

Baird Aggregate Bond Inst BAGIX

A compelling candidate for the core bond investor.

Morningstar's Take BAGIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	1.50	-0.07
2019	9.48	1.42
2018	-0.30	0.19
2017	4.20	0.49
2016	3.52	0.29

Data through 3-31-20

4-01-20 | by Gabriel Denis

The dynamic team behind Baird Aggregate Bond adheres to a disciplined process and benefits from attractive fees. The strategy earns a Morningstar Analyst Rating of Gold on its cheaper share class while its pricier iteration earns a Silver.

Lead manager Mary Ellen Stanek heads a well-tenured, nine-person portfolio management team composed of five strategic leaders and four mid-level directors, many who have worked in concert since the strategy's September 2000 inception. An additional strategic leader and 10 dedicated analysts lend further support. While this configuration is not as complex as some of the firm's largest competitors, the group is deeply collaborative and sticks to investments it can research thoroughly and confidently.

Stanek curates a portfolio of mainly investment-grade corporate credit, securitized debt, and U.S.

government bonds—the primary sectors of its Bloomberg Barclays U.S. Aggregate Bond Index benchmark. The team matches the fund's duration to the index's and avoids derivatives, leverage, and esoteric fare. For most of the strategy's life, it has maintained persistent overweightings to corporate and securitized bonds and downplayed U.S. Treasuries, which has given it a slight yield advantage over the benchmark. To balance that additional credit risk, the team emphasizes diversification and position sizing as risk controls (no high-conviction name exceeds 75 basis points of its size in the bogy, while sector exposures are maintained within a handful of percentage points) and only buys credits that are investment-grade at time of purchase

The strategy's risk-aware approach has kept it from major missteps over its long life (save for a poor showing during 2008), while low fees have discouraged outside risk-taking. From its 2000 inception through January 2020, its institutional share class returned 5.4% and outpaced its bogy and nearly 90% of its distinct intermediate core bond Morningstar Category rivals (its home following the split of its prior intermediate-term bond category in May 2019).

Process Pillar High | Gabriel Denis 02/19/2020

Mary Ellen Stanek and her crew have maintained the same structured and thoughtful investment process for just shy of two decades. While the team's resources may not match the scope of larger rivals, it stays well within its process guardrails and has proactively added tools and headcount to maintain its edge. This straightforward, comprehensive, and investor-friendly approach earns a High Process Pillar rating.

Rather than chase yield by digging into riskier parts of the fixed-income market, the team instead seeks value through sector rotation and security selection

among investment-grade corporate bonds, securitized debt, and U.S. Treasuries. The team avoids derivatives, foreign currency, and leverage while keeping the fund's duration strictly neutral to that of its Bloomberg Barclays U.S. Aggregate Bond Index benchmark. In most markets, the team has outrun its benchmark through a focus on corporate credit and securitized debt relative to U.S. Treasuries. To mitigate the resulting higher potential for credit risk, all securities in the fund must be investment-grade at the time of purchase and are subject to strict diversification and position sizing guidelines. The team will hold on to downgraded high-yield holdings where valuations are still attractive, but this stake was just 0.4% of the portfolio as of December 2019.

Historically, this strategy noticeably overweights corporate credit relative to its benchmark (on average around 15 percentage points higher than the Bloomberg Barclays U.S. Aggregate Index over the trailing decade). As of December 2019, the strategy's 40% stake was higher than its bogy but only by 11 percentage points (its narrowest difference since 2008), a position underpinned by the team's observation of ever-tightening spreads in the corporate sector. Instead, this cohort found greater value in U.S. Treasuries (24%), an allocation that reached its peak since 2008, while the securitized stake (34%) remained largely unchanged over the same period, with the majority (22%) consisting of agency residential mortgage-backed securities and the remainder in nonagency MBS (3%), CMBS (8%), and ABS (2%).

While the strategy's predilection for corporate bonds imbues it with more credit risk than the benchmark, the team rarely makes bold bets on industries and sectors, let alone individual names. High-conviction corporate names are typically expressed as a 0.50- to 0.75-percentage-point overweighting relative to the index's sizing, and industry overweightings are kept within a few percentage points. The team maintained their

longtime overweight to financials (21%), with a focus on banks and life insurance companies with strong fundamentals.

Performance Pillar | Gabriel Denis 02/19/2020
 Over lead manager Mary Ellen Stanek's impressive tenure from October 2000 through January 2020, the strategy's 5.4% annualized return outpaced its Bloomberg Barclays U.S. Aggregate Bond Index benchmark by 48 basis points and nearly 90% of its distinct intermediate core bond Morningstar Category peers. On the one hand, the strategy's volatility, as measured by standard deviation, was a note higher than the bogy over the period, owing in part to a greater proclivity for credit relative to U.S. Treasuries. Yet, on a risk-adjusted basis, as measured by the Sharpe ratio, the strategy dominated nearly 95% of its rivals.

The portfolio's bias to corporate credit has given it a long-term advantage against both index and typical peer, but it has also contributed to short-term volatility in swooning credit markets. Over the most painful span of the 2008 global financial crisis (September through November), for example, the strategy plummeted 4.4%, far more than the index's 0.5% loss and its typical peer's 1.6% dip over the same period. Despite that drubbing, in stress periods since—including both the commodity-related sell-off of June 2015 through February 2016 and the broad market sell-off over the fourth quarter of 2018—this strategy's returns remained resilient and landed in the middle of its category cohort.

People Pillar  Above Average | Gabriel Denis 02/19/2020
 While lacking the expansive analyst benches of some of the larger players in the fixed-income space, this nimble team benefits from seasoned leadership and a tight-knit, collaborative investment culture. It earns an Above Average People Pillar rating.

Baird Advisors CIO Mary Ellen Stanek heads a well-tenured, nine-person portfolio management team, composed of five members of strategic leadership team and four mid-level leaders. Six of these nine have been listed on the strategy since its September 2000 inception date, with a further

three added over 2019. Ten analysts, focusing on credit-, securitized-, and portfolio-risk research and an additional strategic leader complete the effort.

The team's strengths lie in its experienced leadership bench, cohesive culture, and mindfulness about its limitations. This team does not pursue highly credit-sensitive or esoteric investments that would require resources beyond those that currently exist to support the strategies. Stanek has also been proactive in expanding both the team's roster and resources. While many of the senior leaders on this bench are far along in their careers, the team doesn't foresee immediate changes to its leadership ranks, and the naming of several mid-level leaders to the strategy suggests they are well-positioned to take the reins in the future.

Parent Pillar  Above Average | Gabriel Denis 03/31/2020
 Baird's strength in its large fixed-income business and investor-friendly stewardship overall merit an Above Average Parent rating.

Under the leadership of longtime CIO Mary Ellen Stanek, the firm's taxable-bond funds continue to impress. Boasting low fees, a well-resourced team, and risk-aware investment processes, they constitute over 90% of the firm's assets under management, expanding from \$37 billion in 2016 to nearly \$88 billion at the end of 2019. This growth bears monitoring, but the team has shown prudence in adding personnel and operational resources to manage this burgeoning load. In recent years, the group has also focused on building out its municipal-bond effort, adding several key members to the team and launching two new municipal strategies in mid-2019. Although the firm's equity enterprise is smaller, it too benefits from tenured managers and attractive fees.

The firm's private wealth management arm has also grown precipitously in recent years, most recently through the acquisition of Louisville, Kentucky-based Hilliard Lyons in 2019. When framing the growth of this organization, Baird emphasized that Hilliard Lyons' advisors fit the cultural profile of its organization. This cultural fit is

important: Turnover among the firm's analyst staff has historically been low, and around two thirds of employees owned stock in the firm at the end of 2019.

Price Pillar | Gabriel Denis 02/19/2020
 It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Gold.

Important Disclosure Information

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. For performance current to the most recent month-end, please visit bairdfunds.com. Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and summary prospectus, containing this and other information, visit bairdfunds.com. Read it carefully before investing.

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds.

For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx>.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

The Morningstar five-star rating for the Institutional Class Baird Aggregate Bond Fund is the overall rating received among 384 Intermediate Core Bond Funds. The fund received four stars for the three-year period among 384 Intermediate Core Bond Funds, five stars for the five-year period among 331 Intermediate Core Bond Funds and five stars for the ten-year period among 252 Intermediate Core Bond Funds, as of March 31, 2020.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more

months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

The average annual total returns for the Institutional Class of the Baird Aggregate Bond Fund as of March 31, 2020, are 7.55% for the one-year, 4.54% for the five-year and 4.55% for the ten-year periods and 5.35% since its September 29, 2000, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays US Aggregate Bond Index as of March 31, 2020, are 8.93% for the one-year, 4.82% for the five-year and 3.36% for the ten-year periods and 4.96% since the fund's inception.

The Barclays U.S. Aggregate Bond Index is a fixed income, market-value index generally representative of investment grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. Indices are unmanaged and are 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. 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 significantly 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.

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.

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