

TWO STEPS FORWARD, TWO STEPS BACK

Despite a couple of quarters of double-digit returns (positive and negative) over the past year, the S&P 500 and Dow Jones Industrial Average have made little price progress. During this same time, the Federal Reserve has raised the federal funds interest rate twice (Sep/Dec 2018) and cut rates twice (Jul/Sep 2019). Under the surface, however, forward economic growth and corporate profit expectations have reset more dramatically. The net effect being the U.S. ten year bond yield down nearly 160 basis points and small company stocks, as measured by the Russell 2000, down over 10% during the trailing year.

This quarter delivered ho-hum returns, as well, but there was a lot of volatility generated by positioning around a number of high-profile themes. This was particularly the case for US-China trade. The Fed's pivot to accommodative monetary policy with two rate cuts helped counter trade uncertainty but was offset by further weakness in manufacturing and trade. Oil prices and value stocks gave market participants head fakes, popping in September only to resume their downward trends by quarter-end. There was also some debate about the yield curve inversion and its power to forecast recession. While S&P 500 earnings are on track to decline in the third quarter of 2019, there continues to be expectations for a return to double digit growth in 2020.

Weaker earnings and much lower interest rates play to the positioning of our Small and SMID Value Funds. We do not believe the slowdown in the U.S. economy has run its course. Weak manufacturing will likely be reflected in weaker than forecasted corporate profits and an earnings recession may still lie ahead. In this environment it's critically important to focus on earnings quality and stability alongside valuations. In addition, yield-oriented equities look increasingly attractive as bond yields have plummeted.

BAIRD SMALL/MID CAP VALUE FUND

For the quarter, the Baird Small/Mid Cap Value Fund Institutional Class marginally underperformed the benchmark Russell 2500 Value with a net return of -0.50% versus 0.13% for the benchmark. Performance for the quarter was aided by solid results from our holdings in Real Estate Investment Trusts, Financials, Utilities, Consumer Staples, and Consumer Discretionary. Additionally, our lack of exposure to Energy contributed positively as it was once again the worst performing sector in the benchmark despite a temporary spike in oil prices from the drone attack in Saudi Arabia. Individual holdings which outperformed include CyrusOne, Agree Realty, Meta Financial Group, Algonquin Power and Utilities, Lamb Weston, and LKQ. Holding back returns for the quarter were certain positions in Information Technology, Health Care, Communication Services, and Industrials including ICU Medical, Zagg, Boingo Wireless, Silicon Motion and Atlas Air.

We took advantage of volatility during the quarter to initiate positions in Astronics, Essential Properties Realty Trust, Fidelity National Financial, and CACI International and VICI Properties. To make room for these new additions we exited Silicon Motion, Atlas Air, and Jazz Pharmaceuticals in each case where we believed the potential for negative earnings revisions had increased substantially. We also sold Pinnacle West.

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

BAIRD SMALL CAP VALUE FUND

For the quarter, the Baird Small Cap Value Fund Institutional Class slightly outperformed the benchmark Russell 2000 Value with a net return of -0.52% versus -0.57% for the benchmark. Performance for the quarter was aided by solid results from our holdings in Real Estate Investment Trusts, Financials, Utilities, and Consumer Staples. Additionally, our lack of exposure to Energy contributed positively as it was once again the worst performing sector in the benchmark despite a temporary spike in oil prices from the drone attack in Saudi Arabia. Individual holdings contributing to second quarter's outperformance include CyrusOne, Essential Properties Realty Trust, Meta Financial Group, Algonquin Power & Utilities, and Lamb Weston. Holding back returns for the quarter were certain positions in Consumer Discretionary, Information Technology, Health Care, and Communication Services including ICUI Medical, Zagg, Boingo Wireless, Silicon Motion and Atlas Air.

During the quarter we initiated new positions in Astronics, Construction Partners, Preferred Bank, First American Financial, and Perspecta. To make room for these new additions we exited Silicon Motion, Atlas Air, and LTC Properties all due to concerns regarding future earnings expectations. We also trimmed our position in Algonquin Power & Utilities, a long-time winner in the portfolio.

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
CyrusOne	2.88	0.97	Boingo Wireless	3.06	-1.48
Agree Realty Corp	3.21	0.50	ICU Medical	2.95	-1.44
Meta Financial	3.04	0.47	Atlas Air Worldwide	0.86	-0.68
Lamb Weston	2.78	0.39	Astronics	0.84	-0.37
Algonquin Power & Utilities	2.77	0.37	Silicon Motion Tech	0.81	-0.35

Top 5 Small Cap Value Portfolio Contributors			Bottom 5 Small Cap Value Portfolio Contributors		
Security	Avg. Weight	Contribution	Security	Avg. Weight	Contribution
CyrusOne	2.97	1.01	ICU Medical	3.20	-1.54
CACI International	4.19	0.52	Boingo Wireless	3.18	-1.52
Lamb Weston	3.61	0.51	Atlas Air Worldwide	1.33	-1.05
Meta Financial	3.25	0.51	Silicon Motion Tech	1.26	-0.57
Algonquin Power & Utilities	3.81	0.50	Astronics	0.97	-0.36

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%	-0.50	-7.55	6.53	5.06
INVESTOR CLASS	1.95%/1.10%	-0.59	-7.78	6.26	4.79
RUSSELL 2500 VALUE INDEX	N/A	0.13	-4.35	6.87	7.79

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%	-0.52	-8.58	5.66	4.66	7.93
INVESTOR CLASS	1.63%/1.20%	-0.59	-8.77	5.39	4.41	7.66
RUSSELL 2000 VALUE INDEX	N/A	-0.57	-8.24	6.54	7.17	9.38

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 9/30/19, the top ten holdings for the Baird Small/MidCap Value Fund were: Leidos Holdings 3.6%, CyrusOne 3.4%, Old Republic International Corporation 3.4%, American Financial Group 3.4%, Meta Financial Group 3.3%, CareTrust REIT 3.3%, Southwest Gas Holdings 3.2%, Physicians Realty Trust 3.0%, Algonquin Power & Utilities Corp. 2.9%, and Lamb Weston Holdings 2.9%. As of 9/30/19, the top ten holdings for the Baird SmallCap Value Fund were: CACI International 4.5%, Southwest Gas Holdings 4.1%, Physicians Realty Trust 4.0%, j2 Global 3.9%, Lamb Weston Holdings 3.9%, Meta Financial Group 3.7%, Agree Realty Corporation 3.6%, CyrusOne 3.6%, Old Republic International Corporation 3.4%, and Blackstone Mortgage Trust 3.2%.

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 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)