



**Article 10 Transparency Statement in respect of
Brown Advisory Global Sustainable Total Return Bond Fund (USD) (the “Fund”)**

LEI code: 635400MHHNAARCKFHR60

a sub-fund of Brown Advisory Funds plc (the “Company”)

Prepared by Brown Advisory (Ireland) Limited (the “Manager”)

Brown Advisory LLC (the “Investment Manager”)

Brown Advisory Limited (the “Sub-Investment Manager”)

1 January 2023

Words and expressions defined in the supplement to the prospectus of Company relating to the Fund (the “**Supplement**”) shall, unless the context otherwise requires, have the same meaning when used in this Article 10 Transparency Statement.

(a) Summary

The investment objective of the Fund is to target a positive total return (comprising current income and capital gains) above the Federal Reserve Bank of New York Secured Overnight Financing Rate (SOFR) over a full economic cycle, by investing in a broad range of global fixed-income securities and associated FDIs and currencies. The Fund is not constrained by any benchmark. There can be no assurance that the Fund’s investments will be successful or that the Fund will achieve its investment objective.

The Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment. The Fund commits to investing a minimum proportion of its assets in Sustainable Investments in its promotion of environmental and social characteristics.

The Sub-Investment Manager expects that the Fund will be comprised principally of In-Scope ESG Investments (as defined below) and that approximately 66.6% of the such In-Scope ESG Investments will have been determined to be Sustainable Investments. The remaining 33.3% may also include Sustainable Investments but is also permitted to include other investments that may or may not promote environmental and/or social characteristics. Up to 20% of the Fund may consist of any cash that the Fund may not yet have allocated to an investment or for liquidity or currency hedging purposes.

The Fund seeks to exclude knowingly owning bonds issued by companies: that defy the ten (10) United Nations Global Compact Principles (UNGCP), that conduct animal testing for non-medical purposes and do not exhibit strong ethical policies and practices, that are principally involved in the manufacture, production, operation, or sale of weapons, alcohol, tobacco, adult entertainment, or gambling activities, whose primary business activities are directly tied to conventional exploration, extraction, production, manufacturing or refining coal, oil or gas, and/or with significant assets directly invested in conventional fossil fuel reserves.

As a percentage of the Fund’s portfolio, the Manager (in conjunction with the Sub-Investment Manager) has determined that the Fund will have 0% exposure to investments in economic activities that qualify as environmentally sustainable economic activities under the Taxonomy Regulation (Taxonomy-Aligned Investments). However, the investments underlying the Fund may be in Sustainable Investments.

The Fund seeks to promote environmental and social characteristics by investing primarily in bonds (in the case of companies, the corporate issuers of which shall follow Good Governance principals), that generate impact.

The Fund’s investment strategy to promote environmental and social characteristics is the Sub-Investment Manager’s bottom-up research which focuses on fundamental credit research analysis of individual issuers and relative value-based security selection. The bottom-up research process is comprised of an integrated fundamental and ESG-orientated approach to security selection (as further



detailed under ESG and Sustainable Investments Promotion and Integration of Sustainability Risks and Socially Responsible Investment Guidelines in the Supplement). The process includes analyses of the industry, available market, competitive landscape, and sustainability.

The Sub-Investment Manager will conduct ESG analysis at the sector, issuer or security level, as applicable, for investments in corporate and sovereign issuers, as well as other asset classes, when relevant information is available to the Sub-Investment Manager (the “**In-Scope ESG Investments**”).

The ESG analysis will include analysis of any one or more of the following environmental and social characteristics:

- **Environmental characteristics** are measured, for example, by indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy.
- **Social characteristics** are measured, for example, by identifying investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities.

The Sub-Investment Manager employs Socially Responsible Investment (SRI) screening on corporate bonds to confirm that such an investment meets minimum environmental and/or social guidelines prior to purchase. This screening is then conducted periodically after investment in order to monitor ongoing compliance with these minimum criteria.

A reference benchmark has not been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

(b) No Sustainable Investment Objective

The Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment. The Fund commits to investing a minimum proportion of its assets in Sustainable Investments in its promotion of environmental and social characteristics. The Fund seeks to avoid investments that severely negatively impact society or the environment, especially where there is no evidence of efforts to reduce the harm they contribute to. In assessing harm, the Sub-Investment Manager may consider available ‘*Principal Adverse Indicators*’ (“**PAI**”) (as defined in Annex 1 of SFDR), controversial business exposure, ESG controversies, and ESG risk exposure and management practices.

Where an investee company is deemed to be doing significant harm to the environment or society, and due diligence (including engagement) with the company indicates that the harm is systemic, detractive from the Fund’s investment, and the harm is unlikely to be mitigated within the Sub-Investment Manager’s investment horizon, the Sub-Investment Manager will exit the position.

As the investments underlying the Fund do not take into account the EU criteria for environmentally sustainable economic activities contained in the Taxonomy Regulation, the “*do no significant harm*” principle does not apply to the investments underlying the Fund.

Although the Fund promotes environmental characteristics, the Fund does not promote the environmental objectives contained in the Taxonomy Regulation. Accordingly, as a percentage of the Fund’s portfolio, the Manager (in conjunction with the Sub-Investment Manager) has determined that the Fund will have 0% exposure to investments in economic activities that qualify as environmentally sustainable economic activities under the Taxonomy Regulation (Taxonomy-Aligned Investments). However, a proportion of the investments underlying the Fund will be in Sustainable Investments.

(c) Environmental or Social Characteristics of the Fund

The Fund seeks to promote environmental and social characteristics by investing primarily in bonds (where, in the case of companies, the corporate issuers of which shall follow Good Governance principals), that generate impact in one of three (3) ways:



- **Labelled Bonds** – Investments in labelled bonds where the company has committed to financing or attaining specific environmental and/or social objectives, including but not limited to the below based on the main labels of bonds issued to date, including those recognised by International Capital Market Association (ICMA). Labelled Bonds may include, but are not limited to, Green Bonds, Social Bonds or Sustainability Bonds;
- **Targeted Use of Proceeds** – Investments in bonds that are not officially labelled but are funding environmental or social projects that the Sub-Investment Manager believes fit its criteria;
- **Impactful Issuer** – Investments in companies that the Sub-Investment Manager believes are generating positive environmental or social impacts through their operations or product/service offerings.

Investments that are assessed to fall into one of the above three (3) categories, will be aligned with an outcome that promotes one or more of, though not limited to, the following environmental or social characteristics: sustainable technology innovation; efficient production & conservation; diversity, equity and inclusion; economic mobility & community development; and/or health and wellness.

(d) Investment Strategy

The objective of the Fund is to target a positive total return (comprising current income and capital gains) above the Federal Reserve Bank of New York Secured Overnight Financing Rate (SOFR) over a full economic cycle, by investing in a broad range of global fixed-income securities and associated FDIs and currencies. The Fund is not constrained by any benchmark. There can be no assurance that the Fund's investments will be successful or that the Fund will achieve its investment objective.

The Fund may invest up to:

- 50% of its Net Asset Value in below-Investment Grade or Non-Investment Grade fixed-income securities;
- 50% of its Net Asset Value in fixed-income securities of Emerging Market Countries¹;
- 40% of its Net Asset Value in asset-backed securities (“**ABS**”) including mortgage-backed securities (“**MBS**”) and commercial mortgage-backed securities (“**CMBS**”);
- 10% of its Net Asset Value in non-Agency ABS;
- 10% of its Net Asset Value in convertible securities including contingent convertible bonds (“**CoCos**”);
- 20% of its Net Asset Value in China onshore bonds traded through Bond Connect;
- 10% of its Net Asset Value in collateralised loan obligations (“**CLOs**”) and collateralised mortgage obligations (“**CMOs**”), in aggregate;
- 30% of its Net Asset Value in Rule 144A securities; and
- 10% of its Net Asset Value in Rule 144A securities with no registration rights.

However, the Fund shall have a maximum aggregate exposure limit to non-Agency ABS, CoCos, CLOs, CMOs and Rule 144A securities with no registration rights of 15% of its Net Asset Value. The Sub-Investment Manager expects this maximum exposure limit will only be reached in limited scenarios such as when these asset types exhibit strong absolute and relative valuations and liquidity profile against a backdrop of stable macro-economic fundamentals and abundant monetary and fiscal liquidity.

The Fund may enter into to be announced (TBA) transactions to purchase mortgage-related securities (MBS and CMBS) for a fixed price at a future date.

With the exception of permitted investment in non-publicly traded securities, such as Rule 144A securities with no registration rights, all securities invested in will be listed or traded on the markets or exchanges listed in Appendix 1 of the Prospectus.

The Fund may invest substantially in deposits with credit institutions during periods of high market

¹ Investments in securities listed or traded in Russia will only be made in securities that are listed or traded on the Moscow Exchange and are not expected to exceed 10% of the Net Asset Value of the Fund.



volatility.

The Fund may use FDIs with the aim of making investment gains in line with the Fund's objective, to reduce risk or to manage the Fund more efficiently. The Fund may employ short positions in interest rate FDIs, currency FDIs and credit FDIs either to hedge other long exposures in the portfolio or as part of a 'relative value' trade whereby there would be a similar long position (e.g., long a company, short a credit index). There will be no outright short positions.

The Fund's investment strategy to promote environmental and social characteristics is the Sub-Investment Manager's bottom-up research which focuses on fundamental credit research analysis of individual issuers and relative value-based security selection. The bottom-up research process is comprised of an integrated fundamental and ESG-orientated approach to security selection (as further detailed under **ESG and Sustainable Investments Promotion and Integration of Sustainability Risks** and **Socially Responsible Investment Guidelines** in the Supplement). The process includes analyses of the industry, available market, competitive landscape, and sustainability.

The Sub-Investment Manager will conduct ESG analysis at the sector, issuer or security level, as applicable, for investments in corporate and sovereign issuers, as well as other asset classes, when relevant information is available to the Sub-Investment Manager (the "**In-Scope ESG Investments**").

The ESG analysis will include analysis of any one or more of the following environmental and social characteristics:

- **Environmental characteristics** are measured, for example, by indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy.
- **Social characteristics** are measured, for example, by identifying investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities.

The Sub-Investment Manager's sustainable investing approach seeks, first and foremost, to contribute positively to the performance of the Fund. The Sub-Investment Manager's research efforts aim to uncover Sustainability Risks that may materially impact the return from an investment, as well as sustainable opportunities that may lead to better returns.

The above-named characteristics are not exhaustive and are analysed to the extent disclosure and data are available.

(e) Proportion of Investments

The Sub-Investment Manager expects that the Fund will be comprised principally of In-Scope ESG Investments and that approximately 66.6% of the such ESG In-Scope Investments will have been determined to be sustainable investments. The remaining 33.3% may also include sustainable investments but is also permitted to include other investments that may or may not promote environmental/social characteristics. Up to 20% of the Fund may consist of any cash that the Fund may not yet have allocated to an investment or for liquidity or currency hedging purposes.

(f) Monitoring of Environmental or Social Characteristics

The Sub-Investment Manager employs Socially Responsible Investment ("**SRI**") screening on corporate bonds to confirm that such an investment meets minimum environmental and/or social guidelines prior to purchase. This screening is then conducted periodically after investment in order to monitor ongoing compliance with these minimum criteria.

(g) Methodologies

To monitor the environmental and social characteristics, the Sub-Investment Manager utilises Socially Responsible Investment Guidelines.



SRI is broadly defined as an investment approach that aims to integrate social, environmental and ethical considerations into investment selection. Therefore, the corporate bonds in which the Fund invests are screened based on certain SRI criteria in accordance with various principles set out in declarations and conventions signed by the international community.

In addition to the Sub-Investment Manager's proprietary and qualitative ESG analysis, the Sub-Investment Manager relies on a third-party provider to apply a rules-based screening process which seeks to identify companies in which the corporate issuers that may have controversial business involvement, as determined by the Sub-Investment Manager.

Specifically, the Fund seeks to exclude knowingly owning bonds issued by companies:

- that defy the ten United Nations Global Compact Principles (UNGC); and/or
- that conduct animal testing for non-medical purposes and do not exhibit strong ethical policies and practices; and/or
- that are principally involved in the manufacture, production, operation, or sale of weapons, alcohol, tobacco, adult entertainment, or gambling activities; and/or
- whose primary business activities are directly tied to conventional exploration, extraction, production, manufacturing or refining coal, oil or gas; and/or
- with significant assets directly invested in conventional fossil fuel reserves.

The exception to the above is that the Fund may invest in labelled bonds (as described above), or other fixed-income securities that are issued to raise capital to support environmental or social projects and objectives, and often times help to facilitate the transition to more sustainable practices. Investment in such instruments will be subject to diligence by the Sub-Investment Manager.

Labelled bonds may be issued by issuers that are involved in one or more of the business activities that the Sub-Investment Manager would normally avoid. In cases where the issuer of a labelled bond is involved in one or more of the normally avoided business activities, but the labelled bond has been

issued to raise capital to support a project or objective that the Sub-Investment Manager deems to be promoting environmental or social characteristics, the labelled bond may be invested in by the Fund.

(h) Data Sources and Processing

The Sub-Investment Manager relies on a number of data sources when conducting ESG due diligence. These sources include publicly available data, third-party data providers, information gathered from engagement activity if applicable and the Sub-Investment Manager's research team's analysis. Third-party data is one input in Fund's approach to ESG analysis but is not the primary factor in the ESG assessment. The ESG research team is responsible for monitoring the data used in its ESG assessments.

(i) Limitations to Methodologies and Data

Investing on the basis of ESG criteria is qualitative and subjective by nature, and there can be no assurance that the data received from the Sub-Investment Manager's vendors or any judgment exercised by the Sub-Investment Manager will reflect the beliefs or values of any particular investor. Data and qualitative information are inherently subject to interpretation, restatement, delay and omission outside the Sub-Investment Manager's control.

Due to inconsistencies with respect to the evaluation of particular companies by third party research and data providers the evaluation of an investment as sustainable may differ between financial market participants.

(j) Due Diligence

The Sub-Investment Manager's ESG research team monitors the In-Scope ESG Investments on an on-going basis. In addition to the proprietary and qualitative ESG analysis, the Sub-Investment Manager has access to some ESG-related data from third-party providers.

(k) Engagement Policies



The Sub-Investment Manager may conduct discussions with issuers to inform its investment research and decision-making. When possible and material to an investment decision, these conversations are a component of the Sub-Investment Manager's ESG research process and take place as part of the Sub-Investment Manager's initial vetting of holdings, and periodically thereafter as applicable as part of the monitoring process for existing holdings in the Sub-Investment Manager's portfolios, such as the Fund.

From time to time, the Sub-Investment Manager's investment team collaborates with certain issuers and industry groups to advocate for improved ESG practices, and/or continued implementation of existing ESG-related initiatives as part of its ongoing interest in a portfolio holding. Similarly, the Sub-Investment Manager is asked by issuers for feedback and informal advice on certain ESG risks and opportunities. from time to time. The Sub-Investment Manager does not act in any formal capacity as an advisor or consultant on these matters, but rather as a sounding board. Finally, the Sub-Investment Manager partners with investor groups and non-profits to help advance certain ESG issues as relevant and important to its investments.

(I) Designated Reference Benchmark

A reference benchmark has not been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

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