

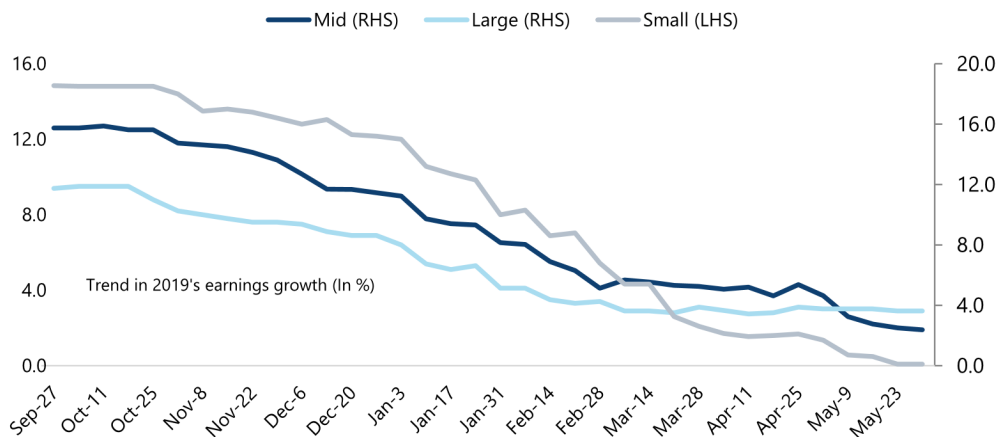
MARKET REVIEW

The second quarter of 2019 was defined by deteriorating economic data and a subsequently soured global growth outlook that ultimately was looked upon as "so bad that it's good" enabling market participants to evoke the Fed put option. Expectations for the Federal Reserve to cut interest rates had soared to 100% by June as manufacturing data disappointed, labor markets softened and the trade war dragged on. Indeed, double digit year-to-date returns and new market highs make it difficult to believe that economic conditions are anything but ideal.

It seems to us that a lot of good news has been priced into the market and we certainly wouldn't dispute the opportunity for things to get better à la trade deal, monetary easing, etc. In the immediate term, however, we are less confident that the market has fully discounted the probability for negative earnings surprise and downward revisions as a result of the aforementioned weakness. In an environment of falling earnings estimates, valuations must rise just for stocks to tread water.

A hallmark of our investment strategy is to invest in businesses we believe possess a catalyst to beat consensus profit expectations. The corollary to this strategy is, of course, to avoid businesses with an impetus to disappoint. We believe looking at the companies in which we are invested validates our process as their estimated earnings are holding in despite an environment of relentless estimate cuts. As stock prices are a reflection of corporate profits, we expect the coming earnings reporting season to provide an opportunity for persistent profitability to outperform.

2019 Earnings Growth



Source: Jefferies

BAIRD SMALL/MID CAP VALUE FUND

The Baird Small/Mid Value Fund Institutional Class outperformed the Russell 2500 Value during the quarter returning 2.2% versus 1.9% for the benchmark. The Fund has returned 13.4% year-to-date compared to 15.3% for the Russell 2500 Value. Despite a challenging 2-year period for value investors, the Fund has returned 5.1% annualized versus 4.6% for the Russell 2500 Value benchmark over the trailing period.

Outperformance during the quarter was aided by both portfolio positioning and security selection as a number of our top holdings continued to deliver solid results. The Fund

SMALL & SMALL/MID VALUE EQUITY INVESTMENT TEAM

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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

overweight to Information Technology was the top contributor, as our exposure posted an absolute return of 11.3%. Leidos, Silicon Motion, and long-time holding Verisign were top performers in the sector. Additionally, Zayo Group agreed to be taken private at a 14% premium to its pre-announced per share price. Our security selection within Financials continues to benefit returns, as we have favored insurance holdings with organic growth opportunities to banks which face the headwinds of an inverted yield curve and deteriorating credit. Within banks, we favor high fee income earners, such as Meta Financial, a top contributor for the period. We continue to avoid Energy exposure which aided performance as it was the again the worst performing sector, falling more than 13% for the quarter.

Stocks that held back returns include Boingo Wireless, Zagg and Lamb Weston. Industrial holdings also detracted, mostly due to concerns surrounding US/China trade negotiations.

During the quarter we added to our position in Zayo, prior to the company announcing plans to be taken private, and increased our weighting to Southwest Gas. We initiated positions in nVent Electric and HCP, a real estate investment trust serving the healthcare industry. We also exited Cypress Semiconductor.

BAIRD SMALL CAP VALUE FUND

The second quarter once again challenged the conviction of long-term investors as markets vacillated between risk on/risk off with the latest Presidential tweet or Fed rumor culminating in the annual Russell rebalance causing massive ETF repositioning at quarter end. Sticking to our long-term, concentrated approach, the Baird Small Cap Value Fund returned 2.1% for the quarter outperforming the Russell 2000 Value Index return of 1.4%. Despite a challenging 2-year period for value investors, the Fund returned 3.9% annualized versus 3.0% for the benchmark over the trailing period.

Performance during the quarter was aided by security selection as a number of our top holdings continued to deliver solid results. Health Care and Information Technology were top contributors as our returns in both sectors were meaningfully better than the benchmark. ICU Medical and Eagle Pharmaceuticals led the way in Health Care along with Silicon Motion and CACI International in Information Technology. Utilities also produced solid absolute and relative returns on the heels of strong performance from Southwest Gas and Algonquin Power. Additionally, Zayo Group agreed to be taken private at a 14% premium to its pre-announced per share price. We continue to be underweight Energy which aided performance as it was the worst performing sector, down 11% for the quarter.

Stocks that held back returns included Boingo Wireless and Lamb Weston following a short-report. Industrial, and in particular Atlas Air, were relative underperformers on concerns related to the US/China trade negotiations. Profit taking in the Real Estate sector during the last week of the quarter also detracted.

We were very active in the quarter taking advantage of increased volatility. During the three months we added to our position in Zayo, prior to the company announcing plans to be taken private, and increased our weighting to Southwest Gas. We initiated positions in nVent Electric, Atlantica Yield, Essential Properties Realty Trust, Hill-Rom Holdings, Dolby, and Churchill Downs. To make room for these new positions we exited Alliant Energy, Select Energy Services, and Solaris Oilfield Services.

Thank you for your continued support and partnership.

Michelle E. Stevens, CFA

Portfolio Manager

Top 5 Small/Mid Value Portfolio Contributors			Bottom 5 Small/Mid Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
META FINANCIAL	2.60	0.87	BOINGO WIRELESS	4.64	-1.18
LEIDOS HOLDINGS	3.09	0.69	ZAGG INC	1.75	-0.49
ZAYO GROUP	3.76	0.52	LAMB WESTON	2.70	-0.48
HEXCEL CORP	2.41	0.40	AGREE REALTY	3.36	-0.24
VERISIGN	2.74	0.38	PHYSICIANS REALTY TRUST	3.77	-0.23

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
CYPRESS SEMICONDUCTOR	2.77	1.21	BOINGO WIRELESS	4.64	-1.18
META FINANCIAL	2.77	0.93	LAMB WESTON	3.45	-0.62
ZAYO GROUP	3.76	0.52	ZAGG INC	1.89	-0.54
HEXCEL CORP	2.78	0.46	MERCHANTS BANCORP	1.94	-0.43
CACI INTERNATIONAL	3.92	0.46	ATLAS AIR WORLDWIDE	2.46	-0.35

Baird Small/Mid Cap Value Fund					
	Expense Ratio (gross/net)	QTD	1-Yr	3-Yrs	Inception (11/30/15)
INSTITUTIONAL CLASS	1.70%/0.85%	2.23	-3.72	6.96	5.57
INVESTOR CLASS	1.95%/1.10%	2.15	-3.93	6.68	5.31
RUSSELL 2500 VALUE INDEX	N/A	1.89	-1.92	8.98	8.32

Baird SmallCap Value Fund						
	Expense Ratio (gross/net)	QTD	1-Yr	3-Yrs	5-Yrs	Inception (4/30/12)
INSTITUTIONAL CLASS	1.38%/0.95%	2.06	-6.88	6.56	3.48	8.29
INVESTOR CLASS	1.63%/1.20%	1.99	-7.11	6.31	3.22	8.03
RUSSELL 2000 VALUE INDEX	N/A	1.38	-6.24	9.81	5.39	9.81

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.

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. The gross expense ratio is as of 12/31/2018 and was adjusted to reflect current fees. The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the Advisor. 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 for the Baird Small/Mid Cap Value Fund and 0.95% of the Institutional Class' average daily net assets and 1.20% of the Investor Class' average daily net assets for the Baird SmallCap Value Fund. 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 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 6/30/19, the top ten holdings for the Baird Small/MidCap Value Fund were: Zayo Group Holdings 3.9%, Boingo Wireless 3.9%, ICU Medical 3.7%, Physicians Realty Trust 3.6%, Leidos Holdings 3.3%, CareTrust REIT (CTRE) 3.3%, Old Republic International 3.2%, American Financial Group 3.2%, Agree Realty Corporation 3.2%, and Southwest Gas Holdings 3.2%. As of 6/30/19, the top ten holdings for the Baird SmallCap Value Fund were: Zayo Group Holdings 3.9%, CACI International 3.9%, ICU Medical 3.8%, Boingo Wireless 3.8%, Southwest Gas Holdings 3.7%, Algonquin Power & Utilities Corp 3.6%, Physicians Realty Trust 3.6%, j2 Global 3.5%, Cypress Semiconductor Corporation 3.4%, and Lamb Weston Holdings 3.2%.

This commentary represents portfolio management views and fund holdings as of 6/30/19. 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)