Baird Short-Term Bond Inst BSBIX
No-nonsense and sensible exposure to short-term bonds.

**Morningstar’s Take BSBIX**

**Morningstar Rating** ★★★★

**Morningstar Analyst Rating** Gold

**Morningstar Pillars**
- **Process** High
- **Performance** —
- **People** Above Average
- **Parent** Above Average
- **Price** —

**Role In Portfolio**
- **Core**

**Fund Performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Return (%)</th>
<th>+/- Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>YTD</td>
<td>-0.48</td>
<td>1.66</td>
</tr>
<tr>
<td>2019</td>
<td>4.68</td>
<td>-0.04</td>
</tr>
<tr>
<td>2018</td>
<td>1.49</td>
<td>0.57</td>
</tr>
<tr>
<td>2017</td>
<td>1.53</td>
<td>-0.20</td>
</tr>
<tr>
<td>2016</td>
<td>2.25</td>
<td>0.17</td>
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</tbody>
</table>

Data through 3-31-20

4-01-20 | by Gabriel Denis

The dynamic team behind Baird Short Term 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.

The team’s no-nonsense approach focuses on investment-grade corporate, securitized, and government bonds and keeps the strategy’s duration in line with that of the Bloomberg Barclays U.S. Government/Credit 1-3 Year Index. The process forgoes leverage, derivatives, and macro trades, while its duration-neutral style allows management to focus on security selection and sector rotation. The strategy maintains a persistent bias toward investment-grade corporate credit (54% of the portfolio as of December 2019), making it more sensitive to credit risk than the benchmark. But the team balances that risk with judicious credit selection and diversification, emphasizing large, liquid names and keeping position overweightings within 75 basis points of their benchmark size.

Though the team’s long-term record is middling relative to aggressive peers in the short-term bond Morningstar Category, their circumspect approach has generally worked in the strategy’s favor through stressful markets. In the fourth quarter of 2018, for instance, the strategy’s preference for judicious credit selection and diversification, emphasizing large, liquid names and keeping position overweightings within 75 basis points of their benchmark size.

The strategy’s corporate bond position has been, on average, double the size of that in its bogy over the decade ended December 2019. The stake peaked over that period at 83% in 2011 but ended 2019 at its lowest level (54%) given the team’s observation that corporate credit spreads were extremely tight. Given the portfolio’s shorter time horizon, the team is more comfortable purchasing mid-quality names such as Zions Bancorp ZION and Newmont NEM, two names that they would pass-up in its longer-duration sibling funds. That approach imbues the strategy with more credit risk than the index, though the team keeps its pickings overwhelmingly investment-grade. Below-investment-grade fare has been used minimally, and the strategy ended 2019 with less than half a percent exposure to high-yield debt.

As of December 2019, the strategy balanced its corporate stake with U.S. Treasuries (34%) and identical to the benchmark’s, and derivatives, foreign currency, and leverage are off-limits. These restrictions allow the team to focus and refine its research in the core areas of the portfolio.

This team takes risk through credit rather than interest rates, which has led to bold stakes in BBB fare (34% of the portfolio as of late 2019). But that risk is mitigated through diversification; the highest-conviction positions are capped at a maximum 75-basis-point overweighting relative to the index, and no individual name can go above 5% of the portfolio. When the team wants to add credit risk, it prefers well-trafficked, BBB rated corporate bonds or AAA rated credit card or auto loan asset-backed securities.

Management scours for value among investment-grade bonds, unlike many rivals that dip into lower quality tiers in search of higher yields. Still, this approach is far more opportunistic than its U.S. Treasury-heavy index.

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securitized fare (11%). The latter allocation was dominated by asset-backed securities (5%), generally higher-quality credit card and auto loans, and non-agency mortgages (6%) of both residential and commercial flavors.

Performance Pillar | Gabriel Denis 02/19/2020
An overweighting in investment-grade credit has helped the strategy outperform its Bloomberg Barclays U.S. Government/Credit 1-3 Year Index since its September 2004 inception with modest volatility (measured by standard deviation). From inception through January 2020, its risk-adjusted return, as measured by the Sharpe ratio, was higher than around 75% of distinct short-term bond category peers. Yet the strategy’s trailing total returns over the same period are somewhat less impressive, as its 2.8% annualized return comfortably outpaced its index but served as the median return in its distinct peer cohort.

The strategy’s large corporate bond stake has helped it beat its U.S. Treasury-heavy benchmark over the trailing 10 years ended December 2019, but its conservative bent has held back performance relative to riskier peers. When credit markets have buckled, as they did during the 2008 financial crisis, its credit-heavy tilt can cause it to lag its index, while its quality bias has typically buoyed it above the average competitor. For instance, the fund held up better than over 70% of its rivals when falling oil prices pushed credit spreads wider from June 2015 through February 2016. When credit sold off in the final quarter of 2018, the strategy once again drubbed 75% of its peers.

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, comprised 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.

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.

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.
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.

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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 four-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 496 Short-Term Bond Funds. The fund received four stars for the three-year period among 496 Short-Term Bond Funds, four stars for the five-year period among 442 Short-Term Bond Funds and four stars for the ten-year period among 283 Short-Term 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 downwind 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 Short-Term Bond Fund as of March 31, 2020, are 2.52% for the one-year, 1.90% for the five-year and 2.23% for the ten-year periods and 2.72% since its August 31, 2004, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Barclays 1-3 U.S. Government/Credit Bond Index as of March 31, 2020, are 4.53% for the one-year, 1.90% for the five-year and 1.62% for the ten-year periods and 2.48% since the fund’s inception.

The Barclays 1-3 U.S. Government/Credit Bond Index is an index consisting of Treasury or government agency securities and investment grade corporate debt securities with maturities of one to three years. 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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