

Baird Trust – Large Cap Equity SMA

Q2 2024 Portfolio Recap

The S&P 500 index continued its march higher in Q2 with a 4.3% increase while our **Large Cap Equity (LCE)** strategy trailed, increasing **1.1%** gross of fees (**0.8%** net of all fees). On a year-to-date basis **LCE** advanced **14.6%** (**13.8%** net) compared to a 15.3% gain for the index. We are thrilled with the strength of absolute gain generated in **LCE** accounts over the first 6 months of the year as it adds to our long-term goal of compounding your assets at attractive rates over very long periods of time. In performance measurement, we believe the longer the period of time, the more informative the numbers.

	Qtr 2	YTD	1	3	5	10	15	20	25	30
			Year	Years	Years	Years	Years	Years	Years	Years
LCE SMA – Gross	1.1%	14.6%	25.6%	10.6%	16.4%	14.3%	16.3%	11.3%	9.9%	12.7%
LCE SMA – Net 0.35% Fee	1.0%	14.4%	25.1%	10.2%	16.0%	13.9%	15.9%	10.9%	9.6%	12.3%
LCE SMA – Net All Client Fees*	0.8%	13.8%	23.9%	9.1%	14.9%	12.8%	14.8%	9.7%	8.1%	10.6%
S&P 500 Index	4.3%	15.3%	24.6%	10.0%	15.1%	12.9%	14.8%	10.3%	7.7%	10.8%

*Since October 1, 2005, net returns based on actual client fees. Prior to October 1, 2005, the highest advertised fee rate of 2.75% is used to calculate net returns. Please see full performance disclosure, which includes important information regarding the effect of fees. The 0.35% fee represents investment management fees charged by Baird Trust which are included in the “Net All Client Fees”.

Q2 Leaders and Laggards

From a sector perspective, Information Technology and Consumer Discretionary were areas of underperformance. No sectors produced meaningful outperformance.

The largest individual contributors were **Apple**, **Alphabet**, **GE Aerospace**, **GE Vernova**, and **Microsoft**. The largest detractors from performance were **Fastenal**, **Disney**, **Home Depot**, **Parker Hannifin**, and **O’Reilly Automotive**. The stocks producing the largest percentage gains were **Apple** (23%), **Alphabet** (21%), **GE Vernova** (20%), and **GE Aerospace** (14%). The largest percentage decliners were **Disney** (-19%), **Fastenal** (-18%), **CarMax** (-16%), and **US Bancorp** (-10%).

YTD Leaders and Laggards

For the year-to-date period, Financials and Industrials were the strongest sectors for **LCE**, while the largest detractor by a wide margin was Information Technology.

The largest individual contributors were **GE Aerospace**, **Progressive**, **Alphabet**, **Microsoft**, and **JP Morgan Chase**. The largest detractors were **Johnson and Johnson**, **Union Pacific**, **US Bancorp**, **Pfizer**, and **Fastenal**. The largest percentage gainers were **GE Aerospace** (56%), **Meta Platforms** (43%),

Progressive (31%), **Alphabet** (30%), and **Wells Fargo** (22%). The largest percentage decliners were **Union Pacific** (-7%), **US Bancorp** (-6%), **Johnson and Johnson** (-5%), **Pfizer** (-5%), and **CarMax** (-5%).

Portfolio Composition and Activity

We ended the quarter with 26 holdings in the **LCE** portfolio. The five largest were **Microsoft**, **Progressive**, **Alphabet**, **JP Morgan Chase**, and **Berkshire Hathaway**. These companies make up 34% of the value of the portfolio, while the top ten comprise 59%.

LCE’s sector weightings at quarter end were Financials (29%), Industrials (18%), Information Technology (18%), Communications Services (15%), Consumer Discretionary (14%), and Healthcare (3%). There were no holdings in Consumer Staples, Energy, Utilities, Materials, or Real Estate.

There were two changes to the portfolio in Q2. The first was the sale of all our **Pfizer (PFE)** shares and adding the proceeds to our holding in **GE Vernova (GEV)**. The rationale for this transaction was discussed on our Q1 Portfolio Recap.

The second change was a trim of 1% from our **Progressive (PGR)** holding and adding the proceeds to our position in **CarMax (KMX)**. Due to its recent strong performance, **PGR** exceeded our 8% maximum position size for a single holding, so we trimmed it back under that limit. The company is performing very well and continues on as one of our largest holdings. **KMX** and the entire used car industry have seen substantial business disruptions due to the pandemic and its aftermath. But we believe **KMX** has the best business model in the industry with their end-to-end omnichannel approach that no other competitor can match. As the industry operating environment normalizes in the future, we think **KMX** will thrive and expand its market share meaningfully. We believe the current market price underestimates the substantial recovery potential for **KMX**.

Looking Forward

The divergence between the “haves” and the “have nots” in the stock market became even more pronounced in Q2, driven by continued excitement and hype over the evolution of Artificial Intelligence (AI). There is a gold rush, of sorts, occurring between a relatively small number of large

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companies trying to establish themselves as the singular AI leader. Year-to-date the seven largest tech companies (the “Magnificent Seven”) accounted for over 60% of the total return of the S&P 500. This narrow group of stocks are driving the bulk of market returns, leaving much of the rest of corporate America in the dust.

We don’t know how long this hype cycle will last – it could be a quarter or two or much longer than that. We feel it is important to zoom out, view recent developments from a longer-term perspective, and try to avoid getting too caught up in the moment. As these exciting AI-related companies garner most of investors’ attention, the relative attractiveness of other outstanding companies outside the information technology industry improves. We are looking for attractive investment opportunities in areas outside of the narrow leadership in today’s stock market. Ultimately, we will remain disciplined in our time-tested investment process by continuing to focus on our critical criteria – business, management, and price. We believe this is the best way for us to generate attractive long-term investment returns for you.

Thank you for your interest and investment in our **Large Cap Equity** strategy. We appreciate the confidence you place in us and look forward to reporting our Q3 results to you in October.

Disclosure

Past performance is not a predictor of future success. Returns referenced include the reinvestment of all income. All investing involves the risk of loss. Investors cannot invest directly in an index. This is not a recommendation to buy or sell any securities mentioned. Rather it is a commentary on the Large Cap Equity portfolio and intended solely for clients invested in the Large Cap Equity portfolio. Different Baird Trust strategies may have different investment objectives which may result in different holdings. Baird Trust does not provide tax advice. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. This strategy may not be appropriate for all investors. Consult your Baird financial advisor to determine the right investment strategy for your personal situation.

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Large Cap Equity SMA Composite – Annual Disclosure Presentation

Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance			3 Year Annualized Std Dev		Composite Dispersion
		U.S. Dollars (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500	Composite	S&P 500	
2023	21,710	716	1,849	24.85%	23.22%	26.29%	17.06%	17.54%	0.16%
2022	17,590	461	1,361	-16.06%	-17.18%	-18.11%	21.49%	21.16%	0.12%
2021	18,602	471	1,147	33.19%	31.50%	28.71%	18.31%	17.41%	0.20%
2020	16,022	293	870	18.77%	17.30%	18.40%	19.41%	18.80%	0.23%
2019	13,622	220	749	33.34%	31.62%	31.49%	12.63%	12.10%	0.26%
2018	10,471	146	617	-1.58%	-2.86%	-4.38%	11.47%	10.96%	0.08%
2017	10,654	144	576	18.86%	17.11%	21.83%	10.55%	10.07%	0.12%
2016	8,161	110	488	11.66%	10.20%	11.96%	11.26%	10.74%	0.06%
2015	6,895	32	152	4.04%	2.67%	1.38%	10.99%	10.62%	0.05%
2014	5,055	20	20	15.30%	14.01%	13.69%	9.94%	9.10%	0.14%

Compliance & Verification - The Large Cap Equity SMA Composite was created October 1, 2005. Prior to October 1, 2005 performance represents that of the Large Cap Equity Composite. The minimum account size for the Large Cap Equity Composite was \$2 million. A performance certification of this composite has been conducted by Ashland Partners and Company, LLP for the period of October 1, 2005 through June 30, 2016 and by ACA Performance Services, LLC for the period of July 1, 2016 through December 31, 2023.

The Firm - Baird Trust Company (“Baird Trust”) is owned by Baird Financial Corporation (“BFC”) and is affiliated with Robert W. Baird & Co. Incorporated (“Baird”) an SEC-registered broker-dealer and investment adviser, and other operating businesses owned by BFC, including Baird Capital, Strategas Securities, LLC and Strategas Asset Management, LLC. Prior to September 30, 2021, Baird Trust was known as Hilliard Lyons Trust Company, LLC (“HLTC”). Baird Trust dates its history back to its first Kentucky trust charter in 1984. In 1998 The PNC Financial Services Group, Inc. acquired Baird Trust (then known as Hilliard Lyons Trust Company) and its affiliate J.J. B. Hilliard, W.L. Lyons, Inc. (“Hilliard Lyons”). HLTC was merged into PNC Bank, NA, but continued to operate as a separate division known as “Hilliard Lyons Asset Management” or “HLAM.” In August 2007, Hilliard Lyons Capital Management, LLC (“HLCM”) was formed to provide institutional money management as a registered investment advisor and to house the investment manufacturing capabilities of HLAM. HLCM began operations in March 2008. In March 2008, PNC sold Hilliard Lyons, HLCM and a newly formed HLTC (which continued the trust business of HLAM) to HL Financial Services, LLC (“HLFS”), which was owned by Houchens Industries, employees of Hilliard Lyons and HLTC and a limited number of outside investors. On April 8, 2011, HLCM closed and certain assets were transferred to HLTC. On April 1, 2019, BFC acquired HLFS and on October 19, 2019, Hilliard Lyons merged into Baird. On September 30, 2021, HLTC changed its name to Baird Trust Company and reorganized as a corporation rather than a limited liability company.

The Composite - The Baird Trust Large Cap Equity strategy focuses on investing in companies with sustainable competitive advantages and compelling valuations with the perspective of a long-term business owner. The strategy invests in a fairly concentrated portfolio of large cap equity securities. Holding fewer securities than some other strategies may increase risk and volatility because each investment has a greater effect on the overall performance. This strategy is intended for clients seeking investment in large cap companies as one part of their overall asset allocation. This strategy is generally not intended to be a complete investment program. The Large Cap Equity SMA Composite contains fully discretionary tax-exempt Large Cap Equity separately managed accounts. Prior to January 1, 2015 the composite contained both taxable and tax-exempt clients. For comparison purposes the composite is measured against the S&P 500 Index. The minimum account size for this composite is \$100,000.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of fees and include the reinvestment of all income. Beginning October 1, 2005 wrap fee accounts make up 100% of the composite. For this period forward, gross returns are shown as supplemental information and are stated gross of all fees and transaction costs. Net returns are reduced by all fees and transaction costs incurred. Prior to October 1, 2005 net results have been reduced by the highest annual wrap fee of 2.75%. Accounts in the composite pay an all-inclusive wrap fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Since December 31, 2020, less than 1% of the accounts in the composite are non-fee-paying. To calculate net of fee performance, the highest advertised fee rate of 3% was applied to the single non-fee-paying account.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. For periods August 2007 through April 8, 2011 Hilliard Lyons Capital Management, LLC was used as a sub-advisor for implementing the Large Cap Equity strategy. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of account value. Prior to January 1, 2010 a significant cash flow was defined as 5% of composite assets.

Additional Information - Past performance is not indicative of future results.