Baird Ultra Short Bond Institutional BUBIX

Little changes add up here.

Morningstar's Take BUBIX

Overall Morningstar Rating™		★★★★	
202 US Fund Ultrashort Bond (31 Jan 2025)			
	3 Yr 202 funds	5 Yr 184 funds	10 Yr 111 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 Ultra Short Bond's penchant for incremental progress rather than dramatic leaps makes it a standout option within the ultrashort 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 their 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 Short-Term U.S. Government/Corporate Index's overall interest-rate sensitivity, or 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. At year-end 2024, for example, its 33.9% allocation to BBB credits was 24.3 percentage points more than the index and ranked in the top quintile of distinct ultrashort bond peers.

The team's risk-controlled approach has yielded outstanding results. Through 2024, the fund's trailing three-, five-, and 10-year returns were all ahead of those of its primary prospectus 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 primarily 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 Short-Term US Government/Corporate Index. Aiming to beat this bogy by 15 to 25 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 nonagency, 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. Non-investment-grade debt is capped at 10%, 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 ultrashort bond 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 it sells those with the richest valuations.

Relative to its Treasury-heavy Bloomberg Short-Term US Government/Corporate Index, the strategy tends to overweight corporate credit. Over the past decade, it has allocated about 40% to 65% of its assets to the sector, versus 15% to 25% for the index. The fund's corporate-bond weighting has come down of late. In mid-2024, its 55% stake was then 31.5 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 96 basis points. By year-end 2024, those spreads had fallen to 82 basis points and the fund's 52% corporate-bond stake was 28.7 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 securitized allocation of roughly 12% to 27%, especially among mortgage-backed securities. At year-end 2024, the fund's 21% securitized stake leaned toward asset-backed securities (15.3%), with most of the rest in nonagency commercial MBS.

The strategy tends to favor bonds with BBB ratings. At year-end 2024, its 33.9% allocation to BBB credits was 24.3 percentage points more than the index and ranked in the top quintile of distinct ultrashort bond peers.

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 strategy 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 before 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 inception. There have also 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 $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 2025
The strategy has a strong record since its year-end 2013 inception. Through January 2025, the 2.15% annualized gain of the mutual fund's institutional share class beat its primary prospectus Bloomberg Short-Term US Government/Corporate Index by 38 basis points while placing in the top third out of about 50 distinct ultrashort bond category peers. Adjusted for volatility, results looked even better: the institutional shares' Sharpe ratio (a measure of return relative to standard deviation) was superior to the benchmark's and placed first in the peer group.

Consistent outperformance has been a hallmark here. Through 2024, the fund has beaten its index in nine of the past 10 years. Versus the benchmark, the fund's best showing over that span was in 2016, when its 1.56% return outpaced the index by 76 basis points. Bond-picking within and overweighting corporate credit helped the most that year.

Although prioritizing income consistent with capital preservation, the fund has nonetheless helped mitigate the effect of inflation, as measured by the Consumer Price Index. From January 2014 through December 2024 (the most recent month for which CPI data is available), the fund grew each initial dollar invested into $1.26, versus the roughly $1.35 required to maintain purchasing power. By contrast, the average peer (inclusive of all share classes) grew each initial dollar invested into $1.24 over the same period.

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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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.

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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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The average annual total returns for the Institutional Class of the Baird Ultra Short Bond Fund as of January 31, 2025, are 5.63% for the one-year, 2.85% for the five-year, 2.26% for the ten-year, and 2.15% since its December 31, 2013, inception date. The gross expense ratio of the Institutional Class is 0.30%, the net expense ratio is 0.15%.

The average annual total returns for the Bloomberg Short-Term U.S. Government/Corporate Bond Index as of January 31, 2025, are 5.63% for the one-year, 2.53% for the five-year, 1.95% for the ten-year and 1.78% since the fund's inception.

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