Q4 2024 Commentary and Market Outlook

Baird Equity Opportunity Fund

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PORTFOLIO COMMENTARY

Fellow shareholders,

Equities in 2024 were buoyed by strength in the U.S. economy and the start of a Federal Reserve easing cycle. Smaller-cap stocks performed decently, as the Russell 2000 Index posted an +11.5% total return for the year. The Equity Opportunity Fund delivered a +24.0% net return for the 2024 calendar year, outpacing the index by over 1,200 basis points. For the fourth quarter, the Fund delivered a net return of +14.2%, compared to a +0.3% return for the benchmark.*

Economic data points and Federal Reserve policy drove equity market activity for most of the year. Corporate earnings were relatively strong while inflation proved stubborn, with the core PCE price index consistently posting growth at a level still above the Fed's 2% target. Nevertheless, while investors grappled with this from month to month, the Fed proclaimed sufficient progress had been made against inflation to begin lowering rates in September. Large caps again trounced small caps in 2024, with the S&P 500 Index besting the Russell 2000 Index by about 1,350 basis points. Additionally, growth stocks outperformed value by a sizable margin, driven by another strong year from tech and consumer stocks; energy and healthcare names were weaker. From a "factor" perspective, price momentum led the way by a wide margin. As an opportunity driven strategy, our ability to invest dynamically across both growth and value depending on relative attractiveness continues to benefit our partners.

While the market environment offered puts and takes, the Fund's 2024 results were far more influenced by three important structural features that define our team. First, we are committed to investing in idiosyncratic ideas, which simply means portfolio returns are more dependent upon our stock-picking acumen than the market's ebbs and flows. This, of course, can be a double-edged sword, allowing for significant outperformance – or underperformance – relative to index returns in any particular measurement period. This year – and fortunately for most years before this one – it proved to be a significant driver of the Fund's outperformance. Second, our disciplined risk-reward-based process seeks to drive asymmetry in the upside/downside capture of returns. Optimizing entry points with a willingness to buy names during periods of stress is critical to this element of our strategy. In our view, such discipline also allows us to avoid much of the speculative behavior that seems to permeate today's financial markets. Lastly, strong conviction in one's ideas is paramount when employing a relatively concentrated strategy, especially in an oft-underperforming smaller cap arena. It is not atypical to see portfolio holdings execute admirably on a fundamental basis without being rewarded for potentially extended – and emotionally excruciating - periods of time. We witnessed this very dynamic during the first few quarters of 2024. Nevertheless, conviction in our underlying theses, coupled with patience and an appropriate time horizon, paid dividends later in the year.

Key among the Fund's winners this year were a diverse set of positions including Clear Secure, Chefs' Warehouse, and Toast. Clear is best known for its identity verification for millions of air travelers. We are attracted to the company's subscription-based business model, strong revenue and free cash flow growth, competitive moat, and rapidly expanding profit margins. We built our position during a period of downside volatility, enabling us to pay what we perceived to be a very attractive price. Indeed, Clear's strong management team delivered excellent results as the year progressed, and the stock moved significantly higher. We trimmed our stake as the risk-reward profile became less compelling but maintained a core position at year end.

A leading food distributor to independent restaurants, Chefs' Warehouse posted strong and consistent results throughout 2024. Predominantly a "COVID-recovery" play when we initiated the position in mid- 2020, the thesis has evolved into a multi-year margin expansion and capital return story. With an excellent market position and astute management, we look for steady, compounding growth to continue in the years to come, and the stock remains a top position in the Fund.

Toast is a rapidly growing vertical software and services company also serving the small-to-mid restaurant space. Its products serve as a technology backbone, from managing orders to the kitchen to menu planning to accepting payments. Its rapid growth in recent years emanates from its relatively low market penetration and its strong market share gains. In our view, the runway for growth is quite long, driven by further penetration of its existing target market and enhanced by nascent growth initiatives targeting food retail and convenience stores, larger restaurants, and stores outside the United States. But Toast is not just a revenue growth story. A money-losing concern in 2022, Toast is now delivering significant profit margin improvements, as well. As investors came to better understand the dual tailwinds of rapid top line growth and a positive margin inflection, the stock rose nicely during the year.

*Returns less than one year are not annualized. **The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.**

Key detractors to performance included one of last year's bigger contributors, Universal Display, along with Clarus Corp, and Mister Car Wash. Universal Display continues to enjoy a near-monopoly for its technology device display materials and rising "OLED" adoption in phones, televisions, tablets and notebooks. However, the company's next key growth driver, blue phosphorescent emitters (which should increase materials revenue addressable market by up to two-thirds) pushed out to become more of a 2026 story. This delay will not impact near-term fundamentals greatly, but the stock suffered this year in response to later-than-expected financial gratification and the concern that growth in 2025 might be underwhelming. We continue to anticipate a series of above-trend revenue growth and EPS years once "blue" begins to ramp.

Clarus Corp had a tough year fundamentally, as the company continued to struggle with a "COVID hangover" for its outdoor products. We underestimated just how big a benefit Clarus enjoyed in the 2020- 2022 period, which led to a full round-trip of the stock since our initiation many years ago. That said, the company maintains two strong outdoor brands and demand for its products appears to be stabilizing. Through solid management execution, the company remains profitable and features a cash-rich balance sheet. While we have certainly made tactical mistakes, we unemotionally view the stock as undervalued by as much as 50%. Thus, we continue to exercise patience with the view that there will be a more attractive time to exit the position in the future.

Mister Car Wash is another longer-term holding that has required patience and emotional fortitude. While we maintain the view that business quality and management are better than many investors appreciate, sluggish same store sales growth has been a hurdle to seeing the stock work appreciably higher. While almost three-quarters of Mister's revenues are subscription-based, the other 25% of the business has been more episodic and inconsistent than anticipated. Nevertheless, recent capacity reductions in the car wash sector along with some richer-priced service innovations raise the likelihood of improving growth in 2025. If we are correct, the stock could post outsized gains; if not, we see very little downside with the stock trading near replacement value of its footprint.

We believe equity markets are highly influenced by four key factors: corporate fundamentals, monetary policy, valuations, and investor sentiment. We maintain the view that we shared three months ago, that the economy is likely to experience a "hard takeoff", marked by rising business and consumer confidence, reduced regulation, and easier financial conditions. The most prominent impediment to this view is the stickiness of inflation, which could cap confidence and disrupt the pace of future financial easing. Nevertheless, while we are optimistic about improving macro tailwinds, we believe valuations – broadly speaking – are relatively full, and sentiment is more ebullient than we like to see. Frankly, it concerns us when we see meme-stock activity bubble up, manic expressions of animal spirits, and an overly bullish view of future equity market gains – all of which are evident to some degree at present.

After a long decade of underperformance in which the Russell 2000 has, on average, underperformed the S&P 500 Index by over 500 basis points per year, we believe the case is building for smaller-cap stocks to outperform. Improving fundamentals, dissipating regulation and easing monetary policy should drive improved relative earnings growth, while weaker small cap sentiment and lower relative valuations are poised to improve. If this proves directionally correct, it would be a welcome tailwind, although it would not change the fact that idiosyncratic factors should continue to dominate our return profile over time.

In closing, we are pleased with the Equity Opportunity Fund's results, both in 2024 and since our inception. But there is little time to celebrate. The new year brings much activity, starting with numerous investor conferences in January and an active Q4 earnings season in the weeks to come. While the investment environment promises to remain ever-changing, important constants remain: a time-tested investment process, an experienced and dedicated team, and an unwavering commitment to provide attractive long-term returns to our partners.

We wish you all a Happy New Year and look forward to updating you again in the spring.

Respectfully,

Joe Milano

Baird Equity Opportunity Fund (Q4 2024)

PERFORMANCE

Periods Ending December 31, 2024 (%)	Total Return (%)		Average Annual Total Returns (%)					
	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Expense Ratios (Net/Gross)*
Equity Opportunity Fund Institutional Class (net)	14.24	24.01	24.01	7.65	8.91	6.93	8.59	1.25 / 1.70
Equity Opportunity Fund Investor Class (net)	14.14	23.72	23.72	7.42	8.66	6.68	8.33	1.50 / 1.95
Russell 2000 Index	0.33	11.54	11.54	1.24	7.40	7.82	9.74	

Inception Date: 5/01/2012. Returns less than one year are not annualized. ***The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Returns include reinvestment of dividends and capital gains. To obtain the most recent month-end performance data available, please visit bairdfunds.com.*** *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. Investor class expense ratios include a 0.25% 12b-1 fee.

TOP 10 HOLDINGS AS OF SEPTEMBER 30, 2024

Holdings	% of Fund
Sportradar Group AG (SRAD)	5.76
Fluor Corporation (FLR)	5.58
Cadre Holdings, Inc. (CDRE)	5.29
Universal Display Corporation (OLED)	5.27
Chefs' Warehouse, Inc. (CHEF)	5.13
NCR Voyix Corporation (VYX)	5.11
Madison Square Garden Sports Corp. (MSGS)	4.40
AvidXchange Holdings, Inc. (AVDX)	4.27
Clear Secure, Inc. (YOU)	4.21
Norwegian Cruise Line Holdings Ltd. (NCLH)	3.74

INVESTMENT TEAM

Investment Professional	Years of Experience	Team Since	Coverage Responsibility
Joe Milano, CFA Portfolio Manager	28	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

Investors should consider the investment objectives, risks, charges and expense of each fund carefully before investing. This and other information is found in the prospectus and summary prospectus. For a prospectus or summary prospectus, visit bairdfunds.com. Please read the prospectus or summary prospectus carefully before investing.

Prior to December 12, 2021, the Baird Equity Opportunity Fund was managed in accordance with a different investment strategy. Greenhouse Funds LLLP 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 Greenhouse Funds LLLP.

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 investment 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 regulations.

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The Russell 2000® Index is a capitalization-weighted index representing the smallest 2,000 companies in the Russell 3000 Index, ranked by total market capitalization. Indices are unmanaged and are not available for direct investment.

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