

Baird Intermediate Muni Bd Inst BMBIX

Morningstar's Take | 07-15-09 | by Lawrence Jones

Baird Intermediate Municipal Bond is not resting on its laurels.

The high-quality approach plied by this fund's veteran management team led it to great success in 2008, as sectors and issues with even a hint of credit risk were punished badly last year. In fact, the offering's returns topped those of every other open-end municipal-bond fund (regardless of category) in 2008, but as we argued previously, it's important for investors to keep expectations realistic. For instance, though the fund's one-, three-, and five-year trailing total returns (through July 14) still top the charts in the muni-national intermediate-term category, the offering's year-to-date returns lag behind peers'. That's not surprising; however, as virtually all muni market risk sectors bounced back strongly this year, so the fund is acting as one would expect.

The style used by Baird CIO Mary Ellen Stanek's team, with Warren Pierson taking the lead, involves focusing on the highest-quality sectors of the muni market and avoiding the most troubled. As a result, the tobacco, airline, and land development sectors (the riskier) are largely avoided, but Pierson has occasionally found value in tobacco bonds prerefunded with Treasuries. Moreover, the team argues that one is often not adequately paid for the added interest-rate risk of investing on the long end of the muni yield curve, so they focus primarily on the five- to 15-year maturity span, keeping fund duration (a measure of this risk) close to its Barclays Capital 7 Year GO Bond Index benchmark.

Recently, the fund has experienced considerable cash inflows, and Pierson has been searching out opportunities outside the mainstay prerefunded stake (72% of assets), which he thinks looks fully valued. Instead, he has purchased selective general obligation bonds rated AA and A, providing some added yield to the total return-focused offering. Overall, experienced management, its cautious approach, and rock-bottom costs continue to make the fund a solid choice.

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Morningstar Rating

★★★★★

Kudos

- Experienced management.
- Consistent and impressive track record.
- Low expenses.

Risks

- The fund's duration-neutral strategy may moderate returns and keep management from shooting the lights out under certain market conditions.
- The fund's cautious, total return focus can produce lower yields than many rivals.

Strategy

Mary Ellen Stanek and her management team set out to consistently beat the fund's benchmark, the Lehman Brothers 7 Year GO Bond Index. They peg the fund's duration to that of the benchmark and continuously maintain a duration-neutral interest-rate position. They then actively attempt to add value through sector allocation and security selection (preferring high-quality prerefunded and general-obligation issues), combining passive and active management with broad market and security-specific research to try to outperform the index under varying market conditions.

Management

As chief investment officer of Baird Advisors, Mary Ellen Stanek heads the team of six seasoned portfolio managers at this fund, but Warren Pierson takes the lead in the daily management of this fund. Stanek, former president and chief executive officer of Firststar Investment Research & Management, where she worked for 21 years, left for Baird with this team of Firststar veterans in March 2000. The team ran several successful funds at Firststar, and it runs the successful Baird Aggregate Bond BAGIX, among others at Baird.

Inside Scoop

Now available at a \$25,000 minimum, this offering differs from many muni national intermediate-term bond funds in its disciplined, duration-neutral approach and almost exclusive focus on high-quality assets. The strategy has produced consistently impressive performance over time, and for a fee, the institutional share class is available at an even lower minimum purchase on several fund platforms.

Role in Portfolio

Core. The fund's high-quality bias and total return focus, as well as management's interest-rate risk-control discipline, make it a solid core option for cautious muni investors.

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Year	Total Return (%)	+/-Category
YTD	2.61	-4.22
2009	—	—
2008	6.37	8.69
2007	4.93	2.18
2006	3.69	0.02

Data through 06-30-09

Information through 6/30/09

The Morningstar five-star rating for the Institutional Class Baird Intermediate Municipal Bond Fund is the overall rating received among 239 Municipal National Intermediate bond funds. The fund received five stars for the three-year period among 239 Municipal National Intermediate bond funds and five stars for the five-year period among 216 Municipal National Intermediate bond funds.

The overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with a fund's three-, five- and ten-year (if applicable) Morningstar Rating metrics.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk- Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages. Past performance is no guarantee of future results.

The average annual total returns for the Institutional Class of the Baird Intermediate Municipal Bond Fund as of June 30, 2009 are 8.15% for the one-year period, 4.65% for the five year period and 5.10% since its March 30, 2001, inception date. The expense ratio is 0.30%.

The Barclays Capital 7-Year General Obligation Bond Index is comprised of investment grade state and local general obligation bonds with six to eight years remaining until maturity. Indices are unmanaged and an investment cannot be made in one.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment in the fund will fluctuate so that an Investor's shares, when redeemed, may be worth more or less than their original cost. The fund's current performance may be lower or higher than this performance data.

Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information is found in the prospectus. For a prospectus or for performance current to the most recent month-end, contact Baird Funds directly at 800-444-9102 or contact your Baird Financial Advisor. Please read the prospectus carefully before investing. The fund's current performance may be lower or higher than this performance data.

Due to the fact that the fund may invest more than 25% of its total assets in municipal obligations issued by entities located in the same state or the interest on which is paid solely from revenues of similar projects, the fund may be adversely affected due to changes in economic, business or political conditions relating to a particular state or types of projects. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise.

This reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data current through the most recent month-end, please visit www.bairdfunds.com.

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