

Baird Short-Term Bond Inst BSBIX

Morningstar's Take | 12-29-11 | by Shannon Kirwin

This fund keeps it short and simple.

Baird Short-Term Bond's straightforward approach has its merits.

Mary Ellen Stanek and her five comanagers apply their trademark, low-adrenaline strategy in running this short-term bond fund. They don't make interest-rate bets and avoid derivatives. Instead, the team keeps the fund's duration pegged to its benchmark, the Barclays 1-3 Year Government/Credit Index, and attempts to add value through sector and security selection.

That strategy still leaves Stanek and her team significant leeway when it comes to positioning the fund. They've historically favored midquality bonds, and the fund has typically maintained a BBB rated stake that's larger than the category norm. In recent years, the team has largely shunned short- and intermediate- duration Treasuries, which it views as artificially overvalued because of recent purchases by the Fed, and it tilted the portfolio even more heavily toward corporate bonds, which currently make up more than 70% of the portfolio. The team has favored midquality bonds issued by financial and industrial corporations, citing strong balance sheets and cash flows as reasons why the market's estimate of default risk is, in many cases, overblown.

The team's emphasis on midquality corporate issues means that the fund courts more credit risk than the competition: The fund currently holds 38% of its assets in bonds rated BBB, compared with roughly 12% for a typical peer. That could hurt it in a recession or if credit markets sour significantly. However, Stanek and her team try to offset those risks by diversifying their holdings across many issuers and focusing on the most liquid bonds maturing in two years or less.

This experienced management team—which has a strong record at other charges—has put together a decent record here. The fund's return since its 2004 inception falls just above the category average. A rock-bottom expense ratio adds to its appeal. All in all, this fund remains a solid choice for short-term bond investors.

Morningstar Rating

★★★

Strategy

Mary Ellen Stanek and her management team set out to consistently beat the fund's benchmark, the Barclays Capital 1-3 Year Government/Credit Bond Index. They peg the fund's duration to that of the benchmark and maintain a continuous duration-neutral interest-rate position. They then actively attempt to add value through sector allocation and security selection (including significant positions in midquality bonds rated A and BBB), combining passive and active management with broad-market and security-specific research to try to outperform the index under varying market conditions.

Management

Chief investment officer Mary Ellen Stanek heads a team of six portfolio managers who oversee all of the firm's fixed-income offerings. This team has worked together for more than a decade here and at previous firms.

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Year	Total Return (%)	+/-Category
2011	2.08	0.42
2010	4.39	0.28
2009	8.15	-1.15
2008	-1.79	2.44

Data through 12-31-11

Information through 12/31/11

The Morningstar three-star rating for the Institutional Class Baird Short-Term Bond Fund is the overall rating received among 353 short-term bond funds. The fund received three stars for the three-year period among 353 short-term bond funds and three stars for the five-year period among 322 short-term bond funds.

The overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with a fund's three-, five- and ten-year (if applicable) Morningstar Rating metrics.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk- Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages. Past performance is no guarantee of future results.

The average annual total returns for the Institutional Class of the Baird Short-Term Bond Fund as of December 31 are 2.08% for the one-year period, 3.73% for the five-year period and 3.43% since its August 31, 2004, inception date. The minimum investment for the fund is \$25,000 and the expense ratio is 0.30%.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment in the fund will fluctuate so that an Investor's shares, when redeemed, may be worth more or less than their original cost. The fund's current performance may be lower or higher than this performance data.

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information is found in the prospectus. For a prospectus or for performance current to the most recent month-end, contact Baird Funds directly at 800-444-9102 or contact your Baird Financial Advisor. Please read the prospectus carefully before investing. The fund's current performance may be lower or higher than this performance data.

The Fund may invest in U.S. dollar-denominated foreign securities which involve risks such as currency rate fluctuations, different and sometimes less strict financial reporting standards and regulation and the potential for political and economic instability. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise. The Fund may also invest in mortgage- and asset-backed securities which include interest rate and prepayment risks more pronounced than those of other fixed income securities.

All investments contain some degree of risk.

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data current through the most recent month-end, please visit www.bairdfunds.com.

