BAIRD
Private Wealth Management

Baird Recommended Equity Portfolio

Quarterly report for 4Q22

The Recommended Portfolio delivered a Q4 return of +8.4% (+7.9% net return) and a 2022 return of -23.5% (-25.0% net). This compares to the S&P 500 +7.6% total return (includes dividends) in Q4 and -18.1% for 2022.

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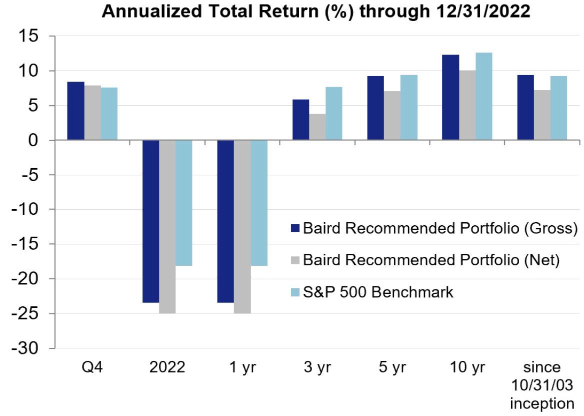
Portfolio Performance

Q4: The Baird Recommended Portfolio slightly outperformed the S&P 500, with a Q4 return of 8.4% (gross) and 7.9% (net). The S&P 500 rose 7.6% (including dividends) in Q4, bouncing off September's bear market lows and reversing some of its losses from earlier quarters.

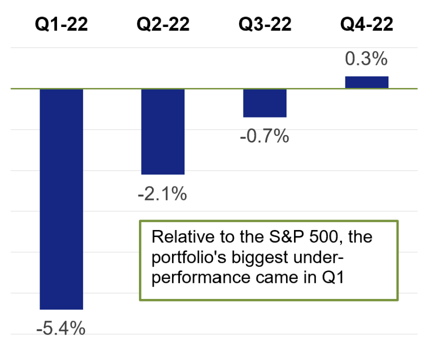
Full year: The portfolio trailed the S&P by 5.4% (6.9% net), with a total return of -23.5% (net -25.0%). The bulk of the 2022 underperformance occurred in Q1, when Growth stocks performed the worst and the portfolio's Growth exposure was the highest. Over the course of the year, we made changes to reduce that exposure, which improved relative performance (as shown in the charts to the right).

By sector: Negative contributors to full-year relative performance were Consumer Staples, Financials, Healthcare, Industrials, Technology, Materials, and Utilities. Positive contributors were Communication Services, Consumer Discretionary, Energy, Real Estate, and Cash. See the next page for more market commentary.

Annualized Total Return (%) through 12/31/2022



Total Return (%)	Q4	2022	3-yr	5-yr	10-yr	since 10/31/03
BRP gross	**8.4**	**-23.5**	**5.9**	**9.2**	**12.3**	**9.4**
BRP net	7.9	-25.0	3.8	7.1	10.1	7.2
S&P 500	**7.6**	**-18.1**	**7.7**	**9.4**	**12.6**	**9.2**
gross vs S&P 500	0.8	-5.4	-1.8	-0.2	-0.3	0.2
net vs S&P	0.3	-6.9	-3.9	-2.3	-2.5	-2.0



Values show the difference in performance between the Baird Recommended Equity Portfolio and the S&P 500

Portfolio Changes

New positions: In Q4, we repositioned to take advantage of share price weakness in companies we think are positioned well over the long term. This included McDonald's **(MCD)**, which historically has performed well during slowdowns, as well as Technology names Intuit **(INTU)** and Lam Research **(LRCX)**, which both have wide competitive moats and solid long-term growth prospects. The Technology weighting remains about 1.6% below benchmark. We also added Illumina **(ILMN)**, the market leader in DNA sequencing equipment, which we see as a secular growth industry in Healthcare.

Positions added to: We added to enterprise cloud software leader ServiceNow **(NOW)**, on strong recurring revenue, solid operating margins, and its status as a well-managed innovator. We added to Southwest Airlines **(LUV)**, as passenger travel miles continue to recover. We added to Coca Cola **(KO)**, on its strong underlying growth story and attractive industry structure.

Reduced positions: We reduced portfolio exposure to retail-related stocks Costco **(COST)**, Home Depot **(HD)**, and Amazon **(AMZN)** on concerns of a discretionary spending slowdown in a weakening economy. We also trimmed our position in HCA Healthcare **(HCA)** based on the potential for wage pressures and economic weakness. *(continues on next page)*

Performance results are total returns including dividends, annualized for multiyear periods. Net performance shows the effect of a hypothetical account fee of 2% which reflects the highest advisory fee that can be charged. As a model portfolio, 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.

Sold positions: We sold Qualcomm **(QCOM)** on concerns about the health of the overall handset market and the cyclical nature of the semiconductor industry. Our sale of Generac Holdings **(GNRC)** reflected concerns about excess inventory levels and ongoing headwinds in 2023. We sold Pfizer **(PFE)** on concern about earnings sustainability as the need for Covid-19 vaccines and treatments subsides. Our sale of Corning **(GLW)** primarily reflected a desire to reallocate funds to higher conviction Technology ideas that we believe have better upside potential over the longer-term.

Market Commentary

The fourth quarter of 2022 was a fitting cap on a difficult year. Q4 began in risk-on mode, buoyed by several better-than-feared inflation reports and growing anticipation of an eventual "pivot" toward easier monetary policy at the Fed. Interest rates on both the long- and short-end of the curve fell in anticipation of said pivot, and equities rallied strongly. With the economy proving resilient, a soft landing was once again in discussion. However, a hawkish December FOMC press conference (coupled with the Fed revising their inflation forecast higher and GDP forecast lower) threw cold water on the market's attempt at a Santa Claus rally. **Breaking things down, Value outperformed Growth (again), Large- and Mid-cap outperformed Small-cap shares, and International equities rallied on the back of a ~8% decline in the U.S. dollar.**

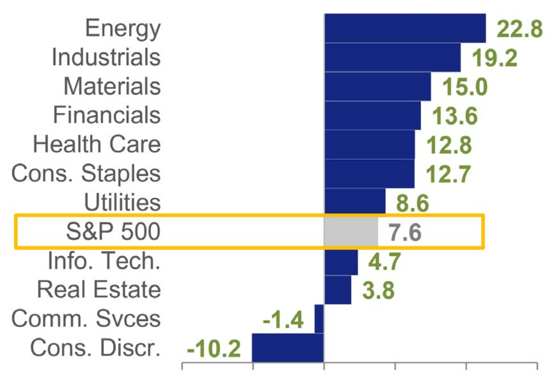
And while there is plenty to be optimistic about on the inflation front, the Fed's insistence that the labor market must soften before they can achieve their 2% inflation target could weigh on markets in 2023. The unemployment rate is still sub-4.0%, there are over 10 million job openings in the U.S. (with far fewer people than that seeking jobs), and wage growth remains north of 4%. Barring a significant jump in productivity, the Fed will want to see the labor market weaken. Until then, they may remain more hawkish than equity investors would like. As of their most recent meeting, they plan to take interest rates above 5% and hold them there until 2024. Even though the pace of hikes has slowed, higher rates will raise the cost of capital, and sticky inflation could keep the Fed from cutting even if the economy slows.

From here, a significant focus will shift to corporate profitability. As our partners at Strategas write, "Although earnings appear to have grown by roughly 5.5% last year, the increase in inflation and concomitant rise in long-term interest rates led to a significant re-rating of stocks. Given the prospects of a recession in 2023, growth in earnings would appear to be a longshot." Rarely, if ever, has there been an economic recession not associated with a contraction in corporate earnings. Strategas puts a 50% chance on a recession in 2023, and a 75% chance that the U.S. enters one in the next two years. While valuations will vacillate with rates, earnings may sit in the driver's seat from here.

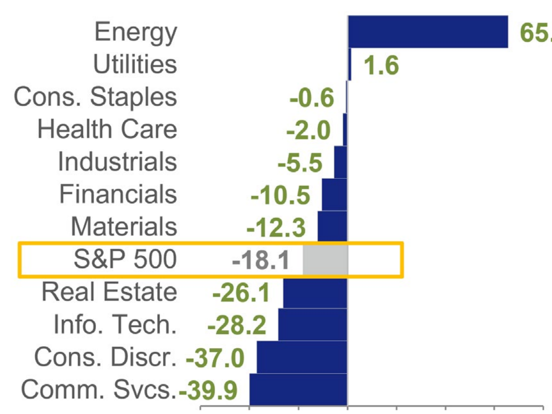
With this in mind, we believe a slowing economy coupled with still-elevated input costs will put a premium on profit margin protection and expansion in 2023. This favors higher quality operators, and, given the rising cost of capital, firms that generate enough free cash flow to fund operations. As rates spike, companies with high debt loads will be forced to spend more in service of that debt at a time when the economy could be slowing.

Market volatility could persist through the first half of the year as investors grapple with this new paradigm, but we believe our strategy is well suited for this environment. We'll remain opportunistic amid the volatility and will continue to focus on prudent management and high-quality firms.

S&P 500 Sector Performance in Q4



S&P 500 Sector Performance in 2022



Sector Breakdown: Energy ended 2022 at the top of the heap. Consumer Discretionary, Communication Services, and Information Technology remained near the bottom as fears of an economic slowdown in 2023 ramped up into the end of December.

Date: 12/31/22

BAIRD'S RECOMMENDED PORTFOLIO

Ticker	Company Name	Portfolio %	S&P %	Purchase Date	Purchase Price ($)	12/31/22 Price ($)	% 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		*3.3%*	*7.3%*												
GOOG	**Alphabet Inc. Class C**	3.3%		Multiple	21.93	88.73	304.6	152.10	83.45	1,189,047	8.2	10.0	17.7	9.0	0.0
Consumer Discretionary		*12.2%*	*9.8%*												
AMZN	**Amazon.com, Inc.**	1.4%		Multiple	37.16	84.00	126.0	170.83	81.43	970,075	10.2	-5156.7	51.8	11.8	0.0
BBWI	**Bath & Body Works, Inc.**	1.2%		12/1/21	75.13	42.14	-43.9	62.26	25.75	10,640	3.2	12.8	12.9	8.7	1.7
CMG	**Chipotle Mexican Grill**	1.5%		Multiple	1533.39	1387.49	-9.5	1754.56	1196.28	41,005	13.5	28.2	34.2	21.5	0.0
HD	**Home Depot, Inc.**	1.6%		Multiple	88.64	315.86	256.3	394.31	264.51	335,312	1.3	2.0	19.4	13.9	2.3
LULU	**Lululemon Athletica Inc**	1.7%		8/16/22	330.34	320.38	-3.0	410.70	251.51	41,430	14.8	15.2	27.6	17.1	0.0
MCD	**McDonald's Corporation**	1.9%		Multiple	252.44	263.53	4.4	281.67	217.68	196,883	2.8	5.7	25.5	18.0	2.3
TSCO	**Tractor Supply Company**	2.9%		Multiple	230.81	224.97	-2.5	241.54	166.49	24,479	7.3	8.9	21.1	13.5	1.7
Consumer Staples		*6.0%*	*7.2%*												
KO	**Coca-Cola Company**	2.4%		Multiple	62.66	63.61	1.5	67.20	54.01	268,163	3.0	2.0	24.4	20.9	2.8
COST	**Costco Wholesale Corp.**	2.1%		Multiple	53.63	456.50	751.2	612.27	406.51	214,902	6.9	10.0	32.4	18.7	0.7
DEO	**Diageo plc Spon ADR**	1.5%		Multiple	203.02	178.19	-12.2	212.33	160.09	100,860	7.4	14.9	20.8	15.9	2.0
Energy		*6.1%*	*5.2%*												
EOG	**EOG Resources, Inc.**	2.0%		Multiple	93.20	129.52	39.0	150.88	92.16	74,510	-0.3	2.3	8.7	4.6	2.6
XOM	**Exxon Mobil Corporation**	1.7%		9/19/22	94.83	110.30	16.3	114.66	69.81	458,654	-6.6	-20.7	10.2	5.2	3.3
PXD	**Pioneer Natural Resources**	2.4%		Multiple	117.44	228.39	94.5	288.46	194.54	55,028	-4.8	-18.2	9.1	5.3	11.3
Financials		*12.5%*	*11.7%*												
BAC	**Bank of America Corp**	2.1%		Multiple	29.35	33.12	12.8	50.11	29.31	275,811	8.5	15.1	9.5	nmf	2.6
BLK	**BlackRock, Inc.**	2.2%		Multiple	206.84	708.63	242.6	899.97	503.12	113,536	3.3	1.3	21.8	14.7	2.6
CB	**Chubb Limited**	1.8%		Multiple	169.02	220.60	30.5	230.27	173.78	93,224	7.6	16.3	12.4	10.5	1.5
JPM	**JPMorgan Chase & Co.**	2.4%		Multiple	36.32	134.10	269.2	169.81	101.28	409,563	9.7	11.2	10.8	nmf	2.9
MET	**MetLife, Inc.**	2.4%		Multiple	67.06	72.37	7.9	77.36	57.41	56,154	-8.5	16.9	8.6	6.4	2.8
SPGI	**S&P Global, Inc.**	1.6%		Multiple	410.58	334.94	-18.4	450.59	279.32	118,607	5.6	12.8	28.9	21.8	0.9
Healthcare		*17.1%*	*15.8%*												
ABC	**AmerisourceBergen Corp.**	1.8%		3/16/22	151.39	165.71	9.5	174.63	127.94	34,016	5.5	5.9	14.0	9.1	1.2
DHR	**Danaher Corporation**	2.5%		Multiple	80.56	265.42	229.5	308.34	233.71	199,323	-0.6	-1.3	26.3	19.4	0.4
HCA	**HCA Healthcare Inc**	1.7%		Multiple	211.50	239.96	13.5	279.02	164.47	71,335	4.2	7.0	13.8	8.8	0.9
HUM	**Humana Inc.**	1.4%		9/19/22	497.24	512.19	3.0	571.30	363.73	62,414	9.0	11.8	17.5	11.8	0.6
ILMN	**Illumina, Inc.**	1.5%		12/16/22	207.46	202.20	-2.5	428.00	173.45	32,097	9.4	15.6	73.6	41.0	0.0
MRK	**Merck & Co., Inc.**	3.5%		Multiple	87.88	110.95	26.3	115.49	72.88	281,606	-1.8	1.7	14.8	11.6	2.6
TMO	**Thermo Fisher Scientific**	2.1%		Multiple	111.14	550.69	395.5	631.89	475.77	228,477	0.2	0.8	25.1	20.7	0.2
UNH	**UnitedHealth Group**	2.6%		Multiple	531.35	530.18	-0.2	558.10	445.73	461,008	10.1	13.2	19.7	13.3	1.3
Industrials		*7.6%*	*8.7%*												
CPRT	**Copart, Inc.**	2.0%		Multiple	59.37	60.89	2.6	70.87	51.10	29,702	7.3	5.7	26.2	16.4	0.0
LUV	**Southwest Airlines Co.**	1.9%		Multiple	40.51	33.67	-16.9	50.10	30.20	21,357	13.0	88.4	11.5	4.6	2.0
RTX	**Raytheon Technologies**	2.2%		Multiple	94.03	100.92	7.3	106.02	80.27	146,403	7.8	6.3	19.7	13.9	2.2
UNP	**Union Pacific Corporation**	1.5%		Multiple	192.27	207.07	7.7	278.94	183.70	131,727	1.7	3.4	18.1	12.8	2.4
Information Technology		*24.1%*	*25.7%*												
APH	**Amphenol Corporation**	1.8%		11/17/21	84.98	76.14	-10.4	83.58	61.67	48,012	2.4	3.1	26.3	16.3	1.0
AAPL	**Apple Inc.**	4.7%		Multiple	3.72	129.93	3392.7	179.61	124.17	2,123,575	3.5	3.5	21.0	15.8	0.7
INTU	**Intuit Inc.**	1.9%		Multiple	407.15	389.22	-4.4	589.57	339.36	111,053	11.3	14.6	27.2	19.0	0.8
LRCX	**Lam Research Corp.**	1.9%		Multiple	485.96	420.30	-13.5	730.75	299.59	63,321	-6.4	-9.0	15.0	12.1	1.5
MA	**Mastercard Inc. Cl A**	2.4%		Multiple	16.75	347.73	1976.0	399.92	276.87	363,297	12.4	15.1	31.0	23.8	0.6
MSFT	**Microsoft Corporation**	5.4%		Multiple	92.66	239.82	158.8	323.41	213.43	1,757,541	10.4	10.8	22.6	15.1	1.2
NVDA	**NVIDIA Corporation**	2.3%		Multiple	65.90	146.14	121.8	289.46	108.13	393,625	8.5	28.6	37.4	27.9	0.1
PAYX	**Paychex, Inc.**	2.1%		Multiple	120.06	115.56	-3.7	141.92	105.66	43,141	6.9	9.1	27.0	18.1	2.6
NOW	**ServiceNow, Inc.**	1.6%		Multiple	588.09	388.27	-34.0	621.41	337.00	79,701	21.6	23.7	43.0	26.1	0.0
Materials		*0.0%*	*2.7%*												
Real Estate		*3.4%*	*2.7%*												
AMT	**American Tower Corp.**	1.9%		Multiple	235.46	211.86	-10.0	282.47	178.17	106,214	3.9	-25.4	49.3	20.7	2.6
VICI	**VICI Properties Inc**	1.5%		9/19/22	33.30	32.40	-2.7	35.69	26.23	32,302	23.9	73.7	14.0	16.9	4.7
Utilities		*2.5%*	*3.2%*												
PNW	**Pinnacle West Capital Corp.**	2.5%		Multiple	70.50	76.04	7.9	80.60	59.03	8,651	3.3	-2.0	18.3	11.3	4.5
Cash		*5.3%*													

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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Investment Recommendations: The goal of Baird's Recommended Portfolio is to focus on high-quality companies with strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. The Portfolio is derived using a top-down approach starting with the macroeconomic and market outlooks, and industry sector weightings are taken into account. The Recommended Portfolio is intended as a long-term investment strategy.

There are no guarantees that any of the recommended stocks' share prices will increase and there is risk in any investment, including the potential for loss of principal. The securities discussed in the *Recent Portfolio Changes* section do not necessarily represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.

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