Baird Short-Term Bond Inst BSBIX

Little changes add up here.

Morningstar's Take BSBIX

Overall Morningstar Rating™	★★★★		
522 US Fund Short-Term Bond (31 Jan 2025)			
	3 Yr 522 funds	5 Yr 482 funds	10 Yr 364 funds
Morningstar Rating™	4★	4★	3★

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

Morningstar Pillars	
Process (5 Feb 2025)	High
People (5 Feb 2025)	High
Parent (21 Feb 2024)	High
Performance (5 Feb 2025)	
Price (5 Feb 2025)	

5 Feb 2025 | by Alec Lucas

Baird Short-term Bond's penchant for incremental progress rather than dramatic leaps makes it a standout option within the short-term bond Morningstar Category.

The strategy's preference for small over big changes includes transitions within its 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 potential complications of derivatives or leverage, it begins with matching the Bloomberg US Government/Credit 1-3 Year 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.

Relative to its benchmark and most rivals, the strategy tends to favor BBB credits. Versus the peer group, however, the fund's BBB overweighting has fallen from near the top quintile in mid-2019 to the second quartile since.

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 | 5 Feb 2025

Baird Advisors' investing style is straightforward but effective. Focused on US-dollar-denominated bonds of investment-grade quality without the potential complications of derivatives or leverage, or the need to clear lofty fee hurdles, the strategy 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 Government/Credit 1-3 Year Index. Aiming to beat this bogy by 15 to 40 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 (both agency mortgages and non-agency, high-quality securitizations), 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. The team does not buy junk bonds but can hold onto debt that has lost its investment-grade rating—a stake that has been 2% or less for more than five years. The fund's credit profile as a result tends to look tame relative to more aggressive short-term bond Morningstar Category peers.

The hunt for value even extends to yield-curve positioning through the fund's Treasury stake. The team looks for incrementally more attractive Treasuries when buying and sells those with the richest valuations.

Relative to its Treasury-heavy Bloomberg US Government/Credit 1-3 Year Index, the fund tends to overweight corporate credit. Over the past decade, it has allocated about 50%-65% of its assets to the sector, versus 20%-25% for the index. The fund's corporate bond weighting has come down of late. In September 2023, its 58% stake was then 33.2 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 125 basis points. By year-end 2024, those spreads had fallen to 82 basis points and the fund's 52% corporate bond stake was 28.2 percentage points overweight.

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 high-quality out-of-benchmark roughly 9%-21% securitized allocation, especially among mortgage-backed securities. At year-end 2024, the fund’s 12.4% securitized stake tilted toward asset-backed securities (5.1%), with the remainder roughly evenly split between nonagency residential and commercial MBS.

While the strategy steers clear of buying below-investment-grade bonds, it tends to maintain a 15- to 30-percentage-point BBB overweighting versus its index and a bigger stake than most rivals. Versus the peer group, however, the fund's BBB overweighting has fallen from near the top quintile in mid-2019 to the second quartile since.

People ● High | Alec Lucas | 5 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 earns a High People rating.

Leadership transitions among the fund’s 10-person management team 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. Stanek, winner of Morningstar’s 2022 Outstanding Portfolio Manager award, 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, 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 | 5 Feb 2025
The fund has a competitive long-term record. Since its 2004 inception, its institutional shares’ 2.64% annualized gain through January 2025 beat the Bloomberg US Government/Credit 1-3 Year Index by 42 basis points and matched the median of distinct short-term 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 in the peer group’s top third.

Consistent outperformance versus the benchmark has been a hallmark here. Over the past decade through 2024, the fund has beaten its index in nine out of 10 calendar years. The fund’s best showing over that span was in 2023, when its 5.65% gain beat the benchmark by 104 basis points. Corporate bond positioning within industrials and financials added the most to the fund’s outperformance that year. The fund’s industrials overweighting, for example, went from 17.1 percentage points in late 2022 to 13.5 percentage points by the end of 2023 as credit spreads tightened.

The fund has on the whole beaten inflation, as measured by the Consumer Price Index. From its 2004 inception through December 2024 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into USD 1.70, ahead of the roughly USD 1.62 required to maintain purchasing power.

Price | Alec Lucas | 5 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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The average annual total returns for the Bloomberg 1-3 U.S. Government/Credit Bond Index as of January 31, 2025, are 4.43% for the one-year, 1.56% for the five-year, 1.62% for the ten-year periods and 2.22% since the fund's inception.

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