Brown ADVISORY
Thoughtful Investing.

2021 IMPACT REPORT

GLOBAL LEADERS STRATEGY

LETTER OF INTRODUCTION FROM THE PORTFOLIO MANAGERS

Our 2021 report combines our thinking across many ESG topics alongside articles on low carbon investing and how looking after one's customer is tied to ESG. We provide updates on our progress around adoption by portfolio companies of the Science-Based Target initiative (SBTi), our growing team, engagement, proxy voting where we take a different view to proxy advisory firms as well as sustainability incorporating durability, persistence and environmental balance. We, the Global Leaders portfolio managers, are long-term investors with our capital at stake alongside yours hence we aim to limit all risks, both ESG and fundamental, whilst investing behind attractive opportunities.

A shareholder-only focus works in theory but underlying this is a critical yet overlooked assumption of harmonious balance in the company's ecosystem due to the theoretical infinite life of a corporation. In other words, we believe that management ought to look after all stakeholders to be a shareholder focused company in the long-run. It is an interesting theory but myopic management too often get in the way. The median tenure of S&P 500® Index corporation CEOs in 2020 was only 4.4 years; shortcuts creep in.[1] For these managers it can be all too tempting to take advantage of one or more of the constituents (customer, employee, supplier, community, environment, government etc.) to get those stock options to vest quickly rather than think beyond their tenure. It is our responsibility as fractional business owners that guides us to investing in companies that benefit all stakeholders – the virtuous circle of capitalism. We believe that our vision of "stakeholder" capitalism is just common sense. A healthy ecosystem should create value for all participants in the long run or else it won't survive. We believe that ESG risk and opportunity are tied at the hip to business risk and opportunity. As long-term investors we must think holistically.

Our thinking on every company always starts with the customer—the most important constituent in any ecosystem for without them the whole system is irrelevant. The best businesses we analyse help their customer to achieve their goals. By solving a customer's problem—typically in a unique way—they create value for the whole ecosystem. We use our proprietary research framework to identify a Sustainable Business Advantage (SBA) driver which often underpins this great outcome. As with prior year reports we discuss our SBA driver framework in detail later.

All our companies undergo our proprietary Sustainable Opportunity research looking for SBA drivers and an ESG Risk Assessment. We typically detail the current status of SBTI verified targets and where lacking we have engaged and encouraged our companies to adopt targets and to get them verified. We are seeing progress towards published targets across the portfolio, including those that are SBTi backed. We are a naturally carbon-light strategy, with minimal scope 1 and 2 carbon emissions. We believe that climate change is one of the biggest issues humanity faces - yet approximately 80% of the world's energy still comes from fossil fuel sources today. As we think about our children's future we need to speed the pace of energy transition. Many before us have pointed out that a large portion of fossil fuel supply comes from regions with a tilt to autocratic governments—this brings other obvious ESG risks. We provide analysis on our carbon status in this report ("Science-Based Targets Adoption, A New Standard for Climate Target Measurement").

We spend a lot of time understanding what is driving management and don't partner up lightly. Hence when it comes to proxy voting we tend to back management, although not always and never without a questioning dialogue. We discuss our thinking on proxy voting analysis later in this report. One voice we are increasingly pondering is to abstain. We find founder and family owned businesses to be some of the most aligned with our investment horizon and willing to make short-term sacrifices for long-term gain – the opposite of the average gun-for-hire CEO. Last year we noted our votes against ISS recommendations on multi-generational family owned business at Schindler. You cannot put a price on five generations of family pride, longevity and planning to the horizon beyond the next generation. We give another example of 149 years of family involvement at Atlas Copco in this report.

During 2021 we worked with the Forum Nachhaltige Geldanlagen (FNG) in Germany to benchmark our quality and sustainability standards. The FNG's goal is to improve the transparency of sustainable finance products and the standards are audited by the University of Hamburg. We were awarded the second highest rating of the FNG-Label for the Global Leaders Sustainable (GLS) UCITS Fund. The FNG-Label standards are well beyond the self-declared Sustainable Finance Disclosure Regulation (SFDR) categorisation and

[1]Source: The Conference Board

provide an independent external benchmark verifying our SFDR Article 8 status. The label was awarded specifically to the GLS UCITS Fund (as opposed to the broader Global Leaders strategy); despite marginal differences in portfolio holdings (as a result of adding negative screens), the two portfolios had 97% overlap in holdings as of Dec. 31, 2021, and as such we think about them as one.

Our motto "Thoughtful Investing" is never more important than when incorporating ESG and Brown Advisory's commitment to the Net Zero Asset Managers (NZAM) initiative in 2021 is another important step in considering our responsibilities to our investors. We are fundamental, bottom-up, long-term investors that are meaningfully invested in the strategy. We aim to deliver attractive investment returns starting at the top with the customer value created by our investee companies resulting in the win-win of a harmonious sustainable ecosystem. ESG and fundamental analysis may be distinguishable to many but to us they are inseparable.

Thanks for reading and we hope that you enjoy our report.

Mick, Bertie and the Global Leaders Team

TABLE OF CONTENTS

Growing the team

We believe our people are our most valuable assets and at the end of 2021 the Global Leaders Working Group counted nine research analysts, including one dedicated ESG analyst, three portfolio managers and an investment director. In Q3 2021, we launched a new strategy, *Sustainable International Leaders,* managed by long-term team member Priyanka Agnihotri who joined Brown Advisory in 2015. Any new team member or new strategy allows us to grow as a team and to challenge ourselves as investors. In that context we are also excited to have a new global sustainable fixed income team who joined Brown Advisory in 2021, some of whom sit with us in London. We can benefit from their perspective particularly when it comes to the bottom-up ESG issuer research done by our new colleagues, and we enjoy collaborating on our research.

2nd row left: Mick Dillon – Portfolio Manager, 2nd row right: Lara Wigan –Equity ESG Research (new hire 2021), first row left: Priyanka Agnihotri – Portfolio Manager, first row middle: Bertie Thomson – Portfolio Manager, first row right: Susanne Reisch, Investment Director (new hire 2021)

As long-term, fundamental investors, we see ourselves as business owners and as such we seek to limit our investor's exposure to ALL risk that can affect their investment. With a long-term investment horizon, externalities to a business, such as excessive use of natural resources or unfair treatment of workers, can become internalized quite quickly and can severely limit an investment's compounding ability.

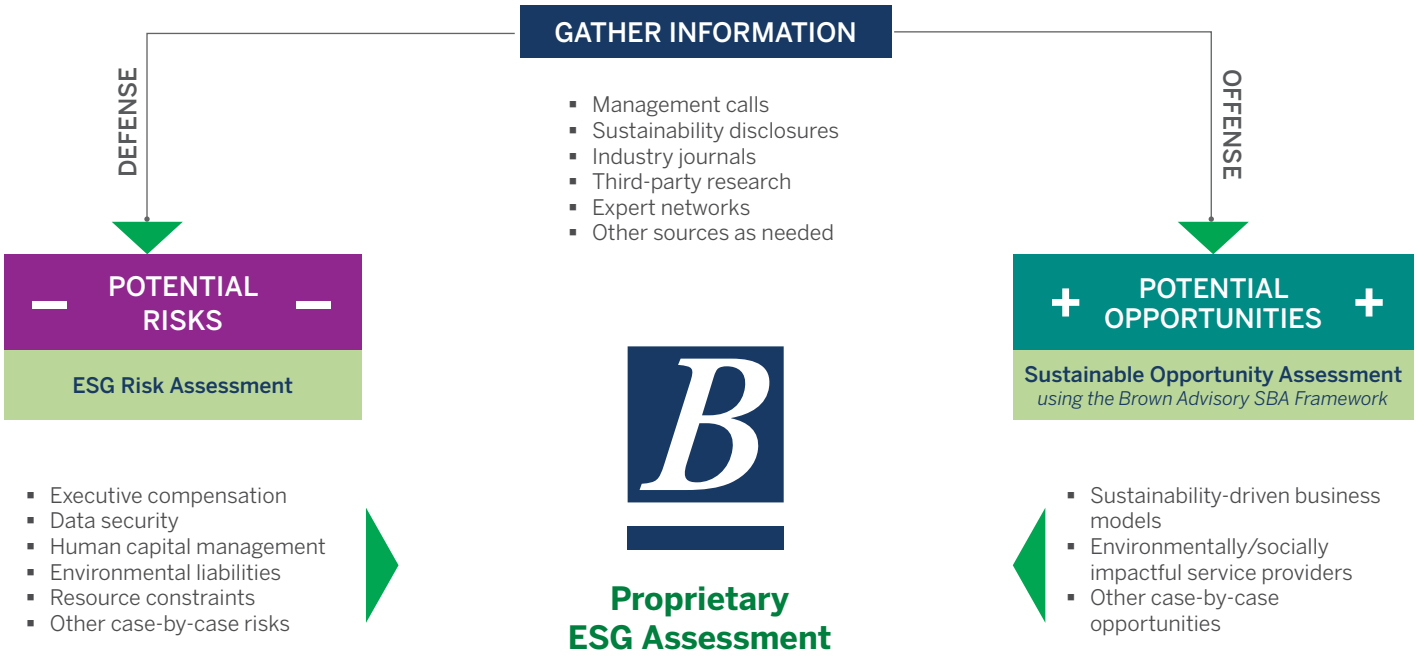
In the worst case, it can go beyond a negative impact on a company's financials and harm the community a company operates in. It is this understanding of our responsibilities as fractional business owners that guides us in investing our client's capital in companies that benefit all stakeholders in their value chains – the virtuous circle of capitalism. We therefore don't believe that ESG opportunity and risk can be separated from business opportunity and risk.

OUR ESG RESEARCH APPROACH

Our ESG research team conducts deep due diligence which relies predominantly on primary research, in an effort to understand the sustainable risks and opportunities associated with any given investment. The process culminates in formal assessments that are leveraged for portfolio decisions as well as engagement dialogue. ESG analysis, like everything else in investment, is subjective—there is no substitute for doing your own work.

Within our research of potential opportunities we look for companies with Sustainable Business Advantage drivers ("SBA" drivers) that help drive material free cash flow generation for customers and meaningful differentiation vs. peers. Specifically, we look for SBA drivers that can potentially improve a company's performance over time by (1) growing revenues faster than peers, (2) reducing cost and hence improve margin structure, and (3) enhancing franchise value (such as brand strength or customer loyalty).

Complementary to the Sustainable Opportunities Assessment the goal of the ESG Risk Assessment is to uncover any undesired risks associated with the company that might not be revealed by a traditional investment research approach. For a complete ESG Risk Assessment, the ESG research analysts develop a proprietary view on a broad set of potentially material ESG risks and document any ESG controversies associated with the company. We are mindful of the way companies may be playing offense through our investigation of their potential SBA drivers, and how they are playing defense through our assessment of their ESG risk management.



COLLABORATIVE COMPANY ENGAGEMENT

Engaging* companies is a meaningful part of our ongoing investment management process. We pursue ***private dialogue*** with management teams and other stakeholders to ***inform our research*** and ***share our perspective***. In the past, companies have sought our perspective and, at times, have proactively collaborated with us on key ESG considerations.

*We do not engage with every issuer. We engage only when we believe engagement will be material to our investment decision making.

SCIENCE-BASED TARGETS ADOPTION, A NEW STANDARD FOR CLIMATE TARGET MEASUREMENT

A low-carbon footprint or adopting SBTi targets is important but not enough. We want to fully understand a company's decarbonization strategy and how it connects to our research on Sustainable Business Advantage drivers.

Lara Wigan
ESG Equity Research Analyst

Many portfolio companies we invest in are actively engaged in solving environmental challenges, for example making low-power computer chips, helping customers design energy efficient buildings, delivering tangible savings on energy and water, and more. It is however not only our exposure to environmental risks and opportunities in the strategy that keeps us alert, climate change is now a core responsibility for companies and we seek to see fiduciary duties adopted accordingly. Further, with consumers increasingly demanding and needing solutions to reduce energy, water and natural resource consumption we understand the importance of sustainability as a core strategy for company management. Hence, we view sustainable business strategies—whether they drive the company's revenue, help it cut costs, or gain market share from competitors—as positive drivers of company performance.

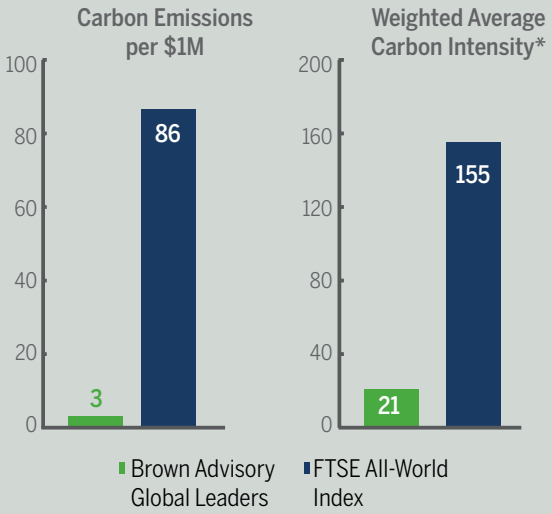
From a research perspective we put significant emphasis on understanding the strategy's carbon footprint, and seek out companies with long-term environmental targets that broadly align with the Science-Based Targets initiative. The current snapshot of the strategy's climate metrics can be found below.

The Science-Based Targets initiative (SBTi) is a broad, collaborative effort to improve corporate carbon strategies by emphasizing actual reductions vs. offsets and by aligning corporate targets with the broader global Paris Agreement goals. The chart on the right below measures our portfolio companies' progress within this initiative.

Note that the SBTi itself is evolving alongside the climate change crisis; in the past year, it began asking companies to consider more aggressive reductions in the hope of further restraining long-term global warming. Companies in this portfolio that have not set carbon targets are largely low-emission businesses by their nature, but we nonetheless seek to engage with all companies to understand their decarbonization strategies and to seek improved transparency and disclosure.

CARBON EMISSIONS DATA

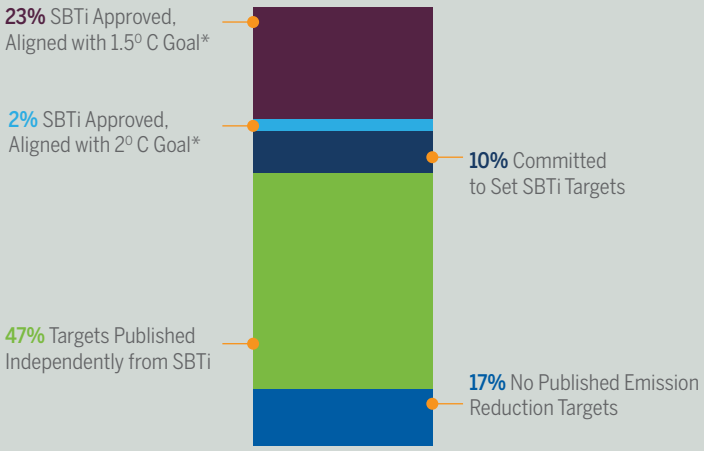
Global Leaders Holdings as of Dec. 31. 2021



Source: MSCI ESG Manager. *Tons CO e/$M revenue of portfolio holdings, adjusted based on relative weighting of each holding. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the end of the report for a GIPS compliant presentation. Please see the end of this report for a complete list of term and index definitions.

SCIENCE-BASED TARGETS INITIATIVE PROGRESS

Global Leaders Holdings as of Dec. 31, 2021



Source: MSCI ESG Manager. Data reflects portfolio holdings as of Dec. 31, 2021. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the end of the report for a GIPS compliant presentation.

Standards such as SBTi provide us with confidence in the robustness of targets which can often be difficult to grasp, given the historic lack of adoption and disclosure. With the rapid pace of adoption of climate targets over the past several years, we expect SBTi adoption to become a standard across the industry, particularly within certain high emitting industries. It is therefore our responsibility as investors to evaluate the success or failure of these strategies and the future implications for the companies.

In our previous impact reports we have written about the challenges with third party data and the incompleteness of datasets. We have made the same experience with data on climate targets and SBTi alignment. An example being Bank Rakyat, the leading Indonesian microlender and, in our view, the company with the strongest positive social impact in our portfolio. While external sources reported no data for this company our primary research revealed that the company is currently developing an ESG roadmap and aims to establish a net zero target strategy to be implemented in 2022, and with alignment to the SBTi by 2023.

"Determining whether a company or portfolio of companies is Paris aligned is not straightforward, since it goes beyond analysing carbon intensity and relies on a predictive nature of the analyses and the lack of reliable data on which to make those predictions. We believe that one important means to identify a company's ambition related to these targets is engagement. Our team has set climate change to be one of our engagement priorities, and one of the topics that we frequently bring up with companies is whether they have plans to set verified science-based emissions targets in line with the 1.5 degree scenario."

–Bertie Thomson, Co-Portfolio Manager

ENVIRONMENTAL CASE STUDY: PT BANK RAKYAT INDONESIA

SECTOR: Financials

ISSUE: Environmental Strategy

Description

Bank Rakyat (BRI) leads the market in serving Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, thus playing a key economic role for underserved populations.

Environmental profile

From the environmental perspective, we believe the company is making significant progress by disclosing environmental data and committing to setting targets. The company mitigates its risk exposure to the palm oil segment by requiring its requisite lenders to receive either ISPO or RSPO certification, and we have seen exposure reducing year on year within the lending mix. While this is a positive indication, we are still looking for Bank Rakyat to shift to make RSPO the sole standard, as RSPO is internationally recognized and has stricter standards.

Bank Rakyat is increasingly active in green banking. It applies green principles to loans to the agricultural sector and back in 2019, it issued a US$500 million bond, the first of its kind for an Indonesian financial institution or state-owned lender, with proceeds earmarked for projects with positive environmental and social impact. A healthy portion of Bank Rakyat's loan portfolio funds renewable energy, sustainable transportation and other environmentally positive projects.

In terms of its SBTi alignment the company aims to establish a net zero target strategy to be implemented in 2022, with alignment to SBTi by 2023.

Source: Brown Advisory research, Bank Rakyat. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the last page of the report for a GIPS compliant presentation.

SUPERIOR CUSTOMER OUTCOMES, TYING QUALITY AND ESG TO SHAREHOLDER RETURNS

Thinking holistically about quality incorporates not only a customer's point of view but also impacts into society and the environment.

Susanne Reisch, CFA, CAIA
Global Leaders
Investment Director

Since the launch of the Global Leaders strategy seven years ago, there has been special focus on how a business treats its customers. Ultimately, we believe the customer is the most important entity for a business: without a customer there is no business. When analysing business models, we seek to go beyond understanding if a business is able to sell a product or service at a higher price than its cost. What we want to see is that they deliver something special to their customers. In addition to creating loyalty and fostering repeated business, solving a customer's problem better than competitors cultivates a customer's willingness to pay up for the perceived value they are receiving. We believe this loyalty translates into higher profitability and pricing power—both powerful tools for compounding.

Identifying superior customer outcomes requires rigorous due diligence and deep knowledge of every business in which we invest. This requires the curiosity and hard work of the collaborative team of ESG, fundamental and investigative analysts that support us. We believe that ESG research can help uncover competitive differentiation that leads to material value creation for the companies we invest in. It is therefore not surprising to us that superior customer outcome and ESG driven competitive advantages are not only two very much interlinked ways of describing a high quality business model but that the superior customer outcome of our holdings is often materially explained by a sustainable opportunity identified by our ESG research team. Two holdings that can exemplify this are Edwards Lifesciences and Wolters Kluwer.

Superior customer outcomes driven by sustainable opportunities:

Edwards Lifesciences

Description: Develops and manufactures technologies that treat structural heart disease

Superior Customer Outcome: Edward's technologies seek to improve the outcomes for those suffering from cardio disease, offering more efficient and effective treatment versus alternatives. Their minimally invasive heart surgery technology typically increases the probability of survival, reduces the length of hospital stays and readmission rates, and provides patients with a significantly higher quality of life post-surgery.

The company aims to expand access for diverse and high-risk patients through its CardioCare Platform which has made a measurable impact with 70% improvement in 3-year survival rates. In addition to their ability to save lives, the thesis is also predicated on the fact that hospitals are highly energy intensive and produce vast amounts of waste, however with transcatheter aortic valve replacement (TAVR) typically they are able to reduce hospital length stays from 14 to 2 days, driving environmental efficiencies.

Wolters Kluwer

Description: Provides software solutions to a variety of sectors including healthcare, legal and finance

Superior Customer Outcome: Wolters Kluwer seeks to help customers optimize business processes to enable better healthcare, solve for complex problems, and build better judicial and regulatory systems. Wolters aims to drive impact in the development of their products with all of their product development spend in 2021 (10% of revenue) meeting their internal impact criteria.

The software solutions and publishing company is also driving the digital transformation, moving from paper to digital solutions wherever possible; in 2021, 92% of total revenues came from digital products and services, which has significantly increased year over year. This transformation can bring significant value to customers and improves overall resource efficiency as well as making customers more productive and efficient within their respective industries.

Source: Brown Advisory research, Edwards Lifesciences and Wolters Kluwer. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the last page of the report for a GIPS compliant presentation.

FINDING AND MEASURING SUPERIOR CUSTOMER OUTCOME

Superior customer outcome is not just a nice side effect for us, it is a core characteristic we seek out in all our investments. We have several ways to identify and measure superior customer outcome as part of the investment process.

1 Collaborative ESG, fundamental and investigative research

Our research team structure allows us to conduct the deep fundamental and primary research needed to obtain direct customer feedback regarding the durability of a seemingly high-quality business. One of the biggest risks to the strategy is misinterpreting the durability of the superior customer outcome, which is why the direct customer feedback is such a valuable element of the research process. We typically interview customers, suppliers, competitors and former employees of the businesses we invest in to understand the value they create for their customers. This research is collaborative across all our research teams – ESG, fundamental and investigative, with investigative often laying the groundwork of what can be multi-year research projects.

One specific but very typical example of such collaborative research is the case of the global design software company Autodesk. We asked our investigative team to deep dive into Autodesk's building information modeling (BIM) opportunity in 2018 and to identify potential catalysts for BIM adoption. The team's primary research led them to speak to BIM users and various experts in the architecture, engineering, and construction spaces, while also attending the Autodesk University user conference. This groundwork and the team's takeaways evolved into ongoing and collaborative research by all teams on this topic, including numerous ESG due diligence calls. BIM helps enable Autodesk's customers to design sustainable buildings and infrastructure by more accurately predicting building performance, reducing construction waste, and improving construction productivity and therefore help customers to better understand their everyday decisions about materials and energy use in the context of their sustainability goals. BIM is only one example of how Autodesk provides a great and sustainability-oriented customer outcome and it shows how we research new and existing business opportunities that can drive material value creation in the strategy.

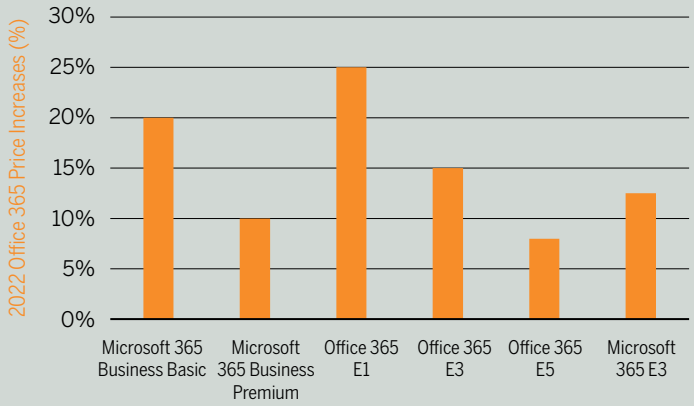
2 Willingness to Pay

When we analyse a business' pricing power we ask ourselves what the customer's willingness to pay is, i.e., the maximum theoretical price a customer would pay for a good or service. This is a method to identify implicit pricing power.

If a customer's willingness to pay increases faster than for competing products or services, a company should have significant optionality in pricing. We believe that high willingness to pay is very potent in protecting long-term high returns and serves as a natural hedge against inflation. A company with a superior customer outcome should be able to pass prices on more easily than its competitors. What is important too is that rather than seeing companies pushing price increases through we want to see the customer surplus increased, which then gives the company the right to share the value creation though an increase in prices. By doing so, it is not extorting value from the customer at the risk of losing their loyalty in the long run.

Microsoft Commercial Office 365 Price Increases in 2022

Microsoft in 2021 announced an average 15% price increase effective March 2022 on its Office 365 Commercial products after having chosen not to increase price for the first 10 years of the product's existence. Over this time period it had 24 application releases including the hugely popular Teams. For us, this news is symbolic of a customer-focused business monetizing its growing consumer surplus, and we expect minimal churn from customers as a result.



Source: Brown Advisory research, Autodesk, Microsoft. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the last page of the report for a GIPS compliant presentation.

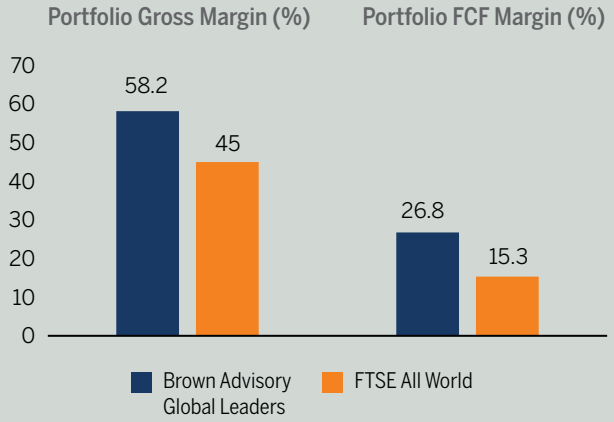
3 Strong margin profiles

Superior customer outcome does show itself in a company's quantitative metrics. A quality company tends to have strong gross margins i.e., low production costs relative to sales revenue and high free-cash- flow margins. This puts it in a favourable situation in an inflationary environment. Looking at an example for the portfolio, for a company like Estee Lauder with a gross margin over 75%, each dollar of direct product cost results in roughly four dollars of revenue. Hence, if input costs increase by 10% on a 25% cost-of-goods sold base then revenue only needs to rise 2.5% to offset this. A $10 increase in costs can be compensated by only a $2.5 price adjustment.

On the capital cost side, a high free-cash-flow margin also offers a margin of safety. Capital costs increase with inflation, as a rise in interest rates on one hand increase the cost of servicing debt or funding working capital but it tends to also lead to increasing maintenance and replacement cost for the current asset base. For capital extensive industries this results in a drag on financial cash flows as lower asset turnover increases overall capital intensity. Quality companies which translate their strong franchise models into high free cash flow can mitigate the risk of value erosion.

Portfolio Operational Metrics

as of Mar. 31, 2022



Source: Factset. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the end of the report for a GIPS compliant presentation.

4 Low customer churn / high Net Promoter Score®

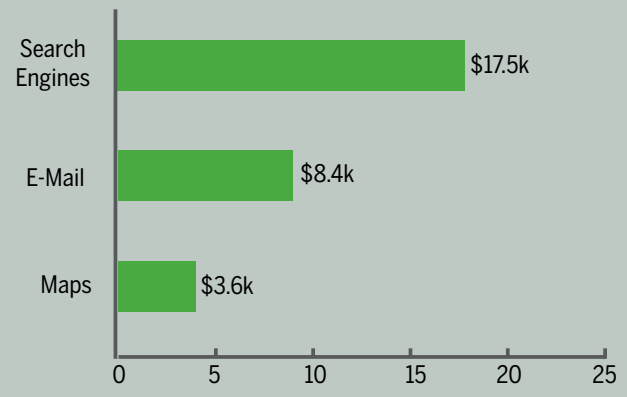
As mentioned, we look at a number of metrics when analysing superior customer outcomes. Customer churn and Net Promoter Score are further examples.

When trying to identify if a customer is happy with the product and service received we incorporate—whenever it is available—the Net Promoter Score, a survey score with strong predictability regarding the likelihood of a consumer recommending a product. On the other hand, customer churn tells us when a customer is that dissatisfied with a product that it leads him to walk away. The lower the churn the higher the value of the product to the overall customer base. For companies that have very valuable product offerings churn is typically low. Looking at a recent working paper (see chart below,) internet services such as search engines, email or maps have such characteristics, which benefits the category leader Alphabet.

CUSTOMER CHURN

In recent research, customers stated what they would be "willing to accept" to forgo usage of core Internet features such as search engines, email or maps. These responses are fairly meaningful when compared to U.S. median annual earnings of $41,000 as of the most recent U.S. census.

Median payment accepted to forgo use of Internet services for a year



Source: "Using Massive Online Choice Experiments to Measure Changes in Well-Being," by Brynjolfsson, Eggers and Gannamaneni, April 2018.

CONCLUSION

Defining a superior customer outcome is not black and white numerically but there are multiple ways we can analyse this and a mosaic reveals itself when looked at from a multitude of different angles. The same is true with ESG research—much about it is subjective and regularly difficult to quantify. This is exactly why we do our own research in-house and use our proprietary framework for identifying Sustainable Business Advantage drivers within a company. Customer outcome is interlinked with SBA drivers and we seek them because we believe this helps us build a clearer picture of which companies have a vibrant ecosystem and thus will thrive in the long-run. Ultimately they both underpin the fundamental economic drivers to deliver superior investment returns.

We regularly engage with many of the companies whose securities we hold in the Global Leaders portfolio and with other stakeholders with an interest in those companies. Sometimes our goal in these engagements is to inform our investment thesis, and other times we seek to elicit a specific stakeholder response to an idea, suggestion or perceived risk.

Engagement has always played an important role in our fundamental due diligence. We believe that good fiduciaries and stewards of client capital have a responsibility to maintain consistent dialogue with the companies they own and related stakeholders. This extends to our responsibility to understand companies from an ESG perspective and, when appropriate, to encourage improved ESG practices.

2021 PROGRESS

Our firm's ESG research team plays a critical role in formalizing our firm's ESG engagement approach with companies and issuers. The team made progress on a number of fronts related to engagement in 2021:

- **Collaboration**: Our firm has partnered with a number of organizations and coalitions in recent years in large-scale engagement campaigns and view collaboration as a core engagement tactic. Our ESG research team became more involved in several of these initiatives in 2021. Brown Advisory was an early signatory to Climate Action 100+, and this past year, we formally joined three company-specific engagements coordinated by that coalition. Another example is our firm's work with CDP, spanning multiple campaigns on climate change strategy, including outreach on SBTi adoption.
- **Tapping into expertise**: Sustainability issues can be enormously complex, and for some issues, we seek to build networks with specialized individuals and groups that can help us better understand the associated risks and opportunities. Our work on ethical AI is a good illustration: We joined working groups at the World Economic Forum, PRI and the American Institute of Certified Public Accountants, all of which assemble investment, technology and policy thought leaders to address bias, transparency and other ethical issues in AI deployment.
- **Helping drive implementation**: Once investors reach an agreement with a company in an engagement, there is still a lot of work to do, generally over many years, to actually implement change. We are long-term investors and often hold companies for multiyear periods, so we are often in a good position to monitor and encourage those companies to adhere to annual sustainability goals and targets. For example, we have worked with CDP on its campaign to ask companies to adopt the SBTi, and we engage with many of our holdings one on one regarding implementation steps.

ENGAGEMENT APPROACHES

ESG Due Diligence: We seek to conduct ongoing discussions with companies to inform our investment research. These conversations are a standard component of our ESG research and contribute to portfolio decisions and ongoing monitoring of holdings.

Impact: We collaborate with companies/issuers and industry groups to advocate for improved ESG practices,and continued implementation of existing ESG-related initiatives. We note that proxy voting, especially on ESG-related shareholder proposals, is an important signaling tool in these engagements.

Advisory: We are often asked by companies for feedback and informal advice on the development, improvement and/or communication of their ESG efforts. To be clear, we do not act in any formal capacity as an advisor or consultant on these matters; we simply act as a sounding board.

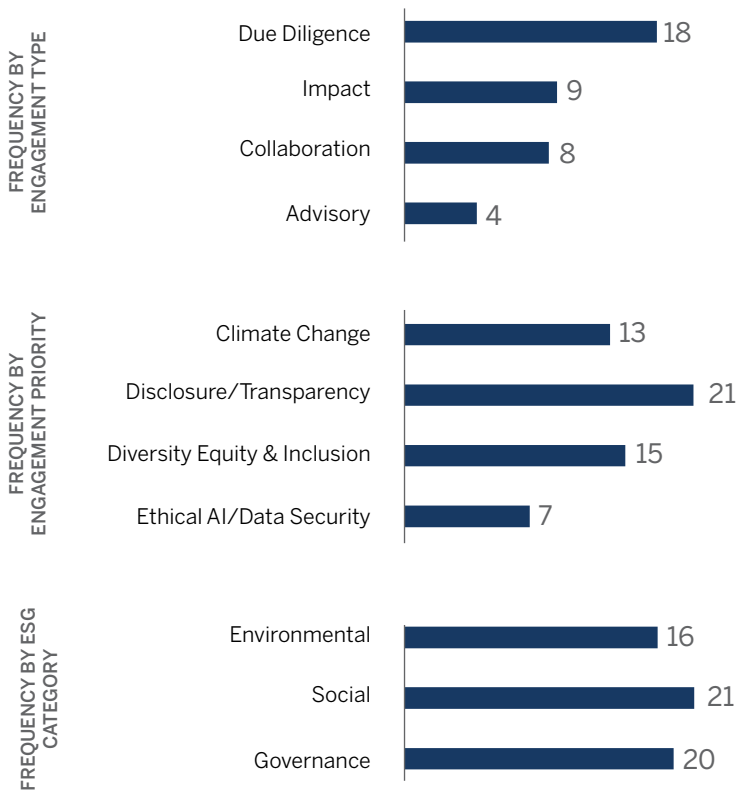
Collaboration: We seek to partner with many investor groups and nonprofits to help advance salient issues.

ISSUE PRIORITIZATION

ESG engagements generally flow from Brown Advisory's overall "bottom-up" orientation to investing—we seek to engage with companies on specific risks and opportunities that we consider to be relevant and material in each situation. However, we also strive to engage at a strategic level with many companies, to address high-priority topics with wide-ranging relevance. We prioritize based on several factors: saliency (does the issue transcend materiality, with sweeping implications for all stakeholders), exposure (does the issue pose an outsized risk to our portfolio) and client interest/demand, as well as our belief in our ability to achieve meaningful progress on the issue and whether it is an issue that multiple companies are bringing up with us proactively.

Our areas of focus are **1) Climate Change, 2) Disclosure and Transparency, 3) Diversity, Equity and Inclusion, and 4) Ethical AI/ Data Security.** These have been our top priorities for several years, and we believe in pursuing progress through consistent engagement over multiple years on these issues. On the next page, we provide a summary of our activity in 2021.

2021 ENGAGEMENT ACTIVITY: GLOBAL LEADERS STRATEGY



28 total engagements in 2021 with Global Leaders portfolio companies and relevant stakeholders

Engagement activity information is based on engagements related to the Brown Advisory Global Leaders strategy during 2021.

ENGAGEMENT EXAMPLE: CLIMATE COLLABORATION

ISSUE: Diversity, Equity and Inclusion
TYPE: Due Diligence, Collaboration

We continue to expand our relationship with CDP (formerly known as the Carbon Disclosure Project). In 2021, we were especially active in two CDP campaigns. First, CDP's Non-Disclosure Campaign is a targeted effort to follow up with companies that have been asked to complete CDP's disclosure questionnaire but have not yet done so. Our efforts alongside the other participants in the campaign led to at least one of our portfolio holdings completing its CDP response for the first time.

We are also currently working with CDP and others, to encourage all of the companies in our firm's sustainable portfolios to embrace SBTi adoption, as noted earlier in this report. Coalition-based approaches to climate change have driven many positive developments in the investment sector, and we are grateful to our many partners for the work they do.

ENGAGEMENT EXAMPLE: GLOBAL TRAVEL BUSINESS

ISSUE: Environmental, Disclosure
TYPE: Due Diligence

We have owned this company for several years and while we are impressed with its ESG efforts and leadership, we engaged with the intention to not only enhance our due diligence but to encourage the company to take greater action on incorporating sustainable travel into the business. Our team admires the company's efforts to drive sustainable tourism, so were pleased to learn more about its plan to launch a sustainable program for bookings which aligns with consumer demand to travel more sustainably and therefore drive business growth. The company noted that it plans to publish a target for this in its next sustainability report, which will in turn become a KPI we can begin to track. We believe that this will serve to drive revenue growth while also limiting the vast impact of tourism on the environment, driving our sustainability thesis.

Such engagement further serves to provide us with confidence in the management team and its allocation of time, energy and capital into ESG-related matters.

Source: Brown Advisory. Engagement case studies are based on engagements related to the Brown Advisory Global Leaders strategy during 2021.

PROXY VOTING

Proxy voting is the process by which shareholders vote on proposals submitted for consideration at a company's annual general meeting. Most proposals are submitted by management, and votes on management proposals are binding. Additionally, a growing number of shareholder proposals are submitted each year for consideration at annual general meetings. These votes are nonbinding, but the vote totals on these proposals can nonetheless influence corporate behavior.

We have taken a number of steps recently to enhance our approach to proxy voting:

- We added additional rigor to our process for evaluating proxy proposals. Today, each proposal is assigned to a relevant research analyst—ESG research analysts on shareholder proposals, and fundamental analysts on management proposals—who leads the work on our vote recommendation and shepherds the proposal through our voting process. The approach is meant to encourage collaboration while also letting our team members focus on their strengths. (Decisions are still informed by a team-based process, and portfolio managers retain the final say on votes.)
- We refined our proxy voting committee structure. We added representation from a wider range of groups across the firm and notably welcomed our CEO to the committee, who proactively asked to join so he could stay informed on how the proxy voting space is evolving.
- Finally, we reviewed our various policies related to sustainable investing, including our engagement and proxy voting policies (available on our website: Institutional Sustainable Investing Policy, Institutional ESG Engagement Policy, Proxy Voting Policy), and updated them in several areas.

We believe that companies can benefit by considering forward-thinking shareholder proposals. We generally aim to support ESG-related shareholder proposals that we consider likely to improve shareholder value over time. On the next page, we report on our voting record in 2021, compared to our policy's guidelines and to the votes of company management.

Proxy voting for our institutional investment strategies is overseen by a proxy voting committee made up of equity research analysts, ESG research analysts, trading operations team members, the head of our sustainable investing business, our director of equity research and our general counsel (among others). The committee oversees the proxy voting process, but responsibility for casting votes rests with our investment and ESG research teams and, ultimately, with the portfolio managers for each Brown Advisory equity investment strategy.

Our case-by-case proxy voting approach results in voting that largely follows policy guidelines but also diverges on occasion to achieve what we believe to be in the best interest of our investors. We discuss one such example—our continued support of non-independent directors at Atlas Copco—on the next page.

2021 PROXY VOTING BY THE NUMBERS: GLOBAL LEADERS STRATEGY

There are various factors that guide our case-by-case voting decisions, many of them related to materiality. In recent years, regulators focused on proxy voting and the importance of fiduciaries to only consider financially material factors when engaging in proxy voting. We believe that the stance of these agencies is aligned with Brown Advisory's view on the importance of material ESG considerations from a performance-first perspective.

In this context we have also evolved our thinking around the voting options available and we spent significant amount of time thinking about the value of an ESG investor's option to abstain from voting on a shareholder proposal as an active decision. We used this option in 2021 following primary research and engagement with the proponent.

PROXY VOTING CASE STUDY: ATLAS COPCO

SECTOR: Industrials

ISSUE: Board Composition

Background: Four of twelve members on Atlas Copco's board are considered non independent, such that broadly used shareholder voting services such as ISS recommended to vote against their re-election to the board at the 2021 AGM. There is a strong rationale behind having a highly independent board which we agree with – in general – and this is also reflected in Brown Advisory's voting recommendation which was in line with ISS in this case.

Analysis: Despite having no immediate ties to Atlas Copco, all four non independent directors are representatives of Investor AB, the investment vehicle of the Wallenberg Family, the preeminent Swedish industrialists and part of the original founders of Atlas Copco in 1873. In addition to this, one of the four board members is Peter Wallenberg Jr, a direct relation to founding shareholder Andre Oscar Wallenberg. Investor AB is a listed investment vehicle, started with the Wallenberg's family wealth, to provide dividends to the family foundation through their long term ownership of listed and unlisted companies, including Atlas Copco where they retain 17% of shares and 22% of voting rights.

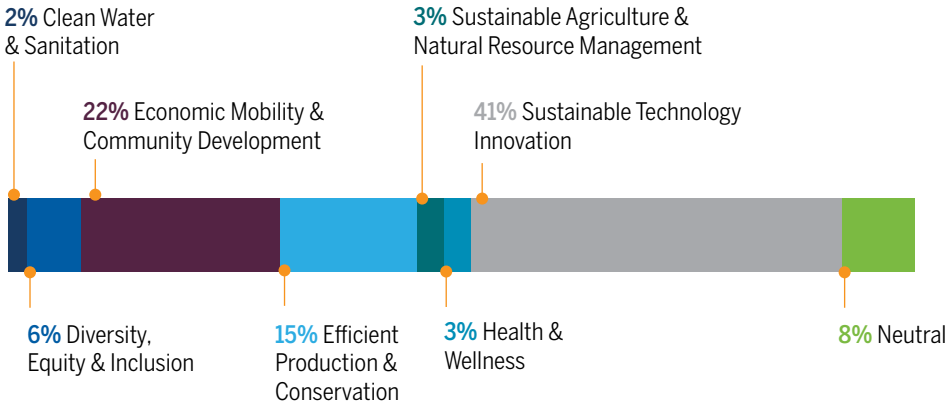
With Investor AB being an important co-owner in Atlas Copco we are thankful to have had the opportunity to talk to their investor team on several occasions and have found their investment focus to be aligned to ours with regard to a focus on reinvestment into future growth & long term ownership to facilitate sustainable value creation. We feel it is as a result of these characteristics that has allowed Atlas Copco to invest in the business during periods of end market volatility. This has subsequently helped them gain market share and outperform their competition and deliver strong investment returns over long periods of time.

Outcome: We concluded that the presence of these directors, despite their indirect links to the company, were net beneficial to the future growth of the company, and as such voted for their reappointment to the board.

Source: Brown Advisory. Portfolio information is based on a Brown Advisory Global Leaders representative account and provided as Supplemental Information. Please see the last page of the report for a GIPS compliant presentation. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients.

IMPACT THEME ANALYSIS

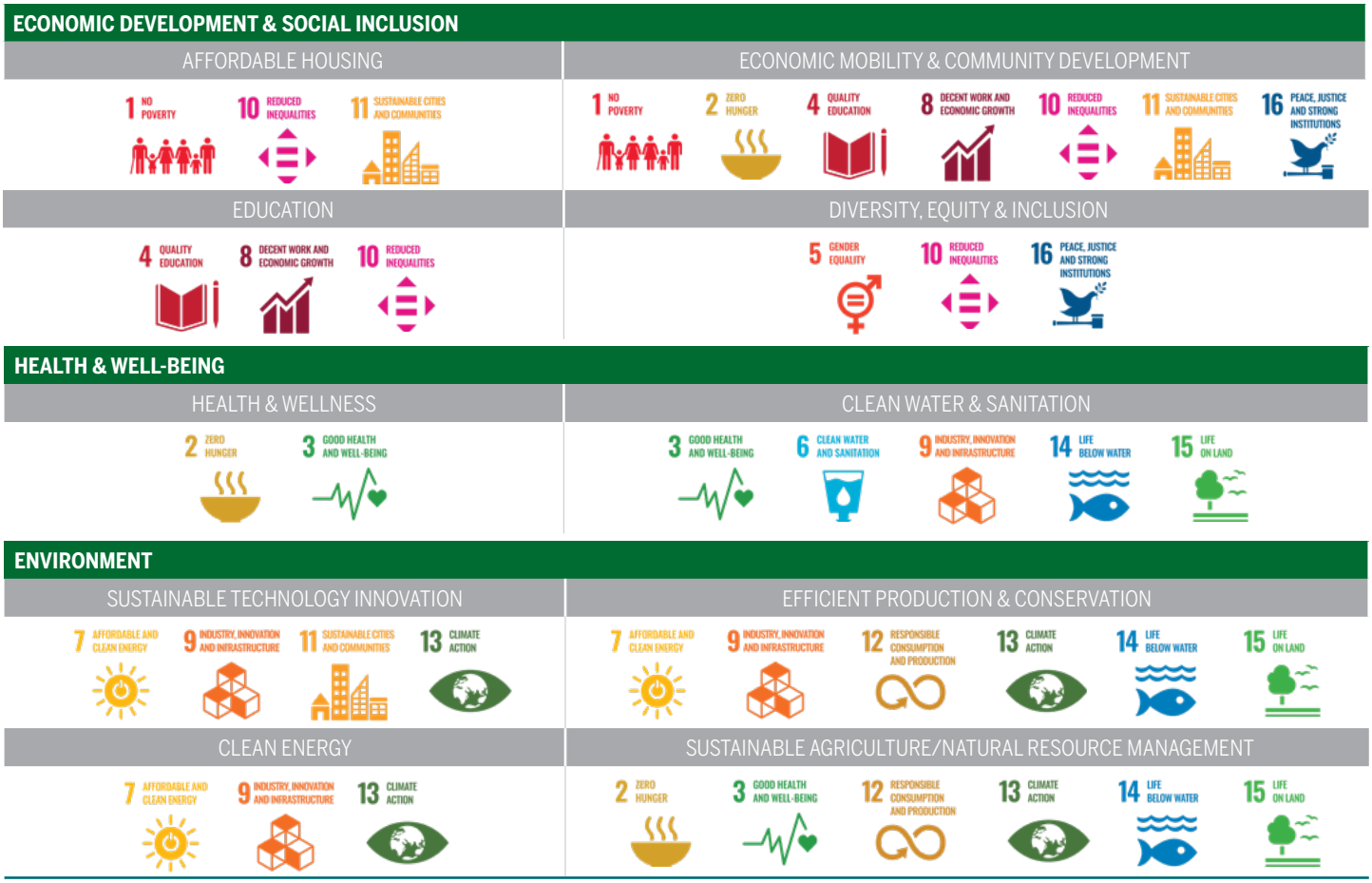
We categorize our holdings according to a series of impact themes to illustrate the variety of challenges and opportunities that our portfolio addresses. We do not target any particular impact mix, and we have found ample opportunity to invest in companies that address a wide range of social and environmental issues. (These themes align well with the U.N. Sustainable Development Goals, as noted below.)



Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact theme information excludes cash, is based on a Brown Advisory Global Leaders representative account as of Dec. 31, 2021, and is provided as Supplemental Information. Please see the last page of the report for a GIPS compliant presentation.

IMPACT THEME ALIGNMENT WITH THE U.N. SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The U.N. SDGs have become a common framework for categorizing projects and investments that seek to generate positive societal impact. Our impact themes are broadly aligned with these SDGs, as noted in the diagram below.



Source: United Nations, Brown Advisory analysis.

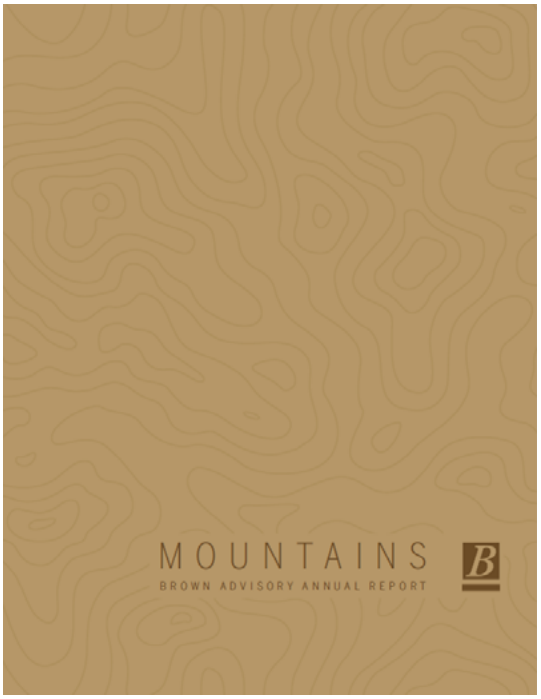
PRI ASSESSMENT AND FIRMWIDE SUSTAINABILITY REPORTING

Brown Advisory has been a signatory to the PRI (Principles for Responsible Investment) since 2014; PRI is a global network of investors representing more than $121 trillion as of the most recent data provided by PRI (March 31, 2021). Each year, PRI signatories complete a rigorous disclosure of sustainable investing practices; these disclosures, and the assessments of those disclosures by PRI's evaluation staff, are widely followed by investment decision-makers around the world.

In the latest grading process we received "A" grades and met or exceeded industry median scores in every category. We received the highest attainable score in the Strategy and Governance category; we see this as a strong external validation of our firm's and our senior leadership's commitment to sustainable investing. We also received the highest attainable score in the area of engagement ("Listed Equity - Active Ownership").

The PRI is currently experiencing a substantial delay in the issuance of PRI's 2021 assessments, and those scores/grades are not expected to be available until later in 2022. Our firm's most current PRI Transparency Report from last year can be found here: Brown Advisory PRI Report.

We believe that an external recognition of a company's sustainability credentials are important for investors to be able to compare and analyse the large amount of ESG information available and we will continue to provide such transparency. We do however see significant value in reaching out to our investors directly, and as a firm we again published such information in 2021. Unlike in prior years, we fully embedded sustainability reporting within our Annual Report in 2021. In this report, we express our commitment to our clients, colleagues, communities and society, and we report our progress on initiatives that aim to contribute to a more just, healthy and prosperous future for all.



Global Leaders Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets ($USD Millions)	GIPS Firm Assets ($USD Millions)*
2020	21.0	20.2	16.0	16.9	18.1	Five or fewer	N/A	2,428	59,683
2019	35.1	34.2	26.5	11.6	11.2	Five or fewer	N/A	731	42,426
2018	-2.2	-2.8	-9.6	11.0	10.5	Five or fewer	N/A	303	30,529
2017	35.1	34.0	24.0	N/A	N/A	Five or fewer	N/A	77	33,155
2016	-0.6	-1.4	8.0	N/A	N/A	Five or fewer	N/A	38	30,417
2015**	1.2	0.7	-4.4	N/A	N/A	Five or fewer	N/A	24	43,746

**Return is for period May 1, 2015 through December 31, 2015

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2020. The Verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

1. *For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The Global Leaders Composite (the Composite) aims to achieve capital appreciation by investing primarily in global equities. The strategy will invest in equity securities of companies that the portfolio manager believes are leaders within their industry or country, as demonstrated by an ability to deliver high relative return on invested capital over time. The minimum account market value required for Composite inclusion is $1.5 million.
3. The Composite creation date is August 26, 2015. The Composite inception date is May 1, 2015.
4. The benchmark is the FTSE All-World Net Index. This index is a free float market cap weighted index representing the performance of the large & mid cap stocks from the FTSE Global Equity Index Series. The Index covers Developed & Emerging Markets. Base Value 100 as at December 31, 1986. "FTSE®", "Russell®", "MTS®", "FTSE TMX®" and "FTSE Russell" and other service marks and trademarks related to the FTSE or Russell indexes are trademarks of the London Stock Exchange Group companies. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
5. As of January 1, 2019, the Composite benchmark was changed from Russell Global Large-Cap Net Index to the FTSE All-World Net Index. The change was applied retroactively from the Composite inception date. The Russell Global Large-Cap Net Index was decommissioned as of December 31, 2018 and is no longer published.
6. Composite dispersion is an equal-weighted standard deviation of portfolio gross returns calculated for the accounts in the Composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the Composite for the entire period.
7. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: 0.80% on the first $50 million; 0.55% on the next $50 million; 0.45% on the next $50 million; and 0.40% on the balance over $150 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
8. The investment management fee for the Investor Shares of the Brown Advisory Global Leaders Fund (the Fund), which is included in the Composite, is 0.65% , and represents the highest fee charged excluding Advisor Shares. The total expense ratio for the Investor Shares of the Fund as of the most recent fiscal year end (June 30, 2020) was 0.90%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
9. The investment management fee for the Sterling Class B Acc Shares of the Brown Advisory Global Leaders Fund (the UCITS), which is included in the composite, is 0.75%. The total expense ratio for the Sterling Class B Acc Shares of the UCITS as of the most recent fiscal year end (October 31, 2020) was 0.92%. Further information regarding investment management fees and expenses is described in the fund prospectus and annual report.
10. The three-year annualized ex-post standard deviation measures the variability of the Composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2015, December 31, 2016 and December 31, 2017 because 36 month returns for the Composite were not available (N/A) and the Composite did not exist.
11. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
12. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
13. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
14. Past performance is not indicative of future results.
15. This piece is provided for informational purposes only and should not be construed as a research report, a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned, including any mutual fund managed by Brown Advisory.