

# Baird Short-Term Bond Inst BSBIX

This fund is a steady-Eddie.

## Morningstar's Take BSBIX

**Morningstar Rating** ★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

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

### Role In Portfolio

Supporting

### Fund Performance BSBIX

Year	Total Return (%)	+/- Category
YTD	-0.29	0.05
2017	1.53	-0.20
2016	2.25	0.17
2015	0.89	0.69
2014	1.49	0.42

Data through 3-31-18

3-01-18 | by Alaina Bompiedi

We think highly of the small but tight-knit team behind Baird Short-Term Bond. The fund's diverse, high-quality basket of corporate bonds, Treasuries, and mortgages has achieved consistent, above-average returns over the long term, meriting a Morningstar Analyst Rating of Silver.

Mary Ellen Stanek manages the fund with five additional comanagers who average 34 years of industry experience. Five additional portfolio managers and nine dedicated analysts round out the effort. While this team has a smaller headcount and somewhat younger analyst bench than other firms', Stanek and team stick to sectors and investments they can thoroughly research with their resources.

The team uses a no-nonsense recipe of investment-grade corporate, securitized, and government bonds, and keeps duration neutral to its Bloomberg Barclays U.S. Government/Credit 1-3 Year Index benchmark.

Emphasis is on higher-quality holdings, and the fund tends to have a higher allocation to A and BBB rated securities and a lower allocation to below-investment-grade or nonrated securities than the typical category peer. During the life of the strategy, the fund has maintained a persistent overweighting in credit (45%-80% of the fund's assets). At the beginning of 2018, the fund's allocation to credit occupied 57% of the portfolio, with the team citing tighter credit spreads as a reason for keeping it on the lower end of its historic range.

The fund's lack of leverage and derivatives and its duration-neutral approach enable management to focus on security selection and sector rotation. The fund's emphasis to credit has been helpful since the financial crisis but can be a liability when credit sells off. However, the team's preference for higher-quality names and mindfulness about sector rotation have insulated performance during such periods. During the trailing 10 years ended Jan. 31, 2018, the fund generated a 2.2% return, 60 basis points above its benchmark and at the median of its category.

While not stellar, the fund's low volatility and low fees continue to make it an appealing choice.

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

Mary Ellen Stanek and team deploy a straightforward and risk-conscious style here, keeping its more adventurous positions small and typically midquality as opposed to below-investment-grade. While the team's resources may not match the breadth of larger firms, it stays within its circle of competence, and its disciplined approach has served the fund well. The fund earns a Positive Process Pillar rating.

The fund invests across a mix of investment-grade corporate bonds, mortgage-backed securities, and Treasuries. The team eschews interest-rate bets, preferring to keep duration identical with that of its Bloomberg Barclays U.S. Government/Credit 1-3 Year Index. In line with the team's no-nonsense

approach, it avoids derivatives, foreign currency, or leverage.

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 co-portfolio managers 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. When the team does decide to take risk, it prefers well-known, midquality issues, such as Hewlett Packard HPQ, or AAA rated credit card or auto loans.

Management searches for value in an investment-grade range that tilts the portfolio to a higher overall credit quality than many category peers but remains more opportunistic than its Treasury-heavy index.

Corporate bonds have tended to be the fund's largest sector position, typically double the exposure of the benchmark. During the trailing 10-year period ended Jan. 31, 2018, the fund's corporate bond position ranged from 45% in 2007 to as high as 80% in 2012. At the end of January 2018, it stood at 57%. Within that stake, the team keeps its pickings predominantly higher-quality. The team continued to express a preference for financials, citing their tighter balance sheets and savings under tax reform as reasons for optimism, and preferred shorter-dated bonds as a defense against interest rate volatility. When the team does invest below investment-grade, it keeps that exposure at 2% or less. At the start of 2018, the fund had merely a basis point of high-yield exposure. Most often, risk-taking for this fund comes in the form of mid-quality names that the team would otherwise pass by in its longer-term funds.

As of January 2018, the fund's corporate stake was balanced by U.S. government bonds (22%),

mortgages (7%), and asset-backed securities (9%). The mortgage stake was mostly made up of legacy nonagency issues (5.5%), and the asset-backed stake consisted of auto loans and credit card deals.

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

An overweighting in investment-grade credit has helped the fund outperform its Bloomberg Barclays U.S. Government/Credit 1-3 Year Index and half of its peer group since its 2004 inception, but not at the expense of volatility. The fund's 10-year risk-adjusted return, as measured by Sharpe ratio, was higher than 65% of its category peers at the end of January 2018. Solid performance garners a Positive Performance Pillar rating.

The fund's large corporate bond stake has helped it beat its Treasury-heavy benchmark during the trailing 10 years, but its conservative bent limits its performance relative to riskier peers. When credit markets buckle, as during the 2008 financial crisis, the fund's credit-heavy tilt can cause it to tumble beyond its index, while its quality bias buoys it above the average competitor. That year, the fund's 1.8% loss put it behind the 5% gain of its benchmark, but that result landed near the category average.

In most years following the financial crisis, the fund has chugged along at the top half of its peer group, thanks mostly to its sizable corporate bond stake. However, in the trailing one-year period ended Jan. 31, 2018, the fund lagged two thirds of its category peers, as funds that held more high-yield bonds were rewarded by 2017's ebullient equity markets.

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

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek heads a five-member portfolio management team that collaborates on a variety of fixed-income funds, including Silver-rated Baird Aggregate Bond BAGIX and Silver-rated Baird Core Plus Bond BCOIX. 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 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 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 98% of the fund's assets are held in its Institutional share class, which charges a low fee of 0.30% that puts it in competition with index funds. Relative to other short-term bond peers in that distribution channel, the fund's fee is 18 basis points lower than the median. The Retail share class charges 0.55%, which is merely average compared with its competitors.

Low fees for the majority of investors here 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 three-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 455 Short-Term Bond Funds. The fund received three stars for the three-year period among 455 Short-Term Bond Funds, four stars for the five-year period among 393 Short-Term Bond Funds and three stars for the ten-year period among 255 Short-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 Short-Term Bond Fund as of March 31, 2018 are .65% for the one-year, 1.33% for the five-year and 2.28% for the ten-year periods and 2.68% since its August 31, 2004 inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays 1-3 U.S. Government/Credit Bond Index as of March 31, 2018 are 0.24% for the one-year, 0.76% for the five-year and 1.56% for the ten-year periods and 2.29% 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](http://bairdfunds.com).**

The Barclays 1-3 U.S. Government/Credit Bond Index is an index consisting of Treasury or government agency securities and investment grade corporate debt securities with maturities of one to three years. 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](http://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](http://www.bairdfunds.com).*