BAIRD
Private Wealth Management

Baird Rising Dividend Portfolio

Quarterly report for 1Q22

The Rising Dividend Portfolio had a gross return of -3.5% in the first quarter, compared to total returns of -4.6% from the S&P 500 and -3.4% from the Morningstar U.S. Dividend Growth Index.

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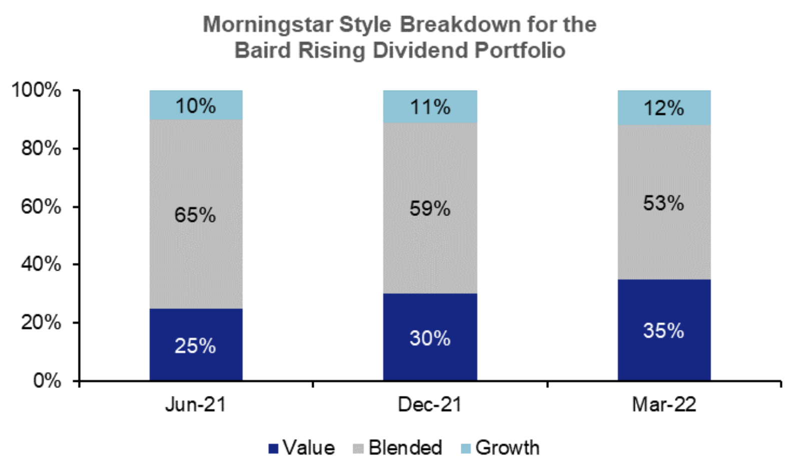
April 2022

Portfolio Changes

Our Q1 trades reflect higher-than-average portfolio turnover as we pivoted in a rapidly changing macroeconomic backdrop (Fed raising rates, elevated inflation, Russia/Ukraine conflict). As a result, the portfolio's style characteristics moved incrementally toward Value vs. three months ago.



From a sector standpoint, concerns about inflation reducing the purchasing power of consumers (particularly from higher Energy prices) prompted the reduction in Consumer Discretionary holdings; we are now Underweight the sector. However, we increased our allocation to Energy (now nearly 3% Overweight). We also increased our exposure to more defensive names in Healthcare, bringing our sector weighting closer to benchmark, while reducing our Overweight in Financials.

Dividend Increases

The following stocks held in the Baird Rising Dividend Portfolio increased their quarterly dividends in January, February, and March. Of the stocks in the portfolio at quarter-end, 98% raised dividends over the previous 12 months, with an average increase of 15%.

Ticker	Prior	New	Increase
ADI	$0.69	$0.76	10%
BBY	$0.70	$0.88	26%
BLK	$4.13	$4.88	18%
CMCSA	$0.25	$0.27	8%
CSCO	$0.37	$0.38	3%
CVX	$1.34	$1.42	6%
ETN	$0.76	$0.81	7%
FAST	$0.28	$0.31	11%
GLW	$0.24	$0.27	13%
GPC	$0.82	$0.90	10%
HD	$1.65	$1.90	15%
NEE	$0.39	$0.43	10%
RS	$0.69	$0.88	27%
UPS	$1.02	$1.52	49%

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.

We added seven new names to the portfolio in Q1: **AbbVie (ABBV)**, **AmerisourceBergen (ABC)**, **EOG Resources (EOG)**, **Fastenal (FAST)**, **Genuine Parts (GPC)**, **MetLife (MET)**, and **Paychex (PAYX).** We initiated a position in AbbVie (and subsequently added to it), reflecting our confidence in the company's ability to manage generic competition for its blockbuster drug, Humira, further develop its pipeline, and deliver high-single-digit earnings per share growth between 2025 and the end of the decade. We added another new position in Healthcare via the purchase of AmerisourceBergen, a leading drug distributor with defensive characteristics. The company is poised to benefit from an aging U.S. population and a growing share of generic and biosimilar drugs. To increase our exposure to the Energy sector, we added a new position in EOG Resources – and added to the position later in Q1. We also added Fastenal to the portfolio, reflecting a combination of attractive valuation and confidence that Fastenal can successfully increase prices to combat inflation. The purchase of Genuine Parts was driven by our desire to add more defensive exposure in the Consumer Discretionary sector, coupled with the attractive competitive and cash flow dynamics of the automotive aftermarket parts industry. Motivated by our desire to diversify our exposure within Financials, we added a new position in MetLife. As a leading Life Insurer, MetLife should benefit from rising interest rates. We also added a new position in Paychex (and subsequently added to it) based on our view that the company is poised to benefit from the underlying strength of the labor market and rising interest rates.

We also added to our position in **United Parcel Service (UPS)** after the company reported stellar Q4 financial results, including double-digit pricing growth and meaningful margin expansion, and raised its dividend nearly 50%.

We sold our positions in **Honeywell (HON)**, **McDonald's (MCD)**, **Medtronic (MDT)**, **Nasdaq (NDAQ)**, and **Starbucks (SBUX)** during the quarter. The sale of Honeywell reflected lower conviction in the stock as the Aerospace business took longer to recover and the Safety business encountered challenges. We sold McDonald's and Starbucks based on a desire to reduce exposure to the Consumer Discretionary sector and concerns that the companies would experience an outsized negative profit impact from the conflict in Russia/Ukraine. The sale of Medtronic was primarily a function of execution issues (delay of surgical robot launch, FDA warning letter). Lower elective procedure volumes in calendar Q1 also played a role. The sale of Nasdaq was largely valuation driven.

We also trimmed our positions in **Accenture (ACN)**, **Apple (AAPL)**, **BlackRock (BLK)**, **Chevron (CVX)**, and **Qualcomm (QCOM)**. The Accenture, Apple, and BlackRock trims were primarily portfolio management decisions, motivated by a desire to reduce exposure to high valuation names. We trimmed Chevron given our investment mandate that no single holding can exceed a 5% weighting or more than 1.5x the stock's weight in the S&P 500. Finally, our trim of Qualcomm reflected a preference for other Semiconductor holdings over Qualcomm.

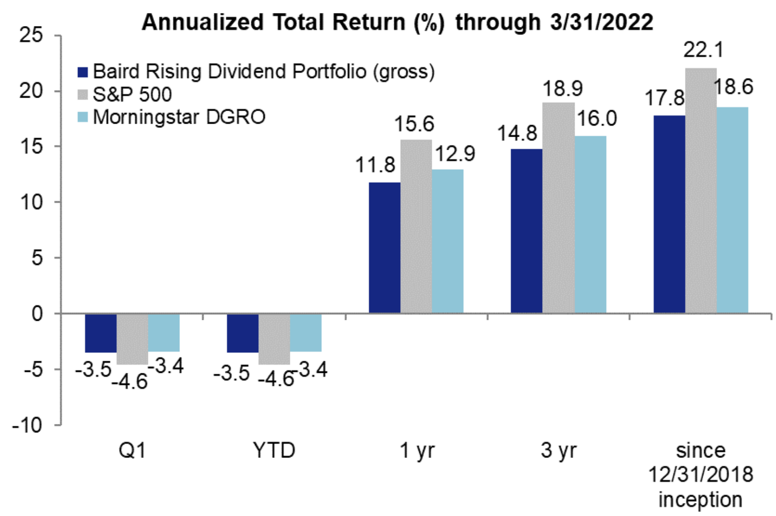
Market and Portfolio Performance

On the quarter, the S&P 500 finished -4.6%, its worst non-recession Q1 since 1977. At an asset-class level, large-cap outperformed its small- and mid-cap counterparts, while Value handily outperformed Growth.

Within the sector landscape, there was Energy (+39.0%) and then there was everything else. The combination of reopening-fueled demand, discipline from OPEC+ and US shale, and the Russia/Ukraine-driven supply shocks sent oil and natural gas prices skyrocketing 33.3% and 58.4%, respectively. Past Energy, Utilities (+4.8%) were the only other sector in the black. Despite rising rates, the defensive and stable nature of the sector bolstered performance.

On the flipside, Communication Services (-11.9%), Consumer Discretionary (-9.0%), and Technology (-6.2%) lagged. These mostly Growth sectors, that contribute substantially to the index, underperformed amid continued supply chain issues, decelerating earnings growth, and rates-driven multiple compression. Communication Services is now the only sector negative over the trailing one-year, while the S&P 500 is up 15.6% over the same period.

The Morningstar U.S. Dividend Growth Index (or DGRO), which is composed of U.S. equities with a history of consistently growing dividends, returned -3.4% in Q1. This compares to the Rising Dividend Portfolio's -3.5% (gross) return in the quarter. As mentioned above, the S&P 500 returned -4.6% in Q1. The chart and table below show the portfolio's gross return relative to the two indices.



Annualized Performance (%)	Q1	YTD	1 yr	3 yr	since 12/31/2018 inception
RDP gross	-3.5	-3.5	11.8	14.8	17.8
RDP net	-3.7	-3.7	10.7	13.6	16.6
S&P 500 total return	-4.6	-4.6	15.6	18.9	22.1
DGRO total return	-3.4	-3.4	12.9	16.0	18.6

Performance results are total returns including dividends, annualized for multiyear periods. Performance is presented gross of fees in the chart above. Net performance (shown in the table above) is intended to show the effect of a hypothetical 1% account fee. Actual fees charged may differ. Future dividends are not guaranteed and may be reduced or eliminated by companies. The S&P 500 and the Morningstar U.S. Dividend Growth Index are unmanaged common stock indices; direct investment in indices is not available. Performance results are for the Baird Rising Dividend Portfolio Composite. We do not imply that future performance will be equally attractive or that losses are not possible using these stocks. *See page 5 for further disclosures.*

Market Commentary and Outlook

Markets suffered a volatile 1Q22, as a combination of historic inflation, war in Ukraine, and an increasingly aggressive Federal Reserve sent both stocks and bonds lower. The S&P 500 was down 13% at its worst before rallying strongly into quarter-end. Bond markets weren't as lucky, with the US Treasury Index posting its worst quarter in over fifty years amid rapidly rising interest rates. War in Ukraine further complicates the macro picture, as many commodity prices are spiking and the euro-area is inching toward recession. Volatility was elevated after a mostly calm 2021; over half the trading days saw the market close higher or lower by 1%+.

While Russia-Ukraine received most of the press, it was the Fed that ultimately drove markets in Q1. The S&P 500 was already off ~10% before Russia invaded Ukraine on February 24, as inflation came in hotter than feared and the Fed was forced to get more aggressive. Though investors knew that the Federal Reserve would begin raising rates in 2022, the speed and aggression with which they would execute those hikes shifted significantly across the quarter: at year-end, markets were pricing three 2022 rate hikes, but by March 31, they were pricing ten. The Fed hasn't raised rates in a 0.50% increment in over two decades; markets now expect two such moves by July. There is a growing sense that the Fed will "tighten until something breaks."

Of course, this response isn't entirely unjustified. Inflation is at 40-year highs and looking stickier by the day (wage growth, inflation expectations, and rents are all meaningfully higher) at the same time that the domestic economy is running hot. Labor markets are extremely strong (record job openings, historically low unemployment) and broad economic growth – retail sales, manufacturing, etc. – is healthy, if often hampered by supply chain woes. Further, the US economy looks relatively well-insulated from the strife in Ukraine, (though not entirely, see: gas prices). All said, the Fed finds itself behind the curve and looking to make up ground quickly.

All of this comes together to form a macroeconomic environment unlike any in recent memory. For the first time in decades, the Energy sector is meaningfully outperforming, Big Tech/Large Growth is stumbling, and long-term interest rates are spiking (even as stocks fall). Even the question of where we are in the business cycle is up for debate. In the end, while the macro winds shift rapidly, we believe a focus on higher quality is prudent at this point in time. Higher interest rates and supply-side uncertainty favor operators with strong margins (and the ability to protect them), high returns on capital, and – perhaps more than usual – competent management. As our partners at Strategas have noted, high inflation and high interest rate regimes tend to see multiple contraction. Therefore, a focus on the earnings and dividend portion of total return should be a boon across the remainder of 2022.

		Portfolio	S&P	Purch. Date	Purch. Price ($)	3/31/22 Price ($)	Change (%)	52 Week High ($)	52 Week Low ($)	Market Cap ($bil)	NTM Rev. Growth (%)	NTM EPS Growth (%)	NTM P/E (x)	NTM EV / EBITDA (x)	Div. Yield (%)	Div. Growth (%)
Communication Services		**4.0%**	**9.4%**													
CMCSA	Comcast Corporation Class A	1.7%		Multiple	42.60	46.82	9.9	61.80	44.27	218.1	4.4	10.2	13.1	8.0	2.2	8.7
VZ	Verizon Communications Inc.	2.3%		Multiple	56.13	50.94	-9.2	59.85	49.69	220.3	2.2	1.6	9.6	7.3	4.9	2.0
Consumer Discretionary		**7.8%**	**12.0%**													
BBY	Best Buy Co., Inc.	1.6%		Multiple	107.68	90.90	-15.6	141.97	85.58	21.2	-1.6	nmf	10.1	5.6	3.7	27.3
GPC	Genuine Parts Company	2.0%		3/10/22	122.15	126.02	3.2	142.97	115.19	18.4	8.4	9.1	16.5	10.6	2.8	3.2
HD	Home Depot, Inc.	2.0%		Multiple	165.08	299.33	81.3	420.61	298.40	319.1	2.1	4.3	18.8	13.7	2.5	10.0
TGT	Target Corporation	2.1%		12/18/18	65.23	212.22	225.3	268.98	184.00	99.1	3.7	7.6	14.6	9.4	1.7	25.2
Consumer Staples		**4.0%**	**6.1%**													
PEP	PepsiCo, Inc.	2.0%		Multiple	134.44	167.38	24.5	177.24	141.24	234.2	2.8	7.3	25.0	17.5	2.5	5.6
PG	Procter & Gamble Company	2.0%		12/18/18	92.81	152.80	64.6	165.35	130.29	369.3	4.0	7.3	24.9	17.9	2.3	9.0
Energy		**6.8%**	**3.9%**													
CVX	Chevron Corporation	4.7%		Multiple	93.67	162.83	73.8	174.76	92.86	320.1	18.7	41.1	12.1	5.9	3.5	2.9
EOG	EOG Resources, Inc.	2.1%		Multiple	111.61	119.23	6.8	124.89	62.81	70.7	9.6	31.1	9.3	4.7	2.5	32.5
Financials		**12.6%**	**11.1%**													
BLK	BlackRock, Inc.	2.0%		Multiple	384.69	764.17	98.6	973.16	660.15	118.9	9.4	7.4	18.1	12.5	2.5	13.8
CB	Chubb Limited	2.4%		1/13/21	157.41	213.90	35.9	218.99	155.78	91.0	5.0	15.9	14.2	11.1	1.5	2.9
JPM	JPMorgan Chase & Co.	2.6%		12/18/18	99.67	136.32	36.8	172.96	127.27	401.3	3.1	nmf	11.6	nmf	2.9	5.6
MET	MetLife, Inc.	1.5%		2/16/22	71.56	70.28	-1.8	72.55	55.21	57.5	-2.6	nmf	9.4	7.6	2.8	4.4
MS	Morgan Stanley	1.7%		8/11/21	103.49	87.40	-15.5	109.73	76.25	155.5	-0.7	nmf	11.1	nmf	3.2	50.0
USB	U.S. Bancorp	2.5%		Multiple	48.79	53.15	8.9	63.57	51.92	78.2	9.4	nmf	11.5	nmf	3.5	4.8
Health Care		**13.5%**	**13.6%**													
ABBV	AbbVie, Inc.	2.3%		Multiple	137.39	162.11	18.0	165.96	104.17	285.9	3.6	4.5	12.1	10.3	3.5	9.7
ABC	AmerisourceBergen Corporation	1.5%		3/10/22	147.27	154.71	5.0	157.76	111.34	32.4	7.8	11.5	14.0	9.3	1.2	4.7
ABT	Abbott Laboratories	1.9%		Multiple	70.38	118.36	68.2	142.60	105.36	209.6	-3.4	nmf	24.5	18.4	1.6	19.0
BMY	Bristol-Myers Squibb Company	2.1%		Multiple	63.69	73.03	14.7	74.99	53.22	156.8	1.9	4.4	9.4	8.0	2.9	9.2
JNJ	Johnson & Johnson	3.2%		Multiple	138.12	177.23	28.3	180.21	155.72	464.0	5.3	6.9	16.7	12.3	2.4	5.3
MRK	Merck & Co., Inc.	2.5%		Multiple	77.81	82.05	5.5	91.40	69.46	211.0	11.4	14.2	11.6	9.4	3.3	6.5
Industrials		**11.6%**	**7.9%**													
CAT	Caterpillar Inc.	2.7%		Multiple	162.70	222.82	36.9	246.69	179.67	118.3	10.3	14.7	16.8	10.8	2.0	3.9
ETN	Eaton Corp. Plc	2.4%		Multiple	66.49	151.76	128.2	175.72	137.56	60.3	4.9	13.0	19.1	15.0	2.1	4.1
FAST	Fastenal Company	1.0%		1/26/22	55.92	59.40	6.2	64.75	48.57	34.6	11.5	11.7	32.6	21.8	2.1	12.0
UNP	Union Pacific Corporation	2.9%		Multiple	172.43	273.21	58.4	278.94	195.68	162.0	8.2	15.1	21.2	14.5	1.8	10.6
UPS	United Parcel Service, Inc. Class B	2.5%		Multiple	206.64	214.46	3.8	233.72	171.11	178.8	5.0	5.3	15.3	10.4	3.0	1.0
Information Technology		**28.3%**	**28.0%**													
AAPL	Apple Inc.	5.7%		Multiple	41.88	174.61	316.9	182.94	122.25	2912.0	6.9	8.2	27.5	20.7	0.5	7.1
ACN	Accenture Plc Class A	1.5%		12/18/18	153.34	337.23	119.9	417.37	276.88	218.2	14.4	15.9	29.6	17.1	1.1	10.1
ADI	Analog Devices, Inc.	2.1%		Multiple	126.89	165.18	30.2	191.95	143.81	86.1	28.2	19.1	18.4	13.7	1.8	11.3
AVGO	Broadcom Inc.	4.6%		Multiple	318.72	629.68	97.6	677.76	419.14	259.2	11.8	18.4	16.6	13.8	2.6	11.6
CSCO	Cisco Systems, Inc.	1.6%		11/23/21	55.00	55.76	1.4	64.29	50.10	232.1	5.7	7.6	15.2	10.5	2.7	2.8
GLW	Corning Inc	1.6%		Multiple	39.98	36.91	-7.7	46.82	33.93	30.9	6.5	13.4	14.7	8.1	3.0	9.1
MSFT	Microsoft Corporation	5.5%		12/18/18	106.99	308.31	188.2	349.67	238.07	2361.3	15.1	15.4	29.8	20.3	0.8	10.3
PAYX	Paychex, Inc.	2.2%		Multiple	124.06	136.47	10.0	141.84	92.74	50.3	7.8	10.0	35.4	23.4	1.9	6.5
QCOM	Qualcomm Incorporated	1.5%		Multiple	93.22	152.82	63.9	193.58	122.17	101.2	7.2	4.0	12.0	9.2	1.8	4.7
TXN	Texas Instruments Incorporated	2.0%		12/18/18	94.72	183.48	93.7	202.26	161.04	168.6	7.3	8.1	19.3	14.3	2.5	13.2
Materials		**3.7%**	**2.6%**													
CE	Celanese Corporation	1.4%		2/3/21	126.54	142.87	12.9	176.50	132.26	15.5	4.5	nmf	8.9	7.8	1.9	9.7
RS	Reliance Steel & Aluminum Co.	2.4%		Multiple	142.05	183.35	29.1	198.44	135.46	11.2	-0.1	nmf	8.9	5.5	1.9	10.0
Real Estate		**1.8%**	**2.7%**													
VICI	VICI Properties Inc	1.8%		4/7/21	29.04	28.46	-2.0	33.35	26.23	21.3	40.8	8.8	14.5	14.5	5.1	10.0
Utilities		**2.9%**	**2.7%**													
NEE	NextEra Energy, Inc.	2.9%		Multiple	44.06	84.71	92.3	93.73	69.79	168.1	21.4	9.8	30.1	18.1	2.0	10.0
Cash		**3.1%**														
														Weighted Yield / Growth	**2.3**	**9.3**

Appendix – Important Disclosures

Research reports on the companies identified in this report are provided by Baird, Credit Suisse, and/or S&P Capital IQ, and are available to clients through their Baird Financial Advisor. This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Investment Recommendations: The Baird Rising Dividend Portfolio is managed with the intent of focusing on high-quality companies with a history of consistent dividend growth, strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. The Portfolio is derived using a top–down approach that begins with macroeconomic and market outlooks. Industry sector weightings are taken into account. The Rising Dividend Portfolio is intended as a long-term investment strategy.

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ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

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