Baird Funds, Inc.

Approach to Environmental, Social, and Governance (ESG) Integration
ESG Policy Statement

Signatory of: PRI Principles for Responsible Investment

Baird Asset Management (the "Advisor", "we", "us", "our") is a division of Robert W. Baird & Co. Incorporated, the investment advisor to Baird Funds, Inc. As a risk-aware investment manager, the Advisor has a fiduciary responsibility to act in the best long-term interest of the Baird Funds with the goal of generating consistent and competitive long-term investment results over time. We believe material environmental, social, and governance risk factors can have an impact on long-term sustainability and need to be considered in the overall risk assessment of issuing entities. Baird Funds, Inc. is a United Nations Principles for Responsible Investment (UN PRI) signatory, and we believe our approach to integrating environmental, social, and governance risk factors as considerations across each investment team's investment process is consistent with the Principles.

ESG Integration Philosophy

The Baird Funds are advised by two distinct, independent teams within the Advisor: Baird Advisors, which advises the Baird Bond Funds, and Baird Equity Asset Management (including Chautauqua Capital Management), which advises the Baird Equity Funds. We define "ESG Integration" as the incorporation of material environmental, social, and governance risk factors into our fundamental risk assessment with the goal to enhance long-term risk-adjusted performance. The evaluation of ESG risk factors is an integral part of our research efforts, leveraging a bottom-up approach to investment analysis and portfolio construction. As long term, risk-aware investors, the sustainability of issuing entities is an important consideration across our investment decision-making process. The Baird Funds are managed in a manner designed to provide attractive returns and/or income commensurate with what we believe is an acceptable amount of risk. By identifying and assessing a broad range of investment risks, including ESG risk factors where pertinent, we believe we are positioned to prudently assess and allocate risk, with the goal of delivering consistent, competitive results for the Baird Funds.

We recognize the investment industry continues to grow and evolve, requiring our ESG integration efforts to remain fluid and flexible. The availability of ESG-related data has grown dramatically and the market's interpretation of materiality for environmental, social, and governance risk factors continues to shift as well. Adaptations to our approach to ESG integration are prompted by efforts to ensure we are leveraging the best information available to properly assess long-term sustainability risks across our portfolios.

Our Approach to ESG Integration

Environmental, social, and governance related risk factors are integrated into our investment process and serve as important considerations in the investment teams' decision-making and research efforts. Our approach to ESG integration is focused on identifying and assessing material risk factors that could negatively impact the sustainability of issuing entities.

Our investment teams employ an in-depth, research-driven, bottom-up approach to our fundamental risk assessment and portfolio construction process. This process is built on proprietary research specific to each sector, sub-sector, and issuer to which we allocate Baird Fund investments. We believe incorporating traditional financial metrics alongside what we consider to be material environmental, social, and governance related risk factors ensures we are making thoroughly vetted, well-informed decisions, seeking to consider all potential risks and opportunities across each portfolio's broad opportunity set. Each member of the broader investment team is responsible for providing fundamental research and relative value analysis, opining on sector and idiosyncratic, issuer-specific, risk-reward characteristics. Our teams' analyses incorporate the impact of individual issuers' ESG-oriented risks where applicable and determine our view of whether investors are being properly compensated for that inherent risk. Our ESG integration efforts are embedded across all products, recognizing the need for unique evaluation across different asset classes.

Corporate Credit (Baird Bond Funds)

Baird Advisors' investment process is supported by a foundation of deep, fundamental credit analysis, focused on generating attractive, risk-adjusted returns through a strict relative value discipline. Within the corporate credit sector specifically, our portfolio managers and analysts perform thorough issuer- and industry-specific research on companies within their assigned sectors. Our comprehensive work involves a detailed analysis of each issuer's financial position, capital structure, credit profile and relative strength versus other issuers across each sector. ESG risk factors are a component of our fundamental assessment and influence the corporate credit selection process. Each investment analyst looks to identify emerging themes and unique risk factors across the opportunity set and maintains a focus on material risk factors that we believe will affect relative value and the long-term creditworthiness of each issuer.

Leadership across Baird Advisors looks to foster a collaborative environment, promoting a cohesive forum of discussion to determine material risk factors that drive our relative value assessment. Our team maintains internal research notes on each individual issuer under consideration, which are shared and used by all members of the portfolio management team. The evaluation of material ESG risks, which can include third-party provided qualitative research and scores, are a part of our internal research notes that document the team's view of an issuer and their underlying position within the industry. These notes are discussed by the portfolio management team regularly and are updated periodically to identify attributes supporting underlying conviction as well as notating concerns or issues to watch.

Baird Advisors' approach to risk analysis includes an evaluation of an issuer's potential risk exposure, possible consequences of that exposure, and what measures are in place to avoid or prepare for those risks. Our assessment of environmental risks and opportunities across the corporate credit opportunity set considers an issuer's susceptibility to physical or transitional climate risks, carbon intensity, land degradation, deforestation, water intensity, waste management efficacy, or air quality control and oversight. Despite the increased severity of these events in recent years, mitigating factors include the issuer's preparedness to address climate change risk, the strength of an issuer's financial position, and management's ability to identify and address those risks. Social risk factors across the corporate credit landscape include health and safety protocols in place, promotion of diversity and inclusion, human rights practices, cybersecurity, and data privacy. The evaluation of these factors is critical to our ESG integration efforts and relative value analysis. Our assessment of governance-related issues, which may include management structures, board independence, employee relations, remuneration policies, and transparency efforts, has been well engrained across our investment process for decades and has always been a critical piece of our risk assessment and relative value analysis.

Securitized Credit (Baird Bond Funds)

The Baird Advisors investment team remains highly selective across the broad securitized credit opportunity set and our well-established bottom-up credit selection process is designed to ensure that material environmental, social, and governance related risks are identified, assessed, and considered in our risk assessment process. Baird Advisors recognizes ESG integration across securitized products lags other fixed income sub-sectors. The absence of disclosure standardization and a lack of transparency have limited our ability to incorporate ESG risk factors into our credit analysis, portfolio construction, and risk management processes across the sector. Despite these hurdles, our analysts and portfolio managers look to integrate ESG risk factors across our fundamental research efforts with a focus on three key areas: collateral, structure, and sponsorship. Our review of a security's collateral focuses on cash flow stability and ultimate repayment of debt, emphasizing the financial well-being of the borrower and underlying asset quality. We also look to concentrate on loan affordability, use of prudent leverage metrics, reasonable valuations, sustainable property demand as well as the quality of documentation and disclosures provided to borrowers. A review of structural features for a specific deal focuses on the bankruptcy-remoteness of the security and priority of payments. Additionally, our structural assessment identifies true sale and good title documentation, the strength of representations and warranties, clarity of waterfall language, performance triggers, and noteholder rights and remedies. We believe the bankruptcy-remote nature of these securities limits the impact on the structure from a material ESG event at the operating company of the originator or servicer. Nevertheless, distress at the originator, servicer, or guarantor of collateral loans can present some risks to structured securities, so our ESG integration efforts seek to identify material corporate linkages. Lastly, the sponsor review focuses on sustainable lending and funding practices. This review typically includes an evaluation of origination practices, sales incentives, servicer quality and track record, risk retention requirements, loan modification or loss mitigation strategies, evidence of predatory lending and broader conflicts of interest.

Municipal Bonds (Baird Bond Funds)

While municipal debt is generally beneficial to local communities, not all municipal bonds are created equally. Environmental, social, and governance risk factors can come in many shapes and sizes and can influence a security's relative value and the issuer's long-term sustainability. Baird Advisors takes an active, holistic approach when addressing the integration of material ESG risk factors into our investment process. Our investment analysts and portfolio managers look to identify emerging themes and unique risk factors across the municipal sector, and we have maintained a key focus on material factors that we believe will affect the long-term creditworthiness of each municipal issuer. Our assessment of environmental risks and opportunities across the tax-exempt market considers an issuer's susceptibility to physical or transitional risks, land use planning efforts, sewage and waste collection efficacy, and broad energy efficiency. The environmental risk analysis includes an assessment of potential risk exposure (e.g., potential flooding or wildfires), possible consequences of those risks (e.g., job losses, community displacement, muted production, reduced tax base, higher repair/compensatory expenditures, power disruptions), and what measures are in place to avoid or prepare for these risks. Despite the increased severity of these events in recent years, mitigating factors include the issuer's preparedness to address climate change risk, the strength of an issuer's financial position, the resilience of its infrastructure, the degree of insurance policy or other risk transfer coverage, and the level of state and federal aid. Municipal issuers also fund a wide range of essential services with inherent social implications, including education, healthcare, and water supply for local communities. Demographic trends, especially those related to wealth, income, and age are likely to affect a municipal issuer's current and future budgetary needs. The evaluation of these factors is critical to our ESG integration efforts and relative value analysis. Our assessment of governance-related issues, which may include leadership structures, evidence of bribery or corruption, reporting standards, and taxing authority, has been well engrained across our investment process for decades and has always been a critical piece of our risk assessment and relative value analysis.

Domestic & International Equity (Baird Equity Funds)*

The Baird Equity Funds not managed under a subadvisory relationship are actively managed by distinct, autonomous teams within the Advisor that focus on domestic, international, and global growth asset classes. Each investment team diligently looks to assess all opportunities and risks across their respective investment opportunity sets. Our sound, long-standing investment philosophies are underpinned by in-depth, bottom-up fundamental research that recognizes the importance of material environmental, social, and governance factors.

As part of our investment processes, we seek to understand the pertinent ESG issues that are relevant to individual companies being considered for investment in the Baird Equity Fund portfolios. Our comprehensive fundamental research includes performing a thorough analysis of business quality, which considers ESG factors, in addition to other characteristics. We identify and analyze the material ESG issues that we believe may impact a business's key profit drivers and therefore the equity valuation, as well as the business's ability to manage those ESG risks. The materiality of ESG factors can be wide-ranging, contingent on industry or company characteristics, and are generally analyzed on a company-specific basis. ESG factors can have a tangible and sometimes material impact on our forecasts and assumptions for profits, growth rates, and valuation multiples and, when pertinent, are included in our investment decisions to buy or sell specific securities as well as the overall construction of portfolios. We believe ESG integration can be flexible, allowing our investment teams to analyze ESG issues on a company-specific basis while also maintaining the discretion to judge materiality relative to our investment thesis.

Exclusion Policy

As prudent, risk-aware fiduciaries to the Baird Funds and our clients, we constantly weigh the balance between risk mitigation and attractive risk-adjusted performance. While we are aware of unique sector-specific ESG risk factors, the simple presence of those risk factors does not preclude us from allocating to any one particular sector. We do not systematically exclude certain sectors from our investable universe (i.e., negative screening), nor do we prioritize investments benefiting from ESG-related opportunities (i.e., positive screening), nor do we prioritize social impact over financial returns (i.e., impact investing or double bottom line). We believe these other approaches to ESG integration can introduce systematic biases that can elevate the opportunity cost of the portfolio by not making merit-based investment decisions or by pre-ordaining the outcome of an investment analysis. Our investment teams look to evaluate both issuer-specific and broader sector-based risks with a structural, long-term perspective, regularly assessing whether the Baird Funds are being adequately compensated for that risk exposure. Our fundamental risk assessment and cross-sector relative value analysis will ultimately determine our allocation of risk across each portfolio's broad opportunity set.

Governance and Oversight

Our approach to the governance and oversight of ESG integration is a reflection of each autonomous investment team's investment process. Risk control is the foundation of each team's bottom-up investment discipline and is central to our ability to generate attractive risk-adjusted performance. Our holistic, non-siloed approach within each investment team involves all members of the team working together, supporting a very collaborative, well-coordinated risk management process.

Data and Reporting

Each investment team for the Baird Funds has access to ESG-related tools and services to supplement and support their own internal research efforts. Sustainalytics, Institutional Shareholder Services, Inc. ("ISS"), and S&P Global are industry leaders in ESG research and are used in various forms for supplemental ESG information. We also use Bloomberg extensively as a resource for our research as they continue to expand their depth of coverage in ESG-related issues. The credit rating agencies (e.g., Moody's, S&P, Fitch) and sell-side research firms are also rapidly expanding their integration of ESG factors and are a valuable supplemental resource.

Climate Risk

Material climate change and carbon emission considerations are holistically integrated into our broader assessment of risk and overall investment decision-making process, where we deem pertinent. Issuers with elevated physical or transitional climate-related risks are not inherently excluded from being considered. Rather, issuers may be analyzed to determine if these risks and/or their business practices involve sustainability concerns that may be detrimental to potential value creation or their capacity to service debt. In addition to assessing an issuer's current level of climate risk exposure, we may also evaluate its trajectory in terms of reducing that risk exposure and how its mitigation path affects the issuer's overall risk. Importantly, the investment teams assess climate risk in the context of broader environmental risk. Biodiversity, water intensity, waste and pollution mitigation and utilization of natural resources are all interrelated to climate change. The materiality of certain data and metrics used across our opportunity set shifts depending on which sector or company our investment team is assessing.

Engagement & Stewardship Policy

We believe it is our fiduciary duty to integrate material ESG considerations into our fundamental risk assessment framework and to be the best stewards of the Baird Funds' clients' capital.

As investors with a long investment horizon, we believe ESG risk factors can have a material impact on the long-term sustainability of an entity. As a part of our evaluation of material risks and opportunities across each portfolio's investable universe, we feel direct communication with issuers enables our investment teams to obtain additional perspective on their awareness of sector- and issuer-specific ESG trends, ultimately helping to develop a more informed investment thesis. These discussions can cover a range of topics, including balance sheet management, corporate strategy, financial performance, risk mitigation, effective governance, and sustainability themes. Additionally, when environmental, social, or governance risks are deemed material by our investment teams, a focus of these discussions may be directed towards the credibility of stated mitigation targets or commitments, the feasibility of meeting those targets, the alignment of capital allocation plans, the accountability of management teams to track progress toward identified commitments, and the issuer's ability to maintain adequate reporting standards.

Proxy Voting

The Baird Funds have adopted proxy voting policies and procedures (link) that delegate the authority to vote proxies to the Advisor or a subadvisor (as applicable), subject to the supervision of the Board. The Advisor and each subadvisor have adopted proxy voting policies and procedures to vote proxies in the best interests of the Baird Funds, including procedures for identifying and addressing potential conflicts of interest. The Advisor's proxy voting policies and procedures also address the oversight of ISS a third-party proxy voting service that provides proxy voting recommendations to the Advisor, as well as procedures for considering requests to vote proxies against the ISS policy guidelines. The Baird Funds' Board monitors the implementation of these policies and procedures to ensure that the Advisor's and each subadvisor's voting decisions: (i) are consistent with the Advisor's or subadvisor's fiduciary duty to each Baird Fund and their shareholders; (ii) seek to maximize shareholder return and the value of Baird Fund investments; (iii) promote sound corporate governance; and (iv) are consistent with each Baird Fund's investment objective and policies.

Conflicts of Interest

The Baird Funds have adopted policies and procedures designed to address conflicts of interest. Those policies and procedures are designed to address potential conflicts that may arise when the Baird Funds, the Advisor or a subadvisor to the Baird Funds engage in certain activities, such as determining the value or liquidity of the Baird Funds' portfolio investments, participating in transactions with affiliated persons of the Baird Funds, casting proxy votes, allocating equity brokerage commissions to broker-dealers that sell Baird Fund shares, and making disclosures to Baird Fund shareholders. In addition, the Baird Funds have established policies and procedures designed to periodically assess potential conflicts of interest, generally annually or whenever there are material changes to the operation or business of the Baird Funds. The Advisor and each subadvisor to the Baird Funds have also adopted policies and procedures designed to address conflicts of interest related to their management of the Baird Funds, such as when the Advisor or a subadvisor casts proxy votes, the Advisor, a subadvisor, or their personnel engages in personal trading, or the Advisor or a subadvisor allocates trading opportunities to their clients, including the Baird Funds. Those policies and procedures address potential conflicts through internal controls, supervisory and compliance oversight, and/or through disclosure, which may include disclosure in the Baird Funds' prospectuses and statements of additional information ("SAI") or in the Advisor's or a subadvisor's Form ADV Part 2A Brochures.

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* One of the Baird Equity Funds is managed by a subadvisor under a subadvisory relationship. This ESG Policy Statement only describes the Advisor's approach to ESG investing for the Baird Funds that it manages. The subadvisor has its own ESG policies that may differ from those of the Advisor. More information about the subadvisor's ESG approach to investing can be found in the prospectus and SAI for that Baird Equity Fund.