

Baird Rising Dividend Portfolio

Quarterly Report for 3Q21

The Rising Dividend Portfolio had a gross return of -0.9% in the third quarter, compared to total returns of +0.6% from the S&P 500 and +0.2% from the Morningstar U.S. Dividend Growth Index.

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October 2021

Portfolio Changes

We made more marginal changes to the portfolio over the most recent quarter after having pivoted toward Value during the start of the year. The changes made in Q3 are more reflective of stock-specific portfolio changes rather than changes aimed at gaining exposure to macro-level themes or altering the portfolio's stylistic exposure. That being said, we marginally increased our exposure to Healthcare and Industrials, while slightly reducing our exposure to Financials and Consumer Discretionary.

We sold **Truist Financial (TFC)** after the company announced a \$2 billion acquisition of a Buy Now Pay Later (BNPL) company. The acquisition represented a shift in strategy, in our view, which was not consistent with our prior thesis that centered on Truist continuing to successfully integrate the legacy Sun Trust and BB&T assets to drive synergies. We also trimmed our positions in **Accenture (ACN)**, **BlackRock (BLK)**, and **V.F. Corporation (VFC)**. The Accenture and BlackRock trims were a function of valuation on high multiple stocks, while the V.F. Corporation trim was a result of a lack of clarity surrounding the growth outlook over the next several quarters.

We added one new name last quarter via the purchase of a position in **Morgan Stanley (MS)**. We added to Morgan Stanley given the strong outlook for its capital markets and wealth management divisions, with upside possible from the integration of E-Trade and Eaton Vance. Strong equity markets have bolstered the company's capital markets division, and Morgan Stanley possesses strong industry positioning in trading and investment banking. Positive capital results released by regulators in late June paved the way for the company to double its dividend. Further dividend growth and/or accretion from share buybacks seem likely over time, and we think Morgan Stanley's valuation is reasonable relative to growth prospects.

Additionally, we used the proceeds from our sales to fund increases in lower multiple stocks for which we either see potential upcoming catalysts or which we think represent good value. As such, we increased our positions in **Bristol-Myers Squibb (BMY)**, **Medtronic (MDT)**, and **United Parcel Service (UPS)**.

Dividend Increases

The following stocks held in the Baird Rising Dividend Portfolio increased their quarterly dividends in July, August, and September. Of the stocks in the portfolio at quarter-end, 100% raised dividends over the previous 12 months, with an average increase of +11%.

Ticker	Prior	New	Increase
ACN	\$0.88	\$0.97	10%
JPM	\$0.90	\$1.00	11%
MCD	\$1.29	\$1.38	7%
MS	\$0.35	\$0.70	100%
MSFT	\$0.56	\$0.62	11%
SBUX	\$0.45	\$0.49	9%
USB	\$0.42	\$0.46	10%
VICI	\$0.32	\$0.36	13%
VZ	\$0.63	\$0.64	2%

Dividends are not guaranteed and may be decreased or eliminated. "New" refers to most recently declared quarterly dividend. See the holdings chart on page 4 for full company names and current dividend yields.

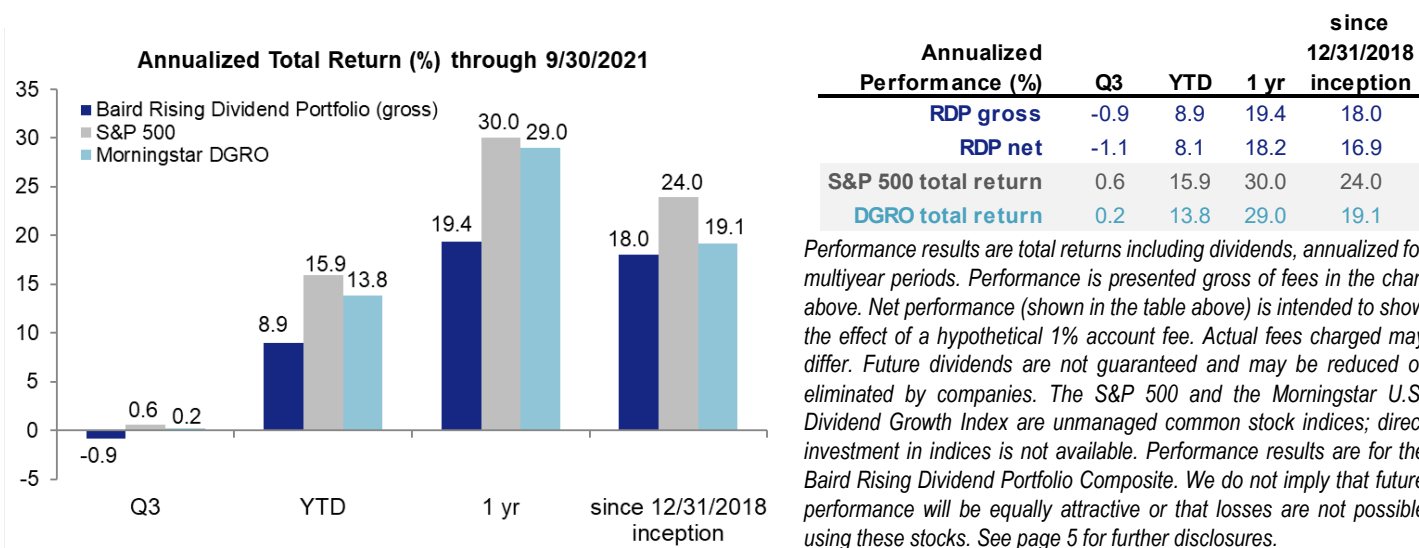
Market and Portfolio Performance

The S&P 500 returned 1.5% in 3Q21 as a growing basket of risks weighed on sentiment, and, particularly in September, performance. Sector performance was tightly bunched, with investors juggling a more persistent inflation environment, the catch-all of China-related risk, the Covid-19 Delta variant, heightened Washington uncertainty, and more. In spite of these headwinds, another strong earnings season and policy tailwinds helped drive markets higher.

The Baird Rising Dividend Portfolio delivered a total return of -0.9% during the third quarter vs. +0.6% for the S&P 500. Sector-wise, Financials (+2.7%), Utilities (+1.8%), and Communication Services (+1.6%) led, while the more cyclical Energy (-1.7%), Industrials (-3.5%), and Materials (-4.2%) lagged. Still, while cyclically-oriented areas trailed for most of Q3, the tides began to turn near quarter-end as energy prices rallied and Treasury yields jumped.

Year-to-date, the S&P 500 is up a healthy +15.9%. Digging in, Energy (+43.2%) remains the clear-cut top performer YTD despite continued volatility. Financials are firmly in second, returning +29.4% amid higher interest rates and robust M&A activity. Real Estate (+24.4%) and Comm. Services (+21.6%) are the only other sectors to outpace the index. On the flip side, traditionally defensive Utilities (+4.2%) and Consumer Staples (+4.7%) are the stand-out laggards.

The Morningstar U.S. Dividend Growth Index (or DGRO), which is composed of US equities with a history of consistently growing dividends, returned +0.2% in Q3. The Rising Dividend Portfolio returned -0.9% (gross) in the quarter. The chart and table below show the portfolio's gross return relative to the two indices.



Market Commentary and Outlook

Though Covid-19 still looms large, a number of other concerns have started to creep into investors' consciousness. The quarter began with a sharp July selloff on China-related concerns, and volatility stayed elevated from there. From the uncertain policy landscape (monetary and fiscal) to lingering inflationary pressures driven by supply chain bottlenecks, there is a sense that the bar has been raised for investors, and the choppy Q3 performance would seem to confirm.

Much like equities, the economy's upward trajectory faltered in Q3. Inflation is proving stickier than both consumers (and the Fed) had hoped, with multiple measures clocking in at multi-decade year-over-year highs. And while the labor market recovery remains strong, our economy is still short several million jobs from pre-Covid and labor force participation remains weak (even after the enhanced unemployment benefits ended). Though bright spots in productivity data and wage growth provided a boost, the Economic Surprise Index turned negative in Q3 after clocking a record high in 2020.

Despite these uncertainties (and in part due to the Fed's hawkishness), interest rates rose meaningfully into quarter-end. The path of rates has been consequential for the performance of equities, particularly along the confines of the Growth vs. Value debate. To put it succinctly, as rates rose in Q1, Value/Cyclicals outperformed, and as rates reversed course in Q2, Growth again took leadership. So perhaps unsurprisingly, the upturn in yields at the end of Q3 came alongside renewed cyclical outperformance. And while Value outperformance is not a risk in and of itself, the S&P 500's heavy concentration in Big Tech could weigh on performance should the reflation trade catch a second wind into year-end.

With proxies for cyclicality again showing life (Banks vs. Gold, Transports vs. Utilities, Discretionary vs. Staples, etc.), credit spreads benign, and fourth quarter seasonality a tailwind, it's hard not to remain positive on equities heading into Q4. We remain nearly fully invested, exposed to a mix of cyclicals and long-duration secular growth favorites. And as idiosyncratic issues come to the forefront (e.g., supply chain management), we are reaffirmed in our mandate to invest in high quality dividend growers.

Baird Rising Dividend Portfolio | 3Q21 Report

	Portfolio	S&P	Purch. Date	Purch. Price (\$)	9/30/21 Price (\$)	Change (%)	52 Week		Market Cap (\$bil)	—Next Twelve Month (NTM)—				Div. Yield (%)	Div. Growth (%)
							High (\$)	Low (\$)		Rev. Growth (%)	EPS Growth (%)	P/E (x)	EV / EBITDA (x)		
Communication Services		5.3%	11.3%												
CMCSA	Comcast Corporation Class A	2.7%	Multiple	43.41	55.93	28.9	61.80	40.97	260.6	7.5	21.0	15.8	9.2	1.8	9.1
VZ	Verizon Communications Inc.	2.6%	Multiple	56.13	54.01	-3.8	61.95	53.83	225.6	0.6	2.3	10.3	7.4	4.7	2.0
Consumer Discretionary		10.6%	12.4%												
HD	Home Depot, Inc.	2.4%	Multiple	165.08	328.26	98.9	345.69	246.59	344.5	4.0	9.1	22.2	15.6	2.0	10.1
MCD	McDonald's Corporation	2.5%	Multiple	167.28	241.11	44.1	248.90	202.73	181.5	8.9	16.3	25.4	17.5	2.3	4.3
SBUX	Starbucks Corporation	1.8%	Multiple	110.53	110.31	-0.2	126.32	85.45	131.4	9.8	15.0	29.7	19.0	1.8	10.7
TGT	Target Corporation	2.5%	12/18/18	65.23	228.77	250.7	267.06	150.80	110.2	4.8	9.6	17.6	10.6	1.6	10.5
VFC	V.F. Corporation	1.4%	Multiple	73.67	66.99	-9.1	90.79	65.34	27.0	17.5	52.6	19.3	14.9	2.8	4.3
Consumer Staples		3.9%	5.8%												
PEP	PepsiCo, Inc.	1.9%	Multiple	134.44	150.41	11.9	159.63	128.32	207.6	5.2	8.8	23.0	15.9	2.9	6.6
PG	Procter & Gamble Company	1.9%	12/18/18	92.81	139.80	50.6	147.23	121.54	337.0	3.7	5.5	23.2	16.6	2.5	7.0
Energy		3.0%	2.8%												
CVX	Chevron Corporation	3.0%	Multiple	91.24	101.45	11.2	113.11	65.16	202.5	13.9	48.0	13.6	5.6	5.1	5.0
Financials		15.3%	11.4%												
BLK	BlackRock, Inc.	2.9%	Multiple	384.69	838.66	118.0	959.89	573.00	125.6	11.1	13.4	20.1	14.2	2.0	12.0
CB	Chubb Limited	2.1%	1/13/21	157.41	173.48	10.2	187.90	116.50	76.2	5.0	22.0	13.1	nmf	1.8	3.6
JPM	JPMorgan Chase & Co.	3.3%	12/18/18	99.67	163.69	64.2	170.44	95.24	498.9	0.1	nmf	13.5	nmf	2.4	0.0
MS	Morgan Stanley	2.0%	8/11/21	103.49	97.31	-6.0	105.95	46.55	177.3	3.7	2.0	13.5	nmf	2.9	0.0
NDAQ	Nasdaq, Inc.	1.9%	8/19/20	129.97	193.02	48.5	199.88	119.76	31.6	7.0	6.4	26.1	18.8	1.1	5.8
USB	U.S. Bancorp	3.0%	Multiple	48.79	59.44	21.8	62.47	36.57	89.7	4.7	0.4	13.4	nmf	3.0	0.0
Health Care		12.3%	13.3%												
ABT	Abbott Laboratories	2.5%	Multiple	73.01	118.13	61.8	129.70	103.13	204.8	2.1	8.4	25.3	18.6	1.6	22.1
BMY	Bristol-Myers Squibb Company	2.4%	Multiple	64.13	59.17	-7.7	69.75	56.75	130.9	5.4	9.9	7.5	6.0	3.3	9.1
JNJ	Johnson & Johnson	3.1%	Multiple	138.12	161.50	16.9	179.92	133.65	419.1	6.0	10.5	15.6	11.9	2.7	6.0
MDT	Medtronic Plc	2.9%	Multiple	99.87	125.35	25.5	135.89	98.94	168.3	7.7	19.4	21.3	17.9	2.0	7.7
MRK	Merck & Co., Inc.	1.4%	Multiple	75.66	75.11	-0.7	84.56	68.38	210.4	7.6	14.1	12.8	10.2	3.1	7.6
Industrials		13.5%	8.0%												
CAT	Caterpillar Inc.	2.5%	Multiple	162.70	191.97	18.0	246.69	149.63	105.7	13.7	27.4	16.3	10.1	2.3	0.0
ETN	Eaton Corp. Plc	2.5%	Multiple	66.49	149.31	124.6	171.32	101.52	59.1	4.5	18.7	20.9	16.8	2.0	3.5
HON	Honeywell International Inc.	2.5%	Multiple	148.04	212.28	43.4	236.86	159.42	147.9	7.4	13.5	24.3	17.0	1.8	4.8
MMM	3M Company	1.8%	Multiple	195.41	175.42	-10.2	208.95	156.13	101.9	4.8	8.5	17.1	11.6	3.4	1.4
UNP	Union Pacific Corporation	2.3%	Multiple	172.43	196.01	13.7	231.26	171.50	134.0	7.1	14.8	19.3	13.6	2.1	2.6
UPS	United Parcel Service, Inc. Class B	1.9%	Multiple	203.58	182.10	-10.6	219.59	154.76	155.4	4.9	10.4	15.5	10.7	2.3	3.0
Information Technology		26.0%	27.6%												
AAPL	Apple Inc.	5.8%	Multiple	41.88	141.50	237.9	157.26	107.32	2300.0	4.2	2.0	24.9	18.8	0.6	6.7
ACN	Accenture Plc Class A	2.1%	12/18/18	153.34	319.92	108.6	345.52	212.45	202.6	12.5	14.5	32.0	18.5	1.2	10.0
ADI	Analog Devices, Inc.	2.3%	Multiple	126.89	167.48	32.0	178.84	114.96	88.3	32.8	15.1	23.0	20.0	1.7	12.9
AVGO	Broadcom Inc.	3.8%	Multiple	318.72	484.93	52.1	510.70	344.42	195.9	8.1	12.4	15.8	12.6	3.0	13.3
GLW	Corning Inc	1.7%	Multiple	39.98	36.49	-8.7	46.82	31.28	31.2	8.5	20.0	15.8	8.5	2.6	9.5
MSFT	Microsoft Corporation	5.3%	12/18/18	106.99	281.92	163.5	305.84	199.62	2127.5	13.8	11.8	31.7	21.3	0.9	9.8
QCOM	Qualcomm Inc	2.7%	Multiple	93.22	128.98	38.4	167.94	116.73	101.2	7.2	4.0	13.8	10.2	2.1	4.8
TXN	Texas Instruments Incorporated	2.2%	12/18/18	94.72	192.21	102.9	200.92	141.33	175.8	8.2	8.3	24.2	18.5	2.1	14.1
Materials		3.5%	2.5%												
CE	Celanese Corporation	1.6%	2/3/21	126.54	150.64	19.0	171.00	109.11	17.0	6.9	0.3	10.8	8.8	1.8	4.8
RS	Reliance Steel & Aluminum Co.	1.9%	Multiple	142.05	142.42	0.3	181.21	105.01	9.1	1.4	nmf	9.5	5.8	1.9	11.7
Real Estate		2.0%	2.6%												
VICI	VICI Properties Inc	2.0%	4/7/21	29.04	28.41	-2.2	33.35	22.13	18.3	16.1	6.5	14.0	17.5	5.0	10.9
Utilities		2.8%	2.5%												
NEE	NextEra Energy, Inc.	2.8%	Multiple	44.06	78.52	78.2	87.69	68.33	155.7	10.8	8.7	29.7	17.5	1.9	10.9
Cash		2.1%													
													Weighted Yield / Growth	2.2	7.1

Appendix – Important Disclosures

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