

# 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	1.96	0.12
2019	9.48	1.42
2018	-0.30	0.19
2017	4.20	0.49
2016	3.52	0.29

Data through 1-31-20

2-19-20 | 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 | Alaina Bompiedi 03/26/2019  
 Baird earns a Positive Parent rating for strong stewardship within its fixed-income mutual fund lineup, circumspect capacity management, and high employee retention.

The Milwaukee-based financial-services firm has grown exponentially since it hired Mary Ellen Stanek and her cabinet of bond gurus to overhaul its bond-fund lineup in 2000. As Baird CIO and head of the fixed-income asset-management division, Stanek has championed investor-friendly practices across Baird's fund complex. The bond team's straightforward, risk-aware process has quickly and substantively attracted assets: From 2016 to 2018, assets grew from \$37 billion to \$67 billion. Although rapid growth can raise concern, Baird has responded by adding headcount and technological resources, and it raised the minimum size of its separate accounts to \$100 million to slow the pace of inflows. Tenured management and low turnover are also strengths, encouraged by Baird's employee-ownership structure.

Baird's smaller equity shelf is less impressive but also boasts reasonable fees and tenured management. It is also expanding. In 2018, the firm launched an open-end version of its Small/Mid Cap Growth strategy. Its network of financial advisors, however, has a blemished record. In 2019, it and

78 other advisory firms were fined for selling investors expensive share classes when cheaper alternatives were available.

**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

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 Aggregate Bond Fund is the overall rating received among 379 Intermediate Core Bond Funds. The fund received four stars for the three-year period among 379 Intermediate Core Bond Funds, five stars for the five-year period among 323 Intermediate Core Bond Funds and five stars for the ten-year period among 248 Intermediate Core Bond Funds, as of January 31, 2020.

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, 2019 are 9.48% for the one-year, 3.43% for the five-year and 4.65% for the ten-year periods and 5.34% 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 December 31, 2019 are 8.72% for the one-year, 3.05% for the five-year and 3.75% for the ten-year periods and 4.85% 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. 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.

**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 866-442-2473 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).*