

# Baird Short-Term Bond Inst BSBIX

**Morningstar's Take** | 03-16-11 | by Andrew Gogerty

**An attractive, low-cost combination of prudence and opportunity. Baird Short-Term Bond remains an easy choice.**

This fund's solid value proposition starts with its low fees. Since its inception in mid-2004, its 0.30% expense ratio has ranked in the cheapest quartile of all short-term bond funds. That's nearly 0.50% lower than the category median; and in a category where the gap between top- and bottom-quartile performance in the category is typically 2 percentage points or less per year, a head start of that size is significant.

As a result, the fund's management doesn't have to take on substantial risk to outperform. It forgoes big interest-rate bets and keeps the fund's interest-rate sensitivity in line with its Barclays 1-3 Year Government/Credit Index benchmark. It also focuses on bonds with strong fundamentals and not just attractive yields. That often means looking past a bond's stated credit rating. For instance, the fund's 60% stake in midquality A and BBB rated bonds is double the 30% category average. In late 2010, for example, the team recently added a bond issued by National Oilwell Varco NOV carrying an A rating. Because the company's \$1.8 billion in outstanding debt is more than covered by the \$3.3 billion in cash on its balance sheet, it's arguable that the bond is less risky than its midquality rating implies.

In addition, nearly half of the portfolio's large stake in midquality bonds matures in two years or less. That characteristic lessens the stake's credit risk because management has more clarity regarding the likelihood of repayment than it would with longer-dated issues.

Management's focus on fundamentals is by no means unique, but its consistent execution adds to the fund's charm. The fund's performance has topped the category average in every rolling three-year period since inception through February 2011. Management's neutral stance on interest rates means the fund could face a near-term headwind when rates eventually begin to rise. But all in all, this fund is a great choice.

**Morningstar Rating**

★★★

**Kudos**

- Experienced management.
- Consistent record of outperformance versus peers.
- Low expenses.
- Above-average yield.

**Risks**

- The fund's duration-neutral strategy may moderate returns and keep management from shooting the lights out under certain market conditions.
- The fund's higher-than-average stake in midquality bonds could be a drag on returns during troubled economic times.

**Strategy**

Mary Ellen Stanek and her management team set out to consistently beat the fund's benchmark, the Barclays Capital 1-3 Year Government/Credit Bond Index. They peg the fund's duration to that of the benchmark and maintain a continuous duration-neutral interest-rate position. They then actively attempt to add value through sector allocation and security selection (including significant positions in midquality bonds rated A and BBB), combining passive and active management with broad-market and security-specific research to try to outperform the index under varying market conditions.

**Management**

Chief investment officer Mary Ellen Stanek heads a team of six portfolio managers that oversee all of the firm's fixed-income offerings. This team has worked together for more than a decade here and at previous firms.

**Role in Portfolio**

Core.

**Fund Performance** BSBIX

Year	Total Return (%)	+/-Category
2010	4.39	0.28
2009	8.15	-1.15
2008	-1.79	2.44
2007	6.08	1.79
2006	4.65	0.60

Data through 12-31-10

### Information through 03/31/11

The Morningstar three-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 382 short-term bond funds. The fund received three stars for the three-year period among 382 short-term bond funds and three stars for the five-year period among 327 short-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 Short-Term Bond Fund as of March 31, 2011 are 3.65% for the one-year period, 4.29% for the five-year period and 3.61% since its August 31, 2004, 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.**

The Fund may invest in U.S. dollar-denominated foreign securities which involve risks such as currency rate fluctuations, different and sometimes less strict financial reporting standards and regulation and the potential for political and economic instability. 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.

*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](http://www.bairdfunds.com).*

