

Baird MidCap Inst BMDIX

No surprises.

Morningstar's Take BMDIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process		Positive
Performance		Positive
People		Positive
Parent		Positive
Price		Positive

Role In Portfolio

Supporting

Fund Performance BMDIX

Year	Total Return (%)	+/- Category
YTD	8.92	-1.77
2018	-1.61	5.04
2017	26.88	2.97
2016	5.40	-0.63
2015	-3.59	-2.64

Data through 1-31-19

8-17-18 | by Shannon Yan

Baird MidCap's reliability merits a Morningstar Analyst Rating of Bronze.

The fund is in the hands of an experienced crew. True to Baird's culture, four of the six team members have built their entire investment careers at firm, including lead manager Charles Severson, who has been in charge of this fund since its year-end 2000 inception and of a similar separate account since 1993. The remaining two transplanted analysts have also worked on the fund for more than a decade.

The fund's straightforward and relatively cautious approach has been honed over two decades. Severson and his team use fundamental research with quantitative and technical overlays to look for 55-60 mid-cap companies that can sustain earnings and revenue growth for at least three to five years. Bottom-up work drives stock-picking, but the fund also pays heed to its Russell Mid-Cap Growth

benchmark. Severson will sell a name if it graduates from the index, for example. He is willing to pay up for growth, as supported by the fund's higher price multiples relative to its benchmark. But the firms he favors tend to be industry leaders with superior profitability and modest debt/capital ratios; the fund doesn't own not-yet-profitable biotech or highly leveraged fare, and nearly two thirds of firms in the July 2018 portfolio had higher returns on invested capital over the trailing 12 months than the index's average.

Severson's bias toward profitable firms can result in a multiyear slump on relative terms, such as during 2013-16, but it has also buoyed the fund's showings when the market takes a turn for the worse, as it did in the 2007-09 credit crisis and the more recent drawdown in early 2018. Resilience in bouts of volatility contributes to the fund's solid long-term results. During Severson's tenure, the fund edged the benchmark and landed in the mid-growth Morningstar Category's top half.

While fees have ticked up over the past years, they are still Below Average versus similarly sold peers. With a seasoned team that is willing to stick to its circle of competency in varied market environments, the fund continues to prove its worth.

Process Pillar Positive | Shannon Yan 08/17/2018

A straightforward and well-executed process earns the fund a Positive Process rating. Manager Charles Severson and his team look for mid-cap companies with \$2 billion-\$30 billion in market cap with five characteristics: attractive margins, durable revenue growth, capable management, industry tailwinds, and favorable market expectations. The team pays attention to valuations, but members choose valuation metrics or models on a case-by-case basis and aren't afraid to buy expensive but well-run growers. Overall, though, the fund typically favors profitable, debt-light firms that can sustain earnings and revenue growth for at least three to five years.

The fund uses a quant screen as a fundamentals-check and employs a technical screen to gauge market sentiment and buy or sell stocks in a timely fashion. But it isn't beholden to those filters. Turnover isn't excessive, for example, ranging between 30% and 60% since 2009. While most holdings take up 1%-2% of assets, the fund can build up to a 4% position in fundamentally sound companies that screen well and holds on to them unless their growth slows.

Fundamental research drives stock selection, but Severson also tries not to stray too far from the fund's Russell Mid Cap Growth benchmark. For example, he keeps its sector weightings within 25% of the index and will sell a name if it grows too big in market cap for the benchmark.

This fund is fairly diversified across 55-60 stocks, its typical range since 2009, with no more than a fourth of assets in its top 10. The fund also stays diversified across sectors but likes some sectors more than others. It shuns not-yet-profitable biotechs and avoids highly leveraged fare, like most REITs, utilities, and airlines. It tends to have big but close to index-sized helpings of consumer discretionary and healthcare names, as well as larger-than-benchmark stakes in tech and industrials stocks. In fact, manager Charles Severson has sustained an overweight in cyclical sectors like industrials since 2009 because he thinks the broader economy is growing at a healthy clip.

Severson only buys a name from his watchlist if it has sufficiently demonstrated its ability to grow. That entails paying up a bit for stocks. For example, he waited for O'Reilly Automotive ORLY to resolve its sales issues in 2017 before buying the stock in early 2018; by then, its share price had recouped somewhat. Indeed, the fund's average trailing 12-month price/earnings was 30 in July 2018, versus the benchmark's 26.

Severson tempers price risk by sticking to high-quality fare. In the case of O'Reilly, Severson thinks its vendor-financed business model will generate enough cash to spur expansion and share buybacks. Overall, the fund's net margin levels have been lower and its debt levels higher than the index during his tenure.

Performance Pillar + Positive | Shannon Yan 08/17/2018

Solid performance during the tenure of its longest-serving manager earns the fund a Positive Performance rating. From the fund's year-end 2000 launch with Charles Severson at the helm through July 2018, its annualized 7.4% gain edged the Russell Mid Cap Growth Index's 7.2% and the typical mid-growth peer's 5.7%. The fund's Sortino ratio, a measure of risk-adjusted returns that penalizes downside risk, was also higher than the benchmark's during that stretch.

The fund's performance in volatile markets accounted for much of those results. From the benchmark's Oct. 10, 2007, peak to its March 3, 2009, trough, the fund's painful 54% drop was still nearly 3 percentage points less than the index's. A penchant for financially sturdy, steady growers like Fastenal FAST helped, as did timely sells in hard-hit energy and industrials. More recently, the fund held up better than the index in 2011's third quarter, 2015-16's sharp correction, and early 2018's drawback.

The fund will look out of favor from time to time. It lagged the benchmark in the second half of 2017, for example. The fund also finished each calendar year in 2013-16 behind the index and the average mid-growth fund. An aversion to speculative biotech and other leveraged fare has caused the fund to lag in long bull markets. But there have been mistakes, too. Severson was slow to sell long-term holdings such as Greenhill GHL as their growth prospects dimmed.

People Pillar + Positive | Shannon Yan 08/17/2018

Managers with long histories of working together earn the fund a Positive People rating.

Lead manager Charles Severson has been in charge on this fund since its year-end 2000 inception. A 31-year veteran of Robert W. Baird & Co, Severson has applied the same basic process to a separate account, Baird Mid-Cap Growth Equity, since its June 1993 inception and it successfully navigated the market drawbacks in 1998 and 2000. Kenneth Hemauer, who joined the fund in 2001 as a financials and consumer analyst, became a named manager here in mid-2010 when two former comanagers left. Hemauer still covers the fund's financials sector.

A fairly stable four-member squad assist Severson and Hemauer. The industrials analyst and the healthcare analyst came to the fund more than a decade ago with 14 and six years of prior experience, respectively. A tech analyst and a consumer analyst joined the team in mid-2014 after roughly five years on Baird's sell-side research team. Senior members who had covered tech and consumer stocks served as mentors to the relative newcomers, but the junior analysts have taken sole charge of their respective sectors as of 2018.

Management's interests are well aligned with investors'. Severson has increased his investments here to over \$1 million; Hemauer bumped his up to at least \$500,000. All team members invest in the fund and own shares of the firm.

Parent Pillar + Positive | Shannon Yan 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 | Shannon Yan 08/17/2018

The fund earns a Positive Price Pillar rating because its institutional shares, which hold the lion's share of its assets, charge a 0.84% expense ratio that ranks in its peer group's second-cheapest quintile. However, it now ranks at the high end of that quintile and has crept up 3 basis points since 2016. Plus, the fund's retail share class is less competitively priced, clocking in average for mid-cap no-load funds.

Transaction and tax costs have remained low, though. The fund's 2017 brokerage commissions as a percentage of average net assets fell just below the mid-growth category median. Its Morningstar's tax-cost ratio was a fraction of peers' during the trailing three-, five-, 10-, and 15-year periods through July 31, 2018.

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 MidCap Fund is the overall rating received among 547 Mid Growth Funds. The fund received three stars for the three-year period among 547 Mid Growth Funds, three stars for the five-year period among 492 Mid Growth Funds and four stars for the ten-year period among 345 Mid Growth 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 MidCap Fund as of December 31, 2018 are -1.61% for the one-year, 5.87% for the five-year and 14.52% for the ten-year periods and 6.83% since its December 29, 2000 inception date. The expense ratio for the institutional class is 0.84%.

The average annual total returns for the Russell Midcap Growth Index as of December 31, 2018 are -4.75% for the one-year, 7.42% for the five-year and 15.12% for the ten-year periods and 6.30% 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 funds' current performance may be lower or higher than the performance data quoted.

The Fund focuses on growth-style stocks and therefore the performance of the Fund will typically be more volatile than the performance of funds that focus on types of stocks that have a broader investment style. The Fund may invest up to 15% of its total assets in U.S. dollar-denominated foreign securities and ADRs. Foreign investments involve additional risks such as currency rate fluctuations, political and economic instability, and different and sometimes less strict financial reporting standards and regulation. The Fund invests a substantial portion of its assets in the stocks of mid-capitalization companies. Mid-capitalization companies often are more volatile and face greater risks than larger, more established companies.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. Indices are unmanaged and are not available for direct investment.

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, please visit www.bairdfunds.com.