

MARKET UPDATE

The domestic equity market posted a strong advance through the first nine months of the year. However, further slowing of global growth, ongoing trade tensions and most recently the specter of impeachment proceedings resulted in a step up in volatility and muted stock returns in the third quarter. A continuation of good consumer fundamentals, highlighted by low unemployment and favorable housing trends, and the efforts of central banks to lower rates have offset the negative impact of trade issues, particularly on the domestic manufacturing front. Expecting continued volatility appears reasonable given that political noise should remain high, and time is needed to determine if lower global rates can re-accelerate economic activity.

FUND COMMENTARY

The Baird MidCap Fund handled the third quarter market challenges well, outpacing our primary benchmark, the Russell MidCap® Growth index, with the Institutional Class gaining roughly 1.8% net of fees in the quarter versus a slight negative return for the index. Returns for the Fund continue to exceed the benchmark on a year-to-date and trailing twelve-month basis.

Relative performance was driven by two key sectors, consumer discretionary and technology, while energy, financials, materials, and producer durables sectors lagged. The healthcare and consumer staples sectors were neutral to performance. A more in-depth discussion of sector dynamics and portfolio changes follows.

We were pleased how the consumer discretionary sector's mix of companies combined to deliver meaningful outperformance. Several retail holdings produced strong earnings and were rewarded, including Dollar General, Five Below, and Burlington Stores. Double-digit returns for these companies were notable as much of retail struggled in the quarter. Diversification provided by homebuilder D.R. Horton also proved beneficial as lower interest rates and a relatively healthy consumer has lifted housing activity, particularly for first-time home buyers, a segment where D.R. Horton excels. Hasbro also performed well on the back of good earnings. As far as sector changes, we purchased Five Below, a low-priced retailer for teens/young adults. The business is capable of increasing new units at an outsized growth rate for the next 5-10 years. Importantly, the stores possess some of the best unit economics in all of retail. Near-term market caution around potential pricing disruption from tariffs allowed us a more attractive entry point into the stock. To make room for Five Below, we sold long-term holding Ollie's Bargain Outlet. We believe Five provides a longer runway to own given the easier scalability of the model. We reduced our Vail Resorts position, as we think moderating pre-season ticket sales growth warrants a lower tier weight. Additional trims included Pool Corporation, Dollar General, and Hasbro. We continued filling newer position Grand Canyon Education.

Relative performance from the information technology sector was also strong. The Fund's software businesses drove the majority of the outperformance; Tyler Technologies, Mercury Systems, Synopsys, RealPage, and EPAM Systems all advanced in sharp contrast to negative returns experienced for many benchmark companies. A notable change in the quarter, particularly during September, was a bifurcation between the performance of profitable and unprofitable companies. While hard to pinpoint the catalyst for this divergence, we do find the lukewarm market reception for some more recent IPOs noteworthy. A good number of the privately-held growth darlings, including Peloton, SmileDirectClub, and WeWork, to name a few, have operated at losses since their founding with little to no visibility on future profitability. We are encouraged by this renewed sense of skepticism in the market and would welcome an environment that continues to differentiate between businesses that grow and those that grow profitably – a measure of quality and an important investment requirement for our fund. We are looking to lift our sector weight but have been biding time given the relatively high valuation of many companies in the sector. We did add Dolby Laboratories, which develops audio signal processing systems for the motion picture, broadcasting, and music recording industries. We

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

believe Dolby will experience increasing success transitioning from selling products to selling an ecosystem. This ecosystem is gaining critical mass in adoption, led by TV OEMs and mobile, which should lead to an inflection in revenue and earnings growth. EPAM Systems and Mercury were trimmed to manage position sizes following strong price advances.

The healthcare sector experienced a tough quarter but moved in line with the benchmark. The rise in political risk amid presidential debates and some pause after a period of strong returns were likely at work. The standout was Insulet, which is one of several companies having success in better addressing diabetes management. The continued strong growth in Insulet's insulin pump device and resulting stock price increase offset weakness in ABIOMED and Align, which are working through some near-term growth concerns. We continue to see good long-term opportunity for both companies.

The Fund's two smallest sectors, consumer staples and energy, combined for a modest drag on relative performance. Within consumer staples, our single holding, Lamb Weston, performed well, but our sector underweighting made for a limited affect. Energy provided a bit of a headwind as Diamondback Energy, like many companies in the sector, struggled under the weight of volatile but relatively flat oil prices and concerns about global growth.

The financial services sector return was modestly positive, but fund holdings did not quite keep pace. REITs were the leading performers, benefitting from the decline in interest rates. While the benchmark weight in these companies is down from a few years ago, strong returns still created a headwind given our lack of exposure. East West Bancorp declined as the potential margin pressure from an inverted yield curve weighed on the stock, and payments company Euronet pulled back after a strong run and a quarter that did not exhibit the across-the-board strength of recent earnings reports. We purchased Pinnacle Financial Partners, a regional bank operating in the Tennessee and Carolina markets. The company is a strong organic grower, with top quartile peer returns and earnings growth, and its aforementioned markets are growing faster than average. We used trims of Euronet, Global Payments, and MarketAxess, to manage position size/valuation, as a source of capital for Pinnacle and to add to TransUnion.

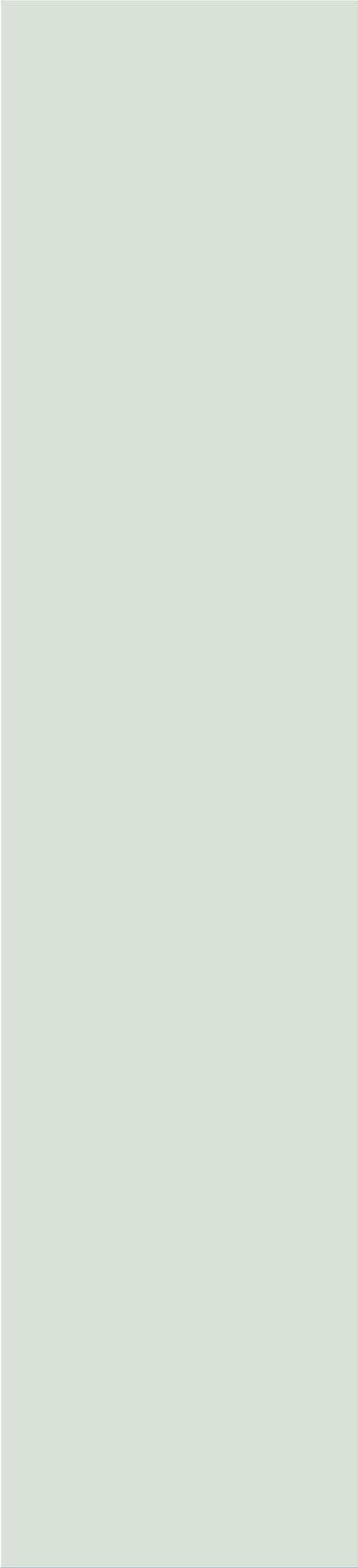
The two most cyclically influenced sectors, producer durables and materials, exhibited similar performance, both detracting modestly from fund performance. Growing concern about the end of the U.S. economic expansion given the yield curve inversion and drag from trade tensions have made navigating these areas more challenging. While several producer durable businesses fared well, including Verisk, Cintas, and BWX Technologies, those more exposed to manufacturing like Graco and IDEX had a tougher go. Gardner Denver, on the list of best performers last quarter, flipped sides of the page and was the largest detractor in the sector. The company's exposure to manufacturing and energy proved challenging in the quarter and will have to be worked through with good execution. Sector changes were minor as a reduction in the Trimble position was offset by an addition to Keysight. Performance from the holdings in the materials sector was rather nondescript. We did sell our Univar positions as the thesis for improved profitability behind greater salesforce effectiveness and broader efficiencies looked like it will take longer than anticipated.

OUTLOOK

The current growth slowdown, most noticeable in manufacturing activity, is actually the third such episode in the decade-long recovery from the Great Recession. The trade spat with China has dampened business confidence and is weighing on capital spending, and earnings growth in the more cyclical groups has moderated. The resilience of the market in the face of these challenges likely reflects some discounting of slower growth into stock prices and the potential benefits of global easing. In addition, several key indicators for the economy are on solid ground. Consumer confidence remains elevated, supported by hiring, wage growth and now lower interest rates. Housing data has lifted recently, and automobile purchases holding steady at a 17 million annual rate do not indicate a consumer retrenchment. China, in the midst of a severe slowdown, has aggressively eased policy to reignite their economy. It would appear that the old investment adage of, "don't fight the Fed" is alive and well.

As growth has slowed in recent quarters and earnings estimates have trended lower, we have modified some of the more cyclical portions of the fund, moving capital to more defensive and secular growth areas in the economy. A more severe economic decline is not our base case for the economy, but we are prepared to act if necessary.

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	36	15	Energy, Industrials & Materials	MBA – Finance (Ball State University) BA – Economics & Government (Anderson University)
Jonathan Good Senior Research Analyst	19	13	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)

Baird MidCap Fund Top & Bottom Contributors

Top 5 Portfolio Contributors			Bottom 5 Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
Dollar General Corporation (DG)	2.94	0.52	Grand Canyon Education (LOPE)	1.51	-0.29
Insulet Corporation (PODD)	1.39	0.47	Alexion Pharmaceuticals (ALXN)	1.12	-0.33
Tyler Technologies, Inc. (TYL)	2.21	0.42	Euronet Worldwide, Inc. (EEFT)	2.44	-0.33
D.R. Horton, Inc. (DHI)	1.69	0.34	Align Technology, Inc. (ALGN)	0.81	-0.36
Burlington Stores, Inc. (BURL)	1.98	0.32	ABIOMED, Inc. (ABMD)	1.09	-0.42

Baird MidCap Fund Average Annual Returns (%)

	Expense Ratio	QTD ¹	YTD ¹	1 Year	3 Years	5 Years	10 Years	Since Inception (12/29/00)
Institutional Class	0.81%	1.78	28.84	8.82	17.31	11.14	14.05	8.00
Investor Class	1.06%	1.75	28.58	8.56	17.01	10.88	13.78	7.75
Russell MidCap Growth Index	N/A	-0.67	25.23	5.20	14.50	11.12	14.08	7.32

¹Returns for periods of less than one year are not annualized.

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. The expense ratio is as of 12/31/2018.

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 9/30/19, the top ten holdings for the Baird MidCap Fund were: Dollar General (DG) 3.0%, CDW Corp. (CDW) 2.5%, Tyler Technologies (TYL) 2.4%, Synopsys (SNPS) 2.3%, Cintas Corporation (CTAS) 2.3%, Fiserv (FISV) 2.3%, Arthur J. Gallagher & Co. (AJG) 2.3%, Euronet Worldwide (EEFT) 2.2%, Verisk Analytics (VRSK) 2.2%, and Take-Two Interactive Software (TTWO) 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 9/30/19. 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.