



**Article 10 Transparency Statement in respect of  
Brown Advisory US Flexible Equity (the “Fund”)**

**LEI code: 6354009EDBCKOR1LBX12**

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

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

**Brown Advisory LLC (the “Investment Manager”)**

**22 September 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 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 mid-size and large companies generally with market capitalisations above \$2 billion at the time of purchase that the Investment Manager believes have strong, or improving, long-term business characteristics and share prices that do not reflect these favourable fundamental attributes, and which are listed or traded on the U.S. markets and exchanges listed in the Prospectus. There can be no assurance that the Fund will achieve its investment objective.

The Fund may also invest in non-U.S. securities, convertible bonds including U.S. Rule 144A Securities, American and Global Depositary Receipts, U.S. treasury bills, fixed and/or floating rate U.S. government securities, real estate investment trusts and unlisted securities, subject to the limits set out in the Prospectus.

The Investment Manager follows an investment philosophy referred to as “*flexible equity*”. Flexibility allows the Investment Manager to evaluate many types of opportunities expanding the bargain hunting concepts of value investing to a broad range of investments. The Investment Manager emphasises individual security selection based on identifying long-term attractive businesses *i.e.*, those with significant desirable characteristics and few or no undesirable characteristics (such as excessive financial leverage, risk of business or product obsolescence, excessive compensation, misaligned incentives or management hubris), when they are available at bargain prices.

The Fund promotes environmental and social characteristics, but does not have as its objective sustainable investment.

The Investment Manager expects that the Fund will allocate 80% of its Net Asset Value to investments aligned with environmental and social characteristics that do not qualify as Sustainable Investments, and has not committed to making investments in any Sustainable Investments. Any cash that the Fund may not yet have allocated to an investment or for liquidity or hedging purposes.

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).

The Fund seeks to promote ESG characteristics through its investment selection process. Characteristics that are considered in the promotion of ESG characteristics include the following environmental and social characteristics. The Fund seeks to avoid companies with poor management of natural resources and insufficient governance structures/expertise that would otherwise mitigate environmental risks. The Fund prefers companies showcasing leadership in human capital management, and/or have strategic oversight of supply chains and the labour force as to limit



controversies and potentially benefit fundamental performance. Indicators that are considered in this analysis include, though are not limited to, any one or more of the following: an assessment of supply chain policies and audit practices; board, management and employee diversity; and compliance with global standards (e.g., UN Global Compact). This investment selection process may lead to the exclusion of investee companies with poor working conditions and/or high employee turnover. The Fund prefers quality and established management teams that have formalised governance structures. Indicators that are considered in this analysis include, though are not limited to, any one or more of the following: board composition and structure in terms of expertise and diversity; shareholder rights provisions; and compensation packages. The Fund will engage, through proxy voting and other mechanisms, to vocalise the importance of appropriate incentives (e.g., compensation) to enable long-term performance. This investment selection process may lead to the exclusion of investee companies where the Investment Manager determines that governance structures are inappropriate, such as a lack of alignment with long-term shareholders.

The Fund's investment strategy to promote environmental and social characteristics is the Investment Manager's bottom-up research which is comprised of integrated fundamental and ESG research. Although the Fund does not have a specific sustainable investment objective, the Fund has adopted the following binding restrictions and will not invest in companies that: manufacture whole controversial weapons systems, including cluster munitions, land mines, biological weapons, and/or chemical weapons, are identified as failing to comply with the United Nations Global Compact, derive more than 10% consolidated revenue from tobacco; derive more than 10% consolidated revenue from civilian firearms; and derive more than 10% consolidated revenue from adult entertainment.

The Investment Manager employs 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.

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.

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.

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).

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

The Fund seeks to promote ESG characteristics through its investment selection process. Characteristics that are considered in the promotion of ESG characteristics include the following:

- **Environmental:** The Fund seeks to avoid companies with poor management of natural resources and insufficient governance structures/expertise that would otherwise mitigate environmental risks.
- **Social:** The Fund prefers companies showcasing leadership in human capital



management, and/or have strategic oversight of supply chains and the labour force as to limit controversies and potentially benefit fundamental performance. Indicators that are considered in this analysis include, though are not limited to, any one or more of the following: an assessment of supply chain policies and audit practices; board, management and employee diversity; and compliance with global standards (e.g., UN Global Compact). This investment selection process may lead to the exclusion of investee companies with poor working conditions and/or high employee turnover.

- **Governance:** The Fund prefers quality and established management teams that have formalised governance structures. Indicators that are considered in this analysis include, though are not limited to, any one or more of the following: board composition and structure in terms of expertise and diversity; shareholder rights provisions; and compensation packages. The Fund will engage, through proxy voting and other mechanisms, to vocalise the importance of appropriate incentives (e.g., compensation) to enable long-term performance. This investment selection process may lead to the exclusion of investee companies where the Investment Manager determines that governance structures are inappropriate, such as a lack of alignment with long-term shareholders.

#### **(d) Investment Strategy**

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 mid-size and large companies generally with market capitalisations above \$2 billion at the time of purchase that the Investment Manager believes have strong, or improving, long-term business characteristics and share prices that do not reflect these favourable fundamental attributes, and which are listed or traded on the U.S. markets and exchanges listed in Appendix I of the Prospectus. There can be no assurance that the Fund will achieve its investment objective.

The Fund may also invest in non-U.S. securities, convertible bonds including U.S. Rule 144A Securities, American and Global Depositary Receipts, U.S. treasury bills, fixed and/or floating rate U.S. government securities, real estate investment trusts and unlisted securities, subject to the limits set out in the Prospectus.

The Fund's exposure to non-U.S. securities (including securities of issuers in Emerging Market Countries) will not exceed 15% of its Net Asset Value and its exposure to below Investment Grade debt securities will not exceed 10% of its Net Asset Value.

The Investment Manager follows an investment philosophy referred to as "*flexible equity*". Flexibility allows the Investment Manager to evaluate many types of opportunities expanding the bargain hunting concepts of value investing to a broad range of investments. The Investment Manager emphasises individual security selection based on identifying long-term attractive businesses *i.e.*, those with significant desirable characteristics and few or no undesirable characteristics (such as excessive financial leverage, risk of business or product obsolescence, excessive compensation, misaligned incentives or management hubris), when they are available at bargain prices. Bargain prices most often arise in the stock market due to short-term investor perceptions or temporary business challenges creating undue price declines and price recovery potential, or because the Investment Manager believes that the business has favourable prospects which are typically unrecognised by industry or changes for the better in company management or industry conditions.

The Fund's investment strategy to promote environmental and social characteristics is the Investment Manager's bottom-up research which is comprised of integrated fundamental and ESG research, as further detailed under ESG Promotion and Integration of Sustainability Risks in the Supplement. The Fund seeks to leverage ESG research in the investment process in an effort to help to identify



Sustainability Risks associated with particular companies that may impact the company's financial performance.

ESG research is provided through in-house ESG research or from third-party ESG research providers. In-house ESG research is produced by ESG research analysts who work alongside fundamental analysts across asset classes and industry sectors. The portfolio manager of the Fund oversees the research process that seeks to examine individual securities to drive performance, and includes an assessment of Sustainability Risks. In-house or third-party ESG analysis is provided for every company in the fund. At the Investment Manager's discretion, the Fund is permitted to make an investment without a written ESG assessment on file at the time of purchase, as long as the Investment Manager believes the relevant security meets the Fund's sustainability criteria.

Although the Fund does not have a specific sustainable investment objective, the Fund has adopted the following binding restrictions and will not invest in companies that:

- manufacture whole controversial weapons systems, including cluster munitions, land mines, biological weapons, and/or chemical weapons;
- are identified as failing to comply with the United Nations Global Compact;
- derive more than 10% consolidated revenue from tobacco;
- derive more than 10% consolidated revenue from civilian firearms; and
- derive more than 10% consolidated revenue from adult entertainment.

The Fund will seek to exclude holdings the Investment Manager deems inconsistent with applicable ESG characteristics described above. The Fund will seek to exclude holdings the Investment Manager deems inconsistent with applicable ESG characteristics described above. The application of the ESG characteristics could result in performance that is better or worse than the performance of a similar fund, depending on the performance of the excluded investments and the investments included in place of such excluded investments. The Fund's ESG characteristics may effectively accommodate the requirements of certain Fund investors but not others, and may be more or less restrictive than a particular fund an investor might otherwise prefer.

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

The Investment Manager expects that the Fund will allocate 80% of its Net Asset Value to investments aligned with environmental and social characteristics that do not qualify as Sustainable Investments, and has not committed to making investments in any Sustainable Investments. The Investment Manager expects that the Fund will allocate 20% of its Net Asset Value in other investments and instruments that cannot be aligned with the environmental and/or social characteristics of the Fund. These can include, for example, cash that has not yet been allocated to an investment or that is used for liquidity or hedging purposes, or companies that have not been determined to be aligned with the environmental and/or social characteristics promoted by the Fund.

Minimum environmental and social safeguards set in exclusion criteria relating to global norms and activity-based screening still apply to the underlying securities.

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

The Investment Manager employs 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**

Although the Fund does not have a specific sustainable investment objective, the Fund has adopted the following binding restrictions and will not invest in companies that:

- manufacture whole controversial weapons systems, including cluster munitions, land mines, biological weapons, and/or chemical weapons;
- are identified as failing to comply with the United Nations Global Compact;
- derive more than 10% consolidated revenue from tobacco;
- derive more than 10% consolidated revenue from civilian firearms; and

derive more than 10% consolidated revenue from adult entertainment. The Investment Manager will exclude companies based on information from credible and independent research on issuers represented in the Fund. 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 ESG 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.

### **(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 seeks to conduct 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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