

# Baird Short-Term Bond Inst BSBIX

Strong stewardship, low fees, and a consistent process make a winning combination.

## Morningstar's Take BSBIX

**Morningstar Rating** ★★★

**Morningstar Analyst Rating** Gold

### Morningstar Pillars

Process	+	Positive
Performance	●	Neutral
People	+	Positive
Parent	+	Positive
Price	+	Positive

### Role In Portfolio

Supporting

### Fund Performance BSBIX

Year	Total Return (%)	+/- Category
YTD	0.89	-0.11
2018	1.49	0.57
2017	1.53	-0.20
2016	2.25	0.17
2015	0.89	0.69

Data through 2-28-19

2-25-19 | by Alaina Bompiedi

The small but tight-knit team behind Baird Short-Term Bond is thoughtful about how investors use its portfolios, which informs a circumspect process that doesn't take risk in esoteric sectors or duration bets. Disciplined security selection and sector rotation combined with low fees have helped the strategy beat its benchmark with modest volatility, supporting a Morningstar Analyst Rating upgrade to Gold from Silver.

Industry veteran Mary Ellen Stanek and five tenured comanagers oversee this strategy. Four additional portfolio managers and 12 dedicated analysts round out the effort. While this is a smaller team with a somewhat younger analyst bench than other firms', the group sticks to well-trafficked credits and avoids esoteric fare.

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 (60% of the portfolio as of December 2018), 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.

The team's penchant for credit has been advantageous versus its more conservative benchmark since the financial crisis, though its cautious profile versus more aggressive peers has contributed to a middling long-term record in the short-term bond Morningstar Category. Still, the team's circumspect approach has generally worked in the strategy's favor in stressful markets. In 2018, for instance, its preference for higher-quality names helped it outpace three fourths of distinct category peers. Its modest volatility and low fees continue to make it a stellar choice for cautious investors.

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

Mary Ellen Stanek and her team ply a straightforward and risk-conscious investment style well-suited for this short-term bond strategy. The team uses the Bloomberg Barclays U.S. Government/Credit 1-3 Year Index as a guide for sector rotation and security selection across investment-grade corporate, securitized, and government bonds. The strategy's duration is kept 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 (roughly 30% of the portfolio as of late 2018). But that risk is mitigated through diversification; the highest-conviction positions are capped at a maximum 75-basis-point overweighting relative to the index. 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.

All members of the team source, analyze, and secure investments for the portfolio. While the team's resources may not match the breadth of larger firms, it stays within its circle of competence and has proactively added tools and headcount to deepen its research. This prudent process has served its investors well, supporting a Positive Process rating.

Management searches for value among investment-grade bonds, which tilts the portfolio to a higher overall credit quality than many category peers. Yet it remains far more opportunistic than its U.S. Treasury-heavy index.

The strategy's corporate bond position is typically double that of the benchmark. From January 2007 through December 2018, its corporate bond stake was lowest at 45% in 2007 and highest at 80% in 2011. At the end of December 2018, it stood at 60%. Given the strategy's short time horizon, the team has felt comfortable holding onto midquality names here that it would otherwise pass by in its intermediate-term funds. That tack imbues the fund with more credit risk than the index, though the team keeps its pickings predominantly higher-quality. When it ventures into midgrade fare, the team prefers large, liquid names such as Verizon VZ, AT&T T, and CVS Health CVS. Below-investment-grade fare is used minimally, typically constituting 2% of the portfolio or less. At the start of 2018, the fund had less than half a percentage point of high-yield exposure.

As of December 2018, the fund's corporate stake was balanced by U.S. government bonds (26%),

mortgages (6%), and ABS (8%). The mortgage stake was mostly made up of legacy nonagency residential issues (3%), and the asset-backed stake consisted of auto loans and credit card deals.

**Performance Pillar** ● Neutral | Alaina Bompiedi  
02/25/2019

An overweighting in investment-grade credit has helped the strategy outperform its Bloomberg Barclays U.S. Government/Credit 1-3 Year Index and half of its peer group since its 2004 inception with modest volatility. From inception through January 2019, its risk-adjusted return, as measured by Sharpe ratio, was higher than 70% of distinct category peers. Nonetheless, while the strategy's strong long-term risk-adjusted returns reflect the benefits of its process, particularly for cautious investors, its middling total returns lead to a Performance rating downgrade to Neutral from Positive.

The strategy's large corporate bond stake has helped it beat its Treasury-heavy benchmark over the trailing 10 years, but its conservative bent has held back performance relative to riskier peers. When credit markets have buckled, as 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 protected capital better than three fourths of its peers when falling oil prices pushed credit spreads wider from June 2015 through February 2016. It also held up well against the backdrop of rising U.S. interest rates and equity volatility in 2018: Its 1.5% gain outpaced nearly 80% of 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 rating.

Stanek heads a five-member portfolio management team that collaborates on the firm's taxable bond strategies, including Baird Aggregate Bond BAGIX and Baird Core Plus Bond BCOIX. Averaging 35 years of industry experience, the formal leadership roster has remained consistent since the strategy's 2004

inception. Four additional senior 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 97% of assets are held in the Institutional share class, BSBIX, which charges a 0.30% fee (excluding additional investment-related costs), which is among the lowest of actively managed funds in the category. The Retail share class, BSBSX, charges 0.55%, about average compared with its no-load competitors. Low fees for the majority of investors garners 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 three-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 476 Short-Term Bond Funds. The fund received three stars for the three-year period among 476 Short-Term Bond Funds, four stars for the five-year period among 414 Short-Term Bond Funds and three stars for the ten-year period among 265 Short-Term Bond Funds, as of January 31, 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 Short-Term Bond Fund as of December 31, 2018 are 1.49% for the one-year, 1.53% for the five-year and 2.75% for the ten-year periods and 2.67% 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 December 31, 2018 are 1.60% for the one-year, 1.03% for the five-year and 1.52% for the ten-year periods and 2.30% since the fund's inception. The expense ratio of the Investor Class is 0.55%.

**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 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

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