

Baird Intermediate Muni Bd Inst BMBIX

Morningstar Rating



Kudos

- Experienced management.
- Consistent and impressive track record.
- Low expenses.

Risks

- The fund's circumspect approach may moderate returns and keep management from shooting the lights out under certain market conditions.
- The fund's cautious, total return focus can produce lower yields than many rivals.

Strategy

Management takes a circumspect approach to muni investing by focusing on high-quality securities, particularly pre-refunded bonds (those backed by escrowed Treasury bonds) and general obligation issues. The team won't make big interest-rate calls and aims to keep the fund's duration at around five years. Its high-quality bias has served the fund well during downturns, but it can also hold it back when risk is in vogue.

Management

As chief investment officer of Baird Advisors, Mary Ellen Stanek heads the team of six seasoned portfolio managers at this fund, but Warren Pierson takes the lead in the daily management of this fund. Stanek, former president and chief executive officer of Firststar Investment Research & Management where she worked for 21 years, left for Baird with this team of Firststar veterans in March 2000. The team ran several successful funds at Firststar, and it runs the successful Baird Aggregate Bond BAGIX, among others at Baird.

Role in Portfolio

Core. The fund's high-quality bias and total return focus make it a solid core option for cautious muni investors.

Morningstar's Take | 06-22-10 | by Sonya Morris, CFA

Cautious and cheap.

Baird Intermediate Muni Bond Fund stands apart from the competition.

This fund distinguishes itself in a number of ways—first and foremost by being one of the cheapest muni-bond funds around. Its expense ratio of 0.30% is roughly half the levee charged by the typical no-load muni national intermediate fund.

That low expense hurdle gives the fund a head start right out of the gate, and it also means the management team can take a cautious tack and still keep up with the competition. Indeed, another of this fund's distinctive features is its conservative profile. The fund's managers typically allocate about three fourths of the portfolio to pre-refunded bonds (which are backed Treasury bonds held in escrow). And most of the remaining 25% is usually kept in higher-rated bonds that fund essential services.

This judicious approach has several implications for the fund's behavior. It can lag its more aggressive rivals when investors embrace risk, as was the case in 2009 and early 2010. However, it also tends to hold up well when times get tough, as its category-topping 2008 campaign attests. While its strategy might go in and out of favor over any given year, the fund has produced impressive results over the long term. Since its March 2001 inception through late June 2010, it has generated average annual returns of 5.1%, handily surpassing the category average of 4.0%. Not surprisingly, the fund has managed to deliver those results while keeping volatility (as measured by standard deviation) in check.

Still, risks loom on the horizon. State and municipal governments face significant fiscal challenges in the coming months and years, and while this fund is well positioned to weather those risks, it's not completely immune from them. Rising interest rates could also prove to be a headwind. So, while this fund has plenty of long-term appeal, investors should prepare themselves for a few bumps along the way.

Information through 06/30/10

The Morningstar five-star rating for the Institutional Class Baird Intermediate Municipal Bond Fund is the overall rating received among 204 Municipal National Intermediate bond funds. The fund received five stars for the three-year period among 204 Municipal National Intermediate bond funds and five stars for the five-year period among 181 Municipal National Intermediate bond funds.

The overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with a fund's three-, five- and ten-year (if applicable) Morningstar Rating metrics.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk- Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages. Past performance is no guarantee of future results.

The average annual total returns for the Institutional Class of the Baird Intermediate Municipal Bond Fund as of June 30, 2010 are 5.97% for the one-year period, 4.70% for the five year period and 5.19% since its March 30, 2001, inception date. The minimum investment for the fund is \$25,000 and the expense ratio is 0.30%.

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

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

Due to the fact that the fund may invest more than 25% of its total assets in municipal obligations issued by entities located in the same state or the interest on which is paid solely from revenues of similar projects, the fund may be adversely affected due to changes in economic, business or political conditions relating to a particular state or types of projects. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise.

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data current through the most recent month-end, please visit www.bairdfunds.com.

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