

Baird Core Plus Bond Inst BCOIX

This fund is honest about its capabilities, anchored in experience, and positioned to its strengths.

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	1.19	0.12
2016	4.73	1.50
2015	0.14	0.40
2014	6.59	1.41
2013	-1.32	0.10

Data through 3-31-17

3-06-17 | by Emory Zink

While Baird Core Plus 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 the 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-bond Morningstar Category peers, the team invests in a mix of corporates, mortgages, and Treasuries. However, this strategy includes the flexibility to allocate up to 20% in high-yield bonds, an exposure that has historically remained in the low single digits. The fund benchmarks itself against the Bloomberg Barclays U.S. Universal Bond Index, which includes distressed debt in addition to the holdings of the Bloomberg Barclays U.S. Aggregate Bond Index. Over the life of the strategy, 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 54% of the portfolio--at 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 portfolio generated 5.4% of annualized return, 82 basis points ahead of its index and better than 90% of intermediate-term category peers.

Process Pillar + Positive | Emory Zink
03/06/2017

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 span a mix of corporate bonds, mortgages, Treasuries--similar to the fund's sibling Baird Aggregate Bond BAGIX--but this version includes up to 20% in non-investment-grade debt as well. The team avoids making interest-rate bets and keeps duration close to its Bloomberg Barclays U.S. Universal Bond Index benchmark. There are 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 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. The team's straightforward and cohesive process has worked well over the long haul and supports the fund's Positive Process Pillar rating.

Relative to its Bloomberg Barclays U.S. Universal Bond Index, the fund maintains a persistent overweighting to credit, ranging between a fourth to modestly greater than half of the portfolio over the trailing 10 years. At the start of 2017, the credit allocation sat at around 54%. Within the credit bucket, management cited financials as a bright spot, 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 (2% investment-grade and 6% non-investment-grade) and a modest 3% corporate high-yield allocation, consisting mostly of fallen angels, which are securities downgraded from investment-grade but higher quality than most distressed debt.

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 19 percentage points above the median category peer and 21 percentage points above the index at the beginning of 2017. Management remains light in short maturities in favor of intermediate and floating-

rate securities--a positioning that anticipates market volatility in the near term. Duration typically matches that of the index and was 5.7 years at the start of 2017.

Performance Pillar + Positive | Emory Zink
03/06/2017

Over the 10 years ended February 2017, the fund generated a 5.4% annualized return, 82 basis points ahead of its Bloomberg Barclays U.S. Universal Bond Index and better than 90% of its category peers, earning the fund a Positive Performance Pillar rating.

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 3.7%--more than the roughly 3.4% loss of the index but less than the 4.6% loss of the category.

Challenging positions from 2015--particularly exposure to commodity-sensitive industrial sectors--proved a boon to the fund's performance the following year. Holdings, such as those in Glencore, exhibited the team's patience in the face of market stress as commodity prices bounced back from a rough start to 2016. A steepening of the yield curve in the second half of 2016 improved the outlook for its life insurance holdings, such as Mass Mutual, while AAA rated commercial mortgage-backed securities and nonagency RMBS also proved additive. The portfolio generated 4.7% for 2016, outpacing its index by 82 basis points and landing ahead of 85% of category peers.

People Pillar + Positive | Emory Zink
03/06/2017

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek leads a six-member formal portfolio management team that collaborates on a variety of funds in Baird's fixed-income suite, including Silver-rated Baird Aggregate Bond and Silver-rated Baird 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 Fistar Investment Research & Management (Fistar Corp's money-management division) where she worked for 21 years, left for Baird with a group of Fistar 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 03/06/2017

The fund's institutional share class, where 78% 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 intermediate-term 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 Core Plus Bond Fund is the overall rating received among 851 Intermediate-Term Bond Funds. The fund received four 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 five 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 Core Plus Bond Fund as of March 31, 2017 are 0.282% for the one-year, 3.44% for the five-year and 5.36% for the ten-year periods and 6.00% since its September 29, 2000, inception date.

The average annual total returns for the Barclays US Universal Bond Index as of March 31, 2017 are 1.92% for the one-year, 2.83% for the five-year and 4.52% for the ten-year periods and 5.26% 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. 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.