

Baird MidCap Inst BMDIX

Staying true to a proven process.

Morningstar's Take BMDIX

Morningstar Rating

Morningstar Analyst Rating



Morningstar Pillars

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

Role In Portfolio

Supporting

Fund Performance BMDIX

Year	Total Return (%)	+/-	Category
YTD	n/a		n/a
2016	5.40	-0.63	
2015	-3.59	-2.64	
2014	4.85	-2.14	
2013	32.90	-2.03	

Data through 6-30-17

9-27-17 | by Dan Culloton

Baird MidCap's veteran leadership and willingness to stick to a disciplined strategy earn the fund a Morningstar Analyst Rating of Bronze.

Seasoned managers run the show here. Lead manager Charles Severson has been in charge of this fund since its year-end 2000 inception and of a similar separate account since 1993. A couple of comanagers left in the late 2000s, but Severson has worked with co-lead Kenneth Hemauer for 16 years and with two of the team's four analysts for more than a decade. The four analysts average nearly 15 years of industry experience.

Severson's philosophy and execution have been consistent. He and his team use fundamental research with quantitative and technical overlays to look for 54-60 profitable mid-cap companies without much debt that can sustain earnings and revenue growth for at least three to five years. Bottom-up

work drives stock-picking, while quant and technical screens help monitor fundamentals and buy or sell stocks in a timely fashion. Portfolio turnover ticked up recently as Severson found more opportunities, but it generally isn't high.

Severson is willing to pay up for growth, but the firms he favors tend to be mature industry leaders with superior profitability and debt/capital ratios. For example, artificial heart valve maker Edwards Lifesciences EW has increased its returns on equity by fending off competition in the minimally invasive surgery market. Plus, the fund doesn't own not-yet-profitable biotech or highly leveraged fare, such as REITs, utilities, and airlines.

Severson's quality streak helps the fund in volatile markets like the 2007-09 credit crisis. However, that preference can make the fund periodically lag. Indeed, it trailed the index and most peers in each of the past four calendar years. Overall, though, the fund boasts decent long-term risk-adjusted returns, and Severson has a strong 24-year record on the SMA. With below-average fees, this fund's worth a shot.

Associate analyst Shannon Yan contributed to this analysis.

Process Pillar + Positive | Dan Culloton

09/27/2017

This fund's disciplined process earns a Positive Process rating.

Manager Charles Severson and his team look for mid-cap companies with \$2 billion-\$30 billion in market cap with five characteristics: attractive margins, durable revenue growth, capable management, industry tailwinds, and favorable market expectations. The fund typically favors profitable, debt-light firms that can sustain earnings and revenue growth for at least three to five years. But it will occasionally invest in stable businesses

with significant debt if Severson believes there's enough cash.

Overall, though, Severson sticks to firms with superior profitability and modest debt/capital levels. The result is a portfolio that tends to show resilience in bouts of volatility. It still courts a fair amount of price risk, though. The team pays attention to valuations, but members choose valuation metrics or models on a case-by-case basis and aren't afraid to buy expensive but well-run growers.

The fund uses a quant screen as a fundamentals check and employs a technical screen to gauge market sentiment and to buy or sell stocks in a timely fashion. But the fund isn't beholden to those filters. Turnover isn't high, for example. It builds up to a 4% position in stocks with strong fundamentals and screen scores and holds on to them unless their growth slows.

This fund is fairly diversified across 54-60 stocks, its typical range since 2009, with no more than a fourth of assets in its top 10. The fund also stays diversified across sectors but likes some sectors more than others. It tends to have larger-than-benchmark helpings of industrials and tech stocks, as well as big but closer to index-sized helpings of consumer discretionary and healthcare names.

The fund tries to exercise caution when pursuing growth. It has an affinity for mature businesses with double-digit revenue growth. For example, the fund holds artificial heart valve maker Edwards Lifesciences EW for its flourishing minimally invasive surgery products and owns A.O. Smith AOS for the water heater maker's steady replacement sales in the U.S. and brand recognition in China. Plus, the fund shuns not-yet-profitable biotechs and avoids highly leveraged fare like most REITs, utilities, and airlines.

The fund can also be opportunistic. In the year ended July 2017, it sold some relatively stable growers, such as banking software Fiserv FISV and power tool maker Snap-On SNA. It also bought stocks with market-cycle tailwinds—military electronics maker Mercury Systems MRCY and semiconductor producer Microchip Technology MCHP—despite their above-average price/earnings multiples. Turnover ticked up as a result: It was 57% in 2016, versus the mid-growth Morningstar Category’s 49% median.

Performance Pillar + Positive | Dan Culloton
09/27/2017

Decent performance during the tenure of its longest-serving manager earns the fund a Positive Performance rating. From the fund’s year-end 2000 launch with Charles Severson at the helm through August 2017, its annualized 7% gain beat the Russell Mid Cap Growth Index’s 6.5% rise and the typical mid-growth peer’s 4.9% advance. The fund’s Sharpe and Sortino ratios, measures of risk-adjusted returns, were both higher than the benchmark’s during that stretch.

The fund’s performance in volatile markets accounted for much of those results. From the benchmark’s Oct. 10, 2007, peak to its March 3, 2009, trough, the fund’s painful 54% drop was still nearly 3 percentage points less than the index’s. A penchant for financially sturdy, steady growers like Fastenal FAST helped, as did timely sells in hard-hit energy and industrials. More recently, the fund held up better than the index in 2011’s third quarter and 2015-16’s sharp correction.

The strategy will look out of favor from time to time. The fund finished each of the past four calendar years behind the index and the average mid-growth fund. An aversion to speculative biotech and other leveraged fare has caused the fund to lag in long bull markets. But there have been mistakes, too. Grocer Fresh Market dragged on returns, and Severson was slow to sell long-term holdings such as Greenhill GHIL and Perrigo PRGO as their growth prospects dimmed.

People Pillar + Positive | Dan Culloton
09/27/2017

Experienced managers with long histories of working together call the shots here, earning the fund a Positive People rating.

Senior manager Charles Severson has been at this fund’s helm since its year-end 2000 inception. A 30-year veteran of Robert W. Baird & Co., Severson has led the Baird Mid-Cap Growth Equity strategy using the same process since its mid-1993 launch. Before fees, that separate account’s annualized 11.9% since-inception return handily beat the Russell Mid Cap Growth Index benchmark’s 9.7% through August 2017. Kenneth Hemauer, a former Baird sell-side analyst of seven years and an analyst on this fund since 2001, became a named manager here in mid-2010 when two former comanagers left. Hemauer still covers the fund’s financials and consumer discretionary sectors.

A four-member analyst squad assist Severson and Hemauer. Industrials analyst Douglas Guffy and healthcare analyst Jonathan Good came to the fund more than a decade ago with 14 and six years of prior experience, respectively. Tech analyst Chaitanya Yaramada and consumer analyst Corbin Weyer joined the team in mid-2014 after roughly five years on Baird’s sell-side research team.

Severson invests at least \$500,000 in the fund, and Hemauer invests more than \$100,000. All team members invest in the fund and own shares of the firm.

Parent Pillar + Positive | Dan Culloton
03/28/2017

Robert W. Baird & Co. is a Milwaukee, Wisconsin-based financial-services firm providing investment banking, private wealth advising, and asset-management services. This employee-owned entity’s asset-management division encourages investor-first principles by maintaining low fees, investing in core competencies, and developing straightforward lineups of investment products. It earns a Positive Parent rating.

Fixed-income-focused Baird Advisors comprises 95% of mutual fund assets under management, and, in conjunction with Baird Equity Asset Management, oversees 14 mutual funds. Baird has been growing its investment capabilities: In mid-2015, it hired a well-regarded municipal team led by Duane McAllister to add to the firm’s existing core and municipal-bond investments. On the equity side, it acquired in early 2016 Chautauqua Capital

Management, a global equity shop run out of Boulder, Colorado. Product development is thoughtful and deliberate, complementing the firm’s existing strengths.

Mary Ellen Stanek, CIO of Baird Advisors, and her long-tenured team of collaborators demonstrate solid stewardship traits. The team develops portfolio managers and analysts internally, with an eye to cultural compatibility and cross-functional roles. Turnover among investment personnel is low. The fixed-income group claims an impressive performance track record across its suite of offerings.

Price Pillar + Positive | Dan Culloton
09/27/2017

While the 1.08% expense ratio this fund charges for its retail shares is average for U.S. mid-cap no-load funds, expenses on the fund’s Institutional share class, which applies to most of the fund’s assets, are below average among similarly sold peers. That earns the fund a Positive Price rating.

Transaction and tax costs have remained low. The fund’s 2016 brokerage commissions as a percentage of average net assets fell just below the mid-growth category median. Its tax costs, as measured by Morningstar’s tax-cost ratio, were a fraction of those peers’ during the trailing three-, five-, 10-, and 15-year periods through Aug. 31, 2017.

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 three-star rating for the Institutional Class Baird MidCap Fund is the overall rating received among 576 Mid Growth Funds. The fund received three stars for the three-year period among 576 Mid Growth Funds, two stars for the five-year period among 498 Mid Growth Funds and four stars for the ten-year period among 369 Mid Growth Funds, as of August 31, 2017.

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 MidCap Fund as of September 30, 2017 are 20.71% for the one-year, 11.21% for the five-year and 8.25% for the ten-year periods and 7.12% since its December 29, 2000 inception date.

The average annual total returns for the Russell Midcap Growth Index as of September 30, 2017 are 17.82% for the one-year, 14.18% for the five-year and 8.20% for the ten-year periods and 6.68% since the fund's inception.

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 funds' current performance may be lower or higher than the performance data quoted.

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.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. Indices are unmanaged and are not available for direct investment.

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, please visit www.bairdfunds.com.