

# Baird Small/Mid Cap Growth Equity

## MARKET UPDATE

The market moved through three distinct phases in the fourth quarter, defined almost exactly by the monthly turn of the calendar. October offered a period of market churn with little progress into the election. Equity markets moved sharply higher in November with the election serving as a catalyst, which was either a reaction to the potential policy direction under a new administration, relief that the election was over, or a little of both. A portion of the market advance unwound in December in response to sticky inflation readings, which led longer-term interest rates to move sharply higher. The net of it all was a solid advance in the overall equity market, though small- and SMID-cap growth benchmarks trailed the S&P 500 and Nasdaq.

## PORTFOLIO COMMENTARY

The Baird Small/Mid Cap Growth portfolio increased +5.1% in the fourth quarter, net of fees, compared to the +2.4% increase in our primary benchmark, the Russell 2500 Growth Index.\* Despite trailing benchmark returns for calendar year 2024, we were encouraged to finish the year with strong outperformance in the fourth quarter, which reflected a more typical return pattern for our strategy. We added value when the market was flat in October, kept pace with a strong November rally, and provided downside protection during the December sell-off. Strong stock picking in the quarter was the primary driver of outperformance, as we considered factors mostly mixed.

On a relative basis, the strongest performing sector in the fourth quarter was healthcare. While a combination of earnings setbacks as well as political headlines post election drove negative returns for the sector, our holdings were positive and drove strong outperformance. In our view, this was driven by positive fundamentals outlined in quarterly updates, led by: Tarsus Pharmaceuticals, which continued the launch of its lead product; Insulet, which experienced solid sales growth and early label expansion for its key product; Penumbra, due to improving growth after a challenging second quarter; and Neurocrine Biosciences, which received approval of a pipeline drug after a negative reaction to clinical data in August. Trading activity in the healthcare sector was active; we initiated a new position in Masimo, sold MedPace and RxSight, trimmed Glaukos, and added to several holdings in the portfolio. Masimo is a former holding that should emerge from a contentious activist campaign as a cleaner, pure-play healthcare company with consistent mid- to high-single-digit revenue growth with margin expansion. We believe there are several potential encouraging catalysts for the company in 2025. We sold MedPace Holdings as the possibility of continued lackluster clinical trial funding from biotech companies could reduce earnings growth next year. Lastly, RxSight was sold due to concerns that consensus estimates may be too high in 2025.

Fourth quarter relative performance was also positive in consumer staples, basic materials (where we have no exposure), and energy. While there is not much to call out in these smaller-weighted sectors, VitaCoco rallied nicely after reporting earnings results where they increased guidance for the remainder of the year. Consumer staples performance benefited from our trim of Lamb Weston given takeout rumors, which proved prudent when the deal did not materialize, and the company reported disappointing earnings and announced a CEO change. We ultimately sold the remainder of our small position due to the challenging growth outlook. We continued to see improved returns in our energy holdings, particularly as they tend to trade along with inflation/interest rate expectations. We sold our position in ChampionX given the company's impending acquisition.

Consistent with prior quarters, technology was one of the best performing sectors in the fourth quarter on an absolute basis. With help from our position in Astera Labs, our relative performance improved. Astera Labs is a fast-growing semiconductor company with exposure to AI and data center infrastructure. The company's stock price increased over 150% in the quarter, following new product announcements along with stronger than expected sales growth, and we trimmed our position. Other positions that helped us keep pace with the 10% sector move included Vertex, SiTime, and Cyberark Software. Offsetting these gains were declines from Axcelis Technologies, AppFolio, CACI International, Onto Innovation and Monday.com. Given the volatile nature of the sector and the market's tendency for either "risk-on" or "risk-off," we wanted to rationalize the sector and maintain or increase weight in holdings with our strongest convictions looking ahead in 2025. We sold our positions in Axcelis, AppFolio and CACI International, and we initiated a position in Pure Storage. Pure Storage is a developer of all-flash data storage hardware and software products. We believe the company should see increased benefit from hyperscaler AI spending, as the recent "top4" hyperscaler design win benefits revenue growth and could be the first of more such wins to come.

\*Returns less than one year are not annualized. The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance data may be lower or higher than the data quoted. Returns are presented gross and net of management fees and include the reinvestment of all income. Actual investment advisory fees may vary across accounts and result in different net returns. For performance data to the most recent month end, contact Baird directly at 800-792-4011.

## Baird Small/Mid Cap Growth Equity (Q4 2024)

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The financials sector was rather uneventful in the fourth quarter. Most of the stocks that spiked following the election retraced those gains by year-end, similar to 2016, but over a shorter time frame. The strongest performer amongst our holdings was Clearwater Analytics, which reported strong earnings, and we trimmed our position.

Consumer discretionary was roughly flat, with a few leaders and laggards in the quarter. Dutch Bros returned over 60% after announcing quarterly results that were ahead of expectations. We also saw gains from both Burlington Stores and BJ's Wholesale Club. However, with persistently high interest rates, housing-exposed names were negative in the quarter, including Pool Corp, Floor & Décor, and LGI Homes. One other minor setback was from Boot Barn, which announced its CEO would be departing for another large retailer. Because of the company's solid fundamentals and encouraging growth outlook, we maintained our position—despite the change at CEO. Further, we sold our position in LGI Homes, as the outlook for homebuilders could prove challenging if interest rates stay at current levels.

Lastly, industrials was the only notable laggard in the fourth quarter, as our holdings were roughly flat versus a 4% increase in the benchmark. Shift4 Payments rallied nicely after positive earnings results, although the stock gave back some of its gains when the company's CEO was appointed to run NASA. While we continue to like the longer-term prospects of the business, we trimmed our position as the CEO turnover could present some near-term risks. Other positive relative contributors were AAON and ExlService, which are continuing to build off positive growth trends earlier in the year. Offsetting these gains were detractions from Watsco, Tetra Tech, Simpson Manufacturing, and Willscot. We decided to sell our position in Tetra Tech and avoid potentially negative headlines associated with the DOGE commission likely in early 2025.

### OUTLOOK

Although we are disappointed with full year performance, the final five months were much stronger than the first seven. Benchmark concentration continues to be a challenge, particularly in AI-related stocks; however, we believe our portfolio is far more balanced, especially since several of these concentrated positions exited the benchmark in June. 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 nine-year history. We remain confident in our team, we value the stability that Baird provides, and importantly we appreciate the patience and trust of our investors.

On behalf of the entire team at Baird Equity Asset Management, we thank you for your support of our SMID Growth Strategy.

# Baird Small/Mid Cap Growth Equity (Q4 2024)

## PERFORMANCE

Periods Ending December 31, 2024 (%)	Total Return (%)		Average Annual Total Returns (%)			
	QTD	YTD	1 Year	3 Year	5 Year	Since Inception 09/30/2015
<b>Baird Small/Mid Cap Growth Composite</b> (Gross)	5.30	8.75	8.75	-3.71	9.23	13.03
<b>Baird Small/Mid Cap Growth Composite</b> (Net)	5.11	7.99	7.99	-4.46	8.35	12.12
<b>Russell 2500 Growth Index</b>	2.43	13.90	13.90	-0.02	8.08	10.72

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## BAIRD SMALL/MID CAP GROWTH INVESTMENT TEAM

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
<b>Jonathan Good</b> Senior Portfolio Manager	25	18	Healthcare	MBA – (Northwestern University-Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)
<b>Ken Hemauer, CFA</b> Senior Research Analyst	31	31	Financials	MS – Finance, The Applied Security Analysis Program BBA – Finance (UW-Madison)
<b>Corbin Weyer, CFA, CPA</b> Director of Research & Senior Research Analyst	14	14	Consumer Discretionary & Staples	BSBA – Finance and Accounting (Marquette University)
<b>Karan Saberwal</b> Senior Research Analyst	8	6	Information Technology	MBA – (Northwestern University-Kellogg) BE – Bachelor of Engineering (Army Institute of Technology, University of Pune)
<b>Christopher Brennan</b> Senior Research Analyst	6	1	Energy, Industrials & Materials	MBA – Finance (The Wharton School of Pennsylvania) BA – Economics and Mandarin Chinese (Washington University in St. Louis)
<b>Josh Heinen, CFA</b> Research Analyst	4	4	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)
<b>Margaret Guanci</b> Research Analyst	3	3	Generalist	BBA – Finance (UW-Madison)
<b>Chuck Severson, CFA</b> Mid Cap Growth PM	38	38	Generalist	MS – Finance, The Applied Security Analysis Program BBA – Accounting and Finance (UW-Madison)

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The strategy focuses on small- and mid-cap growth style stocks and therefore performance will typically be more volatile than the performance of strategies that focus on types of stocks that have a broader investment style. The strategy may invest up to 15% of its total assets in U.S. dollar denominated foreign securities and ADRs. Foreign investments involve additional risks such as currency rate fluctuations and the potential for political and economic instability, and different and sometimes less strict financial reporting standards and regulations.

Portfolio holdings and sector exposures reflect a representative account as of the date listed above and are subject to change without notice. A representative account is selected based on accounts with substantially similar investment policies, objectives, and strategies that closely resemble, or are most representative of, the strategy it represents. Individual accounts may differ from a representative account due to asset size, market conditions, and client guidelines.

The Russell 2500 Growth Index measures the performance of those Russell 2500 companies with above average price-to-book ratios and higher forecasted growth values. Indices are unmanaged and are not available for direct investment.

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The Baird Small/Mid Cap Growth Equity Composite consists of all fully discretionary small/mid cap growth equity accounts. The Small/Mid ("SMID") Cap Growth Portfolio invests in small and medium-sized, high-quality growth companies holding leadership positions within their industries that the portfolio manager believes are capable of producing above average growth in a variety of market environments. For comparison purposes, the composite is measured against the Russell 2500 Growth Index. Robert W. Baird & Co. Incorporated is an independent registered investment advisor. Registration does not imply a certain level of skill or training. Baird Equity Asset Management claims compliance with Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark 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, please contact Baird Equity Asset Management at 800-792-4011. The U.S. Dollar is the currency used to express performance.

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