

MARKET UPDATE

The quarter's most notable macro event was the about face of the Federal Reserve, which moved rapidly from a plan to raise rates several times in 2019 to signaling the potential end of the tightening cycle. With that shift, concerns about slowing global growth, the drag from tariffs and stagnate China trade negotiations, which weighed heavily on investor sentiment late in 2018, seemingly disappeared. Stocks rebounded sharply in January and didn't look back, recovering almost the entire fourth quarter decline and registering the strongest quarterly increase since 2009.

FUND COMMENTARY

The Baird MidCap Fund Institutional Class meaningfully participated in the market advance, registering a gain of roughly 18.5% net of fees, but slightly lagged our primary benchmark, the Russell® Midcap Growth Index, which gained 19.6%. Our fund and the benchmark provided positive returns in all three months of the quarter.

Relative strength in the healthcare, producer durables and technology sectors was not quite able to offset underperformance in the consumer discretionary, financials and energy sectors. The consumer staples and materials sectors provided lesser impacts. From a benchmark perspective, all sectors produced positive absolute returns, not surprising given the magnitude of the market advance. A more in depth discussion of sector performance and fund changes follow.

The healthcare sector got the year off to a strong start, building on the outperformance of recent quarters. The diversity of the fund's holdings, which includes defensive business models such as Cooper Companies as well as the faster growth of companies like Veeva Systems and Align Technology, delivered enough stability to outperform in the difficult fourth quarter, but also enough fundamental strength to recover and outpace the market on the upside. We were fairly active in the sector and used December's sell off to initiate new positions in businesses that we have followed for some time. We purchased Align Technologies, the market share leader in the dental industry's massive and growing clear aligner segment. The stock had pulled back >50% from all-time highs reached last September on worries over pricing competition, China exposure, and consumer spending. We think the concerns are misplaced and believe the company can deliver significant revenue and profit growth for the next several years. We also purchased Insulet Corporation, a fast growing med tech company that produces unique tube-less, patch insulin pumps. The diabetes market is large and growing, and Insulet is poised to benefit behind its new product cycle emerging in 2019 and beyond. To make room, we sold Henry Schein due to concerns over potential continued pricing pressure and slowing revenue growth and we trimmed Edwards Lifesciences after some very strong performance.

The consumer discretionary sector delivered the largest headwind to relative performance. A few holdings, namely Domino's, Burlington Stores and Vail Resorts, reported somewhat softer than expected fundamentals, which created a short-term performance problem given the market's sharp advance. We had already reduced the Domino's position, but decided to move on completely. We believe the risk/reward is less favorable going forward as domestic sales growth inevitably slows (law of large numbers) against a still somewhat expensive valuation. The sale freed up room for us to re-purchase prior holding, Hasbro, which remains a leading toy company with strong brands. The stock was down from our November 2017 sale suffering from inventory/profit disruption risk related to the Toys "R" Us bankruptcy. We believe the messiest part of the retailer bankruptcy is behind us and Hasbro should benefit from a very strong movie pipeline in 2019. We trimmed Burlington Stores to manage the position size against slowing,

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TENURED MID CAP GROWTH INVESTMENT TEAM

CHUCK SEVERSON, CFA

Senior Portfolio Manager

KEN HEMAUER, CFA

Co-Portfolio Manager

DOUGLAS GUFFY

Senior Research Analyst

JONATHAN GOOD

Senior Research Analyst

CORBIN WEYER, CFA, CPA

Senior Research Analyst

KARAN SABERWAL

Research Analyst

- All team members have equity ownership
- Deep sector expertise
- Average years of experience: 20 years

though still attractive, long-term earnings growth. We also rebalanced some weights in the consumer discretionary sector to better align risk/reward, which included trimming O'Reilly Automotive, Cable ONE and Dollar General and adding to homebuilder, D.R. Horton, where we expect an extended cycle for housing. We also sold WABCO after its announced agreement to be acquired by ZF Friedrichshafen.

The performance of several industry groups within the financial services sector was a bit unexpected given the market's strength. We would have expected a sharp rebound in the more traditional finance areas, including capital markets, asset management and banks. However, the flattening yield curve and competitive dynamics limited their performance. We were not surprised that Arthur J. Gallagher lagged as the insurance brokerage model, while benefitting from economic growth, tends to exhibit more stability. Though the company accounted for all of the sector's underperformance in the quarter, we are okay with the trade-off of lagging amid a sharp market rebound given how Gallagher's consistent growth was amply rewarded during the volatile fourth quarter. The sector's strongest performance came from the financial data and systems industry which comfortably outpaced the market as most companies here continue to exhibit strong organic growth. We were pleased to keep up in the group as Euronet reacted positively to earnings as well as news regarding potential new revenue opportunities amid Visa's proposed ATM fee changes in Europe. Global Payments and Fiserv also performed well.

The information technology sector outperformed due to strong performance in the software and services industry. The leaders in this large group included EPAM Systems, ServiceNow, Synopsys and Arista Networks. The announced acquisition of long-time holding Ultimate Software also provided a boost. We view the outperformance in a favorable light given that more cyclical areas of the tech sector, like semiconductors, were quite strong and we were less exposed. Key changes to the sector included the purchase of a position in Arista Networks. Arista is a next-generation networking provider which is gaining share in the large switching/routing market, with a more modern, software-heavy, open architecture offering. We expect share gains to continue as data centers move to cloud-like architectures, and as networks move to greater bandwidths, both trends where Arista possesses strong competitive advantages. We sold Cognex as end-market uncertainty poses more risk than we previously anticipated. We also sold GrubHub on competitive concerns. While industry sales growth remains strong, a few large, growing competitors continue to operate unprofitably. We fear this irrationality will weigh on GrubHub's attractive profitability going forward. We also began selling Ultimate Software following its announced agreement to be acquired.

The two single-stock sectors, consumer staples and energy, essentially offset each other. Within consumer staples, an underweight position in a lagging sector provided modest outperformance. As for the energy sector, Diamondback Energy lagged a bit. We think the company is operating well, but the largest returns in energy seemed to be reserved for the businesses that struggled the most in the fourth quarter and then rebounded to start the year.

For the producer durables sector, the dispersion of returns among fund holdings was fairly tight with the exception of BWX Technologies and Keysight Technologies, which were quite strong and drove the sector's relative outperformance. BWX rebounded with a good quarter after some operations challenges late in 2018, while Keysight, a fairly recent addition to the fund, is benefitting from its exposure to the ramp in 5G related spending. Regarding changes, we lifted the sector weight modestly, adding to IDEX and Xylem.

As for materials, questions about the health of replacement cycle in Watsco's key HVAC market of Florida limited the company's advance. Overall, the sector's benchmark constituents responded well to improved sentiment, which fits with the cyclical nature of many of the businesses.

OUTLOOK

As mentioned in the last quarterly correspondence, we have historically used periods of market disruption as an opportunity to upgrade the quality and growth characteristics of our portfolios. That process was at work in the first quarter, evidenced by introducing or adding to several high growth companies in the healthcare, industrial and technology sectors. These companies possess the attributes we find attractive – high returns, rapidly growing end markets and strong

market position. Capital for those purchases was created by reducing exposure to relatively slower growing businesses or those with more challenged operating fundamentals.

The Federal Reserve's decision to hold rates steady and its signaling that rate increases may be done for the remainder of the cycle, felt like a return to easy money territory. The Fed's more accommodative position moves it directionally in line with other central banks. Notably, China has substantially eased monetary and fiscal policy in hopes of stimulating their important, but slowing economy. Hopefully the combination of lower rates coupled with a broad and beneficial trade agreement with China reaccelerates growth around the world. The recovery in the traditional cyclical groups would seem to signal this potential, but in our opinion, stronger growth and a meaningful lift in earnings are necessary for stocks to advance further. We continue to believe that a domestic recession is unlikely in the near to intermediate term.

On behalf of the entire team at Baird Equity Asset Management, thank you for your support of the Baird MidCap Fund.

Mid Cap Growth Investment Team

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA Senior Portfolio Manager	32	32	Generalist	MS – Finance - The Applied Security Analysis Program BBA – Accounting and Finance (UW–Madison)
Ken Hemauer, CFA Co-Portfolio Manager	25	25	Financial Services	MS – Finance - The Applied Security Analysis Program BBA – Finance (UW–Madison)
Doug Guffy Senior Research Analyst	35	15	Energy, Industrials & Materials	MBA – Finance (Ball State University) BA – Economics & Government (Anderson University)
Jonathan Good Senior Research Analyst	19	12	Healthcare	MBA – (Northwestern University – Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Corbin Weyer, CFA, CPA Senior Research Analyst	9	9	Consumer Discretionary & Staples	BSBA – Finance & Accounting (Marquette University)
Karan Saberwal Research Analyst	3	<1	Information Technology	MBA (Northwestern University – Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)

Top 5 Fund Contributors			Bottom 5 Fund Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
EPAM Systems (EPAM)	2.48	0.99	Domino's Pizza (DPZ)	0.09	-0.02
Euronet Worldwide (EEFT)	2.66	0.92	Henry Schein (HSIC)	0.44	-0.02
ServiceNow (NOW)	2.48	0.86	ABIOMED (ABMD)	0.92	-0.10
Veeva Systems (VEEV)	2.19	0.83	Burlington Stores (BURL)	2.47	-0.11
Etsy (ETSY)	1.83	0.70	GrubHub (GRUB)	1.49	-0.17

Baird MidCap Fund Performance <i>(net of fees)</i>								
	Expense Ratio	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Inception (12/29/00)
Institutional Class	0.85%	18.45	18.45	11.65	15.84	9.13	16.87	7.73
Investor Class	1.10%	18.32	18.32	11.35	15.52	8.85	16.60	7.48
Russell Midcap Growth Index	N/A	19.62	19.62	11.51	15.06	10.89	17.60	7.26

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Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

The Russell Midcap[®] Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap[®] Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. Indices are unmanaged and direct investment is not possible. Past performance is no guarantee of future results.

As of 3/31/19, the top ten holdings for the Baird MidCap Fund were: Euronet Worldwide (EEFT) 2.9%; Dollar General (DG) 2.7%; EPAM Systems (EPAM) 2.7%; ServiceNow (NOW) 2.7%; Verisk Analytics (VRSK) 2.6%; Veeva Systems (VEEV) 2.3%; Global Payments (GPN) 2.3%; Pool Corporation (POOL) 2.3%; Lamb Weston Holdings (LW) 2.2%; and CDW Corp. (CDW) 2.2%. The performance of any single fund holding is no indication of the performance of other fund holdings of the Baird MidCap Fund.

This commentary represents portfolio management views and fund holdings as of 3/31/19. Those views and fund holdings are subject to change without notice. The specific securities identified do not represent all the securities purchased, sold or held for accounts and you should not assume these securities were or will be profitable.