

PORTFOLIO COMMENTARY

Fellow shareholders,

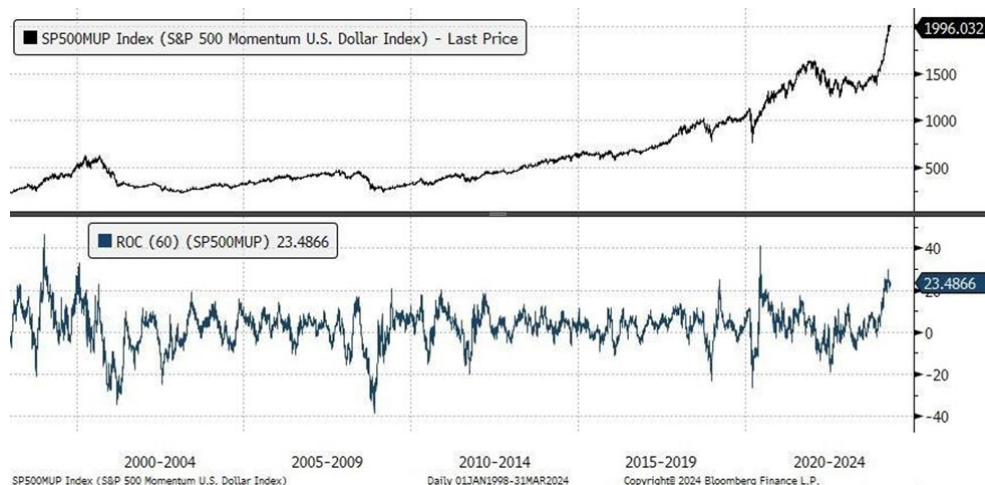
Equities continued their ascent to start the year, bolstered by hopes of easing monetary policy. The Equity Opportunity Fund posted a net return of +3.5%, while the Russell 2000 Index gained +5.2%. We continue to focus on building upon the Fund’s long-term track record.*

Positions that benefited the Fund’s results to start the year were food distributor Chefs’ Warehouse and optical systems provider Infinera. When we initiated the position in 2020 during the months following the onset of COVID-19, our initial thesis centered on the expected fundamental recovery as restaurants re-opened and Chef’ Warehouses sales and profits expanded rapidly. Now that we are several years into a successful recovery, our thesis has evolved into a margin expansion and free cash flow story. We see good gains ahead for the stock; thus, it remains a top position in the Fund.

We have discussed Infinera several times in the past as a company that has yet to reach the full potential that we envisioned when we first bought the stock several years ago. Nevertheless, we have exercised immense patience due to our ongoing optimism surrounding several promising product cycles, the potential for material margin expansion as mix improves and revenue scales, and an emerging opportunity to serve the AI data center market. Solid results in the face of a still-difficult service provider spending environment pushed the stock higher during the period, and we think increasing evidence of data center interest could generate excitement over the next several years.

Key detractors to the Fund’s performance this quarter included non-profit software provider Blackbaud and OLED-screen enabler Universal Display . Both stocks were impacted by somewhat underwhelming initial 2024 financial guidance. That said, we see both pullbacks as a case of disappointment relative to high expectations following strong recent gains (both were top contributors to full year 2023 results), and both companies remain well-positioned. In the case of Blackbaud, the company is still in the early innings of a pricing cycle that should generate outsized profit growth through at least 2025. For Universal Display, growth from the proliferation of its technology in a growing array of electronic devices should be augmented by a meaningful expansion of its display material types to existing customers.

While our team is not bragging about a 3.5% net return to start the year, we consider these results to be decent in the context of an equity market dominated by larger-cap momentum stocks. As shown in the chart below, rarely in history has there been a better time to embrace a price momentum strategy than the most recent past: the top panel illustrates the absolute appeal of such strategies, while the panel just beneath it shows the rate-of-change in its price. Those who know us well know that we prize a company’s fundamentals much more than the trend in its stock price. Over time, this strategy has served the Fund well; however, at times, our reluctance to embrace momentum has admittedly constrained results.

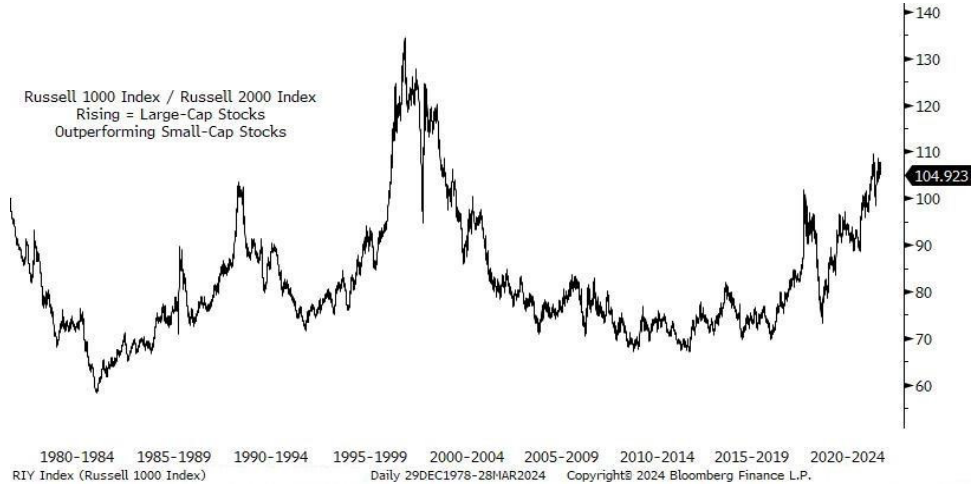


Source: Bloomberg

***Performance data represents past performance and does not guarantee future results. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the data quoted. For performance data as of the most recent month-end, please visit bairdfunds.com.**

Baird Equity Opportunity Fund (Q1 2024)

The next chart illustrates market cap dynamics over the long term, as measured by the ratio of the larger cap Russell 1000 Index divided by the smaller-cap Russell 2000 Index. As indicated by a rising line, small cap stocks have materially underperformed for much of the past decade. That said, long-lasting market cap cycles tend to ebb and flow over time, and the unfavorable ratio of large-to-small performance is now as stretched as it has been since the tech bubble twenty-five years ago.



Source: Bloomberg, Ned Davis Research (NDR)

Looking ahead, we see a mixed macro environment. GDP growth remains solid, unemployment is historically low, and expectations of a recession have all but evaporated. On the other hand, inflation remains sticky, and consumers are showing some signs of fatigue, possibly impacted by fading stimulus benefits, inflationary pressures and record credit card delinquency rates. The Federal Reserve itself seems a bit confused and perhaps boxed in, as persistently strong economic growth and rising prices have conspired to potentially limit the Fed’s ambition to meaningfully lower interest rates during 2024.

Despite the lack of macro clarity, we remain constructive on the prospects for our portfolio. While we do not hazard a guess on specific timing, we think monetary easing is indeed likely. This could not only buffet equities in general, but it should also improve the relative performance of our targeted small-cap universe. More importantly, we believe our Fund features an appealing set of small cap companies with good fundamentals, attractive valuations, and underappreciated optionality.

We continue to believe that a fundamentally driven best-ideas portfolio remains the ideal approach to delivering strong performance across a variety of market environments. We believe it will be an interesting year with ongoing scrutiny of each macro data point, uncertainty over the timing of interest rate cuts, and of course the November elections – all of which should conspire to drive increased volatility. We will navigate whatever comes our way with confidence and humility, and we look forward to updating you on our progress in July.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q1 2024)

PERFORMANCE

| Periods Ending March 31, 2024 ¹ (%) | Total Return (%) | | Average Annual Total Returns (%) | | | | Since Inception (05/01/2012) | Expense Ratios (Net/Gross) ² |
|---|------------------|--------|----------------------------------|--------|---------|------|------------------------------|---|
| | QTD | 1 Year | 3 Year | 5 Year | 10 Year | | | |
| Equity Opportunity Fund Institutional Class (net) | 3.53 | 7.49 | 4.43 | 6.46 | 4.87 | 7.36 | 1.25 / 1.70 | |
| Equity Opportunity Fund Investor Class (net) | 3.48 | 7.29 | 4.22 | 6.22 | 4.63 | 7.10 | 1.50 / 1.95 | |
| Russell 2000 Index | 5.18 | 19.71 | -0.10 | 8.10 | 7.58 | 9.59 | | |

¹Performance data represents past performance and does not guarantee future results. Returns over one year are annualized unless specified. The investment return and principal value of the investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Performance figures assume reinvestment of all dividends and capital gains. For performance data as of the most recent month-end, please visit bairdfunds.com. Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information can be found in the prospectus or summary prospectus. A prospectus or summary prospectus may be obtained by visiting bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing. Fund performance is net of fees.

²The Net Expense Ratio is the Gross Expense Ratio minus any reimbursement from the advisor. The advisor has contractually agreed to waive its fees and/or reimburse expenses at least through April 30, 2025, to the extent necessary to ensure that the total operating expenses do not exceed 1.50% of the Investor Class's average daily net assets and 1.25% of the Institutional Class's average daily net assets.

TOP & BOTTOM CONTRIBUTORS

| Top 5 Portfolio Contributors | Avg. Weight | Contribution |
|-------------------------------|-------------|--------------|
| Chefs' Warehouse, Inc. (CHEF) | 5.68 | 1.46 |
| Infinera Corporation (INFN) | 3.02 | 0.76 |
| Toast, Inc. (TOST) | 1.95 | 0.70 |
| Cadre Holdings, Inc. (CDRE) | 6.13 | 0.62 |
| Envestnet, Inc. (ENV) | 2.68 | 0.54 |

| Bottom 5 Portfolio Contributors | Avg. Weight | Contribution |
|--------------------------------------|-------------|--------------|
| Mister Car Wash, Inc. (MCW) | 3.70 | -0.39 |
| Globalstar, Inc. (GSAT) | 1.64 | -0.47 |
| Universal Display Corporation (OLED) | 4.42 | -0.59 |
| Fiverr International Ltd. (FVRR) | 2.52 | -0.66 |
| Blackbaud, Inc. (BLKB) | 6.16 | -1.28 |

| Investment Professional | Years of Experience | Team Since | Coverage Responsibility |
|---|---------------------|------------|---|
| Joe Milano, CFA Portfolio Manager | 27 | 2013 | Generalist |
| Chip Morris, CFA Analyst | 37 | 2014 | Technology |
| Scott Barry Analyst | 27 | 2014 | Consumer Discretionary & Consumer Staples |
| Ben Landy Analyst | 15 | 2014 | Industrials & Materials |
| Scott Mafale Analyst | 8 | 2021 | Healthcare |

This commentary represents portfolio management views and fund holdings as of 03/31/2024. Those views and fund holdings are subject to change without notice. The performance of any single fund holding is no indication of the performance of other holdings of the Baird Equity Opportunity Fund. Past performance is no guarantee of future results.

Prior to December 12, 2021, the fund was managed in accordance with a different investment strategy. The Subadvisor became the Fund's subadvisor effective December 12, 2021. The performance results shown are from periods during which the Fund was managed by the Advisor prior to the retention of a Subadvisor.

Positions identified above do not represent all the securities held, purchased or sold during this time period. The contribution to return of these securities is calculated by multiplying the weight of the security at the beginning of the time period by the security return and represents a model portfolio. To obtain a complete list of positions and contributions for the period, please contact Baird Equity Asset Management at 800-792-4011. Past performance does not guarantee future results.

As a non-diversified fund, the fund may invest a larger percentage of its assets in a smaller number of companies compared to a diversified fund, which increases risk and volatility because each investment has a greater effect on the overall performance. The fund focuses on small- and mid-cap stocks and therefore the performance of the fund may be more volatile, less liquid and more likely to be adversely affected by poor economic or market conditions than investments in larger companies. The fund may invest up to 15% of its total assets in the equity securities of foreign companies. Foreign investments involve additional risks such as currency rate fluctuations, the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulation.

The Russell 2000 is the most widely quoted measure of the overall performance of small-cap to mid-cap stocks. It represents approximately 10% of the total Russell 3000 market capitalization. It is made up of the bottom two-thirds in company size of the Russell 3000 index. Indices are unmanaged and are not available for direct investment. Time periods greater than one year are annualized.

Baird Funds are offered through Robert W. Baird & Co., a registered broker/dealer, member NYSE and SIPC. Robert W. Baird & Co. also serves as investment advisor for the Fund and receives compensation for these services as disclosed in the current prospectus.

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