

MARKET UPDATE

The CPI data released early in the quarter fell squarely on the side of milder inflation, and the equity market quickly began discounting the likelihood of the Federal Reserve accelerating the start of an easing cycle. The Fed obliged with a larger than expected 50 basis point interest rate cut at its September meeting following a weak employment report early in the month, which propelled stocks higher into quarter end on the prospects of an economic soft landing. Equity market strength belied the escalating risk from conflict in the Middle East and the general heightened level of geopolitical tension.

PORTFOLIO COMMENTARY

For the quarter, the Baird Mid Cap Growth portfolio produced a positive return of +5.2%, net of fees, trailing the Russell Midcap Growth increase of +6.5%. As noted above, strong absolute returns were spurred by the market's embrace of easing inflation data, and the prospect that lower interest rates will allow the U.S. economy to avoid recession. Momentum returned as a key stock price driver in September.

Before moving into portfolio specifics, we want to acknowledge that performance year-to-date has tracked short of our benchmark and is not to the standard we work to deliver for our clients. There have been investment headwinds with a narrow market and risk-on nature for much of the year. Based on our experience, we fully expect these headwinds will turn favorable for our investment style, but we cannot control the timing. What we can control is an investment process focused on stacking sound investment decisions. The paragraphs that follow discuss company and positioning challenges that have negatively impacted performance and changes we made. They reflect the fundamental work done by the team to assemble a strong set of businesses that we believe will drive favorable risk-adjusted performance moving forward.

Performance from the consumer sectors, discretionary and staples, lagged the benchmark and were the biggest source of underperformance in the quarter. The struggle from the two sectors is atypical, as they have been important drivers of long-term performance. Exposure to value retail, which we expected to perform well amid a slowing economy, dragged on results, notably with poor performance from Dollar Tree and Five Below. We decided to move on from both companies due to concerns that competitive challenges and execution issues would persist. We also sold Aptiv as our thesis for an auto production ramp did not play out. In consumer staples, Lamb Weston sold off materially on quarterly earnings which highlighted a weakening end-market, which is weighing on industry capacity utilization and earnings power. In this case, we are sticking with the company as we expect management initiatives will lead to a recovery in fundamentals and the stock price in coming quarters. Dutch Bros weighed on performance as new unit and sales growth outlooks fell short of market expectations in their earnings release. We recognize younger restaurant concepts can have fits and starts as they calibrate good operational execution against a large growth opportunity. On the positive side of the ledger, our housing-related consumer discretionary holdings, D.R. Horton, Floor & Décor, and Pool Corp, moved sharply higher as interest rates moved lower. The multi-year set up for consumer stocks could turn more favorable with the Fed now easing, particularly if the employment outlook stabilizes. We are likely to opportunistically add weight to the sector should this scenario continue to unfold.

We added two consumer names, one in discretionary – Rollins, and one in staples – Casey's General Store. Rollins is a leading player in the growing and fragmented pest and termite control industry. In addition to several drivers supporting outsized secular industry growth, we believe management can drive faster sales and profit growth based on an increased willingness to lean into pricing power and better manage its cost structure. Casey's is a dominant, Midwest-concentrated convenience store operator. The business's competitive positioning has strengthened due to multiple years of high inflation pressuring inferior peers. Additionally, we believe newer management can further improve store operations and better execute acquisitions and organic unit growth.

The portfolio's technology holdings outpaced the benchmark and produced a solid quarter of outperformance. Strong advances from Dynatrace, Monolithic Power, Tyler Technologies, and Vertiv Holdings, combined with declines in unowned benchmark names, many of which fail our quality criteria, delivered the strongest relative performance since the sharp roll over of unprofitable companies in 2021. We made several changes to the sector including the sale of Bentley Systems due to concerns over the company's ability to accelerate growth, and Lattice Semiconductor on a surprise CEO departure combined with weaker relative fundamentals. On the buy side, we continued filling newer positions Vertiv and Manhattan Associates, and we added to long-time holding EPAM Systems.

Baird Mid Cap Growth Equity (Q3 2024)

Holdings in the industrials sector lagged in the quarter. Benchmark returns in this segment were strong and broad-based with manufacturing and services companies moving higher, leaving little room for error. Trex was the sole decliner, selling off on quarterly results which included weaker sales and lowered second-half revenue assumptions. We believe the company remains well positioned to participate in the secular shift from wood to composite decking. The defense industry was quite strong and our purchase of BWX Technologies was a little late to fully participate. We like the business mix as a manufacturer of nuclear components and services for defense, energy, and medical applications. We believe its oligopolistic positions in niche, mission critical end markets provide long-duration, high visibility growth; it has potential in medical applications and nuclear reactor builds; and a favorable valuation. We also purchased AAON, a manufacturer of semi-custom and custom commercial HVAC systems. We believe the company's recent BASX acquisition should drive accelerating growth in future years as it gains exposure to the datacenter infrastructure where demand is rising due to AI needs. To make room for AAON in the portfolio, we sold our position in Watsco to manage our overall exposure to the HVAC industry and facilitate better balance between commercial and residential end markets.

Healthcare performance improved from recent quarters but did not fully turn the corner. Several holdings posted returns well ahead of the benchmark including Veeva Systems, ResMed, Insulet, Repligen, and Bio-Techne. However, weakness in long-time and large holding Icon PLC on concern over restrained drug development spending and a sharp drop in DexCom pulled down overall results. We trimmed DexCom after the company significantly reduced its sales growth outlook for the back half of 2024 due to both company-specific issues and poor execution; we have concerns that these issues could persist for a few quarters, though product demand remains positive. Despite a tough nine months for the sector, we are encouraged by better fundamental and stock performance from several holdings, and we carry an overweight sector position into the final quarter of the year.

Smaller sectors, notably energy, real estate, and utilities combined to drag on relative performance. Energy sector results were impacted by a decline in holding Diamondback Energy which followed the price of oil lower in the quarter. In real estate, holding CoStar Group was up only modestly in a sector that includes REITs which responded positively to lower interest rates. In the utilities sector, significant strength in large benchmark constituent Vistra hurt. The stock has become somewhat of a datacenter/AI darling and the momentum in the share price movement reflects that dynamic.

Solid performance in the financial sector helped offset some of the underperformance mentioned above. A nice rebound in MarketAxess helped performance as the company experienced increased bond trading activity on its electronic platform, benefitting from a normalizing yield curve and bouts of volatility in the market. MSCI and Kinsale were rewarded for strong fundamental results. A pullback in large benchmark weight Coinbase, which tends to move with cryptocurrencies, also boosted relative performance.

OUTLOOK

We continue to work through a challenging performance period compared to the benchmark. A combination of market characteristics and stock picking challenges have tested the portfolio. While the timing of a more favorable backdrop for our investment style is uncertain, what is certain is the dedication to our long-standing investment process and philosophy. Remaining steadfast to our philosophy has served as the foundation of building a strong investment record over our long history.

We remain confident in our team, we value the stability that Baird provides, and we appreciate the patience and trust of our investors. On behalf of the entire team at Baird Equity Asset Management, thank you for your support of our Mid Cap Growth Strategy.

Baird Mid Cap Growth Equity (Q3 2024)

PERFORMANCE

Periods Ending September 30, 2024* (%)	Total Return (%)		Average Annual Total Returns (%)				Since Inception (06/30/1993)
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	
Baird Mid Cap Growth Composite (Gross)	5.38	0.88	14.30	-1.44	9.65	10.87	11.88
Baird Mid Cap Growth Composite (Net)	5.19	0.33	13.44	-2.17	8.85	10.08	11.23
Russell MidCap® Growth Index	6.54	12.91	29.34	2.32	11.48	11.30	10.27

*Returns over one year are annualized unless otherwise specified. Returns are presented gross and net of management fees. Actual fees will vary depending on, among other things, the applicable fee schedule and portfolio size. Performance includes the reinvestment of all income. Performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains. Past performance is not indicative of future performance. Current performance data may be lower or higher than the data quoted. For performance data to the most recent month end, contact Baird Equity Asset Management directly at 800-792-4011.

BAIRD MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA Senior Portfolio Manager	37	37	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Ken Hemauer, CFA Co-Senior Portfolio Manager	30	30	Financials	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
Jonathan Good Senior Research Analyst	24	18	Healthcare	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
Corbin Weyer, CFA, CPA Director of Research & Senior Research Analyst	14	14	Consumer Discretionary & Staples	BSBA – Finance and Accounting (Marquette University)
Karan Saberwal Senior Research Analyst	8	6	Information Technology	MBA – (Northwestern University-Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)
Christopher Brennan Senior Research Analyst	5	1	Energy, Industrials & Materials	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
Josh Heinen, CFA Research Analyst	3	3	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
Margaret Guanci Research Analyst	2	2	Generalist	BBA – Finance (UW-Madison)

This commentary is intended to provide you with information about factors affecting the performance of the Baird Mid Cap Growth strategy as of September 30, 2024. Information regarding market or economic trends or the factors influencing historical or future performance reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. References to individual companies should not be construed as recommendations to buy or sell shares in those companies. The securities identified do not represent all the securities purchased, sold or held for accounts. You should not assume these securities were or will be profitable. Where performance results of a subset of investments in the portfolio are presented, Baird will provide promptly, upon request, the results of the total portfolio from which the performance was derived. 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, and any market forecasts discussed may not be realized.

The Mid Cap Growth Equity Composite contains fully discretionary equity accounts following the Baird Mid Cap Growth strategy. The composite primarily invests in medium sized, high quality growth companies holding leadership positions within their industries. For comparison purposes, the composite is measured against the Russell Mid Cap Growth Index. Robert W. Baird & Co. Incorporated is an independent registered investment advisor. Registration does not imply a certain level of skill or training. Robert W. Baird & Co. Incorporated. claims compliance with Global Investment Performance Standards (GIPS®). GIPS® and CFA® are registered trademarks of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of content contained herein. To receive a complete list and description of composites and/or a GIPS Composite Report, contact Baird Equity Asset Management at 800-792-4011. The U.S. is the currency used to express performance.

The Russell Midcap Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes the Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. Indexes are unmanaged, and investors cannot invest directly in an index. The strategy has been developed solely by Robert W. Baird & Co. Incorporated. The strategy is not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies. All rights in the Russell Indices vest in the relevant LSE Group company which owns the Index. Russell® is a trademark of the relevant LSE Group company and used by any other LSE Group company under license. TMX® is a trademark of TSX, Inc. and used by the LSE Group under license. The Index is calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the Baird Mid Cap Growth strategy or the suitability of the Index for the purpose to which it is being put by Robert W. Baird & Co. Incorporated.

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