



**Article 10 Transparency Statement in respect of**  
**Brown Advisory US Sustainable Growth Fund (the “Fund”)**  
**LEI code: 635400YQDOEVKMPDS494**  
**a sub-fund of Brown Advisory Funds plc (the “Company”)**  
**Prepared by Brown Advisory (Ireland) Limited (the Manager”)**  
**Brown Advisory LLC (the “Investment Manager”)**

**1 January 2023**

Words and expressions defined in the supplement to the prospectus of Company relating to the Fund shall have the same meaning unless otherwise defined in this Article 10 Transparency Statement.

**a) Summary**

The investment objective of the Fund is to achieve capital appreciation by investing primarily in U.S. equities. The Fund aims to achieve its investment objective by investing at least 80% of its net assets in equity securities of U.S. companies that the Investment Manager considers have sound fundamentals and business models which are sustainable over the long-term. The Fund invests primarily in the securities of medium and large capitalisation companies that the Investment Manager considers:

- have prospects for above average earnings growth in the future; and
- effectively implement sustainable business strategies that drive earnings growth.

This Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment. The Investment Manager expects that 80% of the Fund's investments will be in companies that have been determined to be sustainable investments and the remaining 20% may also include sustainable investments, but is also permitted to include other investments that promote other environmental and social characteristics. This 20% may also consist of any cash that the Fund may not yet have allocated to an investment or for liquidity or currency hedging purposes through the use of FDI.

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. 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 Investment Manager's investment horizon, the Investment Manager will exit the position.

As a percentage of the Fund's portfolio, the Manager (in conjunction with the 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 promotes environmental and social characteristics through sustainability drivers that are characterised as “*Sustainable Business Advantages*” (“**SBAs**”). There are three ways that investee companies can use SBAs to improve their financial position: (i) Revenue Growth; (ii) Cost Improvements; and/or (iii) Enhanced Franchise Value. Companies with SBAs by their nature promote environmental or social factors through all or a subset of their sustainable products, services or operations.

The Fund's investment strategy to promote environmental and social characteristics is an actively managed, ESG-integrated, long-only equity strategy that seeks to achieve capital growth and competitive, risk-adjusted returns through a concentrated portfolio of companies that the Investment Manager believes offer durable fundamental strengths, sustainable competitive advantages, and



compelling valuations. The strategy incorporates proprietary ESG research as an integral part of the fundamental research process. The Fund seeks companies that have a discernable competitive advantage tied to specific SBAs. A company is considered to have a SBA if it has the potential to create tangible enterprise value through sustainable drivers that can lead to revenue growth, cost improvement, or enhanced franchise value.

The Investment Manager will conduct ESG analysis for every company in the Fund, including an assessment of sustainable opportunities, ESG risks and good governance. All investee companies must possess at least one identifiable SBA. The determination of whether a company has demonstrable SBA is made by the Investment Manager based on a variety of quantitative and qualitative information.

All companies added to the portfolio are analysed according to a variety of applicable governance factors. This analysis forms part of the Fund's general ESG analysis. The Investment Manager includes this analysis of governance factors in its ESG assessments.

The Investment Manager employs Socially Responsible Investment (“SRI”) screening to confirm that an investment meets minimum social, environmental and ethical considerations prior to purchase. This screening is then conducted on portfolio holdings periodically after investment in order to monitor ongoing compliance with these minimum criteria. Accordingly, in addition to seeking to gain exposure to companies that have a SBA, the Fund seeks to limit its exposure to particular companies and industries.

The Investment Manager will exclude companies based on information from credible and independent research on issuers represented in the Fund. The Investment Manager will monitor the Fund's compliance with the SRI criteria. A number of sources are used in this research and may comprise information obtained from official sources, organisations or from the companies themselves.

The Investment Manager's ESG research team monitors the companies in the Fund on an on-going basis, and additional monitoring is also undertaken through a quarterly review of certain ESG characteristics of the Fund. In addition to the proprietary and qualitative ESG analysis, the Investment Manager has access to ESG-related data from third-party providers.

Quarterly reports on Fund holdings are created by the Investment Manger's Reporting and Business Intelligence team with data sourced from the proprietary research assessments which is reviewed by the Portfolio Managers. These reports document the proprietary ESG ratings assigned to a holding together with available third party data.

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 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 Investment Manager's investment horizon, the 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 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.

### **c) Environmental or Social Characteristics of the Fund**

The Fund promotes environmental and social characteristics through sustainability drivers that are characterised as "*Sustainable Business Advantages*" ("**SBAs**"). There are three ways that investee companies can use SBAs to improve their financial position:

1. **Revenue Growth:** attracting or retaining business through the sustainable attributes of its offerings, or helping customers solve for challenging sustainability issues;
2. **Cost Improvements:** improving margins from efficient operations, risk mitigation or other measures that increase productivity while using less resources;
3. **Enhanced Franchise Value:** improving customer loyalty, attracting and retaining top talent, growing faster or taking market share through sustainable commitments and/or positive societal impact.

Companies with SBAs by their nature promote environmental or social factors through all or a subset of their sustainable products, services or operations. Identified SBAs may be aligned with one or more of, though not limited to, the promotion of 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 investment objective of the Fund is to achieve capital appreciation by investing primarily in U.S. equities. There can be no assurance that the Fund will achieve its investment objective.

The Fund aims to achieve its investment objective by investing at least 80% of its net assets in equity securities of U.S. companies that the Investment Manager considers have sound fundamentals and business models which are sustainable over the long-term. The Fund invests primarily in the securities of medium and large capitalisation companies that the Investment Manager considers:

- have prospects for above average earnings growth in the future; and
- effectively implement sustainable business strategies that drive earnings growth.

The equity securities in which the Fund principally invests are common stocks. The Fund may also invest in non-US securities, American and Global Depositary Receipts, corporate debt securities, U.S. treasury bills, fixed and/or floating rate U.S. government securities, real estate investment trusts and unlisted securities in a manner that is consistent with and complements the investment policies and the Investment Manager's investment process, subject to the limits set out in the Prospectus of the Company. With the exception of permitted investment in unlisted securities, investment by the Fund is restricted to the markets and exchanges listed in Appendix I of the Prospectus.

The Fund's investment strategy to promote environmental and social characteristics is an actively managed, ESG-integrated, long-only equity strategy that seeks to achieve capital growth and



competitive, risk-adjusted returns through a concentrated portfolio of companies that the Investment Manager believes offer durable fundamental strengths, sustainable competitive advantages, and compelling valuations. The strategy incorporates proprietary ESG research as an integral part of the fundamental research process. The Fund seeks companies that have a discernable competitive advantage tied to specific SBAs. A company is considered to have a SBA if it has the potential to create tangible enterprise value through sustainable drivers that can lead to revenue growth, cost improvement, or enhanced franchise value. Every company the Fund owns must have identifiable SBA.

The Investment Manager will conduct ESG analysis for every company in the Fund, including an assessment of sustainable opportunities, ESG risks and good governance.

All investee companies must possess at least one SBA. The determination of whether a company has demonstratable SBA is made by the Investment Manager based on a variety of quantitative and qualitative information.

Environmental characteristics are measured, for example, by indicators on the: use of energy, renewable energy, 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 above-named characteristics are not exhaustive and are analyzed to the extent disclosure and data are available.

All companies added to the portfolio of the Fund are analysed according to a variety of applicable governance factors. This analysis forms part of the Fund's general ESG analysis. Applicable governance factors may include, though are not necessarily limited to:

- Ownership and Control
- Board and Management Composition and Structure
- Employee Relations
- Tax Transparency
- Remuneration Practices
- Shareholder Rights
- Accounting Practices
- Transparency and Disclosure
- Business Ethics

The Investment Manager includes this analysis of governance factors in its ESG assessments.

#### **e) Proportion of Investments**

The Investment Manager expects that 80% of the Fund's investments will be in companies that have been determined to be sustainable investments and the remaining 20% may also include sustainable investments, but is also permitted to include other investments that promote other environmental and social characteristics. This 20% may also consist of any cash that the Fund may not yet have allocated to an investment or for liquidity or currency hedging purposes through the use of FDI.

#### **f) Monitoring of Environmental or Social Characteristics**

The Investment Manager employs SRI screening to confirm that an investment meets minimum environmental and/or social guidelines prior to purchase. This screening is then conducted on portfolio



holdings periodically after investment in order to monitor ongoing compliance with these minimum criteria.

Quarterly reports on Fund holdings are created by the Investment Manger's Reporting and Business Intelligence team with data sourced from the proprietary research assessments which is reviewed by the Portfolio Managers. These reports document the proprietary ESG ratings assigned to a holding together with available third party data.

#### **g) Methodologies**

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

Socially Responsible Investment (“SRI”) is broadly defined as an investment approach that aims to integrate social, environmental and ethical considerations into investment selection. Therefore, the equity securities 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.

Accordingly, in addition to seeking to gain exposure to issuers that have a Sustainable Business Advantage, the Fund seeks to limit its exposure to particular companies and industries. In addition to the Investment Manager's proprietary and qualitative ESG analysis, the Investment Manager relies on a third-party provider to apply a rules-based screening process which seeks to identify companies that may have controversial business involvement, as determined by the Investment Manager.

Specifically, the Fund seeks to exclude knowingly owning equity securities of companies:

- that defy the ten United Nations Global Compact Principles (UNGC); and/or
- that directly manufacture controversial weapons (defined as cluster munitions, land mines, and/or depleted uranium); and/or
- that conduct animal testing for non-medical purposes and do not exhibit strong ethical policies and practices; and/or
- whose primary business activities are directly tied to conventional exploration, extraction, production, manufacturing or refining coal, oil or gas; and/or
- whose primary business activities are directly tied to producing electricity derived from fossil fuels; and/or
- with significant assets directly invested in conventional fossil fuel reserves.

The Fund seeks to apply the following investment guidelines in respect of underlying issuers to ensure that a company will not be included if it knowingly has more than 5% of its revenue derived directly from:

- the manufacture of conventional weapons; and/or
- alcohol products; and/or
- tobacco products; and/or
- adult entertainment; and/or
- gambling.

Investors are informed that criteria applied in developing “*socially responsible*” screens may be additional to the criteria disclosed above.

The Investment Manager will exclude companies based on information from credible and independent research on issuers represented in the Fund. The Investment Manager will monitor the Fund's compliance with the SRI criteria. A number of sources are used in this research and may comprise information obtained from official sources, organisations or from the companies themselves.

The Investment Manager may use specific SRI research from independent research providers in respect of the Fund.

#### **h) Data Sources and Processing**



The 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 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 Investment Manager's vendors or any judgment exercised by the 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 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 Investment Manager's ESG research team monitors the companies in the Fund on an on-going basis, and additional monitoring is also undertaken through a quarterly review of certain ESG characteristics of the Fund. In addition to the proprietary and qualitative ESG analysis, the Investment Manager has access to ESG-related data from third-party providers.

**k) Engagement Policies**

The Investment Manager's portfolio managers and research team engage in a significant amount of up-front due diligence prior to investing, which leads them to have very high conviction in the companies whose securities are ultimately selected for the Fund. The goal is to find outstanding companies that can be owned for a long period of time. The Sub-Investment Manager systematically integrates ESG research into its fundamental company research.

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

From time to time, the Investment Manager's investment team collaborates with certain companies/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 Investment Manager is asked by companies for feedback and informal advice on the development, improvement and/or communication of the company's ESG efforts from time to time. The 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 Investment Manager partners with investor groups and non-profits to help advance certain ESG issues as relevant and important to its investments.

**l) 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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