

Global Focus Strategy

Investment Letter | April 2023



Dear fellow investors, colleagues and friends,

I hope you are well and that you are having a good start to 2023. Although it feels like yesterday that I was writing to you with our 2022 annual review, I wanted to update you on two important and related topics—our current view on banks and our recent investment in the London Stock Exchange Group (LSEG). Before delving into these subjects, the performance of the Global Focus strategy to 31st March 2023 is below. Although a quarter is a mere blink of an eye in our investment horizon¹ the strategy composite has delivered a 13.9% return net of fees year-to-date which is +6.2% relative to its benchmark². Given the level of concentration, the short-term performance of Global Focus can be lumpier than overcooked porridge. Our approach is based on the belief that equity markets are inefficient over short time periods but more efficient over longer time periods. Accordingly, it's important to avoid the investment equivalent of bathing in kryptonite³ by getting overly influenced by the pendulum of ephemeral investor perception. With our '*short-term = inefficient, long-term = more efficient*' credo in mind, we would point to two reflections:

1. The recent operating performance of our companies, as measured by free cash flow, is trending inline or ahead of our expectations. By and large the companies that were most impacted by COVID-19 have, in our view, recovered⁴ and we are encouraged by the operational progress of our newer investments in Rentokil (2022), Intuit (2022) and LSEG (2023). Below you can see the long-term performance of the strategy and our current investments.
2. The long-term returns of the Global Focus strategy are moving closer to our targeted >15% base case internal rate of return (IRR) underwriting threshold with a 12.8% annualised net of fees return since inception. This is against the backdrop of the aforementioned COVID-19 pandemic which severely impacted a number of our investments such as Safran, Woodward, CTS Eventim and Visa.

¹ It's easy to forget that a quarter is only 2.5% of a 10-year investment horizon!

² The benchmark is the MSCI World (Net Return) Index

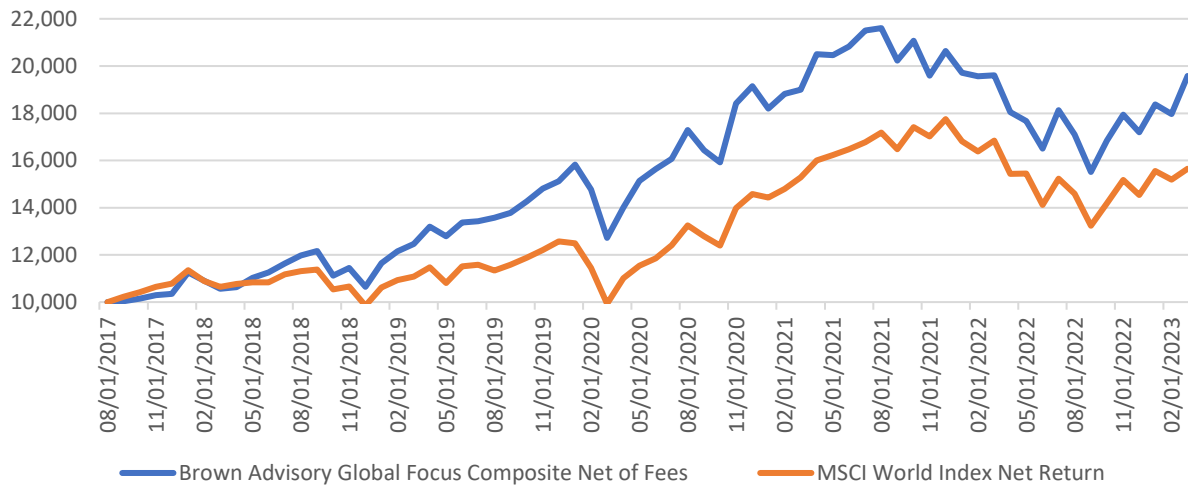
³ Kryptonite is a fictional material from the story of Superman. The substance has the ability to weaken, and even kill, Superman.

⁴ The exception is Woodward where end-market demand has recovered but the company is still wrestling with supply chain issues that are creating short-term free cash flow headwinds.

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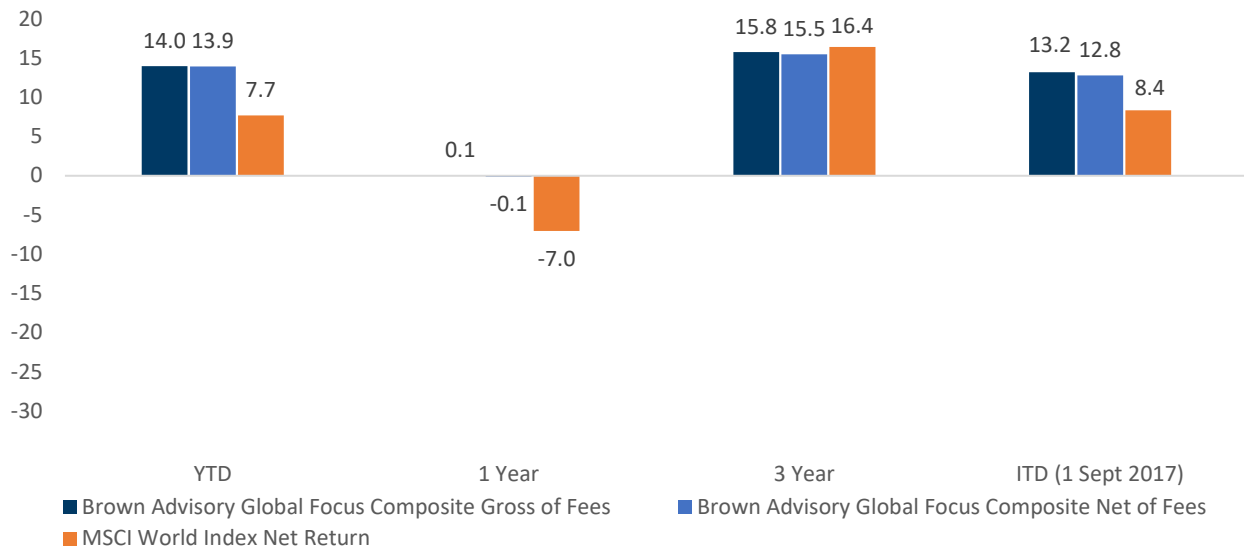
Cumulative Performance Summary: Growth of \$10,000

Global Focus Composite net of fees vs. MSCI World Index net return
from 1st September 2017 to 31st March 2023



Annualised Performance Summary

Global Focus Composite vs. MSCI World Index net return (%)
from 1st September 2017 to 31st March 2023



Source: Factset. Past performance is not indicative of future results and you may not get back the amount invested. Returns greater than one year are annualized. Performance reflects the Brown Advisory Global Focus Composite, managed by Brown Advisory Institutional. Brown Advisory Institutional is a GIPS compliant firm and is a division of Brown Advisory LLC. Please see the end of this letter for important disclosures and a GIPS compliant presentation.

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Global Focus: Current Investments

As of 31st March 2023

	SECURITY	MARKET POSITION	MARKET STRUCTURE	DATE INVESTED	% PORTFOLIO
1	MICROSOFT CORPORATION	Enterprise software leader and cloud follower	Monopoly and oligopoly	1-Sept-2017	15.0
2	DEUTSCHE BOERSE AG	Exchange and custody leader	Monopoly and duopoly	1-Sept-2017	11.7
3	SAFRAN S.A.	Narrow-body engine market leader	Duopoly	1-Sept-2017	10.9
4	ALPHABET INC. CLASS C	Digital search leader	Monopoly	1-Sept-2017	9.3
5	VISA INC. CLASS A	Global payment network leader	Duopoly	1-Sept-2017	9.3
6	RENTOKIL INITIAL PLC	Pest control leader	Oligopoly	20-Feb-2022	8.8
7	WOLTERS KLUWER NV	Niche publishing leader	Duopoly and oligopoly	2-March-2018	8.0
8	INTUIT INC.	Financial software leader	Monopoly and oligopoly	4-March-2022	7.1
9	LONDON STOCK EXCHANGE GROUP PLC	Financial market infrastructure leader	Duopoly and Oligopoly	27-Jan-2023	6.4
10	AUTODESK, INC.	Vertical AEC CAD software leader	Duopoly	22-March-2018	4.8
11	CTS EVENTIM AG & CO.	European ticketing leader	Monopoly	1-Sept-2017	4.6
12	WOODWARD, INC.	Niche aero engine part leader	Oligopoly	1-Sept-2017	3.5
13	CASH & EQUIVALENTS	—	—	--	0.5

Source: Factset. Data as of 31st March 2023. Information shown is based on a representative Global Focus account and provided as Supplemental Information.

Banking: A Lindy Industry⁵

Despite best laid plans, investing is full of surprises. After having invested through the Global Financial Crisis (GFC) of 2008 and the Eurozone sovereign debt crisis of 2011, I thought that I wouldn't see another banking crisis in the developed world for quite some time. How wrong I was. March saw equity investors

⁵ The Lindy effect is the theory that the current age of non-perishable things is correlated to their life expectancy. The history of lending can be traced back to 3000 BC which suggests that banking is a Lindy industry. The collapse of Lehman Brothers (founded 1847) in 2008 and Credit Suisse (founded 1856) in 2013 are vivid reminders that banks, rather than banking, don't always have Lindy-esque qualities.

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in two banks, Silicon Valley Bank and Credit Suisse, with combined balance sheets of \$807bn,⁶ effectively wiped out. We have never invested in a classic bank in Global Focus⁷ but given recent developments I thought it was worth outlining why. Business is based on promises—promises made between a company and a customer. These promises can be fleeting or last years. Take your local coffee shop—when you order your morning cup, you are effectively being promised that you will receive a coffee of a certain quality, in a certain time for a certain price. If this promise is broken you can ask for your money back and you never have to return to the coffee shop again. At a very high level, the concept of banking is no different. You deposit your hard-earned money for a promised return and you borrow money paying a certain level of interest. However, this promise comes with a couple of material differences: time and leverage. The nuance of time means that banks typically borrow short (from their depositors) and lend long (to their borrowers). Issues like Silicon Valley Bank result when depositors want their promises of speedy redemptions fulfilled and the bank can't sell assets quick enough. The result is a bank run. Elsewhere the fractional banking system means that most banks lever their equity multiple times—which makes their solvency highly sensitive to asset value, normally loan, fluctuations. These issues culminate in the old adage that banks either die quickly from a heart attack (liquidity) or slowly from cancer (credit). Liquidity risks remind one of U.S. President Franklin D. Roosevelt's famous depression era maxim that *'the only thing to fear is fear itself'*⁸ with deposit flight being the main driver of cardiac arrest for banks. Despite this ever-present threat, we feel that liquidity risk can be contained in banks with sensible asset-liability matching. In addition, banking cancer can also be avoided with prudent underwriting and a conservative approach to leverage. If both of these risks are managed, often with the oversight of regulators, then we believe investors can make satisfactory returns by investing in banks. In our opinion, banking isn't a flawed business model—we are attracted to businesses that have stood the test of time. Indeed, we have invested in biblical industries like pest control, waste collection and tax. In addition, lending is the grease that lubricates the wheels of capitalism and facilitated historic advances like the Renaissance and the Industrial Revolution. However Global Focus is a selective strategy, with 10-15 investments, and we deliberately set the bar high. With this in mind we have analysed many businesses but we don't currently invest in a classic bank as we haven't found one that has all the ingredients we require.

A Dominant Business Model: Just Not as We Know It

We view the source of moat for most banks as being scale⁹ and intangible value. However, regulators typically promote competition making monopoly and duopoly banking markets rare. Most banks fail our dominant business model analysis as we believe it's hard to generate a sustainable consumer surplus through differentiation and ergo durable competitive advantage. Part of this realisation is driven by the fact that the price of borrowing and lending is heavily influenced by interest rates, themselves set by central banks and markets, which gives core banking products commodity-esque qualities. In the U.K. the

⁶ Source: company reports, December 2022.

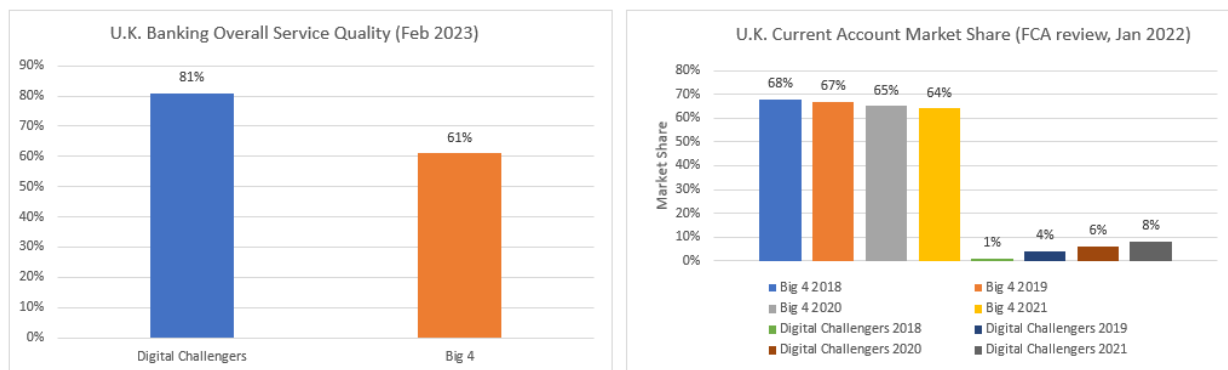
⁷ Which is no cause for victory laps despite recent history.

⁸ Source: Franklin Roosevelt, 1932 Inaugural Address.

⁹ In our opinion, scale can act as an economic moat in banking through fixed cost leverage and access to low cost deposits. To us, it is easier to develop a competitive advantage through a deposit franchise in emerging markets. We would point to HDFC Bank in India as an example. As a reminder, Global Focus is a developed market strategy.

competition watchdog, the Competition and Markets Authority (CMA), commissions a survey into personal banking business service quality every six months. In this survey, customers are asked whether they would recommend their current account provider to friends and family. What's fascinating is how well the banks scored with the first 11 places going to those with scores above 50%—banks where on average their customers *would* recommend their services. What else is noteworthy is that the U.K. is one of the most consolidated banking markets in the world with the big four¹⁰ banks holding two thirds of the market for personal and micro-business current accounts¹¹ and they have been slowly losing market share to digital challengers¹² as you can see below.

U.K. Banking Market



LH Source: IPSOS/CMA Personal banking service quality – Great Britain, published 15th February 2023.

<https://www.ipsos.com/en-uk/personal-banking-service-quality-great-britain-february-2023>

RH Source: FCA Strategic Review of Retail Banking Business Models, January 2022.

<https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>

To us the U.K. serves as a microcosm for how competitive, seemingly oligopolistic, banking markets can be slowly disrupted by high-performing new entrants that are welcomed in by regulators. Although not impossible, in our opinion differentiation in banking is tough¹³ and maintaining a fortress of economic moats—that we require for our dominant business models—is difficult as the example of the U.K. demonstrates.

¹⁰ Lloyds Banking Group, Barclays, HSBC and NatWest.

¹¹ Source: FCA 2022 retail banking strategic review. <https://www.fca.org.uk/publication/multi-firm-reviews/strategic-review-retail-banking-business-models-final-report-2022.pdf>

¹² The Financial Conduct Authority (FCA) defines Monzo and Starling Bank as digital challengers.

¹³ In our opinion, this lack of differentiation is most acute in developed markets - it is easier to provide a differentiated service in developing markets. As a reminder, Global Focus is a developed market strategy.

Financial Market Infrastructure (FMI)

Despite not investing in classic banks, we are more positively pre-disposed towards financial market infrastructure (FMI) assets—these are companies that provide the tools and plumbing for financial market participants. These businesses deliver significant value to their customers by reducing financial risk for a fraction of the value of the underlying financial asset being analysed, traded, cleared or held in custody. Product areas include data and analytics, securities exchanges, clearing houses and custody and settlement. Economies of scale, switching costs, network effects and intangible value, reinforced by regulatory capture, can combine to create a formidable fortress of economic moats. In many instances, regulators view vertically-integrated exchanges as circuit breakers and actively discourage competition in clearing which combine to create monopolies and duopolies in the space. You can see the main differences between banks and FMI companies when viewed through the Global Focus lens below.

	Banks	Financial Market Infrastructure (FMI)
Dominant Business Models	Differentiated customer outcome is difficult Dominant business models are rare	Risk mitigation drives consumer surplus Natural monopolies are enhanced by regulatory capture
Return Improvement	Frequently capped by competition, regulators and central banks	Significant operating leverage and ROIIC potential
>15% Base Case IRR	Possible but wide probabilities	Possible with structural and cyclical growth

Source: Brown Advisory

The risk mitigating nature of their products gives some FMI assets a countercyclical quality. Deutsche Boerse's Trading and Clearing business unit is perhaps the best example. We conducted two drawdown reviews¹⁴, in 2021 and 2022, after the company's shares underperformed as low volatility, exacerbated by low interest rates, created cyclical headwinds. As you can see below, volumes at the German FMI champion's derivatives exchange Eurex rebounded in 2022 following a return to a more normal monetary policy and market volatility environment. This cyclical rebound resulted in the company being the best performing Global Focus investment in 2022¹⁵. Deutsche Boerse is currently 11.7%¹⁶ of Global Focus NAV and we see an 15% base case IRR which is underpinned by structural growth at the company's Data and Analytics, Trading and Clearing and Fund Services business units.

¹⁴ The drawdown review is one of the key behavioural rules for Global Focus. It is designed to combat loss aversion and is triggered when the shares of one of our companies falls 20% below purchase or underperforms by 20% over a 12-month period.

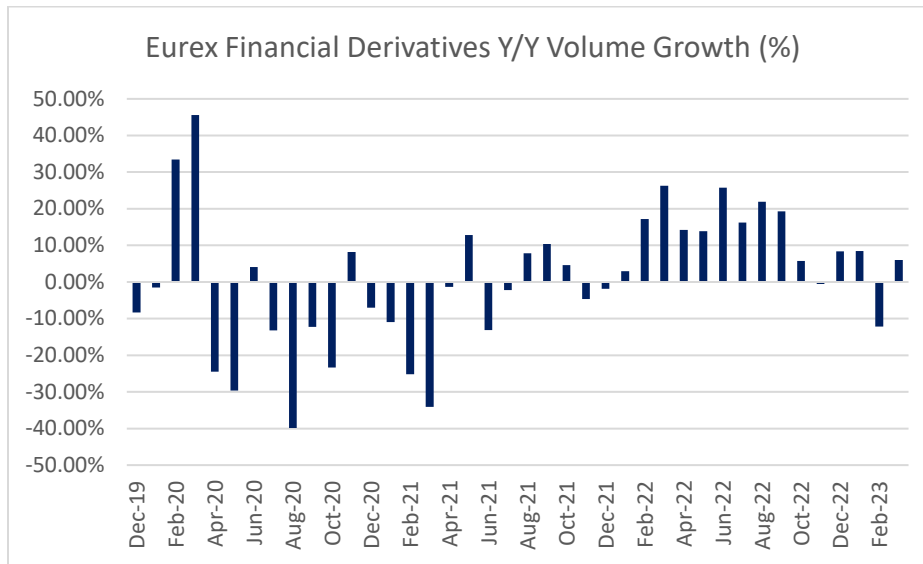
¹⁵ Calculated on a gross of fees basis.

¹⁶ As of 31st March 2023. Data shown is based on a representative Global Focus account and provided as Supplemental Information.

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Eurex Financial Derivatives Y/Y Volume Growth (%)

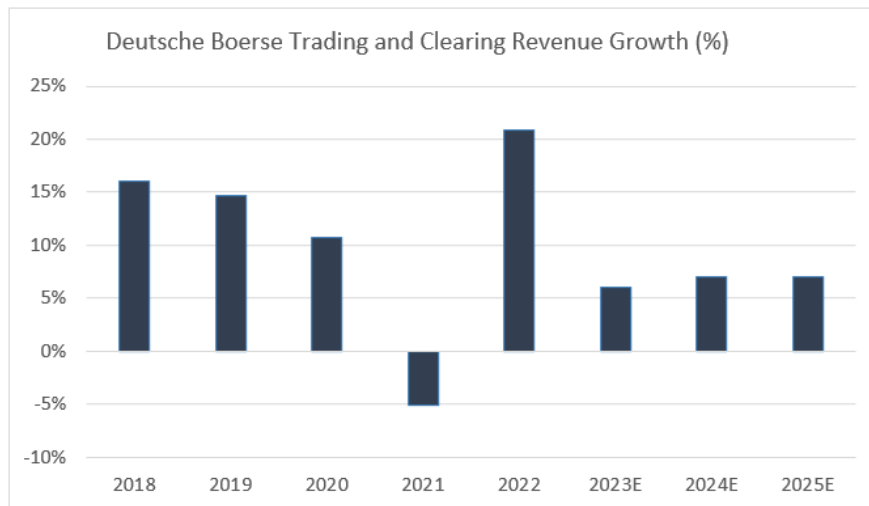
As of 31st March 2023



Source: company reports.

Deutsche Boerse Trading & Clearing Revenue Growth (%)

As of 31st March 2023

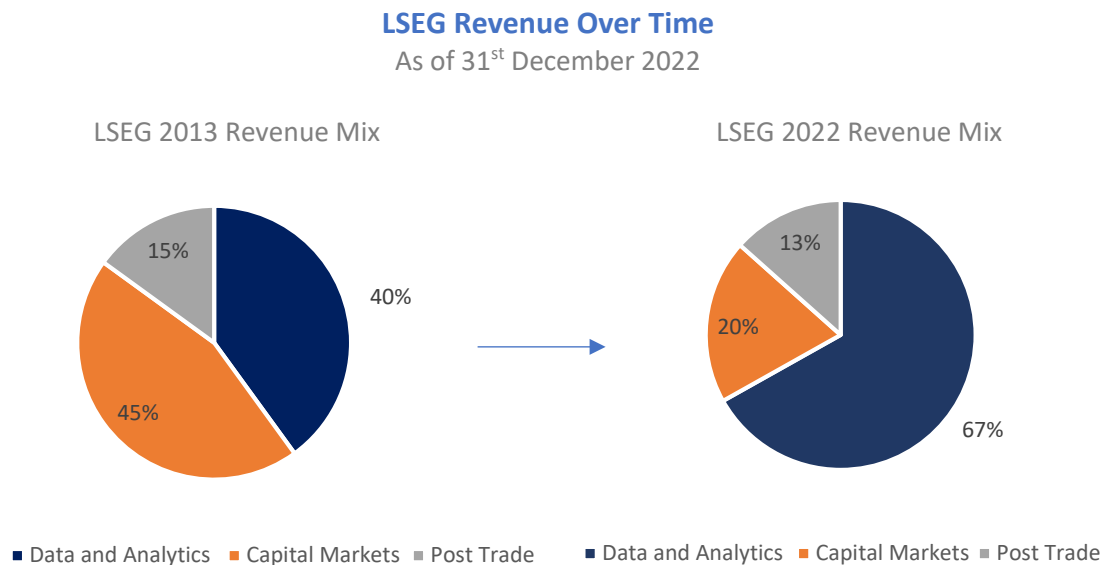


Source: company reports and Brown Advisory base case estimates.

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London Stock Exchange Group (6.4% NAV¹⁷)

In January we invested in another FMI company—London Stock Exchange Group (LSEG). We have a long history with LSEG¹⁸ and have been covering it since before the inception of Global Focus in 2017. The London Stock Exchange Group is something of a misnomer as the venerable London Stock Exchange, which can trace its roots back to 1698, only accounted for 3%¹⁹ of group revenue in 2022. As you can see below, the company's economics have materially shifted over the last decade, most notably with the 2021 acquisition of Refinitiv. Also, LSEG has a different set of exposures to Deutsche Boerse²⁰ with 67% of its revenue being derived from Data and Analytics.



Source: company reports. Most recent data available.

Digging a little bit deeper into the LSEG investment case, we feel that the company has the three characteristics that we require for Global Focus. Specifically:

1) A dominant business model – LSEG is now the leader in financial real time data with significant switching costs due to the Reuters Market Data System (RMDS) protocol that is used by the majority of banks and asset managers. In addition, the company has leading positions in indices (FTSE Russell), FX (FX

¹⁷ As of 31st March 2023. Data shown is based on a representative Global Focus account and provided as Supplemental Information.

¹⁸ I actually invested in LSEG before joining Brown Advisory in 2015.

¹⁹ Source: company reports.

²⁰ At year end 2022 Data and Analytics accounted for 15% of Deutsche Boerse's revenue, vs. 67% at LSEG, and Trading and Clearing 50%, vs. 20% at LSEG (Capital Markets). Source: company reports.

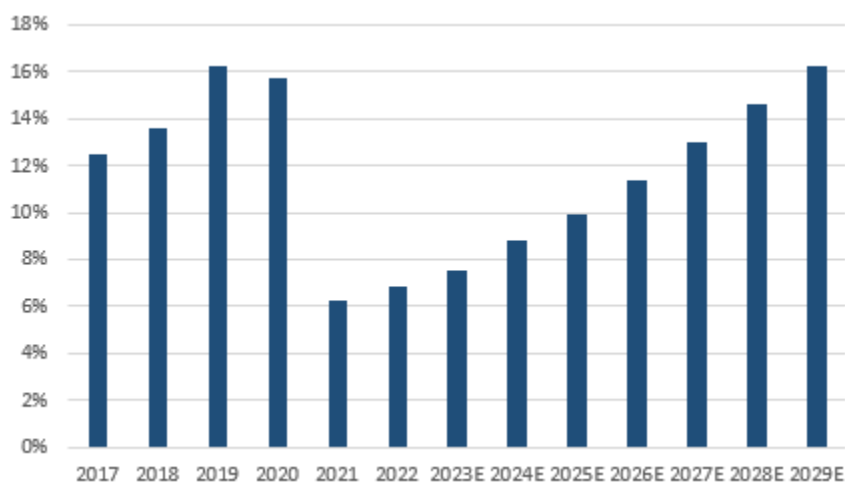
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All) and fixed income trading (Tradeweb) and OTC derivatives clearing (London Clearing House). We think LSEG's moats (scale, intellectual property, switching costs and network effects) will expand through self-help and substantial cross-selling which should deliver increased customer value and foster higher pricing power over time. The company's recently announced strategic partnership with another of our holdings, Microsoft, looks particularly promising with LSEG's data being integrated further into Microsoft's Teams and Office products. We feel that LSEG's ability to leverage Microsoft Teams' network could create a credible threat to the switching costs associated with Bloomberg's terminal business²¹. As part of the transaction, Microsoft now owns 4% of LSEG equity²² and we are encouraged that Scott Guthrie, Microsoft's Executive Vice President for Cloud and AI, has joined the board of directors.

2) Improving returns – we expect LSEG's return on invested capital (ROIC) to improve from 6% following the Refinitiv acquisition to 16% by 2029 in our base case calculations and comfortably above 20% in our bull case scenario. We have been impressed with the relatively new management team's ability to execute—at the 2022 results in March the company upgraded their Refinitiv revenue synergy expectations and announced that they expect to achieve acquisition cost savings two years ahead of their original plans.

LSEG ROIC (Brown Advisory Estimates)

As of 31st March 2023



Source: company reports and Brown Advisory base case estimates.

²¹ This potential was underlined in a recent discussion that we had with the management of LSEG's fixed income platform Tradeweb.

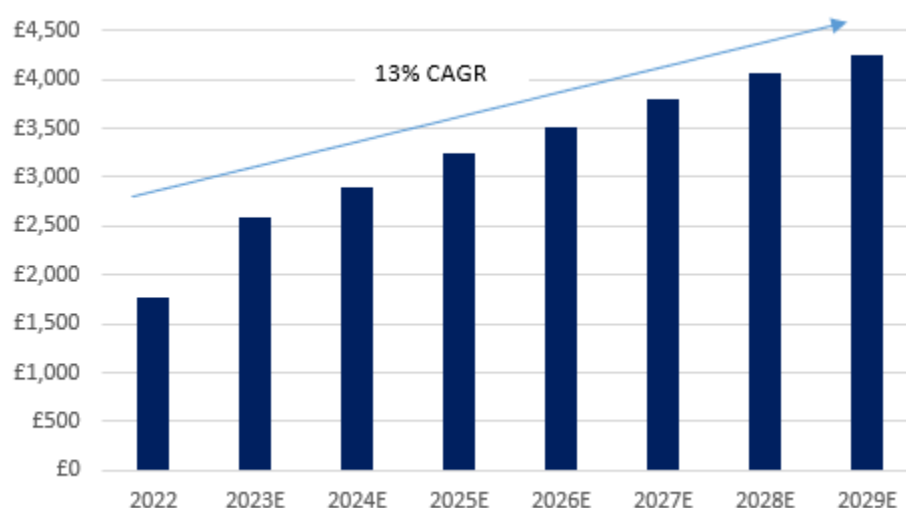
²² Microsoft's position was purchased from the Thomson-Reuters/Blackstone consortium. As of December 2022. Most recent data available.

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3) Free cash flow-based payoff – at purchase we saw a 15% base case 5-year IRR which was underpinned by 13% expected annualised free cash flow growth 2022-29. Arguably more importantly, we also saw an attractive distribution of outcomes with >20% 5-year IRR achievable in a realistic bull case (a function of higher growth and operating leverage) and an equity market style return of 8% in a bear case scenario.

LSEG Free Cash Flow (Brown Advisory Estimates)

As of 31st March 2023



Source: company reports and Brown Advisory base case estimates.

Refinitiv

The background behind the timing of our investment in LSEG was driven by us becoming increasingly positive on the management team's ability to extract significant value from the 2021 Refinitiv acquisition. As mentioned, the deal has shifted the group economics towards Data and Analytics. After extensive work we feel that this asset is underearning and that LSEG can monetise significant value by expanding the company's economic moats and driving improved returns. In our discussions with customers and former employees, we learnt that the core Refinitiv data assets are sticky, 97% of Data and Analytics revenue is subscription-based²³, but the business had been mismanaged under the ownership of Thomson-Reuters. We expect a sharper focus on the needs of Refinitiv's core customers, organic investment and the Microsoft partnership to drive improved retention and foster pricing power. In addition, we see significant potential for LSEG to drive revenue synergies from the data that is gathered from >150k sources into new

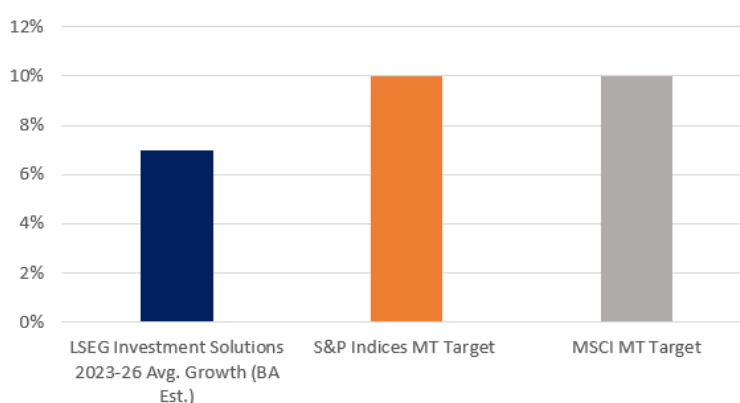
²³ Source: company reports; as of December 2022. Most recent data available.

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products and analytical tools. Arguably the greatest potential for revenue synergies is via leveraging LSEG's expanded data sets in its FTSE-Russell indices business. We believe LSEG's indices business is one of the major beneficiaries of the Refinitiv transaction with FTSE-Russell's competitive position, already a top 3 provider with S&P and MSCI, being strengthened in areas like fixed income, multi-asset and ESG indices. We see the 7% growth that we expect in our base case for LSEG's Investment Solutions business, which contains FTSE Russell, as being conservative²⁴ relative to the +10% that both S&P Global and MSCI are targeting from their indices businesses over the medium term (see below).

LSEG Investment Solutions Revenue Growth vs. Peers

As of 31st March 2023



Source: company reports and Brown Advisory base case estimates.

Elsewhere we expect an average 4% organic revenue growth for LSEG's Trading and Banking and Enterprise Data businesses for 2023-26 in our base case which is substantially below the 7-9% growth rate that S&P Global targets in their Market Intelligence business unit and the 8-9% that Factset targets over the medium term (see below²⁵). In totality we see significant upside to our conservative +5% base case organic revenue growth expectations for LSEG's Data and Analytics business unit²⁶ if they can close the gap with peers.

²⁴ Part of this conservatism comes from our belief that LSEG will initially be less mercenary on indices pricing than its U.S. peers.

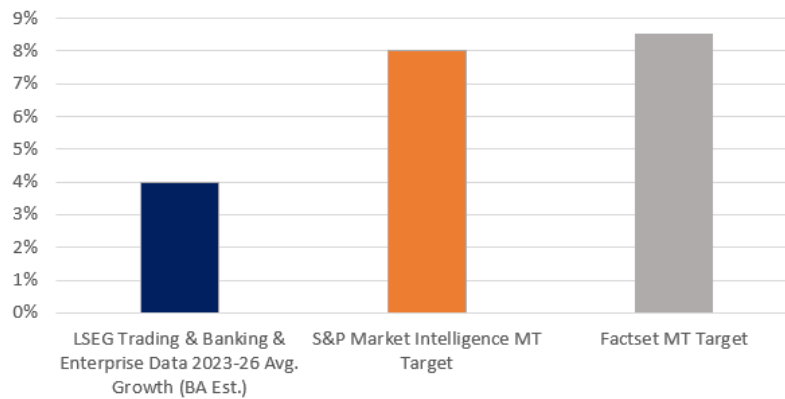
²⁵ Source: company reports, averages shown.

²⁶ LSEG's Data and Analytics business unit is primarily composed of the acquired Refinitiv assets.

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LSEG Trading and Banking and Enterprise Data Revenue Growth vs. Peers

As of 31st March 2023



Source: company reports and Brown Advisory base case estimates.

Equity Overhangs

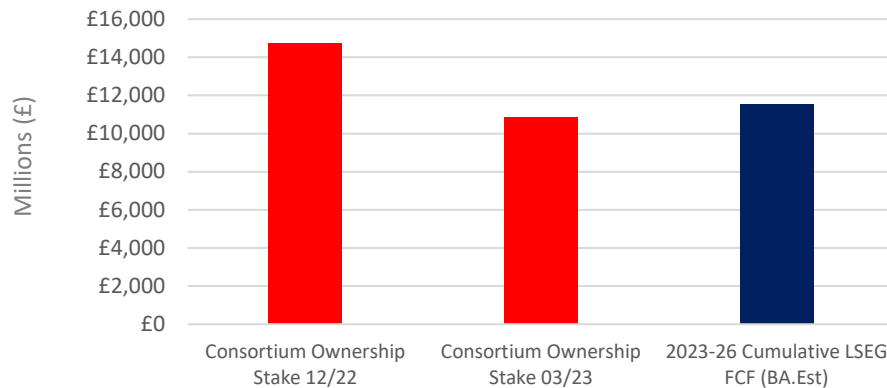
One of the hardest parts of being an investor is differentiating between the temporary and the permanent. Frequently, what we might view as permanent ends up being temporary and vice-versa. Occasionally, temporary issues are more obvious and where possible we try to arbitrage them for the benefit of our partners. One such example is the equity overhang which is when a share price is temporarily depressed, due to a buyer's strike, as investors pre-empt an impending equity placing. Given the equity financing of the Refinitiv transaction, the legacy shareholders, the Thomson-Reuters/Blackstone consortium (the Consortium), today own 25% of LSEG equity with the first lock-up of three, expiring recently on March 2nd when the Consortium reduced their shareholding from 33%²⁷. We expect the artificial handbrake that the overhang creates for LSEG equity to be transient as the Consortium sell their shares over the next three years. The company recently announced a £750m directed buyback from the Consortium and we expect further repurchases to supplement ongoing equity placings in subsequent years as the LSEG balance sheet continues to strengthen (see below).

²⁷ Source: company reports. Global Focus investors participated in the March 2023 equity placing.

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Consortium Ownership vs. LSEG Free Cash Flow (Brown Advisory Estimates)

As of 31st March 2023



Source: company reports, LSEG share price at 31st March 2023 and Brown Advisory base case estimates.

Mental Liquidity

I recently came across the term '*mental liquidity*'²⁸—it describes the ability of someone to change their mind. The concept also came up in a discussion with a potential partner who described the best investors as being adaptable. We have written before ([in our April 2022 letter](#)) about our belief that processes are important in investing to drive repeatable outcomes, but they need to be continually questioned and optimised. As Jeff Bezos memorably wrote in the infamous 2016 Amazon letter: '*if you are not watchful, the process can become the thing*'²⁹. Our belief is that we can always get better, improve and think differently. Mental liquidity is important and it extends to our thoughts on banks—most don't currently have what we are looking for but we will keep analysing them to see if any fit the bill. Our existing views are not sacred—they should be frequently challenged. With this in mind, one of the key events where we ask ourselves how we can get better and think differently is our annual offsite. We are currently planning on meeting up in rural Maryland in September and an early preview of potential topics include:

- Company culture and how to measure it.
- Post drawdown review kill triggers.
- Counter positioning—can it ever be a moat rather than a competitive advantage?
- Fostering analyst imagination in a process-driven world.

One of the many interesting concepts we discussed at our 2022 offsite was the idea of allocating a certain block of uninterrupted time each year to dedicated reading and thinking. Accordingly, this summer we

²⁸ Another great observation from Morgan Housel. Source: <https://collabfund.com/blog/mental-liquidity/>

²⁹ Source: Amazon 2016 Letter to Shareholders.

are holding our inaugural *'think week'*³⁰—a meeting-free week when we can all unplug, focus on reading and most importantly—think and reflect. We are planning on sharing the most important thoughts with each other when we return and no doubt a number will end up being offsite topics. We are hopeful that both think week and the offsite will help foster both mental liquidity and adaptability. We will share the most important reflections, and any process adjustments, with you in future letters and discussions.

And Finally...

Whilst the equity prices for many of our companies have bounced so far in 2023 we still see significant value in Global Focus. As you can see below, the strategy trades on 8.9x 2028 FCF/EV yield on our estimates and has an implied 5-year IRR of 18%³¹ which is underpinned by encouraging operational performances from nearly all of our companies. Whilst we have limited ability to second-guess the timing and magnitude of systemic problems, like banking crises, we are more confident that the twelve companies we invest in today will maintain their economic fortresses and continue delivering value to their customers. As well as remaining perpetually paranoid about the competitive positions of our companies, and the prevailing value in Global Focus, we remain poised to invest in more companies like LSEG as and when equity markets give us the opportunity. Many thanks for reading this letter so soon after the 2022 Annual Review—we look forward to updating you on our progress throughout 2023. As usual, feel free to drop us a line (globalfocus@brownadvisory.com) if you'd like to discuss Global Focus, any of our companies or anything else.

Best,

Bertie Thomson



Bertie Thomson, CFA
Portfolio Manager



Mick Dillon, CFA
Portfolio Manager

³⁰ We took some inspiration for think week from the founder of one of our largest investments, Bill Gates, who has been taking reading weeks since the 1980s.

³¹ The implied IRR is based on a constant EV/FCF multiple.

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Improving Economics Driving FCF-Based Upside

As of 31st March 2023

COMPANY	FY23 FCF/EV Yield	FY28 FCF/EV Yield	LT FCF Growth (2028-32)
MICROSOFT	3.6%	10.5%	12%
DEUTSCHE BOERSE	6.4%	14.9%	7%
SAFRAN	5.7%	9.9%	8%
VISA	4.4%	9.7%	10%
ALPHABET	6.2%	15.1%	7%
RENTOKIL	4.7%	8.8%	10%
WOLTERS KLUWER	4.5%	7.9%	9%
INTUIT	4.0%	12.3%	15%
LONDON STOCK EXCHANGE GROUP	5.6%	12.0%	7%
AUTODESK	4.0%	13.5%	11%
CTS EVENTIM	5.9%	12.6%	9%
WOODWARD	4.5%	7.9%	8%
GLOBAL FOCUS MEDIAN	4.6%	11.3%	9.0%
GLOBAL FOCUS WEIGHTED AVERAGE	4.9%	11.3%	
GLOBAL FOCUS WEIGHTED AVERAGE EV/FCF (X)	20.3x	8.9x	

IMPLIED
18%
5 YEAR IRR

Source: FactSet and Brown Advisory calculations.

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Disclosures

Past performance may not be a reliable guide to future performance and investors may not get back the amount invested. All investments involve risk. The value of the investment and the income from it will vary. There is no guarantee that the initial investment will be returned. If you are a private investor you should not act or rely on this document and should consult with your financial adviser.

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. 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. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

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The **MSCI World Index** is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries.

An investor cannot invest directly into an index.

ROIC is a measure of determining a company's financial performance. It is calculated as NOPAT/IC; where NOPAT (net operating profit after tax) is $(EBIT + \text{Operating Leases Due 1-Yr}) \times (1 - \text{Cash Tax Rate})$ and IC (invested capital) is $\text{Total Debt} + \text{Total Equity} + \text{Total Unfunded Pension} + (\text{Operating Leases Due 1-Yr} \times 8) - \text{Excess Cash}$. ROIC calculations presented use LFY (last fiscal year) and exclude financial services.

The internal rate of return (IRR) is a measure of an investment's rate of return. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. It is also called the discounted cash flow rate of return.

Free cash flow (FCF) yield is a measure of financial performance calculated as operating cash flow minus capital expenditures. FCF yield calculations presented use LFY and exclude financial services.

Free cash flow represents the cash a company generates after cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital.

Free cash flow per share is a measure of a company's financial flexibility that is determined by dividing free cash flow by the total number of shares outstanding.

Enterprise Value to Free Cash Flow (EV/FCF) compares the total valuation of the company with its ability to generate cash flow. It is the inverse of the Free Cash Flow Yield.

Global Focus 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)*
2021	7.7	7.4	21.8	19.3	17.1	Five or fewer	N/A	59	79,715
2020	27.0	26.6	15.9	19.6	18.3	Five or fewer	N/A	32	59,683
2019	42.7	42.1	27.7	N/A	N/A	Five or fewer	N/A	12	42,426
2018	3.4	2.9	-8.7	N/A	N/A	Five or fewer	N/A	4	30,529
YTD 2017**	3.7	3.5	7.9	N/A	N/A	Five or fewer	N/A	2	33,155

**Return is for period September 1, 2017 through December 31, 2017

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, 2021. 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 Focus Composite (the Composite) includes all discretionary portfolios invested in the Global Focus Strategy. The Global Focus Strategy seeks to invest in a small number of quality franchises the manager believes have the ability to materially improve their cash flows over the long-term. In choosing securities, the strategy seeks to invest in companies with one or more of the following characteristics: an entrenched competitive position, durable economic moats, and/or is priced at a discount to intrinsic value due to investor misconceptions. The minimum account market value required for inclusion in the Composite is \$500,000.
3. The Composite creation date is June 1, 2020. The Composite inception date is September 1, 2017.
4. The benchmark is the MSCI World Net Index. The MSCI World Net Index captures large and mid cap representation across Developed Markets (DM) countries. The Index covers approximately 85% of the free float-adjusted market capitalization in each country. All MSCI indexes and products are trademarks and service marks of MSCI or its subsidiaries. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
5. As of September 1, 2022, the Composite benchmark was changed from the FTSE All-World Developed Index to the MSCI World Net Index. The change was applied retroactively from the Composite inception date. The Advisor determined that MSCI indices are more widely used for global products, and thereby provide more relevant data to shareholders and prospects as well as comparisons to competitors.
6. The composite dispersion presented 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 for separate accounts is as follows: 1.00% on all assets with a minimum account size of \$50 million. Actual fees paid by accounts in the Composite may differ from the current fee schedule.
8. 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, 2017, December 31, 2018 and December 31, 2019 because 36 month returns for the Composite were not available (N/A).
9. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
10. A complete list of composite descriptions and broad distribution and limited distribution pooled funds is available upon request.
11. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
12. Past performance does not indicate future results.
13. 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.
14. The following exhibit reflects the management fees, performance fees, and total expense ratios of the Brown Advisory Global Focus Onshore Fund, L.P. and Brown Advisory Global Focus Offshore Fund, LTD, which are included in the Composite, as of the most recent fiscal year end (December 31, 2021):

BROWN ADVISORY GLOBAL FOCUS ONSHORE FUND, L.P.	Management Fee	Incentive Allocation	Expense Cap	Total Expense Ratio to Avg Net Assets	
				Unrestricted	Restricted
Series A	1.00%	0.00%	0.25%	N/A	N/A
Series B	0.60%	10.00%	0.25%	N/A	N/A
Series C	0.30%	20.00%	0.25%	N/A	N/A
Series F	0.50%	0.00%	0.25%	0.74%	N/A
Series Z	0.00%	0.00%	0.25%	0.23%	0.38%
BROWN ADVISORY GLOBAL FOCUS OFFSHORE FUND, LTD.	Management Fee	Incentive Allocation	Expense Cap	Total Expense Ratio to Avg Net Assets	
				Unrestricted	Restricted
Class A	1.00%	0.00%	0.25%	1.03%	N/A
Class B	0.60%	10.00%	0.25%	N/A	N/A
Class C	0.30%	20.00%	0.25%	N/A	N/A
Class Z	0.00%	0.00%	0.25%	0.22%	0.25%
Class F	0.50%	0.00%	0.25%	0.73%	0.76%
Class FD	0.50%	0.00%	0.15%	N/A	N/A
Class FDE	0.50%	0.00%	0.15%	0.22%	N/A