

Baird Small & Small/Mid Value Fund

Q1 2019 COMMENTARY

BAIRD

Baird Equity
Asset Management

MARKET REVIEW

It's no secret that we have a strong bias toward the smaller end of the market capitalization spectrum. Our preference is grounded in the intuitive proposition that the market is more inefficient when it comes to forecasting profitability for smaller business, thus presenting outsized opportunities. We also adhere to the discipline of buying stocks at a discount to intrinsic value, which we believe offers both superior returns and downside protection. The long term returns of domestic equities over the past 90 years have validated our view.

| Asset Class | 1928 – 2018 Annualized Return % |
|---------------------|------------------------------------|
| Small Value Stocks | 13.6% |
| Large Value Stocks | 11.0% |
| Small Growth Stocks | 9.3% |
| Large Growth Stocks | 9.2% |

*Fama-French Growth and Value Series, 2019 SBBI Yearbook

More recently, however, value investing has been bested by growth strategies. For the past two years, small cap value has meaningfully underperformed. If you subscribe to the concept of reversion to the mean, then small cap value stocks are poised to outshine.

| Asset Class | 2-Year Annualized Return % |
|---------------------|-------------------------------|
| Small Value Stocks | -1.6% |
| Large Value Stocks | 0.4% |
| Small Growth Stocks | 9.6% |
| Large Growth Stocks | 15.7% |

*Fama-French Growth and Value Series, 2019 SBBI Yearbook

BAIRD SMALLCAP VALUE FUND

For the quarter, the Baird SmallCap Value Fund Institutional Class delivered a total net return of 10.8% versus 11.9% for the Russell 2000 Value. While the past two years have been challenging for value managers, the Fund has posted an annualized return of 4.2% versus a return of 2.6% for the Russell 2000 Value.

The Fund enjoyed broad outperformance across most economic sectors with seven sectors posting gains better than the benchmark average. Our positioning in Financials added the most relative alpha with strong performance from non-bank financials including

Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit bairdfunds.com.

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

MICHELLE STEVENS, CFA

Senior Portfolio Manager

RICHARD ROESCH, CFA

Senior Research Analyst

JONATHAN DEMOSS, CFA, CPA, CFP

Senior Research Analyst

ROB ZWIEBEL

Portfolio Specialist & Consultant
Relations

JESSE PARSONS

Trading & Operations Analyst

PHILOSOPHY & PROCESS

- The portfolio is grounded in the belief that value and growth investing are not mutually exclusive.
- Emphasis on companies likely to exceed "street" expectations but trade at a discount to our in-house calculation of fair value.

PORTFOLIO CONSTRUCTION

- Concentrated portfolio of 40-50 stocks
- Top holdings generally limited to 5% at cost, 8% at market
- Sectors capped at 30% excluding financials
- Buy and hold approach

NMI Holdings and Essent Group. Energy was the best absolute performer with our holdings posting gains over 65% vs 23% for the benchmark sector. Yield-related sectors such as Real Estate Investment Trusts and Utilities also rallied, as Treasury yields fell during the period. CareTrust REIT, CACI International and J2 Global were notable winners.

Weak performance from long-time holding Stamps.com was primarily responsible for holding back returns for the period. The company shocked investors by unexpectedly terminating their lucrative exclusive arrangement with the U.S. Postal Service to pursue new business relationships. We exited the position given a lack of clarity from management regarding this new strategic direction. Lamb Weston and Zagg were other noteworthy underperformers for the quarter.

New purchases during the quarter included Zayo Group Holdings, Haymaker Acquisition, LTC Holdings and Old Republic International. We also added to current holdings of Southwest Gas Holdings and CACI International. We exited positions in Ryman Hospitality Properties and Air Lease, while trimming Solaris Oilfield Infrastructure and Agree Realty.

BAIRD SMALL/MID VALUE FUND

For the quarter, the Baird Small/Mid Value Fund Institutional Class delivered a total net return of 10.9% versus 13.1% for the Russell 2500 Value. While the past two years have been challenging for value managers, the Fund has posted an annualized return of 5.6% versus a return of 3.8% for the Russell 2000 Value.

The Fund enjoyed broad strength across most economic sectors. Our positioning in Financials added the most relative alpha with strong performance from non-bank financials including NMI Holdings and Essent Group. Yield-related sectors such as Real Estate Investment Trusts and Utilities also rallied, as Treasury yields fell during the period. CareTrust REIT, CACI International and J2 Global were notable winners.

Weak performance from long-time holding Stamps.com was primarily responsible for holding back returns for the period. The company shocked investors by unexpectedly terminating their lucrative exclusive arrangement with the U.S. Postal Service to pursue new business relationships. We exited the position given a lack of clarity from management regarding this new strategic direction. Lamb Weston, ICU Medical and Zagg were other notable underperformers for the quarter.

We were active during the quarter given the opportunities presented by heightened volatility. New positions were initiated in ZAYO Group Holdings, Haymaker Acquisition Corp, Southwest Gas Holdings, and AGNC Investment. We also added to positions in Old Republic International and Dolby Laboratories. To fund new purchases, we sold Solaris Oilfield Infrastructure, Ryman Hospitality Properties and Air Lease.

For more details regarding attribution and our current positioning, please dial in to our quarterly call on April 24, 2019 at 2:00 PM EST. Thank you for your continued support and partnership.

Michelle E. Stevens, CFA

Portfolio Manager

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| Top 5 Small/Mid Value Fund Contributors | | | Bottom 5 Small/Mid Value Fund Contributors | | |
|-----------------------------------------|-------------|--------------|--------------------------------------------|-------------|--------------|
| Security | Avg. Weight | Contribution | Security | Avg. Weight | Contribution |
| NMI HOLDINGS | 2.32 | 0.85 | STAMPS.COM | 1.71 | -0.79 |
| CARETRUST REIT | 3.11 | 0.78 | ZAGG INC | 2.62 | -0.13 |
| BOINGO WIRELESS | 4.92 | 0.76 | AGNC INVESTMENT CORP | 0.03 | -0.01 |
| PHYSICIANS REALTY TRUST | 3.78 | 0.68 | CYRUSONE | 2.36 | 0.00 |
| AGREE REALTY | 3.33 | 0.59 | AIR TRANSPORT SERVICES | 2.42 | 0.03 |
| Top 5 Small Cap Value Fund Contributors | | | Bottom 5 Small Cap Value Fund Contributors | | |
| Security | Avg. Weight | Contribution | Security | Avg. Weight | Contribution |
| NMI HOLDINGS | 2.50 | 0.90 | STAMPS.COM | 2.07 | -1.00 |
| BOINGO WIRELESS | 5.10 | 0.75 | ZAGG INC | 2.82 | -0.17 |
| CACI INTERNATIONAL | 3.33 | 0.74 | IMMERSION CORP | 1.30 | -0.08 |
| J2 GLOBAL | 3.35 | 0.74 | LTC PROPERTIES | 1.81 | -0.03 |
| SELECT ENERGY SERVICES | 1.15 | 0.73 | ZAYO GROUP HOLDINGS | 0.27 | -0.02 |

| Baird Small/Mid Cap Value Fund | | | | | |
|--------------------------------|---------------------------|-------|-------|-------|----------------------|
| | Expense Ratio (gross/net) | QTD | 1 Yr | 3-Yrs | Inception (11/30/15) |
| INSTITUTIONAL CLASS | 1.87%/0.85% | 10.94 | -3.57 | 7.53 | 5.30 |
| INVESTOR CLASS | 2.12%/1.10% | 10.88 | -3.78 | 7.28 | 5.04 |
| RUSSELL 2500 VALUE INDEX | N/A | 13.12 | 1.84 | 9.85 | 8.36 |

| Baird SmallCap Value Fund | | | | | | |
|---------------------------|---------------------------|-------|-------|-------|-------|---------------------|
| | Expense Ratio (gross/net) | QTD | 1-Yr | 3-Yrs | 5-Yrs | Inception (4/30/12) |
| INSTITUTIONAL CLASS | 1.35%/0.95% | 10.75 | -4.43 | 7.63 | 3.31 | 8.29 |
| INVESTOR CLASS | 1.60%/1.20% | 10.75 | -4.66 | 7.36 | 3.07 | 8.02 |
| RUSSELL 2000 VALUE INDEX | N/A | 11.93 | 0.17 | 10.86 | 5.59 | 9.97 |

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For the Baird Small/Mid Cap Value Fund, effective December 1, 2018, the investment advisory fee that the Fund pays to the Advisor was reduced from an annual rate of 0.80% of average daily net assets to an annual rate of 0.75% of the average daily net assets and the gross expense ratio was adjusted to reflect current fees. The gross expense ratio is as of 12/31/2017. The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the Advisor. Effective December 1, 2018, the expense cap/reimbursement agreement between the Advisor and the Baird Small/Mid Cap Value Fund was amended and restated. Effective December 1, 2018, the Advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2020 to the extent necessary to ensure that the total operating expenses do not exceed 0.85% of the Institutional Class' average daily net assets and 1.10% of the Investor Class' average daily net assets. Investor class expense ratios include 0.25% 12b-1 fee.

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 2500 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company. Indices are unmanaged and direct investment is not possible.

As of 3/31/19, the top ten holdings for the Baird Small/MidCap Value Fund were: Boingo Wireless 5.2%, Physicians Realty Trust 4.0%, ICU Medical 3.6%, Agree Realty Corporation 3.6%, CareTrust REIT 3.4%, Lamb Weston Holdings, Inc. 3.1%, Old Republic International 3.1%, American Financial Group 3.1%, Zayo Group Holdings 2.8%, j2 Global 2.8%. As of 3/31/19, the top ten holdings for the Baird Small Cap Value Fund were: Boingo Wireless 5.1%, Physicians Realty Trust 4.1%, Lamb Weston Holdings 4.0%, ICU Medical 3.9%, CACI International 3.7%, j2 Global 3.7%, Algonquin Power & Utilities Corp 3.6%, Agree Realty Corporation 3.4%, Southwest Gas Holdings 3.3%, LTC Properties 3.2%.

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 performance of any single fund holding is no indication of the performance of other holdings of the Baird Small Cap Value Fund or Baird Small/Mid Cap Value Fund. Past performance is no guarantee of future results.

| Investment Professional | Years of Experience | Years with Baird | Educational Background |
|-------------------------------------------------------------------|---------------------|------------------|------------------------------------------------------------------------------------|
| Michelle Stevens, CFA Senior Portfolio Manager | 26 | 7 | MBA – (University of Cincinnati) BS – Economics (Wittenberg University) |
| Richard Roesch, CFA Senior Research Analyst | 26 | 7 | BS – Finance (Butler University) |
| Jonathan DeMoss, CFA, CPA, CFP Senior Research Analyst | 23 | 7 | MBA – (Indiana University) BS – Accounting & Management (Iowa State University) |
| Rob Zwiebel Portfolio Specialist & Consultant Relations | 28 | 7 | BS – Finance (University of Dayton) |
| Jesse Parsons Trading & Operations Analyst | 14 | 7 | BBA – Finance & Marketing (University of Kentucky) |