

Baird Aggregate Bond Inst BAGIX

Form and function come together seamlessly.

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	1.04	-0.03
2016	3.52	0.29
2015	0.55	0.81
2014	6.89	1.71
2013	-1.25	0.17

Data through 3-31-17

3-14-17 | by Emory Zink

While Baird Aggregate Bond inhabits a well-trodden investment-grade landscape, management's experience, nimble implementation, and low fees have given the fund an edge, delivering attractive and dependable results to investors over the longer term and earning this fund a Morningstar Analyst Rating of Silver.

Mary Ellen Stanek leads a team of six named co-portfolio managers who average 33 years of experience in the industry and have contributed to this strategy from its inception in 2000. The team is rounded out with three additional senior portfolio managers and eight analysts. Although this is fewer in number than many larger firms with comparable funds, Stanek and her support counter this by sticking to sectors and investments that they can thoroughly research with the fund's given resources.

It is not only the firm's leadership that has remained stalwart--the process has been consistent as well. Similar to many intermediate-term bond Morningstar Category peers, the team invests in a mix of corporates, mortgages, and Treasuries, and it benchmarks itself against the Bloomberg Barclays U.S. Aggregate Bond Index. Emphasis has been on higher-quality holdings; the fund tends to have a higher allocation to A and BBB rated securities and a lower allocation to non-investment-grade fare than its average category peer. Over the strategy's life, the fund has maintained a persistent overweighting to credit and underweighting to Treasuries and government-related securities. As of early 2017, the credit allocation occupied 45% of the portfolio--toward the higher end of its historical allocation range.

The fund's lack of leverage and derivatives as well as its duration-neutral approach enable management to focus on its strengths--security selection and sector rotation. Over the 10 years ended February 2017, the fund generated a 4.7% annualized return, a step ahead of the index and better than 60% of its category peers. Low volatility and rock-bottom fees further contribute to this fund's appeal.

Process Pillar + Positive | Emory Zink

03/14/2017

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 Bloomberg Barclays U.S. Aggregate Bond Index benchmark. There is a policy of no derivatives, foreign currency, or leverage at work in the portfolio. Although the fund is overwhelmingly dedicated to investment-grade fare, within the lower-quality credit brackets, the securities are smaller in allocation and more diverse

across issuers as an additional risk control in the portfolio-construction process.

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. Although 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 the fund's Positive Process Pillar rating.

Relative to its Bloomberg Barclays U.S. Aggregate Bond Index benchmark, the fund persistently gives an overweighting to credit, which has ranged between a fourth to roughly half of the portfolio over the trailing five years. As of the start of 2017, the credit allocation sat at around 45%. Within the credit bucket, management cited financials as a bright spot for bond investment, given the extensive banking legislation and shored-up balance sheets required across the sector. The weighting exceeded that of its index by roughly 14 percentage points. Other exposures included out-of-benchmark nonagency residential mortgage-backed securities (6%) and asset-backed securities (4%).

Management searches for value in an investment-grade range that tilts the portfolio to a higher credit quality than many category peers but remains more opportunistic than the Treasury-heavy index. The allocation to credits rated A and BBB was 15 percentage points above the median category peer and 18 percentage points above the index at the beginning of 2017. The fund's exposure to below-investment-grade and nonrated fare was a modest 1% relative to the category's typical 6% allocation.

Management remains light in short-maturity bonds in favor of intermediate and floating-rate securities--a defensive positioning that anticipates market volatility in the near term. Duration typically matches that of the index and was 5.9 years at the start of 2017.

Performance Pillar + Positive | Emory Zink
03/14/2017

Over the 10 years ended February 2017, the fund generated a 4.7% annualized return, modestly ahead of the Aggregate Index and better than 60% of its category peers. When credit markets take a dive, as they did during the 2008 financial crisis, the fund's credit-heavy allocation causes the fund to tumble a bit beyond the index, but the higher-quality bias of its securities tends to buoy the fund's performance over its average category peer in such situations. For example, when credit markets sold off in August 2015, the fund lost around 3.1%--more than the 1.7% loss of the index but less than the typical rival's 4.6% slide.

Challenging positions from 2015--particularly exposure to commodity-sensitive industrial sectors--proved a boon to the fund's performance the following year, as did exposures to banks and life insurance providers. For the year ended February 2017, the fund generated a 2.8% return, a leap ahead of the benchmark (by 130 basis points), but it modestly trailed its typical intermediate-term bond category peer, which had greater exposure to below-investment-grade fare.

While the fund won't take outsize risks to top the category, the levers exercised by management, in particular security selection, have typically pushed calendar-year returns above those of the index and average category peer over the last decade, justifying a Positive Performance Pillar rating.

People Pillar + Positive | Emory Zink
03/14/2017

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek heads a six-member formal portfolio management team that collaborates on a variety of funds in Baird's fixed-income suite, including Silver-rated Baird Core Plus Bond BCOIX and Silver-rated Short-Term Bond BSBIX. Averaging 33 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 three additional senior portfolio managers--with credit research, securitized research, and portfolio risk focuses--and eight dedicated fixed-income analysts.

Stanek, formerly president and CEO of Firststar Investment Research & Management (Firststar Corp's money-management division) where she worked for 21 years, left for Baird with a group of Firststar veterans in March 2000. The team's strength derives heavily from its deep bench of experience and cohesive culture, but, perhaps most importantly, 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. Seasoned management leading an effectively collaborative team earns this fund a Positive People Pillar rating.

Parent Pillar + Positive | Emory Zink 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. As an employee-owned entity, its 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 | Emory Zink 03/14/2017

The fund's institutional share class, where nearly 93% of assets are invested, charges an exceptionally low fee of 0.30%, which makes it competitive with many index funds. Relative to actively managed peers, this fund's fee is 20 basis points lower than the median of its intermediate-term bond institutional category. The fund's retail share class charges 0.55% and registers below-average fees relative to its no-load peers. This fund's competitively priced fees qualify it for 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 Aggregate Bond Fund is the overall rating received among 851 Intermediate-Term Bond Funds. The fund received five stars for the three-year period among 851 Intermediate-Term Bond Funds, five stars for the five-year period among 750 Intermediate-Term Bond Funds and four stars for the ten-year period among 538 Intermediate-Term Bond Funds, as of March 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 Aggregate Bond Fund as of March 31, 2017 are 1.52% for the one-year, 3.35% for the five-year and 4.65% for the ten-year periods and 5.50% since its September 29, 2000, inception date.

The average annual total returns for the Barclays US Aggregate Bond Index as of March 31, 2017 are 0.44% for the one-year, 2.34% for the five-year and 4.27% for the ten-year periods and 4.98% 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 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.