Baird Core Plus Bond Inst BCOIX

Little changes add up here.

Morningstar's Take BCOIX

Overall Morningstar Rating™ ★★★★

536 US Fund Intermediate Core-Plus Bond
(31 Jan 2025)

	3 Yr 536 funds	5 Yr 480 funds	10 Yr 345 funds
Morningstar Rating™	4★	4★	4★

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

Morningstar Pillars	
Process (4 Feb 2025)	High
People (4 Feb 2025)	High
Parent (21 Feb 2024)	High
Performance (4 Feb 2025)	
Price (4 Feb 2025)	

4 Feb 2025 | by Alec Lucas

Baird Core Plus Bond's penchant for incremental progress rather than dramatic leaps makes it one of the intermediate core-plus bond Morningstar Category's best options.

This preference for small over big changes includes transitions within the fund's 10-person management team, such as a recent shift in titles. In early 2025, longtime research director Jay Schwister succeeded Mary Ellen Stanek as co-CIO alongside Warren Pierson. Stanek, who won Morningstar's 2022 Outstanding Portfolio Manager award, became emeritus CIO. Schwister has retained his research director duties while Stanek remains a named manager here.

It would not be surprising if Stanek and fellow Baird founder Charles Groeschell retired within the next three to five years, though they have made no announcement to that effect. If so, however, the team would be well-prepared to carry on the Baird legacy thanks to its methodical approach to preparing team members for new roles. Pierson, for example, spent more than three years as deputy CIO before becoming co-CIO alongside Stanek in October 2021.

The Baird legacy also includes a straightforward but effective investment approach. Sticking to US-dollar-denominated bonds without the complications of derivatives or leverage, it begins with matching the Bloomberg US Universal Index's overall interest-rate sensitivity (duration) and then allocating to the bond sectors with the most attractive combination of underlying fundamentals, valuations, and liquidity. In line with the fund's intermediate core-plus peer group, 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 2024 its 2.2% allocation ranked near the peer group's bottom decile.

The team is prepared if option-adjusted yield spreads between below-investment-grade bonds and Treasuries with similar cash flows widen significantly beyond their current historically tight levels. They have built small positions in about 80 different high-yield issuers and would increase those to around a 0.1%-0.5% overweighting per issuer versus the index.

The team's risk-controlled approach has yielded outstanding results. Through 2024, the fund's trailing one-, three-, five-, 10-, and 15-year returns were all ahead of those of the index and distinct peer median, and they looked even better when adjusted for volatility.

This strategy is a very reliable option.

Process High | Alec Lucas | 4 Feb 2025

Focused on US-dollar-denominated bonds of primarily investment-grade quality without the potential complications of derivatives or leverage, or the need to clear lofty fee hurdles, Baird Advisors' straightforward 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 Bloomberg US 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% of strategy assets, but the managers typically stay far below that limit and generally buy debt rated at least B or what they perceive to be equivalent quality if unrated. Their approach to the high-yield corporate portion of the portfolio is to remain diversified and conservative. For example, among issuers whose secured debt has a BBB rating and unsecured a BB rating, they will buy the former when high-yield bond yield spreads tighten and the latter when they widen. The fund's credit profile as a result tends to look tame relative to more-aggressive intermediate core-plus bond 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 43%-53% of the portfolio's market value versus 30%-38% for the Bloomberg US Universal Index over the past decade. The fund's corporate overweighting relative to the index peaked in mid-2022; its nearly 52% stake was then 21.6 percentage points more than the index's when option-adjusted yield spreads between investment-grade corporate bonds and Treasuries with similar cash flows stood at 164 basis points. By year-end 2024, those spreads had fallen to 84 basis points and the fund's 44% corporate bond stake was 13.7 percentage points overweight, around the lowest it has been over the past decade.

Preferring to build a portfolio with positive convexity (more upside and less downside potential than the index), the team tends to be highly selective in the portfolio's roughly 24%-37% securitized allocation, especially among mortgage-backed securities. The team eschews TBAs, for example, since taking delivery of these forward purchasing contracts can result in securities with significant negative convexity.

Beyond trying to minimize negative convexity, the portfolio's securitized allocation varies depending on how attractive the sector and its subsectors are to other areas of the bond market. At year-end 2024, the fund was underweight in agency MBS, but its 30.2% securitized allocation was 6.9 percentage points more than the index owing to hefty allocations to high-quality nonagency residential and commercial MBS and to a lesser extent asset-backed securities.

The portfolio's exposure to below-investment-grade bonds peaked at 13% in March 2011, but in recent years it has been just 2% -3%, among the lowest in the intermediate core-plus bond category.

People High | Alec Lucas | 4 Feb 2025
Baird Advisors' capable and collaborative investing culture pairs well with the firm's straightforward but effective style. Other top-tier firms may have bigger staffs and broader remits; Baird operates differently and is excellent in its own right. The fund's 10-person management team earns a High People rating.

Leadership transitions tend to be years in the making, helping prepare team members for new roles. In early 2025, longtime research director Jay Schwister succeeded Mary Ellen Stanek as co-CIO alongside Warren Pierson. Stanek, who helped found Baird and was the sole CIO prior to October 2021, took on the title of emeritus CIO. Winner of Morningstar's 2022 Outstanding Portfolio Manager award, Stanek remains a named manager while Schwister has retained his research director duties.

Pierson, Schwister, Stanek, and co-founder Charles Groeschell serve as strategic leaders at Baird, setting the tone here. The other managers have a wide range of experience but collectively represent the next generation. Team lead Jeffrey Schrom and comanagers Andrew O'Connell and Abhishek Pulakanti work as part of a 10-person credit group; Meghan Dean and Patrick Brown oversee a five-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 been only four 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 USD 5 million each across the lineup and another four more than USD 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 | 4 Feb 2025
The fund has a strong long-term record. Since its late 2000 inception, its institutional shares' 4.71% annualized gain through January 2025 beat the Bloomberg US Universal Index by 65 basis points while placing in the top quintile out of 70 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) was one of the best in the peer group.

Consistent outperformance has been a hallmark here. Over the past decade through 2024, 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 2024 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into about USD 3.05, ahead of the roughly USD 1.82 required to maintain purchasing power.

Price | Alec Lucas | 4 Feb 2025
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.

Market Price Risk
The market price of securities traded on the secondary market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV, which will affect an investor's value.

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.

Non-Diversified Strategies
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 January 31, 2025, are 3.19% for the one-year, 0.30% for the five-year and 2.00% 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 January 31, 2025, are 2.90% for the one-year, -0.18% for the five-year and 1.60% for the ten-year periods and 4.07% 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. Indices are unmanaged and are not available for direct investment.

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