

Baird Core Plus Bond Inst BCOIX

This team has a recipe for success.

Morningstar's Take BCOIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

| | | |
|-------------|---|----------|
| Process | + | Positive |
| Performance | + | Positive |
| People | + | Positive |
| Parent | + | Positive |
| Price | + | Positive |

Role In Portfolio

Core

Fund Performance BCOIX

| Year | Total Return (%) | +/- Category |
|------|------------------|--------------|
| YTD | -1.40 | -0.09 |
| 2017 | 4.65 | 0.93 |
| 2016 | 4.73 | 1.50 |
| 2015 | 0.14 | 0.40 |
| 2014 | 6.59 | 1.41 |

Data through 3-31-18

3-01-18 | by Alaina Bompiedi

Baird Core Plus Bond has a strong foundation for success. Its stalwart team, relatively constrained process, and low fees align to make the fund a dependable choice in the intermediate-term bond Morningstar Category, earning a Morningstar Analyst Rating of Silver.

Lead manager and Baird CIO Mary Ellen Stanek helms the fund with five comanagers whose industry experience averages 34 years. All have been contributors here since the fund's 2000 inception. Providing support are five additional portfolio managers and nine dedicated analysts. While that head count is smaller compared with some other firms, the team sticks to sectors and bonds that it can thoroughly understand with its resources.

Stanek and her team use a tried-and-true valuation-driven process to outpace the Bloomberg Barclays U.S. Universal Index. A no-nonsense recipe of

investment-grade corporate, securitized, and government bonds form the core of the portfolio, with a smattering of high yield around the edges. When the team ventures into below-investment-grade fare, it prefers to hold a multitude of larger, more liquid issuers. But generally, most high-yield positions in the fund are kept small as an additional risk control. The fund's duration is consistently neutral to the index, and the team avoids derivatives, leverage, and nondollar bonds. These constraints allow management to focus on its strengths--security selection and sector rotation.

Over its 18-year life span, the fund has maintained a persistent overweighting to corporate and securitized bonds, and an underweighting to Treasuries. Its bias to credit has been a particular boon in the years since the financial crisis but can cause it to underperform its Treasury-heavy index when credit risk sells off, which was the case in 2008 and 2015. Still, the team prefers higher-quality sectors, which have provided some insulation. Financials, in particular, have been a favorite for the team over the past few years and were rewarded by much tighter spreads after the passage of 2017's tax bill.

Process Pillar + Positive | Alaina Bompiedi
03/01/2018

Lead manager Mary Ellen Stanek and her comanagers employ a transparent, risk-aware process to outrun the fund's benchmark, the Bloomberg Barclays U.S. Universal Index. Compared with peers, the fund treads lightly in lower-quality bonds and foregoes leverage, derivatives, and non-U.S. debt, but that hasn't constrained its performance. A straightforward strategy that stays within its realm of competence earns a Positive Process Pillar rating.

The fund has access to the same sectors as its index, a mix of corporate, securitized, and government

bonds. All members of the team source, analyze, and secure investments for the portfolio--which is possible given its smaller size and the industry experience across the bench of contributors. Stanek and her team will look to the macroeconomic context as a guide for the fund's sector positioning, but they stick to sectors and bonds that they can thoroughly research, avoiding overly esoteric or exotic fare.

By policy, the fund's duration is kept neutral to the index. While the fund has leeway to hold up to 20% in below-investment-grade fare, it has never exceeded 15%. When the managers dabble here, they prefer to hold a variety of small positions in higher-rated issuers, rather than concentrating in a few select names. This acts as an additional risk control in the portfolio construction process.

A persistent overweighting to corporate bonds distinguishes the fund from its benchmark, ranging between one fourth to just over half of the portfolio over the trailing 10 years. At the end of January 2018, the fund's credit stake stood at 52%, approximately split between financials (22%) and industrials (27%). For a few years, the team has had a predilection for financials, citing their tighter and more cash-heavy balance sheets as reasons for optimism.

While investment-grade credit forms the core of the portfolio, the fund may hold up to 20% below-investment-grade debt. Historically, that stake has ranged from 4% to 15% and stood at 7% at the end of January 2018. About two thirds of that stake was held in nonagency residential mortgages, with the remainder in high-yield corporate bonds. That stake was 2 percentage points underweight the 9% high-yield position of its benchmark, reflecting management's concerns about narrowing spreads in the sector.

The flatter yield curve in 2017 led the team to shift into more short-term bonds at the end of the year,

which it continued to do through the volatility during the first two months of 2018. While the fund's duration will always match that of its index, it has the flexibility to be selective along the yield curve. At the end of January 2018, the fund's duration equaled the index's 5.8 years, but its average maturity was a hair shorter--7.7 years versus the index's 8.2.

Performance Pillar + Positive | Alaina Bompiedi
03/01/2018

Since the fund's inception in 2000 through Jan. 31, 2018, its 5.9% trailing annualized return was in the top decile of the intermediate-term bond category and 74 basis points ahead of the Bloomberg Barclays U.S. Universal Index. The managers' ability to outperform with a relatively high-quality portfolio illustrates the deftness of their craft and earns a Performance Pillar rating of Positive.

The fund's overweighting to corporate bonds provides it with more yield than its Treasury-heavy benchmark, giving it a boost during credit rallies and making it susceptible to volatility during credit sell-offs. However, because the fund tends to be higher in credit quality than its average peer, its relative performance during sell-offs has been quite muted. During 2008, the fund's credit-heavy allocation caused the fund to tumble 4 percentage points beyond its index (it lost 1.8% versus the benchmark's 2.4% gain) but landed it near the category average.

The fund's tilt toward credit has been a net positive in the bond bull market since the 2008 financial crisis, even if it hasn't always been one of the most aggressive operators in terms of its high-yield exposure. In 2016 and 2017, the fund managed to outpace its benchmark and peer median despite its underweighting to high yield, which performed especially well both years.

People Pillar + Positive | Alaina Bompiedi
03/01/2018

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek heads a team including five other portfolio managers that collaborates on a variety of funds in Baird's fixed-

income suite, including Silver-rated Baird Aggregate Bond BAGIX and Silver-rated Baird Short-Term Bond BSBIX. Averaging 34 years of experience in the industry, the formal leadership roster has remained consistent since the fund's 2000 inception. Portfolio recommendations are further bolstered by the input of five additional senior portfolio managers--with credit research, securitized research, and portfolio risk focuses--and nine dedicated fixed-income analysts.

The team's strength derives heavily from its deep bench of experience and cohesive culture, but perhaps most important is that the team benefits from recognizing its limitations. Stanek and her co-portfolio managers don't pursue highly illiquid or esoteric investments that would require resources beyond those that currently exist to support the fund. Stanek likes to keep the team staffed in excess to help limit analysts' workloads to a manageable size. With the close support of Baird's C-suite, the team was able to make two new hires in 2017, move to larger offices, and begin an expansion of its tools and technology. Seasoned management and an effective team earn this fund a Positive People Pillar rating.

Parent Pillar + Positive | Alaina Bompiedi
03/21/2018

Baird is an employee-owned, financial-services firm that provides investment banking, private wealth advising, and asset-management services. Its asset-management business comprises fixed-income-focused Baird Advisors and Baird Equity Asset Management. Baird Advisors oversees 95% of the firm's mutual fund assets under management, and its leader, Mary Ellen Stanek, also acts as Baird's CIO, bringing the interests of her group to Baird's senior leadership.

Over the past several years, the firm's assets under management have grown substantively and quickly. Today, Baird's asset-management group oversees roughly \$65 billion, with \$50 billion in mutual funds (up from less than \$10 billion five years ago). Although rapid growth can sometimes raise concern, Baird has responded by adding to its investment team and technological resources. Further, Baird Advisors increased the minimum size of its separate accounts to \$100 million to slow the pace of inflows.

Meanwhile, Baird Advisors has long maintained low fees overall. Its compensation structure also helps mitigate key-person risk, aligns personnel's financial success with the success of the fund lineup, and has resulted in strong manager retention. Baird's equity shelf is modest, but growing: In 2016, the firm added an international and a global fund to its lineup with the acquisition of Chautauqua Capital Management. Overall, the firm earns a Positive Parent rating.

Price Pillar + Positive | Alaina Bompiedi
03/01/2018

About 85% of the fund's assets are held in the institutional share class, which charges a low fee of 0.30% that puts it in competition with index funds. Relative to other intermediate-term bond funds in that distribution channel, it looks particularly compelling at 20 basis points lower than the median. The retail share class charges 0.55%, 10 basis points below the median of its competitors.

Low fees for all of the fund's investors garners a Positive Price Pillar rating.

Important Disclosure Information

Analyst Rating is the summary expression of Morningstar's forward-looking analysis of a fund. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating. The Analyst Rating is based on the analyst's conviction in the fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. If a fund receives a positive rating of Gold, Silver, or Bronze, it means Morningstar analysts think highly of the fund and expect it to outperform over a full market cycle of at least five years. The Analyst Rating is not a market call, and it is not meant to replace investors' due-diligence process. It cannot assess whether a fund is the right fit for a particular portfolio and risk tolerance. Morningstar evaluates funds based on five key pillars--Process, Performance, People, Parent, and Price. Analysts assign a rating of Positive, Neutral, or Negative to each pillar. Analyst Rating Scale - Gold: Best-of-breed fund that distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. Silver: Fund with advantages that outweigh the disadvantages across the five pillars and with sufficient level of analyst conviction to warrant a positive rating. Bronze: Fund with notable advantages across several, but perhaps not all, of the five pillars.

The Morningstar five-star rating for the Institutional Class Baird Core Plus Bond Fund is the overall rating received among 858 Intermediate-Term Bond Funds. The fund received four stars for the three-year period among 858 Intermediate-Term Bond Funds, four stars for the five-year period among 784 Intermediate-Term Bond Funds and five stars for the ten-year period among 561 Intermediate-Term Bond Funds, as of March 31, 2018.

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 Core Plus Bond Fund as of March 31, 2018 are 1.97% for the one-year, 2.56% for the five-year and 5.05% for the ten-year periods and 5.77% since its September 29, 2000, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays US Universal Bond Index as of March 31, 2018 are 1.52% for the one-year, 2.19% for the five-year and 4.01% for the ten-year periods and 5.04% since the fund's inception. The expense ratio of the Investor Class is 0.55%.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return 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 the performance data quoted. Investment results assume all distributions are reinvested and reflect applicable fees and expenses. For performance current to the most recent month-end, please visit bairdfunds.com.

The Barclays U.S. Universal Bond Index represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or high-yield. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. The index is unmanaged and is not available for direct investment.

The Fund may invest in mortgage- and asset-backed securities which may be subject to prepayment risk and thus may be more sensitive to interest rate changes than other types of debt securities. The Fund may also invest in U.S. dollar denominated securities issued by foreign issuers which involve additional risks including political and economic instability, differences in financial reporting standards and less regulated securities markets. Non-investment grade bonds involve greater risk of default and bankruptcy than investment grade securities. While the U.S. government has historically provided financial support to various U.S. government-sponsored agencies, no assurance can be given that it will do so in the future if it is not obligated by law. A bond's market value may be affected by changes in interest rates – generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3

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

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data and Fund holdings current through the most recent month-end, as well as credit quality profile current through the most recent quarter-end, please visit www.bairdfunds.com.