

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

# Annual Report – Baird Funds

December 31, 2016

Baird LargeCap Fund

Baird MidCap Fund

Baird Small/Mid Cap Value Fund

Baird SmallCap Value Fund

Chautauqua International Growth Fund

Chautauqua Global Growth 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](http://www.bairdfunds.com)

February 27, 2017

Dear Shareholder,

Thank you for your continued support of the Baird Equity Funds. We are excited to now offer growth, value, core and international strategies to our clients. Each of our independent teams has disciplined investment philosophies and processes that focus on fundamental research that favors quality and seek to deliver long-term value-added returns. Our time-tested, risk-managed approaches have been honed over decades of managing portfolios in various market environments.

In 2016 we acquired Chautauqua Capital Management, led by Brian Beitner, to expand our equity management offerings. With their joining Baird, we introduced the Chautauqua Global Growth Fund and Chautauqua International Growth Fund. This strong addition to our team has added immediate value and we are excited to offer our investors these additional fund options.

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

Continued low interest rates aided equity returns in 2016, particularly with lower quality companies, which proved challenging to our high-quality style of investing. We are also mindful that we continue to operate in an elevated risk environment and are committed to judicious management of your assets. We never lose sight of the fact that our success rests on the trust you have placed in us to be effective stewards of your assets and we want to thank you for your continued investment in the Baird 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

December 31, 2016

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## Portfolio Managers' Commentary

### Market Commentary

For the year, the Baird LargeCap Fund (Institutional Class) posted a return of 12.94%, while the S&P 500 ended the year up 11.96%. The Fund also finished the year 2.57% ahead of the Morningstar Large Blend category placing us firmly in the top quintile of funds we compete with. While we at L2 Asset Management (the sub-advisor to the Fund) are pleased, in our view the strong full year results masked an unusually volatile year. In the first half of the year the Fund underperformed the index by 5.09% net of fees (4.77% gross of fees) and led us, as we surveyed the composition of our holdings, to come out with a passionate letter to shareholders at the end of Q2. <http://content.rwbaird.com/RWB/Content/PDF/AssetManagement/Q2-2016-Large-Cap-Commentary.pdf>. While painful in the moment, our view at the time was that the Fund was populated by a group of firms whose magnitude of mispricing we had only seen a couple of times in history and that, based on those observations, the timing was ripe for a reversal that would be highly beneficial to our existing and potential partners in the Fund. While moments like the one we experienced in Q2 often stimulate a natural human desire to “do something,” it is precisely at those moments that action often undermines investment results. As disciplined investors like us who focus on identifying mispriced cash flows, in both the growth and value universes, we chose to “act” by doing almost nothing to the portfolio. Instead we focused on communicating in a clear and transparent manner the reason for the conviction in our process.

While standing pat is difficult, in the back half of 2016 the Fund outperformed the benchmark by 6.55% net of fees (over 7% gross of fees). The conviction we brought to bear in Q2 proved prophetic as the stocks that drove our rapid recovery in the second half of the year were largely made up of those names that inflicted the most damage on us in the first half. More specifically, among the 25 biggest contributors to our 6.55% net of fees (7% gross of fees) outperformance in the back half of the year, 18 of them accounted for 3.5% of the 5.09% net of fees (4.77% gross of fees) underperformance in the first half. Simplistically, the single best decision we made in 2016 was to do nearly nothing.

While we are obviously satisfied with the results for the year we think the more important message is that the keys to success in investing, in addition to discipline and process, also require maintaining a steady hand in moments of discomfort. We would like to thank all of our partners for their faith in the value of the process we bring to the LargeCap Fund.

### Investment Process

In contemplating the requirements for our year-end commentary we at L2 could not help but find intellectual resonance in the concept that “...the commentary must discuss the factors that materially affected the Fund's performance.” Before we get to the conventional component of the commentary where we discuss how various over- or underweights affected outcomes, it occurs to us that the single most important factor that has affected and will affect our Fund's performance are the core beliefs that we hold at L2. Our core beliefs are not simply based on qualitative or anecdotal inputs, but instead are based on the facts we have at our disposal. Should someone possess alternate information please know that we would like nothing more than to receive your data. An important part of our process is to eradicate confirmation bias by actively seeking out and examining data that points to conclusions that differ from our own.

### Core Beliefs

**Discipline is the Key to Investment Success:** We at L2 believe that investors continue to underestimate the negative implications of behavioral errors on investment returns. Overwhelming research shows investors routinely rotate out of stocks, asset classes and money managers at near-perfectly sub-optimal moments due to performance chasing, herding, overconfidence, confirmation bias, self-attribution bias and loss aversion. Even as managers who employ a disciplined process predicated on fundamental factors with historically proven ex-ante predictive ability, we feel the emotional pull like all other investors. The difference is when the desire to flinch is strongest, as it was by the second quarter of 2016, we work relentlessly to study our portfolios,

# Baird LargeCap Fund

December 31, 2016

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understand what is going on, ensure we have not missed something and communicate with our partners in a transparent and honest fashion. In doing so, we hope to demonstrate the depth of our portfolio knowledge, the rationale for our conviction and the need to ignore the human predisposition to “act.”

**R&D is Important in Every Industry, Including Active Management:** Investors spend considerable time researching their portfolio companies’ competitive moats and we think that is a wise move as it represents one of the pillars of any company’s competitive position. At L2, we believe that R&D is a critical component to the success achieved since inception and to what success we believe lies ahead of us. With that said we are acutely aware of the unavoidable predisposition of human beings to associate positive outcomes with their decisions while attributing suboptimal outcomes to externalities beyond their control. Effectively our often in-depth commentaries which delve into the systematic market and idiosyncratic factors driving our returns every quarter in the manner in which we do our best to turn our human proclivities into a competitive advantage. It is not fun studying your mistakes and trying to figure out process driven ways to avoid them in the future – even for us!

**Partnership:** L2 does not believe in “customers.” In fact we actively avoid them and you will not hear the term in our offices should you choose to visit us. Rather, we prefer to think of people that do business with us as partners. The legendary Seth Klarman once said “At the worst possible moment, when your fund is down because cheap things have gotten cheaper, you need to have capital, to have clients who will actually love the phone call and – most of the time, if not all the time – add, rather than subtract capital.” Every individual at L2 gets up every morning fighting as a team for the right to earn exactly that type of relationship with our partners in our strategies.

In summary, we believe the core beliefs listed above, more than anything we will write below, are the factors that have and will continue to impact our performance over time.

## Discussion of Fund’s Performance in 2016

For 2016, the Baird LargeCap Fund (Institutional Class) generated a total return of 12.94% compared to an 11.96% 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 **Information Technology** as a sector was the largest contributor to the Fund’s full-year returns. Overall it was a potent mix of inexpensively priced growth stocks like Nvidia combined with companies others had decided were doomed by obsolescence like Western Union that combined to drive substantial excess returns. One of the things we would like to emphasize is that while Information Technology did outperform the benchmark by a small amount, virtually all of the excess returns came from stock selection within the group.
- o Despite being the only sector in the benchmark to fall for the year, being neutral weighted **Health Care**, which was down 2.44%, was our second largest contributor to returns. When the partners at L2 began working together in 2010, numerous firms in the sector fetched mid-to-high single digit multiples and traded as if their R&D would never discover a useful drug again. In fact, the two senior partners of the firm remember looking at one such firm and thinking even if the analysts were right, the run-off cash flows from the generics portion of the business warranted a higher valuation than the stock was fetching. Fast forward to 2016 and the change in opinions (and prices!) has been remarkable. Much of our success in the space came from avoiding high-flying firms whose valuations we simply could not justify. Completely avoiding firms like Alexion, Regeneron, and Bristol Meyers all of which were among the 20% most expensive firms in our large cap universe and opting instead for more mundanely priced firms like Merck generated roughly 60% of the value in our stock selection within the sector.

# Baird LargeCap Fund

December 31, 2016

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## Key Detractors From Relative Returns:

- o **Energy** was the single biggest detractor from performance for the year. We struggled in both allocation and selection. Over the course of the year we were roughly half-weighted the group (3.8% vs. 7.1% for the S&P 500). This proved unfortunate as investor sentiment drove even money-losing stocks within the space soaring and the sector nearly tripled the index's performance. Compounding that issue was our admittedly prosaic preference for firms that actually earn money. In what we would characterize as stunning evidence of market inefficiency, we would highlight Exxon Mobil, a company we have chronically been underweight. Looking at Exxon's financials for the four quarters ending June of 2014 when oil was at roughly \$110 per barrel, through the last four quarters we have available in 2016<sup>1</sup> when oil closed below \$55, the company has seen revenues fall 49%, net income fall 74% and free-cash flow fall 96% to roughly zero. One might see such a change in fundamentals and posit that the firm's equity value should likely decline. Yet the stock is flat over that period and rose nearly 20% in calendar year 2016. We make no claims to being able to predict the price of oil but find Exxon's \$400 billion enterprise value sitting atop near-zero free-cash flows to impute a highly optimistic oil price indeed. While this puts us directly at odds with the world's current obsession with indexing we believe that Exxon and many companies like it represent pent-up excess returns for our partners in the Fund.
- o Despite being overweight **Financials** which outperformed the market as a group by nearly 5%, stock selection dragged results down and made it our second largest detractor from returns.<sup>2</sup> At the idiosyncratic level our preference for asset managers and card companies created a meaningful headwind for sector returns. Investors seem to be pricing in lower aggregate market values and are deeply concerned about the macroeconomic exposure typically associated with credit card companies. Our picks in SEI, American Express and Ameriprise Financial all took a toll on aggregate returns.

## **Conclusion**

We at L2 would like to thank every one of our partners in the Fund for your faith in us. To reiterate from our commentaries since inception: our 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 is the key to compounding wealth at better than market rates.

Thank you for your support.

Sincerely,

L2 Asset Management (Sub-Advisor)

Matthew Malgari, Portfolio Manager

Sanjeev Bhojraj, Ph.D., Portfolio Manager

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<sup>1</sup> Four quarters ending September 2016.

<sup>2</sup> Please see our Q4 Investor Commentary for insight on how our risk management process improved on the reported underperformance figure for financials.

# Baird LargeCap Fund

December 31, 2016 (Unaudited)

## Portfolio Characteristics

A December 31, 2016 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\*

Microsoft Corp.	3.3%
Apple, Inc.	3.3%
NVIDIA Corp.	2.4%
Alphabet, Inc. – Class A	2.3%
The Boeing Co.	2.2%
Abbvie, Inc.	2.1%
PepsiCo, Inc.	2.0%
Vanguard Financials ETF	2.0%
Discover Financial Services	2.0%
Xilinx, Inc.	1.9%

Net Assets: \$39,558,362

Portfolio Turnover Rate: 85.0%

Number of Equity Holdings: 106

### Annualized Portfolio Expense Ratio:\*\*\*

#### Gross

Institutional Class: 1.11%

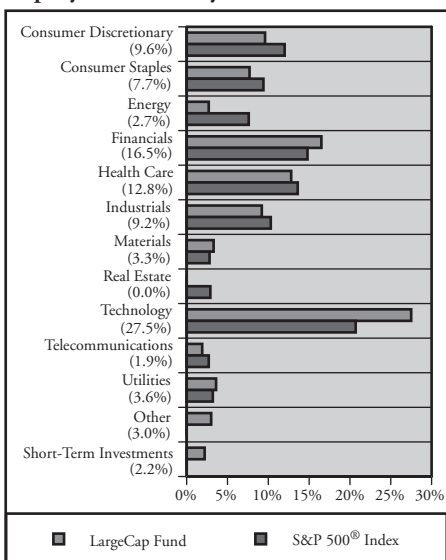
Investor Class: 1.36%\*\*\*\*

#### 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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, and may not add up to 100% due to rounding.

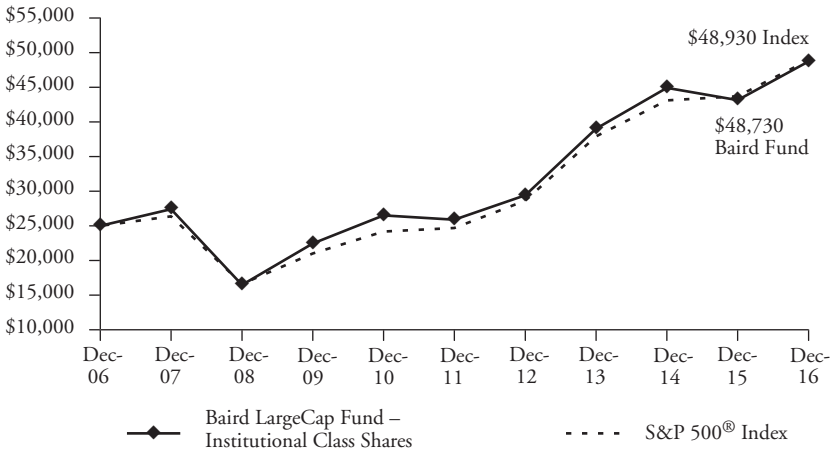
\*\*\* Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.75% of average daily net assets for the Institutional Class shares and 1.00% of average daily net assets for the Investor Class shares, at least through April 30, 2018.

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

# Baird LargeCap Fund

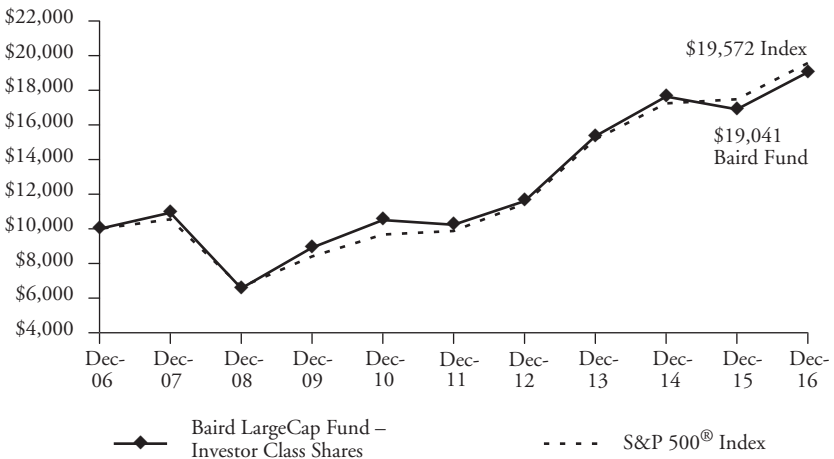
December 31, 2016 (Unaudited)

## Institutional Class Value of a \$25,000 Investment



*Growth of a hypothetical investment of \$25,000 made on 12/31/06, assuming reinvestment of all distributions.*

## Investor Class Value of a \$10,000 Investment



*Growth of a hypothetical investment of \$10,000 made on 12/31/06, assuming reinvestment of all distributions.*



# Baird LargeCap Fund

December 31, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	One Year	Average Annual		
		Five Years	Ten Years	Since Inception <sup>(1)</sup>
Institutional Class Shares	12.94%	13.49%	6.90%	3.35%
Investor Class Shares	12.67%	13.22%	6.65%	3.10%
S&P 500 <sup>®</sup> Index <sup>(2)</sup>	11.96%	14.66%	6.95%	4.81%

(1) For the period from September 29, 2000 (inception date) through December 31, 2016.

(2) The S&P 500<sup>®</sup> 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.

*L2 Asset Management, LLC (“L2”) became the Fund’s subadvisor effective April 30, 2016. From December 23, 2013 to April 30, 2016, Baird Kailash Group, LLC (“BKG”), was the Fund’s subadvisor. Matthew J. Malgari has served as the Fund’s lead portfolio manager since December 23, 2013, first as an employee of BKG and currently as an employee of L2. The Fund was managed by the Fund’s Advisor from the Fund’s inception date until December 23, 2013.*

*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 subadvisor 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 subadvisor 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 subadvisor’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](http://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, 2016

## Common Stocks

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Aerospace &amp; Defense</b>			
The Boeing Co.	5,532	\$ 861,222	2.2%
Huntington Ingalls Industries, Inc.	600	110,514	0.3%
		<u>971,736</u>	<u>2.5%</u>
<b>Airlines</b>			
Alaska Air Group, Inc.	2,509	222,624	0.6%
American Airlines Group, Inc.	7,799	364,135	0.9%
United Continental Holdings, Inc.*	3,551	258,797	0.6%
		<u>845,556</u>	<u>2.1%</u>
<b>Auto Components</b>			
Lear Corp.	5,313	703,282	1.8%
<b>Automobiles</b>			
Ford Motor Co.	43,217	524,222	1.3%
General Motors Co.	2,403	83,721	0.2%
Harley-Davidson, Inc.	7,945	463,511	1.2%
		<u>1,071,454</u>	<u>2.7%</u>
<b>Banks</b>			
Fifth Third Bancorp	13,199	355,977	0.9%
J.P. Morgan Chase & Co.	8,653	746,667	1.9%
PNC Financial Services Group, Inc.	3,531	412,986	1.0%
U.S. Bancorp	4,531	232,758	0.6%
Wells Fargo & Co.	3,247	178,942	0.4%
		<u>1,927,330</u>	<u>4.8%</u>
<b>Beverages</b>			
The Coca-Cola Co.	13,470	558,466	1.4%
Dr Pepper Snapple Group, Inc.	659	59,752	0.2%
PepsiCo, Inc.	7,719	807,639	2.0%
		<u>1,425,857</u>	<u>3.6%</u>
<b>Biotechnology</b>			
AbbVie, Inc.	13,541	847,937	2.1%
Amgen, Inc.	4,724	690,696	1.8%
Biogen, Inc.*	473	134,133	0.3%
Celgene Corp.*	5,118	592,409	1.5%
United Therapeutics Corp.*	432	61,962	0.2%
		<u>2,327,137</u>	<u>5.9%</u>
<b>Capital Markets</b>			
Ameriprise Financial, Inc.	6,251	693,486	1.8%
SEI Investments Co.	1,880	92,797	0.2%
		<u>786,283</u>	<u>2.0%</u>

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

# Baird LargeCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Chemicals</b>			
LyondellBasell Industries NV – Class A f	5,633	\$ 483,199	1.2%
Monsanto Co.	564	59,338	0.2%
Westlake Chemical Corp.	1,499	83,929	0.2%
		626,466	1.6%
<b>Communications Equipment</b>			
Cisco Systems, Inc.	17,176	519,059	1.3%
F5 Networks, Inc.*	3,573	517,084	1.3%
		1,036,143	2.6%
<b>Consumer Finance</b>			
Ally Financial, Inc.	4,266	81,139	0.2%
American Express Co.	7,990	591,899	1.5%
Discover Financial Services	10,831	780,807	2.0%
Synchrony Financial	14,535	527,185	1.3%
		1,981,030	5.0%
<b>Containers &amp; Packaging</b>			
International Paper Co.	7,017	372,322	0.9%
Packaging Corp of America	2,762	234,273	0.6%
Sealed Air Corp.	1,757	79,662	0.2%
		686,257	1.7%
<b>Diversified Consumer Services</b>			
H&R Block, Inc.	6,754	155,275	0.4%
<b>Diversified Financial Services</b>			
MSCI, Inc.	7,574	596,680	1.5%
<b>Diversified Telecommunication Services</b>			
AT&T, Inc.	12,205	519,079	1.3%
<b>Electrical Equipment</b>			
Emerson Electric Co.	4,826	269,049	0.7%
Rockwell Automation, Inc.	4,802	645,389	1.6%
		914,438	2.3%
<b>Energy Equipment &amp; Services</b>			
FMC Technologies, Inc.*	4,972	176,655	0.5%
<b>Food &amp; Staples Retailing</b>			
The Kroger Co.	7,146	246,608	0.6%
Sysco Corporation	4,421	244,791	0.6%
Wal-Mart Stores, Inc.	1,530	105,754	0.3%
		597,153	1.5%

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

# Baird LargeCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Food Products</b>			
Archer-Daniels-Midland Co.	1,416	\$ 64,640	0.2%
Campbell Soup Co.	892	53,939	0.1%
Ingredion, Inc.	2,337	292,032	0.7%
Mead Johnson Nutrition Co.	983	69,557	0.2%
		<u>480,168</u>	<u>1.2%</u>
<b>Gas Utilities</b>			
UGI Corp.	15,448	711,844	1.8%
<b>Health Care Equipment &amp; Supplies</b>			
Hologic, Inc.*	1,667	66,880	0.2%
ResMed, Inc.	7,505	465,685	1.2%
Varian Medical Systems, Inc.*	3,633	326,171	0.8%
		<u>858,736</u>	<u>2.2%</u>
<b>Health Care Providers &amp; Services</b>			
AmerisourceBergen Corporation	655	51,215	0.1%
McKesson Corp.	560	78,652	0.2%
		<u>129,867</u>	<u>0.3%</u>
<b>Hotels, Restaurants &amp; Leisure</b>			
McDonald's Corp.	916	111,496	0.3%
Wyndham Worldwide Corp.	5,828	445,084	1.1%
		<u>556,580</u>	<u>1.4%</u>
<b>Household Products</b>			
The Procter & Gamble Co.	4,912	413,001	1.0%
<b>Independent Power and Renewable Electricity Producers</b>			
The AES Corp.	60,789	706,368	1.8%
<b>Insurance</b>			
Aflac, Inc.	2,945	204,972	0.5%
The Progressive Corp.	5,363	190,386	0.5%
The Travelers Companies, Inc.	514	62,924	0.2%
		<u>458,282</u>	<u>1.2%</u>
<b>Internet Software &amp; Services</b>			
Alphabet, Inc. – Class A*	1,171	927,959	2.3%
eBay, Inc.*	1,971	58,519	0.2%
		<u>986,478</u>	<u>2.5%</u>
<b>IT Services</b>			
Global Payments, Inc.	2,834	196,708	0.5%
International Business Machines Corp.	2,610	433,234	1.1%
The Western Union Co.	9,824	213,377	0.5%
		<u>843,319</u>	<u>2.1%</u>

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

# Baird LargeCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Life Sciences Tools &amp; Services</b>			
Waters Corp.*	3,371	\$ 453,029	1.2%
<b>Machinery</b>			
Caterpillar, Inc.	3,626	336,275	0.8%
Cummins, Inc.	2,339	319,671	0.8%
Deere & Co.	2,634	271,408	0.7%
		927,354	2.3%
<b>Media</b>			
Omnicom Group, Inc.	4,704	400,357	1.0%
<b>Multiline Retail</b>			
Macy's, Inc.	1,558	55,792	0.2%
Nordstrom, Inc.	4,326	207,345	0.5%
		263,137	0.7%
<b>Oil, Gas &amp; Consumable Fuels</b>			
Marathon Petroleum Corp.	3,539	178,188	0.4%
Tesoro Corp.	2,957	258,590	0.7%
Valero Energy Corp.	6,590	450,229	1.1%
		887,007	2.2%
<b>Personal Products</b>			
Coty, Inc. – Class A	5,983	109,549	0.3%
<b>Pharmaceuticals</b>			
Jazz Pharmaceuticals PLC* f	2,860	311,826	0.8%
Johnson & Johnson	4,471	515,104	1.3%
Merck & Co., Inc.	7,873	463,483	1.2%
		1,290,413	3.3%
<b>Semiconductors &amp; Semiconductor Equipment</b>			
Intel Corp.	13,008	471,800	1.2%
Micron Technology, Inc.*	13,367	293,004	0.8%
NVIDIA Corp.	8,859	945,610	2.4%
QUALCOMM Incorporated	5,239	341,583	0.9%
Xilinx, Inc.	12,589	759,998	1.9%
		2,811,995	7.2%
<b>Software</b>			
Akamai Technologies, Inc.*	4,310	287,391	0.7%
Cadence Design System, Inc.*	18,531	467,352	1.2%
Citrix Systems, Inc.*	2,957	264,089	0.7%
Intuit, Inc.	2,070	237,243	0.6%
Microsoft Corp.	21,129	1,312,956	3.3%

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

# Baird LargeCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Software (cont.)</b>			
Oracle Corp.	11,364	\$ 436,946	1.1%
VMware, Inc. – Class A*	1,558	122,661	0.3%
		3,128,638	7.9%
<b>Specialty Retail</b>			
Best Buy Co., Inc.	10,525	449,102	1.1%
The Gap, Inc.	8,140	182,661	0.5%
		631,763	1.6%
<b>Technology Hardware, Storage &amp; Peripherals</b>			
Apple, Inc.	11,244	1,302,280	3.3%
NetApp, Inc.	6,424	226,574	0.5%
Seagate Technology PLC f	14,264	544,457	1.4%
		2,073,311	5.2%
<b>Wireless Telecommunication Services</b>			
Sprint Corp.*	13,315	112,112	0.3%
T-Mobile US, Inc.*	2,240	128,823	0.3%
		240,935	0.6%
<b>Total Common Stocks</b> (Cost \$31,911,080)		36,709,942	92.8%

## Contingent Value Rights

<b>Contingent Value Rights</b>			
Safeway CASA LEY CVR*^†	2,216	2,249	0.0%
Safeway PDC LLC CVR*^†	2,216	108	0.0%
<b>Total Contingent Value Rights</b> (Cost \$0)		2,357	0.0%

## Exchange Traded Funds

<b>Exchange Traded Funds</b>			
iShares Core S&P 500 ETF	1,226	275,838	0.7%
SPDR S&P Oil & Gas Exploration & Production ETF	7,925	328,253	0.8%
Vanguard Financials ETF	13,202	783,539	2.0%
Vanguard S&P 500 ETF	2,887	592,730	1.5%
<b>Total Exchange Traded Funds</b> (Cost \$1,794,839)		1,980,360	5.0%

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

# Baird LargeCap Fund

Schedule of Investments, December 31, 2016

## Short-Term Investment

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Money Market Mutual Fund</b>			
Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	860,517	\$ 860,517	2.2%
<b>Total Short-Term Investment</b> (Cost \$860,517)		860,517	2.2%
<b>Total Investments</b> (Cost \$34,566,436)		39,553,176	100.0%
Other Assets in Excess of Liabilities		5,186	(0.0)%
<b>TOTAL NET ASSETS</b>		<b>\$39,558,362</b>	<b>100.0%</b>

### Notes to Schedule of Investments

\* Non-Income Producing

f Foreign Security

^ Illiquid Security

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

« 7-Day Yield

*Industry classifications shown in the Schedule of Investments are based on 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, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$36,709,942	\$ —	\$ —	\$36,709,942
<b>Total Equity</b>	<u>36,709,942</u>	<u>—</u>	<u>—</u>	<u>36,709,942</u>
<b>Contingent Value Rights</b>				
Contingent Value Rights	—	—	2,357	2,357
<b>Total Contingent Value Rights</b>	<u>—</u>	<u>—</u>	<u>2,357</u>	<u>2,357</u>
<b>Exchange Traded Funds</b>				
Exchange Traded Funds	1,980,360	—	—	1,980,360
<b>Total Exchange Traded Funds</b>	<u>1,980,360</u>	<u>—</u>	<u>—</u>	<u>1,980,360</u>
<b>Short-Term Investment</b>				
Money Market Mutual Fund	860,517	—	—	860,517
<b>Total Short-Term Investment</b>	<u>860,517</u>	<u>—</u>	<u>—</u>	<u>860,517</u>
<b>Total Investments*</b>	<u>\$39,550,819</u>	<u>\$ —</u>	<u>\$2,357</u>	<u>\$39,553,176</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 current assigned levels within the hierarchy. Two securities with a fair value of \$2,357 are priced at fair value by the Valuation Committee instead of the Fund's pricing vendor and are valued using level 3 inputs. 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 LargeCap Fund

Schedule of Investments, December 31, 2016

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## Summary of Fair Value Exposure at December 31, 2016 (cont.)

### 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, 2015	\$2,357
Accrued discounts/premiums	—
Realized gain (loss)	—
Change in unrealized appreciation (depreciation)	—
Purchases	—
Sales	—
Transfers in and/or out of Level 3*	—
Balance as of December 31, 2016	<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, 2016

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## Portfolio Managers' Commentary

For the year ended December 31, 2016, the Baird MidCap Fund Institutional Class posted a total return of 5.40% (5.08% for the Investor Class), as compared to a gain of 7.33% for the Russell MidCap® Growth Index, the MidCap Fund's primary benchmark.

As we reflect on 2016, it's apparent that volatility was a constant companion. Beginning with recession fears, a meaningful market correction and snap-back rotation in the first quarter, followed by the brief, but unsettling Brexit reaction mid-year, and then the November election, market moves were quick and severe. Economic data showed improvement as the year advanced, and stocks took the news well. The inflection in activity was broad based, with China, the U.S. and Europe leading the way, and the global economy appeared to exit the year in better economic condition than it started.

Overall, the Fund's 2016 positioning rested on the economy and corporate earnings pacing at low single digit growth, the likelihood of modest Federal Reserve tightening and balanced sector weights. This structure served Fund shareholders well amid the sharp market decline in January as economic growth was questioned. Cyclical exposure was added to the Fund during the first half of the year amid signs the economy was firming and remained in place through the election, proving helpful when stock correlations declined in late fall and the market embraced a stronger growth outlook. However, sharp positive market reversals in February and following the Brexit vote in June, along with a challenging December, created enough of a performance gap, leaving the Fund up for the year, but trailing returns of the benchmark.

The consumer discretionary sector provided the strongest contribution to relative performance. Key strength came from holdings touching several industries including off-price retail, auto parts and auto-related electronics providers, restaurants, and toys and entertainment. While the backdrop for consumer spending has been favorable due to continued job growth, wage increases, and low energy costs, it has not translated to across-the-board health in discretionary sector stocks. As a result, we continue to look for areas with favorable spending profiles, working to maintain a good diversity of end market exposure and using price volatility to our advantage.

As a counter to strength in the consumer discretionary sector, the Fund's technology holdings fell well short of benchmark returns and were the source of the largest sector underperformance. The Fund's mix of semiconductor stocks exhibited some fundamental and execution shortcomings and failed to keep pace with very strong returns from benchmark companies in this industry. Stock picking across the software and services industry, which continued to represent the largest component of Fund technology holdings, helped performance, but not nearly enough to offset the headwind in semiconductors.

In the producer durables sector, Fund holdings lagged during the year. As economic data improved, many companies and particularly those operating in more economically sensitive industries, such as manufacturing or transportation, performed well. A price decline in two of the Fund's longer term holdings in this sector, which operate less economically sensitive business models, proved difficult to overcome. There was little room for error amid the general price strength in the sector. Throughout the course of the year as better economic activity unfolded and volatility presented itself, we selectively added exposure to this sector.

Fund holdings in the basic materials sector were a modest drag on relative performance for the year. Much like the dynamic affecting the producer durables sector, performance across materials was on average strong and broad. For the most part, Fund exposure in the sector has historically been tied to construction and manufacturing activity rather than pure commodity-oriented business models. In a recovery scenario, or periods of accelerating GDP growth, the Fund's mix profile can be challenged to keep up with commodity-driven businesses. However, long-term Fund holdings delivered strong fundamentals and generally kept pace.

Healthcare sector holdings made a positive contribution as several equipment and service providers performed well. A rather sharp pullback in biotech and specialty pharmaceutical companies also helped due to the Fund's minimal exposure to these areas. Our overall strategy of investing to obtain exposure to multiple end markets

# Baird MidCap Fund

December 31, 2016

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and identifying companies down the market cap spectrum that provide long-term growth opportunities proved beneficial. In recent years, our focus on profitability limited the opportunity set in this sector as the strongest performance was often found in what we judged as higher risk biotech and pharmaceutical companies.

In the consumer staples sector, performance of the Fund's holdings matched benchmark sector returns. For the first time in several years, overall returns in this sector lagged the broader market. There appears to have been some unwind in the perceived attractiveness of staples companies; not surprising with interest rates moving higher and leading to capital exiting a sector that provided yield and a reasonable measure of earnings stability in a low rate, low growth world, despite rather elevated valuations in our view.

The Fund's financial services holdings were a drag on relative performance during the year. The volatile market environment kept interest rates low for much of the year and generally restrained revenues linked to market activity, which negatively impacted asset management holdings. In addition, concern over consumer credit trends negatively impacted Fund exposure in this area, which underperformed other financial and data processing industry group peers. Anticipated tightening by the Federal Reserve later in the year on the back of better economic data, lifted rates and provided a tailwind for bank stocks and a headwind for REITs, an industry that comprised approximately 25% of the financial services sector weight, but none in the Fund.

The Fund's energy stocks added to relative performance. With a substantial improvement in oil prices during the year, the Fund's exposure through a well-positioned oil and gas production company was rewarded. We would welcome a benchmark change to add more weight to the sector as we believe this would allow us to take advantage of our historical fundamental work on businesses in the sector.

The long-standing 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, 2016 (Unaudited)

## Portfolio Characteristics

A December 31, 2016 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\*

Watsco, Inc.	2.4%
CDW Corp.	2.4%
East West Bancorp, Inc.	2.3%
Cable One, Inc.	2.3%
A.O. Smith Corp.	2.3%
Alliance Data Systems Corp.	2.3%
Euronet Worldwide, Inc.	2.2%
The Middleby Corp.	2.2%
O'Reilly Automotive, Inc.	2.2%
Intuitive Surgical, Inc.	2.2%

Net Assets: \$1,242,227,909

Portfolio Turnover Rate: 57.2%

Number of Equity Holdings: 57

Annualized Portfolio Expense Ratio:\*\*\*

Gross

Institutional Class: 0.81%

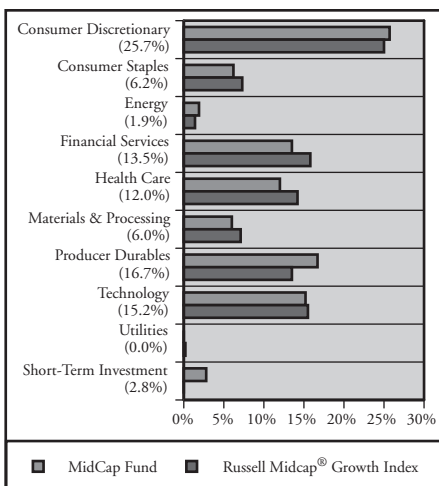
Investor Class: 1.06%\*\*\*\*

Net

Institutional Class: 0.81%

Investor Class: 1.06%\*\*\*\*

### 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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, and may not add up to 100% due to rounding.

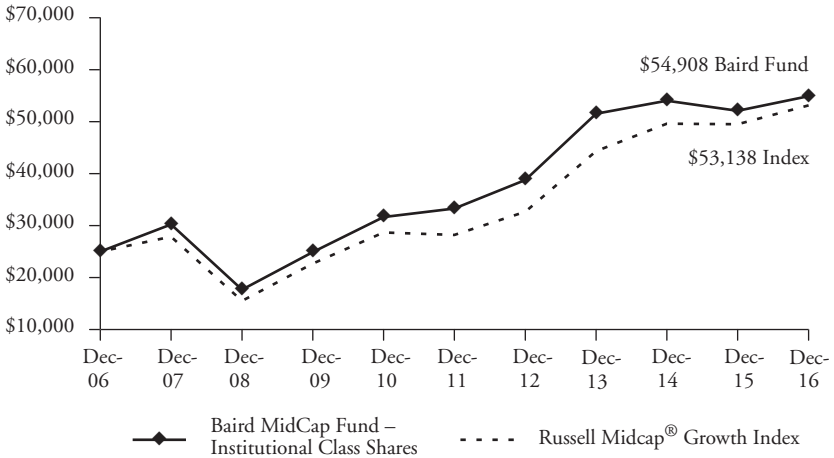
\*\*\* Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.85% of average daily net assets for the Institutional Class shares and 1.10% of average daily net assets for the Investor Class shares, at least through April 30, 2018.

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

# Baird MidCap Fund

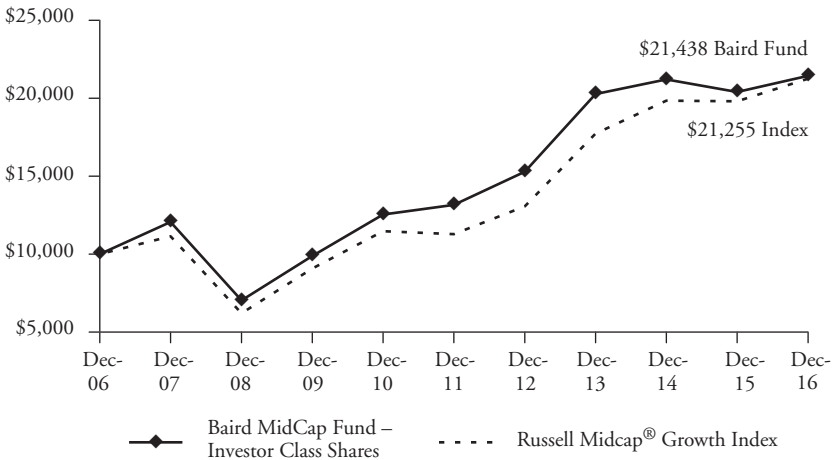
December 31, 2016 (Unaudited)

**Institutional Class**  
Value of a \$25,000 Investment



*Growth of a hypothetical investment of \$25,000 made on 12/31/06, assuming reinvestment of all distributions.*

**Investor Class**  
Value of a \$10,000 Investment



*Growth of a hypothetical investment of \$10,000 made on 12/31/06, assuming reinvestment of all distributions.*

# Baird MidCap Fund

December 31, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	Average Annual			
	One Year	Five Years	Ten Years	Since Inception <sup>(1)</sup>
Institutional Class Shares	5.40%	10.53%	8.19%	6.24%
Investor Class Shares	5.08%	10.25%	7.92%	5.99%
Russell MidCap <sup>®</sup> Growth Index <sup>(2)</sup>	7.33%	13.51%	7.83%	5.77%

(1) For the period from December 29, 2000 (inception date) through December 31, 2016.

(2) The Russell Midcap<sup>®</sup> Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap<sup>®</sup> 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](http://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, 2016

## Common Stocks

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Banks</b>			
East West Bancorp, Inc.	570,604	\$ 29,003,802	2.3%
First Republic Bank/CA	181,473	16,720,922	1.4%
		<u>45,724,724</u>	<u>3.7%</u>
<b>Beverages</b>			
Dr Pepper Snapple Group, Inc.	215,550	19,543,918	1.6%
<b>Building Products</b>			
A.O. Smith Corp.	608,622	28,818,252	2.3%
Fortune Brands Home & Security, Inc.	381,992	20,421,292	1.7%
		<u>49,239,544</u>	<u>4.0%</u>
<b>Capital Markets</b>			
Affiliated Managers Group, Inc.*	146,344	21,263,783	1.7%
MarketAxess Holdings, Inc.	60,365	8,868,826	0.7%
		<u>30,132,609</u>	<u>2.4%</u>
<b>Distributors</b>			
LKQ Corp.*	698,106	21,396,949	1.7%
Pool Corp.	133,845	13,965,387	1.1%
		<u>35,362,336</u>	<u>2.8%</u>
<b>Electrical Equipment</b>			
Acuity Brands, Inc.	105,663	24,393,360	2.0%
Rockwell Automation, Inc.	133,188	17,900,467	1.4%
		<u>42,293,827</u>	<u>3.4%</u>
<b>Electronic Equipment, Instruments &amp; Components</b>			
CDW Corp.	558,290	29,081,326	2.4%
Trimble Navigation Ltd.*	632,811	19,079,252	1.5%
		<u>48,160,578</u>	<u>3.9%</u>
<b>Food &amp; Staples Retailing</b>			
Casey's General Stores, Inc.	148,215	17,619,799	1.4%
<b>Food Products</b>			
Mccormick & Co., Inc.	240,347	22,431,586	1.8%
<b>Health Care Equipment &amp; Supplies</b>			
The Cooper Cos., Inc.	127,604	22,321,768	1.8%
Edwards Lifesciences Corp.*	269,578	25,259,459	2.0%
IDEXX Laboratories, Inc.*	208,572	24,459,238	2.0%
Intuitive Surgical, Inc.*	42,535	26,974,421	2.2%
		<u>99,014,886</u>	<u>8.0%</u>
<b>Health Care Providers &amp; Services</b>			
Acadia Healthcare Co., Inc.*	439,142	14,535,600	1.2%
Laboratory Corp. of America Holdings*	95,355	12,241,675	1.0%
		<u>26,777,275</u>	<u>2.2%</u>

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

# Baird MidCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Health Care Technology</b>			
Veeva Systems, Inc. – Class A*	573,563	\$ 23,344,014	1.9%
<b>Hotels, Restaurants &amp; Leisure</b>			
Dominos Pizza, Inc.	104,791	16,686,919	1.3%
Panera Bread Company – Class A*	89,420	18,339,148	1.5%
		35,026,067	2.8%
<b>Household Products</b>			
Church & Dwight Co., Inc.	408,270	18,041,451	1.4%
<b>IT Services</b>			
Alliance Data Systems Corp.	124,238	28,388,383	2.3%
Broadridge Financial Solutions, Inc.	146,295	9,699,359	0.8%
Euronet Worldwide, Inc.*	385,524	27,923,503	2.2%
Fiserv, Inc.*	244,861	26,023,827	2.1%
Gartner, Inc.*	240,673	24,324,820	2.0%
		116,359,892	9.4%
<b>Leisure Products</b>			
Hasbro, Inc.	345,370	26,866,332	2.2%
<b>Machinery</b>			
Fortive Corp.	425,759	22,833,455	1.9%
Graco, Inc.	213,905	17,773,367	1.4%
The Middleby Corp.*	213,741	27,531,978	2.2%
Oshkosh Truck Corporation	259,720	16,780,509	1.4%
Snap-on, Inc.	111,017	19,013,882	1.5%
WABCO Holdings, Inc.*	214,316	22,749,643	1.8%
		126,682,834	10.2%
<b>Media</b>			
Cable One, Inc.	46,558	28,946,505	2.3%
<b>Multiline Retail</b>			
Burlington Stores, Inc.*	262,514	22,248,061	1.8%
Dollar General Corp.	348,981	25,849,023	2.1%
Ollie's Bargain Outlet Holdings, Inc.*	710,749	20,220,809	1.6%
		68,317,893	5.5%
<b>Oil, Gas &amp; Consumable Fuels</b>			
Diamondback Energy, Inc.*	227,634	23,004,692	1.8%
<b>Professional Services</b>			
Verisk Analytics, Inc.*	219,599	17,824,851	1.4%
<b>Road &amp; Rail</b>			
J.B. Hunt Transport Services, Inc.	207,253	20,118,049	1.6%
<b>Semiconductors &amp; Semiconductor Equipment</b>			
Monolithic Power Systems, Inc.	243,057	19,913,660	1.6%

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



# Baird MidCap Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Software</b>			
Akamai Technologies, Inc.*	323,116	\$ 21,545,375	1.7%
Blackbaud, Inc.	190,091	12,165,824	1.0%
Mobilye NV*f	312,375	11,907,735	1.0%
ServiceNow, Inc.*	254,961	18,953,801	1.5%
Synopsys, Inc.*	321,312	18,912,424	1.5%
Tyler Technologies, Inc.*	147,558	21,066,856	1.7%
The Ultimate Software Group, Inc.*	123,006	22,430,144	1.8%
		<u>126,982,159</u>	<u>10.2%</u>
<b>Specialty Retail</b>			
O'Reilly Automotive, Inc.*	97,304	27,090,407	2.2%
Ulta Salon, Cosmetics & Fragrance, Inc.*	86,862	22,144,598	1.8%
		<u>49,235,005</u>	<u>4.0%</u>
<b>Textiles, Apparel &amp; Luxury Goods</b>			
Lululemon Athletica, Inc.*	325,796	21,173,482	1.7%
<b>Trading Companies &amp; Distributors</b>			
Fastenal Co.	436,799	20,520,817	1.7%
Watsco, Inc.	203,723	30,175,451	2.4%
		<u>50,696,268</u>	<u>4.1%</u>
<b>Total Common Stocks</b> (Cost \$1,016,619,289)		<u>1,208,834,236</u>	<u>97.3%</u>
<b>Short-Term Investment</b>			
<b>Money Market Mutual Fund</b>			
Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	39,238,652	39,238,652	3.2%
<b>Total Short-Term Investment</b> (Cost \$39,238,652)		<u>39,238,652</u>	<u>3.2%</u>
<b>Total Investments</b> (Cost \$1,055,857,941)		1,248,072,888	100.5%
Liabilities in Excess of Other Assets		(5,844,979)	(0.5)%
<b>TOTAL NET ASSETS</b>		<u>\$1,242,227,909</u>	<u>100.0%</u>

### Notes to Schedule of Investments

\* Non-Income Producing

f Foreign Security

« 7-Day Yield

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

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

# Baird MidCap Fund

Schedule of Investments, December 31, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$1,208,834,236	\$ —	\$ —	\$1,208,834,236
<b>Total Equity</b>	1,208,834,236	—	—	1,208,834,236
<b>Short-Term Investment</b>				
Money Market Mutual Fund	39,238,652	—	—	39,238,652
<b>Total Short-Term Investment</b>	39,238,652	—	—	39,238,652
<b>Total Investments*</b>	<u>\$1,248,072,888</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,248,072,888</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, 2016

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## Portfolio Manager's Commentary

Our investment process focuses on identifying companies with unrecognized growth prospects and the potential for earnings surprise at discounted valuations. We believe this is more important than ever during periods of falling corporate profits for the broader market. Earnings for the Baird Small/Mid Cap Value Fund were up approximately 16% for the calendar year 2016 versus -2% for the benchmark Russell 2500 Value Index. In fact, during 2016:

1. Expectations for global economic growth were widely revised downward driven by lower growth expectations for Europe, China and the U.S.
2. The U.S. dollar resumed its upward trajectory as other currencies such as the British Pound Sterling and Chinese Yuan weakened considerably.
3. Corporate earnings estimates continued to be revised lower throughout the year, witnessing six consecutive quarterly earnings declines for the S&P 500 Index.

Despite the aforementioned trends, during the second half of the year, stocks of companies with the slowest revenue and earnings growth outperformed. While this is certainly counterintuitive, particularly in an economy which is decelerating, it is not unheard of. The surprise Trump victory coupled with a Republican-controlled Congress sent the markets meaningfully higher in to year-end. Post-election, the Russell 2500 Value rallied 12.4%, the best November in the history of the benchmark and the largest margin of victory for small caps over large caps, with the S&P 500 up 5.0% over the same period.

Over the past 17 years, we have experienced only three other similar speculative markets when low quality stocks outperformed by such a wide margin in a short period of time. Although quality posted solid positive returns in these environments, it also tended to trail the overall benchmark meaningfully. Post these short-lived, intense periods of speculation, stocks with high earnings quality have tended to outperform for multi-year periods and also on a cumulative basis. Leading the post-election charge were sectors heretofore unloved, but now expected to benefit asymmetrically from the new political environment. Materials, Industrials and Energy stocks clocked multi-year gains in a matter of weeks, and many companies in these sectors posted triple-digit returns. Smaller regional banks, the largest industry in our benchmark, levitated more than 40% on average.

We believe such swift moves in such a brief time period are indicative of speculation versus fundamental investing. As such, we feel it is prudent to stay disciplined to our investment style which has outperformed over the long-run with lower commensurate risk.

In 2016, the Baird Small/Mid Cap Value Fund Institutional Class generated a total return of 8.91% compared to a 25.20% return for the Russell 2500 Value, the Fund's benchmark. During a year of great dispersion of returns among economic sectors, allocation played an important role for portfolio managers in 2016. Following is a discussion of key contributors and detractors for the Fund's performance relative to its benchmark.

### Key Detractors from Relative Returns:

- Broadly speaking, the Fund's exposure to less cyclical, more stable businesses detracted from relative performance post the election as lower quality stocks popped on the prospects of economic opportunity from the new Administration. The Fund's overweight to Utilities and Health Care were meaningful detractors, as well as the Fund's underweight to Materials and Energy.
- The Fund's holdings in Information Technology lagged stocks in the Russell 2500 Value. Despite strong earnings growth, Verisign and J2 Global were among the underperformers. Integrated Device Technology fell 11% on disappointing sales to Samsung due to their product recall.

# Baird Small/Mid Cap Value Fund

December 31, 2016

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- Despite posting a solid absolute return in Real Estate (+11%), our stocks lagged the benchmark and our overweight created a significant detraction from relative returns for the year. Healthcare related REITs, Omega Healthcare Investors and Healthcare Trust of America, trailed due to the defensive nature of their lease profiles.

## Key Contributors to Relative Returns:

- The Fund enjoyed very strong security selection in Financials which allowed us to keep pace with the sector despite being underweight. Meta Financial Group, Renasant Corporation and American Financial Group were among the leaders.
- Outperformance in Telecommunications led by Boingo Wireless, a beneficiary of burgeoning demand for mobile data, added to relative returns.
- The Fund's security selection in Consumer Staples was superior, with the Fund's holdings returning 21% for the period. Strength was led by B&G Foods and Pinnacle Foods.

## **Looking Forward**

We concur with consensus that the prospects for tax reform, fiscal stimulus, and relaxed regulation under the new Administration should serve to benefit corporate earnings over the coming years. However, what policies become realities, which companies stand to benefit and by what magnitude is, to say the least, difficult to predict at this stage. In addition, the potential negative ramifications outside our borders of changes to our trade policy and a stronger currency must be considered, as well. Consistent with our disciplined investment style, we continue to analyze each investment prospect on its merits, factoring in the aforementioned tailwinds where we have conviction they will likely impact profitability.

Portfolio Manager:

Michelle Stevens

# Baird Small/Mid Cap Value Fund

December 31, 2016 (Unaudited)

## Portfolio Characteristics

A December 31, 2016 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\*

Meta Financial Group, Inc.	5.6%
Boingo Wireless, Inc.	3.7%
Mid-America Apartment Communities, Inc.	3.5%
B&G Foods, Inc.	3.4%
LTC Properties, Inc.	3.3%
American Financial Group, Inc.	3.3%
j2 Global, Inc.	3.1%
Quanta Services, Inc.	3.0%
Pinnacle West Cap Corp.	3.0%
Physicians Realty Trust	3.0%

Net Assets: \$11,966,978

Portfolio Turnover Rate: 38.3%

Number of Equity Holdings: 38

Annualized Portfolio Expense Ratio:\*\*\*

Gross

Institutional Class: 6.88%

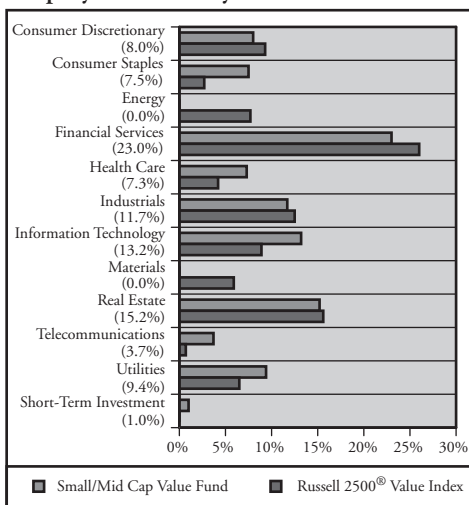
Investor Class: 7.13%\*\*\*\*

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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, and may not add up to 100% due to rounding.

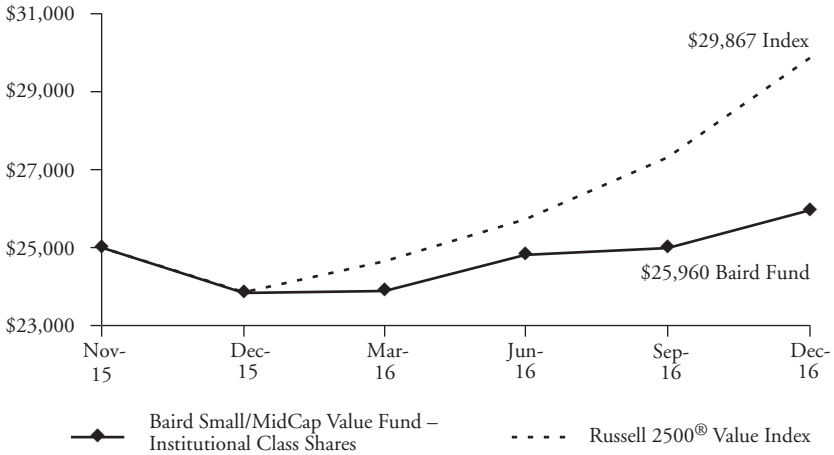
\*\*\* Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 0.95% of average daily net assets for the Institutional Class shares and 1.20% of average daily net assets for the Investor Class shares, at least through April 30, 2018.

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

# Baird Small/Mid Cap Value Fund

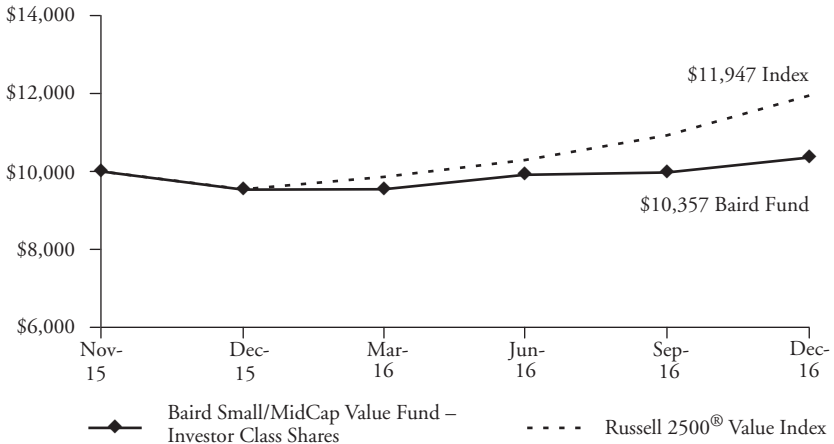
December 31, 2016 (Unaudited)

## 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, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	<b>One Year</b>	<b>Since Inception<sup>(1)</sup></b>
Institutional Class Shares	8.91%	3.53%
Investor Class Shares	8.64%	3.28%
Russell 2500 <sup>®</sup> Value Index <sup>(2)</sup>	25.20%	17.81%

(1) For the period from November 30, 2015 (inception date) through December 31, 2016.

(2) The Russell 2500<sup>®</sup> Value Index measures the performance of the small cap value segment of the U.S. equity universe. It includes those Russell 2500<sup>®</sup> 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](http://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, 2016

## Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Aerospace &amp; Defense</b>			
Hexcel Corp.	5,934	\$ 305,245	2.6%
Orbital ATK, Inc.	2,789	244,679	2.0%
		<u>549,924</u>	<u>4.6%</u>
<b>Air Freight &amp; Logistics</b>			
Air Transport Services Group, Inc.*	14,623	233,383	2.0%
<b>Auto Components</b>			
Motorcar Parts of America, Inc.*	9,890	266,239	2.2%
<b>Banks</b>			
Hilltop Holdings, Inc.	9,334	278,153	2.3%
Renasant Corp.	8,216	346,880	2.9%
		<u>625,033</u>	<u>5.2%</u>
<b>Capital Markets</b>			
Diamond Hill Investment Group, Inc.	1,151	242,147	2.0%
<b>Commercial Services &amp; Supplies</b>			
Deluxe Corp.	3,585	256,722	2.1%
<b>Construction &amp; Engineering</b>			
Quanta Services, Inc.*	10,393	362,196	3.0%
<b>Distributors</b>			
LKQ Corp.*	7,974	244,403	2.0%
<b>Electric Utilities</b>			
Avangrid, Inc.	7,356	278,645	2.4%
Pinnacle West Capital Corp.	4,636	361,748	3.0%
		<u>640,393</u>	<u>5.4%</u>
<b>Food Products</b>			
B & G Foods, Inc.	9,272	406,114	3.4%
Lamb Weston Holdings, Inc.*	7,071	267,637	2.2%
		<u>673,751</u>	<u>5.6%</u>
<b>Health Care Equipment &amp; Supplies</b>			
ICU Medical, Inc.*	2,349	346,125	2.9%
<b>Health Care Providers &amp; Services</b>			
Laboratory Corp. of America Holdings*	2,163	277,686	2.3%
Mednax, Inc.*	3,832	255,441	2.2%
		<u>533,127</u>	<u>4.5%</u>
<b>Household Durables</b>			
ZAGG, Inc.*	33,811	240,058	2.0%
<b>Household Products</b>			
Orchids Paper Products Co.	8,654	226,562	1.9%

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



# Baird Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Insurance</b>			
American Financial Group, Inc.	4,450	\$ 392,134	3.3%
Atlas Financial Holdings, Inc.* f	15,453	278,927	2.3%
		<u>671,061</u>	<u>5.6%</u>
<b>Internet Software &amp; Services</b>			
j2 Global, Inc.	4,512	369,081	3.1%
Stamps.com, Inc.*	2,411	276,421	2.3%
VeriSign, Inc.*	4,450	338,512	2.8%
		<u>984,014</u>	<u>8.2%</u>
<b>Multiline Retail</b>			
Dollar Tree, Inc.*	2,658	205,144	1.7%
<b>Multi-Utilities</b>			
Alliant Energy Corp.	6,446	244,239	2.1%
CMS Energy Corp.	5,815	242,020	2.0%
		<u>486,259</u>	<u>4.1%</u>
<b>Real Estate Investment Trusts (REITs)</b>			
Agree Realty Corp.	7,108	327,323	2.7%
Blackstone Mortgage Trust, Inc. – Class A	11,002	330,830	2.8%
Healthcare Trust of America, Inc. – Class A	11,126	323,878	2.7%
LTC Properties, Inc.	8,468	397,827	3.3%
Mid-America Apartment Communities, Inc.	4,265	417,629	3.5%
Physicians Realty Trust	18,853	357,453	3.0%
		<u>2,154,940</u>	<u>18.0%</u>
<b>Semiconductors &amp; Semiconductor Equipment</b>			
Cypress Semiconductor Corp.	20,583	235,470	2.0%
Silicon Motion Technology Corp. – ADR f	8,345	354,495	2.9%
		<u>589,965</u>	<u>4.9%</u>
<b>Thrifts &amp; Mortgage Finance</b>			
BofI Holding, Inc.*	7,417	211,755	1.8%
Meta Financial Group, Inc.	6,502	669,056	5.6%
		<u>880,811</u>	<u>7.4%</u>
<b>Wireless Telecommunication Services</b>			
Boingo Wireless, Inc.*	36,160	440,790	3.7%
<b>Total Common Stocks</b> (Cost \$10,843,179)		11,853,047	99.0%

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

# Baird Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2016

## Short-Term Investment

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Money Market Mutual Fund</b>			
Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	114,568	\$ 114,568	1.0%
<b>Total Short-Term Investment</b> (Cost \$114,568)		114,568	1.0%
<b>Total Investments</b> (Cost \$10,957,747)		11,967,615	100.0%
Liabilities in Excess of Other Assets		(637)	0.0%
<b>TOTAL NET ASSETS</b>		<b>\$11,966,978</b>	<b>100.0%</b>

### Notes to Schedule of Investments

\* Non-Income Producing

f Foreign Security

« 7-Day Yield

ADR – American Depositary Receipt

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

# Baird Small/Mid Cap Value Fund

Schedule of Investments, December 31, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$11,853,047	\$ —	\$ —	\$11,853,047
<b>Total Equity</b>	11,853,047	—	—	11,853,047
<b>Short-Term Investment</b>				
Money Market Mutual Fund	114,568	—	—	114,568
<b>Total Short-Term Investment</b>	114,568	—	—	114,568
<b>Total Investments*</b>	<u>\$11,967,615</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$11,967,615</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 SmallCap Value Fund

December 31, 2016

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## Portfolio Manager's Commentary

Our investment process focuses on identifying companies with unrecognized growth prospects and the potential for earnings surprise at discounted valuations. We believe this is more important than ever during periods of falling corporate profits for the broader market. Earnings for the Baird SmallCap Value Fund were up approximately 16% for the calendar year 2016 versus -10% for the benchmark Russell 2000 Value Index. In fact, during 2016:

1. Expectations for global economic growth were widely revised downward driven by lower growth expectations for Europe, China and the U.S.
2. The U.S. dollar resumed its upward trajectory as other currencies such as the British Pound Sterling and Chinese Yuan weakened considerably.
3. Corporate earnings estimates continued to be revised lower throughout the year, witnessing six consecutive quarterly earnings declines for the S&P 500 Index.

Despite the aforementioned trends, during the second half of the year, stocks of companies with the slowest revenue and earnings growth outperformed. While this is certainly counterintuitive, particularly in an economy which is decelerating, it is not unheard of. The surprise Trump victory coupled with a Republican-controlled Congress sent the markets meaningfully higher in to year-end. Post-election, the Russell 2000 Value rallied 17.4%, the best November in the history of the benchmark and the largest margin of victory for small caps over large caps, with the S&P 500 up 5.0% over the same period.

Over the past 17 years, we have experienced only three other similar speculative markets when low quality stocks outperformed by such a wide margin in a short period of time. Although quality posted solid positive returns in these environments, it also tended to trail the overall benchmark meaningfully. Post these short-lived, intense periods of speculation, stocks with high earnings quality have tended to outperform for multi-year periods and also on a cumulative basis. Leading the post-election charge were sectors heretofore unloved, but now expected to benefit asymmetrically from the new political environment. Materials, Industrials and Energy stocks clocked multi-year gains in a matter of weeks, and many companies in these sectors posting triple-digit returns. Small regional banks, the largest industry in our benchmark, levitated more than 40% on average.

We believe such swift moves in such a brief time period are indicative of speculation versus fundamental investing. As such, we feel it is prudent to stay disciplined to our investment style which has outperformed over the long-run with lower commensurate risk.

In 2016, the Baird SmallCap Value Fund Institutional Class generated a total return of 15.11% compared to a 31.74% return for the Russell 2000 Value, the Fund's benchmark. During a year of great dispersion of returns among economic sectors, allocation played an important role for portfolio managers in 2016. Following is a discussion of key contributors and detractors for the Fund's performance relative to its benchmark.

### Key Detractors from Relative Returns:

- Broadly speaking, the Fund's exposure to less cyclical, more stable businesses detracted from relative performance post the election as lower quality stocks popped on the prospects of economic opportunities arising from the new Administration. The Fund's overweight to Utilities and Health Care were meaningful detractors, as well as the Fund's underweight to Materials and Energy. Additionally, Aceto Corp, a generic pharmaceutical company, disappointed on lowered earnings guidance from pricing competition.
- The Fund's holdings in Information Technology lagged those stocks in the Russell 2000 Value. Despite strong earnings growth, J2 Global and Silicon Motion Technology were among the underperformers. Integrated Device Technology fell 11% on disappointing sales to Samsung due to a product recall.

# Baird SmallCap Value Fund

December 31, 2016

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- Despite posting competitive returns in Financials (+33%), our underweight created a significant detraction from relative returns for the year. Banks within the Russell 2000 gained over 40% during the year, mostly after the election in November. Meta Financial and Bofi Holdings kept pace, but Atlas Financial and Private Bancorp lagged. Real Estate Investment Trusts, while posting double-digit returns, detracted from relative performance.

## Key Contributors to Relative Returns:

- The Fund enjoyed very strong security selection in Industrials despite being underweight the group. Patrick Industries and Drew Industries, suppliers to the manufactured housing market, both appreciated more than 75% during the year.
- Outperformance in Telecommunications led by Boingo Wireless, a beneficiary of burgeoning demand for mobile data, added to relative returns.
- The Fund's security selection in Utilities was superior, with the Fund's holdings returning 31% for the 12-month period.

## **Looking Forward**

We concur with consensus that the prospects for tax reform, fiscal stimulus, and relaxed regulation under the new Administration should serve to benefit corporate earnings over the coming years. However, what policies become realities, which companies stand to benefit and by what magnitude is, to say the least, difficult to predict at this stage. In addition, the potential negative ramifications outside our borders of changes to our trade policy and a stronger currency must be considered, as well. Consistent with our disciplined investment style, we continue to analyze each investment prospect on its merits, factoring in the aforementioned tailwinds where we have conviction that they will likely impact profitability.

Portfolio Manager:

Michelle Stevens

# Baird SmallCap Value Fund

December 31, 2016 (Unaudited)

## Portfolio Characteristics

A December 31, 2016 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\*

Meta Financial Group, Inc.	5.4%
ICU Medical, Inc.	3.7%
Boingo Wireless, Inc.	3.6%
LTC Properties, Inc.	3.3%
B&G Foods, Inc.	3.3%
Alliant Energy Corp.	3.2%
j2 Global, Inc.	3.2%
Renasant Corp.	3.1%
Atlas Financial Holdings, Inc.	3.1%
Agree Realty Corp.	3.0%

<b>Net Assets:</b>	<b>\$30,848,895</b>
<b>Portfolio Turnover Rate:</b>	<b>48.9%</b>
<b>Number of Equity Holdings:</b>	<b>36</b>

### Annualized Portfolio Expense Ratio:\*\*

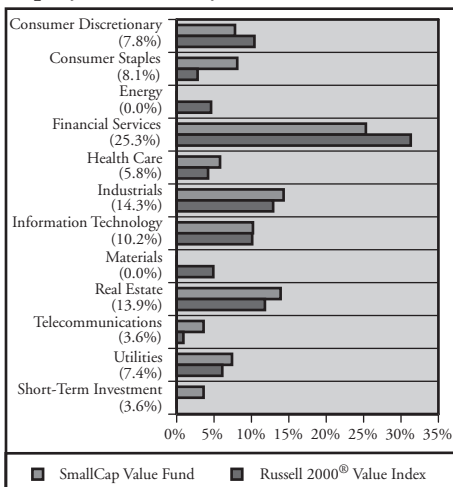
Gross

Institutional Class:	1.52%
Investor Class:	1.77%****

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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, and may not add up to 100% due to rounding.

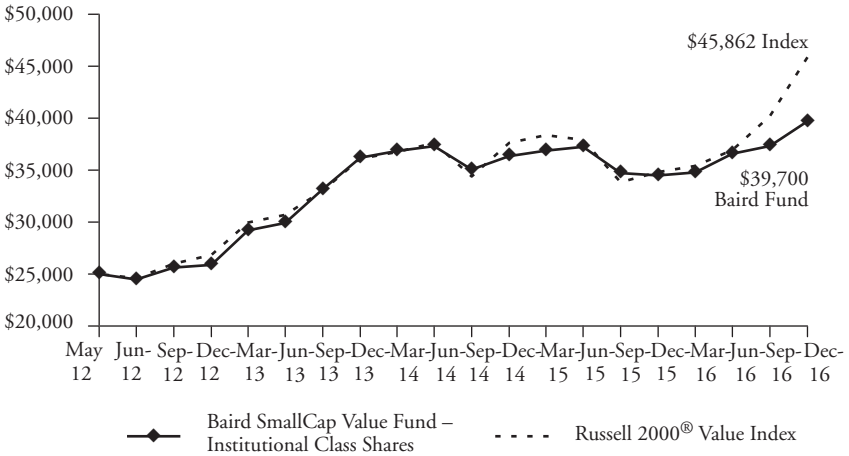
\*\*\* Reflects expense ratios as stated in the Fund's current prospectus. The Advisor has contractually agreed to limit the Fund's total annual fund operating expenses to 1.00% of average daily net assets for the Institutional Class shares and 1.25% of average daily net assets for the Investor Class shares, at least through April 30, 2018.

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

# Baird SmallCap Value Fund

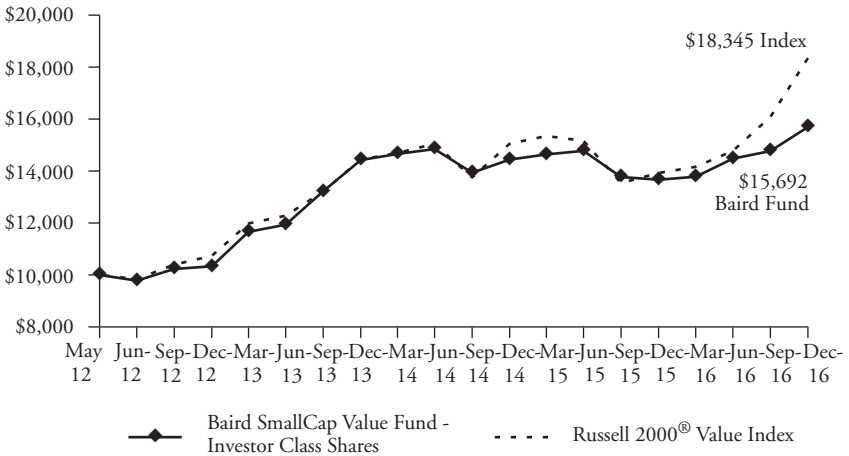
December 31, 2016 (Unaudited)

## 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, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	One Year	Average Annual	
		Three Year	Since Inception <sup>(1)</sup>
Institutional Class Shares	15.11%	3.13%	10.41%
Investor Class Shares	14.84%	2.86%	10.13%
Russell 2000® Value Index <sup>(2)</sup>	31.74%	8.31%	13.87%

(1) For the period from May 1, 2012 (inception date) through December 31, 2016.

(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](http://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, 2016

## Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Aerospace &amp; Defense</b>			
Hexcel Corp.	13,209	\$ 679,471	2.2%
Orbital ATK, Inc.	7,175	629,463	2.0%
		1,308,934	4.2%
<b>Air Freight &amp; Logistics</b>			
Air Transport Services Group, Inc.*	37,396	596,840	1.9%
<b>Auto Components</b>			
Drew Industries, Inc.	7,012	755,543	2.5%
Motorcar Parts of America, Inc.*	30,005	807,735	2.6%
		1,563,278	5.1%
<b>Banks</b>			
Hilltop Holdings, Inc.	23,482	699,764	2.3%
Renasant Corp.	22,993	970,764	3.1%
		1,670,528	5.4%
<b>Biotechnology</b>			
Eagle Pharmaceuticals, Inc./DE*	8,173	648,446	2.1%
<b>Building Products</b>			
Patrick Industries, Inc.*	11,007	839,834	2.7%
<b>Capital Markets</b>			
Diamond Hill Investment Group, Inc.	2,955	621,673	2.0%
<b>Commercial Services &amp; Supplies</b>			
Deluxe Corp.	10,437	747,394	2.4%
<b>Construction &amp; Engineering</b>			
Quanta Services, Inc.*	26,578	926,243	3.0%
<b>Food Products</b>			
B & G Foods, Inc.	22,830	999,954	3.3%
Lamb Weston Holdings, Inc.*	18,101	685,123	2.2%
		1,685,077	5.5%
<b>Gas Utilities</b>			
South Jersey Industries, Inc.	18,037	607,666	2.0%
<b>Health Care Equipment &amp; Supplies</b>			
ICU Medical, Inc.*	7,664	1,129,290	3.7%
<b>Household Durables</b>			
ZAGG, Inc.*	120,510	855,621	2.8%
<b>Household Products</b>			
Orchids Paper Products Co.	31,147	815,428	2.6%
<b>Insurance</b>			
Atlas Financial Holdings, Inc.* f	52,998	956,614	3.1%

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

# Baird SmallCap Value Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Internet Software &amp; Services</b>			
j2 Global, Inc.	12,067	\$ 987,081	3.2%
Stamps.com, Inc.*	6,034	691,798	2.2%
		1,678,879	5.4%
<b>Multi-Utilities</b>			
Alliant Energy Corp.	26,092	988,626	3.2%
<b>Real Estate Investment Trusts (REITs)</b>			
Agree Realty Corp.	20,384	938,683	3.0%
Blackstone Mortgage Trust, Inc. – Class A	24,461	735,542	2.4%
Capstead Mortgage Corp.	85,613	872,397	2.8%
Healthcare Trust of America, Inc. – Class A	22,830	664,581	2.2%
LTC Properties, Inc.	21,689	1,018,949	3.3%
Omega Healthcare Investors, Inc.	25,095	784,470	2.6%
Physicians Realty Trust	45,660	865,714	2.8%
		5,880,336	19.1%
<b>Semiconductors &amp; Semiconductor Equipment</b>			
Cypress Semiconductor Corp.	52,604	601,790	2.0%
Silicon Motion Technology Corp. – ADR f	20,384	865,912	2.8%
		1,467,702	4.8%
<b>Thrifts &amp; Mortgage Finance</b>			
Bofi Holding, Inc.*	32,614	931,130	3.0%
Capitol Federal Financial, Inc.	21,852	359,684	1.2%
Meta Financial Group, Inc.	16,307	1,677,990	5.4%
		2,968,804	9.6%
<b>Water Utilities</b>			
Connecticut Water Service, Inc.	12,230	683,045	2.2%
<b>Wireless Telecommunication Services</b>			
Boingo Wireless, Inc.*	90,994	1,109,217	3.6%
<b>Total Common Stocks</b>			
(Cost \$23,425,679)		29,749,475	96.4%

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

# Baird SmallCap Value Fund

Schedule of Investments, December 31, 2016

## Short-Term Investment

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Money Market Mutual Fund</b>			
Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	1,096,298	\$ 1,096,298	3.6%
<b>Total Short-Term Investment</b> (Cost \$1,096,298)		1,096,298	3.6%
<b>Total Investments</b> (Cost \$24,521,977)		30,845,773	100.0%
Other Assets in Excess of Liabilities		3,122	0.0%
<b>TOTAL NET ASSETS</b>		<b>\$30,848,895</b>	<b>100.0%</b>

### Notes to Schedule of Investments

\* Non-Income Producing

f Foreign Security

« 7-Day Yield

ADR – American Depositary Receipt

*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, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$29,749,475	\$ —	\$ —	\$29,749,475
<b>Total Equity</b>	<u>29,749,475</u>	<u>—</u>	<u>—</u>	<u>29,749,475</u>
<b>Short-Term Investment</b>				
Money Market Mutual Fund	1,096,298	—	—	1,096,298
<b>Total Short-Term Investment</b>	<u>1,096,298</u>	<u>—</u>	<u>—</u>	<u>1,096,298</u>
<b>Total Investments*</b>	<u>\$30,845,773</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$30,845,773</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.*

# Chautauqua International Growth Fund

December 31, 2016

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## Portfolio Manager's Commentary

On April 15, 2016, the Chautauqua International Growth Fund was established. The Chautauqua International Growth Fund delivered relative outperformance through the end of the third quarter, and then encountered significant countervailing market trends in the final quarter of 2016 that caused underperformance for our disciplined, high-quality growth investment approach.

For example, the fourth quarter began with a shift in the markets from a growth style outperformance in the third quarter, to a value style outperformance. At first, this appeared to be a short-term reversal, which has been typical in the "risk on, risk off" markets of the past 8 years. Then, in early November, despite most polls predicting up to 24 hours prior the opposite, Donald Trump became the surprise winner of the U.S. Presidency. The subsequent market rally, based upon the expectation of U.S. fiscal stimulus, widespread deregulation, and improved corporate profits – due to lower tax rates assured by a unified Republican federal government, combined with U.S. Federal Reserve interest rate hikes – took off, leaving large capitalization, quality growth investors, like us, behind.

In this environment and from the Fund's April 15, 2016 inception through the end of 2016, the Chautauqua International Growth Fund's Institutional Class declined 4.30%, underperforming the MSCI ACWI ex-U.S. Index® – ND, which advanced 3.02%.

## Review

The following review and portfolio highlights account for the time period between the Chautauqua International Growth Fund's inception on April 15, 2016 through the end of the year. For the MSCI ACWI ex-U.S. Index®, value style outperformed growth style. Within emerging markets, growth style outperformed value style. Small capitalization stocks outperformed large capitalization stocks in all but the emerging market portion of the Index.

Performance by country in which the Fund was invested had wide dispersions, as did sector returns. The best performing sectors were energy, 17.06%; materials, 13.85%; and information technology, 11.00%. The worst performing sectors were health care, -10.69%; telecom, -10.27%; and consumer staples, -6.74%.

Chautauqua Capital's investment approach focuses on companies that are faster growing, more profitable, and higher quality than the Fund's benchmark index averages. However, the performance gap between growth and value style stocks in the past quarter was enormous, and so it is cold comfort that our underperformance was not alone among large capitalization growth investors.

## Portfolio Highlights

During the roughly three quarters since the Fund was launched, the global markets have grappled with significant geopolitical events. The rise of Nationalist/Populist election outcomes began on June 23 when the United Kingdom (U.K.) held a referendum to decide whether the country should Leave or Remain in the European Union (E.U.). Leave won 52% of the vote, marking the first-ever departure from the E.U. Chautauqua Capital's careful diversification and long-term focus prevented a significant performance dislocation during this time period, and the steps we took to safeguard against what we deemed to be a low probability but high negative impact event, such as a "Brexit Leave" outcome, were helpful. The Fund entered the U.K. referendum vote with an elevated cash position and an underweight to the financials sector, which was the most vulnerable sector to a political or economic shock. Additionally, prior to the vote, we made adjustments that were either neutral to or would benefit from depreciation of the pound sterling.

Immediately after the U.K. referendum, nearly all equity markets worldwide experienced significant downside volatility. We took advantage of what we deemed to be overreactions and pared back holdings that traded at higher valuations, and we added to existing positions and initiated new positions where we saw opportunity. Markets then advanced on further monetary stimulus.

Brent crude oil bottomed at \$27 per barrel in January 2016 and ended the year at \$57 per barrel. This move had a material impact on returns within the energy sector holdings of the Fund. The paradigm shift to limit oil production announced by the Organization of Petroleum Exporting Countries (OPEC) helped reduce the oversupply and led to higher oil prices. Our thesis was that the low oil price environment was unsustainable, especially for countries such as Saudi Arabia, which require higher oil prices to pay for their social programs,

# Chautauqua International Growth Fund

December 31, 2016

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and so price risk for the commodity was tilted to the upside. Earlier in the year, we reduced our weightings in oil services businesses and repositioned our energy exposure to exploration and production-oriented oil companies with attractive, low-cost assets and strong balance sheets in anticipation of higher oil prices.

Chautauqua Capital's distinctive method of diversification through sector groups benefited the Fund's portfolio. The allocation amongst correlated sector groupings (defensive, economically sensitive, energy and financials) worked to reduce volatility without sacrificing our best ideas. Within the defensive sectors, we avoided utilities and consumer staples due to their overall low growth rates and high valuations. Our intentional underweights to utilities and consumer staples stocks hurt performance throughout the year, as investors paid premium prices for stocks with high dividend yields. However, the Fund's underweights to utilities and consumer staples stocks became additive to the Fund's performance by year-end. Importantly, the Fund's overweight to leading health care companies was a significant detractor to performance, given the health care sector's 10.69% decline in the period. However, we are committed to the Fund's health care positions and are finding advantaged companies with pricing power that are curing diseases and providing valuable services through proprietary technologies. We believe the strength of these companies, combined with our disciplined valuation work, provides for some of our best investment ideas within the Fund's portfolio's defensive sectors.

The Fund's overweight to the information technology sector, along with strong stock selection, was a source of positive returns during the period. Our portfolio companies in the information technology sector benefit from strong secular trends – such as cloud computing, artificial intelligence, data analytics, and internet security – and possess what we believe are sustainable competitive advantages that will allow them to gain market share relative to their competitors. Moreover, we continue to evaluate advantaged companies within information technology, health care and consumer-related sectors either for investment, or for our watch list, to monitor for attractive valuation entry or exit points.

The year ended with the aforementioned surprise victory of U.S. President Donald Trump. In the immediate aftermath of the U.S. Election, and given President Trump's campaign statements, Fund portfolio exposures to emerging markets positions were reduced, and the proceeds were redeployed to existing positions in the energy and financial sectors. This helped mitigate some of the Fund's relative underperformance.

## Outlook

As we enter the early stages of Trump's Presidency, we are diligently assessing the impacts of the new administration's policy decisions. We are watchful for potential changes in trade policy and will make adjustments accordingly. In general, however, the recent underperformance by large capitalization quality growth stocks has created one of those occasional opportunities to acquire positions in advantaged companies that benefit from secular growth trends at relatively attractive prices.

In terms of positioning, the investment trends we have identified remain intact and continue into 2017. For example, demographic demand of aging populations for medical solutions and financial services remain fruitful. Labor shortages should appear in some markets owing to low birth rates and the fact that the unemployment rate in places like the U.S. and Japan is already below its long-term average. Proposed infrastructure projects will compete for labor at a time when immigrant labor will likely be turned away. In these markets, rising labor costs could become inflationary. Therefore, we expect companies to continue to automate, and we are invested in this trend through portfolio companies such as Keyence and Dassault Systemes. Separately, we also envision a continued adoption of web-based services and activity, such as e-commerce, infrastructure-as-a-service, and software-as-a-service.

Being able to maneuver in a turbulent geopolitical world will be key to our investment success in 2017. Having a cohesive and collaborative team of six veteran investment professionals will be in our favor. Managing a concentrated, conviction-weighted portfolio of approximately 30 securities in the Fund enables us to be more nimble. First and foremost however, we benefit from owning companies which themselves can navigate challenging times. These well-capitalized businesses, which enjoy pricing power and the ability to focus their business in the most opportune places in the world, tend to maintain their margins and grow their market share as lesser competitors grapple to adapt.

Portfolio Manager:

Brian Beitner

# Chautauqua International Growth Fund

December 31, 2016 (Unaudited)

## Portfolio Characteristics

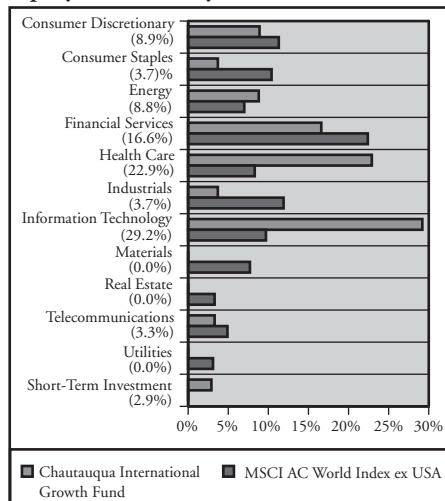
A December 31, 2016 summary of the Fund's top 10 holdings and equity sector analysis compared to the MSCI ACWI ex USA Index is shown below.

### Top 10 Holdings\*

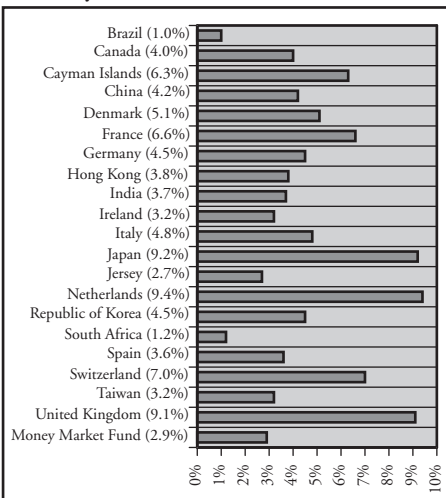
ASML Holding NV	5.3%
Eni SpA	4.7%
Wirecard AG	4.5%
Alibaba Group Holding Ltd.	4.3%
Sinopharm Group Co. Ltd.	4.2%
Julius Baer Group Ltd.	4.1%
Hargreaves Lansdown PLC	4.0%
Core Laboratories NV	4.0%
Lululemon Athletica, Inc.	4.0%
Olympus Corp.	3.9%

<b>Net Assets:</b>	\$15,157,302
<b>Portfolio Turnover Rate:</b>	72.6%†
<b>Number of Equity Holdings:</b>	31
<b>Annualized Portfolio Expense Ratio:***</b>	
Gross	
Institutional Class:	2.36%
Investor Class:	2.61%****
Net	
Institutional Class:	0.95%
Investor Class:	1.20%****

### Equity Sector Analysis\*\*



### Country Allocation\*\*



\* 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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, 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, 2018.

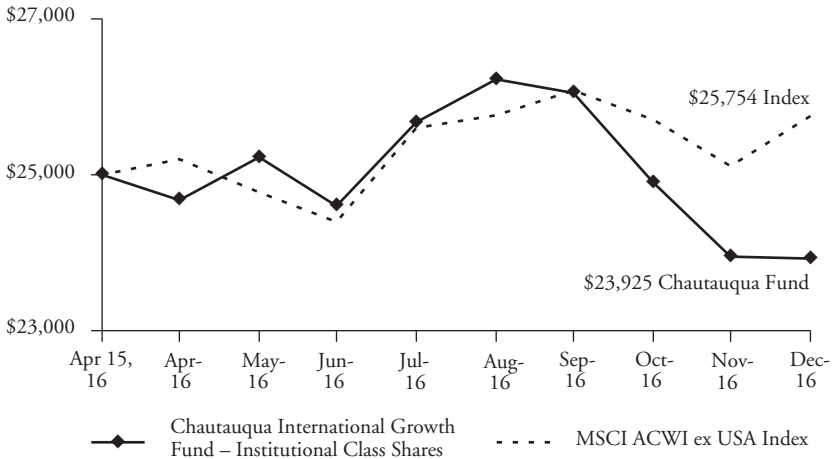
\*\*\*\* Includes 0.25% 12b-1 fee.

† Not annualized.

# Chautauqua International Growth Fund

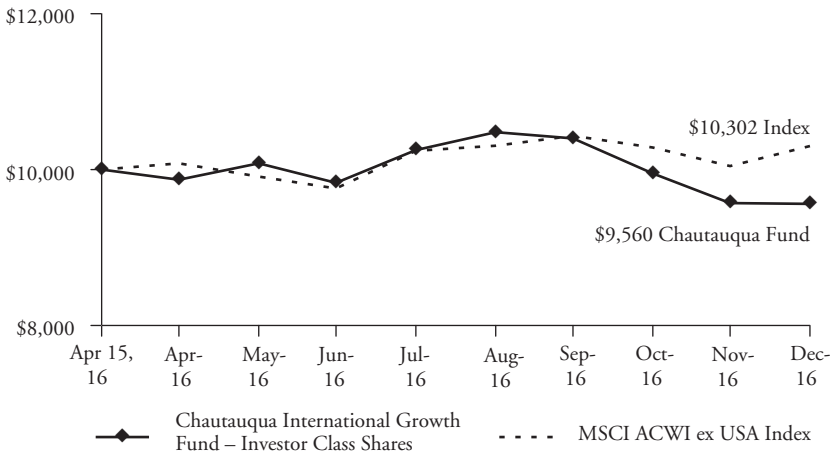
December 31, 2016 (Unaudited)

## Institutional Class Value of a \$25,000 Investment



*Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (04/15/16), 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 (04/15/16), assuming reinvestment of all distributions.*



# Chautauqua International Growth Fund

December 31, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	Six Months	Since Inception <sup>(1)</sup>
Institutional Class Shares	-2.74%	-4.30%
Investor Class Shares	-2.75%	-4.40%
MSCI ACWI ex USA Index	5.57%	3.02%

- (1) For the period from April 15, 2016 (inception date) through December 31, 2016.
- (2) The MSCI ACWI ex USA Index is a market-capitalization-weighted index maintained by MSCI, Inc. and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI ACWI ex USA Index includes both developed and emerging markets. 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 both U.S. and non-U.S. stocks with medium to large market capitalizations 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. Under normal market conditions, the Fund will invest at least 65% of its total assets in non-U.S. companies. 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. In June 2016, the United Kingdom (UK) voted to leave the European Union (EU) following a referendum referred to as "Brexit." It is expected that the UK will exit the EU within two years; however, the exact timeframe for the UK's exit is unknown. There is significant market uncertainty regarding Brexit's ramifications, and the range of possible political, regulatory, economic, and market outcomes are difficult to predict. The negative impact could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Geopolitical events, including those in Ukraine and the Middle East, may cause market disruptions. The portfolio manager for the Fund has over 30 years of experience investing in the global markets and will attempt to minimize the negative impact of these events. However, it is possible that these or other geopolitical events could have an adverse effect on the value of the Fund's investments.*

*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](http://www.bairdfunds.com). Mutual fund performance changes over time and current performance may be lower or higher than that stated.*

# Chautauqua International Growth Fund

Schedule of Investments, December 31, 2016

## Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Alternative Carriers</b>			
Iliad SA (France)^	2,596	\$ 498,557	3.3%
<b>Apparel, Accessories &amp; Luxury Goods</b>			
Lululemon Athletica, Inc. (Canada)*	9,262	601,937	4.0%
<b>Application Software</b>			
Dassault Systemes (France)^	6,379	485,546	3.2%
<b>Asset Management &amp; Custody Banks</b>			
Hargreaves Lansdown PLC (United Kingdom)^	40,776	606,766	4.0%
Julius Baer Group Ltd. (Switzerland)^	13,884	615,085	4.1%
		1,221,851	8.1%
<b>Auto Parts &amp; Equipment</b>			
Delphi Automotive PLC (United Kingdom)	6,041	406,861	2.7%
<b>Banks</b>			
HDFC Bank Ltd – ADR (India)	9,289	563,656	3.7%
<b>Biotechnology</b>			
Genmab A/S (Denmark)*^	1,545	255,933	1.7%
<b>Cable &amp; Satellite</b>			
Naspers Ltd. (South Africa)^	1,262	184,241	1.2%
<b>Data Processing &amp; Outsourced Services</b>			
Wirecard AG (Germany)^	15,908	682,575	4.5%
<b>Electronic Equipment &amp; Instruments</b>			
Keyence Corp. (Japan)^	842	576,138	3.8%
<b>Health Care Equipment</b>			
Olympus Corp. (Japan)^	16,922	583,044	3.9%
<b>Household Products</b>			
Reckitt Benckiser Group PLC (United Kingdom)^	2,544	215,498	1.4%
<b>Insurance Brokers</b>			
BB Seguridade Participacoes SA (Brazil)^	17,652	153,204	1.0%
<b>Internet Retail</b>			
Ctrip.com International Ltd. – ADR (Cayman Islands)*	3,533	141,320	0.9%
<b>Internet Software &amp; Services</b>			
LINE Corp. (Japan)^	6,614	225,793	1.5%
NAVER Corp. (Republic of Korea)^	524	335,558	2.2%
Tencent Holdings Ltd. (Cayman Islands)^	5,897	142,985	1.0%
		704,336	4.7%
<b>IT Consulting &amp; Other Services</b>			
Alibaba Group Holding Ltd. – ADR (Cayman Islands)*	7,502	658,751	4.3%

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

# Chautauqua International Growth Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Life &amp; Health Insurance</b>			
AIA Group Ltd. (Hong Kong)^	100,692	\$ 564,061	3.7%
<b>Oil &amp; Gas Equipment &amp; Services</b>			
Core Laboratories NV (Netherlands)	5,030	603,801	4.0%
<b>Oil &amp; Gas Exploration &amp; Production</b>			
Eni SpA (Italy)^	44,337	718,753	4.7%
<b>Personal Products</b>			
Amorepacific Corp. (Republic of Korea)^	1,293	343,660	2.3%
<b>Pharmaceuticals</b>			
Allergan PLC (Ireland)*	2,298	482,603	3.2%
Grifols SA – ADR (Spain)	33,978	546,026	3.6%
Novo Nordisk A/S – ADR (Denmark)	14,144	507,204	3.3%
Roche Holding AG (Switzerland)^	1,915	436,529	2.9%
Sinopharm Group Co. Ltd. (China)^	154,489	633,149	4.2%
		2,605,511	17.2%
<b>Research &amp; Consulting Services</b>			
Nielsen Holdings PLC (United Kingdom)	13,099	549,503	3.6%
<b>Semiconductor Equipment</b>			
ASML Holding NV (Netherlands)	7,195	807,280	5.3%
<b>Semiconductors</b>			
Taiwan Semiconductor Manufacturing Co. Ltd. – ADR (Taiwan)	16,660	478,975	3.2%
<b>Total Common Stocks</b> (Cost \$14,956,436)		14,604,992	96.4%

## Short-Term Investment

### Money Market Mutual Fund

Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	430,762	430,762	2.8%
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### Total Short-Term Investment

(Cost \$430,762)		430,762	2.8%
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### Total Investments

(Cost \$15,387,198)		15,035,754	99.2%
Other Assets in Excess of Liabilities		121,548	0.8%

<b>TOTAL NET ASSETS</b>		<b>\$15,157,302</b>	<b>100.0%</b>
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### Notes to Schedule of Investments

\* Non-Income Producing

^ Fair Valued Security – See Note 2a to Financial Statements

« 7-Day Yield

ADR – American Depositary Receipt

*Industry classifications shown in the Schedule of Investments are based on 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.*

# Chautauqua International Growth Fund

Schedule of Investments, December 31, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$6,347,917	\$8,257,075	\$ —	\$14,604,992
<b>Total Equity</b>	<u>6,347,917</u>	<u>8,257,075</u>	<u>—</u>	<u>14,604,992</u>
<b>Short-Term Investment</b>				
Money Market Mutual Fund	430,762	—	—	430,762
<b>Total Short-Term Investment</b>	<u>430,762</u>	<u>—</u>	<u>—</u>	<u>430,762</u>
<b>Total Investments*</b>	<u>\$6,778,679</u>	<u>\$8,257,075</u>	<u>\$ —</u>	<u>\$15,035,754</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.*

# Chautauqua Global Growth Fund

December 31, 2016

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## Portfolio Manager's Commentary

On April 15, 2016, the Chautauqua Global Growth Fund was established. The Chautauqua Global Growth Fund delivered relative outperformance through the end of the third quarter, and then encountered significant countervailing market trends in the final quarter of 2016 that caused underperformance for our disciplined, high-quality growth investment approach.

For example, the fourth quarter began with a shift in the markets from a growth style outperformance in the third quarter, to a value style outperformance. At first, this appeared to be a short-term reversal, which has been typical in the "risk on, risk off" markets of the past 8 years. Then, in early November, despite most polls predicting up to 24 hours prior the opposite, Donald Trump became the surprise winner of the U.S. Presidency. The subsequent market rally, based upon the expectation of U.S. fiscal stimulus, widespread deregulation, and improved corporate profits – due to lower tax rates assured by a unified Republican federal government, combined with U.S. Federal Reserve interest rate hikes – took off, leaving large capitalization, quality growth investors, like us, behind.

In this environment and from the Fund's April 15, 2016 inception through the end of 2016, the Chautauqua Global Growth Fund's Institutional Class advanced 0.90%, underperforming the MSCI ACWI Index® – ND, which advanced 6.07%.

## Review

The following review and portfolio highlights account for the time period between the Chautauqua Global Growth Fund's inception on April 15, 2016 through the end of the year. For the MSCI ACWI Index®, value style outperformed growth style, and small capitalization stocks outperformed large capitalization stocks. Within emerging markets, growth style outperformed value style, and large capitalization stocks outperformed small capitalization stocks.

Performance by country in which the Fund was invested had wide dispersions, as did sector returns. The best performing sectors were energy, 17.06%; materials, 13.85%; and information technology, 11.00%. The worst performing sectors were health care, -10.69%; telecom, -10.27%; and consumer staples, -6.74%.

Chautauqua Capital's investment approach focuses on companies that are faster growing, more profitable, and higher quality than the Fund's benchmark index averages. However, the performance gap between growth and value style stocks in the past quarter was enormous, and so it is cold comfort that our underperformance was not alone among large capitalization growth investors.

## Portfolio Highlights

During the roughly three quarters since the Fund was launched, the global markets have grappled with significant geopolitical events. The rise of Nationalist/Populist election outcomes began on June 23 when the United Kingdom (U.K.) held a referendum to decide whether the country should Leave or Remain in the European Union (E.U.). Leave won 52% of the vote, marking the first-ever departure from the E.U. Chautauqua Capital's careful diversification and long-term focus prevented a significant performance dislocation during this time period, and the steps we took to safeguard against what we deemed to be a low probability but high negative impact event, such as a "Brexit Leave" outcome, were helpful. The Fund entered the U.K. referendum vote with an elevated cash position and an underweight to the financials sector, which was the most vulnerable sector to a political or economic shock. Additionally, prior to the vote, we made adjustments that were either neutral to or would benefit from depreciation of the pound sterling.

Immediately after the U.K. referendum, nearly all equity markets worldwide experienced significant downside volatility. We took advantage of what we deemed to be overreactions and pared back holdings that traded at higher valuations, and we added to existing positions and initiated new positions where we saw opportunity. Markets then advanced on further monetary stimulus.

Brent crude oil bottomed at \$27 per barrel in January 2016 and ended the year at \$57 per barrel. This move had a material impact on returns within the energy sector holdings of the Fund. The paradigm shift to limit oil production announced by the Organization of Petroleum Exporting Countries (OPEC) helped reduce the oversupply and led to higher oil prices. Our thesis was that the low oil price environment was unsustainable, especially for countries such as Saudi Arabia, which require higher oil prices to pay for their social programs,

# Chautauqua Global Growth Fund

December 31, 2016

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and so price risk for the commodity was tilted to the upside. Earlier in the year, we reduced our weightings in oil services businesses and repositioned our energy exposure to exploration and production-oriented oil companies with attractive, low-cost assets and strong balance sheets in anticipation of higher oil prices.

Chautauqua Capital's distinctive method of diversification through sector groups benefited the Fund's portfolio. The allocation amongst correlated sector groupings (defensive, economically sensitive, energy and financials) worked to reduce volatility without sacrificing our best ideas. Within the defensive sectors, we avoided utilities and consumer staples due to their overall low growth rates and high valuations. Our intentional underweights to utilities and consumer staples stocks hurt performance throughout the year, as investors paid premium prices for stocks with high dividend yields. However, the Fund's underweights to utilities and consumer staples stocks became additive to the Fund's performance by year-end. Importantly, the Fund's overweight to leading health care companies was a significant detractor to performance, given the health care sector's 10.69% decline in the period. However, we are committed to the Fund's health care positions and are finding advantaged companies with pricing power that are curing diseases and providing valuable services through proprietary technologies. We believe the strength of these companies, combined with our disciplined valuation work, provides for some of our best investment ideas within the Fund's portfolio's defensive sectors.

The Fund's overweight to the information technology sector, along with strong stock selection, was a source of positive returns during the period. Our portfolio companies in the information technology sector benefit from strong secular trends – such as cloud computing, artificial intelligence, data analytics, and internet security – and possess what we believe are sustainable competitive advantages that will allow them to gain market share relative to their competitors. Moreover, we continue to evaluate advantaged companies within information technology, health care and consumer-related sectors either for investment, or for our watch list, to monitor for attractive valuation entry or exit points.

The year ended with the aforementioned surprise victory of U.S. President Donald Trump. In the immediate aftermath of the U.S. Election, and given President Trump's campaign statements, portfolio exposures to emerging markets positions were reduced, and the proceeds were redeployed to existing positions in the energy and financial sectors. This helped mitigate some of the Fund's relative underperformance.

## Outlook

As we enter the early stages of Trump's Presidency, we are diligently assessing the impacts of the new administration's policy decisions. We are watchful for potential changes in trade policy and will make adjustments accordingly. In general, however, the recent underperformance by large capitalization quality growth stocks has created one of those occasional opportunities to acquire positions in advantaged companies that benefit from secular growth trends at relatively attractive prices.

In terms of positioning, the investment trends we have identified remain intact and continue into 2017. For example, demographic demand of aging populations for medical solutions and financial services remain fruitful. Labor shortages should appear in some markets owing to low birth rates and the fact that the unemployment rate in places like the U.S. and Japan is already below its long-term average. Proposed infrastructure projects will compete for labor at a time when immigrant labor will likely be turned away. In these markets, rising labor costs could become inflationary. Therefore, we expect companies to continue to automate, and we are invested in this trend through portfolio companies such as Keyence and Dassault Systemes. Separately, we also envision a continued adoption of web-based services and activity, such as e-commerce, infrastructure-as-a-service, and software-as-a-service.

Being able to maneuver in a turbulent geopolitical world will be key to our investment success in 2017. Having a cohesive and collaborative team of six veteran investment professionals will be in our favor. Managing a concentrated, conviction-weighted portfolio of approximately 40 securities in the Fund enables us to be more nimble. First and foremost, however, we benefit from owning companies which themselves can navigate challenging times. These well-capitalized businesses, which enjoy pricing power and the ability to focus their business in the most opportune places in the world, tend to maintain their margins and grow their market share as lesser competitors grapple to adapt.

Portfolio Manager:

Brian Beitner

# Chautauqua Global Growth Fund

December 31, 2016 (Unaudited)

## Portfolio Characteristics

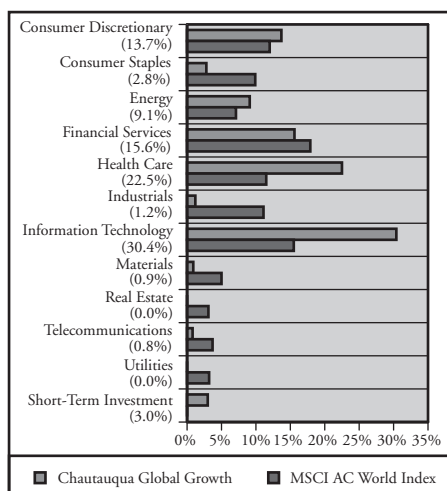
A December 31, 2016 summary of the Fund's top 10 holdings and equity sector analysis compared to the MSCI ACWI Index is shown below.

### Top 10 Holdings\*

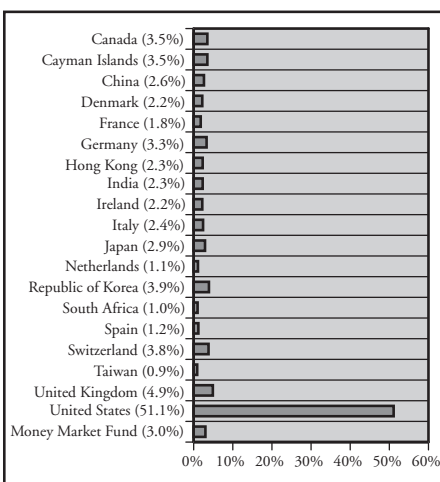
Amazon.com, Inc.	4.6%
Illumina, Inc.	4.5%
Pioneer Natural Resources Co.	4.3%
Palo Alto Networks, Inc.	3.9%
MasterCard, Inc. – Class A	3.9%
Priceline.com, Inc.	3.7%
Lululemon Athletica, Inc.	3.5%
Wirecard AG	3.3%
Julius Baer Group Ltd.	3.3%
The Charles Schwab Corp.	3.3%

<b>Net Assets:</b>	\$7,848,811
<b>Portfolio Turnover Rate:</b>	69.4%†
<b>Number of Equity Holdings:</b>	45
<b>Annualized Portfolio Expense Ratio:***</b>	
Gross	
Institutional Class:	2.36%
Investor Class:	2.61%****
Net	
Institutional Class:	0.95%
Investor Class:	1.20%****

### Equity Sector Analysis\*\*



### Country Allocation\*\*



\* 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, 2016.

\*\* Percentages shown in parentheses relate to the Fund's total market value of investments as of December 31, 2016, 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, 2018.

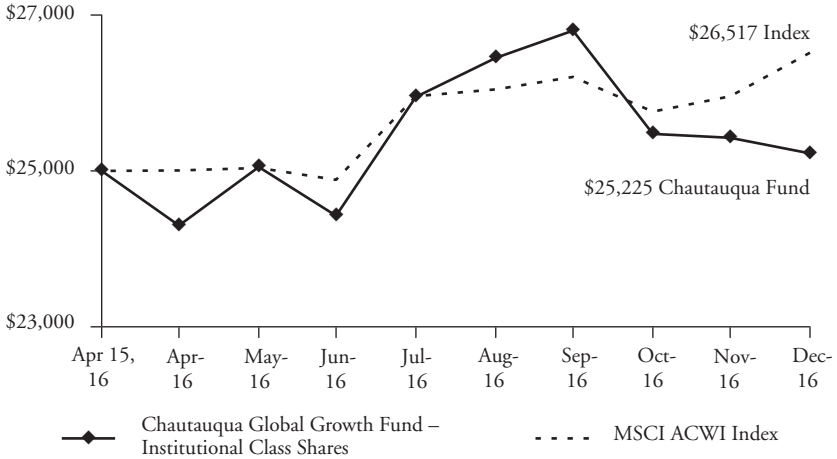
\*\*\*\* Includes 0.25% 12b-1 fee.

† Not annualized.

# Chautauqua Global Growth Fund

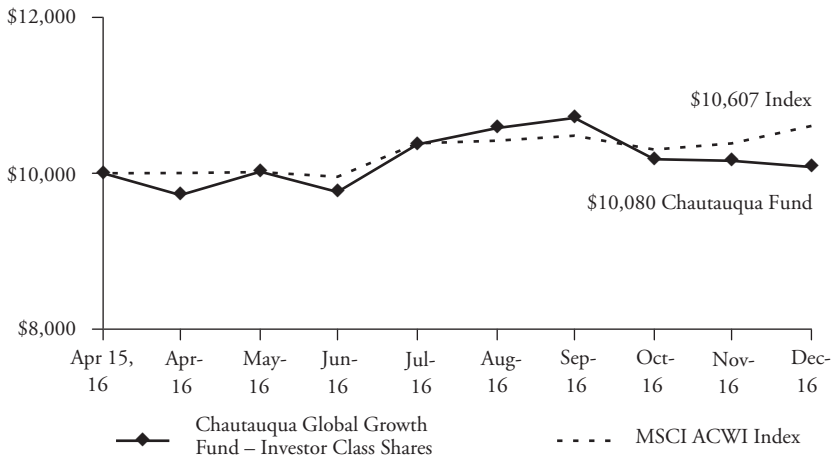
December 31, 2016 (Unaudited)

## Institutional Class Value of a \$25,000 Investment



*Growth of a hypothetical investment of \$25,000 made on the Fund's inception date (04/15/16), 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 (04/15/16), assuming reinvestment of all distributions.*



# Chautauqua Global Growth Fund

December 31, 2016 (Unaudited)

## Total Returns

<i>For the Periods Ended December 31, 2016</i>	Six Months	Since Inception <sup>(1)</sup>
Institutional Class Shares	3.28%	0.90%
Investor Class Shares	3.28%	0.80%
MSCI ACWI Index	6.55%	6.07%

- (1) For the period from April 15, 2016 (inception date) through December 31, 2016.
- (2) The MSCI ACWI Index is a market-capitalization-weighted index maintained by MSCI, Inc. and designed to provide a broad measure of stock performance throughout the world. The MSCI ACWI Index includes both developed and emerging markets. 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 both U.S. and non-U.S. stocks with medium to large market capitalizations 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. Under normal market conditions, the Fund will invest at least 40% of its total assets in non-U.S. companies. 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. In June 2016, the United Kingdom (UK) voted to leave the European Union (EU) following a referendum referred to as "Brexit." It is expected that the UK will exit the EU within two years; however, the exact timeframe for the UK's exit is unknown. There is significant market uncertainty regarding Brexit's ramifications, and the range of possible political, regulatory, economic, and market outcomes are difficult to predict. The negative impact could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Geopolitical events, including those in Ukraine and the Middle East, may cause market disruptions. The portfolio manager for the Fund has over 30 years of experience investing in the global markets and will attempt to minimize the negative impact of these events. However, it is possible that these or other geopolitical events could have an adverse effect on the value of the Fund's investments.*

*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](http://www.bairdfunds.com). Mutual fund performance changes over time and current performance may be lower or higher than that stated.*

# Chautauqua Global Growth Fund

Schedule of Investments, December 31, 2016

## Common Stocks

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Alternative Carriers</b>			
Iliad SA (France)^	333	\$ 63,952	0.8%
<b>Apparel, Accessories &amp; Luxury Goods</b>			
Lululemon Athletica, Inc. (Canada)*	4,290	278,807	3.5%
<b>Application Software</b>			
Dassault Systemes (France)^	999	76,040	1.0%
<b>Asset Management &amp; Custody Banks</b>			
Hargreaves Lansdown PLC (United Kingdom)^	14,650	217,999	2.8%
Julius Baer Group Ltd. (Switzerland)^	5,820	257,836	3.3%
		475,835	6.1%
<b>Biotechnology</b>			
Genmab A/S (Denmark)*^	463	76,697	1.0%
Regeneron Pharmaceuticals, Inc. (United States)*	639	234,570	3.0%
		311,267	4.0%
<b>Cable &amp; Satellite</b>			
Naspers Ltd. (South Africa)^	566	82,631	1.1%
<b>Communications Equipment</b>			
Palo Alto Networks, Inc. (United States)*	2,460	307,623	3.9%
<b>Computer Hardware</b>			
Apple, Inc. (United States)	880	101,922	1.3%
<b>Data Processing &amp; Outsourced Services</b>			
Wirecard AG (Germany)^	6,048	259,505	3.3%
<b>Electronic Equipment &amp; Instruments</b>			
Keyence Corp. (Japan)^	122	83,479	1.1%
<b>Health Care Equipment</b>			
Athenahealth, Inc. (United States)*	1,434	150,813	1.9%
Olympus Corp. (Japan)^	4,265	146,950	1.9%
		297,763	3.8%
<b>Health Care Services</b>			
Celgene Corp. (United States)*	1,685	195,039	2.5%
<b>Household Products</b>			
Reckitt Benckiser Group PLC (United Kingdom)^	885	74,967	1.0%
<b>Internet Retail</b>			
Amazon.com, Inc. (United States)*	481	360,688	4.6%
Ctrip.com International Ltd. – ADR (Cayman Islands)*	1,812	72,480	0.9%
Priceline.com, Inc. (United States)*	197	288,814	3.7%
		721,982	9.2%

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

# Chautauqua Global Growth Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<i>Shares</i>	<i>Value</i>	<i>% of Net Assets</i>
<b>Internet Software &amp; Services</b>			
Alphabet, Inc. – Class A (United States)*	261	\$ 206,829	2.6%
NAVER Corp. (Republic of Korea)^	254	162,656	2.1%
Salesforce.com, Inc. (United States)*	2,618	179,228	2.3%
Tencent Holdings Ltd. (Cayman Islands)^	3,022	73,275	0.9%
		621,988	7.9%
<b>IT Consulting &amp; Other Services</b>			
Alibaba Group Holding Ltd. – ADR (Cayman Islands)*	1,461	128,290	1.6%
MasterCard, Inc. – Class A (United States)	2,971	306,756	3.9%
		435,046	5.5%
<b>Life &amp; Health Insurance</b>			
AIA Group Ltd. (Hong Kong)^	31,985	179,175	2.3%
<b>Life Sciences Tools &amp; Services</b>			
Illumina, Inc. (United States)*	2,762	353,646	4.5%
<b>Oil &amp; Gas Exploration &amp; Production</b>			
Antero Resources Corp. (United States)*	8,012	189,484	2.4%
Eni SpA (Italy)^	11,791	191,145	2.4%
Pioneer Natural Resources Co. (United States)	1,848	332,770	4.3%
		713,399	9.1%
<b>Other Diversified Financial Services</b>			
The Charles Schwab Corp. (United States)	6,503	256,673	3.3%
<b>Personal Products</b>			
Amorepacific Corp. (Republic of Korea)^	558	148,308	1.9%
<b>Pharmaceuticals</b>			
Allergan PLC (Ireland)*	822	172,628	2.2%
Grifols SA – ADR (Spain)	6,036	96,999	1.2%
Novo Nordisk A/S – ADR (Denmark)	2,612	93,666	1.2%
Roche Holding AG (Switzerland)^	204	46,502	0.6%
Sinopharm Group Co. Ltd. (China)^	51,385	210,594	2.7%
		620,389	7.9%
<b>Regional Banks</b>			
HDFC Bank Ltd – ADR (India)	2,973	180,402	2.3%
SVB Financial Group (United States)*	823	141,276	1.8%
		321,678	4.1%
<b>Research &amp; Consulting Services</b>			
Nielsen Holdings PLC (United Kingdom)	2,269	95,185	1.2%
<b>Semiconductor Equipment</b>			
ASML Holding NV (Netherlands)	767	86,057	1.1%
NVIDIA Corp. (United States)	1,180	125,954	1.6%
		212,011	2.7%

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

# Chautauqua Global Growth Fund

Schedule of Investments, December 31, 2016

## Common Stocks (cont.)

	<u>Shares</u>	<u>Value</u>	<u>% of Net Assets</u>
<b>Semiconductors</b>			
Taiwan Semiconductor Manufacturing Co. Ltd. – ADR (Taiwan)	2,579	\$ 74,146	0.9%
<b>Specialty Chemicals</b>			
The Sherwin-Williams Co. (United States)	264	70,947	0.9%
<b>Systems Software</b>			
Adobe Systems, Inc. (United States)*	2,248	231,432	2.9%
<b>Total Common Stocks</b> (Cost \$7,481,097)		7,664,835	97.7%

## Short-Term Investment

### Money Market Mutual Fund

Fidelity Institutional Money Market Fund – Government Portfolio, Institutional Class, 0.43%«	236,788	236,788	3.0%
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### Total Short-Term Investment

(Cost \$236,788)		236,788	3.0%
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### Total Investments

(Cost \$7,717,885)		7,901,623	100.7%
Liabilities in Excess of Other Assets		(52,812)	(0.7)%

### TOTAL NET ASSETS

		\$7,848,811	100.0%
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## Notes to Schedule of Investments

\* Non-Income Producing

^ Fair Valued Security – See Note 2a to Financial Statements

« 7-Day Yield

ADR – American Depositary Receipt

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

# Chautauqua Global Growth Fund

Schedule of Investments, December 31, 2016

## Summary of Fair Value Exposure at December 31, 2016

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Equity</b>				
Common Stocks	\$5,313,124	\$2,351,711	\$ —	\$7,664,835
<b>Total Equity</b>	5,313,124	2,351,711	—	7,664,835
<b>Short-Term Investment</b>				
Money Market Mutual Fund	236,788	—	—	236,788
<b>Total Short-Term Investment</b>	236,788	—	—	236,788
<b>Total Investments*</b>	<u>\$5,549,912</u>	<u>\$2,351,711</u>	<u>\$ —</u>	<u>\$7,901,623</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.*

# Additional Information on Fund Expenses

December 31, 2016 (Unaudited)

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## 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 (7/1/16 – 12/31/16).

## 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, 2016 (Unaudited)

## Actual vs. Hypothetical Returns

For the Six Months Ended December 31, 2016

	Fund's Annualized Expense Ratio <sup>(1)</sup>	Beginning Account Value 7/1/16	Actual		Hypothetical (5% return before expenses)	
			Ending Account Value 12/31/16	Expenses Paid During Period <sup>(1)</sup>	Ending Account Value 12/31/16	Expenses Paid During Period <sup>(1)</sup>
<b>Baird LargeCap Fund</b>						
Institutional Class	0.75%	\$1,000.00	\$1,144.30	\$4.04	\$1,021.37	\$3.81
Investor Class	1.00%	\$1,000.00	\$1,142.90	\$5.39	\$1,020.11	\$5.08
<b>Baird MidCap Fund</b>						
Institutional Class	0.82%	\$1,000.00	\$1,027.30	\$4.18	\$1,021.01	\$4.17
Investor Class	1.07%	\$1,000.00	\$1,025.80	\$5.45	\$1,019.76	\$5.43
<b>Baird Small/Mid Cap Value Fund</b>						
Institutional Class	0.95%	\$1,000.00	\$1,046.20	\$4.89	\$1,020.36	\$4.82
Investor Class	1.20%	\$1,000.00	\$1,044.70	\$6.17	\$1,019.10	\$6.09
<b>Baird SmallCap Value Fund</b>						
Institutional Class	1.00%	\$1,000.00	\$1,085.30	\$5.24	\$1,020.11	\$5.08
Investor Class	1.25%	\$1,000.00	\$1,084.10	\$6.55	\$1,018.85	\$6.34
<b>Chautauqua International Growth Fund</b>						
Institutional Class	0.95%	\$1,000.00	\$ 972.60	\$4.71	\$1,020.36	\$4.82
Investor Class	1.20%	\$1,000.00	\$ 972.50	\$5.95	\$1,019.10	\$6.09
<b>Chautauqua Global Growth Fund</b>						
Institutional Class	0.95%	\$1,000.00	\$1,032.80	\$4.85	\$1,020.36	\$4.82
Investor Class	1.20%	\$1,000.00	\$1,032.80	\$6.13	\$1,019.10	\$6.09

(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 366 to reflect the one-half year period.

# Statements of Assets and Liabilities

December 31, 2016

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund
<b>ASSETS:</b>			
Investments, at value (cost \$34,566,436, \$1,055,857,941 and \$10,957,747, respectively)	\$39,553,176	\$1,248,072,888	\$11,967,615
Dividends receivable	38,506	366,061	25,755
Interest receivable	438	10,785	110
Receivable for Fund shares sold	8,692	2,654,540	—
Receivable from Advisor and Distributor	—	—	3,965
Prepaid expenses and other assets	8,620	6,775	1,380
Total assets	<u>39,609,432</u>	<u>1,251,111,049</u>	<u>11,998,825</u>
<b>LIABILITIES:</b>			
Payable for securities purchased	—	5,497,872	—
Payable for Fund shares repurchased	—	2,329,793	2,693
Payable to Advisor and Distributor	9,892	863,957	—
Payable to directors	1,418	252	3,341
Accrued expenses and other liabilities	39,760	191,266	25,813
Total liabilities	<u>51,070</u>	<u>8,883,140</u>	<u>31,847</u>
<b>NET ASSETS</b>	<u>\$39,558,362</u>	<u>\$1,242,227,909</u>	<u>\$11,966,978</u>
<b>NET ASSETS CONSIST OF:</b>			
Capital stock	\$35,209,188	\$1,113,872,603	\$11,395,210
Accumulated undistributed net investment income	1,961	—	2,542
Accumulated net realized loss on investments sold and foreign currency translations	(639,527)	(63,859,641)	(440,642)
Net unrealized appreciation on Investments	4,986,740	192,214,947	1,009,868
<b>NET ASSETS</b>	<u>\$39,558,362</u>	<u>\$1,242,227,909</u>	<u>\$11,966,978</u>
<b>INSTITUTIONAL CLASS SHARES</b>			
Net Assets	\$38,824,525	\$1,105,051,533	\$11,913,771
Shares outstanding (\$0.01 par value, unlimited shares authorized)	4,353,587	69,960,995	1,157,769
Net asset value, offering and redemption price per share	<u>\$ 8.92</u>	<u>\$ 15.80</u>	<u>\$ 10.29</u>
<b>INVESTOR CLASS SHARES</b>			
Net Assets	\$ 733,837	\$ 137,176,376	\$ 53,207
Shares outstanding (\$0.01 par value, unlimited shares authorized)	82,406	9,085,850	5,176
Net asset value, offering and redemption price per share	<u>\$ 8.91</u>	<u>\$ 15.10</u>	<u>\$ 10.28</u>

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



# Statements of Assets and Liabilities

December 31, 2016

	Baird SmallCap Value Fund	Chautauqua International Growth Fund	Chautauqua Global Growth Fund
<b>ASSETS:</b>			
Investments, at value (cost \$24,521,977, \$15,387,198 and \$7,717,885, respectively)	\$30,845,773	\$15,035,754	\$7,901,623
Foreign Currency, at value (Cost \$0, \$17,881 and \$6,466, respectively)	—	17,881	6,461
Dividends receivable	81,639	2,613	1,086
Interest receivable	470	220	88
Receivable for investments sold	—	205,229	25,488
Receivable for Fund shares sold	375	17,519	14,000
Receivable from Advisor and Distributor	—	—	5,719
Prepaid expenses and other assets	5,847	14,918	14,433
Total assets	<u>30,934,104</u>	<u>15,294,134</u>	<u>7,968,898</u>
<b>LIABILITIES:</b>			
Payable for securities purchased	—	111,625	95,161
Payable for Fund shares repurchased	39,504	—	—
Payable to Advisor and Distributor	13,952	501	—
Payable to directors	226	40	80
Accrued expenses and other liabilities	31,527	24,666	24,846
Total liabilities	<u>85,209</u>	<u>136,832</u>	<u>120,087</u>
<b>NET ASSETS</b>	<u>\$30,848,895</u>	<u>\$15,157,302</u>	<u>\$7,848,811</u>
<b>NET ASSETS CONSIST OF:</b>			
Capital stock	\$24,865,456	\$15,696,193	\$7,784,095
Accumulated undistributed net investment income (loss)	4,079	(3,823)	(1,827)
Accumulated net realized loss on investments sold and foreign currency translations	(344,436)	(183,509)	(117,306)
Net unrealized appreciation/depreciation on:			
Investments	6,323,796	(351,444)	183,738
Foreign currency and other assets denominated in foreign currency	—	(115)	111
<b>NET ASSETS</b>	<u>\$30,848,895</u>	<u>\$15,157,302</u>	<u>\$7,848,811</u>
<b>INSTITUTIONAL CLASS SHARES</b>			
Net Assets	\$28,224,772	\$14,846,274	\$7,647,384
Shares outstanding (\$0.01 par value, unlimited shares authorized)	1,903,267	1,551,673	757,695
Net asset value, offering and redemption price per share	<u>\$ 14.83</u>	<u>\$ 9.57</u>	<u>\$ 10.09</u>
<b>INVESTOR CLASS SHARES</b>			
Net Assets	\$ 2,624,123	\$ 311,028	\$ 201,427
Shares outstanding (\$0.01 par value, unlimited shares authorized)	177,163	32,548	19,989
Net asset value, offering and redemption price per share	<u>\$ 14.81</u>	<u>\$ 9.56</u>	<u>\$ 10.08</u>

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

# Statements of Operations

Year Ended December 31, 2016

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund
<b>INVESTMENT INCOME:</b>			
Dividends (net of foreign taxes withheld of \$0, \$14,938 and \$0, respectively)	\$ 819,558	\$ 8,383,983	\$ 171,280
Interest	4,920	162,568	1,852
Other income	270	9,633	71
Total investment income	<u>824,748</u>	<u>8,556,184</u>	<u>173,203</u>
<b>EXPENSES:</b>			
Investment advisory fees	237,238	9,422,877	65,277
Administration fees	7,372	88,987	6,612
Shareholder servicing fees	16,740	555,062	6,812
Fund accounting fees	13,301	57,265	14,302
Professional fees	35,191	33,466	31,685
Federal and state registration	43,080	65,221	52,111
Directors fees	47,987	47,712	46,104
Custody fees	6,451	23,219	5,856
Reports to shareholders	4,117	54,124	4,574
Miscellaneous expenses	508	2,456	508
Distribution expense – Investor Class Shares (Note 8)	1,520	352,484	73
Total expenses	<u>413,505</u>	<u>10,702,873</u>	<u>233,914</u>
Fee waiver by Advisor (Note 5)	<u>(138,150)</u>	<u>—</u>	<u>(156,332)</u>
Net expenses	<u>275,355</u>	<u>10,702,873</u>	<u>77,582</u>
<b>NET INVESTMENT INCOME (LOSS)</b>	<u>549,393</u>	<u>(2,146,689)</u>	<u>95,621</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>			
Net realized gain (loss) on investments	12,664	(20,374,537)	(404,287)
Net realized loss on foreign currency translations	(6)	—	—
Change in unrealized appreciation on investments	4,113,578	85,885,944	1,204,570
Net realized and unrealized gain on investments	<u>4,126,236</u>	<u>65,511,407</u>	<u>800,283</u>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$4,675,629</u>	<u>\$ 63,364,718</u>	<u>\$ 895,904</u>

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

# Statements of Operations

Year Ended December 31, 2016

	Baird SmallCap Value Fund	Chautauqua International Growth Fund <sup>^</sup>	Chautauqua Global Growth Fund <sup>^</sup>
<b>INVESTMENT INCOME:</b>			
Dividends (of foreign taxes withheld of \$0, \$5,359 and \$1,888, respectively)	\$ 610,302	\$ 68,607	\$ 29,092
Interest	7,618	1,643	705
Other income	1,112	92	20
Total investment income	<u>619,032</u>	<u>70,342</u>	<u>29,817</u>
<b>EXPENSES:</b>			
Investment advisory fees	227,641	55,799	30,276
Administration fees	4,762	1,906	1,864
Shareholder servicing fees	15,656	11,305	10,469
Fund accounting fees	13,469	9,850	9,758
Professional fees	28,957	15,304	15,204
Federal and state registration	38,854	29,402	30,467
Directors fees	47,614	23,304	23,344
Custody fees	4,672	13,900	15,038
Reports to shareholders	2,050	580	1,180
Miscellaneous expenses	447	361	469
Interest Expense (Note 7)	—	—	38
Distribution expense – Investor Class Shares (Note 8)	5,430	211	269
Total expenses	<u>389,552</u>	<u>161,922</u>	<u>138,376</u>
Fee waiver by Advisor (Note 5)	(116,311)	(95,476)	(102,142)
Net expenses	<u>273,241</u>	<u>66,446</u>	<u>36,234</u>
<b>NET INVESTMENT INCOME (LOSS)</b>	<u>345,791</u>	<u>3,896</u>	<u>(6,417)</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>			
Net realized gain (loss) on investments	406,537	(206,808)	(126,573)
Net realized gain on foreign currency translations	—	333	47
Change in unrealized appreciation/depreciation on investments	<u>3,244,223</u>	<u>(351,559)</u>	<u>183,849</u>
Net realized and unrealized gain (loss) on investments	<u>3,650,760</u>	<u>(558,034)</u>	<u>57,323</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$3,996,551</u>	<u>\$(554,138)</u>	<u>\$ 50,906</u>

<sup>^</sup> Inception of the Chautauqua International Growth Fund and the Chautauqua Global Growth Fund was the close of business on April 15, 2016.

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

# Statement of Changes in Net Assets

## Baird LargeCap Fund

	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>OPERATIONS:</b>		
Net investment income	\$ 549,393	\$ 467,691
Net realized gain on investments	12,664	1,215,765
Net realized loss on foreign currency translations	(6)	—
Change in unrealized appreciation/depreciation on investments	<u>4,113,578</u>	<u>(3,284,296)</u>
Net increase (decrease) in net assets resulting from operations	<u>4,675,629</u>	<u>(1,600,840)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from shares sold	4,634,043	7,717,424
Shares issued to holders in reinvestment of distributions	560,003	2,431,224
Cost of shares redeemed	<u>(6,000,917)</u>	<u>(10,040,992)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>(806,871)</u>	<u>107,656</u>
<b>DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:</b>		
From net investment income	(555,559)	(469,154)
From net realized gains	<u>—</u>	<u>(1,918,299)</u>
Total Distributions	<u>(555,559)</u>	<u>(2,387,453)</u>
<b>DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:</b>		
From net investment income	(5,808)	(6,047)
From net realized gains	<u>—</u>	<u>(37,847)</u>
Total Distributions	<u>(5,808)</u>	<u>(43,894)</u>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>3,307,391</b>	<b>(3,924,531)</b>
<b>NET ASSETS:</b>		
Beginning of year	<u>36,250,971</u>	<u>40,175,502</u>
End of year (including distributions in excess of net investment income of \$1,961 and \$0, respectively)	<u>\$39,558,362</u>	<u>\$ 36,250,971</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, 2016	Year Ended December 31, 2015
<b>OPERATIONS:</b>		
Net investment loss	\$ (2,146,689)	\$ (2,768,264)
Net realized loss on investments	(20,374,537)	(27,744,335)
Change in unrealized appreciation/depreciation on investments	<u>85,885,944</u>	<u>(22,515,811)</u>
Net increase (decrease) in net assets resulting from operations	<u>63,364,718</u>	<u>(53,028,410)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from shares sold	439,643,509	449,697,294
Shares issued to holders in reinvestment of distributions	—	1,614,082
Cost of shares redeemed	<u>(479,905,649)</u>	<u>(293,658,295)</u>
Net increase (decrease) in net assets resulting from capital share transactions	<u>(40,262,140)</u>	<u>157,653,081</u>
<b>DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:</b>		
From net realized gains	—	(1,484,630)
Total Distributions	<u>—</u>	<u>(1,484,630)</u>
<b>DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:</b>		
From net realized gains	—	(278,941)
Total Distributions	<u>—</u>	<u>(278,941)</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	<b>23,102,578</b>	<b>102,861,100</b>
<b>NET ASSETS:</b>		
Beginning of year	1,219,125,331	1,116,264,231
End of year	<u>\$1,242,227,909</u>	<u>\$1,219,125,331</u>

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

# Statement of Changes in Net Assets

Baird Small/Mid Cap Value Fund

	Year Ended December 31, 2016	November 30, 2015 <sup>^</sup> through December 31, 2015
<b>OPERATIONS:</b>		
Net investment income	\$ 95,621	\$ 7,703
Net realized loss on investments	(404,287)	(39,584)
Change in unrealized appreciation/depreciation on investments	<u>1,204,570</u>	<u>(194,702)</u>
Net increase (decrease) in net assets resulting from operations	<u>895,904</u>	<u>(226,583)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from shares sold	6,833,697	4,960,000
Shares issued to holders in reinvestment of distributions	79,329	7,184
Cost of shares redeemed	<u>(485,000)</u>	<u>—</u>
Net increase in net assets resulting from capital share transactions	<u>6,428,026</u>	<u>4,967,184</u>
<b>DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:</b>		
From net investment income	<u>(90,044)</u>	<u>(7,158)</u>
Total Distributions	<u>(90,044)</u>	<u>(7,158)</u>
<b>DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:</b>		
From net investment income	<u>(325)</u>	<u>(26)</u>
Total Distributions	<u>(325)</u>	<u>(26)</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	<b>7,233,561</b>	<b>4,733,417</b>
<b>NET ASSETS:</b>		
Beginning of period	<u>4,733,417</u>	<u>—</u>
End of period (including accumulated undistributed net investment income of \$2,542 and \$289, respectively)	<u>\$11,966,978</u>	<u>\$4,733,417</u>

<sup>^</sup> 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, 2016	Year Ended December 31, 2015
<b>OPERATIONS:</b>		
Net investment income	\$ 345,791	\$ 186,109
Net realized gain (loss) on investments	406,537	(676,064)
Change in unrealized appreciation/depreciation on investments	<u>3,244,223</u>	<u>(826,483)</u>
Net increase (decrease) in net assets resulting from operations	<u>3,996,551</u>	<u>(1,316,438)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from shares sold	5,035,886	5,084,558
Shares issued to holders in reinvestment of distributions	287,392	133,162
Cost of shares redeemed	<u>(3,257,446)</u>	<u>(4,171,336)</u>
Net increase in net assets resulting from capital share transactions	<u>2,065,832</u>	<u>1,046,384</u>
<b>DISTRIBUTIONS TO INSTITUTIONAL CLASS SHAREHOLDERS:</b>		
From net investment income	<u>(321,015)</u>	<u>(148,738)</u>
Total Distributions	<u>(321,015)</u>	<u>(148,738)</u>
<b>DISTRIBUTIONS TO INVESTOR CLASS SHAREHOLDERS:</b>		
From net investment income	<u>(19,041)</u>	<u>(8,071)</u>
Total Distributions	<u>(19,041)</u>	<u>(8,071)</u>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>5,722,327</b>	<b>(426,863)</b>
<b>NET ASSETS:</b>		
Beginning of year	<u>25,126,568</u>	<u>25,553,431</u>
End of year (including accumulated undistributed net investment income of \$4,079 and \$7,487, respectively)	<u>\$30,848,895</u>	<u>\$25,126,568</u>

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

# Statement of Changes in Net Assets

## Chautauqua International Growth Fund

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>OPERATIONS:</b>	
Net investment income	\$ 3,896
Net realized loss on investments	(206,808)
Net realized gain on foreign currency translations	333
Change in unrealized depreciation on investments and foreign currency translations	<u>(351,559)</u>
Net decrease in net assets resulting from operations	<u>(554,138)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>	
Proceeds from shares sold	16,146,048
Cost of shares redeemed	(436,323)
Redemption Fees	<u>1,715</u>
Net increase in net assets resulting from capital share transactions	<u>15,711,440</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	<b>15,157,302</b>
<b>NET ASSETS:</b>	
Beginning of period	<u>—</u>
End of period (including accumulated net investment loss of \$(3,823))	<u>\$15,157,302</u>

<sup>^</sup> Inception was the close of business on April 15, 2016.

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



# Statement of Changes in Net Assets

## Chautauqua Global Growth Fund

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>OPERATIONS:</b>	
Net investment loss	\$ (6,417)
Net realized loss on investments	(126,573)
Net realized gain on foreign currency translations	47
Change in unrealized depreciation on investments and foreign currency translations	183,849
Net increase in net assets resulting from operations	<u>50,906</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>	
Proceeds from shares sold	8,917,355
Cost of shares redeemed	(1,119,965)
Redemption Fees	515
Net increase in net assets resulting from capital share transactions	<u>7,797,905</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	<b>7,848,811</b>
<b>NET ASSETS:</b>	
Beginning of period	—
End of period (including accumulated net investment loss of \$(1,827))	<u>\$ 7,848,811</u>

<sup>^</sup> Inception was the close of business on April 15, 2016.

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

# Financial Highlights

## Baird LargeCap Fund – Institutional Class

	Year Ended December 31,				
	2016 <sup>(1)</sup>	2015	2014	2013 <sup>(1)</sup>	2012
<b>Per Share Data:</b>					
Net asset value, beginning of year	\$ 8.01	\$ 8.93	\$ 7.92	\$ 9.86	\$ 8.71
<b>Income from investment operations:</b>					
Net investment income <sup>(2)</sup>	0.12	0.10	0.09	0.03	0.04
Net realized and unrealized gains (losses) on investments	0.92	(0.45)	1.10	3.16	1.15
Total from investment operations	1.04	(0.35)	1.19	3.19	1.19
<b>Less distributions:</b>					
Distributions from net investment income	(0.13)	(0.11)	(0.08)	(0.04)	(0.04)
Distributions from net realized gains	—	(0.46)	(0.10)	(5.09)	—
Total distributions	(0.13)	(0.57)	(0.18)	(5.13)	(0.04)
<b>Net asset value, end of year</b>	<b>\$ 8.92</b>	<b>\$ 8.01</b>	<b>\$ 8.93</b>	<b>\$ 7.92</b>	<b>\$ 9.86</b>
<b>Total return</b>	12.94%	(3.94)%	15.09%	32.68%	13.62%
<b>Supplemental data and ratios:</b>					
Net assets, end of year (millions)	\$38.8	\$35.6	\$39.0	\$28.0	\$24.0
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)	1.13%	1.11%	1.17%	1.24%	1.34%
Ratio of net investment income to average net assets	1.51%	1.18%	1.08%	0.28%	0.37%
Ratio of net investment income (loss) to average net assets (before waivers)	1.13%	0.82%	0.66%	(0.21)%	(0.22)%
Portfolio turnover rate <sup>(3)</sup>	85.0%	86.5%	88.2%	127.7%	39.2%

(1) Effective April 30, 2016, L2 Asset Management, LLC (“L2”) became the Fund’s subadvisor. L2 replaced Baird Kailash Group, LLC, which was the Fund’s subadvisor from December 23, 2013 until April 30, 2016. The Fund was managed by the Fund’s Advisor from the Fund’s inception date until December 23, 2013.

(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 then-existing subadvisor.

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

# Financial Highlights

## Baird LargeCap Fund – Investor Class

	Year Ended December 31,				
	2016 <sup>(1)</sup>	2015	2014	2013 <sup>(1)</sup>	2012
<b>Per Share Data:</b>					
Net asset value, beginning of year	\$ 7.97	\$ 8.87	\$ 7.87	\$ 9.82	\$ 8.68
<b>Income from investment operations:</b>					
Net investment income <sup>(2)</sup>	0.10	0.08	0.05	0.00 <sup>(3)</sup>	0.01
Net realized and unrealized gains (losses) on investments	0.91	(0.45)	1.12	3.14	1.15
Total from investment operations	1.01	(0.37)	1.17	3.14	1.16
<b>Less distributions:</b>					
Distributions from net investment income	(0.07)	(0.07)	(0.07)	—	(0.02)
Distributions from net realized gains	—	(0.46)	(0.10)	(5.09)	—
Total distributions	(0.07)	(0.53)	(0.17)	(5.09)	(0.02)
<b>Net asset value, end of year</b>	<b>\$ 8.91</b>	<b>\$ 7.97</b>	<b>\$ 8.87</b>	<b>\$ 7.87</b>	<b>\$ 9.82</b>
<b>Total return</b>	12.67%	(4.18)%	14.89%	32.34%	13.32%
<b>Supplemental data and ratios:</b>					
Net assets, end of year (millions)	\$0.7	\$0.6	\$1.2	\$0.2	\$0.4
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)	1.38%	1.36%	1.42%	1.49%	1.59%
Ratio of net investment income to average net assets	1.26%	0.93%	0.83%	0.03%	0.12%
Ratio of net investment income (loss) to average net assets (before waivers)	0.88%	0.57%	0.41%	(0.46)%	(0.47)%
Portfolio turnover rate <sup>(4)</sup>	85.0%	86.5%	88.2%	127.7%	39.2%

(1) Effective April 30, 2016, L2 Asset Management, LLC (“L2”) became the Fund’s subadvisor. L2 replaced Baird Kailash Group, LLC, which was the Fund’s subadvisor from December 23, 2013 until April 30, 2016. The Fund was managed by the Fund’s Advisor from the Fund’s inception date until December 23, 2013.

(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 then-existing subadvisor.

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

# Financial Highlights

## Baird MidCap Fund – Institutional Class

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Per Share Data:</b>					
Net asset value, beginning of year	<u>\$14.99</u>	<u>\$15.57</u>	<u>\$15.00</u>	<u>\$11.52</u>	<u>\$ 9.98</u>
<b>Income from investment operations:</b>					
Net investment income (loss)	(0.02) <sup>(1)</sup>	(0.03) <sup>(1)</sup>	(0.03) <sup>(1)</sup>	(0.01)	0.07 <sup>(1)</sup>
Net realized and unrealized gains (losses) on investments	<u>0.83</u>	<u>(0.53)</u>	<u>0.76</u>	<u>3.80</u>	<u>1.57</u>
Total from investment operations	<u>0.81</u>	<u>(0.56)</u>	<u>0.73</u>	<u>3.79</u>	<u>1.64</u>
<b>Less distributions:</b>					
Distributions from net investment income	—	—	—	—	(0.04)
Distributions from net realized gains	—	(0.02)	(0.16)	(0.31)	(0.06)
Total distributions	—	(0.02)	(0.16)	(0.31)	(0.10)
<b>Net asset value, end of year</b>	<u><b>\$15.80</b></u>	<u><b>\$14.99</b></u>	<u><b>\$15.57</b></u>	<u><b>\$15.00</b></u>	<u><b>\$11.52</b></u>
<b>Total return</b>	5.40%	(3.59)%	4.85%	32.90%	16.49%
<b>Supplemental data and ratios:</b>					
Net assets, end of year (millions)	\$1,105.1	\$1,035.0	\$910.9	\$286.1	\$137.2
Ratio of expenses to average net assets	0.82%	0.80%	0.85%	0.85%	0.85%
Ratio of expenses to average net assets (before waivers)	0.82%	0.80%	0.87%	0.87%	0.97%
Ratio of net investment income (loss) to average net assets	(0.14)%	(0.18)%	(0.17)%	(0.04)%	0.65%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.14)%	(0.18)%	(0.19)%	(0.06)%	0.53%
Portfolio turnover rate <sup>(2)</sup>	57.2%	52.8%	37.3%	36.3%	29.5%

(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,				
	2016	2015	2014	2013	2012
<b>Per Share Data:</b>					
Net asset value, beginning of year	<u>\$14.36</u>	<u>\$14.96</u>	<u>\$14.45</u>	<u>\$11.13</u>	<u>\$ 9.66</u>
<b>Income from investment operations:</b>					
Net investment income (loss)	(0.06) <sup>(1)</sup>	(0.06) <sup>(1)</sup>	(0.06) <sup>(1)</sup>	(0.03)	0.04 <sup>(1)</sup>
Net realized and unrealized gains (losses) on investments	<u>0.80</u>	<u>(0.52)</u>	<u>0.73</u>	<u>3.66</u>	<u>1.52</u>
Total from investment operations	<u>0.74</u>	<u>(0.58)</u>	<u>0.67</u>	<u>3.63</u>	<u>1.56</u>
<b>Less distributions:</b>					
Distributions from net investment income	—	—	—	—	(0.03)
Distributions from net realized gains	—	(0.02)	(0.16)	(0.31)	(0.06)
Total distributions	—	(0.02)	(0.16)	(0.31)	(0.09)
<b>Net asset value, end of year</b>	<u><b>\$15.10</b></u>	<u><b>\$14.36</b></u>	<u><b>\$14.96</b></u>	<u><b>\$14.45</b></u>	<u><b>\$11.13</b></u>
<b>Total return</b>	5.08%	(3.80)%	4.62%	32.62%	16.16%
<b>Supplemental data and ratios:</b>					
Net assets, end of year (millions)	\$137.2	\$184.1	\$205.4	\$143.1	\$84.1
Ratio of expenses to average net assets	1.07%	1.05%	1.10%	1.10%	1.10%
Ratio of expenses to average net assets (before waivers)	1.07%	1.05%	1.12%	1.12%	1.22%
Ratio of net investment income (loss) to average net assets	(0.39)%	(0.43)%	(0.42)%	(0.29)%	0.40%
Ratio of net investment income (loss) to average net assets (before waivers)	(0.39)%	(0.43)%	(0.44)%	(0.31)%	0.28%
Portfolio turnover rate <sup>(2)</sup>	57.2%	52.8%	37.3%	36.3%	29.5%

(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

	Year Ended December 31, 2016	November 30, 2015 <sup>^</sup> through December 31, 2015
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 9.52	\$10.00
<b>Income from investment operations:</b>		
Net investment income <sup>(1)</sup>	0.13	0.02
Net realized and unrealized gains (losses) on investments	0.72	(0.49)
Total from investment operations	0.85	(0.47)
<b>Less distributions:</b>		
Distributions from net investment income	(0.08)	(0.01)
Total distributions	(0.08)	(0.01)
<b>Net asset value, end of period</b>	<b>\$10.29</b>	<b>\$ 9.52</b>
<b>Total return</b>	<b>8.91%</b>	<b>(4.66)%<sup>(2)</sup></b>
<b>Supplemental data and ratios:</b>		
Net assets, end of period (millions)	\$11.9	\$4.7
Ratio of expenses to average net assets	0.95%	0.95% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	2.86%	6.88% <sup>(3)</sup>
Ratio of net investment income to average net assets	1.35%	1.96% <sup>(3)</sup>
Ratio of net investment loss to average net assets (before waivers)	(0.56)%	(3.97)% <sup>(3)</sup>
Portfolio turnover rate <sup>(4)</sup>	38.3%	14.7% <sup>(2)</sup>

<sup>^</sup> 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

	Year Ended December 31, 2016	November 30, 2015 <sup>^</sup> through December 31, 2015
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 9.52	\$10.00
<b>Income from investment operations:</b>		
Net investment income <sup>(1)</sup>	0.11	0.01
Net realized and unrealized gains (losses) on investments	0.71	(0.48)
Total from investment operations	0.82	(0.47)
<b>Less distributions:</b>		
Distributions from net investment income	(0.06)	(0.01)
Total distributions	(0.06)	(0.01)
<b>Net asset value, end of period</b>	<b>\$10.28</b>	<b>\$ 9.52</b>
<b>Total return</b>	<b>8.64%</b>	<b>(4.67)%<sup>(2)</sup></b>
<b>Supplemental data and ratios:</b>		
Net assets, end of period (thousands)	\$53.2	\$19.0
Ratio of expenses to average net assets	1.20%	1.20% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	3.11%	7.13% <sup>(3)</sup>
Ratio of net investment income to average net assets	1.10%	1.71% <sup>(3)</sup>
Ratio of net investment loss to average net assets (before waivers)	(0.81)%	(4.22)% <sup>(3)</sup>
Portfolio turnover rate <sup>(4)</sup>	38.3%	14.7% <sup>(2)</sup>

<sup>^</sup> 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 <sup>^</sup> through December 31,	
	2016	2015	2014	2013	2012
<b>Per Share Data:</b>					
Net asset value, beginning of period	\$13.03	\$13.82	\$14.01	\$10.20	\$10.00
<b>Income from investment operations:</b>					
Net investment income <sup>(1)</sup>	0.21	0.11	0.05	0.07	0.15
Net realized and unrealized gains (losses) on investments	1.76	(0.82)	0.01	3.99	0.20
Total from investment operations	1.97	(0.71)	0.06	4.06	0.35
<b>Less distributions:</b>					
Distributions from net investment income	(0.17)	(0.08)	(0.05)	(0.05)	(0.12)
Distributions from net realized gains	—	—	(0.20)	(0.20)	(0.03)
Total distributions	(0.17)	(0.08)	(0.25)	(0.25)	(0.15)
<b>Net asset value, end of period</b>	<b>\$14.83</b>	<b>\$13.03</b>	<b>\$13.82</b>	<b>\$14.01</b>	<b>\$10.20</b>
<b>Total return</b>	15.11%	(5.11)%	0.42%	39.85%	3.52% <sup>(2)</sup>
<b>Supplemental data and ratios:</b>					
Net assets, end of period (millions)	\$28.2	\$23.1	\$23.5	\$19.0	\$8.1
Ratio of expenses to average net assets	1.00%	1.00%	1.00%	1.00%	1.00% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	1.43%	1.51%	1.55%	2.02%	3.06% <sup>(3)</sup>
Ratio of net investment income to average net assets	1.58%	0.79%	0.36%	0.71%	2.32% <sup>(3)</sup>
Ratio of net investment income (loss) to average net assets (before waivers)	1.15%	0.28%	(0.19)%	(0.31)%	0.26% <sup>(3)</sup>
Portfolio turnover rate <sup>(4)</sup>	48.9%	42.1%	41.9%	36.9%	24.6% <sup>(2)</sup>

<sup>^</sup> 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 <sup>^</sup> through December 31, 2012
	2016	2015	2014	2013	
<b>Per Share Data:</b>					
Net asset value, beginning of period	\$12.99	\$13.78	\$13.98	\$10.19	\$10.00
<b>Income from investment operations:</b>					
Net investment income <sup>(1)</sup>	0.18	0.07	0.02	0.04	0.14
Net realized and unrealized gains (losses) on investments	1.75	(0.81)	0.00 <sup>(2)</sup>	3.99	0.19
Total from investment operations	1.93	(0.74)	0.02	4.03	0.33
<b>Less distributions:</b>					
Distributions from net investment income	(0.11)	(0.05)	(0.02)	(0.04)	(0.11)
Distributions from net realized gains	—	—	(0.20)	(0.20)	(0.03)
Total distributions	(0.11)	(0.05)	(0.22)	(0.24)	(0.14)
<b>Net asset value, end of period</b>	<u>\$14.81</u>	<u>\$12.99</u>	<u>\$13.78</u>	<u>\$13.98</u>	<u>\$10.19</u>
<b>Total return</b>	14.84%	(5.37)%	0.13%	39.58%	3.32% <sup>(3)</sup>
<b>Supplemental data and ratios:</b>					
Net assets, end of period (millions)	\$2.6	\$2.0	\$2.1	\$1.1	\$0.2
Ratio of expenses to average net assets	1.25%	1.25%	1.25%	1.25%	1.25% <sup>(4)</sup>
Ratio of expenses to average net assets (before waivers)	1.68%	1.76%	1.80%	2.27%	3.31% <sup>(4)</sup>
Ratio of net investment income to average net assets	1.33%	0.54%	0.11%	0.46%	2.07% <sup>(4)</sup>
Ratio of net investment income (loss) to average net assets (before waivers)	0.90%	0.03%	(0.44)%	(0.56)%	0.01% <sup>(4)</sup>
Portfolio turnover rate <sup>(5)</sup>	48.9%	42.1%	41.9%	36.9%	24.6% <sup>(3)</sup>

<sup>^</sup> 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.*

# Financial Highlights

## Chautauqua International Growth Fund – Institutional Class

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>Per Share Data:</b>	
Net asset value, beginning of period	\$10.00
<b>Income from investment operations:</b>	
Net investment income	0.00 <sup>(1)(2)</sup>
Net realized and unrealized loss on investments	(0.43)
Total from investment operations	(0.43)
<b>Net asset value, end of period</b>	<u>\$ 9.57</u>
<b>Total return</b>	(4.30)% <sup>(3)</sup>
<b>Supplemental data and ratios:</b>	
Net assets, end of period (millions)	\$14.8
Ratio of expenses to average net assets	0.95% <sup>(4)</sup>
Ratio of expenses to average net assets (before waivers)	2.32% <sup>(4)</sup>
Ratio of net investment income to average net assets	0.06% <sup>(4)</sup>
Ratio of net investment loss to average net assets (before waivers)	(1.31)% <sup>(4)</sup>
Portfolio turnover rate	72.6% <sup>(3)(5)</sup>

<sup>^</sup> 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.*

# Financial Highlights

## Chautauqua International Growth Fund – Investor Class

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>Per Share Data:</b>	
Net asset value, beginning of period	\$10.00
<b>Income from investment operations:</b>	
Net investment loss	(0.01) <sup>(1)</sup>
Net realized and unrealized loss on investments and foreign currency translations	(0.44)
Total from investment operations	(0.45)
<b>Paid in capital from redemption fees</b>	0.01
<b>Net asset value, end of period</b>	<u>\$ 9.56</u>
<b>Total return</b>	(4.40)% <sup>(2)</sup>
<b>Supplemental data and ratios:</b>	
Net assets, end of period (millions)	\$0.3
Ratio of expenses to average net assets	1.20% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	2.58% <sup>(3)</sup>
Ratio of net investment loss to average net assets	(0.19)% <sup>(3)</sup>
Ratio of net investment loss to average net assets (before waivers)	(1.57)% <sup>(3)</sup>
Portfolio turnover rate	72.6% <sup>(2)(4)</sup>

<sup>^</sup> 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

## Chautauqua Global Growth Fund – Institutional Class

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>Per Share Data:</b>	
Net asset value, beginning of period	\$10.00
<b>Income from investment operations:</b>	
Net investment loss	(0.01) <sup>(1)</sup>
Net realized and unrealized gain on investments	0.10
Total from investment operations	0.09
<b>Net asset value, end of period</b>	<u>\$10.09</u>
<b>Total return</b>	0.90% <sup>(2)</sup>
<b>Supplemental data and ratios:</b>	
Net assets, end of period (millions)	\$7.6
Ratio of expenses to average net assets	0.95% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	3.65% <sup>(3)</sup>
Ratio of net investment loss to average net assets	(0.16)% <sup>(3)</sup>
Ratio of net investment loss to average net assets (before waivers)	(2.86)% <sup>(3)</sup>
Portfolio turnover rate	69.4% <sup>(2)(4)</sup>

<sup>^</sup> 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

Chautauqua Global Growth Fund – Investor Class

	April 15, 2016 <sup>^</sup> through December 31, 2016
<b>Per Share Data:</b>	
Net asset value, beginning of period	\$10.00
<b>Income from investment operations:</b>	
Net investment loss	(0.03) <sup>(1)</sup>
Net realized and unrealized gain on investments	0.11
Total from investment operations	0.08
<b>Net asset value, end of period</b>	<u>\$10.08</u>
<b>Total return</b>	0.80% <sup>(2)</sup>
<b>Supplemental data and ratios:</b>	
Net assets, end of period (millions)	\$0.2
Ratio of expenses to average net assets	1.20% <sup>(3)</sup>
Ratio of expenses to average net assets (before waivers)	3.90% <sup>(3)</sup>
Ratio of net investment loss to average net assets	(0.41)% <sup>(3)</sup>
Ratio of net investment loss to average net assets (before waivers)	(3.11)% <sup>(3)</sup>
Portfolio turnover rate	69.4% <sup>(2)(4)</sup>

<sup>^</sup> 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.*

# Notes to the Financial Statements

December 31, 2016

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## 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, the Baird SmallCap Value Fund, the Chautauqua International Growth Fund and the Chautauqua Global Growth Fund (each a “Fund” and collectively the “Funds”), six of the fifteen 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 to the public on May 1, 2012. The Chautauqua International Growth Fund and the Chautauqua Global Growth Fund commenced with the sale of both Institutional and Investor Class Shares to the public on April 18, 2016. 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 capital appreciation through investments in equity securities of small- to mid-capitalization companies.

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

The Chautauqua International Growth Fund seeks to provide long-term capital appreciation through investment in equity securities of both U.S. and non-U.S. companies with medium to large market capitalization.

The Chautauqua Global Growth Fund seeks to provide long-term capital appreciation through investment in equity securities of both U.S. and non-U.S. companies with medium to large market capitalization.

On December 31, 2016, shareholders affiliated with the Advisor held 91% of the Institutional Class shares of the Baird LargeCap Fund, 3% of the Institutional Class shares of the Baird MidCap Fund, 53% of the Institutional Class shares of the Baird Small/Mid Cap Value Fund, 53% of the Institutional Class shares of the Baird SmallCap Value Fund, 26% of the Institutional Class shares of the Chautauqua International Growth Fund and 28% of the Institutional Class shares of the Chautauqua Global Growth 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,

# Notes to the Financial Statements

December 31, 2016

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## 2. Significant Accounting Policies (cont.)

does not provide a price), the Board of Directors of the Corporation must value the securities at “fair value determined in good faith.” The Board has delegated such responsibility to the Advisor pursuant to pricing policies and procedures that the Board has adopted and regularly reviews. In general, the “fair value” of a security means the price that would be received to sell a security in an orderly transaction between market participants at the measurement date.

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

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

The Chautauqua International Growth and Chautauqua Global Growth Funds have retained an independent fair value pricing service to assist in valuing foreign securities in order to adjust for possible changes in value that may occur between the close of the foreign exchange and the time at which the Fund calculates its NAV. The fair value pricing service uses statistical data based on historical performance of securities and markets, and other data in developing factors used to estimate fair value for that day.

- b) **Foreign Securities** – For purposes of these financial statements, 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

# Notes to the Financial Statements

December 31, 2016

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## 2. Significant Accounting Policies (cont.)

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.

- c.) **Foreign Currency Translation** – Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at date of valuation. Purchases and sales of portfolio securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. When a Fund purchases or sells a foreign security, it will customarily enter into a foreign exchange contract to minimize foreign exchange risk from the trade date to the settlement date of such transaction. The Chautauqua Funds do not isolate the portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Net realized gain (loss) on investments and foreign currency translations include those gains and losses arising from the sale of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the differences between the amounts of dividends, and foreign withholding taxes recorded on a Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized appreciation (depreciation) on investments and foreign currency translation includes changes in the value of assets and liabilities resulting from exchange rates.

- d.) **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, 2016, or for any other tax years which are open for exam. As of December 31, 2016, open tax years include the tax years ended December 31, 2013 through 2016. 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 period, the Funds did not incur any interest or penalties.

- e.) **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.
- f.) **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.
- g.) **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.
- h.) **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



# Notes to the Financial Statements

December 31, 2016

## 2. Significant Accounting Policies (cont.)

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.

- i) **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.
- j) **Recent Accounting Pronouncements** – In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, "final rules") intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the financial statements and related disclosures.

## 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, 2016	
	Shares	Amount
Shares sold	561,393	\$ 4,394,392
Shares issued to shareholders in reinvestment of dividends	61,211	555,182
Shares redeemed	(718,353)	(5,812,429)
Net decrease	(95,749)	\$ (862,855)
Shares Outstanding:		
Beginning of year	4,449,336	
End of year	4,353,587	

#### Investor Class Shares

	Year Ended	
	December 31, 2016	
	Shares	Amount
Shares sold	29,776	\$ 239,651
Shares issued to shareholders in reinvestment of dividends	533	4,821
Shares redeemed	(23,384)	(188,488)
Net increase	6,925	\$ 55,984
Shares Outstanding:		
Beginning of year	75,481	
End of year	82,406	

#### 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	

# Notes to the Financial Statements

December 31, 2016

## 3. Capital Share Transactions (cont.)

### Baird MidCap Fund

#### Institutional Class Shares

	Year Ended	
	December 31, 2016	
	Shares	Amount
Shares sold	26,778,042	\$ 402,275,627
Shares redeemed <sup>(1)</sup>	(25,858,100)	(391,750,978)
Net increase	919,942	\$ 10,524,649
Shares Outstanding:		
Beginning of year	69,041,053	
End of year	69,960,995	

#### Investor Class Shares

	Year Ended	
	December 31, 2016	
	Shares	Amount
Shares sold	2,530,062	\$ 37,367,882
Shares redeemed	(6,261,572)	(88,154,671)
Net decrease	(3,731,510)	\$(50,786,789)
Shares Outstanding:		
Beginning of year	12,817,360	
End of year	9,085,850	

<sup>(1)</sup> In the third quarter of 2016, the Baird MidCap Fund satisfied a redemption request made by a large shareholder in the amount of \$93,349,181 by distributing the Fund's portfolio securities in kind to the redeeming shareholder. The realized gain associated with this transaction was \$14,618,108. The redemption was effected in accordance with policies and procedures approved by the Board of Directors of the Funds.

#### 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	

#### 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	

### Baird Small/Mid Cap Value Fund

#### Institutional Class Shares

	Year Ended	
	December 31, 2016	
	Shares	Amount
Shares sold	703,038	\$6,800,150
Shares issued to shareholders in reinvestment of dividends	7,655	79,070
Shares redeemed	(48,230)	(481,696)
Net increase	662,463	\$6,397,524
Shares Outstanding:		
Beginning of year	495,306	
End of year	1,157,769	

#### Investor Class Shares

	Year Ended	
	December 31, 2016	
	Shares	Amount
Shares sold	3,475	\$33,547
Shares issued to shareholders in reinvestment of dividends	25	259
Shares redeemed	(327)	(3,304)
Net increase	3,173	\$30,502
Shares Outstanding:		
Beginning of year	2,003	
End of year	5,176	

# Notes to the Financial Statements

December 31, 2016

## 3. Capital Share Transactions (cont.)

### Baird Small/Mid Cap Value Fund (cont.)

Institutional Class Shares			Investor Class Shares		
	Period Ended December 31, 2015 <sup>^</sup>			Period Ended December 31, 2015 <sup>^</sup>	
	Shares	Amount		Shares	Amount
Shares sold	494,559	\$4,940,000	Shares sold	2,000	\$20,000
Shares issued to shareholders in reinvestment of dividends	<u>747</u>	<u>7,158</u>	Shares issued to shareholders in reinvestment of dividends	<u>3</u>	<u>26</u>
Net increase	<u>495,306</u>	<u>\$4,947,158</u>	Net increase	<u>2,003</u>	<u>\$20,026</u>
Shares Outstanding: Beginning of period	<u>—</u>		Shares Outstanding: Beginning of period	<u>—</u>	
End of period	<u>495,306</u>		End of period	<u>2,003</u>	

<sup>^</sup> Inception was the close of business on November 30, 2015.

### Baird SmallCap Value Fund

Institutional Class Shares			Investor Class Shares		
	Year Ended December 31, 2016			Year Ended December 31, 2016	
	Shares	Amount		Shares	Amount
Shares sold	343,811	\$ 4,541,684	Shares sold	35,989	\$ 494,202
Shares issued to shareholders in reinvestment of dividends	18,682	278,550	Shares issued to shareholders in reinvestment of dividends	594	8,842
Shares redeemed	<u>(234,905)</u>	<u>(3,089,099)</u>	Shares redeemed	<u>(12,322)</u>	<u>(168,347)</u>
Net increase	127,588	<u>\$ 1,731,135</u>	Net increase	24,261	<u>\$ 334,697</u>
Shares Outstanding: Beginning of year	<u>1,775,679</u>		Shares Outstanding: Beginning of year	152,902	
End of year	<u>1,903,267</u>		End of year	<u>177,163</u>	

Institutional Class Shares			Investor Class Shares		
	Year Ended December 31, 2015			Year Ended December 31, 2015	
	Shares	Amount		Shares	Amount
Shares sold	340,633	\$ 4,606,208	Shares sold	35,000	\$ 478,350
Shares issued to shareholders in reinvestment of dividends	9,857	129,529	Shares issued to shareholders in reinvestment of dividends	277	3,633
Shares redeemed	<u>(272,018)</u>	<u>(3,706,223)</u>	Shares redeemed	<u>(34,792)</u>	<u>(465,113)</u>
Net increase	78,472	<u>\$ 1,029,514</u>	Net decrease	485	<u>\$ 16,870</u>
Shares Outstanding: Beginning of year	<u>1,697,207</u>		Shares Outstanding: Beginning of year	152,417	
End of year	<u>1,775,679</u>		End of year	<u>152,902</u>	

# Notes to the Financial Statements

December 31, 2016

## 3. Capital Share Transactions (cont.)

Chautauqua International Growth Fund<sup>^</sup>

Institutional Class Shares	Period Ended December 31, 2016		Investor Class Shares	Period Ended December 31, 2016	
	Shares	Amount		Shares	Amount
Shares sold	1,592,858	\$15,788,874	Shares sold	35,224	\$357,174
Shares redeemed	(41,185)	(410,212)	Shares redeemed	(2,676)	(26,111)
Redemption fees	—	1,548	Redemption fees	—	167
Net increase	1,551,673	<u>\$15,380,210</u>	Net increase	32,548	<u>\$331,230</u>
Shares Outstanding:			Shares Outstanding:		
Beginning of period	—		Beginning of period	—	
End of period	<u>1,551,673</u>		End of period	<u>32,548</u>	

<sup>^</sup> Inception was the close of business on April 15, 2016.

Chautauqua Global Growth Fund<sup>^</sup>

Institutional Class Shares	Period Ended December 31, 2016		Investor Class Shares	Period Ended December 31, 2016	
	Shares	Amount		Shares	Amount
Shares sold	867,491	\$ 8,702,754	Shares sold	21,505	\$214,601
Shares redeemed	(109,796)	(1,104,703)	Shares redeemed	(1,516)	(15,262)
Redemption fees	—	515	Redemption fees	—	—
Net increase	757,695	<u>\$ 7,598,566</u>	Net increase	19,989	<u>\$199,339</u>
Shares Outstanding:			Shares Outstanding:		
Beginning of period	—		Beginning of period	—	
End of period	<u>757,695</u>		End of period	<u>19,989</u>	

<sup>^</sup> Inception was the close of business on April 15, 2016.

## 4. Investment Transactions and Income Tax Information

During the year ended December 31, 2016, 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
Purchases:	\$30,101,808	\$749,347,295	\$9,358,920
Sales:	\$31,510,072	\$695,618,070	\$2,945,486
	Baird SmallCap Value Fund	Chautauqua International Growth Fund	Chautauqua Global Growth Fund
Purchases:	\$15,076,204	\$21,777,906	\$11,265,017
Sales:	\$12,205,004	\$ 7,335,941	\$ 3,910,679

# Notes to the Financial Statements

December 31, 2016

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

The Baird LargeCap Fund, Baird MidCap Fund, Baird Small/Mid Cap Value Fund, and Baird SmallCap Value Fund did not purchase or sell U.S. Government securities during the year ended December 31, 2016. The Chautauqua International Growth Fund and Chautauqua Global Growth Fund did not purchase or sell U.S. Government securities during the period April 15, 2016 through December 31, 2016.

At December 31, 2016, accumulated earnings/losses on a tax basis were as follows:

	Baird LargeCap Fund	Baird MidCap Fund	Baird Small/Mid Cap Value Fund
Cost of Investments	\$34,936,191	\$1,058,088,437	\$10,959,367
Gross unrealized appreciation	5,434,156	218,483,638	1,297,429
Gross unrealized depreciation	(817,171)	(28,499,187)	(289,181)
Net unrealized appreciation	\$ 4,616,985	\$ 189,984,451	\$ 1,008,248
Undistributed ordinary income	1,961	—	2,542
Undistributed long-term capital gain	—	—	—
Total distributable earnings	\$ 1,961	\$ —	\$ 2,542
Other accumulated losses	(269,772)	(61,629,145)	(439,022)
Total accumulated earnings	\$ 4,349,174	\$ 128,355,306	\$ 571,768

	Baird SmallCap Value Fund	Chautauqua International Growth Fund	Chautauqua Global Growth Fund
Cost of Investments	\$24,560,685	\$15,459,231	\$7,819,691
Gross unrealized appreciation	6,609,941	397,006	458,706
Gross unrealized depreciation	(324,853)	(820,483)	(376,774)
Net unrealized appreciation (depreciation)	\$ 6,285,088	\$ (423,477)	\$ 81,932
Undistributed ordinary income	4,079	—	—
Undistributed long-term capital gain	—	—	—
Total distributable earnings	\$ 4,079	\$ —	\$ —
Other accumulated losses	(305,728)	(115,414)	(17,216)
Total accumulated earnings (losses)	\$ 5,983,439	\$ (538,891)	\$ 64,716

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, 2016, the following table shows the reclassifications made:

# Notes to the Financial Statements

December 31, 2016

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

	<u>Undistributed Net</u> <u>Investment Income/(Loss)</u>	<u>Accumulated Net</u> <u>Realized Gain/(Loss)</u>	<u>Paid In Capital</u>
Baird LargeCap Fund	\$ 13,935	\$ (14,048)	\$ 113
Baird MidCap Fund	2,146,689	(14,618,108)	12,471,419
Baird Small/Mid Cap Value Fund	(2,999)	2,999	—
Baird SmallCap Value Fund	(9,143)	9,142	1
Chautauqua International Growth Fund	(7,719)	22,966	(15,247)
Chautauqua Global Growth Fund	4,590	9,220	(13,810)

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, 2016, the Chautauqua International Growth and Chautauqua Global Growth Funds elected to defer capital losses occurring between November 1, 2016 and December 31, 2016 in the amount of \$3,823 and \$1,827, respectively.

To the extent the Funds realize future net capital gains, those gains will be offset by any unused capital loss carryovers. At December 31, 2016, accumulated net realized capital loss carryovers, if any, and the year(s) in which the capital loss carryovers expire were:

	<u>Capital Loss</u> <u>Carryover</u>	<u>Character</u>	<u>Year of</u> <u>Expiration</u>
Baird LargeCap Fund	\$ 269,772	Short-Term	Indefinitely
Baird MidCap Fund	61,629,145	Short-Term	Indefinitely
Baird Small/Mid Cap Value Fund	439,022	Short-Term	Indefinitely
Baird SmallCap Value Fund	305,728	Short-Term	Indefinitely
Chautauqua International Growth Fund	115,414	Short-Term	Indefinitely
Chautauqua Global Growth Fund	17,216	Short-Term	Indefinitely

During the year ended December 31, 2016, the Funds paid the following distributions:

	<u>Ordinary Income Dividends</u>
Baird Large Cap Fund	\$561,367
Baird Small/ Mid Cap Value Fund	90,369
Baird SmallCap Value Fund	340,056

For the year ended December 31, 2016 the Baird MidCap Fund, Chautauqua International Growth Fund and Chautauqua Global Growth Fund did not pay any distributions.

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

	<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.

# Notes to the Financial Statements

December 31, 2016

## 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, 0.85% for the Baird SmallCap Value Fund, 0.80% for the Chautauqua International Growth Fund and 0.80% for the Chautauqua Global Growth 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 L2 Asset Management, LLC ("L2"), pursuant to which L2 acts as subadvisor to the Baird LargeCap Fund (the "Sub-Advisory Agreement"). Baird is responsible for paying L2 a sub-advisory fee equivalent to a percentage of the net advisory fee received by the Advisor from the Fund which is calculated daily at the annual rate of 0.65% of the average daily net assets of the Fund and paid monthly after giving effect for the expense cap/reimbursement agreement between the Advisor and the Company on behalf of the LargeCap Fund.

The percentage of sub-advisory fee is subject to increase based on the assets managed by the Subadvisor on behalf of the Advisor as follows:

<u>% Net Advisory Fee</u>	<u>Market Value of Assets Managed by L2</u>
50%	Less than \$3 billion
60%	Between \$3 billion and \$5 billion
70%	Greater than \$5 billion

For the year ended December 31, 2016 and through April 30, 2018 for the Baird LargeCap Fund, Baird MidCap Fund, Baird Small/Mid Cap Value Fund, Baird SmallCap Value Fund, Chautauqua International Growth Fund and Chautauqua Global Growth Fund, 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%
Chautauqua International Growth Fund	0.95%	1.20%
Chautauqua Global Growth Fund	0.95%	1.20%

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

	<u>Fiscal Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Reimbursed/Absorbed Expenses Subject to be Recovered by Advisor Until:</b>	2019	2018	2017
<b>Baird LargeCap Fund</b>	\$138,150	\$143,538	\$140,955
<b>Baird Small/MidCap Value Fund</b>	\$156,332	\$ 23,659	N/A
<b>Baird SmallCap Value Fund</b>	\$116,311	\$131,370	\$131,933
<b>Chautauqua International Growth Fund</b>	\$ 95,476	N/A	N/A
<b>Chautauqua Global Growth Fund</b>	\$102,142	N/A	N/A

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.

# Notes to the Financial Statements

December 31, 2016

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## 5. Investment Advisory and Other Agreements (cont.)

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 year ended December 31, 2016 for the Baird LargeCap Fund, Baird MidCap Fund and Baird SmallCap Value Fund and for the period April 15, 2016 through December 31, 2016 for the Chautauqua International Growth Fund and Chautauqua Global Growth Fund.

## 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 affiliate of USBFS, the Funds’ transfer agent and administrator. 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, 2016, none of the Funds had securities on loan. When a Fund engages in securities lending, loaned securities are collateralized by cash equivalents. The cash collateral is invested by the custodian in accordance with approved investment guidelines. Those guidelines require the cash collateral to be invested in readily marketable, high quality, short-term obligations; however, such investments are subject to risk of payment delays or default on the part of the issuer or counterparty or otherwise may not generate sufficient interest to support the costs associated with securities lending. A Fund could also experience delays in recovering its securities and possible loss of income or value if the borrower fails to return the borrowed securities, although the Funds are indemnified from this risk by contract with the securities lending agent.

The 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, 2016.

Effective September 1, 2016, the Funds ceased securities lending activities, although they may do so again in the future.

## 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 1.51% for 2016). For the year ended December 31, 2016, the Chautauqua Global Growth Fund incurred \$38 in interest charges, on an average daily loan balance of \$2,516. The Baird LargeCap Fund, Baird MidCap Fund, Baird Small/Mid Cap Value Fund, Baird SmallCap Value Fund and Chautauqua International Growth Fund did not borrow from the LOC during the period.



# Notes to the Financial Statements

December 31, 2016

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## 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, Baird SmallCap Value Fund, Chautauqua International Growth Fund and Chautauqua Global Growth Fund incurred \$1,520, \$352,484, \$73, \$5,430, \$211 and \$269, respectively, in fees pursuant to the Plan during the year ended December 31, 2016.

## 9. Redemption Fees

A redemption fee of 2.00% will be assessed on Institutional and Investor Class shares of the Chautauqua International Growth Fund and Chautauqua Global Growth Fund if redeemed (including in connection with an exchange) 90 days or less from their date of purchase, determined on a first-in, first-out (“FIFO”) basis. The redemption fee is paid directly to the Funds and is designed to offset brokerage commissions, market impact and other costs associated with fluctuations in Fund asset levels and cash flow caused by short-term shareholder trading. For the year ended December 31, 2016, the Chautauqua International Growth Fund and Chautauqua Global Growth Fund charged redemption fees of \$1,715 and \$515, respectively. The Baird LargeCap Fund, Baird MidCap Fund, Baird Small/Mid Cap Value Fund and Baird SmallCap Value Fund do not charge redemption fees.

## 10. Subsequent Event

In preparing these financial statements, the Corporation has evaluated subsequent events after December 31, 2016 through the date the financial statements were issued. There were no subsequent events since December 31, 2016 that would require adjustment to or additional disclosure in these financial statements.

# Report of Independent Registered Public Accounting Firm

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## 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, Baird SmallCap Value Fund, Chautauqua International Growth Fund and Chautauqua Global Growth Fund (six of the funds constituting Baird Funds, Inc.) (collectively, the Funds), including the schedules of investments, as of December 31, 2016, 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 for the year then ended, the statements of changes in net assets and the financial highlights for the year then ended and 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 four 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; the related statements of operations, the statements of changes in net assets and the financial highlights for the period from April 15, 2016 (date of inception) through December 31, 2016, for the Chautauqua International Growth Fund and the Chautauqua Global Growth 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. Our procedures included confirmation of securities owned as of December 31, 2016, by correspondence with the custodian or brokers. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2016, 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, Illinois  
February 27, 2017

# Directors & Officers

As of December 31, 2016

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## Independent Directors

### G. Frederick Kasten, Jr.

Independent Director and Chairman

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 77

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: 14

Other Directorships Held by Director: Director of Regal-Beloit Corporation, a Manufacturing Company (1995-2011)

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### John W. Feldt

Independent Director

Term of Office: Indefinite

Length of Time Served: Since September 2000

Age: 74

c/o Robert W. Baird & Co. Incorporated

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years:

Retired.

Number of Portfolios in Complex Overseen by Director: 14

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: 77

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.

Number of Portfolios in Complex Overseen by Director: 14

Other Directorships Held by Director: Director of Weyco Group, Inc., a men's footwear distributor; Director of Wisconsin Energy Corporation and its subsidiaries, Wisconsin Electric Power Company and Wisconsin Gas LLC (1987-2012).

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### Marlyn J. Spear, CFA

Independent Director

Term of Office: Indefinite

Length of Time Served: Since January 2008

Age: 63

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, (July 1989-December 2016)

Number of Portfolios in Complex Overseen by Director: 14

Other Directorships Held by Director: Management Trustee of AFL-CIO Housing Investment Trust, a mutual fund complex (1 portfolio), since 1995.

# Directors & Officers

As of December 31, 2016

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## Interested Directors and Officers

### Cory L. Nettles\*

Interested Director

Term of Office: Indefinite

Length of Time Served: Since January 2008

Age: 46

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, (January  
2005-December 2016))

Number of Portfolios in Complex Overseen by  
Director: 14

Other Directorships Held by Director: Director of  
Weyco Group, Inc., a men's footwear distributor;  
Director of Associated Banc-Corp, since 2013

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### Mary Ellen Stanek

President

Term of Office: Re-elected by Board annually

Length of Time Served: Since September 2000

Age: 60

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

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### Charles B. Groeschell

Vice President

Term of Office: Re-elected by Board annually

Length of Time Served: Since January 2010

Age: 63

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: 45

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).

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### Terrance P. Maxwell

Treasurer

Term of Office: Re-elected by Board annually

Length of Time Served: Since March 2015

Age: 56

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, 2016

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## Interested Directors and Officers

### Charles M. Weber

Secretary

Term of Office: Re-elected by Board annually

Length of Time Served: Since September 2005

Age: 53

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)

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### Peter J. Hammond

Vice President

Term of Office: Re-elected by Board annually

Length of Time Served: Since August 2012

Age: 53

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)

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### Dustin J. Hutter

Assistant Treasurer

Term of Office: Re-elected by Board annually

Length of Time Served: Since February 2011

Age: 40

777 East Wisconsin Avenue

Milwaukee, WI 53202

Principal Occupation(s) During the Past 5 Years: 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: 42

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)

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\* 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](http://www.bairdfunds.com).

# Baird Funds, Inc.

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## Disclosure Regarding the Board of Directors' Approval of the Investment Advisory 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 18 and August 25, 2016 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, MidCap and SmallCap Value Funds (the "Funds"). The Board, including the Independent Directors, approved the investment advisory agreements through a process that concluded at the August 25, 2016 meeting. In connection with its consideration of the investment advisory agreements, the Board reviewed and discussed various information that had been provided prior to the meeting, including the investment advisory agreements, a memorandum provided by legal counsel summarizing the guidelines relevant to the Board's consideration of the renewal of the investment advisory agreements, a memorandum and other information provided in response to requests from the Board from the Advisor (including the Advisor's Form ADV Part 1, brochure and brochure supplements, annual report and financial information), a profitability analysis, comparative information about the Funds' performance for periods ended June 30, 2016, 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 agreements. The Board discussed the Advisor's 15(c) response at the August 18, 2016 special meeting and discussed various questions and information with the President of the Funds at the August 18, 2016 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 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 agreements for an additional one-year period.

In considering the investment advisory 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 agreements for each Fund, the Board did not identify any single factor as determinative but considered all factors together.

### Nature, Extent and Quality of Services Provided to the Funds

The Board analyzed the nature, extent and quality of the services provided by the Advisor to the Funds. The Board 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 Funds and noted that the Advisor has added resources in support of the Funds, including portfolio management, business, legal and sales personnel, and has made enhancements to its technology, trading and research capabilities. 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 the Advisor's disciplined investment decision making process used for the Funds. The Board also considered other services that the Advisor provides the Funds in its capacity as their investment advisor, such as making some of its key personnel available to serve as officers of the Funds, selecting broker dealers for execution of portfolio transactions, ensuring adherence to the Funds' investment policies and restrictions, compliance, risk management services, valuation, providing support services to the Board and the committees of the Board and overseeing the Funds' other service providers. The Board also considered the strength of the Advisor's compliance department, including the Funds' chief compliance officer, as well as the Advisor's risk management tools and process. With respect to the LargeCap Fund, the Board considered the

# Baird Funds, Inc.

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

Advisor's oversight responsibilities as it relates to the Fund's subadviser, L2 Asset Management, LLC ("L2"). 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.

### **Investment Performance of the Advisor and the Funds**

In considering the investment performance of each of the Funds, the Board reviewed information as of June 30, 2016 regarding the Fund's performance in comparison to its benchmark index and its peer groups as determined by Lipper. The Board also considered composite investment performance of Baird Equity Asset Management with respect to accounts managed by the Advisor that are comparable to the Funds.

The Board noted that the LargeCap Fund's returns exceeded the peer group average for the three year period, but trailed the average for all other periods and trailed the applicable benchmark returns for all periods. The Board noted that L2 has been the Fund's subadviser since April 30, 2016 and prior to that, Baird Kailash Group, LLC served as the subadviser from December 23, 2013. The Board considered L2's and the Advisor's commentary regarding the Fund's performance challenges in recent years. The Board noted that the performance of the Baird MidCap Fund exceeded the Lipper peer group average for most periods. The Fund's performance exceeded the benchmark index for the since inception period but lagged the index for the other periods. The Board considered the reasons for the Fund's underperformance as discussed by the Advisor. The Board noted that the SmallCap Value Fund had outperformed its Lipper peer group average and benchmark index for most 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 L2 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 the same as or close 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 and considered management fees charged by the Advisor to other investment advisory clients and noted that the investment management fee paid by the MidCap Fund was 10 basis points (or 0.10%) less than what the Advisor charges on the first \$10 million of a separately managed account. With respect to the SmallCap Value Fund, the Fund's investment management fee was 15 basis points (or 0.15%) less than what the Advisor charges on the first \$20 million of a separately managed account. The Board noted that the Advisor does not currently advise separate accounts using a strategy similar to the LargeCap Fund. The Board considered 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 subadviser. 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.

# Baird Funds, Inc.

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

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 both the 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 the Fund's 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 noted that the Advisor has waived fees for each of the Funds under the expense cap agreement and that, with respect to the LargeCap Fund, the Advisor pays the subadvisory fee to L2.

The Board concluded that the profits realized by the Advisor from its relationship with the Funds were reasonable. 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, finance and compliance support. The Board reviewed and considered the general financial condition of the Advisor 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.

### 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 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 Board also 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 and SmallCap Value Fund, the Board did not consider economies of scale to be a material factor due to the current asset size of each Fund. Considering its current level of assets, the directors concluded that the absence of breakpoints in the management fee for the MidCap Fund is reasonable at this time. The directors concluded that the current fee structure of each Fund was reasonable.

### Benefits Derived from the Relationship with the Funds

The Board considered other benefits to the Advisor from serving as advisor to the Funds (in addition to the advisory fee). The Board noted that the Advisor derives ancillary benefits from its association with the SmallCap Value and MidCap Funds in the form of research products and services received from unaffiliated broker dealers who execute portfolio trades for the Funds. However, the Board determined such products and services have been used for legitimate purposes relating to the Funds by providing assistance in the investment decision making process. The Board also noted that the 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. The Board concluded that the other benefits realized by the Advisor from its relationship with the Funds were appropriate.

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



# Additional Information

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## 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](http://www.bairdfunds.com); and by accessing the SEC's website at [www.sec.gov](http://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](http://www.bairdfunds.com); and by accessing the SEC's website at [www.sec.gov](http://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](http://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, 2016, 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	100.00%
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, 2016 was as follows:

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

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# Baird Funds, Inc. Privacy Policy

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

## What Information We Collect

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

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

## What Information We Disclose

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

## How We Protect Your Information

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

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

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

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

**Board of Directors**

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

**Investment Advisor and Distributor**

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**Administrator and Transfer Agent**

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**Custodian**

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