

Baird Core Plus Bond Inst BCOIX

A strong and stable core plus option.

Morningstar's Take BCOIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

Role In Portfolio

Core

Fund Performance BCOIX

Year	Total Return (%)	+/- Category
YTD	1.68	0.27
2018	-0.51	-0.02
2017	4.65	0.93
2016	4.73	1.50
2015	0.14	0.40

Data through 2-28-19

2-25-19 | by Alaina Bompiedi

Baird Core Plus Bond has a strong foundation for success. Its stalwart team, disciplined process, and low fees align to make the fund a dependable choice in the intermediate-bond Morningstar Category, meriting a Morningstar Analyst Rating upgrade to Gold from Silver.

Veteran manager and Baird CIO Mary Ellen Stanek helms the fund with five tenured comanagers whose industry experience averages 35 years. All have been contributors here since the fund's 2000 inception. That group is supported by five additional portfolio managers and 12 dedicated analysts. While that head count is modest compared with some other firms', the team sticks to sectors and bonds that it can thoroughly understand with its resources.

Stanek and her team use a tried-and-true valuation-driven process to outpace the Bloomberg Barclays U.S. Universal Index. A mixture of investment-grade

corporate, securitized, and government bonds form the core of the portfolio, with a smattering of high yield (between 4% and 12% over the past decade) and dollar-denominated emerging-markets corporates (less than 5%). When the team ventures into below-investment-grade fare, it prefers to hold a diversified set of well-trafficked names, rather than concentrate in a few positions. The team matches the fund's duration to that of the index and avoids derivatives, leverage, and nondollar bonds. These constraints allow management to focus on its strengths: security selection and sector rotation.

Over its nearly two-decade life span, the strategy has maintained a persistent overweighting in corporate and securitized bonds, and an underweighting in Treasuries. Its bias toward credit has been a boon in the years following the financial crisis but comes with added risk. Yet, the process' risk controls, such as limitations on position sizing and a preference for shorter maturities in its lower-quality fare, prevent single names from derailing the strategy's performance. Helped by low fees, the approach has succeeded over the long term: Its 5.6% annualized return from its October 2000 inception through January 2019 outpaced more than 90% of its peers.

Process Pillar + Positive | Alaina Bompiedi 02/25/2019

Stanek and her team use a transparent, risk-aware combination of security selection and sector rotation to outrun their Bloomberg Barclays U.S. Universal Index benchmark. Compared with peers, their approach treads lightly in lower-quality bonds and forgoes leverage, derivatives, and non-dollar-denominated debt. A straightforward approach that sticks to its knitting earns a Positive Process rating.

The strategy has access to the same sectors as its index, a mix of corporate, securitized, and government bonds. The team hunts for investments that it believes offer strong fundamental features, attractive relative value, and fit within its broader macroeconomic views. The team keeps the

strategy's duration neutral to that of the index to limit rate-driven volatility and facilitate the best expression of its credit opinions.

The team's size and resources look trim compared with some rivals, but this group limits its pickings to sectors and bonds within its wheelhouse. To date, the managers have avoided subordinated mortgage- and asset-backed fare, emerging-markets sovereigns, and non-dollar-denominated bonds across their portfolios. Design features such as diversification guidelines and rules on position-sizing function as additional risk controls in the portfolio-construction process. When a team finds a bond it likes, it limits its position to a maximum 75-basis-point overweighting versus the index's size.

A persistent overweighting to corporate bonds, ranging between one fourth to just over half of the portfolio over the trailing 10 years, distinguishes the fund from its benchmark. At the end of December 2018, the fund's corporate credit stake stood at 52%, approximately split between financials (22%) and industrials (27%).

While investment-grade credit forms the core of the portfolio, it may also hold up to 20% in below-investment-grade debt. Historically, that stake has ranged from 4% to 15% and stood at the lowest end of that range as of December 2018. Much of that stake was in nonagency residential mortgages, with the remainder in high-yield corporate bonds. That position was 3 percentage points underweight the 7% high-yield position of its benchmark, reflecting management's concerns about narrowing spreads in the sector.

In 2018, the team maintained a modest overweight to the energy sector versus the index, preferring the stable cash flows of midstream companies and, to a lesser extent, refining. However, the team cut back its exposure to commodity-sensitive exploration and

production companies, concerned about volatility in energy prices.

The strategy also held a modest 3% in dollar-denominated emerging-markets bonds as of Dec. 31, 2018. Large, multinational companies domiciled in China (0.8%) and South Korea (0.8%) were its largest constituents.

Performance Pillar + Positive | Alaina Bompiedi
02/25/2019

Since the strategy's inception in 2000 through Jan. 31, 2019, its 5.6% trailing annualized return landed in the best decile of distinct funds in the intermediate-term category and 68 basis points ahead of the Bloomberg Barclays U.S. Universal Index. The managers' ability to outperform with a relatively straightforward portfolio illustrates the deftness of their craft and earns a Performance rating of Positive.

The strategy's overweighting in corporate bonds provides it with more yield than its Treasury-heavy benchmark, giving it a boost during credit rallies and making it susceptible to volatility during credit sell-offs. However, given this team's judicious attention to valuations and risk-mindedness, it hasn't fallen far behind its typical peer during sell-offs. During 2008, the strategy's credit-heavy tilt and sleeve of nonagency mortgages caused it to tumble 4 percentage points behind its index (it lost 1.8% versus the benchmark's 2.4% gain) but landed it near the category average. The fund had a similar relative showing in the commodity-driven high-yield sell-off from June 2015 through February 2016.

The strategy's tilt toward investment-grade credit challenged it again in 2018, a year that contained both interest-rate and credit-driven volatility. Again, the damage here was limited: The strategy's 0.51% loss that year lagged roughly 60% of its category peers.

People Pillar + Positive | Alaina Bompiedi
02/25/2019

In her capacity as chief investment officer of Baird Advisors, Mary Ellen Stanek has helped align this team's incentives with shareholders' while fostering

a tight-knit, collaborative approach. Seasoned leadership supported by an effective team earn a Positive People Pillar rating.

Stanek heads a five-member portfolio management team that collaborates on the firm's taxable bond strategies, including Baird Short-Term Bond BSBIX and Baird Aggregate Bond BAGIX. Averaging 35 years of industry experience, the formal leadership roster has remained consistent since the strategy's launch in 2000. Four additional portfolio managers--with credit research, securitized research, and portfolio risk focuses--and 12 dedicated analysts lend support.

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 adding resources, making four new hires between 2017 and 2018 and beginning an expansion of the team's tools and technology.

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 mid-level staff is well-positioned to take the reins in the future.

Parent Pillar + Positive | Alaina Bompiedi
03/21/2018

Baird is an employee-owned, financial-services firm that provides investment banking, private wealth advising, and asset-management services. Its asset-management business comprises fixed-income-focused Baird Advisors and Baird Equity Asset Management. Baird Advisors oversees 95% of the firm's mutual fund assets under management, and its leader, Mary Ellen Stanek, also acts as Baird's CIO, bringing the interests of her group to Baird's senior leadership.

Over the past several years, the firm's assets under management have grown substantively and quickly. Today, Baird's asset-management group oversees roughly \$65 billion, with \$50 billion in mutual funds (up from less than \$10 billion five years ago). Although rapid growth can sometimes raise concern,

Baird has responded by adding to its investment team and technological resources. Further, Baird Advisors increased the minimum size of its separate accounts to \$100 million to slow the pace of inflows.

Meanwhile, Baird Advisors has long maintained low fees overall. Its compensation structure also helps mitigate key-person risk, aligns personnel's financial success with the success of the fund lineup, and has resulted in strong manager retention. Baird's equity shelf is modest, but growing: In 2016, the firm added an international and a global fund to its lineup with the acquisition of Chautauqua Capital Management. Overall, the firm earns a Positive Parent rating.

Price Pillar + Positive | Alaina Bompiedi
02/25/2019

About 88% of the fund's assets are held in the Institutional share class, which charges a low fee of 0.30% (excluding additional investment-related costs) that puts it in competition with index funds. The retail share class BCOSX charges 0.55%, lower than many of its competitors. The strategy offers a compelling price point for both its institutional and retail investors, earning a Positive Price Pillar rating.

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 four-star rating for the Institutional Class Baird Core Plus Bond Fund is the overall rating received among 879 Intermediate-Term Bond Funds. The fund received four stars for the three-year period among 879 Intermediate-Term Bond Funds, five stars for the five-year period among 767 Intermediate-Term Bond Funds and four stars for the ten-year period among 564 Intermediate-Term Bond Funds, as of February 28, 2019.

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 Core Plus Bond Fund as of December 31, 2018 are -.51% for the one-year, 3.08% for the five-year and 5.41% for the ten-year periods and 5.58% 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 Universal Bond Index as of December 31, 2018 are -.25% for the one-year, 2.72% for the five-year and 4.06% for the ten-year periods and 4.90% 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.

The Barclays U.S. Universal Bond Index represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or high-yield. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. The index is unmanaged and is 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. Non-investment grade bonds involve greater risk of default and bankruptcy than investment grade securities. 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 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 contact Baird Funds directly at 800-444-9102 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.