

# 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	1.44	0.26
2015	0.14	0.40
2014	6.59	1.41
2013	-1.32	0.10
2012	7.95	0.94

Data through 2-29-16

3-09-16 | 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 consistent return to investors and earning an upgrade of this fund's Morningstar Analyst Rating to Silver from Bronze.

Mary Ellen Stanek helms a team of six named co-portfolio managers who average 32 years of experience in the industry and have contributed to this strategy from its inception in 2000. The team is rounded out with five additional senior portfolio managers and four 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 is consistent as well. Similar to many of their intermediate-bond Morningstar Category peers, the team invests in a mix of corporates, mortgages, and Treasuries. However, this strategy includes a modest allocation to high-yield bonds and benchmarks itself against the Barclays U.S. Universal Bond Index, which includes distressed debt in addition to the holdings of the Barclays U.S. Aggregate Bond Index.

Management runs the portfolio duration-neutral relative to its bogy but makes active bets on sector, yield curve, and individual security selection. 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 2016, the credit allocation occupied 51% of the portfolio--at the higher end of its historical allocation range.

The fund's historical performance is solid. Over the trailing 10 years ended February 2016, the portfolio generated 5.7% of annualized return, 86 basis points ahead of its Barclays U.S. Universal Bond Index and better than 95% of intermediate-term category peers. Low volatility and rock-bottom fees further contribute to this fund's consistent performance and risk-conscious appeal.

**Process Pillar** + Positive | Emory Zink  
03/09/2016

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, and a very modest allocation to high yield. The team avoids making interest-rate bets and keeps duration close to its 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 stick to sectors and investments that they can thoroughly research, avoiding overly esoteric or exotic fare, and historically focusing on opportunities within the investment-grade credit universe.

Although resources may not match the breadth of those at larger fixed-income firms, this team's straightforward and cohesive process have positively contributed to the portfolio's performance in every calendar year following the financial crisis of 2008 and support an upgrade of the fund's Process Pillar rating to Positive.

Relative to its 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. As of the start of 2016, the credit allocation sat at around 51%. 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 exceeds that of its index by roughly 13 percentage points. Other allocation preferences include out-of-benchmark nonagency RMBS (2% investment-grade and 6% non-investment-grade) and a modest 3% high-yield allocation, consisting mostly of fallen angels--securities recently downgraded from investment-grade but higher quality than most distressed debt.

Management searches for value in A and BBB rated credits--holding 21 percentage points more in this credit-quality range than the index and 13 percentage points more than its average intermediate-term bond peer. 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 matched that of the index and was 5.5 years as of February 2016, longer than the roughly five years of its average category peer. The portfolio contained no derivatives, leverage, or foreign-currency exposure.

**Performance Pillar** + Positive | Emory Zink 03/09/2016

Over the trailing 10 years ended February 2016, the fund generated 5.7% of annualized return, 86 basis points ahead of its Barclays U.S. Universal Bond Index and better than 95% of intermediate-term 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 those same 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.

The year 2015 provided challenges, as exposure to commodity-sensitive sectors detracted from the fund's return to a greater extent than the fund's overweighting in financials contributed, causing the portfolio to trail its benchmark by 29 basis points. A modest allocation to high yield, accompanied by the sector's fourth-quarter volatility, dragged the fund's performance below that of both the category and the index during that quarter.

Over the trailing three years ended February 2016, the fund produced 2.2% of annualized return, a step ahead of the benchmark (by 7 basis points) and a leap ahead of its average of oldest-share-class category peers (by 63 basis points)

**People Pillar** + Positive | Emory Zink 03/09/2016

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek helms a six-member formal portfolio management team that collaborates on a variety of funds in Baird's fixed-income suite, including the Silver-rated Baird Aggregate Bond and Silver-rated Baird Short-Term Bond. Averaging 32 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 four 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 07/20/2015

Robert W. Baird & Co. is an employee-owned financial-services firm engaged in various businesses, including investment banking, wealth management, and asset management. Baird Advisors and Baird Investment Management oversee the small lineup of nine Baird mutual funds. Fixed-income investing comprises the bulk of mutual fund assets under management, at more than 85%. Performance overall has been consistently strong.

Baird has been careful when launching new products and has shied away from fads. Indeed, Baird offers only core investments that are easy for investors to use. The firm recently hired a three-person municipal bond team; without disclosing specifics, Baird has said it will likely offer new strategies as a result. Currently, Baird offers one muni-bond mutual fund.

Baird's portfolio managers invest meaningfully across the fund lineup. Baird Advisors CIO Mary Stanek reports that she invests in all of the Baird funds, whether she is listed as a portfolio manager or not, and that many other managers follow suit. The recent muni-team lift-out notwithstanding, the firm has historically grown its own portfolio managers, and overall turnover has been low. Baird's

five-year manager retention rate is a healthy 95%. Baird's lineup remains reasonably priced. Baird earns a Positive Parent rating.

**Price Pillar** + Positive | Emory Zink 03/09/2016

The fund's Institutional share class, where 77% 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 institutional bond category. The fund's Retail share class charges 0.55% and registers below-average fees relative to its intermediate-term no-load bond 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 951 Intermediate-Term Bond Funds. The fund received four stars for the three-year period among 951 Intermediate-Term Bond Funds, five stars for the five-year period among 825 Intermediate-Term Bond Funds and five stars for the ten-year period among 595 Intermediate-Term Bond Funds, as of February 29.

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 December 31 are 0.14% for the one-year, 4.17% for the five-year and 5.60% for the ten-year periods and 6.140% since its September 29, 2000, inception date.

The average annual total returns for the Barclays US Universal Bond Index as of December 31 are 0.43% for the one-year, 3.46% for the five-year and 4.67% for the ten-year periods and 5.36% 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](http://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").

**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).*