

Baird MidCap Inst BMDIX

Reliable.

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	29.51	2.32
2018	-1.61	5.04
2017	26.88	2.97
2016	5.40	-0.63
2015	-3.59	-2.64

Data through 7-31-19

8-08-19 | by Stephen Welch

Veteran leadership runs the show here. Lead manager Charles Severson has overseen the fund since its year-end 2000 inception, and a similar separate account dating to 1993. Comanager Kenneth Hemauer has worked on the fund since the beginning as an analyst, becoming a named manager in mid-2010. Four analysts round out the team, two of whom have over a decade of experience with the fund.

Severson's process is disciplined and time-tested. Focused on stocks within the market-cap range of the Russell Midcap Index, he looks for companies like Synopsis SNPS. It is a market leader in electronic design automation with a low debt/capital ratio and an above-benchmark return on invested capital, which has more than tripled since he first bought the stock in 2015. While fundamental analysis is key to identifying such companies, Severson and his team also use quantitative and technical overlays for position sizing and transaction decisions.

Those decisions, though, often require Severson to pay up in building the fund's roughly 55- 60 stock portfolio. Over the past decade, the fund's trailing 12-month price/earnings ratio ranged between 17 and 32 and was on average 16% higher than the Russell Midcap Growth Index's. While the kind of profitable, debt-light firms Severson favors can rarely be had at a bargain, the higher multiples also reflect his caution about buying companies on his roughly 10-stock watchlist amid challenges. For example, he waited for O'Reilly Automotive ORLY to resolve its sales issues in 2017 before buying the stock at a higher price in early 2018.

The fund has proven resilient in down markets like late 2018's near bear market, but it can lag during extended rallies. That was the case between mid-2012 and early 2015, for example, when Severson's aversion to non-profitable biotech firms and leveraged airlines hurt. Yet, over Severson's 18-plus years at the helm, the fund has produced benchmark-beating results through July 2019. With below-average fees and an experienced team running a disciplined process, this fund continues to be a strong option.

Process Pillar + Positive | Stephen Welch 08/08/2019

The fund's straightforward and well-executed process supports a Positive Process rating. Focused on stocks within the Russell Midcap Index's market-cap range, manager Charles Severson and his team look for companies 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 above-average 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, which helps it time buying and selling stocks. 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%-3% of assets, the fund can build up to a 4% position in fundamentally sound companies with quant and technical screen support; it holds on to them unless their growth slows.

Fundamental research informs the fund's sector weightings, though they tend to stay within 10 percentage points of the Russell Midcap Growth Index's. Severson will sell names whose market caps become too big for the benchmark.

This fund is fairly diversified across 55-60 stocks, its typical range since mid-2008, with no more than a fourth of assets in its top 10 holdings. While diversified across sectors, the fund favors some sectors more than others. It shuns not-yet-profitable biotech firms and avoids highly leveraged companies, including most REITs, utilities, and airlines. It tends to have larger-than-benchmark stakes in tech and industrials stocks. In fact, manager Charles Severson has sustained an overweighting in cyclical sectors like industrials since 2009 because he thinks the broader economy is growing at a healthy clip.

Severson keeps a watchlist of roughly 10 stocks and will wait to buy a name from the list when the company's results improve. 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 31 in June 2019 versus the benchmark's 24.

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 higher and its debt/capital levels lower than the index during his tenure.

Performance Pillar + Positive | Stephen Welch
08/08/2019

A strong showing during the tenure of its longest-serving manager merits a Positive Performance rating. From the fund's year-end 2000 launch with Charles Severson at the helm, its 8% annualized gain through June 2019 beat the Russell Mid Cap Growth Index's 7.5% and the typical mid-growth peer's 5.7%. The fund's Sortino ratio, a measure of risk-adjusted results, was also higher than the benchmark's during that stretch.

The fund got much of its edge from faring well in volatile markets like the 2007-09 credit crisis. From the Russell Mid Cap Index's July 19, 2007, peak to its March 9, 2009, trough, the fund's painful 51% drop was still nearly 6 percentage points less than the benchmark's. A penchant for financially sturdy, steady growers like Fastenal FAST helped then, as did timely sales of hard-hit energy and industrials names. More recently, the fund held up better than the index in 2011's third quarter, 2012's second quarter, and late 2018's drawback.

The fund can lag for extended periods, whether in rallies that favor more aggressive peers or value-oriented markets that reward the kind of income-oriented sectors it typically eschews. Treading lightly in real estate and utilities hurt from mid-2004 to mid-2007, for example, though poor restaurant picks, like Cheesecake Factory CAKE, also detracted. It also finished behind the index each calendar year from 2013 to 2016.

People Pillar + Positive | Stephen Welch
08/08/2019

An experienced and effective management team earns the fund a Positive People rating. Lead manager Charles Severson has been in charge since the fund's year-end 2000 inception, but his experience with the strategy goes beyond that. A 32-year veteran of Robert W. Baird & Co, Severson has used the same process on the separate account Baird Mid-Cap Growth Equity since June 1993 and it

successfully navigated the market drawbacks in 1998 and 2000.

Severson isn't alone. He works as part of a six-person team, four of whose members have worked together for over a decade. Comanager Kenneth Hemauer initially joined the fund in 2001 as a financials and consumer analyst and became a named manager in mid-2010. Hemauer still covers the financials sector.

Four analysts round out the team. The industrials analyst and the healthcare analyst each came to the fund more than 10 years ago, with 20 and seven years of prior experience, respectively. The consumer analyst joined in mid-2014, after roughly four years on Baird's sell-side research team. There was a change to the technology analyst position in April 2019, but the new analyst who joined isn't a neophyte. He came with three years of investment experience and spent more than a decade in the tech industry before that.

The managers and analysts invest alongside shareholders. Severson has more than \$1 million in the fund and Hemauer at least \$500,000.

Parent Pillar + Positive | Stephen Welch
03/26/2019

Baird earns a Positive Parent rating for strong stewardship within its fixed-income mutual fund lineup, circumspect capacity management, and high employee retention.

The Milwaukee-based financial-services firm has grown exponentially since it hired Mary Ellen Stanek and her cabinet of bond gurus to overhaul its bond-fund lineup in 2000. As Baird CIO and head of the fixed-income asset-management division, Stanek has championed investor-friendly practices across Baird's fund complex. The bond team's straightforward, risk-aware process has quickly and substantively attracted assets: From 2016 to 2018, assets grew from \$37 billion to \$67 billion. Although rapid growth can raise concern, Baird has responded by adding headcount and technological resources, and it raised the minimum size of its separate accounts to \$100 million to slow the pace of inflows. Tenured management and low turnover are also

strengths, encouraged by Baird's employee-ownership structure.

Baird's smaller equity shelf is less impressive but also boasts reasonable fees and tenured management. It is also expanding. In 2018, the firm launched an open-end version of its Small/Mid Cap Growth strategy. Its network of financial advisors, however, has a blemished record. In 2019, it and 78 other advisory firms were fined for selling investors expensive share classes when cheaper alternatives were available.

Price Pillar + Positive | Stephen Welch
08/08/2019

Below-average fees earn the fund a Positive Price rating.

The Institutional shares' 0.84% expense ratio applies to the lion's share of its assets and ranks in mid-cap institutional peers' second-cheapest quintile. The retail shares' 1.05% expense ratio is less competitive and in line with their peer group norm, but those shares account for only 6% of the fund's assets.

Transaction and tax costs have remained low, though. The fund's 2018 brokerage commissions were just 0.03% of average net assets, versus the 0.04% mid-growth Morningstar Category median. Its Morningstar's tax-cost ratio was also a fraction of the peer group norm during the trailing three-, five-, 10-, and 15-year periods through June 30, 2019.

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 565 Mid Growth Funds. The fund received four stars for the three-year period among 565 Mid Growth Funds, four stars for the five-year period among 501 Mid Growth Funds and four stars for the ten-year period among 385 Mid Growth Funds, as of December 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, 2019 are 36.31% for the one-year, 11.58% for the five-year and 14.14% for the ten-year periods and 8.21% since its December 29, 2000 inception date. The expense ratio for the institutional class is 0.81%.

The average annual total returns for the Russell Midcap Growth Index as of December 31, 2019 are 35.47% for the one-year, 11.60% for the five-year and 14.24% for the ten-year periods and 7.67% 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.