

Baird Intermediate Muni Bd Inst BMBIX

Morningstar's Take | 01-06-10 | by Sonya Morris, CFA

This mutual fund takes a cautious approach.

Prudence is the watchword at Baird Intermediate Municipal Bond.

This fund's management team is a cautious crew, and runs the portfolio with an eye toward preserving capital and limiting volatility. Its judicious approach emphasizes prerefunded securities (backed by escrowed Treasury bonds), which make up around three quarters of assets. At year-end 2009, the portfolio allocated 87% to AAA rated bonds, more than any other fund in the muni-national intermediate category.

That high-quality profile worked against the fund in 2009, a year that favored riskier securities. But even though the fund trailed its typical rival last year, it still put up respectable absolute results. Moreover, it's proved its worth when times get tough, as its 2008 campaign showed. That year the muni market experienced unprecedented technical and fundamental shocks, yet the fund notched a 6.4% gain when its average rival lost 2.3%. The fund has done a good job of limiting downside risk throughout its existence. It has experienced negative returns in only three of the 94 rolling one-year periods since its May 2001 inception. Over that period, it has produced annualized returns of 5.2%, compared with 4.0% for the category.

That's not to imply that this fund doesn't hold risks. Because of its preference for higher-rated bonds, it may be more sensitive to rising rates than its more daring category competitors. In addition, credit conditions in the muni market appear to be deteriorating, as state and municipal governments experience declining revenues amid increasing financial pressures.

The fund seems particularly well positioned to weather the latter risk, but muni investors have reason to temper their near-term expectations. Thankfully, this fund has another appealing feature that may prove particularly valuable in a low-returning environment—a rock-bottom expense ratio.

All in all, this fund makes a strong case for itself.

Morningstar Rating

★★★★★

Kudos

- Experienced management.
- Consistent and impressive track record.
- Low expenses.

Risks

- The fund's circumspect approach may moderate returns and keep management from shooting the lights out under certain market conditions.
- The fund's cautious, total return focus can produce lower yields than many rivals.

Strategy

Management takes a circumspect approach to muni investing by focusing on high-quality securities, particularly prerefunded bonds (those backed by escrowed Treasury bonds) and general-obligation issues. The team won't make big interest-rate calls and aims to keep the fund's duration at around five years. Its high-quality bias has served the fund well during downturns, but it can also hold it back when risk is in vogue.

Management

As chief investment officer of Baird Advisors, Mary Ellen Stanek heads the team of six seasoned portfolio managers at this fund, but Warren Pierson takes the lead in the daily management of this fund. Stanek, former president and chief executive officer of Firststar Investment Research & Management, where she worked for 21 years, left for Baird with this team of Firststar veterans in March 2000. The team ran several successful funds at Firststar, and it runs the successful Baird Aggregate Bond BAGIX, among others at Baird.

Role in Portfolio

Core. The fund's high-quality bias and total return focus make it a solid core option for cautious muni investors.

Information through 12/31/09

The Morningstar five-star rating for the Institutional Class Baird Intermediate Municipal Bond Fund is the overall rating received among 219 Municipal National Intermediate bond funds. The fund received five stars for the three-year period among 219 Municipal National Intermediate bond funds and five stars for the five-year period among 198 Municipal National Intermediate 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 Intermediate Municipal Bond Fund as of December 31, 2009 are 6.22% for the one-year period, 4.49% for the five year period and 5.21% since its March 30, 2001, inception date. The minimum investment for the fund is \$25,000 and the expense ratio is 0.30%.

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.

Due to the fact that the fund may invest more than 25% of its total assets in municipal obligations issued by entities located in the same state or the interest on which is paid solely from revenues of similar projects, the fund may be adversely affected due to changes in economic, business or political conditions relating to a particular state or types of projects. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise.

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.