

# Baird Recommended Equity Portfolio

Quarterly report for 4Q21

The Recommended Portfolio rose 11.0% (gross of fees) during the fourth quarter, in line with the S&P 500's total return (includes dividends). For the full year, the portfolio gained 27.0%, versus the S&P 500's 28.7% return.

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## Portfolio Changes

Across the fourth quarter, we sold full positions in four names—**Abbott Labs (ABT)**, **Disney (DIS)**, **DuPont (DD)**, and **Domino's Pizza (DPZ)**. While we still like many of the longer-term stories here, we believe these firms face significant near-term headwinds while also lacking meaningful catalysts to shift sentiment. Margin pressures were a key theme as rising labor costs and limited opportunities for sales growth may inhibit expansion. We also decreased our positions in **Mastercard (MA)**, **Pioneer Natural (PXD)**, and **Bank of America (BAC)** in Q4 for a variety of stock-specific and portfolio management reasons.

The proceeds from these moves funded a handful of new positions, including **ServiceNow (NOW)**, an enterprise management cloud software company. We like the company's large addressable market, leadership position in enterprise cloud software, strong organic growth, and robust margins. We also added to a few cyclical names in the Industrial, Energy, and Consumer spaces. On the Consumer side, we bought **Bath & Body Works (BBWI)**, a leader in the highly fragmented specialty body care and home fragrance markets, and **Tractor Supply (TSCO)**, a fast-growing retail name with an attractive private label business and expanding loyalty program. We also purchased **EOG Resources (EOG)**, one of the best managed and most shareholder-friendly Exploration & Production companies in the S&P 500. And finally, we added **Amphenol (APH)**, a leading provider of electrical connectors to an array of end markets, with a history of organic revenue growth and accretive M&A.

## Market and Portfolio Performance

**For the year**, the S&P 500 finished +28.71%, making 2021 the tenth best year since 1958. Digging in, Energy (+54.6%) closed as the clear-cut top performer with economic reopening and rising oil prices boosting the group. Real Estate rode a rollercoaster Q4 to finish +46.2%, while Financials (+35.0%) and Technology (+34.5%) also posted historically strong years. Despite posting their own strong returns, the more traditionally defensive Consumer Staples (+18.6%) and Utilities (+17.7%) were the 2021 laggards.

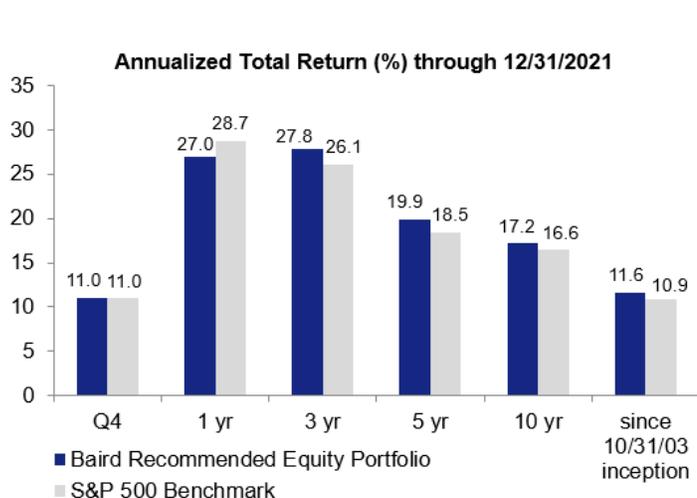
The Baird Recommended Portfolio trailed the benchmark for the full year by 1.68%, with a total return\* of +27.03%. Stock selection across 6 of 11 sectors delivered positive relative performance to the portfolio. Cash subtracted 0.62% from the portfolio's performance for the year.

**For Q4**, the S&P 500 turned in one of its best quarters of the last decade, returning 11.0% (helped by a late-year "Santa Clause rally"). Despite the omicron variant and prospects of tighter monetary policy in 2022, stocks were buoyed by a strong US consumer, robust earnings growth, and near-record profit margins. It was the 7th straight quarter of S&P 500 gains, capping a year highlighted by muted volatility and 70+ new all-time highs. Sector-wise, Real Estate (+17.5%), Technology (+16.7%), and Materials (+15.2%) led, while some of the more cyclical sectors, like Financials (+4.6%) and

## Baird Recommended Equity Portfolio

Energy (+8.0%), lagged. Bringing up the rear, Communication Services (-0.0%) was the worst performing sector in Q4 by a significant margin.

The Baird Recommended Portfolio's Q4 return of +11.02% matches the S&P 500's total return of +11.02%.



	Q4	1 yr	3 yr	5 yr	10 yr	since 10-31-03 inception
gross return	11.0	27.0	27.8	19.9	17.2	11.6
net return	10.8	25.8	26.6	18.7	16.1	10.4
S&P 500	11.0	28.7	26.1	18.5	16.6	10.9

*Performance results are total returns including dividends, annualized for multiyear periods. Net performance is intended to show the effect of a hypothetical account fee of 1%. See page 4 for further disclosures. The S&P 500 is an unmanaged common stock index; direct investment in indices is not available. Performance results for the Recommended Portfolio are hypothetical and would have been obtained only if each issue had been purchased when recommended and sold when removed from the Portfolio. We do not imply that future performance will be equally attractive or that losses are not possible using these stocks. Returns are calculated by APL.*

## Market Commentary

Despite the abundance of headline risks in 2021—Covid-19 and its variants, China's regulatory crackdown, percolating inflation, etc.—the S&P 500 turned in another historically strong year. Easy monetary policy, robust fiscal spending, widespread vaccination, economic reopening, and record corporate profits were among the many tailwinds that helped boost the market to all-time highs. However, the balance is shifting as we head into a new year, with tighter policy (monetary and fiscal) and slowing earnings momentum set to weigh on economic growth and (possibly) index returns.

2022 will be the year that the Fed officially shifts into tightening mode. At their final meeting of 2021, they laid out plans to taper asset purchases by March and raise rates three times in 2022. This shift came in response to both stickier-than-expected inflation and a rapidly healing labor market, justifying a shift from a focus on employment to price stability.

Fiscal policy will also be more restrictive in 2022. While the proposed tax increases in the Build Back Better (BBB) plan look dead for now, so does the stimulative effect of new spending (particularly the scrapped Child Tax Credit). Even if BBB had passed as proposed, the fiscal boost would be far less than in 2020 and 2021. It is also a mid-term election year, which has historically meant a higher-than-average volatility in the market.

The cumulative effect of these changes on equities is a mixed bag. Stocks have performed well in the early stages of past rate-hiking cycles, but multiple expansion is not common during these periods. Thus the onus for performance may rest on corporate earnings growth. Profits are projected to grow at ~9%, but expectations have risen and forecasts for nominal GDP growth (a proxy for corporate sales) are being tempered on both Covid-19 and policy concerns. Profit margins remain near record highs but seem to have peaked for now. Input cost inflation remains concerning.

In an environment of decelerating but still healthy economic growth and tighter policy, we believe it pays to focus on quality operators that can continue to grow earnings and expand margins. Per Goldman Sachs, stocks with "quality" attributes such as high returns on capital, strong balance sheets, and stable earnings growth have outperformed in similar environments over the past few decades. We believe our focus on companies with wide moats and long growth runways will continue to serve us well in this rapidly shifting and volatile macro environment.

*\*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.*

Date: 12/31/21

**BAIRD'S RECOMMENDED PORTFOLIO**

Ticker	Company Name	Portfolio %	S&P %	Purchase Date	Purchase Price (\$)	12/31/21 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 (%)
<b>Communication Services</b>		6.2%	10.2%												
GOOG	Alphabet Inc. Class C	4.2%		Multiple	502.28	2893.59	476.1	-	-	1,828,230	16.8	5.4	24.3	14.0	0.0
FB	Meta Platforms Inc. Class A	2.0%		Multiple	106.64	336.35	215.4	-	-	901,763	18.9	2.4	23.7	12.8	0.0
<b>Consumer Discretionary</b>		14.2%	12.5%												
AMZN	Amazon.com, Inc.	3.6%		Multiple	1076.35	3334.34	209.8	-	-	1,667,065	17.5	25.3	63.4	19.5	0.0
BBWI	Bath & Body Works, Inc.	1.4%		12/1/21	75.13	69.79	-7.1	-	-	17,164	1.7	8.5	13.5	8.6	0.9
HD	Home Depot, Inc.	2.4%		Multiple	89.38	415.01	364.3	-	-	425,256	2.9	6.0	25.2	17.5	1.6
DHI	D.R. Horton, Inc.	1.9%		Multiple	96.37	108.45	12.5	-	-	36,712	16.3	19.6	7.0	5.1	0.9
NKE	NIKE, Inc. Class B	1.8%		Multiple	93.78	166.67	77.7	-	-	256,810	10.8	20.3	37.3	28.4	0.8
SBUX	Starbucks Corporation	1.6%		Multiple	108.03	116.97	8.3	-	-	129,568	11.3	9.0	31.1	19.5	1.8
TSCO	Tractor Supply Company	1.5%		12/16/21	235.12	238.60	1.5	-	-	26,149	5.2	3.3	26.4	16.6	0.9
<b>Consumer Staples</b>		4.1%	5.9%												
STZ	Constellation Brands, Inc. Cl A	1.7%		Multiple	196.26	250.97	27.9	-	-	47,673	6.2	17.0	21.6	16.4	1.2
COST	Costco Wholesale Corporation	2.4%		Multiple	117.25	567.70	384.2	-	-	243,852	9.8	12.7	42.0	23.6	0.6
<b>Energy</b>		3.0%	2.7%												
EOG	EOG Resources, Inc.	1.5%		11/17/21	93.20	88.83	-4.7	-	-	54,764	9.6	14.2	9.6	4.5	3.2
PXD	Pioneer Natural Resources Co.	1.5%		Multiple	117.44	181.88	54.9	-	-	47,098	21.2	50.9	9.8	5.2	1.3
<b>Financials</b>		13.0%	10.7%												
BAC	Bank of America Corp	2.8%		Multiple	30.62	44.49	45.3	-	-	386,125	5.3	-8.7	15.0	nmf	1.8
BLK	BlackRock, Inc.	2.5%		Multiple	200.93	915.56	355.7	-	-	135,475	7.9	9.3	21.1	14.7	1.9
CB	Chubb Limited	1.5%		1/15/21	155.19	193.31	24.6	-	-	83,572	8.4	19.2	13.6	10.3	1.6
JPM	JPMorgan Chase & Co.	2.8%		Multiple	44.93	158.35	252.4	-	-	484,013	0.4	-19.5	13.7	nmf	2.4
MS	Morgan Stanley	1.4%		8/16/21	103.94	98.16	-5.6	-	-	182,456	-1.1	-4.3	13.4	nmf	2.8
SPGI	S&P Global, Inc.	2.0%		Multiple	410.58	471.93	14.9	-	-	109,838	5.3	7.7	30.8	21.3	0.7
<b>Healthcare</b>		13.3%	13.3%												
DHR	Danaher Corporation	2.3%		Multiple	80.56	329.01	308.4	-	-	218,160	6.1	4.4	29.8	21.9	0.3
EW	Edwards Lifesciences Corp.	2.1%		Multiple	82.95	129.55	56.2	-	-	77,368	10.7	14.0	48.2	37.2	0.0
HCA	HCA Healthcare Inc	1.9%		Multiple	211.50	256.92	21.5	-	-	80,546	4.2	4.4	13.8	8.7	0.7
IQV	IQVIA Holdings Inc	1.9%		Multiple	102.01	282.14	176.6	-	-	49,978	7.8	13.6	26.1	18.1	0.0
TMO	Thermo Fisher Scientific Inc.	1.8%		Multiple	111.14	667.24	500.4	-	-	243,727	7.3	-8.7	29.1	23.7	0.2
VEEV	Veeva Systems Inc Class A	1.2%		10/4/21	288.17	255.48	-11.3	-	-	37,145	18.0	8.8	61.8	41.2	0.0
ZTS	Zoetis, Inc. Class A	2.1%		Multiple	117.69	244.03	107.3	-	-	102,460	8.6	12.0	41.9	28.9	0.6
<b>Industrials</b>		10.2%	7.8%												
CAT	Caterpillar Inc.	1.6%		Multiple	230.74	206.74	-10.4	-	-	118,872	12.1	19.0	17.8	11.0	2.0
GNRC	Generac Holdings Inc.	2.2%		Multiple	121.93	351.92	188.6	-	-	19,690	26.8	21.0	27.6	18.1	0.0
OSK	Oshkosh Corp	1.4%		1/15/21	94.01	112.71	19.9	-	-	8,010	6.4	12.2	18.0	10.4	1.2
ROK	Rockwell Automation, Inc.	2.7%		Multiple	210.48	348.85	65.7	-	-	39,138	13.8	13.4	30.5	23.0	1.3
UNP	Union Pacific Corporation	2.3%		Multiple	199.45	251.93	26.3	-	-	162,513	7.0	14.6	22.3	15.3	1.9
<b>Information Technology</b>		30.1%	29.2%												
ADBE	Adobe Inc.	1.9%		Multiple	266.14	567.06	113.1	-	-	244,766	13.8	11.4	36.9	27.6	0.0
APH	Amphenol Corporation Class A	1.5%		11/17/21	84.98	87.46	2.9	-	-	50,904	6.2	10.5	31.9	20.1	0.9
AAPL	Apple Inc.	6.3%		Multiple	6.75	177.57	2530.7	-	-	2,869,807	5.5	4.1	29.5	22.1	0.5
KEYS	Keysight Technologies Inc	1.7%		Multiple	62.08	206.51	232.7	-	-	35,173	6.4	10.4	27.7	21.5	0.0
MA	Mastercard Incorporated Cl A	1.9%		Multiple	16.75	359.32	2045.2	-	-	367,378	19.5	27.0	35.0	26.6	0.5
MSFT	Microsoft Corporation	6.0%		Multiple	92.66	336.32	263.0	-	-	2,375,375	15.2	15.0	32.0	21.9	0.8
NVDA	NVIDIA Corporation	4.3%		Multiple	75.79	294.11	288.1	-	-	690,100	20.6	21.0	55.1	42.3	0.1
PYPL	PayPal Holdings, Inc.	1.6%		Multiple	78.36	188.58	140.7	-	-	219,900	18.4	13.9	36.8	25.2	0.0
QCOM	Qualcomm Inc.	1.8%		9/2/21	146.69	182.87	24.7	-	-	208,880	15.4	20.7	16.8	12.6	1.5
CRM	salesforce.com, inc.	1.8%		Multiple	145.43	254.13	74.7	-	-	224,255	20.6	1.0	48.8	22.9	0.0
NOW	ServiceNow, Inc.	1.3%		10/18/21	663.18	649.11	-2.1	-	-	113,979	25.4	21.7	80.7	47.4	0.0
<b>Materials</b>		1.6%	2.6%												
ECL	Ecolab Inc.	1.6%		Multiple	219.88	234.59	6.7	-	-	66,836	8.0	23.0	38.8	22.7	0.9
<b>Real Estate</b>		0.0%	2.8%												
<b>Utilities</b>		2.1%	2.5%												
NEE	NextEra Energy, Inc.	2.1%		Multiple	26.42	93.36	253.4	-	-	176,063	18.6	8.6	31.9	18.4	1.7
<b>Cash</b>		2.1%													

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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