SPECIAL INVESTING DOUBLE ISSUE

PLUS: SCORECARD FOR 1,100 FUNDS

Money

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FROM TOP PROS

IN THE TOPSY-TURVY MARKET OF THE PAST FIVE YEARS, THESE FUND MANAGERS LED THEIR PORTFOLIOS TO SOME OF THE BEST PERFORMANCES IN THEIR RESPECTIVE AREAS. LEARN WHAT THEY'RE BULLISH ON NOW.

by CAROLYN BIGDA & KIM CLARK

Photographs by MIKE McGREGOR

MARY ELLEN STANEK
Baird Core Plus Bond

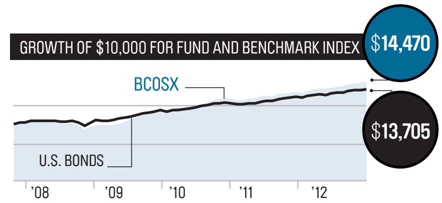
TAKING TARGETED RISKS IN THE GLOBAL FIXED-INCOME MARKET

Mary Ellen Stanek

BAIRD CORE PLUS BOND (BCOSX)

TENURE: 12 YEARS TYPE: INTERMEDIATE-TERM BOND EXPENSES: 0.55%

GROWTH OF $10,000 FOR FUND AND BENCHMARK INDEX



	1 YR.	3 YR.	5 YR.
% RETURNS	9.0	8.0	7.5
% RANK IN CATEGORY	37	19	17

THE STRATEGY

There are times when Mary Ellen Stanek and her co-managers are willing to take on some risk for the chance of bigger gains. In 2009, for example, Core Plus's six-member management team bought financial sector debt as the rest of the market was selling out of banks. Still, Stanek & Co. don't go to extremes.

Rather than loading up on long-term bonds—which would be vulnerable if interest rates were to rise—the managers have kept the fund's average maturity to 6.5 years, nearly a year less than their average peer.

And believing that some parts of the Treasury market are quite expensive, Stanek says they've reduced the fund's exposure to Uncle Sam's debt to just 11%, or about a third of the weighting of the Barclays Capital U.S. Universal Bond index, a broad benchmark of domestic bonds.

THE OPPORTUNITIES

Look to corporate bonds, which account for 45% of Core Plus's portfolio, vs. just 30% for its peers. Stanek can keep as much as 20% of the portfolio in high-yielding, low-quality debt, but today she has trimmed that exposure to just 8%. "There has been a pretty significant rally in high yield," she says. "If you see that turn the other way, the selling pressure could be high."

Instead, Stanek is buying investment-grade bonds. This is true not just in the U.S. but also overseas, where she says political uncertainties have pushed up the yields on the debt of firms that otherwise have strong fundamentals.

NOTES: Price/earnings ratios are based on projected earnings. Three-year and five-year returns are annualized. The following benchmarks were used in the charts for comparative purposes: the S&P 500, the MSCI AC Asia ex Japan index, the MSCI Europe index, the Barclays Capital U.S. Universal index, and the MSCI World index. *SOURCE:* Morningstar

THE PICKS

FINANCIAL SECTOR DEBT

The spread in yields between Treasuries and high-quality bonds issued by companies in the financial services industry is still wide, Stanek says. "So we own bonds of Goldman Sachs that will mature in 5½ years," she says.

FOREIGN MULTINATIONALS

"You won't find the sovereign debt of Spain in the portfolio, but we will own bonds of high-quality corporations that might be domiciled in Europe," Stanek says. Example: Telecom Italia, which, despite its name, generates more than a third of its revenue in fast-growing Latin America. For added safety and stability, though, she sticks with foreign corporate debt issued in U.S. dollars rather than euros.

HIGH-QUALITY COMMERCIAL MORTGAGE SECURITIES

Because this debt is backed by mortgages on commercial real estate, it can be risky in a so-so economy. As a result, "we only invest in the most senior classes of the securities and look for loss protection of 30%," Stanek says. In other words, "losses on the underlying loans could reach 30%, and we'd still get all of our money back," she says.

GROOMING BY: NICHOLE WERESCH (STANEK)

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 and summary prospectus. To request a prospectus or summary prospectus or 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 or summary prospectus carefully before investing.

As of December 31, 2012, the average annual total returns for the Investor Class of the Baird Core Plus Bond Fund are 7.80% for the one-year, 7.43% for the five-year and 6.58% for the ten-year periods. The expense ratio is 0.55%.

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. For performance current to the most recent month-end, please visit bairdfunds.com.

A bond's market value is affected significantly by changes in interest rates – generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises ("interest-rate risk"). Generally, a bond with a longer maturity will entail greater interest rate risk but have a higher yield. Conversely, a bond with a shorter maturity will entail less interest rate risk but have a lower yield ("maturity risk"). The Fund invests primarily in investment-grade debt securities, but may invest up to 20% of its net assets in noninvestment grade securities (sometimes referred to as "high yield" or "junk" bonds). Non-investment grade bonds involve greater risk than investment-grade securities, including the possibility of default or bankruptcy. They also tend to be more sensitive to economic conditions than higher-rated debt securities and, as a result, are generally more sensitive to credit risk than securities in the higher-rated categories. The Fund may also invest in foreign securities that are U.S. dollar-denominated. These investments may involve additional risk, including political and economic instability, differences in financial reporting standards and less regulated securities markets. The Fund may also invest in mortgage- and asset-backed securities which are subject to interest rate, prepayment and extension risk. All investments contain some degree of risk.

The U.S. Universal Index represents the union of the U.S. Aggregate Index (85%), the U.S. High-Yield Corporate Index (6%), the 144A Index (5%), the Eurodollar Index (2%), the Emerging Markets Index (2%), and the non-ERISA portion of the CMBS Index (<1%). Weightings are as of 12/31/12. It is not possible to invest directly in an Index.

The holdings mentioned represent the following percentage of the total net assets of the Investor Class of the Baird Core Plus Bond Fund as of December 31, 2012: Goldman Sachs 0.57% and Telecom Italia 0.28%. Holdings are subject to change without notice and may not represent current portfolio composition. The mention of specific securities is not intended as a recommendation or offer for a particular security.

The Morningstar total return percentile rank for the Investor Class of the Baird Core Plus Bond Fund in the Intermediate-Term Bond category as of November 30, 2012: 37% for the 1-year period (1,216 funds in the category), 20% for the 3-year period (1,118 funds in the category) and 18% for the 5-year period (1,062 funds in the category) and as of December 31, 2012: 35% for the 1-year period (1,225 funds in the category), 18% for the 3-year period (1,125 funds in the category) and 19% for the 5-year period (1,064 funds in category). The rankings in the article vary slightly from the actual rankings due do a difference in rounding by *Money* magazine.

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This reprint must be accompanied with performance data current through the most recent quarter.