Baird Core Plus Bond Inst BCOIX

Simple and effective.

Morningstar's Take BCOIX

Overall Morningstar Rating™	★★★★		
562 US Fund Intermediate Core-Plus Bond (29 Feb 2024)			
	3 Yr 562 funds	5 Yr 533 funds	10 Yr 367 funds
Morningstar Rating™	4★	4★	4★

Morningstar Medalist Rating™	Gold
Analyst-Driven %	100.00
Data Coverage %	100.00

Morningstar Pillars	
Process (5 Feb 2024)	High
People (5 Feb 2024)	High
Parent (21 Feb 2024)	High
Performance (5 Feb 2024)	
Price (5 Feb 2024)	

5 Feb 2024 | by Alec Lucas

Baird Core Plus Bond's conservative playbook means that it rarely wows in any given year, but over time its results are outstanding.

The team executing that playbook has had a lot of practice. Four of the fund's 10 named managers worked together for years before this fund's September 2000 inception. As colleagues at a prior firm, they honed a team-oriented investment philosophy centered on keeping fees low and adding value without taking undue risk. Standard bearers Mary Ellen Stanek, Warren Pierson, Charles Groeschell, and Jay Schwister have passed on that philosophy and its practice to the next generation, including relative newcomers Andrew O'Connell and Abhishek Pulakanti. They both became named managers here in May 2022, though each has now been at Baird Advisors for more than 10 years.

The approach is simple but effective. Sticking to U.S.-dollar-denominated bonds without the complications of derivatives or leverage, it begins with matching the Bloomberg US Universal Bond Index's overall interest-rate sensitivity, or duration. In line with the fund's intermediate core-plus bond Morningstar Category, the team will take credit risk by buying junk bonds, but it is hardly aggressive in that respect. The portfolio's typical low-single-digit weighting in debt rated below BBB has not been higher than the index's since late 2015, and at year-end 2023 its 2.4% allocation ranked near the peer group's bottom decile.

Deft security selection and sector rotation among corporates, securitized, and government bonds are how the team adds the most value. For example, the portfolio's industrials overweighting within the corporate bond sector went from 13 percentage points in mid-2022 to 8.7 percentage points by the end of 2023 as credit spreads tightened. Meanwhile, the team added 3.5 percentage points of exposure to U.S. agency residential mortgage-backed securities over that period as valuations became attractive.

Recent performance is in line with the fund's long-term record. Moves within industrials were an area of strength for the portfolio in 2023. Over the calendar year, the institutional shares' 6.89% gain beat the index by 72 basis points and placed near the top third of distinct peers.

This fund remains a very reliable option.

Process High | Alec Lucas | 5 Feb 2024
Focused on U.S.-dollar-denominated bonds of primarily investment-grade quality without the complications of derivatives or leverage, or the need to clear lofty fee hurdles, Baird Advisors' simple but effective investing style merits a High Process rating.

Citing the difficulty of predicting interest-rate changes consistently, Baird's approach begins with matching this fund's overall interest-rate sensitivity, or duration, to the Universal Index. Aiming to beat this bogy by 50-75 basis points per year, gross of fees, the team tries to add value through yield-curve positioning, sector allocation, security selection, and competitive trade execution.

Security selection and sector allocation among corporates, securitized, and government bonds receive the most focus. Whether individual bonds, issuers, or sectors, the team looks for strong fundamental features, attractive relative value, and fit within its broader macroeconomic views. Non-investment-grade debt is capped at 20%, but the managers typically stay far from that limit and generally buy debt rated at least B or what they perceive to be equivalent quality if unrated. The fund's credit profile as a result tends to look tame relative to more-aggressive intermediate core-plus bondcategory peers.

The portfolio's conservatism stands out in other respects. To date, the managers have avoided subordinated mortgage- and asset-backed fare, emerging-markets sovereigns, and non-dollar-denominated bonds, which can add volatility and are often present in rivals' portfolios.

Corporate credit exposure, especially to industrials and financials, has accounted for about half of the portfolio's market value, versus about 30% for the Universal Index over the past decade. The fund kept its roughly 9-percentage-point financials overweighting entering 2023, even though it had hurt the prior year. The team liked banks generally stout capital positions and alignment of their management incentives with high ratings given that banks consistently need to raise debt. By the end of 2023, financials holdings, especially non-U.S. bank debt, had helped the fund, as did its industrials overweighting in midstream issuers.

The fund's securitized stake ended 2023 at 32.1% of assets, up from 23.7% two years prior. As repeated interest-rate hikes weighed on the mortgage market in 2022, the fund leaned into that position. The managers cut the portfolio's Treasury stake and redeployed most of that money into securitized exposure, especially U.S. agency RMBS. Treasury holdings ticked back up in 2023, but the team continued to add agency MBS exposure, ending the year with a 19.2% stake, though still 3.6 percentage points lighter than the benchmark.

The team gradually reduced the portfolio's credit risk in 2023. Its weighting in bonds with BBB ratings fell 2.9 percentage points to 29.6% of assets. Its below-investment-grade stake edged down to 2.4% from 3.4% a year prior. Most of that junk-bond exposure is in high-yield corporate debt, including the likes of Ford Motor Credit Company and Teva Pharmaceutical Finance.

People High | Alec Lucas | 5 Feb 2024
Baird Advisors' capable and collaborative investing culture pairs well with the firm's simple but effective style, earning the fund a High People rating.

Other top-tier firms may have bigger staffs and broader remits; Baird operates differently, and is excellent in its own right. Co-CIO Mary Ellen Stanek, winner of Morningstar's 2022 Outstanding Portfolio Manager award, and co-CIO Warren Pierson head this fund's veteran 10-person management team, whose members complement one another's strengths and stick to a straightforward, winning playbook.

Alongside Stanek and Pierson, Charles Groeschell and research director Jay Schwister set the tone here; each has about 40-45 years of industry experience. The other managers have a wider range of experience but collectively represent the next generation. Lead Jeffrey Schrom and comanagers Andrew O'Connell and Abhishek Pulakanti work as part of a nine-person credit team; Meghan Dean and Patrick Brown oversee a six-person securitized team; and M. Sharon deGuzman guides Baird's eight-person portfolio construction and risk group.

Stability is a strength. Apart from two retirements in 2020 and 2021, respectively, no manager has left since this fund's 2000 inception. There have also been only three analyst departures since 2016, each for personal reasons.

Fund ownership stands out, too. Nine of the 10 managers invest in all their strategies, with three owning more than $5 million each across the lineup and another four more than $1 million each.

Parent High | Alec Lucas | 21 Feb 2024
Baird merits a High Parent rating.

Although Robert W. Baird and Co.'s origins date to 1919, its Milwaukee-based asset-management business has over the past 25 years grown into an industry stalwart through deft talent acquisition. In early 2000, Mary Ellen Stanek and her team joined to form the fixed-income-focused Baird Advisors. With modest fees and an effective, benchmark-aware approach, its taxable bond team now runs the lion's share of Baird's assets under management. The firm bolstered its municipal bond expertise in mid-2015 and in August 2019, and that part of the business now has considerable promise, too.

Although not as big or extensive in its lineup as its fixed-income counterpart, Baird Equity Asset Management has also opportunistically added key personnel. It purchased the international and global growth equity team of Chautauqua Capital Management in 2016 and in late 2021 strengthened ties with proven investor Joseph Milano, formerly of T. Rowe Price, while removing a small-value team that had struggled over the prior decade.

Succession bears monitoring. Indeed, Stanek and her co-CIO Warren Pierson are part of Baird Advisors' founding generation whose members each have nearly 40 if not more years of experience. That's offset, however, by a collaborative, team-based approach that should leave investors in good hands well after that generation's retirement.

Performance | Alec Lucas | 5 Feb 2024
The fund has a strong long-term record. Since its late 2000 inception, its institutional shares' 4.78% annualized gain through January 2024 beat the Universal Index by 66 basis points while placing in the top quintile out of roughly 75 distinct intermediate core-plus bond category peers.

Adjusted for volatility, results looked even better: The institutional shares' information ratio (a measure of excess return over excess standard deviation versus the benchmark) ranked second overall in entire the peer group.

Consistent outperformance has been a hallmark here. Over the past decade through 2023, the fund has beaten its index in eight out of 10 calendar years and its distinct peer median in nine of them. Versus the benchmark, the fund's best showing was in 2020, when its 8.8% return outpaced the index by 122 basis points. The fund didn't start that year well, though. Its typical Treasury underweighting was a headwind in 2020's first quarter, coronavirus-driven credit selloff. Increasing exposure to investment-grade credit after spreads widened helped for the calendar year, as did active positioning in that space.

The fund has on the whole beat inflation, as measured by the Consumer Price Index. From its 2000 inception through December 2023 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into $2.97, ahead of the roughly $1.77 required to maintain purchasing power.

Price | Alec Lucas | 5 Feb 2024
It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent Pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Medalist Rating of Gold.

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The Analyst-Driven % data point displays the weighted percentage of a vehicle's pillar ratings assigned directly or indirectly by analysts. For example, if the People and Parent ratings are assigned directly or indirectly by analysts but the Process rating is assigned algorithmically, the Analyst-Driven % for an actively managed vehicle would disclose that 55% of the pillar weight was assigned by analysts and the Analyst-Driven % for a passively managed vehicle would disclose that 20% of the pillar weight was assigned by analysts.

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Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates. Portfolios that invest in lower-rated debt securities (i.e., "junk bonds") involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Tax- free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

Equities
Equities are typically subject to greater fluctuations in market value than other asset classes due to factors such as a company's business performance, investor perceptions, stock market trends and general economic conditions. Stocks of small or mid-sized companies involve additional risks; such companies may have a higher risk of failure, are not as well established as larger blue-chip companies, and have historically experienced a greater degree of market volatility than the overall market average.

International/Emerging Markets Securities Risk
Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

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Trading may be halted due to market conditions, impacting an investor's ability to sell a security.

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Market Risk
The market prices of securities can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

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Portfolios that invest a significant percentage of assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

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Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

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The average annual total returns for the Institutional Class of the Baird Core Plus Bond Fund as of February 29, 2024, are 4.76% for the one-year, 1.42% for the five-year and 2.18% for the ten-year periods and 4.71% since its September 29, 2000, inception date. The expense ratio of the Institutional Class is 0.30%.

The average annual total returns for the Bloomberg U.S. Universal Bond Index as of February 29, 2024, are 4.06% for the one-year, 0.85% for the five-year and 1.73% for the ten-year periods and 4.05% since the fund's inception.

The Bloomberg U.S. Universal Bond Index represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or high-yield. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. The index is unmanaged and is not available for direct investment.

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