

Baird Aggregate Bond Inst BAGIX

Checks all the right boxes.

Morningstar's Take BAGIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

Role In Portfolio

Core

Fund Performance BAGIX

Year	Total Return (%)	+/-	Category
YTD	-1.52	-0.21	
2017	4.20	0.49	
2016	3.52	0.29	
2015	0.55	0.81	
2014	6.89	1.71	

Data through 3-31-18

3-01-18 | by Alaina Bompiedi

An experienced and collaborative process, clear objectives, and low fees position Baird Aggregate Bond for success, earning a Morningstar Analyst Rating of Silver.

Lead manager and Baird CIO Mary Ellen Stanek heads a five-manager team that has worked together on the fund since its inception in 2000. Providing support are five additional portfolio managers and nine dedicated analysts. While the team is somewhat smaller than those of some other firms, it sticks to sectors and bonds that it can thoroughly understand, and the group works in a relatively flat and collaborative structure.

Stanek and team curate the portfolio with credit, mortgages, and U.S. government bonds. They keep these allocations relatively close to the fund's Bloomberg Barclays U.S. Aggregate Bond Index benchmark, choosing to over- or underweight names

within the benchmark to reflect their level of conviction. Duration is kept neutral to the index, and the fund avoids derivatives, leverage, and esoteric fare. These limitations allow the managers to focus on adding value through security selection and diversification as well as an overlay of subtle sector rotation.

During the fund's 18-year life span, it has maintained persistent overweightings in corporate and securitized bonds at the expense of U.S. Treasuries. The team adjusts the fund's allocation to these two sectors based on their respective valuations. Since 2011, the fund has had a slight bias to credit, which has been a boon in the years since the financial crisis.

The fund's slight overweighting in credit can cause it to underperform its Treasury-heavy index when credit risk sells off, as in 2008, when the fund lagged the index by roughly 7 percentage points. That said, the team typically stays in the higher-quality credit tiers, utilizing little high yield (historically never more than 8%). That's helped the fund from going completely off the rails in more acute credit sell-offs, including the commodity-driven downturns of 2014 and 2015. In early 2018, the fund held just 0.8% in bonds rated below BBB, its smallest stake so far.

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

Mary Ellen Stanek and her co-portfolio managers have consistently followed a straightforward and risk-conscious process since the fund's inception in 2000. Allocations are diversified across a mix of corporate bonds, mortgages, and Treasuries. The team avoids making interest-rate bets and keeps the fund's duration close to its Aggregate Index benchmark. There is a policy of no derivatives, foreign currency, or leverage in the portfolio. All securities in the fund must be investment-grade at the time of purchase, but the team will hang onto bonds that have been downgraded. Most of these

are legacy mortgage-backed securities but can include "fallen angel" corporate 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 comanagers regularly discuss a macroeconomic context for the fund's positioning, but when it comes to curating the portfolio, they stick to sectors and bonds that they can thoroughly research, avoiding overly esoteric or exotic fare. While its resources may not match the breadth of those at larger fixed-income firms, this team's straightforward and cohesive process has positively contributed to the portfolio's performance versus its index over the long haul and supports a Positive Process Pillar rating.

Mary Ellen Stanek and team rely on diversification, strategic position sizing, and sector rotation to add value in this well-trodden investment landscape. They have a natural bias for investment-grade credit, which has become more pronounced as tighter spreads have discouraged them from buying lower-rated fare. As of January 2018, the fund held 0.5% in below-investment-grade debt compared with the intermediate-bond Morningstar Category average of 7%.

Compared with its benchmark, the fund tends to carry an overweighting in corporate credit at the expense of U.S. government bonds. In the trailing 10 years, the fund's corporate stake has ranged from 30% to 45% and stood at 43% at the end of January 2018. That stake was approximately split between financials and industrials). Within financials, the team has had a liking for the senior bonds of U.S. banks, citing renewed stability and deleveraging in the sector as reasons for optimism. The team also liked pipelines in the industrials sector for their regulatory oversight and relatively stable cash flows.

Concerns about a flatter yield curve led the team to prefer shorter-dated issues in 2017, which persisted as interest-rate driven volatility spiked in early 2018. That has led to a reduction in the fund's average effective maturity (7.9 years versus 8.4 years for the index), but duration stayed firmly glued to the benchmark at six years.

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

From the fund's inception in 2000 through February 2018, it has returned 5.3% annualized, 50 basis points ahead of its Aggregate Index benchmark and ahead of three fourths of distinct category peers, earning a Performance Pillar rating of Positive.

When credit markets take a dive, as they did during the 2008 financial crisis, the fund's credit-heavy bias can cause it to fall short of its index and peers. When these markets sold off during 2008, the fund lost around 2.4%, nearly 7 percentage points astray from the 5.2% gain of the index and below 60% of peers.

Yet that same bias has been a boon in the mostly placid postcrisis years. During the 10 years ended February 2018, the fund generated a 4.2% annualized return, besting the index's 3.6% gain and better than two thirds of rivals. That's also because of the team's tendency to stay higher in issuers' capital structure, which has insulated its performance during downdrafts over that stretch. From the oil sell-off from the beginning of June 2015 through the end of February 2016, the fund returned 1.3% versus the category median's 0.4%. And some of the challenging positions from 2015--particularly the team's exposure to pipelines and refining--helped the fund make a strong recovery in 2016.

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

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek heads a team with five other portfolio managers that collaborates on a variety of funds in Baird's fixed-income suite, including Silver-rated Baird Core Plus Bond BCOIX 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, the team benefits from recognizing its limitations. Stanek and her comanagers 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 earns 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 95% 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 four-star rating for the Institutional Class Baird Aggregate 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 four 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 Aggregate Bond Fund as of March 31, 2018 are 1.56% for the one-year, 2.34% for the five-year and 4.38% for the ten-year periods and 5.27% 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 Aggregate Bond Index as of March 31, 2018 are 1.20% for the one-year, 1.82% for the five-year and 3.63% for the ten-year periods and 4.76% 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. Aggregate Bond Index is a fixed income, market- value index generally representative of investment grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. Indices are unmanaged and are 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. 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 significantly 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.