

Baird Recommended Equity Portfolio

Quarterly Report for 3Q21

The Recommended Portfolio rose 0.5% (gross of fees) during the third quarter, slightly underperforming the S&P 500's total return of 0.6% (includes dividends).

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Portfolio Changes

Across Q3, we sold full positions in **Enphase (ENPH)**, **Truist Financial (TFC)**, and **Mastec (MTZ)**. We saw cracks in the Enphase's competitive advantage as its duopolistic solar energy market began to mature. Our thesis on Mastec began to deteriorate as cost overruns persist and a key business looks to be deemphasized. Finally, we parted ways with Truist to make room for Financial sector names more attractively positioned for this point in the cycle.

We trimmed positions in **Domino's Pizza (DPZ)**, **Constellation Brands (STZ)**, **Keysight Technologies (KEYS)**, **IQVIA (IQV)**, **Nike (NKE)**, and **Mastercard (MA)** to redeploy into new and/or more attractive opportunities. However, we remain bullish on the long-term stories of these companies and they remain core portfolio holdings.

With the funds from these trades, we initiated positions in **Qualcomm (QCOM)**, **Morgan Stanley (MS)**, and **Veeva Systems (VEEV)**. As a pioneer in 4G and 5G wireless technologies, Qualcomm has a robust IP portfolio that provides juicy margins for its licensing business. We believe the firm is well positioned for a strong Apple and Android device upgrade cycle ahead. Elsewhere, Morgan Stanley's an attractive Financials position at this point in a strong capital markets cycle. The firm's capital markets and wealth management divisions are industry-leading and we see possible upside from recent acquisitions. Positive capital results released by regulators paved the way for the firm to reinstate share buybacks and grow its dividend. Finally, we took advantage of a pullback to add Veeva, a leading vertical software provider for the life sciences industry. We appreciate Veeva's attractive addressable market, healthy margins, and strong free cash flow generation.

We also added to some of our favorite existing positions across several sectors, **HCA Healthcare (HCA)**, **Starbucks (SBUX)**, **S&P Global (SPGI)**, **Ecolab (ECL)**, and **Pioneer Natural Resources (PDX)**. These high-quality operators should be able to grow earnings and deliver strong returns. We expect the market to reward these characteristics longer-term, regardless of near-term headline risk or recent Growth vs. Value debate.

Market and Portfolio Performance

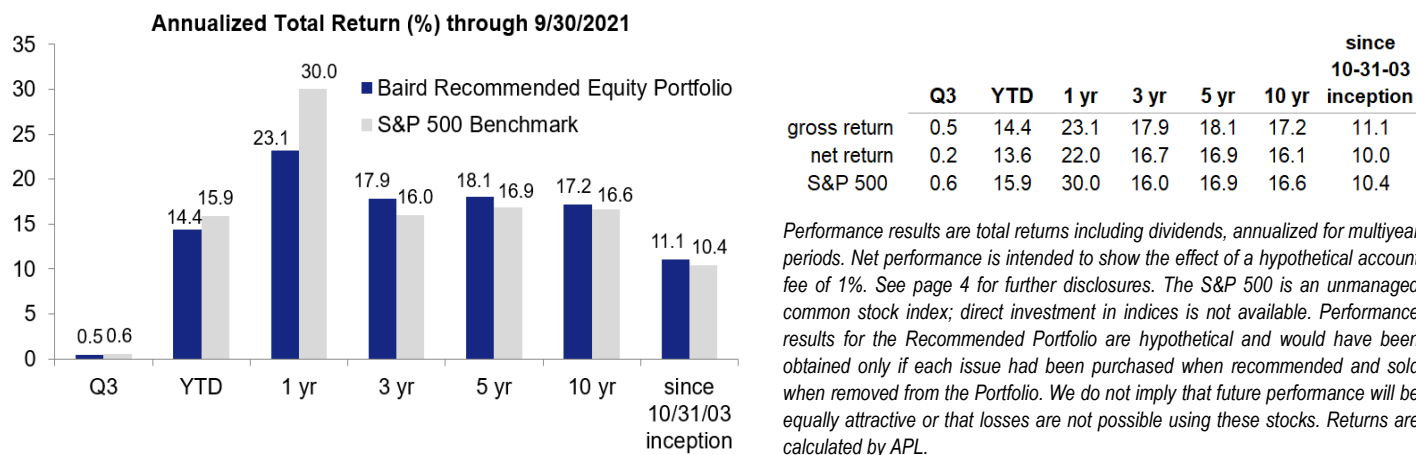
The S&P 500 returned 0.6% in 3Q21 as the slowing recovery and growing basket of risks weighed on both performance and sentiment. Sector performance was tightly bunched, perhaps due more to the idiosyncratic nature of market/economy dynamics rather than covid-19—though the Delta variant was a storyline) Despite inflation pressures, policy uncertainty, and seasonal challenges, equities were boosted by a strong earnings outlook and still-accommodative policy landscape.

The Baird Recommended Portfolio slightly underperformed, with a total Q3 return of 0.5%. 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. The tide began to turn near quarter-end as energy prices rallied and Treasury yields jumped.

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Year-to-date, the S&P 500 is up +15.9%. Energy (+43.2%) remains the clear-cut top performer year to date 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 Communication Services (+21.6%) were the only other sectors to outpace the index. Traditionally defensive Utilities (+4.2%) and Consumer Staples (+4.7%) were the stand-out laggards.

The Baird Recommended Portfolio trails the benchmark for the full year by 1.5%, with a total return* of 14.4%. Stock selection across 5 of 11 sectors delivered positive relative performance to the portfolio. Cash subtracted about 0.4 percentage points from the portfolio's performance for the year.



*S&P 500 and Baird Recommended Portfolio performance calculations are total returns, which include the impact of dividends. Future dividends are not guaranteed and can be lowered or suspended by companies.

Market Commentary and Outlook

Though Covid-19 still looms large in investor imaginations, Q3 began with a sharp selloff on China crackdown fears. China's government intervention and long-understood debt issues weighed on Chinese equities as well as U.S. firms with close ties. Many of these concerns seem placated for now, but tensions between the US and China (in addition to China's domestic issues) will likely be at the forefront for years to come.

Elsewhere, the shifting policy landscape has fueled investor uncertainty. The Fed is all but certain to begin tapering its asset purchases in the coming months, marking the unofficial beginning of a new tightening cycle. While rate hikes may still be over a year away (the bond market is eyeing late 2022), the lingering inflationary pressures may force the Fed to be more aggressive than they'd like. The possibility of government shutdown, the debt ceiling debate, and the fate of infrastructure, social spending and tax legislation all loom large over equities.

Despite these uncertainties (or, in part due to the Fed's agenda), 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. Perhaps the reflation trade could again have life after a disappointing summer.

Further, forward equity returns are above average when starting from points of elevated policy uncertainty (check) and/or economic uncertainty (check, again). And while the policy tailwinds will eventually fade, the landscape remains highly accommodative relative to history. With signs of cyclical reemerging (Banks vs. Gold, Discretionary vs. Staples), credit spreads still benign, and fourth quarter seasonality a tailwind, it's hard not to remain positive on equities heading into year-end. We remain nearly fully invested, exposed to a mix of cyclicals and long-duration secular growth favorites.

BAIRD'S RECOMMENDED PORTFOLIO

Ticker	Company Name	Portfolio %	S&P %	Purchase Date	Purchase Price (\$)	10/1/21 Price (\$)	% Change (%)	52 Week High (\$)	52 Week Low (\$)	Market Cap (\$mil)	NTM Rev Growth (%)	NTM EPS Growth (%)	NTM P/E (x)	NTM EV/EBITDA (x)	Dividend Yield (%)
Communication Services		8.3%	11.4%												
GOOG	Alphabet Inc. Class C	4.3%		Multiple	502.28	2729.25	443.4	2936.41	1436.00	1,820,299	20.5	16.8	25.6	15.0	0.0
DIS	Walt Disney Company	1.7%		Multiple	168.17	176.01	4.7	203.02	117.23	319,832	25.0	102.6	34.8	21.9	0.0
FB	Facebook, Inc. Class A	2.3%		Multiple	106.64	343.01	221.7	384.33	244.61	967,098	23.2	18.9	21.9	12.1	0.0
Consumer Discretionary		12.5%	12.3%												
AMZN	Amazon.com, Inc.	3.8%		Multiple	1076.35	3283.26	205.0	3773.08	2881.00	1,662,776	19.5	26.9	51.6	18.3	0.0
DPZ	Domino's Pizza, Inc.	1.4%		Multiple	381.36	475.07	24.6	548.72	319.71	17,510	7.8	14.2	31.1	23.1	0.8
HD	Home Depot, Inc.	2.1%		Multiple	89.38	329.86	269.1	345.69	246.59	348,121	4.0	9.2	22.1	15.5	2.0
DHI	D.R. Horton, Inc.	1.7%		Multiple	96.37	83.75	-13.1	106.89	64.32	29,998	17.1	18.2	6.4	4.4	1.0
NKE	NIKE, Inc. Class B	1.8%		Multiple	93.78	147.06	56.8	174.38	118.80	232,809	9.2	12.5	36.4	26.7	0.7
SBUX	Starbucks Corporation	1.7%		Multiple	108.03	112.92	4.5	126.32	85.09	133,144	9.8	15.2	30.2	19.2	1.7
Consumer Staples		3.5%	5.7%												
STZ	Constellation Brands, Inc. Cl A	1.5%		Multiple	196.26	213.48	8.8	244.75	160.63	41,024	4.0	10.7	19.2	15.0	1.4
COST	Costco Wholesale Corporation	2.0%		Multiple	117.25	448.33	282.4	470.49	307.00	198,083	8.0	9.0	36.8	20.3	0.7
Energy		3.0%	2.8%												
PXD	Pioneer Natural Resources	3.0%		Multiple	117.44	174.68	48.7	175.37	76.58	42,615	34.9	74.9	10.0	5.4	1.3
Financials		14.1%	11.4%												
BAC	Bank of America Corp	3.1%		Multiple	29.72	43.08	45.0	44.04	23.12	362,514	4.4	5.9	13.8	nmf	1.9
BLK	BlackRock, Inc.	2.6%		Multiple	200.93	841.89	319.0	959.89	559.18	128,132	11.1	13.3	20.0	14.2	2.0
CB	Chubb Limited	1.5%		1/15/21	155.19	175.41	13.0	187.90	114.21	76,959	5.0	21.7	13.0	nmf	1.8
JPM	JPMorgan Chase & Co.	3.2%		Multiple	44.93	167.13	272.0	169.30	95.09	499,410	0.1	-2.7	13.3	nmf	2.4
MS	Morgan Stanley	1.6%		8/16/21	103.94	99.05	-4.7	105.95	46.42	180,723	3.7	1.9	13.5	nmf	2.8
SPGI	S&P Global, Inc.	2.1%		Multiple	410.58	428.36	4.3	456.63	303.50	103,235	6.2	9.5	30.6	21.2	0.7
Healthcare		14.9%	13.1%												
ABT	Abbott Laboratories	1.4%		Multiple	82.28	117.21	42.5	129.70	103.13	207,792	2.1	8.4	25.4	18.7	1.5
DHR	Danaher Corporation	2.4%		Multiple	80.56	302.32	275.3	333.96	211.22	215,826	10.1	11.9	31.0	22.4	0.3
EW	Edwards Lifesciences Corp.	2.1%		Multiple	82.95	112.28	35.4	123.27	70.92	69,987	13.1	15.3	44.8	34.9	0.0
HCA	HCA Healthcare Inc	2.0%		Multiple	211.50	247.79	17.2	263.92	121.46	79,328	6.5	13.4	14.1	8.9	0.8
IQV	IQVIA Holdings Inc	1.8%		Multiple	102.01	241.55	136.8	265.34	150.65	46,284	10.3	18.0	24.8	17.5	0.0
TMO	Thermo Fisher Scientific Inc.	1.7%		Multiple	111.14	572.72	415.3	616.93	433.01	225,319	7.2	-2.1	27.2	21.8	0.2
VEEV	Veeva Systems Inc Class A	1.5%		10/4/21	288.17	287.28	-0.3	343.96	235.74	44,075	20.7	16.4	73.2	49.5	0.0
ZTS	Zoetis, Inc. Class A	2.0%		Multiple	117.69	196.19	66.7	210.10	141.41	92,983	9.9	14.2	39.2	26.5	0.5
Industrials		10.4%	8.1%												
CAT	Caterpillar Inc.	1.6%		Multiple	230.74	194.33	-15.8	246.69	143.75	106,390	13.8	27.7	16.3	10.1	2.3
GNRC	Generac Holdings Inc.	2.8%		Multiple	121.93	404.95	232.1	466.92	190.10	25,561	25.8	27.5	34.9	23.2	0.0
OSK	Oshkosh Corp	1.4%		1/15/21	94.01	105.21	11.9	137.47	66.74	7,221	8.3	28.1	12.6	7.8	1.3
ROK	Rockwell Automation, Inc.	2.6%		Multiple	210.48	294.86	40.1	327.20	215.51	34,211	9.4	10.3	28.7	21.1	1.5
UNP	Union Pacific Corporation	2.0%		Multiple	199.45	201.74	1.1	231.26	171.50	131,559	7.1	14.8	18.5	13.1	2.1
Information Technology		26.3%	27.7%												
ADBE	Adobe Inc.	2.2%		Multiple	266.14	577.47	117.0	673.88	420.78	274,760	16.3	15.5	41.3	30.5	0.0
AAPL	Apple Inc.	5.4%		Multiple	6.75	142.65	2013.3	157.26	107.32	2,358,028	4.2	2.0	25.0	18.9	0.6
KEYS	Keysight Technologies Inc	1.5%		Multiple	62.08	165.42	166.5	182.49	95.48	30,470	6.4	10.7	25.0	18.9	0.0
MA	Mastercard Incorporated	2.3%		Multiple	16.75	360.18	2050.3	401.50	281.20	355,417	20.3	29.6	35.9	27.3	0.5
MSFT	Microsoft Corporation	5.7%		Multiple	92.66	289.10	212.0	305.84	199.62	2,172,555	13.9	11.8	31.6	21.2	0.9
NVDA	NVIDIA Corporation	3.3%		3/31/20	263.60	207.42	-21.3	230.43	115.67	518,550	23.0	24.5	46.2	35.7	0.1
PYPL	PayPal Holdings, Inc.	2.4%		Multiple	78.36	264.65	237.7	310.16	174.81	310,972	22.1	24.1	47.2	33.5	0.0
QCOM	Qualcomm Inc.	1.4%		9/2/21	146.69	128.71	-12.3	167.94	115.43	145,185	10.6	11.6	13.9	10.2	2.1
CRM	salesforce.com, inc.	2.1%		Multiple	145.43	275.26	89.3	286.36	201.51	269,480	21.4	-0.8	60.5	30.2	0.0
Materials		3.3%	2.5%												
DD	DuPont de Nemours, Inc.	1.7%		3/1/21	70.32	69.13	-1.7	87.27	53.52	36,159	-1.6	18.2	14.4	9.8	1.7
ECL	Ecolab Inc.	1.6%		Multiple	219.88	213.65	-2.8	231.25	181.25	61,123	6.8	23.6	36.7	21.3	0.9
Real Estate		0.0%	2.6%												
Utilities		2.0%	2.4%												
NEE	NextEra Energy, Inc.	2.0%		Multiple	26.42	79.21	199.8	87.69	68.33	155,391	10.8	8.7	29.5	17.4	1.9
Cash		1.9%													

Earnings and revenue growth estimates are Factset Consensus estimates. P/E is price/earnings ratio; EV/EBITDA is the Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization ratio

Dividend yield equals indicated annual dividend (most recently paid common dividend annualized for the next 12 months) divided by current stock price. NTM = Next 12 Months; nmf = not meaningful

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