

Baird Aggregate Bond Inst BAGIX

Form and function come together seamlessly in this Silver-rated core bond fund.

Morningstar's Take BAGIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

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

Role In Portfolio

Core

Fund Performance BAGIX

Year	Total Return (%)	+/- Category
YTD	1.79	0.62
2015	0.55	0.81
2014	6.89	1.71
2013	-1.25	0.17
2012	7.92	0.91

Data through 2-29-16

3-09-16 | by Emory Zink

While Baird Aggregate Bond inhabits a well-trodden investment-grade landscape, management's experience, nimble implementation, and low fees have given the fund an edge, delivering consistent return to investors and earning this fund a Morningstar Analyst Rating of Silver.

Mary Ellen Stanek helms a team of six named co-portfolio managers who average 32 years of experience in the industry and have contributed to this strategy from its inception in 2000. The team is rounded out with five additional senior portfolio managers and four analysts. Although this is fewer in number than many larger firms with comparable funds, Stanek and her support counter this by sticking to sectors and investments that they can thoroughly research with the fund's given resources.

It is not only the firm's leadership that has remained stalwart--the process is consistent as well. Similar

to many of their intermediate-term bond Morningstar Category peers, the team invests in a mix of corporates, mortgages, and Treasuries, and it benchmarks itself against the Barclays U.S. Aggregate Index. Emphasis has been on higher-quality holdings and the fund tends to have a higher allocation to A and BBB rated securities and a lower allocation to non-investment-grade or nonrated securities than its average category peer.

It takes a duration-neutral stance relative to its buyout but makes active bets on sector, yield curve, and individual security selection. Over the strategy's life, the fund has maintained a persistent overweighting to credit and underweighting to Treasuries and government-related securities. As of early 2016, the credit allocation occupied 43% of the portfolio--toward the higher end of its historical allocation range.

The fund's historical performance is solid. Over the trailing 10 years ended February 2016, the fund generated 4.7% of annualized return, modestly ahead of the index and better than 60% of its category peers. Low volatility and rock-bottom fees further contribute to this fund's consistent performance and risk-conscious appeal.

Process Pillar + Positive | Emory Zink 03/09/2016

Mary Ellen Stanek and her co-portfolio managers have consistently followed a straightforward and risk-conscious process since the fund's inception in 2000. Allocations are diversified across a mix of corporate bonds, mortgages, and Treasuries. The team avoids making interest-rate bets and keeps the fund's duration close to its Barclays Aggregate Index benchmark. There is a policy of no derivatives, foreign currency, or leverage at work in the portfolio. Although the fund is overwhelmingly dedicated to investment-grade fare, within the lower-quality credit brackets, the securities are smaller in

allocation and more diverse across issuers as an additional risk control in the portfolio-construction process.

All members of the team source, analyze, and secure investments for the portfolio--which is possible given its smaller size and the industry experience across the bench of contributors. Stanek and her co-portfolio managers stick to sectors and investments that they can thoroughly research, avoiding overly esoteric or exotic fare, and historically focusing on opportunities within the investment-grade credit universe. Although resources may not match the breadth of those at larger fixed-income firms, this team's straightforward and cohesive process has positively contributed to the portfolio's performance in every calendar year following the financial crisis of 2008 and supports the fund's Positive Process Pillar rating.

Relative to its Barclays Aggregate Bond Index benchmark, the fund persistently gives an overweighting to credit, which has ranged between a fourth to roughly half of the portfolio over the trailing five years. As of the start of 2016, the credit allocation sat at around 43%. Within the credit bucket, management cited financials as a bright spot for bond investment, given the extensive banking legislation and shored-up balance sheets required across the sector. The weighting exceeds that of its index by roughly 13 percentage points. Other allocation preferences include out-of-benchmark nonagency RMBS (around 6%) as well as ABS (around 4%).

Management searches for value in A and BBB rated credits--it had a 15-percentage-point higher allocation to this credit-quality range than the index and a 10-percentage-point higher allocation than its average intermediate-term bond peer at the beginning of 2016. The fund's exposure to below-investment-grade and nonrated fare was a modest 1% relative to the category's average 10% allocation. Management remains light in short maturity bonds in favor of intermediate and floating-

rate securities--a defensive positioning that anticipates market volatility in the near term. Duration matches that of the index and was 5.7 years as of February 2016, slightly longer than the roughly five years of its average category peer. The portfolio contained no derivatives or leverage.

Performance Pillar + Positive | Emory Zink
03/09/2016

Over the trailing 10 years ended February 2016, the fund generated 4.7% of annualized return, modestly ahead of the Barclays U.S. Aggregate Index and better than 60% of its category peers. When credit markets take a dive, as they did during the 2008 financial crisis, the fund's credit-heavy allocation causes the fund to tumble a bit beyond the index, but the higher-quality bias of its securities tends to buoy the fund's performance over its average category peer in those same situations. For example, when credit markets sold off in August 2015, the fund lost around 3.1%--more than the roughly 1.7% loss of the index but less than the 4.6% loss of the category.

The team's deft avoidance of risky energy bonds, which burned many managers in the second half of 2014, contributed to the fund's top-decile performance for that year. The year 2015 provided challenges, as exposure to commodity-sensitive sectors detracted from the fund's return to a greater extent than the fund's overweighting in financials. For the year ended February 2016, the fund generated a 1.6% return, a step ahead of the benchmark (by 5 basis points) and a leap ahead of its average of oldest-share-class category peers (by 164 basis points).

In each of the trailing five calendar years, the fund has outperformed its benchmark as well as its average intermediate-term category peer, justifying a Positive Performance Pillar rating.

People Pillar + Positive | Emory Zink
03/09/2016

As managing director and chief investment officer of Baird Advisors, Mary Ellen Stanek helms a six-member formal portfolio management team that collaborates on a variety of funds in Baird's fixed-income suite, including the Silver-rated Baird Core Plus Bond and Silver-rated Short-Term Bond. Averaging 32 years of experience in the industry, the

formal leadership roster has remained consistent since the fund's 2000 inception. Portfolio recommendations are further bolstered by the input of five additional senior portfolio managers--with credit research, securitized research, and portfolio risk focuses--and four dedicated fixed-income analysts.

Stanek, formerly president and CEO of Firststar Investment Research & Management (Firststar Corp.'s money-management division) where she worked for 21 years, left for Baird with a group of Firststar veterans in March 2000. The team's strength derives heavily from its deep bench of experience and cohesive culture, but, perhaps most importantly, the team benefits from recognizing its limitations. Stanek and her co-portfolio managers don't pursue highly illiquid or esoteric investments that would require resources beyond those that currently exist to support the fund. Seasoned management leading an effectively collaborative team earns this fund a Positive People Pillar rating.

Parent Pillar + Positive | Emory Zink 07/20/2015

Robert W. Baird & Co. is an employee-owned financial-services firm engaged in various businesses, including investment banking, wealth management, and asset management. Baird Advisors and Baird Investment Management oversee the small lineup of nine Baird mutual funds. Fixed-income investing comprises the bulk of mutual fund assets under management, at more than 85%. Performance overall has been consistently strong.

Baird has been careful when launching new products and has shied away from fads. Indeed, Baird offers only core investments that are easy for investors to use. The firm recently hired a three-person municipal bond team; without disclosing specifics, Baird has said it will likely offer new strategies as a result. Currently, Baird offers one muni-bond mutual fund.

Baird's portfolio managers invest meaningfully across the fund lineup. Baird Advisors CIO Mary Stanek reports that she invests in all of the Baird funds, whether she is listed as a portfolio manager or not, and that many other managers follow suit. The recent muni-team lift-out notwithstanding, the firm has historically grown its own portfolio managers, and overall turnover has been low. Baird's

five-year manager retention rate is a healthy 95%. Baird's lineup remains reasonably priced. Baird earns a Positive Parent rating.

Price Pillar + Positive | Emory Zink 03/09/2016

The fund's Institutional share class, where nearly 94% of assets are invested, charges an exceptionally low fee of 0.30%, which makes it competitive with many index funds. Relative to actively managed peers, this fund's fee is 20 basis points lower than the median of its intermediate-term institutional bond category. The fund's Retail share class charges 0.55% and registers below-average fees relative to its intermediate-term no-load bond peers. This fund's competitively priced fees qualify it for 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 five-star rating for the Institutional Class Baird Aggregate Bond Fund is the overall rating received among 951 Intermediate-Term Bond Funds. The fund received five stars for the three-year period among 951 Intermediate-Term Bond Funds, five stars for the five-year period among 825 Intermediate-Term Bond Funds and four stars for the ten-year period among 595 Intermediate-Term Bond Funds, as of February 29.

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 are 0.55% for the one-year, 4.32% for the five-year and 4.84% for the ten-year periods and 5.65% since its September 29, 2000, inception date.

The average annual total returns for the Barclays US Aggregate Bond Index as of December 31 are 0.55% for the one-year, 3.25% for the five-year and 4.51% for the ten-year periods and 5.16% 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. 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").

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.