

## PORTFOLIO COMMENTARY

Fellow shareholders,

While larger-cap equities reached new heights, smaller-cap stocks continued to struggle during the quarter. Though the Russell 2000 Index declined -3.3% in Q2, the Equity Opportunity Fund posted only a modest negative net return of -0.5%. At the midpoint of the year, the Fund is performing decently, gaining +2.8% (net) and exceeding the Russell 2000 by 370 basis points through June (Russell 2000 returned -0.9% in the month).\*

The second quarter saw a continuation of several recent trends, including solid corporate fundamentals, slightly easing inflation, and optimism that the Federal Reserve will soon be cutting interest rates. Small cap stocks significantly underperformed larger cap stocks – both for the quarter and year-to-date period. The concentration of returns in just a handful of bellwether names has rarely been higher, with roughly 75% of the S&P 500's return thus far in 2024 being driven by just ten stocks (2%).

The Fund declined only fractionally, aided by Universal Display, Hashicorp, and Valmont Industries. Universal Display provides materials necessary to produce "OLED" screens, which are clearer and brighter than competing display technologies. As OLED screens become more ubiquitous, the company is benefiting from the proliferation of its technology in a growing array of electronic devices, while also benefiting from an expansion of new product offerings that should accelerate growth for years to come. A newer position to the Fund this year, software company Hashicorp rose sharply when IBM announced it was acquiring it at an attractive premium. While we are not event-driven investors, a key element of our thesis on Hashicorp was its strategic value to larger technology companies. Longtime holding Valmont's solid growth is being driven by leadership positions in important infrastructure markets such as large-scale utility transmission poles and farm irrigation equipment. Strong execution drove better than expected results during the period, and the shares responded accordingly.

Key detractors to the Fund's performance this quarter included software names Bill Holdings and RingCentral. Bill Holdings is a leading "B2B" payments provider to small- and medium-sized businesses (SMB). As with consumer payments decades ago, business payments are now largely enacted with "old economy" tools such as paper invoices and checks. Automation of accounts payable and receivable is at an early stage, and BILL is well positioned to benefit from outsized growth over the long term. Having said that, a weaker macroenvironment for its target SMB market has caused its growth rate to decelerate and the stock's valuation to compress significantly. We have added to the position and expect brighter days as SMB spending improves. While RingCentral posted quarterly results which investors cheered early in the quarter, the stock ultimately succumbed to fears over industry pricing and SMB exposure. This is a good example of how smaller cap companies have been treated for some time now – the reality of solid performance is often more than overcome by the perception of trouble that is potentially on the horizon, even when the underlying security seems priced for bad news. NeoGenomics also detracted in the quarter.

In our Q1 Investor Letter, we described the material underperformance of small-cap stocks relative to large-cap stocks, which has persisted for the better part of the past decade. Unfortunately, not much changed in Q2, as the S&P 500 Index outperformed the Russell 2000 Index by over 700 basis points. This result stretches the YTD performance gap to a staggering 1,300-plus basis points. Even worse, on an annualized basis over the past ten years, the S&P 500 has delivered almost twice the return as the Russell 2000 despite constituent earnings growth that has been quite similar over that period. Investors have been much more lenient on large cap valuations versus those of small caps, to say the least.

There could be many reasons for this. Large cap stocks seem to have benefited more from the rising prominence of passive investing, the growth of ETFs, and the expansion of hedge fund "pod shops," all of which have driven incremental dollars into larger-cap equities due to the perceived greater safety and liquidity. Promisingly, any modest reversion in this trend could create a meaningful tailwind for small-cap valuation expansion. Smaller cap companies also feature higher debt levels with greater exposure to rising interest rates via floating rate obligations when compared to their larger brethren. Encouragingly, we believe that interest rate reductions should be modestly helpful to small cap fundamentals, and perhaps more meaningfully positive for sentiment. From a bottom-up standpoint, we see a strong value proposition from the small caps in our portfolio, and it appears that prospective acquirors feel similarly given the recent increase in merger and leveraged buyout activity.

**\*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](http://bairdfunds.com).**

## Baird Equity Opportunity Fund (Q2 2024)

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Looking to the back half of the year, we expect elevated uncertainty to drive increased volatility. While the economy has been resilient, corporate management teams are expressing that conditions are broadly becoming more difficult. Additionally, the Presidential election is just four months away, and investors cannot even be sure of the candidate slate, much less the outcome. And, of course, there will be continued scrutiny over key economic data points as market participants angle for some insight as to the timing and pace of monetary easing by the Federal Reserve. This confluence of issues would ordinarily create enough near-term uncertainty to give investors pause, especially when paired with many equity indexes at all-time highs and volatility near historic lows.

Despite the current backdrop, we are constructive on the Fund's intermediate term prospects. While we are hopeful that small-cap relative performance might improve, offering a long absent tailwind to performance, we do not feel overly dependent upon this occurring. With a set of favorable risk-reward profiles along with attractive optionality, we believe the Fund is well positioned even if current market cap dynamics persist.

We hope you are all enjoying the summer and we look forward to giving another progress report in mid- October.

Respectfully,



Joe Milano

# Baird Equity Opportunity Fund (Q2 2024)

## PERFORMANCE

Periods Ending June 30, 2024 <sup>1</sup> (%)	Total Return (%)		Average Annual Total Returns (%)					Expense Ratios (Net/Gross) <sup>2</sup>
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception (05/01/2012)	
<b>Equity Opportunity Fund</b> Institutional Class (net)	-0.51	3.00	6.61	3.27	5.92	4.69	7.31	1.25 / 1.70
<b>Equity Opportunity Fund</b> Investor Class (net)	-0.58	2.87	6.33	3.07	5.67	4.44	7.05	1.50 / 1.95
<b>Russell 2000 Index</b>	-3.28	1.73	10.06	-2.58	6.94	7.00	9.34	

<sup>1</sup>Performance 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](http://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](http://bairdfunds.com). Please read the prospectus or summary prospectus carefully before investing. Fund performance is net of fees.

<sup>2</sup>The 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
Universal Display Corp (OLED)	4.80	1.19
HashiCorp, Inc. (HCP)	1.26	0.84
Valmont Industries, Inc. (VMI)	3.66	0.78
Merit Medical Systems (MMSI)	4.33	0.59
Envestnet, Inc. (ENV)	4.84	0.41

Bottom 5 Portfolio Contributors	Avg. Weight	Contribution
Cadre Holdings, Inc. (CDRE)	5.72	-0.47
Hayward Holdings, Inc. (HAYW)	2.49	-0.55
NeoGenomics, Inc. (NEO)	4.15	-0.56
RingCentral, Inc. (RNG)	2.57	-0.58
BILL Holdings, Inc. (BILL)	3.20	-0.84

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
<b>Joe Milano, CFA</b> Portfolio Manager	28	2013	Generalist
<b>Chip Morris, CFA</b> Analyst	37	2014	Technology
<b>Scott Barry</b> Analyst	27	2014	Consumer Discretionary & Consumer Staples
<b>Ben Landy</b> Analyst	15	2014	Industrials & Materials
<b>Scott Mafale</b> Analyst	8	2021	Healthcare

This commentary represents portfolio management views and fund holdings as of 06/30/2024. 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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