

Baird Aggregate Bond Inst BAGIX

Morningstar's Take | 12-29-11 | by Shannon Kirwin

This fund is worth a look.

Baird Aggregate Bond is sticking to its proven strategy.

Mary Ellen Stanek and her five comanagers have not changed much about their plain-vanilla approach since this intermediate-term bond fund's inception a decade ago. Like many of their peers, the team invests in a mix of corporate bonds, mortgages, and Treasuries. They avoid making interest-rate bets, keeping the fund's average duration pegged to its benchmark, and don't use derivatives.

Instead, the fund's approach centers on sector positioning and security selection. Recently, for example, the team trimmed the fund's position in U.S. Treasuries, which it views as overvalued, while increasing exposure to A and BBB rated corporate issues. It has also added to the fund's stake in commercial mortgage-backed bonds.

With its current emphasis on midquality bonds, this portfolio takes on slightly more credit risk than does its typical peer: The fund currently holds 23% of its assets in BBB rated issues compared with the 15% average stake for its category. To help mitigate this credit risk, Stanek and her team focus on liquid, short-duration corporate bonds, limiting exposure to any single BBB rated issuer to under 0.5%. The fund also holds a combined 13% of assets in nonagency mortgages and commercial mortgage-backed securities, two asset classes that stung investors in 2008. Within the fund's CMBS stake, the team sticks to highly rated, super-senior securities issued before 2006, when it argues that lending standards began to deteriorate.

So far, the fund's approach has produced attractive results. While the fund did lose 2.4% in 2008's credit crisis, slightly more than the average for its category, it still tops its typical peer in every single three-year rolling period since its inception. Add to that a remarkably low 0.30% expense ratio, consistent approach, and experienced management team, and this fund is worth a look.

Morningstar Rating

★★★★

Strategy

Mary Ellen Stanek and her management team set out to consistently beat the fund's benchmark, the Barclays Capital U.S. Aggregate Index. They peg the fund's duration to that of the benchmark and continuously maintain a duration-neutral interest-rate position. They will then actively attempt to add value through sector allocation and security selection. Thus, management combines passive and active management with broad market and security-specific research to try to outperform the index under varying market conditions.

Management

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek leads the team of six seasoned portfolio managers at this intermediate-term bond offering. Stanek, formerly president and chief executive officer of Firstar Investment Research & Management (Firstar Corp.'s money-management division) where she worked for 21 years, left for Baird with this team of Firstar veterans in March 2000.

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Year	Total Return (%)	+/-Category
2011	7.85	1.99
2010	8.34	0.62
2009	10.88	-3.09
2008	-2.36	2.34

Data through 12-31-11

Information through 12/31/11

The Morningstar four-star rating for the Institutional Class Baird Aggregate Bond Fund is the overall rating received among 1018 Intermediate-Term Bond Funds. The fund received three stars for the three-year period among 1018 Intermediate-Term Bond Funds, three stars for the five-year period among 873 Intermediate-Term Bond Funds and four stars for the ten-year period among 582 Intermediate-Term Bond Funds.

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 December 31 are 7.85% for the one-year, 5.96% for the five-year and 5.83% for the ten-year periods and 6.44% since its September 29, 2000, inception date. The expense ratio is 0.30% and the minimum investment is \$25,000.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns 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 this performance data.

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. For a prospectus or for performance current to the most recent month-end, contact Baird Funds directly at 800-444-9102 or contact your Baird Financial Advisor. Please read the prospectus carefully before investing. The fund's current performance may be lower or higher than this performance data.

The fund maintains securities with longer maturities in order to provide a greater potential for return. This may also increase the fund's interest rate risk. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise. The Fund may also invest in mortgage- and asset-backed securities which include interest rate and prepayment risks more pronounced than those of other fixed income securities.

All investments contain some degree of risk.

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data current through the most recent month-end, please visit www.bairdfunds.com.

