in net assets and the financial highlights for the period from November 30, 2015 (date of inception) through December 31, 2015 for the Baird Small/Mid Cap Value Fund; the related statement 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 three years in the period then ended and for the period from May 1, 2012 (date of inception) through December 31, 2012 for the Baird SmallCap Value Fund. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements 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 audits to obtain reasonable assurance about whether the financial statements 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 also 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, 2015, by correspondence with the custodian or 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 referred to above present fairly, in all material respects, the financial position of the aforementioned Funds of Baird Funds, Inc. as of December 31, 2015, and the results of their operations, 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.



Chicago, IL

February 25, 2016

Directors & Officers

As of December 31, 2015

Independent Directors

G. Frederick Kasten, Jr.

Independent Director and Chairman

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 76

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: 12

Other Directorships Held by Director: None

John W. Feldt

Independent Director

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 73

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: 12

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: 76

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: 12

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: 62

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: 12

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, 2015

Interested Directors and Officers

Cory L. Nettles*

Interested Director

Term of Office: Indefinite

Length of Time Served: Since January 2008

Age: 45

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: 12

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: 59

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

Charles B. Groeschell

Vice President

Term of Office: Re-elected by Board annually

Length of Time Served: Since January 2010

Age: 62

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 and
AML Compliance Officer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2014

Age: 44

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).

Terrance P. Maxwell

Treasurer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2015

Age: 55

777 East Wisconsin Ave
Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:
Chief Financial Officer, the Advisor, since March 2015; Member of the Board of Managers, Greenhouse Funds, LP, an affiliate of the Advisor, since April 2014; Trustee, Investors Real Estate Trust, since November 2013; Director of Corporate Development and Strategic Investment, the Advisor (May 2014-March 2015); Lecturer at University of Wisconsin – Madison (August 2006-May 2010 and August 2011-May 2014); Co-CEO of The Art Commission, LLC, an online start-up company focused on commissioned art and design from January 2012-September 2013 and Member of the Board from January 2012-July 2015; consultant and Director of Flatirons Solutions, a portfolio company of Baird Capital Partners (April 2011-June 2012).

Directors & Officers

As of December 31, 2015

Interested Directors and Officers

Charles M. Weber

Secretary

Term of Office: Re-elected by Board annually

Length of Time Served: Since September 2005

Age: 52

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: 52

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: 39

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: Director of Finance Services, the Advisor, since August 2015; Director of Reporting and Analysis, Capital Markets Finance, the Advisor (February 2013-August 2015); Senior Vice President, the Advisor (January 2011-January 2013); 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: 41

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)

* 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 and Subadvisory Agreements 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 20 and August 27, 2015 to consider the annual renewal of the investment advisory agreements between Robert W. Baird & Co. Incorporated ("Baird" or the "Advisor") and the Corporation on behalf of the Baird LargeCap, Baird MidCap and SmallCap Value Funds (the "Funds") as well as the renewal of the subadvisory agreement with respect to the LargeCap Fund. The Board, including the Independent Directors, approved the investment advisory and subadvisory agreements through a process that concluded at the August 27, 2015 meeting. In connection with its consideration of the investment advisory and subadvisory agreements, the Board reviewed and discussed various information that had been provided prior to the meeting, including the investment advisory and subadvisory agreements, a memorandum provided by legal counsel summarizing the guidelines relevant to the Board's consideration of the renewal of the investment advisory and subadvisory agreements, a memorandum and other information provided in response to requests from the Board from the Advisor (including the Advisor's Form ADV brochure and brochure supplements, annual report and financial information), a profitability analysis, comparative information about the Funds' performance for periods ended June 30, 2015, management fees and expense ratios, and other pertinent information.

The Board met 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 20, 2015 special meeting and discussed various questions and information with the President of the Funds at the August 20, 2015 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 and subadvisory agreements, 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 and subadvisory agreements for an additional one-year period.

In considering the investment advisory and subadvisory agreements 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 and subadvisory agreements for each Fund and the subadvisory agreement for the LargeCap 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 noted the depth of the Advisor's personnel, resources and commitment to the Funds and the experience and credentials of the portfolio management teams employed to manage the Funds' investments. The Board considered the consistency and continuity of the portfolio management teams for the MidCap and SmallCap Value Funds. With respect to the LargeCap Fund, the Board noted that the Advisor had selected Baird Kailash Group, LLC ("BKG") as the Fund's subadvisor and was responsible for supervising BKG. The Board 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 that the Advisor has made significant investments that benefit the Funds, including research, technology, trading systems and personnel.

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-

Baird Funds, Inc.

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

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 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. With respect to the LargeCap Fund, the Board considered the quantitative methodologies developed by BKG's affiliate, Kailash Capital, as well as the trading and investment management services provided by BKG. 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 respective investment advisory agreement. The Board also concluded that the nature, extent and quality of the services provided by BKG to the LargeCap Fund was appropriate and that the Fund was likely to benefit from services provided by BKG under the subadvisory agreement.

Investment Performance of the Advisor and the Funds

In considering the investment performance of each of the Equity Funds, the Board reviewed information as of June 30, 2015 regarding the Fund's performance in comparison to its benchmark index and its peer group as determined by Lipper. The Board noted that the LargeCap Fund's returns exceeded the peer group average for the one-year and five-year periods, but trailed the average for the three-year, ten-year and since inception periods and trailed the applicable benchmark returns for all periods. The Board noted that BKG has been the Fund's subadvisor since December 23, 2013. The Board considered BKG's and the Advisor's commentary regarding the Fund's performance challenges in the current market environment. The Board noted that the performance of the Baird MidCap Fund was in line with the Lipper peer group average for the five-year period, exceeded the peer group average for the ten-year and since inception periods but lagged the average for the one-year and three-year periods. The Fund's performance was in line with or exceeded the benchmark index for the ten-year and since inception periods but lagged the index for the one-year, three-year and five-year periods. The Board considered the reasons for the Fund's recent underperformance in the current equity environment. The Board noted that the SmallCap Value Fund had slightly underperformed its Lipper peer group average and benchmark index for the one-year, three-year and since inception periods but had delivered strong absolute performance for the three-year and since inception periods.

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. With respect to the LargeCap Fund, the Board considered that the investment decisions are made by BKG and that performance is monitored by the Advisor. 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 the advisory fee for the LargeCap Fund and the MidCap Fund was comparable to the average and median for all mutual funds in its Morningstar category while the advisory fee for the SmallCap Value Fund was slightly above the average and median for all funds in the Morningstar category. The Board also reviewed the subadvisory fee paid to BKG as compared to subadvisory fees paid with respect to other funds in the same Morningstar category. The Board also reviewed and considered investment management fees charged by the Advisor to other investment advisory clients and found that the fee paid by the LargeCap and MidCap Funds was 10 basis points (or 0.10%) less than what the Advisor charges on the first \$10 million of a separately

Baird Funds, Inc.

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

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 noted the extent of the significant additional services provided to the Funds that the Advisor did not provide in the other advisory relationships. Those services included contract administration, valuation services, oversight of the Funds' other service providers, director support, preparation of regulatory filings, implementation of the Funds' compliance program and various other services. With respect to the LargeCap Fund, those services include oversight of the Fund's subadvisor. The Board noted that the Advisor maintains a subadvisory arrangement with an unaffiliated equity mutual fund but did not consider the subadvisory fee to be a material factor given that the subadvisory services were limited to asset management.

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 the total expense ratio for each of the LargeCap Fund and MidCap Fund (for both 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 in the lowest or second lowest quartile. With respect to the SmallCap Value Fund, the total expense ratio for the Institutional Class, 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 the total expense ratio for the Investor Class, after fee waivers and expense reimbursements by the Advisor, was in line with the average and median expense ratios for its Morningstar category.

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 also considered profitability information with respect to BKG. The Board noted that the Advisor had waived fees for each of the Funds under the expense cap agreement and that, with respect to the LargeCap Fund, the Advisor paid the subadvisory fee to BKG. In addition, BKG shares in the Fund's expense cap commitment.

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 BKG and determined it to be sound. The Board also noted that all marketing and distribution fees other than the Rule 12b-1 fee payable by the Investor Class shares of the Funds were paid by the Advisor from its 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. With respect to the LargeCap Fund, the Board concluded that the subadvisory fee was 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. With respect to the LargeCap Fund, the Board did not consider economies of scale to be a material factor due to the current asset size of the Fund and because the subadvisory fee is not paid by the Fund. 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.

Baird Funds, Inc.

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

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 and BKG derive ancillary benefits from their association with the Equity Funds (the LargeCap Fund in the case of BKG) 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 noted that the Advisor's parent company indirectly shares in the subadvisory fee paid by BKG due to its ownership interest in BKG. The Board also noted that the Distributor and its financial advisors receive 12b-1 payments for selling Investor Class shares of the Funds. The Board noted that the Advisor's asset management business may experience indirect benefits from the Advisor's association with the Funds and that Kailash Capital, one of the owners of BKG, may receive name recognition due to its association with the LargeCap Fund. The Board concluded that the other benefits realized by the Advisor and BKG from their 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 agreements, the directors, including all of the Independent Directors, concluded that (1) the continuation of the investment advisory agreements was in the best interest of each Fund and its shareholders and (2) the continuation of the subadvisory agreement was in the best interest of the LargeCap Fund and its shareholders.

Baird Funds, Inc.

Disclosure Regarding the Board of Directors' Approval of the Investment Advisory Agreement for Baird Small/Mid Cap Value Fund

The Board met on November 30, 2015 to consider the approval of the investment advisory agreement between the Advisor and the Corporation on behalf of the Baird Small/Mid Cap Value Fund (the "Small/Mid Cap Fund"), a new portfolio of the Corporation. The Board had previously discussed the Small/Mid Cap Fund with Michelle E. Stevens, the Fund's portfolio manager, and discussed the Fund's proposed strategy and expenses and the prior performance of the Advisor's Small/Mid Cap Value strategy, among other information, with representatives of the Advisor at the August 27, 2015 Board meeting. At the November 30, 2015 meeting, the Board also met separately with the Funds' legal counsel.

The Board considered, among other factors, the quality and consistency of services the Advisor provides for other Funds of the Corporation and their experience with Ms. Stevens as portfolio manager for the existing SmallCap Value Fund. The Board reviewed and discussed various information, including the investment advisory agreement, a memorandum prepared by legal counsel discussing the Board's fiduciary obligations and factors the Board should assess in considering the approval of the investment advisory agreement, information in response to a request from the Independent Directors from the Advisor, the proposed advisory fee and expense ratios, and other pertinent information. The Board also reviewed the proposed expense cap/reimbursement agreement for the Fund and comparative fee and expense information provided by an independent third party. The Board also evaluated the advisory agreement in light of the Advisor's 15(c) response and other information it considered in connection with the annual renewal of the advisory agreement with respect to the other portfolios of the Corporation at the August 20 and August 27, 2015 meetings. 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 the Small/Mid Cap Fund, the Board did not identify any single factor as determinative but considered all factors together.

Investment Performance

Because the Fund had not yet commenced operations, the Board did not consider any performance information with respect to the Fund. The Board reviewed the composite performance for the Small/Mid Cap Value strategy, and concluded that the Small/Mid Cap Value team appeared to have an effective investment process for this strategy.

Expense Information

The Board examined the proposed fee and expense information for the Fund, including a comparison of such information to other mutual funds in the mid-cap blend Morningstar category. The Board considered that the Advisor has agreed to a contractual expense limitation for the Fund through at least April 30, 2017. The Board noted that the Fund's proposed advisory fee was slightly above the Morningstar category average and median and the Fund's total expense ratio for the Institutional Class and Investor Class was below the category median and average, taking into effect the expense cap agreement.

The Board also reviewed and considered advisory fees charged by the Advisor to other investment advisory clients in the Small/Mid Cap Value strategy and found that the proposed advisory 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 to be provided to the Fund that the Advisor does 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.

Costs of Services Provided and Profitability

The Board reviewed updated information about the financial condition of the Advisor. As part of its review at the August 27, 2015 meeting, the Board had reviewed the Advisor's annual report and determined that the

Baird Funds, Inc.

Disclosure Regarding the Board of Directors' Approval of the Investment Advisory Agreement for Baird Small/Mid Cap Value Fund (cont.)

financial condition was sound. The Board did not consider any specific information regarding the costs of services to be provided or the profits the Advisor might realize because the Fund had not yet commenced operations.

In light of all of the information that it received and considered, the Board concluded that the proposed advisory fee and total expense ratio of the Fund were reasonable.

Economies of Scale and Fee Levels Reflecting Those Economies

Because the Fund had not yet commenced operations, the Board did not consider whether any alternative fee structures, such as breakpoint fees, would be appropriate to reflect any economies of scale that may result from increases in the Fund's assets.

Benefits to be Derived from the Relationship with the Fund

The Board considered other potential benefits to the Advisor from serving as advisor to the Fund (in addition to the advisory fee). The Board noted that the Advisor would derive ancillary benefits from its association with the Fund 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 would be used for legitimate purposes relating to the Fund by providing assistance in the investment decision-making process. The Board noted that the "Baird" name may be more broadly disseminated given the national nature of the mutual fund business, which could result in growth in the Advisor's asset management business. The Board concluded that other benefits that may be realized by the Advisor from its relationship with the Fund were appropriate.

Based on their 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 approval of the investment advisory agreement was in the best interest of Small/Mid Cap Fund.

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, 2015, 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	84.68%
Baird Small/Mid Cap Value Fund	100.00%
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, 2015 was as follows:

Baird LargeCap Fund	84.68%
Baird Small/Mid Cap Value Fund	100.00%
Baird SmallCap Value Fund	100.00%

Other Tax Information

For the fiscal year ended December 31, 2015, 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	63.06%
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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.

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Cory L. Nettles
Marlyn J. Spear
Frederick P. Stratton, Jr.

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